FirstGroup plc
Annual Report and Accounts
2016

FirstGroup plc is a **leading transport operator** in the UK and North America. Our services help to create strong, vibrant and sustainable local economies. During the last year around **2.2 billion passengers** relied on us to get to work, to school or college, to visit family and friends and much more, and each day every one of our **110,000 employees** works hard to deliver vitally important services for our customers.

In an increasingly complex and congested world, efficient and attractive transport solutions have an important role to play in **keeping people moving and communities prospering**. With our portfolio of five leading transport businesses, FirstGroup is one of the few organisations which has the **scale** and **expertise** to meet this challenge.

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Summary of the year and financial highlights

- Solid progress made in the year to position the Group for future growth and higher returns
- Operating profit maintained despite smaller rail portfolio and challenging trading environment in some businesses
- Contract portfolio enhanced with TransPennine Express rail award and other wins across the Group
- Underlying[1] revenue broadly flat. Reported revenue decreased by 13.8% due to changes in rail portfolio
- Adjusted[2] operating profit in line with prior year, and net cash inflow (before end of rail franchise outflows) ahead of expectations
- Adjusted[2] EPS increased by 5.1%
- Continued disciplined bidding and cost efficiencies, as well as lower fuel costs and additional First Student operating days expected to result in strong progress for the Group in the year ahead
- Significantly increased cash generation expected in 2016/17.

	Change	Underlying[1] change
Adjusted[2] revenue **£5,218.1m** 2015: £6,050.7m	(13.8)%	(0.3)%
Adjusted[2] EBITDA[3] **£615.9m** 2015: £624.4m	(1.4)%	
Adjusted[2] operating profit **£300.7m** 2015: £303.6m	(1.0)%	
Adjusted[2] operating profit margin **5.8%** 2015: 5.0%	+80bps	
Adjusted[2] profit before tax **£168.3m** 2015: £163.9m	+2.7%	
Adjusted[2] EPS **10.3p** 2015: 9.8p	+5.1%	

	Change
Statutory revenue **£5,218.1m** 2015: £6,050.7m	(13.8)%
Statutory operating profit **£246.3m** 2015: £245.8m	+0.2%
Statutory profit before tax **£113.5m** 2015: £105.8m	+7.3%
Statutory EPS **7.5p** 2015: 6.2p	+21.0%
Net debt[4] **£1,410.2m** 2015: £1,407.3m	+0.2%

[1] 'Underlying' revenue throughout this document is in constant currency and adjusts for changes in First Rail franchise portfolio.

[2] 'Adjusted' figures throughout this document are before other intangible asset amortisation charges and certain other items as set out in note 4 to the financial statements.

[3] EBITDA is adjusted operating profit less capital grant amortisation plus depreciation.

[4] Net debt is stated excluding accrued bond interest.

Strategic report

Group overview

We have five operating divisions and leading positions in all of our markets.

First Student

The largest provider of student transportation in North America – more than twice the size of the next largest competitor.

- $25bn marketplace, of which 38% is outsourced
- We operate a fleet of approximately 47,000 school buses, with around 6m student journeys per school day
- Around 1,200 multi-year contracts in more than 500 locations
- Industry-leading safety programmes, strong customer relationships and service record are key differentiators

2016

Approximate revenue by type

Contract	**91%**
School and third party charter	**9%**

Revenue

$2,333m

Adjusted operating margin

7.1%

Adjusted operating profit

$165.0m

Employees

57,000

First Transit

One of the largest private sector providers of public transit management and contracting in North America.

- $30bn marketplace in North America, of which around 30% is outsourced
- We operate and manage 12,500 vehicles and maintain a further 35,000
- 350 contracts for fixed route, paratransit, shuttle and vehicle maintenance services
- Mainly capital-light operating model; our managerial and bidding expertise and technology are key differentiators

2016

Approximate revenue by type

Fixed route	**39%**
Paratransit	**30%**
Shuttle	**21%**
Vehicle Services	**10%**

Revenue

$1,303m

Adjusted operating margin

7.0%

Adjusted operating profit

$90.6m

Employees

19,500

Greyhound

The only national operator of scheduled intercity coach transportation services in the US and Canada.

- 3,800 destinations served via a fleet of approximately 1,700 vehicles
- Point-to-point Greyhound Express serves 1,000 city pairs in more than 135 markets
- Unique nationwide network and iconic brand are significant competitive advantages
- Systems to support new commercial model in place
- Opportunities for growth in Mexico

2016

Approximate revenue by type

Passenger revenue	**78%**
Package Express	**8%**
Food service	**2%**
Charter	**1%**
Other	**11%**

Revenue

$914m

Adjusted operating margin

6.0%

Adjusted operating profit

$54.4m

Employees

7,000

First Bus

One of the largest bus operators in the UK, with a fifth of the market outside London.

- £4.3bn deregulated market (outside London)
- 6,200 buses, carrying around 1.6m passengers per day
- We serve eight of the 11 most densely populated cities in the UK, with opportunities to grow patronage in our key markets
- We have invested to enhance our commercial proposition, improve service quality, and simplify ticketing across the business

2016

Approximate revenue by type

Passenger revenue	66%
Concessions	24%
Tenders	5%
Other	5%

Revenue
£871m

Adjusted operating margin
6.0%

Adjusted operating profit
£52.0m

Employees
17,500

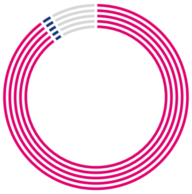
First Rail

One of the UK's most experienced rail operators, carrying around 140m passengers across our two franchises and our open access operation.

- Experienced operator of all types of passenger rail network (intercity, commuter, regional)
- Operate Great Western Railway (GWR) and TransPennine Express (TPE) franchises and open access service First Hull Trains
- Well placed to continue to make disciplined bids for new contracts, with more than half of UK rail franchise revenues to be let by 2020

2016

Approximate revenue by type



Passenger revenue	90%
Government funding[1]	2%
Other revenue	8%

Revenue[1]
£1,308m

Adjusted operating margin
5.6%

Adjusted operating profit
£72.9m

Employees
7,500

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[1] Includes subsidies of £20.4m but does not take into account total premium payments made to Government during the year of £105.8m, which are included in costs.

Contribution by division

Revenue

(as % of Group)

First Student	30%
First Transit	16%
Greyhound	12%
First Bus	17%
First Rail	25%

Adjusted operating profit

(as % of Group)

First Student	34%
First Transit	18%
Greyhound	11%
First Bus	15%
First Rail	22%

Number of employees

(as % of Group)

First Student	53%
First Transit	18%
Greyhound	6%
First Bus	16%
First Rail	7%

Chairman's statement

Without doubt there are significant challenges to face and commitments still to deliver, but I am confident that FirstGroup has opportunities to deliver sustainable growth and good financial returns through ever more rigorous focus on customers' needs going forwards.

I am pleased to make my first report to you as Chairman of FirstGroup. Every day, FirstGroup's 110,000 people are responsible for providing vital transportation services for millions of customers across our core markets in the UK and North America. The Group's five divisions have considerable opportunities to support economic activity and improve social wellbeing by linking together the customers and communities they serve.

The transportation services provided by FirstGroup have always been a critical enabler of economic and social activity, and the economic and environmental challenges of increasing urbanisation, congestion, and demographic change mean that this is likely to remain so for the foreseeable future. At the same time, expectations for service quality and convenience – at reasonable cost – are increasing on the part of passengers and the governments we work with. Meanwhile the digital economy continues to offer opportunities and risks throughout the Group, changing how customers expect to interact with the Group, how tickets are offered and revenue is collected, and how costs, employees and networks are managed.

In this environment, FirstGroup has significant advantages and opportunities thanks to its scale and experience, both within each of the markets served, and as a Group. As a significant service provider in each business line with increasingly strong relationships with customers and passengers, a robust safety culture and improving financial and operational performance, the Group has sound foundations for the future. Without doubt there are significant challenges to face and commitments still to deliver, but I am confident that FirstGroup has opportunities to deliver sustainable growth and good financial returns through ever more rigorous focus on customers' needs going forwards.

In recent years, the Group has been investing in its capital assets and customer offerings while working to deliver improved margins through pricing and cost efficiency programmes. Throughout this time, the focus has been on enhancing the Group's long term ability to generate sustainable value, not on short term fixes. Advances have been made in several areas – notably First Student's bidding strategy, the reset of First Bus' networks and fares, and the retooling of Greyhound's entire business model. First Transit has extended the range of its expertise by service line and by geography, and the Group's medium term future in the UK rail industry has been secured through the Great Western Railway (GWR) and TransPennine Express (TPE) contract awards, as well as through open access operations. Meanwhile, cost efficiencies continue to be delivered, and a step change in the level of collaboration across the organisation is underway, particularly in terms of smart ticketing and other customer-facing technologies.

Although challenges have emerged along the way, and plans have evolved in response, I am confident the continuation of this disciplined strategy will see the Group return to a position of significant free cash flow generation in the 2016/17 financial year and beyond. Over time this will allow the Group's leverage and interest costs to reduce towards an optimum long term level, while increasing shareholder returns. The Board recognises that dividends are an important component of total shareholder return for many investors and remains committed to reinstating a sustainable dividend at the appropriate time, having regard to the Group's financial performance, balance sheet and outlook.

Results for the year

Underlying revenue was broadly flat, while reported revenue decreased by 13.8% mainly due to changes in the rail franchise portfolio. Group adjusted operating profit was, however, comparable to the prior year, benefiting from cost efficiencies in First Student and First Bus and a good performance from First Rail, though we were disappointed that costs associated with driver shortages in First Student did not allow the Group to report more progress this year. Adjusted EPS increased by 5.1% and net cash inflow for the year (before end of rail franchise outflows) was £36.0m, which is expected to increase going forwards.

The Board

On 1 December 2015 Matthew Gregory was appointed to the Board as Chief Financial Officer, succeeding Chris Surch on his retirement. We thank Chris for his contribution over his three years with the Group. Matthew has already begun to bring his considerable financial, strategic and international experience to bear and I am sure he will make a significant contribution to the Group and its future development.

I would also like to thank my predecessor as Chairman, John McFarlane, who stepped down from the Board at the conclusion of the AGM in July 2015. It is clear to me that in the short time he was at FirstGroup he made an important contribution to the Group's strategy and its focus on delivery.

Corporate responsibility

The provision of safe and sustainable transport services is an inherent part of FirstGroup's operations and core to the values of the organisation. The Group continues to be at the forefront of environmentally responsible vehicle procurement practices and support for emerging sustainable technologies, and in the year Group-wide safety training practices have been reinvigorated and a step change made in the approach taken to engagement with local communities.

Sound corporate governance is also a vital facet of our responsibilities to all our stakeholders, and in the year the Board has focused on several areas including succession planning processes, risk appetite and management, cyber risk and security and remuneration practices. Several Board meetings this year have taken place alongside in-depth visits to operations in the US and the UK, giving Board members greater insight into the day-to-day business and an opportunity to understand key issues at first hand.

Our people

Since joining the Group in May 2015, I have had the opportunity to meet with many front line employees in all of the Group's divisions. I have been extraordinarily impressed by the commitment and dedication shown by them and all our 110,000 people, who have continued to focus on the task of delivering high-quality services to our customers through some challenging years for the Group. On behalf of the Board I would like to extend my sincere gratitude to all of our employees for their hard work during the year, which has allowed the Group to lay foundations for further success into the future.

With a clear strategy for delivering improved financial performance and a growing focus on attracting new customers to our services, the Group is well placed to deliver more sustainable cash generation and returns going forward. Notwithstanding a number of headwinds in some markets, the Board is confident that the Group's increasing ability to deliver the innovative, efficient and reliable transport solutions that customers and communities need to flourish will allow FirstGroup to drive increasing shareholder value in the future.

Wolfhart Hauser
Chairman
14 June 2016

We are encouraged by the overall progress we have made to strengthen our businesses in recent years. Although our plans have had to adapt to changing circumstances, the Group is now in a position to deliver sustainable cash generation.

Overall we have made encouraging progress this year in repositioning FirstGroup for improved financial performance and more consistent returns – more befitting our strong service capabilities and our market positions in our five business divisions.

As we indicated at the start of the year, a smaller rail franchise portfolio and fewer operating days in our school bus business were factors that would make delivering headline earnings growth this year challenging. However, by being flexible with our plans we have delivered a comparable adjusted operating profit to last year as well as a net cash inflow ahead of our expectations, despite several headwinds – some anticipated at the start of the year and some emerging in our markets over the course of the last twelve months. We have done so by adapting our plans in response to evolving market conditions, while maintaining our focus on our five strategic objectives: focused and disciplined bidding in our contract businesses; driving growth through attractive commercial propositions in our passenger revenue businesses; continuous improvement in operating and financial performance; prudent investment in our key assets (fleets, systems and people); and maintaining responsible partnerships with our customers and communities.

Our performance in the year

In this regard, our **First Bus** division reacted well to disappointing passenger volume trends across the industry in the year, rapidly adjusting commercial and cost efficiency plans including our depot footprint while maintaining a focus on long term investments in smarter ticketing, improved connectivity for our passengers and better partnerships with our local authorities. In **Greyhound** we also flexed our operations in response to reduced passenger demand from lower fuel prices – which continued to fall over the course of the year – while improving our medium term prospects through investment in yield management and other systems. In **First Student** we delivered another year of contract awards at prices more reflective of the capital we employ whilst delivering significant cost efficiencies, though disappointingly this was offset by higher than planned costs incurred in response to worsening driver shortages in some of our locations as US employment markets continue to tighten. In response to this challenge we have taken a number of additional cost reduction actions including a realignment of our regional and central services structures at the start of the 2016/17 year. We are also reflecting these cost challenges in our bid proposals going forward and continue to upgrade our employee recruitment and retention practices. **First Transit** has continued to win contracts in our core markets but also in adjacent areas such as Bus Rapid Transit (BRT) and new geographies, though the oil price resulted in lower activity in the Canadian oil sands region, as expected. The recent wildfire which devastated the city of Fort McMurray presents further challenges for this part of First Transit’s business in the coming months. In **First Rail** we have continued to develop our franchise portfolio, winning the new seven year TransPennine Express contract in the year and securing opportunities to grow our open access operations, while maintaining good passenger volume and revenue growth and strong financial performances across all our networks. We continue to be active in a number of upcoming rail franchise competitions.

We are encouraged by the overall progress we have made to strengthen our businesses in recent years. Although our plans have had to adapt to changing circumstances, the Group is now in a position to deliver sustainable cash generation. Going forward, we will continue to drive progress with our pricing, margin and operational improvement plans in order to complete the programme we set out in 2013, but will also place increasing emphasis on growth. Across the Group we are already enhancing our ability to understand and interact with our passengers throughout their experience of our services, while providing more and better journey information and related services tailored to their needs. In this area our scale and the range of experience and expertise available throughout the Group is a significant asset. For example, First Bus is already working very closely with the Greyhound team on using IT to deepen customer relationships.

Our sustained reinvestment in our non-rail fleets and systems is now largely complete, and going forward our capital allocation decisions will increasingly focus on the maintenance of our existing asset portfolio and selected growth opportunities with good returns. As we continue to focus on increasing our operating earnings, our free cash flow is expected to improve over time. We also expect our financing costs to continue to reduce as cash flow increases and our relatively high coupon bonds mature over time.

People

In the year we welcomed two new members to the Board. Wolfhart Hauser joined the Board in May 2015 and became Chairman at the conclusion of the AGM in July. With his considerable track record of sustained value creation, Wolfhart has already begun to make important contributions to the development of the Group. In December 2015 Matthew Gregory joined the Group as Chief Financial Officer, succeeding Chris Surch on his retirement. Matthew's financial, strategic and international experience will be invaluable as FirstGroup's strategy continues to evolve. I echo the sentiments of the Chairman in thanking Chris Surch for his contribution to the Group since he joined in 2012.

We continue to invest in our people throughout the Group, giving them leadership, professional development and other support which is increasing the level of collaboration throughout our organisation and leveraging the extraordinary breadth of expertise across our business.

Outlook

In the coming year we expect the Group to make strong progress despite a challenging trading environment in several of our markets. This will come from our ongoing focus on disciplined contract bidding and our cost efficiency programmes, as well as lower fuel costs and a higher number of First Student operating days compared with the prior year. We also expect to deliver a significant increase in net cash generation for the first time since we launched our transformation of the Group in 2013.

In the year ahead we expect First Student's 'up or out' contract pricing programme to offset cost inflation and our performance to benefit from further cost efficiencies, a higher number of operating days and a reduction in our fuel costs due to our hedging profile. Although these will be partially offset by the driver shortage headwinds we are experiencing, we expect significant margin progression for 2016/17 to at least 9%. In First Transit we will continue to bid for contracts offering good margins with modest capital investment, and expect to return to overall growth, despite further reductions in demand for our shuttle services in the Canadian oil sands region due to the oil price and recent wildfire. Although Greyhound's passenger revenue decline trend has shown signs of moderating, we expect a year of muted passenger demand and modest margin benefits as our systems upgrades begin to build and we continue to flex operations in response to the demand environment. In First Bus we expect market conditions to remain challenging in the year ahead. We therefore expect moderate margin progression from the full year benefits of past cost saving actions, additional cost and operational efficiency initiatives and some benefits from our fuel hedging programme. We are expecting the rate of passenger revenue growth in First Rail to moderate in line with recent industry-wide trends and our divisional margin will rebase toward industry norms following the start of the new TPE franchise.

Overall, we expect the considerable efforts of our people in recent years to be reflected in a significant improvement in our profile of sustainable returns and cash generation going forwards.

Tim O'Toole
Chief Executive
14 June 2016

First Student

We continue to be at the forefront of the industry for investment in systems and processes that enhance customer service levels, improve fuel efficiency and further differentiate our services.

Dennis Maple
President, First Student

	2016	2015
Revenue	**$2,332.7m**	$2,368.6m
Adjusted operating profit	**$165.0m**	$177.3m
Adjusted operating margin	**7.1%**	7.5%
Number of employees	**57,000**	57,000

Our strengths

Clear market leader (bigger than next four competitors combined) – scale economies in areas such as vehicle and parts procurement, insurance, fleet management, technology development

Differentiated offering – safety programme, on-bus technology, strong customer relationships and satisfaction scores

Turnaround plan is progressing through disciplined contract portfolio management, capital discipline and cost efficiency plans

Repositioning business to sustainably deliver profitable growth and returns from market leadership in the long term.

First Student's revenue was $2,332.7m or £1,553.5m (2015: $2,368.6m or £1,478.8m). Revenue increases from improved prices, including the second year of our successful contract pricing strategy, moderate organic growth and a more normal weather season were offset by contracts not renewed. The decrease of 1.5% on a US Dollar basis was driven principally by the lower number of school days on which First Student operated in the year, due to the timing of the school calendar. Schools will make these days up at the end of the academic year or the start of the next, so will fall into our 2016/17 financial year.

Adjusted operating profit was $165.0m or £112.6m (2015: $177.3m or £114.9m), resulting in an adjusted operating margin of 7.1% (2015: 7.5%). As anticipated, the effect of the lower number of operating days was $17m of profit, or a reduction in margin of 0.6%. Our operating results benefited from the second year of improved contract portfolio pricing and recovery of operating days lost to weather in the prior year, which more than offset non-employee cost increases. However, worsening driver shortages in some of our markets resulted in higher than planned employee costs in the year. Our cost efficiency programme delivered $14m in savings in the year, less than originally targeted as a result of the driver shortage challenges, which made consistent implementation of best practice procedures more difficult in affected locations.
We have taken action to mitigate the impact of the driver shortages going forward whilst continuing to deliver our cost efficiency savings: shortly after the year end we realigned our regional management and central service structures, resulting in the elimination of 130 positions, which will assist in making margin progress in 2016/17.

Focused and disciplined bidding

Over the past two years, our bidding strategy has focused on increasing contract pricing on new bids and renewals to ensure that we achieve appropriate returns on the capital required to deliver our services. In the year we completed our second bid season under the new pricing strategy, achieving a higher average price increase of 5.3% compared with the first season (4.5%). As is typical, approximately one-third of our bus portfolio was up for renewal in the 2015 bid season. Our contract retention rate was modestly ahead of our expectations at 86% for contracts at risk, or 94% across our total portfolio. Pricing across the marketplace was firmer than in previous years, though we continue to see limited organic growth or conversions from in-house to private provision, and some smaller local operators continue to bid aggressively to retain business. Net of 'share shift' movements and our decision to retire a number of excess buses from the fleet, our overall bus portfolio at the end of the year was approximately 47,000. In the 2016 bid season, which is now underway, we are reflecting the cost inflation challenges we are experiencing in our pricing for new contract bids and renewals, which we would expect to result in the loss of some business as we have experienced in prior years.

500 operating locations across US and Canada

Fleet of approximately 47,000 yellow school buses

Continuous improvement in operating and financial performance

Our biggest operating and financial challenge in the year was responding to more significant than usual challenges recruiting and retaining drivers in some of our locations, as a result of the improving US economy and tightening employment markets. Short term remedies for a shortage of drivers result in higher costs from more overtime, increased employee joining incentives and, in the worst affected areas, expenditure required to bring in and house additional drivers from elsewhere in our business. Shortages also limit the growth of charter revenues and make implementation of best practice procedures more difficult in the areas affected. We are deploying appropriate recruitment incentives aligned to local conditions in the areas affected, investing in our targeting and marketing to potential employees, and improving our retention and on-boarding processes which we expect to assist in mitigating the impact of this ongoing challenge. We have increased our target for cost efficiencies in 2016/17, and shortly after the end of the year we took an important step towards this with the realignment of regional management and central services noted above. We are also upgrading our maintenance practices, benefiting from the expertise of First Transit's vehicle maintenance services segment.

Notwithstanding challenges elsewhere, we have made significant progress reducing certain cost categories this year, by continued rigour in raising compliance with best practice operational procedures, disciplined overhead cost management across our 500 locations, reducing non-driving time through our Focus GPS system, more efficient engineering via lean engineering practices, and fuel efficiency savings from our DriveSMART driver training scheme. Overall our management initiatives have delivered recurring cost savings of $14m in the year.

Recognising excellence in maintenance

Several First Student locations recently earned the Blue Seal of Excellence from the US National Institute for Automotive Service Excellence (ASE). The ASE is an independent non-profit organisation created in 1972 to improve the quality of vehicle repair and service by testing and certifying automotive professionals. The Blue Seal is its highest certification. Our maintenance best practices and streamlined procedures are among the most innovative and stringent in the industry, helping to keep safe, rigorously maintained buses on the road without interruption.

Continuous improvement in operating and financial performance

Prudent investment in our key assets

We continue to be at the forefront of the industry for investment in systems and processes that enhance customer service levels, improve fuel efficiency and further differentiate our services. We have deployed MyFirstPass (swipe card-based location tracking) in a number of locations, and we continue to build our non-school charter offering, which is attractive from an asset utilisation perspective and where revenues increased by 3.5% in the year. We continue to invest in new buses, refurbishments and on-board technology in the year; our average fleet age reduced slightly to 7.3 years.

Responsible partnerships with our customers and communities

Our services form an integral part of the school experience for the millions of children in our care each day, and we take our responsibilities to them and to their parents, schools and communities very seriously. We have maintained last year's high customer service scores, and continued to invest in safety, completing the roll out of our new Be Safe training programme to all front line managers and supervisors, resulting in a positive impact on our already strong passenger and employee safety metrics. Continuous improvement in our customer service and safety track record is deeply embedded in our values as an organisation, and is a core part of our proposition to our customers and passengers. In addition to cost savings, the fuel efficiency savings from our DriveSMART programme continue to reduce our environmental impact, and we added another 450 alternative fuel buses in the year, taking our fleet to more than 1,700 and making us one of the largest private operators of such school buses in North America.

Future priorities

First Student is a leader in our marketplace, both in terms of our size and the quality and safety of the services we provide. We will continue to improve our financial performance through our contract pricing strategy and operating efficiency programmes to drive appropriate returns on the capital we invest. In the longer term, our unique market position, customer proposition and improving operational efficiency will ensure we are increasingly well placed to grow through further conversion, tuck-in acquisitions and organic opportunities.

Outlook

In the year ahead we expect First Student's 'up or out' contract pricing programme to largely offset cost inflation and to benefit from further cost efficiencies, a higher number of operating days and a reduction in our fuel costs due to our hedging profile. Although these will be partially offset by the driver shortage headwinds we are experiencing, we expect significant margin progression for 2016/17 to at least 9%.

As usual, First Student's operating results will be significantly weighted to the second half because of the overlay of our financial year on the North American school calendar.

First Transit

Our pipeline of opportunities has strengthened over the year and we remain very confident that our services offer a compelling outsourcing option for public authorities and private customers.

Brad Thomas
President, First Transit
and First Vehicle Services

	2016	2015
Revenue	**$1,303.4m**	$1,362.1m
Adjusted operating profit	**$90.6m**	$96.1m
Adjusted operating margin	**7.0%**	7.1%
Number of employees	**19,500**	19,000

First Transit revenue was $1,303.4m or £864.8m (2015: $1,362.1m or £844.8m). As expected, this is a reduction of 4.3% compared to the same period last year in US Dollar terms, reflecting significantly reduced activity in the Canadian oil sands region and hence demand for our shuttle services there, as a result of lower oil prices.

Adjusted operating profit was $90.6m or £60.1m (2015: $96.1m or £59.7m), resulting in a US Dollar adjusted operating margin of 7.0% (2015: 7.1%), which is in line with our expectations and medium term goals.

Our strengths

Established credentials and track record – First Transit is a market leader and has a pedigree extending more than 60 years

Diverse segments and large volume of relatively small contracts – our exceptional bidding and management expertise are well embedded

Industry-leading programmes including safety and maintenance training

Technology investment is delivering efficiency gains and service enhancements for our customers

Our scale and breadth of management expertise will support future growth, including in new services and geographies.

Focused and disciplined bidding

In our sixtieth year of operation, First Transit's seasoned management team and bidding expertise have sustained our strong track record of new business wins and high contract retention rates across a growing range of services and geographies. In the year we were awarded 18 new contracts, of which nearly 20% by value were outsourced by public authorities for the first time. New business wins included paratransit contracts in Houston, Chicago and Minneapolis, several Non-Emergency Medical Transportation (NEMT) call centre management contracts in the Midwest, and three new vehicle maintenance contracts in Florida, including one for Florida International University.

Our shuttle segment, which is the only part of the division in which we provide capital for vehicles, also continues to win new business. In the period we were awarded a contract at Sacramento Airport thanks to a new partnership arrangement with LAZ Parking, one of the largest parking companies in America, and expanded our presence at Philadelphia International Airport with the award of the American Airlines passenger shuttle operations.

We also expanded our international footprint, partnering with the government of Panama to provide transit management for the MetroBus system in Panama City, and have signed a small employee shuttle contract in India, which has meaningful potential for future growth. We are also active in the emerging market for closed-system BRT services in North America, where we are managing the CTfasttrak system in Connecticut.

Retaining existing clients is also an important element of our bidding strategy. 90% by value of our contracts subject to rebid were renewed, reflecting our customers' trust in our service capabilities and competitive pricing. We renewed key contracts in Antioch, Portland, Denver, New Jersey, Hartford and Washington, DC in the year, maintaining our portfolio at around 350 contracts.

Nearly 350 contracts, with average value of less than $5m

Almost 350m passengers a year

Continuous improvement in operating and financial performance

First Transit continues to be competitive due to our national service platform, technology infrastructure and management expertise. Despite an increasingly challenging employment market, our ongoing investment in recruitment, retention and continuous training of our people (including the applicant tracking system developed by First Bus that was introduced last year) has ensured we have the depth of expertise required for our bid submissions and for subsequent service delivery.

Prudent investment in our key assets

We continue to invest in technology initiatives, rolling out our paperless engineering shop system and developing our predictive analytics tools throughout our engineering operations. Our management information dashboard and mobile apps enable us to continue to deliver a meaningful point of difference compared to competitors, with cost efficiencies for our clients, better information for passengers and improved financial performance for our business.

Partnering to deliver food for families

Working with Phoenix area transportation agency Valley Metro, First Transit have been providing in-kind operations and maintenance support to community initiative Fresh Express since 2014. A re-purposed Valley Metro bus has been transformed into a roving grocery store that provides easy access to fresh produce in areas where local residents have little to no access to transportation and no neighbourhood stores. Fresh Express makes dozens of stops each month at schools, senior centres and other community centres in underserved neighbourhoods across Phoenix, enabling families to buy fresh fruits and vegetables at low cost.

Responsible partnerships with our customers and communities

Responsible partnerships with our customers and communities

Our commitment to safety, technical and operational knowledge and professionalism is particularly recognised by our customers and we continued to focus on improving our safety KPIs in the year, while our overall customer satisfaction score remains high. We are at the forefront of the industry in developing mobile apps for our clients allowing registered riders to access timetables, the location of services in real time and monitor disruption to services.

Future priorities

First Transit's international scope, scale and management expertise, coupled with our high level of investment in our people and technology and our long-standing customer and industry relationships, will ensure we continue to deliver good margins and returns into the medium term. We continue to see attractive opportunities for additional growth in our core service markets, particularly in paratransit work and in the shuttle segment. Potential opportunities are also growing in light rail, commuter rail and BRT in North America, where we continue to benefit from the strong expertise in our UK divisions as we explore potential opportunities in these areas. Our international team will continue to develop opportunities for geographic growth in a disciplined and low risk way.

The expertise of our people and the quality of our technology gives First Transit a competitive advantage. Our track record of innovation and cost efficiencies ensures that, despite an increasingly competitive market, we will remain the cost efficient supplier of choice for customers old and new. We continue to anticipate achieving a margin of approximately 7% in the medium term, which we believe is attractive in the context of the limited capital employed in the division.

Outlook

Our pipeline of opportunities has strengthened over the year and we remain very confident that our services offer a compelling outsourcing option for local authorities and private customers. Although we expect some further reductions in demand for our shuttle services to the Canadian oil sands sector due to the oil price and the recent wildfire which devastated the city of Fort McMurray, we anticipate that First Transit will return to overall growth in 2016/17, while maintaining margins.

Greyhound

Completing the transformation of our business into a IT-enabled, customer-centric enterprise with real-time pricing and yield management and the latest customer relationship management capabilities is a key priority.

Dave Leach
President and CEO, Greyhound

	2016	2015
Revenue	**$914.0m**	$986.0m
Adjusted operating profit	**$54.4m**	$68.5m
Adjusted operating margin	**6.0%**	6.9%
Number of employees	**7,000**	7,500

Greyhound's US Dollar revenue decreased to $914.0m or £605.1m (2015: $986.0m or £609.6m) in the year, reflecting the more difficult customer demand environment experienced across the intercity coach industry since fuel prices fell sharply between September and December 2014. While lower fuel prices reduce our own cost base they also improve the affordability of alternative forms of transport for some trips (particularly from airlines on longer distance trips), relative to Greyhound. We were encouraged by the relatively more resilient performance of our point-to-point Greyhound Express revenues, where like-for-like revenue decreased by 1.9% over the year, compared with a like-for-like decrease of 4.9% for the division as a whole. The rate of revenue decline began to moderate over the course of the year; in our final quarter our overall like-for-like revenue decline for the division was 2.1%, and Greyhound Express revenues were flat compared with the prior year.

By comparison with previous periods of significant fuel price reductions we have been more successful flexing our business model by actively managing timetables and other costs to partially mitigate the impact of lower demand on our margins. Greyhound's adjusted operating profit was $54.4m or £35.5m (2015: $68.5m or £41.7m), an adjusted US Dollar operating margin of 6.0% (2015: 6.9%).

Our strengths

Iconic brand synonymous with long distance coach travel

Only national network of scheduled intercity coach services – passenger feed from this network provides operating leverage to point-to-point services

A business that is reconnecting with customers – operating a refreshed fleet with improved amenities and transformed systems to connect with our passengers and respond to their needs

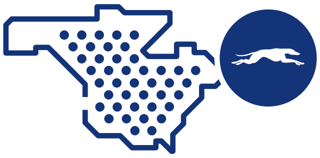
Range of brands and price points to target new markets.

Compared with our US operations, the lower oil price has had a more adverse effect on passenger demand for our services in Canada (approximately 16% of Greyhound's revenues), both directly and through the impact on the health of the economy. There are regulatory and structual constraints in this market and, despite extensive management action, Greyhound Canada was loss-making in 2015/16. We are pursuing further options to address the performance of our Canadian business.

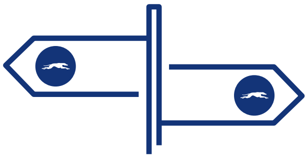
Driving growth through attractive commercial propositions

Greyhound is one of the most iconic brands in transport, with a unique national network. Passengers from our traditional network, which operates across North America, also help us feed our point-to-point Greyhound Express service. Since inception, our point-to-point brands have operated modern buses equipped with free Wi-Fi, power outlets, leather seats, extra legroom and guaranteed seating, and all of these amenities have now been extended across our traditional network. Moreover, Greyhound Express and BoltBus have always operated with airline-style yield management, real-time pricing and customer relationship systems, and we have been investing in recent years to bring these systems to bear on our much larger, traditional Greyhound network nationwide. From a passenger-facing perspective the key additions in the past year include our upgraded responsive website, new mobile apps (which include Uber and Apple Wallet integration), investment in customer relationship management systems and services such as 'where's my bus?' tracking technology. We are now retraining and redeploying our passenger-facing terminal employees to focus on delivering an improved customer experience, both through the new technologies available and by learning from the hospitality industry.

All of these changes complement the complex transformation of our entire pricing and ticketing business model, which has now been upgraded to give us access to algorithmic pricing and yield management tools across our entire network of 3,800 locations generating more than 50,000 different journey combinations in a typical month. Amongst other opportunities, these tools will increase our ability to stimulate demand throughout the macro-economic cycle, and allow us to shift demand to off-peak times more easily, resulting in better utilisation of existing seat inventory. This project enhances Greyhound's



3,800 destinations used in more than 50,000 journey combinations monthly across North America



Point-to-point service Greyhound Express covers 1,000 city pair combinations in 135 markets

opportunities for growth, margin expansion and returns over the medium term. The benefits of these new systems will take time to build as we develop our database of passenger demand trends and our expertise in using the tools throughout our network. The overhaul of our IT infrastructure has also allowed us to enhance our business model in other ways, such as permitting bus-side ticket scanning via a drivers' smartphone app (allowing real-time inventory management). We will continue to build on these systems in the future, including through further changes to our loyalty programmes.

During the year we also extended our geographic presence, becoming the first international coach operator to launch domestic services in Mexico, and we are pleased with the progress to date. The Mexican coach market offers significant opportunities for future growth.

Continuous improvement in operating and financial performance

In a volatile demand environment, our financial performance is highly dependent on our ability to rapidly flex mileage and to maintain tight control of all our operating costs. Overall mileage was reduced across the business by 5.8% in the year. We have also continued to review our location footprint and property portfolio for opportunities to improve the customer experience, which resulted in the disposal of properties in Raleigh, Fresno and Baltimore in the year. In addition, we took the decision to discontinue our separately branded YO! Bus services, folding the key routes into our wider network. We have also adjusted our marketing, maintenance and central overhead expenses and practices to reflect the demand environment.

Prudent investment in our key assets

Our most important area of investment is the customer experience programme to equip our traditional business with real-time dynamic pricing and yield management capabilities, together with improved customer relationship management tools. As the IT investment phase begins to wind down, our focus will move to enhancing employee training, particularly in the new tools becoming available to passengers.

In light of recent demand trends, we opted not to acquire additional vehicles during the year. Our expansion into the Mexico domestic market – which under relevant legislation is terminal-based – did not require significant investment in the year, but is projected to increase over time.

Responsible partnerships with our customers and communities

The increased customer engagement that our new systems are bringing will allow us to deliver a more personalised service, responsive to the individual needs of our passengers. Through the rollout of a refreshed safety programme to our employees, we have made significant progress in the year across our key metrics.

Future priorities

Completing the transformation of our business into a customer-centric, IT-enabled enterprise, with real-time pricing and yield management and the latest customer relationship management capabilities is a key priority in the coming years. Coupled with the improvements already made to the on-board and terminal amenities, we have a significant opportunity to revive Greyhound's iconic brand and reputation in the minds of customers. We are also determined to improve our returns in Canada, which currently mask our performance in the US, and will seek to deliver on the growth opportunity we see in the Mexican coach market.

Greyhound, Greyhound Express and BoltBus now offer a productive, relaxing and cost-effective travel proposition for our customers across North America, with a business model that is cash generative and creates value for the Group. Our systems upgrades are making this business more resilient and more capable of stimulating demand in a range of market conditions.

Outlook

Although the passenger revenue decline trend has begun to moderate, we expect 2016/17 to be a year of muted passenger demand. We anticipate modest margin benefits as our systems upgrades begin to build and we continue to flex operations in response to the demand environment, recognising the impact that fluctuations in the oil price will continue to have.

Transformed web and smartphone experiences

Greyhound launched a newly redesigned website in the autumn that completely reinvents the way customers plan and book bus travel. Featuring a fresh, modern design, simple navigation and rich content, the site was built from the ground up to help our customers find the best fares, book more easily, and check out travel tips and suggestions for their next trip. During the year we have also completely redesigned our mobile app. Both the new app and website allow users to easily and conveniently search schedules, book trips, find terminal locations, access an updated loyalty scheme and track the real-time location of their bus.

Driving growth through attractive commercial propositions

First Bus

Our strategy is based on delivering an increasingly digitally enabled customer proposition, coupled with sustainably improved operating disciplines and strong partnerships with local authorities.

Giles Fearnley
Managing Director, First Bus

	2016	2015
Revenue	**£870.9m**	£896.1m
Adjusted operating profit	**£52.0m**	£51.8m
Adjusted operating margin	**6.0%**	5.8%
Number of employees	**17,500**	18,000

First Bus reported revenues of £870.9m (2015: £896.1m) for the year, with like-for-like passenger revenue (excluding the contribution from closure and disposal of businesses) increasing by 0.3%. Revenues in the second half of the year were adversely affected by lower than expected passenger volumes, driven by lower high street retail footfall, exceptionally wet weather, flooding and congestion impairing services in several of our markets. This has been coupled with a reduction in tendered contracts funded by local authorities in a number of our markets, and some evidence of lower fuel prices encouraging more car usage. We continued to experience weakening concessionary revenues throughout the year, while like-for-like commercial passenger revenues increased by 1.1%. Our markets in the south of the UK continue to see more positive trends than our operations in the north and Scotland.

Our strengths

Strong position in the deregulated market (outside London) – c.20% market share

Compelling positions in key markets – operations in eight of the 11 most densely populated cities in the UK

Repositioned to focus greater management expertise at the local level, delivering tailored networks and fares for local needs

Proactive and responsible partner to our local authorities, experienced at working together to deliver passengers' needs.

We have been taking action throughout the year to offset the challenging market backdrop by merging or closing a number of depots and reducing administrative overheads in order to maintain our margin progress. Adjusted operating profit was £52.0m (2015: £51.8m) and adjusted operating margin was 6.0% (2015: 5.8%), after the restructuring costs of £3.8m (2015: £1.4m) incurred in the year. Overall we delivered cost efficiencies of more than £20m in the year.

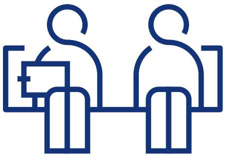
Driving growth through attractive commercial propositions

Our local management teams are continually reviewing networks, timetables and pricing strategies to ensure we are focused on local market needs and growth opportunities. We work closely with all our local authority partners as they respond to their own financial pressures and review their tendered services, looking to find ways to integrate such services into the commercial network wherever possible. Networks serving universities and hospitals are also important to our local growth plans. During the year we secured rights to serve both York and West of England university campuses and developed a commercial network serving Swansea University's new site. We have enhanced our service to Bristol's Southmead Hospital and the new Queen Elizabeth University Hospital in Glasgow. In Bristol several changes to key corridors and the night bus network have also contributed to good volume growth. We have also been progressively replacing single deck vehicles with double deckers to increase capacity. However, our ambitions in Bristol and some other cities are increasingly hindered by growing congestion, which frequently sees central Bristol gridlocked.

We continue to bid for tender contracts, securing a five year car park contract at Dublin Airport and beginning operation of the first Park & Ride service in Leeds. We are the preferred bidder for the second. In Manchester we secured the contract for Vantage, a flagship investment in BRT by Transport for Greater Manchester, which started operating in April 2016. We were also the lead contractor for the Rugby World Cup, providing spectator transport to Twickenham and Milton Keynes stadia and VIP and media transport for all venues.

Continuous improvement in operating and financial performance

Through our depot optimisation and maintenance enhancement programmes, and continued investment in our bus fleet, we remain focused on punctuality and service reliability, which alongside value for money are key drivers of passengers' appetite for bus services. We have also delivered cost reductions of more than £20m in the year. Across the business, efficiencies have been delivered through reduced fuel consumption and better procurement, scheduling and engineering processes. We have further optimised our operating bases – depots at Parkhead in Glasgow and Newcastle-under-Lyme have been closed



1.6m passengers per day

Fleet of approximately 6,200 buses

with operations transferring elsewhere. In Colchester we invested in a new depot replacing three sites, and Bracknell and Braintree operations have been scaled back with certain services now operated from nearby sites. The year saw the closure of our Hereford depot and the sale of the residual South Devon business. Structural changes have also been made to our final salary pension schemes to reduce cost.

Undertakings dating back more than a decade, which placed several restrictions on our flexibility to adjust fares and timetables in our Glasgow and Scotland East businesses, have now been lifted by the Competition and Markets Authority. After the year end we announced the closure of two depots in the region as we respond to current market conditions.

£ Prudent investment in our key assets

We continue to invest in our mobile and digital platforms to improve our customers' ability to find service information more simply and reliably. We now offer mobile ticketing across all of our services and are developing enhanced mobile capability to provide multi-modal planning, real-time travel information and smart ticketing. We are also working with data aggregators such as CityMapper and Google Transit to make our real-time information more widely available. Our website has been relaunched with easy to use journey planning, latest information and search functionality. We have delivered our commitment to multi-operator smart ticketing across the city regions in England and are working to deliver a similar scheme for the key city regions in Scotland. We have also committed to work over the coming year with other operators to develop plans to bring contactless EMV technology to our services.

Vantage BRT comes to Manchester

North west England's first guided busway, operated by First Manchester, opened in spring 2016 with a fleet of 20 high-specification, low-emission hybrid buses. The BRT services are being delivered in partnership with Transport for Greater Manchester and local authorities and are able to run free from congestion on a 4.5 mile guided section providing rapid connections for passengers.

Driving growth through attractive commercial propositions

A fundamental part of our transformation is fleet renewal. In the year we took delivery of 385 vehicles and have announced a £70m order for a further 305 buses since the year end. All buses delivered since mid-2015 are equipped with Euro VI engines, Wi-Fi as standard and an increasing number have USB charging points and next stop audio visual announcements. These investments improve our customer offer, ensure our compliance with disability access legislation and make a major contribution to the clean air agendas of the cities we serve.

Responsible partnerships with our customers and communities

Buses remain a critical enabler of economic growth, with more commuters reliant on the UK national bus network every day than on any other form of public transport. We share the aim of local councils and national Government to get more people out of their cars and using buses. In November we welcomed confirmation that Government funding of the Bus Services Operators' Grant (BSOG) in England will be maintained through to 2020/21. We are delighted that the new Bus Services Bill gives strong support for enhanced partnerships and provides additional tools for councils and operators jointly to deliver improvements for customers. We believe that local authorities' objectives for bus services in their area are best delivered through partnerships where the commercial incentive remains with the operator, rather than a complex franchise-based alternative which may not deliver changes or benefits for some years, and where financial risk and additional cost passes to the local authority.

We continue to explore opportunities to work in closer partnership with local authorities in our markets, building on the success we have had to date in increasing both passenger volumes and satisfaction. In November the Sheffield Bus Partnership introduced a new network focused on the economic and social needs of the city while ensuring resources are closely matched with demand. We have also worked to deliver a Rotherham Partnership and one for Doncaster (implemented in May 2016). In Cornwall, we are working increasingly closely with the County Council to deliver a fully integrated public transport network embracing information, ticketing and connections with rail. We were a sponsor of Bristol European Green Capital 2015, during which we trialled a number of bio-methane and advanced hybrid buses, which are influencing our discussions with Bristol on future fuel technologies.

Future priorities

Our strategy is based on delivering an increasingly digitally enabled customer proposition coupled with sustainably improved operating disciplines and strong local authority partnerships. We believe this is the most responsive, efficient and cost-effective way to deliver the outcomes that bus passengers, local authorities and taxpayers want and we will continue to enhance our ability to deliver these outcomes going forward.

Outlook

We expect market conditions to remain challenging in the year ahead. We therefore expect moderate margin progression from the full year benefits of past cost saving actions, additional cost and operational efficiency initiatives and some benefits from our fuel hedging programme.

First Rail

We continue to demonstrate the extensive operational strengths as well as the fleet and infrastructure upgrade capabilities that we have built up through our involvement in the rail industry since privatisation.

Steve Montgomery
Managing Director, First Rail

	2016	2015
Revenue	**£1,308.4m**	£2,207.1m
Adjusted operating profit	**£72.9m**	£74.1m
Adjusted operating margin	**5.6%**	3.4%
Number of employees	**7,500**	7,500

Our First Rail division continues to benefit from growth in passenger volumes, which increased by 2.9% on a like-for-like basis, although we have experienced some slowing in passenger demand growth after recent terror attacks in Paris and Brussels and in areas affected by flooding over the winter. Our continuing operations increased like-for-like passenger revenues by 6.3%. Revenues declined on a reported basis to £1,308.4m (2015: £2,207.1m), reflecting the end of the First Capital Connect and First ScotRail franchises.

Our financial performance was towards the top of our range of expectations with adjusted operating profit of £72.9m (2015: £74.1m), representing a margin of 5.6% (2015: 3.4%). This reflects strong financial performances across all our networks as well as the change in the basis of estimate for accounting for pensions. The latter change, which has been made to more accurately reflect the commercial terms of our current franchises and the pension contributions expected to be paid, had a full year benefit of £18.6m to operating profit.

Our strengths

Significant participant in the UK rail market since privatisation

Experienced in running every type of passenger rail operation – intercity, regional, commuter, sleeper and open access

Strong commercial, rolling stock and major infrastructure upgrade project capabilities

Highly experienced bidding team with a record of developing disciplined bids that deliver for passengers and taxpayers.

Focused and disciplined bidding

In September we began operating Great Western Railway (GWR) under the commercial terms of a new direct award which runs to 1 April 2019, with a further extension of up to one year at the discretion of the Department for Transport (DfT).

TransPennine Express (TPE) also operated under the terms of a year-long direct award during the course of the year but we were awarded the competed franchise contract in December 2015. Our new franchise, which will operate from April 2016 until at least 2023, will result in new, faster and more frequent intercity train services between the north of England and Scotland's major towns and cities.

Outside of franchising, the Office of Rail and Road (ORR) recently approved our application for new open access services between London, north east England and Edinburgh, offering a single class of service on a new fleet of trains designed to encourage travellers to switch from air or coach travel to rail. The ten year track access agreement will allow us to start running five trains a day each way by 2021. In March Hull Trains also secured a further ten years of track access running until December 2029. The agreement enables us to procure new bi-mode trains that will take full advantage of the benefits of the electrified East Coast Mainline in due course.

Continuous improvement in operating and financial performance

We have a strong track record for close partnership working with Network Rail and other industry participants to deliver infrastructure upgrade projects whilst minimising disruption for passengers. The Government's investment in rail infrastructure continues, with the £7.5bn investment in the Great Western Mainline and work on the TransPennine route both key parts of the national programme. Following Network Rail's review of its schedule of projects, we are working closely with them and with the DfT to support the substantial infrastructure upgrades taking place throughout the network and ensure delivery of work within appropriate timescales. We also support the Shaw Report's conclusions which enhance the industry's focus on customer needs going forwards.

In March 2016 we finalised a formal alliance between GWR and Network Rail covering five key areas of working, committing both companies to a more aligned approach. It covers improved joint planning for major upgrade projects such as electrification, to help minimise disruption for passengers as much as possible. A similar partnership has been signed with TPE.

Around 5bn passenger miles travelled last year

1,200 diesel and electric rolling stock vehicles

Prudent investment in our key assets

With the commencement of the new GWR direct award in September 2015, we launched new branding which reflects the line's strong heritage. This change is consistent with our emphasis on developing local brands that connect with our customers and the communities in which we operate. Alongside the ongoing investment in the rail network, there will be a substantial fleet upgrade. As well as the InterCity Express trains already due to be introduced during the direct award period, in the year we secured approval to procure 29 new long distance trains, creating more than 1,000 additional peak-time seats into and out of Paddington every day. Overall, we will create 3m more seats across the network by December 2018, as well as quicker journey times and more frequent services.

During the new TPE franchise more than £500m will be invested to transform rail services across the North and Scotland. There will be a large increase in the number of carriages compared with today, providing 13m more seats, and the customer experience will be enhanced over time with almost three quarters of the fleet being new.

Introducing state-of-the-art intercity trains will mean faster and more reliable journeys with more seats and luggage space. The remaining vehicles will be extensively refurbished and our stations will also benefit from £18m of investment in customer facilities. During the year we continued to progress the roll out of free Wi-Fi services both on-train and in-station throughout the GWR network and this will also be introduced on all TPE trains and stations going forwards.

Responsible partnerships with our customers and communities

In the latest independent Transport Focus National Rail Passenger Survey (completed during autumn 2015) all of FirstGroup's three train operating companies scored above the national average for customer satisfaction. Hull Trains topped the national table with their highest ever score at 97%, ten points higher than the average of long-distance operators. GWR increased its year-on-year measure for overall satisfaction by three points to 84%, its highest score since the survey began in 1999. TPE scored 83%, up a point year-on-year.

More than 40 schemes are benefiting in the year as part of GWR's £2.2m Customer and Communities Improvement Fund, supporting social need in areas we serve. A similar fund is being introduced by TPE which will continue to work with community groups across the network. The team will also work with Job Centre Plus to provide discounted travel for jobseekers and help them back into the workforce, and will also provide discount schemes for 16 to 18 year olds and customers travelling in large groups.

Future priorities

We continue to demonstrate the extensive operational strengths as well as the fleet and infrastructure upgrade capabilities that we have built up through our involvement in the rail industry since privatisation. We have secured a longer future for all three of our rail operating companies as well as a new open access opportunity, and this gives us a strong position in First Rail to build on over the medium term. With more than half of the UK rail network by passenger revenue expected to be refranchised by 2020, we will continue to examine each bidding opportunity on its merits.

Outlook

In the year ahead we are expecting the rate of passenger revenue growth in our rail operations to moderate in line with recent industry-wide trends. We expect our divisional margin (after bid costs) will rebase toward industry norms following the start of the new TPE franchise terms and the investments being made for the benefit of customers.

We will continue to be active in UK rail franchise bidding, where our approach has been and will continue to be disciplined, aiming to deliver ambitious improvements for passengers and appropriate returns for shareholders, at an acceptable level of risk.

Launch of new TPE signals start of £500m investment

TPE took over the reins of intercity rail operations in the North and Scotland on 1 April 2016. Over the next seven years TPE will oversee an investment of more than £500m, which will lead to an 80% rise in capacity at the busiest times of the day and increase connections between the largest cities in the North and Scotland by 55% by 2019. Over the next four years the customer experience on our services will be reimagined with improved catering, more seats, faster trains, innovative ticketing systems and shorter journey times. We are also committed to improving our response to delays and cancellations, with an automatic delay repay system implemented within 12 months and Wi-Fi at all TPE stations in 2017. We will be working hard over the next four years to achieve these major changes and create an outstanding intercity rail service that will take the North further.

Focused and disciplined bidding

Our people

Our 110,000 people are at the heart of our success. Throughout 2015/16 we have continued to make progress in our approach to recruitment and talent development, employee engagement, wellbeing and diversity across the Group.

People development

During the year, we have continued to invest in our leaders at all levels to strengthen our management capability and support the effective delivery of our transformation and divisional business plans.

Senior managers and leaders within each division have completed a 360 degree assessment process, with comprehensive feedback and development support. Senior managers have also received tailored leadership and individual development programmes, and more than 50 senior HR professionals across the Group have been trained to implement an enhanced talent management and succession planning process.

For middle and first level managers, we have continued the delivery of our Dynamic Performance and Development programme, and added new virtual sessions and online content. By August 2016, this programme will have trained more than 14,000 employees with the skills to lead and manage their teams more effectively.

Additionally, we have begun delivery of our Be Safe programme for all managers and supervisors across the organisation. This major training investment is focused on building the right behaviours and habits to ensure that we sustain and improve our safety performance across the Group. Initial indications from the locations first to implement the programme are encouraging and give confidence of continuous improvement towards zero harm and of making safety a personal core value. Further information on Be Safe and our safety performance can be found on page 24.

Graduate talent

Our successful two year UK graduate programme is helping us strengthen our pipeline of future leaders. We are delighted to have been externally recognised by The Job Crowd in their ranking as 'Top Company for Graduates to Work for in Transport, Logistics and Distribution' in 2015/16. We also moved up 15 places in the Guardian's list of top 300 graduate recruiters.

We recruited nine graduates in 2015/16 and a further seven will join us in September 2016. This year we have seen a 4% rise in female applicants, and an increase in the number of females actually recruited, with women making up more than 50% of the September 2016 cohort.

Apprenticeship schemes

Over the past three years we have recruited more than 150 apprentices into our business on to schemes of between 18 months and four years in duration. We are particularly proud that more than 80% of our bus apprentices, and 100% of our rail apprentices have secured permanent roles with us on completion of their training. In the year ahead we will be recruiting a further 50 apprentices.

Resourcing

Our 110,000 employees are the public face of FirstGroup to millions of customers every day. Being able to hire and retain high calibre people at all levels is vital.

During the year, like many transport organisations across the UK and North America, we have experienced driver shortages. To meet these challenges in the UK, we have adapted our attraction strategies, using a variety of electronic job boards, radio campaigns, and open days. Our approach in North America has also included trials of geo-targeting technology to alert mobile phone users to job opportunities in their area.

Driver retention is also a key area of focus, and we are planning a range of projects during 2016/17 to improve our performance.

Employee engagement

Having an engaged workforce, motivated to give great service to our customers, is critical to our success. Our Your Voice employee survey, carried out annually in the UK and every 18 months in North America, measures employees' satisfaction with the way they are managed, the pride they feel in working for the business and how likely they are to recommend us to others as a great place to work.

The engagement scores across our UK divisions show an improving trend since our first employee survey in 2010, with a 9% increase in comparable results. However in 2015/16 our overall UK engagement levels dropped by four percentage points on the previous year. Such a result is not unusual in organisations going through major change, but our divisions are responding to this feedback from our people.

First Bus, Great Western Railway (GWR) and TransPennine Express (TPE) all have action plans to improve recognition of, and communications to, front line employees and better visibility of career development opportunities. In First Bus and TPE we piloted smartphone apps to improve communication with our employees, and we are further exploring the creation of an ideas sharing facility in the First Bus version.

Our 66% UK engagement score for 2015/16 is consistent with the national average for UK businesses across many sectors, and one percentage point above the average for the UK transport sector.

Our North American divisions delivered their engagement action plans during 2015/16, and will run further Your Voice surveys in 2016.

As part of our drive to improve employee engagement, leaders from across our divisions meet regularly to share best practice and new ideas, and generate practical tools to help front line managers.

Health and wellbeing

Having a healthy, motivated workforce helps us deliver reliable services to customers. In the UK in 2015/16 we continued to support employees through our 'Live Well, Be Well, Work Well' health campaigns.

For example, TPE created an employee wellbeing handbook, and a variety of health campaigns have been spearheaded by a network of wellbeing champions. These champions are spread across TPE locations and work to promote employee health – for example by encouraging colleagues to cycle to work, and increase levels of exercise.

In North America we continued our successful Route to Better Health programme, with wellbeing information being shared on nominated notice boards in each location.

In 2016/17 we will be encouraging employees across the UK and North America to improve their physical and mental wellbeing through internal campaigns on exercise, smoking cessation and healthy eating.

Diversity snapshot at 31 March 2016

Total employees

	Female	Male
2016	40.5%[Δ]	59.5%
2015	39.6%	60.4%
2014	39.0%	61.0%

Senior managers[1]

	Female	Male
2016	18.0%[Δ]	82.0%
2015	17.3%	82.7%
2014	16.0%	84.0%

Board Directors

	Female	Male
2016	11.1%[Δ]	88.9%
2015	11.1%	88.9%
2014	0.0%	100%

— Female — Male

[1] The 244 members of our top leadership programme.

[Δ] Data extracted from www.firstgroupplc.com/2016_CR_Data which was included within KPMG LLP's independent limited assurance scope. See www.firstgroupplc.com/2016_KPMG_assurance for full opinion.

Be First Awards

The inaugural Be First Awards, held in January 2016, were a great celebration of our people who have made significant contributions to our business over the last year.

These individuals and teams, nominated by their colleagues, made an exceptional effort to reflect our vision, strategy and values in their everyday behaviours and actions, representing the true strength of the 110,000 people who work across FirstGroup.

Two events, held in Manchester for our UK businesses and in Philadelphia for our North America divisions, were attended by more than 250 employees, with awards for individuals and teams across nine different categories including 'committed to our customers', 'dedicated to safety' and 'keeping communities prospering'.

In the UK, our 'supportive of each other' award was won by Jazz Terry, a Network Officer at First Bus in West Yorkshire. Jazz, who joined as a trainee in 2013, was recognised by her colleagues for her attention to detail and positive attitude, personifying the values of FirstGroup.

In North America, our 'committed to our customers' award was won by Shonna Hawes (pictured), who works in the Greyhound customer service office in New York – our highest volume terminal in the US and Canada. Shonna's colleagues emphasised how she always goes above and beyond the duties of her job to support our customers.

Aside from the recognition of their great work, winners were rewarded with a donation to a charity of their choice.

Read more about roles at FirstGroup at firstgroupcareers.com

Diversity and inclusion

We aspire to be a diverse and inclusive organisation because we believe that diversity brings benefits for our customers, communities and our people. Valuing our differences and drawing on all of our collective knowledge and experience helps us make FirstGroup a better business.

Our full gender diversity snapshot for 2015/16 is shown above. Trends in our gender statistics between 2013 and 2016 show that we are making gradual progress in changing the gender demographics of our business.

The percentage of women across the Group has increased by 2.9 percentage points from 37.6% in 2013 to 40.5% in 2016. The number of women in our North American divisions has increased by 0.4 percentage points since 2013, to 49.5%. In the UK, from 2013 to 2016, First Bus has seen an increase of 0.3 percentage points and First Rail has seen the proportion of women increase by 2.2 percentage points across the division over the same period.

Within our senior leadership team, there are currently 44 women, representing 18% of our total senior management roles. Notably in 2015, Fiona Kerr, Managing Director Scotland, First Bus, was named Woman of the Year by her peers at the prestigious FTA everywoman in Transport & Logistics Awards. Fiona has led a team who have delivered significant improvements in customer service.

The Board continues to aim towards its aspiration of 25% of Board positions being filled by women. The Board remains of the opinion that appointments should be made on merit and relevant experience, against the criteria identified by the Nomination Committee, having regard to the benefits of diversity, including gender. Future appointments to the Board must also complement the balance of skills that the Board already possesses. Further details on the Nomination Committee can be found on page 61.

We are not complacent and are aware we need to do more work to attract women into FirstGroup. Over the coming year, we are planning a number of initiatives to attract more women into driver and management roles to further improve our workforce diversity.

Our diversity and inclusion approach will continue to look more widely than just gender. For example, to help us retain the valuable skills and experience of our older workers, we are continuing to promote flexible working arrangements across our divisions. In our Manchester bus operating company, 68 older drivers have been retained this year by offering flexibility in our working arrangements.

To support young people looking for their first job in the transport industry, GWR is working in partnership with The Prince's Trust on a 'Get into railways' scheme. The four week scheme is open to young people from the age of 18 who are unemployed or at risk of unemployment through underachievement in education, or who may have specific learning needs or a disability. Following the first programme in January 2016, our commitment is to run three schemes during each year of the current franchise, aiming to support more than 100 young people during this time.

Corporate responsibility

Our approach

We recognise our responsibility as an international transport company to provide sustainable travel solutions for our customers and the communities we serve. Our focus on managing our impacts on the environment, safety, and investing in our people and communities, reflects the areas where we have a material impact and know we can make a positive difference. In each of these areas we aim to exceed regulatory requirements, and work with expert networks and groups to learn from best practice, helping us to respond to the current and future needs of our stakeholders. We constantly strive to find new, innovative ways to meet changing customer expectations and become the provider of choice for those we serve, optimising our resources and investing in the future potential of our people and our communities.

We measure our performance through sustainability benchmarks and indices, actively seeking engagement with rating agencies to identify opportunities for collaboration. In 2015/16, we scored the highest possible marks in the climate change, corporate governance, human rights and community sections of the FTSE4Good Index, once again placing us in the top percentile of the travel and leisure supersector. We also demonstrated our commitment to climate change mitigation, adaptation and transparency through our participation in the Carbon Disclosure Project, where our results remain above industry average.

We closely monitor our direct and indirect impact on the environment, allowing us to identify where we can make efficiency savings and share best practice across the Group. By tracking our carbon footprint, we can be clear on where opportunities lie, helping us to create robust targets for the future. With our previous climate change strategy having now concluded, we will be reviewing and relaunching a new plan during 2016/17.

FirstGroup's 110,000 employees are key to the delivery of our corporate responsibility priorities. We have continued to deliver training and communications around topics such as safety, environmental efficiency and community engagement this year across the Group. We continue to offer opportunities for active engagement, such as through our employee-voted partnership with Prostate Cancer UK, where fundraising and volunteering by our employees in the UK raised £25,000 through team and individual challenges in this year alone.

As established members of Forum for the Future and LBG, we continue to draw upon sector and location-specific insights to help us ensure our corporate responsibility strategy is relevant to all our stakeholders. A full review of our strategy, and updates to our policies linked to corporate responsibility, in the coming 12 months will help to firmly embed our aspirations to help create strong, vibrant and sustainable local economies where we are the provider of choice for our customers and the communities we serve.

Environment

As a transport operator, more than 96% of our total carbon emissions result from the fuel used in our vehicle fleets. We employ a range of techniques to manage and reduce these, but our greatest contribution to limiting atmospheric warming to 1.5 degrees[1] derives from our ability to drive modal shift from private cars to high-quality, convenient, low emission services. By providing transport solutions for an increasingly congested world, we are supporting the transition to greener, cleaner futures for the communities we serve across the UK and North America.

In 2008, the Low Carbon Vehicle Partnership[2] devised a definition of a low carbon emission bus as one producing 30% less 'well-to-wheel' greenhouse gas (GHG) emissions than a standard Euro III diesel bus. This served as a performance target for different low-carbon bus technologies and fuels, and as the bar for qualification for the UK Government's fiscal incentives. Since 2010, First Bus has recorded bus mileage in each of the Euro engine categories as a measure of our contribution to better air quality. In 2014/15, we reported that 80% of our annual bus mileage[3] in the UK was completed with engines of Euro III standard or above. In 2015/16, this has increased to 87.5%. In addition, our bus mileage in the UK from electric, bio-methane and hydrogen vehicles combined has almost quadrupled since last year.

In recognition of our efforts to reduce our direct carbon emissions and impacts related to water use, we have continued to integrate low-carbon investments into our planned approach to property and facilities management. In 2015/16, we invested in a range of low-carbon solutions, including high efficiency lighting and heating systems within our bus depots and stations, intelligent energy controls and workforce engagement to support our carbon reduction plans.

Disruption to the Dawlish railway line between Exeter and Plymouth in 2014 graphically illustrated the impacts of climate change on our business. Many transport facilities were designed for the climate which existed at the time when they were built – yet are now subject to increasing risk of flood and other extreme weather events. We have continued to evaluate the potential risks to our business and routinely include measures such as business continuity planning and risk assessment which take into consideration historical extremes and the results of transport sector research on climate change adaptation to which we have contributed.

Our 2015/16 carbon footprint

The table on page 23 provides a summary of the emissions for which we are responsible. Since 2014/15, our absolute carbon emissions have decreased by 2.5% to 2,409,462 tonnes CO_2(e). Investment in low-carbon technologies and consolidation of our estate around more modern, efficient facilities, such as First Glasgow's Caledonia bus depot, have underpinned this improvement. Similarly, investment in our alternative fuel bus fleet and focus on efficient driving techniques in both our road and rail divisions has led to a scope 1 emissions reduction of 2.4% against 2014/15 levels. Scope 3 emissions have increased by 15.5% in 2015/16 in comparison with the previous year. Temporary closure of the TPE rail route following Storm Desmond in December 2015 resulted in the need to provide taxi and bus replacement services for an extended period of time, resulting in this increase.

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[1] Following the Paris climate conference (COP21), 177 countries signed an agreement limiting temperature rise to 'well below' 2 degrees above pre-industrial levels and pursue efforts to limit the increase to 1.5 degrees.

[2] The Low Carbon Vehicle Partnership is a public-private partnership established to promote and support the development of lower carbon vehicles.

[3] Based on average bus period mileage across 12 bus periods in 2015/16.

[4] Emissions (and associated revenue) related to our First Capital Connect and First ScotRail franchises, which ended on 14 September 2014 and 31 March 2015 respectively, have been rebased to enable direct comparison.

First Bus has invested nearly £400m in wheelchair-accessible buses in the last five years

Our bus mileage in the UK from alternative fuels (electric, bio-methane and hydrogen) has almost quadrupled since last year

Our carbon footprint in tonnes of CO$_2$(e)[4]:

	2015/16	2014/15	2013/14	2012/13
Scope 1	**2,298,290**	2,354,832	2,317,965	2,357,307
Scope 2 (location based)	**87,886**	98,427	94,884	112,027
Scope 3	**9,701**	8,398	8,641	8,181
Outside of scope	**13,585**	10,607	11,258	11,444
Total tonnes CO$_2$(e)	**2,409,462**[Δ]	2,472,264	2,432,748	2,488,959
Total tonnes CO$_2$(e) per £1m revenue	**462**	485	467	451
Scope 2 (market based)	**72,134**	98,427	94,884	112,027

Notes to the 2015/16 carbon footprint:

[Δ] Data extracted from www.firstgroup.com/2016_CR_Data which was included within KPMG LLP's independent limited assurance scope. See www.firstgroupplc.com/2016_KPMG_assurance for full assurance opinion.

Reporting period – 1 April to 31 March, in line with the Group's financial year.

Baseline year – The Company's baseline is 2010/11. The same baseline year is also used in FirstGroup's climate change strategy, which contains the Group's carbon reduction strategy and targets for its final year (2015/16). We will produce a new climate change strategy in 2016/17.

Reporting protocol – Our reporting follows the GHG Protocol Corporate Accounting and Reporting Standard, applying the operating control approach to our organisational reporting boundary with a materiality threshold set at 5%. We have reported all material emission sources using the following emission factors:

The 2015 UK Government Greenhouse Gas (GHG) Conversion Factors for Company Reporting

World Resources Institute (2008) GHG Protocol tool for mobile combustion (v.2.6)

World Resources Institute (2008) GHG Protocol tool for stationary combustion (v.4.1)

Reliable Disclosure System for Europe (RE DISS II) – European Residual Mixes 2014

Recalculation policy – Our carbon emissions have been recalculated (back to our baseline year) to reflect that we no longer operate the First Capital Connect or First ScotRail franchises in line with our base year recalculation policy. Revenue figures have been similarly recalculated to reflect this change for the purposes of reporting our normalised carbon footprint (tonnes CO$_2$(e) per £1m revenue).

Scope 1 – Direct emissions from vehicle use (owned and leased), fugitive refrigerant gas emissions, heating fuels used in buildings, and road fuel use. This year we have quantified and reported fugitive refrigerant emissions from air conditioning systems within our North American vehicle fleets and from buildings. We are continuing to progress plans to report fugitive emissions from First Rail.

Scope 2 – Indirect emissions from electricity used in our buildings, and to power our electric rail and bus fleet. In 2015/16 we have reported both location based emission factors (taking into account the UK grid average) and market based emissions factors (which relate to our procurement of electricity supplies from renewable or other low-carbon sources). Where this is the case, we have used an emission factor of zero for renewable electricity covered by Renewable Energy Guarantee of Origin (REGO) certificates. For the proportion of UK electricity that has been generated from non-renewable sources, we have used a residual mix factor which represents the grid average, after the use of tracking systems, such as REGOs, has been accounted for. Since there are no residual mix factors available for North America, we have applied the location based emissions factors to calculate the market based scope 2 emissions, for electricity used by FirstGroup in North America. For all historical scope 2 market based emissions, we have applied the location based emission factors. Scope 2 emissions in North America were calculated using CO$_2$ and not CO$_2$(e) due to limited conversion factors being available.

Scope 3 – Indirect emissions from First Rail Support and business travel by air.

Out of scope – Indirect emissions from burning bio-fuels in our First Bus vehicles, in line with Defra reporting guidelines.

Driving industry innovation on emissions

First Bus has held an annual fuel efficiency competition since 2012 to assess vehicle performance and encourage the development of low-carbon buses to help contribute to cleaner air in the regions in which we operate and to reduce our impact on the environment.

The development race between suppliers and manufacturers that has resulted from this competition, and the independent, 'real world' testing which takes place at Millbrook Group's facility, has guided First Bus' new vehicle procurement strategy and resulted in the Group now operating the UK's largest 'low-carbon emission bus' certified fleet. When including the benefit that will be achieved from buses ordered for 2016/17, First Bus will soon be saving an estimated 15,000 tonnes of CO$_2$(e) per annum (compared to Euro III buses) as a result of our low-carbon certified fleet.

This year, we also expanded our fleet of Euro VI engine buses, adding to our fleet of lightweight MicroHybrid vehicles, which contain innovative technologies to capture and utilise energy that would otherwise be lost whilst braking. We continue to pursue other emerging low emission technologies, including the operation of 13 electric buses in York, and hydrogen buses in Aberdeen, which only emit water vapour as waste.

Playing a leading role in Bristol Green Capital

In 2015, we helped to deliver an unforgettable European Green Capital year, launching one of the icons of the celebration – a high tech bio-methane powered vehicle dubbed the 'poo bus', which creates 80 – 90% less nitrogen oxide than a standard diesel bus.

As well as showcasing innovative technology, we gave support to the local community with GWR sponsoring the Bristol Community Apprentice Scheme, helping young people to develop the skills and competencies most valued by employers, and working with First West of England to reuse and upcycle lost items collected on our vehicles across Bristol.

Our Bristol partnership highlights our focus on sustainable travel solutions and innovative approaches to a greener, cleaner future. By working with the communities we serve we are supporting local economic growth and social wellbeing.

Be Safe

Dedicated to safety, always front of mind – safety is our way of life. This value applies to everything we do, and demonstrates our commitment to the health and safety of our passengers, our employees and all third parties interacting with our businesses.

After seeing improved safety performance over a number of years, our rate of progress against targets slowed, so this year we introduced our new Be Safe programme to build on our strong safety foundations and reinvigorate our safety performance. Be Safe takes us to the next level of performance by transforming our safety culture, using the principles of behavioural science to help us achieve three key objectives:

- Continued progress on our way to zero harm
- Making safety a personal core value through behavioural change
- Improving business performance through better safety performance.

Be Safe is a major programme, and we are investing the necessary time, resource and effort into its success. We held events in the UK and North America for leaders to hear about the Be Safe programme and how with pace, energy and leadership we will deliver this transformation throughout the organisation. Priority actions have been identified and excellent progress has been made. Our bespoke behavioural training package for managers and supervisors is already complete in First Student and Greyhound, and First Bus and First Transit will be completed during 2016.

As an example of our strategy in action, a cross-divisional team, supported by Group functions, is working to identify and share best practice in embedding Be Safe behaviours to ensure we deliver the safety outcomes we have targeted. This includes providing resources and support for our global network of Be Safe coaches, as well as the development and roll out of a supporting online learning package. During the coming year, the programme will continue to focus on the development of leading performance indicators and enhancements to our supporting systems for safety.

Sadly there have been three employee fatalities in First Student this year, and four passenger fatalities - two of those in a single incident in Greyhound, one in First Bus and one in First Rail. We feel the impact of these tragic events throughout our organisation and they strengthen our resolve to achieve zero harm to our employees, passengers and anyone else we come into contact with in the course of our business.

Our Executive Safety Committee is chaired by the Chief Executive, and meets every two months to review the Group's safety strategy, procedures, performance and practices and to assist the Board Safety Committee in obtaining assurance that appropriate operational systems and processes are in place to manage safety risks and to promote a safety focused culture. Our Board Safety Committee reviews the safety performance of the Group on behalf of the Board, oversees the management of the Group's operational safety risk profile and promotes a positive safety culture throughout the Group. More information on our Committees and Groups can be found on page 52.

Community

With operations throughout the UK and North America, we are well placed to identify and meet local community needs through both our direct service impact and through partnerships.

Community engagement

We believe that excellence in community engagement is critical to sustaining and improving the long term partnerships we have with our key stakeholders, including our customers, government and political stakeholders, industry partners, and all those within our local communities. This year we focused on the development of impactful community engagement plans at the local level across the Group, with almost 500 plans now being put into practice. We have continued to deliver training and support for managers to enhance their community engagement skills, and have provided opportunities for sharing best practice between our divisions. Our second annual stakeholder survey will be launched in 2016, allowing us to benchmark and monitor our success in engaging with our communities in a consistent way across the Group on an annual basis.

Community investment

Establishing long term partnerships with local and national charitable

We've donated more than £400,000 to Prostate Cancer UK since our partnership began in April 2015

organisations allows us to broaden our positive impact on the communities we serve. As an organisation comprising thousands of vehicles and hundreds of bus and train stations, we have a unique opportunity to raise awareness of the work being done by charities and promote education around their particular cause through advertising space. This is especially relevant in our three year partnership with Prostate Cancer UK, our UK Charity of Choice, selected by our 26,000 UK employees in April 2015. So far we have donated more than £300,000 in advertising space alone, supporting Prostate Cancer UK's Men United campaign. As well as support for volunteering, our UK employees also benefit from matched funding for their fundraising efforts, a benefit used by a number of teams and individuals across our UK offices and depots. In addition, more than 1,000 UK employees take part in payroll giving, donating a total of £92,000 to charity through their pre-tax pay in the last year alone.

We have a number of partnerships in place across the Group with charities and non-profit organisations in the communities in which we operate. For example, GWR has partnered with Guide Dogs for the Blind to help improve the experience of people with visual impairments using rail services in the UK. Across North America, Greyhound provides support through the Home Free programme in partnership with National Runaway Safeline, reuniting runaway children with their families. First Student focuses its charitable donations and in kind support on education and youth work, reflecting the market we serve, as well as contributing to scholarship funds for districts in which we operate. In total, FirstGroup and our employees have donated £1.42m during 2015/16 as measured by the LBG model.

Human rights

FirstGroup recognises and respects all human rights as defined in the United Nations Universal Declaration of Human Rights. We continue to support the principles set out in both the International Labour Organization Declaration on Fundamental Principles and Rights at Work, and the Guidelines for Multinational Enterprises, established by the Organisations for Economic Cooperation and Development, as well as seeking to learn from other best practice examples.

In accordance with requirements of the Modern Slavery Act 2015, we will publish our first annual Transparency Statement in summer 2016, setting out what steps we have taken to ensure that slavery and human trafficking are not taking place in our supply chains or any part of our business. This Board-approved statement will be available on our website, with a link visible from our homepage.

In 2015/16, we introduced a new Code of Conduct on Anti-Slavery and Human Trafficking Prevention, began a review of our related risk across the Group as a whole, and started to introduce a new standard contract clause to highlight our commitment to the avoidance of modern slavery.

During 2016/17 our Corporate Responsibility Policy will be refreshed to ensure its focus remains pertinent to the current and future needs and interests of all our stakeholders, including on human rights. Our commitments remain that:

- We will conduct every aspect of our business with honesty, integrity and openness, respecting human rights and the interests of our employees, customers and third parties, as detailed in our Code of Business Ethics
- We are committed to creating and maintaining a safe and healthy working environment for our employees, customers and the community. We recognise our employees' rights to freedom of association and have a high degree of unionisation across our businesses both in the UK and North America
- Our procurement processes and policies, and relationships with our suppliers, are key to ensuring our awareness of impacts through our supply chain. We aim to ensure that goods and services are from sources that do not jeopardise human rights, safety, or the environment, and expect our suppliers to observe business principles consistent with our own.

Prostate Cancer UK partnership reaches first anniversary

Thousands of FirstGroup's employees voted for Prostate Cancer UK as the Company's UK Charity of Choice. The three year partnership, which began in April 2015, aims to raise £1m to support Prostate Cancer UK's work.

In the first year of our partnership, we donated more than £300,000 of advertising space on buses and at railway stations nationwide to launch Prostate Cancer UK's Men United campaign, raising awareness of a disease which currently affects more than a third of a million men in the UK. The powerful adverts highlight how one man dies every hour from prostate cancer in the UK, and shows what passengers can do to help put a stop to it.

Since starting the partnership, employees have been fundraising and supporting awareness-raising events and volunteer-led talks in our depots and offices across the UK, with many more planned for the year ahead. In addition to the donation of advertising space, more than £135,000 has been given by FirstGroup and its employees to the charity to continue their vital work this year.

Our markets

Every week 1.5m people move into urban areas[1]

Congestion is expected to cost the UK nearly £33bn a year by 2030[2]

Transport links are critical to economic growth and for communities to flourish.

Enhancing connectivity through efficient transportation links has always been a critical enabler of economic growth and improving quality of life for people and communities. People need to travel for a wide range of reasons – business, education, healthcare, social and recreation – and across our five divisions, FirstGroup responds to the needs of our customers for transport solutions that support the prosperity of their local economies and help their communities to flourish. While each of our markets has some unique characteristics, several key themes are important to each of them.

Urbanisation

The world is becoming increasingly urbanised and globalised. The falling cost and increasing efficiency of transport links have created a global interconnected economy, even as more people and economic activity move into urban areas. More than half of global GDP is already generated in the largest 600 cities, and more than half the world's population today already live in urban areas – and both trends are set to increase. Despite ever more sophisticated forms of long distance communication, the rapid rise of cities globally is expected to continue, given the importance of face-to-face interactions in increasingly knowledge-based economies. Transport links within cities (such as those provided by First Transit and First Bus) and between them (such as provided by Greyhound and First Rail) will continue to be an important driver and beneficiary of these trends.

Congestion and the environment

With 1.5 million people moving to urban areas each week worldwide, maintaining mobility within cities despite this increasing population density is a key priority, and it is clear that an approach based primarily on the car is no longer sufficient. Some estimates put the annual cost of lost productivity from traffic congestion in the hundreds of billions in the US by the 2030s. The cost is also counted in air quality degradation and higher emissions. It is clear that increasing use of public transport systems is vital to the continued prosperity of cities. Whilst our businesses can also be affected by congestion day-to-day, they clearly form part of the long term solution by allowing travellers to leave their cars behind. We also strive to be at the forefront of technologies to minimise our own environmental footprint.

Demographic change and social inclusion

Transport solutions also need to take account of demographic changes. Many segments of our communities have always been more reliant on mass transportation – such as those in education, retired or unable to drive themselves – and with a rapidly ageing population in many parts of the world, this proportion is set to increase. Increasing numbers of (particularly young) urban dwellers are also choosing not to drive at all, given the costs of buying and maintaining a car and the issues of parking and sustainability. While the digital economy is offering more opportunities to access 'transport as a service' such as car sharing and other applications, there is a growing demographic which is open to using our services – provided we meet its needs.

Working with local and national authorities

Because good transportation services deliver such a wide range of social and economic benefits, many of our services are mandated or financially supported by the communities they serve. Indeed, all of our divisions either emerged from, or compete alongside, publicly funded models of transport provision. In all cases, private sector operators such as FirstGroup have been given the opportunity to operate services commercially in order to increase competition (improving value for money and efficiency) and bring innovation and agility in an increasingly fast-moving and complex environment. Across the Group a variety of funding and specification models exist, with varying degrees of reliance on local and national authorities. Offering value for money, ensuring we are good partners for our communities and listening to our customers are critical success factors across the Group.

Service standards and responding to complexity

Customers' requirements for safety, comfort and convenience continue to increase. The multiplication of potential transport modes and competition between operators continues to drive up quality and performance standards throughout the industry. Our customers' requirements are complex and constantly evolving, and responding to their needs is critical. Interconnectivity between different transport modes is increasingly important, as is the provision of the real-time information necessary to make best use of them. Enhancing convenience through smarter ticketing (an important focus for First Bus this year), improving onboard amenities (such as Wi-Fi) and getting to know customers' needs better through customer relationship management techniques (well advanced in First Rail and a particular focus of Greyhound this year) provide a significant opportunity to increase patronage across all our divisions.

Our geographic markets

Our core markets in the UK and North America share several demographic, social and political characteristics which make them attractive for transport operators. Both are heavily and increasingly urbanised – just over 80% of the population in the UK and North America live in urban areas today, increasing to nearly 90% by 2050[1]. High and increasing proportions of both populations are either in education or retirement age, demographic bands where use of our services is proportionately higher – just over 40% currently, rising to more than 45% by 2050[3] in both markets. Although car ownership is relatively high in both markets, national and local authorities are actively seeking to encourage greater use of alternatives. Both markets also have long histories of transport deregulation and outsourcing, with mature business models and regulatory frameworks that encourage partnering with the private sector for transport infrastructure and services.

In the longer term, we believe there is significant opportunity globally for the services we provide, and we are actively monitoring a range of markets for opportunities.

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[1] UN Population Division, World Urbanization Prospects (2014).

[2] Report by INRIX in collaboration with Centre for Economics and Business Research (CEBR, 2013).

[3] UN Population Division, World Population Prospects (2013).

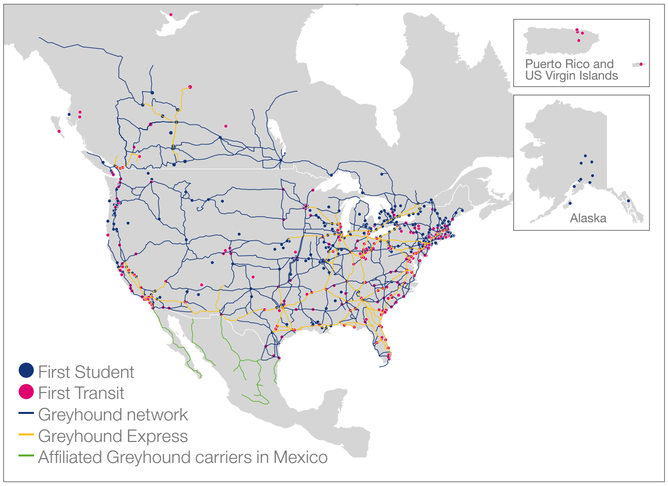
Approximate First Student share of outsourced market (around 38% of total market)

First Student	24%
National Express	11%
Student Transportation of America	6%
Illinois Central	2%
Other	57%

Approximate First Transit share of c.$30bn North American transit market (of which c.30% is outsourced)

In-house	70%
First Transit	5%
Other outsourced providers	25%

Our North American markets



First Student

First Student is the largest provider of student transportation in North America – more than twice the size of the next largest competitor.

Market review and trends

School buses provide home to school transportation for millions of students in the US and Canada. There are around 14,000 school districts in North America, which deploy approximately 525,000 buses. The total North American market is estimated to be worth around $25bn per annum, of which school districts directly operate approximately 62%, with 38% outsourced to private operators. Charter services are also operated, either for school customers separate from scheduled school runs or for other customers such as church and community groups or businesses.

Long term demand for school transportation services is principally driven by the size of the school-age population. School districts receive their funding from state and local sources, including property tax receipts, and their budgets for all expenditure, including transportation, tend therefore to be linked to economic factors. Other factors including the propensity of school districts to outsource and changes in the local criteria for service provision can also play a part in the addressable market for private operators. In the last three years the market has stabilised with some positive but limited organic growth, following a period when the economic downturn put pressure on customer budgets, which had led to organic retraction, price pressure and atypical levels of contract churn. While school district budget pressures have eased, high-quality, efficient outsourced providers continue to offer an attractive value proposition to potential customers.

Customers

School districts provide transportation for students depending on varying criteria determined at state level. Contracts typically specify either fixed or annually indexed pricing, meaning that private operators bear cost risk. These contracts are typically three to five years in duration, after which they are competitively retendered. In addition to school districts outsourcing student transportation for the first time ('conversion'), growth is driven by additional routes for a given school due to population growth or other factors ('organic growth'), as well as inflation-related price indexation built into some contracts.

Competitors

The private outsourced market is highly fragmented. Only three companies, including First Student, operate more than 10,000 buses and together account for just over 40% of the outsourced market. Only 12 other operators run more than 1,000 buses. The remaining half of the outsourced contracts are operated by several thousand companies, often termed 'mom and pop' operators. These operators continue to be robust on pricing to retain contracts. 'Share shift', or winning contracts previously managed by other outsourced providers, together with acquisitions, provide additional avenues of growth.

Market attractions

- Contracts with public sector customers, typically low credit risk
- Typically high levels of contract retention
- Security and safety track record often as important as price
- Established relationships with local communities a barrier to entry
- Fragmented marketplace – long term acquisition opportunities.

First Transit

First Transit is one of the largest private sector providers of public transit management and contracting in North America.

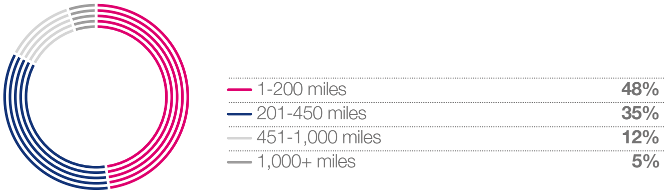
Market review and trends

The transit market is worth around $30bn per annum in North America, of which around 30% is outsourced. The market includes the provision of fixed route bus services (approximately $20bn segment, of which more than 10% is outsourced), paratransit bus services (approximately $5bn segment, of which three-quarters is outsourced), private shuttle services (approximately $2bn segment, of which around 90% is outsourced) and vehicle maintenance services (approximately $3bn segment, of which more than 30% is outsourced). Private providers manage, operate, maintain and organise transportation services under contracts which typically last for three to five years or longer.

As populations age and urban congestion increases, the scope and sophistication of municipal and other transportation services required is rising, which enhances the attraction of bringing in private sector expertise. Although North American state and local government finances are improving, they continue to seek opportunities to increase the cost effectiveness of their transportation spending, which supports growth in outsourcing where private contractors can improve efficiency while reducing cost. Overall, the shuttle segment continues to grow, with private companies, universities and airports seeking to offer improved services to their own customers and employees.

Our markets
continued

Distribution of Greyhound passengers by mileage band



1-200 miles	48%
201-450 miles	35%
451-1,000 miles	12%
1,000+ miles	5%

Customers

A wide range of customers contract out transportation services, including transit authorities, federal, state and local agencies, as well as private institutions such as universities, hospitals and airports. Vehicle fleet maintenance services include contracting for private and public sector clients, including municipalities, and fire and police departments.

Competitors

First Transit has around 15% of the outsourced market in North America, which accounts for approximately 30% of the total market. The outsourced transit market is fragmented, though First Transit has two large competitors, MV Transportation, Inc., and Transdev North America. The outsourced fleet maintenance market is highly competitive and our First Vehicle Services business is estimated to be one of the largest providers, with Penske and Ryder being the main competitors. A number of small and medium sized companies represent a significant proportion of the outsourced market. The market continues to attract new entrants, though reputation and track record remain important differentiators in the bidding process.

Market attractions

- Contracts mainly with public sector customers, low credit risk
- Typically high levels of contract retention
- Low levels of capital investment required (apart from in shuttle)
- Ageing population and congestion trends provide support for continued growth through further outsourcing.

Greyhound

Greyhound is the only national operator of intercity coach services in the US and Canada, serving 48 US States and ten Canadian Provinces and Territories.

Market review and trends

The US intercity coach industry has grown overall since 2006 – reversing the declining trend of the previous 25 years. Growth has been driven principally by improvements in the onboard experience and new or enhanced services, such as point-to-point 'express' services on high density routes. The potential market size remains a significant opportunity, with 42m people considering coach travel every year, of whom a quarter currently use Greyhound. Even regular coach users choose competing modes 75% of the time, but a combination of more destinations, tailored services and price has the potential to grow ridership and frequency of use.

Since the substantial and rapid fall in at-pump fuel prices for consumers in the final months of 2014, passenger demand has fallen as the cost of other forms of transport have become more attractive compared with the coach. The longer term impact on the intercity coach market growth trend will depend in part on future fuel price movements.

As well as passenger revenues, income is generated from package express services, charter and tour organisation and also catering outlets in terminals. Partnerships between Greyhound and independent bus lines ('interlining'), extends the reach of the national network. Greyhound also partners with Amtrak to offer customers a through ticket to their final destination if not served by rail.

Customers

North American intercity coach firms serve a wide customer base, many of whom prioritise value and whose primary purpose is to visit friends and family. Direct point-to-point services such as Greyhound Express are encouraging a new, younger demographic, with increased urbanisation and congestion also beginning to have an impact on car ownership statistics. Historically, customers typically bought walk-up tickets on their day of travel, but new online and mobile services are encouraging more advance booking.

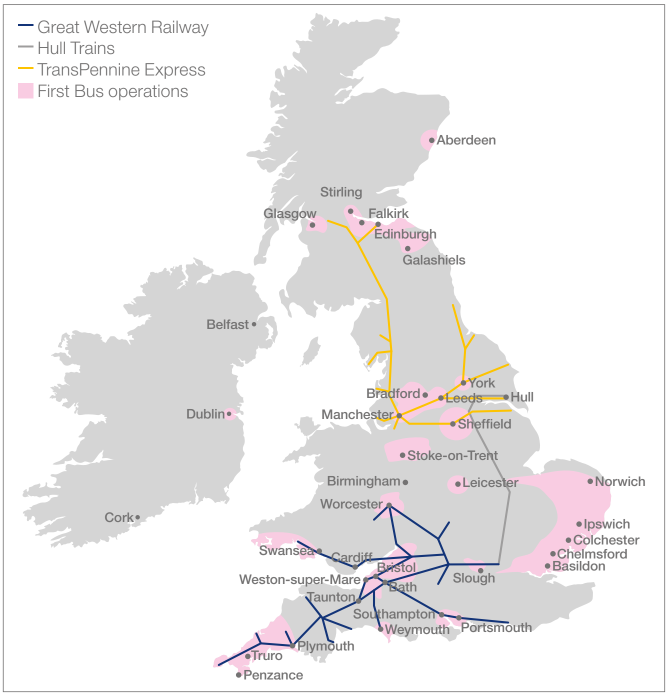
Competitors

Intercity coach services compete with many other modes of mid- to long-distance travel across North America, including budget airlines and the private car. The intercity coach market is highly competitive in dense travel corridors such as the US north east and north west, where coach also competes with air and rail transportation.

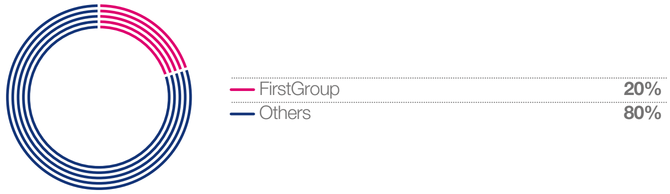
Market attractions

- Private car use becoming less attractive, driven by urbanisation, congestion and costs of motoring
- Opportunities to expand penetration and footprint in US and Mexico
- Under-utilised services may be part-funded by transport authorities
- Target demographic segments responsive to innovation through technology and value for money offering
- Package, charter and food service revenues offer diversification.

Our UK markets



Approximate First Bus share of UK market outside London



First Bus

First Bus is one of the largest bus operators in the UK, with around a fifth of the market outside London.

Market review and trends

Local bus services in the UK (outside London) have been deregulated since the 1980s, with most services provided by private operators, though a small number of local authority owned operators still exist. Bus markets are local and services operate on a flexible model with operators setting fares, frequencies and routes commercially and operating 'socially necessary' services under local authority contracts. Around 2.8bn passenger journeys are made on bus services outside of London, generating revenues of approximately £4.3bn a year.

Partnership with local authorities remains a core principle for both the industry and central Government, to support service delivery and be a catalyst for improvements in innovation and investment. The DfT promotes this agenda through initiatives including Better Bus Area grants and the Green Bus Fund. Private operators are increasingly focused on improving the customer offering through measures such as tailored local brands and routes, and increased convenience through multi-operator ticketing and real-time passenger information.

Local authorities currently have powers to regulate services in their area through Quality Contracts if they demonstrate the existing model is failing to deliver for passengers. Quality Contracts have not been implemented anywhere and a recent application on behalf of the Tyne & Wear authorities was unsuccessful. The devolution agenda rolling out across England is giving certain areas the opportunity to franchise bus networks, replacing Quality Contracts. The Bus Services Bill, which is currently passing through Parliament, will give new enabling powers for franchising and set out criteria which an authority needs to meet, though it also enhances the partnership model with local authorities that First Bus already supports.

Customers

Bus market revenues principally comprise passenger ticket sales and concessionary fare schemes (reimbursements by local authorities for passengers entitled to free or reduced fares). Significant proportions of customers use bus services for commuting – to work or educational establishments – for shopping and for leisure purposes. Commercial passenger revenues are typically linked to economic activity in a local market. Income is also generated through tendered services.

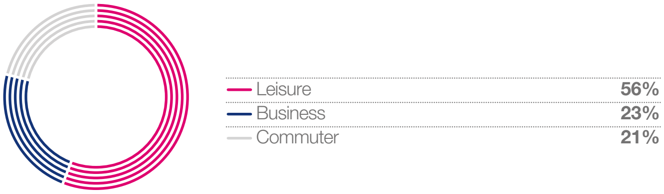
Competitors

The UK bus market (outside London) is deregulated and highly competitive with more than 1,000 bus operators; we face competition in all markets in which we operate. Through the year operators have both entered and left the market. The main competitor is the private car.

Market attractions

- Growth potential from strategies tailored to specific segments
- Bus travel diversified by journey type
- Opportunity in youth demographic, where car ownership is falling
- Using new technology to attract and retain custom.

Passenger revenue base of First Rail operations



First Rail

One of the UK's most experienced rail operators, carrying around 140m passengers across our two franchises and our open access operation.

Market review and trends

Passenger rail services are primarily provided by private train operating companies through franchises awarded by the relevant authority, but may also be provided on an open access basis. Operators are responsible for the day-to-day management and operation of rail services. Many elements of the service provided to customers are mandated as part of the franchise contract and others are left to commercial judgement. Total franchised passenger revenues in the UK are more than £9bn per annum. Rail tracks and infrastructure (signalling and some major stations) are owned and managed by Network Rail. Operators typically lease rolling stock from leasing companies.

Passenger numbers across the industry continue to increase year-on-year, and recently reached a post-war high of 1.7bn. The Government continues to invest in infrastructure and new rolling stock across the UK. Closer working relationships between Network Rail, regulators and train operating companies continue to be positively encouraged by Government in order to facilitate these infrastructure upgrades and innovations. During the year the DfT has continued to progress its competition timetable, with a number of third generation franchises being awarded.

Customers

Rail markets are generally categorised into three sectors: London and south east commuter services; regional; and long distance. In addition, certain networks also offer sleeper services. Parts of GWR fall into all four categories, while TPE is mainly an intercity operation. Our Hull Trains open access operation caters principally to long distance and leisure travellers.

Competitors

The main competitor to rail in the UK is the private car. We also face competition on some of our passenger flows from other rail services and, to a lesser extent, from long distance coach services and airlines. First Rail bids for franchises against other operators of current UK rail franchises and public transport operators from other countries.

Market attractions

- More than £9bn of long term contract-backed passenger revenue available through 19 major franchise opportunities, of which more than half by revenue will be let before 2020
- New franchises typically have significant revenue opportunity/risk with some revenue protection, clear contingent capital requirements but low overall capital intensity
- Regulated environment, including Government capped regulated fare increases
- Historically high levels of passenger numbers across the UK.

Business model

Our services help to create strong, vibrant and sustainable local economies and our opportunity is to be the provider of choice for the customers and communities we serve.

Our vision

To provide solutions for an increasingly congested world…keeping people moving and communities prospering.

Our values

Committed to our customers

We keep our customers at the heart of everything we do.

Dedicated to safety

Always front of mind, safety is our way of life.

Supportive of each other

We trust each other to deliver and work to help one another succeed.

Accountable for performance

Every decision matters, we do the right thing to achieve our goals.

Setting the highest standards

We want to be the best, continually seeking a better way to do things.

What makes us different

We have a competitive advantage as a result of our scale and the diversity of our portfolio of businesses: we design and operate hundreds of networks in partnership with our communities; procure, maintain and operate around 69,000 vehicles; hire, train and manage 110,000 employees; and transported 2.2 billion passengers last year.

Our business model

Our overall strategy is to leverage our scale and the breadth of our global expertise for the benefit of our local markets. Through this strategy we are ideally placed to provide the transport solutions increasingly needed by our customers and to deliver the promises embodied in our vision and underpinned by our values.

Each of our five divisions is exposed to different geographies, customers, revenue models, demand drivers and competitors within the overall transport industry, and is therefore run in a decentralised way so as to be responsive to the needs of our local customers. The diversity of our revenues by geography and customer type typically makes the overall Group relatively resilient through the business cycle.

Our lean corporate centre focuses on fostering a high performance culture, sets the strategic direction, raises and allocates capital, develops and manages our talent, establishes key targets and standards, monitors performance and provides challenge.

While the detailed drivers differ by division, and are reviewed in depth in the business review (see pages 10-19), the business model of any transport operator is in principle simple. Revenues are generated either from passengers paying for the transportation service directly, or the service is procured on behalf of passengers by government or other parties. The operator must ensure appropriate vehicles are available where and when they are needed, staffed by suitably qualified and engaged employees, and that the service provided meets the safety, environmental, reliability and other needs of the customers and communities served. Successful execution of this business model delivers gains for a wide range of stakeholders: passengers get where they want to go via attractive, modern services; employees have a rewarding career; governments facilitate increased economic activity; local communities limit congestion and other environmental costs of transport; suppliers are part of a successful ecosystem; and shareholders receive an appropriate return, even after the substantial reinvestment necessary to sustain the business model for the long term.

Our strategic objectives

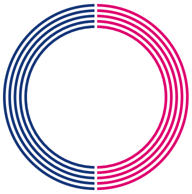
Focused and disciplined bidding in our contract businesses

Approximately half our revenues are backed by contracts or franchise agreements with national government, regional and local authorities in the UK, and state and municipal authorities, local school district boards, universities and private companies in North America. Across the Group we manage almost 1,600 such contracts, which are typically competitively tendered, and of multi-year duration. Continuing to build on our many years of experience formulating successful bids at appropriate levels of risk, and managing the delivery of the resulting contracts, is critically important for our business.

Driving growth through attractive commercial propositions in our passenger revenue businesses

Our other main source of revenues is directly from our passengers, who represent a very broad demographic mix and travel using our services for a wide range of business, commuting, educational, medical, social and recreational purposes. All of our markets are highly competitive, and therefore a strong understanding of the changing needs of our local customers is vital to ensure our services are successful. Offering a responsive range of destinations, frequencies and convenient ticket options at competitive prices is a key objective in our passenger revenue businesses.

Approximate Group revenue by type

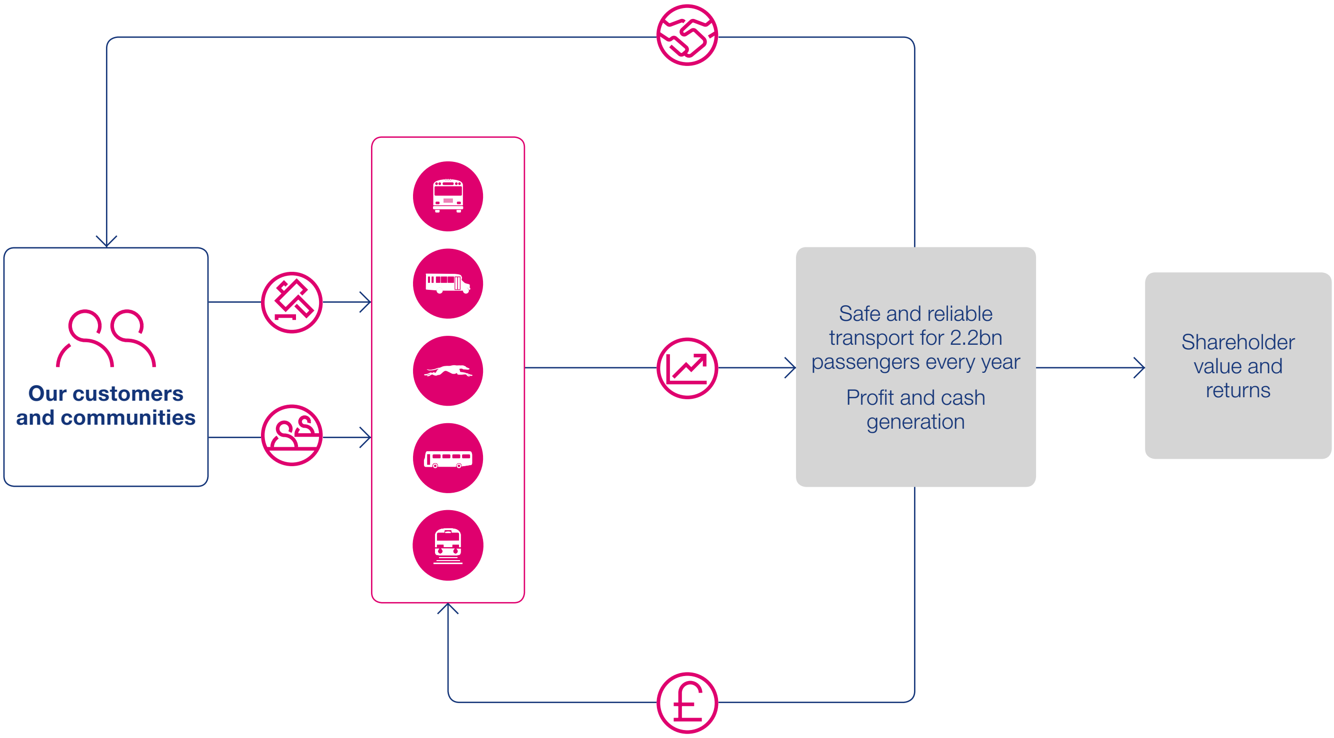


Passenger revenue	50%
Contract or franchise revenue	50%

Approximate Group revenue by geography

UK	42%
US	51%
Canada	7%

Our business model



Continuous improvement in operating and financial performance

By its nature, the transport industry involves the risk of injury to employees, passengers and third parties, which is why it is central to our culture and values to keep safety front of mind. No less important for our customers is delivering a consistent and attractive service on which they can rely. In both areas we constantly reinforce standards and seek out best practice from across the Group and beyond in order to strive for ever more stretching improvement targets. This focus on disciplined operations and continuous improvement is also brought to bear on our financial performance, where we must manage employee productivity, asset/fuel efficiency, procurement, overheads, insurance and other costs to ensure efficient use of our resources.

Prudent investment in our key assets (fleets, systems and people)

Through successful execution of the first three strategic objectives, we delivered safe and reliable transportation services for around 2.2bn passengers last year, and generated profits and substantial operating cash flow. To continue to deliver for all of our stakeholders over the longer term, reinvesting appropriately in the future is vital. Our most important assets are our 110,000 people – we invest in hiring, supporting and developing our employees to ensure we continue to have the best people delivering our services. We also invest to ensure our fleets of more than 55,000 vehicles across the Group are fit for purpose and offer the safety systems and other services that our customers want (such as smart ticketing, real-time information and Wi-Fi). We also invest in our systems and processes to support other strategic objectives, such as the current programme to transform Greyhound's pricing, seat management and ticketing systems.

Maintain responsible partnerships with our customers and communities

Our final strategic objective is to invest time, energy and capital in what matters to our key stakeholders. We focus on building long term partnerships with our customers and communities, learning what they want and striving to deliver it for them. Our long term success is built on being a responsible partner to all our stakeholders, an approach that is about much more than meeting certain 'licence to operate' contractual stipulations. In reality we act as a responsible corporate citizen because the long term success of our business is tightly entwined with the aspirations, opportunities and success of our customers and communities. We can only create value and deliver sustainable returns to our shareholders if our services help to create strong, vibrant and sustainable local economies, where we are the provider of choice for the customers and the communities we serve.

Key performance indicators

Focused and disciplined bidding in our contract businesses

First Student and First Transit contract retention
(%)

86%

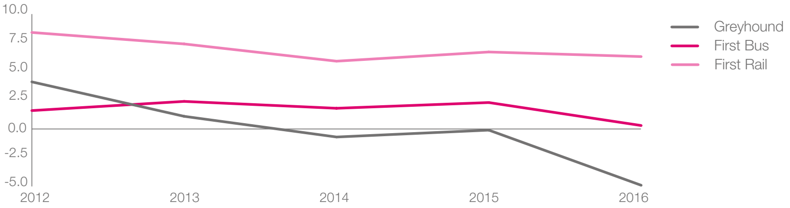
90%

We measure contract retention as a percentage by revenues of all the contracts subject to bid in the year (rather than as a percentage of the contract portfolio as a whole). In First Student and First Transit we typically expect contract retention levels of around 90%.

In First Student, our contract retention rate during the 2015 bid season was 86%, towards the upper end of our expectations this year, given our focus on improving contract returns, which yielded an average price increase of 5.3%. In First Transit, our contract retention rate was 90% in the year.

Driving growth through attractive commercial propositions in our passenger revenue businesses

Greyhound, First Bus and First Rail change in like-for-like revenue
(% change year-on-year)



Like-for-like revenue adjusts for changes in the composition of the divisional portfolio, holiday timing, severe weather and other factors that distort the year-on-year trends in our passenger revenue businesses.

Greyhound like-for-like revenue decreased by 4.9%, reflecting the more difficult passenger demand environment experienced across the coach industry since fuel prices fell sharply at the end of 2014.

First Bus like-for-like revenue increased by 0.3%, with revenues adversely affected by weakening concessionary revenues experienced across the industry and lower passenger volumes driven by lower high street retail footfall, exceptionally wet weather, flooding and congestion in a number of our markets.

First Rail like-for-like revenue growth of 6.3% continued to benefit from growth in passenger volumes, although we experienced some slowing in passenger demand growth following the terror attacks in Paris and Brussels and in areas affected by flooding over the winter.

Group revenue
(£m)

Changes in the First Rail franchise portfolio resulted in reported Group revenue decreasing by 13.8% in the year. Excluding the rail portfolio changes, underlying revenue decreased by 0.3%.

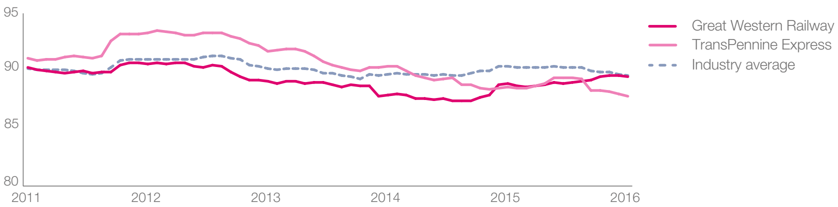
Continuous improvement in operating and financial performance

Punctuality

Greyhound on time performance* (%)

First Bus punctuality (%)

First Rail Public Performance Measure (PPM) (% moving annual average)



* Earlier data not available due to change in methodology.

Greyhound's on time performance improved during 2015/16 as we continue to see benefits from new procedures. This performance measure has been updated so that it now reflects the percentage of services leaving within ten minutes of scheduled departure from origin, rather than 15 minutes.

Our First Bus punctuality measure (percentage of services no more than one minute early or five minutes late) has been affected by roadworks in a number of the areas in which we operate. We continue to work with local authorities on these temporary issues. Exceptionally wet weather and flooding during the winter period also impaired services in some of our markets.

Our First Rail PPM scores of punctuality and reliability suffered from operational challenges during the winter period, including a number of severe weather-related incidents which particularly affected TPE services. GWR's moving annual PPM score was above the industry average for the year although we continue to focus on improving this further.

Safety

Employee lost time injuries (per 1,000 employees per year)

Passenger injury rate (per million miles)

Historical data has been recalculated to exclude the First ScotRail and First Capital Connect rail franchises no longer operated by FirstGroup.

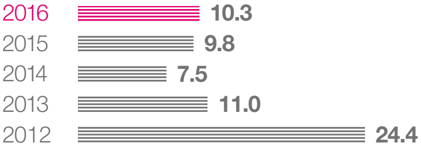
Our lost time injury rate reduced last year by 2% to 8.11 incidents per 1,000 employees. There were reductions in the number of incidents in all divisions except First Transit and this remains an ongoing focus area for our teams.

Passenger injuries per million miles reduced by 5%. These reductions have been seen in all divisions except Greyhound, who saw an increase in incidents from their previous excellent performance. This year we introduced our Be Safe programme, which builds on our strong safety foundations and reinvigorates our safety performance – transforming our safety culture through behavioural science.

Financial performance

Adjusted operating profit (£m)

Adjusted EPS (p)



Adjusted operating profit and adjusted EPS highlight the recurring financial results of the Group before amortisation charges and certain other items (as set out in note 4 to the financial statements) which distort year-on-year comparisons.

Adjusted operating profit decreased by 1.0% and adjusted EPS increased by 5.1%, reflecting an improved financial performance in First Bus and the continuing First Rail operations, as well as the change in basis of estimate for accounting for First Rail pensions, partially offset by a reduced contribution from Greyhound and from First Student due to fewer operating days and higher driver shortage-related costs.

Key performance indicators
continued

Prudent investment in our key assets (fleets, systems and people)

Employee engagement
Your Voice employee engagement score (UK)*
(%)

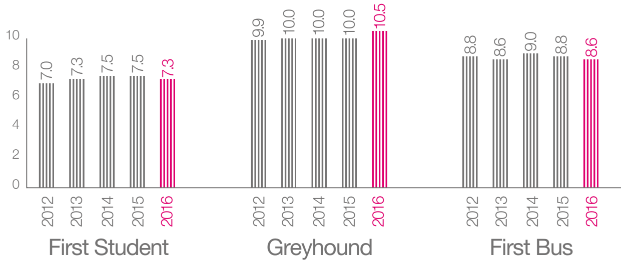
*Engagement surveys for our North American businesses will take place during 2016.

Having an engaged workforce, motivated to give great service to our customers, is critical to our success. Engaged employees are proud of the company they work for and are inspired to go the extra mile to deliver outstanding results.

In 2015/16 our UK employee engagement score in our 'Your Voice' survey was 66%, a nine percentage point increase from our first survey in 2010/11, but a slight decline against last year. Such a result is not unusual in organisations going through major change, but our divisions are responding to this feedback from our people.

To read more about our approach to employee engagement, see page 20.

Average fleet age
(Years)

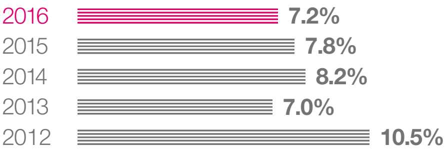


In First Student our average fleet age reduced slightly to 7.3 years, with continued investment and our decision to retire a number of older excess buses from the fleet.

The vast majority of Greyhound's active fleet is either new or has been extensively refurbished in recent years – such that while the reported age is 10.5 years, the effective average age is 9.2 years. In light of market conditions, Greyhound opted not to acquire additional vehicles during the year.

Having increased with the disposal of our London operations in 2013/14, the First Bus average fleet age continues to reduce, reflecting our focus on fleet renewal.

Group ROCE
(%)



Reported return on capital employed (ROCE) is calculated by dividing adjusted operating profit after tax by net assets excluding debt items.

Group ROCE was 7.2% in 2016, reflecting comparable adjusted operating profit and an increase in capital employed as translated at year-end currency rates. ROCE was 7.4% at constant exchange rates in the prior year. However, after adjusting for the changes in First Rail franchise portfolio, lower number of First Student operating days and the change in the basis of estimate for accounting for First Rail pensions, ROCE would have increased by 60 basis points.

Maintain responsible partnerships with our customers and communities

Customer and passenger satisfaction

First Student
(Average rating out of ten)

First Transit
(Average rating out of ten)

Both First Student and First Transit continue to demonstrate a high level of overall customer satisfaction. The First Transit ratings now include First Vehicle Services scores.

As well as strong overall satisfaction scores, both divisions continue to be rated highly in other key metrics, such as likelihood to recommend, commitment to safety and satisfaction with local teams.

Customer and passenger satisfaction continued

Greyhound
(% of passengers who would recommend our services)

'Traditional' Greyhound

Greyhound Express

Greyhound – BoltBus

First Bus
(% very or fairly satisfied)

Overall satisfaction

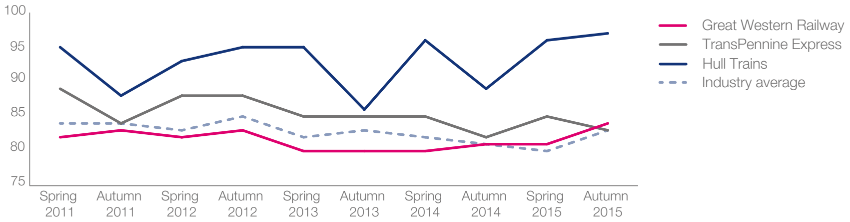
Satisfaction with value for money

Satisfaction with punctuality

Satisfaction with our Greyhound businesses remained high in 2015/16, particularly on our Greyhound Express and BoltBus services, with a majority of passengers across Greyhound stating that they would recommend our services to others.

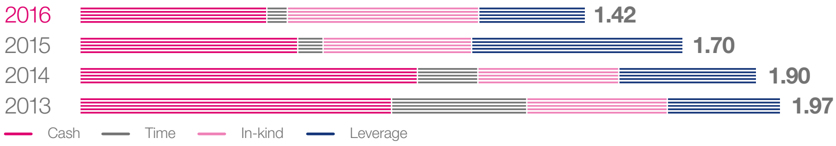
In First Bus, overall satisfaction remains high but we are seeing worsening congestion across many of the towns and cities we serve, which is impacting punctuality and slowing our buses down. The effects of this are clearly shown in these results. We anticipate our roll out of additional customer benefits such as smart ticketing and real time information, investment in new vehicles and continued focus on ever more punctual and reliable services to have an impact on these metrics in the future.

First Rail
(% satisfied with their journey overall)



The latest results of the independent Transport Focus National Rail Passenger Survey of customer satisfaction, conducted in Autumn 2015, showed that all of FirstGroup's train operating companies scored the national average of 83% or higher. Hull Trains topped the table with their highest ever satisfaction score at 97%, ten points higher than the average of long distance operators. The operator also scored an unprecedented 100% satisfaction on its weekend services and topped the satisfaction league for punctuality and reliability. GWR increased its year-on-year measure for overall satisfaction by three points to 84%, its highest score since the National Rail Passenger Survey began in 1999. TPE scored 83%, up from 82% year-on-year.

Total FirstGroup community investment
(£m measured using the LBG model)



This year we contributed £1.42m to the communities we serve across the UK and North America, as measured by the LBG model. This includes cash contributions made directly by the Group, time (volunteering), in-kind support (such as travel tickets) and leverage (including contributions from other sources such as employees, customers and suppliers).

Environment
Greenhouse gas emissions
(Tonnes of carbon dioxide equivalent per £1m of revenue)

Historical data has been recalculated to exclude the First ScotRail and First Capital Connect rail franchises no longer operated by FirstGroup.

Our emissions are calculated in line with the requirements of the WRI/WBCSD GHG Protocol. We report our emissions from all activities for which we are responsible across our operations expressed in tonnes of carbon dioxide equivalent (CO_2e), normalised per £1m revenue.

In 2015/16, our normalised emissions decreased by 4.8% against 2014/15 levels. The longer term trend shows a 2.1% reduction against our 2010/11 baseline.

Principal risks and uncertainties

Our risk management approach

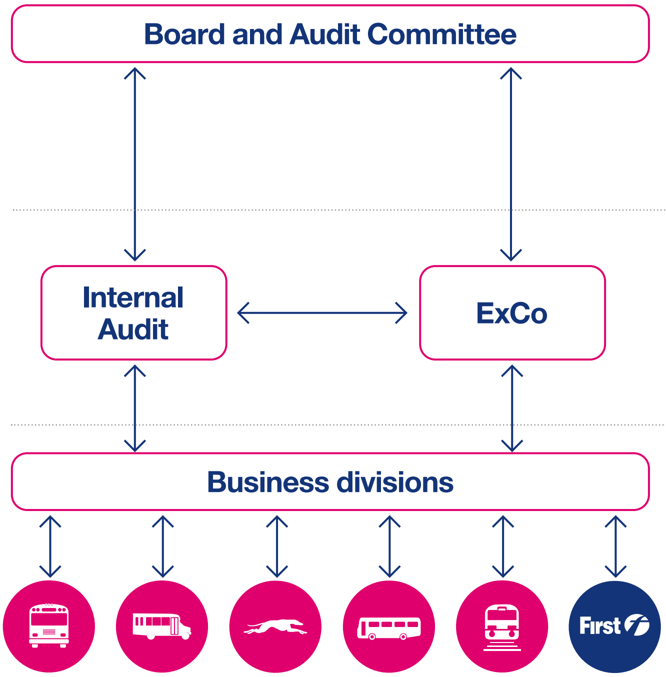
We take a bottom up, top down approach to risk management, first building a picture of the principal risks at divisional level, then consolidating those principal risks alongside Group risks into a Group view. During the year, we reviewed our methodology, resulting in a new presentation format and risk categorisation which helps us to focus better on our key risks.

We are currently working to develop a risk appetite framework which will include a formal Board risk appetite statement. We will use this both to assist in the management of the operational risks within our businesses and also to provide an understanding of the scale of risk exposures and appetite in the context of our strategic goals, in both cases helping us to set appropriate parameters for risk and assess the extent to which our risk mitigations and controls are appropriate and in line with appetite.

Risk management structure

Whilst some risks such as treasury risk are managed at a Group level, all of our businesses own and manage the risks they face with appropriate assistance from the Group functions as necessary.

The current structure is as follows:



Responsibility	Process
The Board has overall responsibility for the Group's systems of internal control and their effectiveness. The Audit Committee has a specific responsibility to review and validate the systems of risk management and internal control.	The Board reviews and confirms Group and divisional risks and the Audit Committee reviews the Group's risk management process.
The Executive Committee (ExCo) reviews the Group's risk management processes. Internal Audit provides assurance on the key risk mitigating controls and ensure that the audit plan is appropriately risk-based.	The Executive Committee and other Group management review and challenge Group and divisional risk submissions.
Business division and Group function management have responsibility for the identification and management of risks, developing appropriate mitigating actions and the maintenance of risk registers.	Divisional and Group risk champions maintain and update risk registers for their function or division. Risks and mitigating actions are monitored through normal business management processes.

Principal risks and uncertainties

Our risk management methodology is aimed at identifying the principal risks that could:

- adversely impact the safety or security of the Group's employees, customers and/or assets
- have a material impact on the financial or operational performance of the Group
- impede achievement of the Group's strategic objectives and financial targets; and/or
- adversely impact the Group's reputation or stakeholder expectations.

The Group's principal risks are set out below. These risks have been assessed taking into account their potential impact (both financial and reputational), the likelihood of occurrence and any change to this compared to the prior year and the residual risk after the implementation of controls. Further information on our risk management processes is contained in the Corporate governance report on pages 50 to 51 and 65. The impact of each of these risks on our strategic objectives is set out in the table on page 41.

Risk and potential impact	Mitigation	Comment and movement during the year
Economic conditions		
Changing economic conditions affect our different businesses in different ways. A less positive economic outlook could have a negative impact on our businesses in terms of reduced demand and reduced opportunities for growth or to retain or secure new business. Our First Rail businesses are particularly sensitive to movements in key economic indicators. The same factors could also affect our key suppliers. An improving economic climate, particularly when combined with lower fuel prices, may result in reduced demand for public transportation in our Greyhound and First Bus businesses as alternative modes of transport become relatively more affordable. Lower oil prices can also lead to reduced oil activity in the Canadian oil sands region which may affect demand for First Transit services in this region. Improving economic conditions may also result in a tightening of labour markets resulting in employee shortages, pressure to increase pay, or affect the availability of public funding for transport services.	To an extent, our First Bus and Greyhound operating companies are able to modify services to react to economic impacts. All of our businesses focus on controlling costs to ensure they remain competitive.	↔ Continued low oil prices have adversely affected our Greyhound business. A vote to exit the EU in the UK referendum on 23 June 2016 may adversely impact the UK's economic position which in turn may have an adverse impact on the Group's UK operations.
Political and regulatory		
The political landscape within which the Group operates is constantly changing. Changes to government policy, funding regimes, or the legal and regulatory framework may result in structural market changes or impact the Group's operations in terms of reduced profitability, increased costs and/or a reduction in operational flexibility or efficiency.	The Group has dedicated legal teams in the UK and North America who advise on emerging issues. The Group actively engages with the relevant government and transport bodies and policy makers to help ensure that we are properly positioned to respond to any proposed changes. Our continued focus on service quality and delivery helps to mitigate calls for structural market change.	↔ The UK Government has recently published a Bus Services Bill which includes devolved powers to regulate bus services in local areas, subject to certain tests being met.
Contract businesses including rail franchising		
The Group's First Student, First Transit and First Rail divisions are contract businesses dependent on the ability to renew and secure new contract wins on profitable terms. Failure to do so would result in reduced revenue and profitability and incorrect modelling or bid assumptions could lead to greater than anticipated costs or losses. Failure to comply with contract terms could result in termination, litigation and financial penalties and failure to win new contracts or non-renewal of existing contracts. Competition for new rail franchises is intense. We bid against rail operators from both the UK and other countries, principally from within the European Union (EU). Failure to win franchises in the future will result in a lower First Rail division contribution and profitability. The new GWR and TPE franchises cover a period during which there will be significant change including major infrastructure work, electrification and resignalling as well as the introduction of new trains, which require careful planning and management. Failure to manage these risks adequately in accordance with our plans could result in financial and reputational risk to the Group.	The relevant divisions have experienced and dedicated bid teams who undertake careful economic modelling of contract bids and, where possible, seek to negotiate risk sharing arrangements with the relevant customer or contracting authority. The Group also has a comprehensive review process for rail bids as they are developed and finalised involving a number of divisional and Group functions as well as final Board sign off. Compliance with our rail franchise agreements is closely managed and monitored on a monthly basis by senior management and procedures are in place to minimise the risk of non-compliance.	↔ No material change during the year.

Principal risks and uncertainties
continued

Risk and potential impact	Mitigation	Comment and movement during the year
Competition and emerging technologies		
All of the Group's businesses (both contract and non-contract) compete in the areas of pricing and service and face competition from a number of sources. Our main competitors include the private car and existing and new public and private transport operators across all our markets. Emerging technologies such as Uber, ride sharing apps and price comparison websites make access to alternative transport solutions easier. Increased competition could result in lost business, reduced revenue and reduced profitability.	The Group continues to focus on service quality and delivery as priorities in making our services attractive to passengers and other customers, across our portfolio of businesses. In the UK, we have established a dedicated cross-divisional Retail Services Committee focused on improving our service to customers and improving access to our services. In our contract businesses, a competitive bidding strategy and a strong bidding team are key. In addition, wherever possible, the Group works with local and national bodies to promote measures aimed at increasing demand for public transport and the other services that we offer.	↔ No material change during the year.
Information technology		
The Group relies on information technology (IT) in all aspects of our businesses. Any significant disruption or failure, caused by external factors, denial of service, computer viruses or human error could result in a service interruption, accident or misappropriation of confidential information (including credit card and personal data). Process failure, security breach or other operational difficulties may also lead to revenue loss or increased costs, fines, penalties or additional insurance requirements. Prolonged failure of our sales websites could also adversely affect revenues. Continued successful delivery and implementation of the Greyhound IT transformation plan is required to improve yield management and drive future growth. Failure to manage properly the implementation of new IT systems may result in increased costs and/or lost revenue.	As a result of the continuing threat of cyber attacks, our operations are implementing new threat detection systems. The Group has also increased its focus on asset management and further enhanced its IT security processes and procedures during the year. The Group has further strengthened its IT project management capability during the year, particularly within Greyhound.	↑ Web and mobile sales channels remain of increasing importance across many of our businesses. Cyber security remains a growing risk.
Treasury and credit rating		
As set out in further detail in note 24 to the financial statements on pages 133 to 136, treasury risks include liquidity risks, risks arising from changes to foreign exchange and interest rates and fuel price risk. Foreign currency and interest rate movements may impact the profits, balance sheet and cash flows of the Group. Ineffective hedging arrangements may not fully mitigate losses or may increase them. The Group is credit rated by Standard & Poor's and Fitch. A downgrade in the Group's credit ratings to below investment grade may lead to increased financing costs and other consequences and affect the Group's ability to invest in its operations.	The Group's Treasury Committee manages treasury policy, and delegated authorities are reviewed periodically to ensure compliance with best practice and to control and monitor these risks appropriately. The Group is continuously focused on improving operating and financial performance as part of our strategic objectives as outlined on page 31.	↔ No change in the year.

Risk and potential impact	Mitigation	Comment and movement during the year
Pension scheme funding		
The Group sponsors or participates in a number of significant defined benefit pension schemes, primarily in the UK. Future cash contribution requirements may increase or decrease based upon financial markets, notably investment returns and valuations, the rates used to value the liabilities and through changes to life expectancy and could result in material changes in the accounting cost and cash contributions required.	Diversification of investments, hedging of liabilities, amendment of the defined benefit promises and the introduction of defined contribution benefits for new starters in First Bus, Group, and our Canadian businesses, has reduced these risks. The Group also seeks to remove liabilities from the balance sheet where it can be achieved cost effectively. Under the First Rail franchise arrangements, the Group's train operating companies are not responsible for any residual deficit at the end of a franchise so there is only short term cash flow risk within a particular franchise.	↔ No material change during the year.
Compliance, litigation and claims, health and safety		
The Group's operations are subject to a wide range of legislation and regulation. Failure to comply can lead to litigation, claims, damages, fines and penalties. The Group has three main insurable risks: third party injury and other claims arising from vehicle and general operations, employee injuries and property damage. The Group is also subject to other litigation, which is not insured, particularly in North America, including contractual claims and those relating to employee wage and hour and meal and break matters. A higher volume of litigation and claims can lead to increased costs, reduced availability of insurance cover, and/or reputational impact. A large single claim or a large number of smaller claims may negatively affect profitability and cash flow.	Compliance with Group and divisional policies and procedures. The Group has a very strong focus on safety and it is one of our five values. The Group self-insures third party and employee injury claims up to a certain level commensurate with the historical risk profile. We purchase insurance above these limits from reputable global insurance firms. Claims are managed by experienced claims handlers. Non-insured claims are managed by the Group's dedicated in-house legal teams with external assistance as appropriate.	↔ The claims environment, particularly in our North American businesses, remains a challenge.

Principal risks and uncertainties
continued

Risk and potential impact	Mitigation	Comment and movement during the year
Labour costs, employee relations, recruitment and retention		
Employee costs represent the largest component of the Group's operating costs, and political or trade union pressure to increase wages could increase these costs. Competition for employees, particularly in an improved economic climate can lead to shortages which increase costs and affect service delivery. High employee turnover could lead to higher than expected increases in the cost of recruitment, training and employee costs and operational disruption. Similarly, industrial action could adversely impact customer service and have a financial impact on the Group's operations.	The Group seeks to mitigate these risks via its recruitment and retention policies, training schemes and working practices. An applicant tracking system has been introduced into First Bus and our North American divisions to streamline the recruitment process and assist in providing a suitable pool of drivers to help manage any shortages in an efficient and cost-effective way. Our working practices include building communication and engagement with trade unions and the wider workforce. Examples of this engagement include regular leadership conferences, employee surveys and the presence of Employee Directors (Directors voted for by employees to represent them) on many of the Group's UK divisional boards and the Board.	↑ Some localised tightening of employment markets, particularly for First Student.
Disruption to infrastructure/operations		
Our operations, and the infrastructure on which they depend, can be affected by a number of different external factors, many of which are not within our control. These factors include terrorism, adverse weather events and potentially climate change or pandemics. The threat from terrorism is enduring and continues to exist in all of our markets. Public transport has previously been subject to attack, and across our businesses we take all reasonable steps to help guard against such activity on the services we operate. An attack or threat of attack could lead to reduced public confidence in public transportation and/or specifically in the Group's security and safety record, and could reduce demand for our services, increase costs or security requirements and cause operational disruption. Greater and more frequent adverse weather could lead to interruptions or disruption to service performance and reduced customer demand with consequent financial impact, potential increased costs and accident rates. As a leading transport provider, we face the challenge of addressing climate change, both through managing its impact and reducing our carbon emissions.	We continue to develop and apply good practice, and provide guidance to our employees to help them identify and respond effectively to any potential threat or incident. We maintain close working relationships with specialist government agencies, in relation to terror threats, both in the UK and North America. We employ dedicated security specialists in the UK and North America. The geographic spread of the Group's businesses offers some protection against specific incidents. In addition, some of our contract-based businesses have force majeure clauses in place. We have severe weather action plans and procedures to manage the impact on our operations. The Group continues to target reductions in our emissions, including through behaviour change initiatives and investment in new technology.	↔ No material change during the year.

The risks listed are not all of those highlighted by our risk management processes and are not set out in any order of priority. Additional risks and uncertainties not presently known to us, or currently deemed to be less material, may also impact our business. Indication of a movement in a risk may not indicate a change in the overall net risk position after taking into account risk mitigations.

Strategic objectives

To deliver our strategy, it is important that we understand and manage the risks that face the Group. The table below outlines our principal risks and identifies which of our strategic objectives may be affected by those principal risks.

	Focused and disciplined bidding	Driving growth through attractive commercial propositions	Continuous improvement in operating and financial performance	Prudent investment in our key assets	Responsible partnerships with our customers and communities
Economic conditions	●	●	●	●	
Political and regulatory	●	●	●	●	●
Contracted businesses including rail franchising	●	●	●	●	●
Competition and emerging technologies	●	●	●	●	
Information technology	●	●	●	●	●
Treasury and credit rating	●		●	●	
Pension scheme funding	●		●	●	
Compliance, litigation and claims, health and safety	●	●	●		●
Labour costs/employee relations/recruitment and retention	●	●	●	●	●
Disruption to infrastructure/operations	●	●	●		●

Viability Statement

In accordance with provision C.2.2 of the UK Corporate Governance Code 2014, the Directors have assessed the viability of the Group over a three year period, taking into account the Group's current position and the potential impact of the principal risks set out above. Based on this assessment, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 March 2019.

Whilst the Directors have no reason to believe the Group will not be viable over a longer period, the period over which the Directors consider it possible to form a reasonable expectation as to the Group's longer term is the three year period to 31 March 2019. This period reflects the Group's corporate planning processes and is considered appropriate for a fast moving competitive environment such as passenger transport.

The Group's corporate planning processes include completion of a strategic review, preparation of a medium term business plan and a quarterly re-forecast of current year business performance.

The plans and projections prepared as part of these corporate planning processes consider the Group's cash flows, committed funding and liquidity positions, forecast future funding requirements, banking covenants and other key financial ratios, including those relevant to maintaining the Group's existing investment grade status. It also considers the ability of the Group to deploy capital. A key assumption underpinning these corporate planning processes is that credit markets will be sufficiently fluid to enable the Group to refinance its bonds.

In making their assessment, the Directors took account of the potential financial and operational impacts, in severe but plausible scenarios, of the principal risks which might threaten the Group's viability during the three year period to 31 March 2019 and the likely degree of effectiveness of current and available mitigating actions that could be taken to avoid or reduce the impact or occurrence of such risks.

The Board confirms that in making this statement it carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

With a stable capital structure, an increasingly well-invested capital base and continuing improvements in cost efficiency, the Group is well placed to focus on generating cash.

Matthew Gregory
Chief Financial Officer

Summary of the year

Changes in the First Rail franchise portfolio resulted in reported Group revenue decreasing by 13.8% in the year to £5,218.1m (2015: £6,050.7m). Excluding the rail portfolio changes, underlying revenue decreased by 0.3%.

Group adjusted operating profit decreased by 1.0% to £300.7m (2015: £303.6m), reflecting an improved financial performance in First Bus and the continuing First Rail operations as well as the change in basis of estimate for accounting for First Rail pensions, partially offset by a reduced contribution from Greyhound and from First Student due to fewer operating days and higher driver shortage-related costs.

Adjusted profit attributable to ordinary shareholders was £123.5m (2015: £117.5m), with lower net finance costs and a lower non-controlling interest charge being partly offset by lower adjusted operating profit and a higher effective tax rate.

Adjusted EPS was 10.3p (2015: 9.8p), an increase of 5.1%. EBITDA was £615.9m (2015: £624.4m).

Statutory operating profit was £246.3m (2015: £245.8m). Statutory profit before tax of £113.5m (2015: £105.8m) reflects the slightly higher statutory operating profit and lower net finance costs.

The net cash inflow for the year before First Rail end of franchise cash flows was £36.0m (2015: £39.4m), ahead of expectations but slightly lower than the prior year. This cash inflow, combined with the end of First Rail franchise outflows of £20.8m (2015: £107.9m) and movements in debt due to foreign exchange, resulted in a net debt increase of £2.9m (2015: £103.5m). As at 31 March 2016, the net debt:EBITDA ratio was 2.3 times (2015: 2.3 times).

During the year gross capital investment of £413.3m (2015: £425.1m) was invested in our business. Our sustained reinvestment in our non-rail fleets and systems is now largely complete, and going forward our capital allocation decisions will increasingly focus on the maintenance of our existing asset portfolio and selected growth opportunities with good returns. In the year ahead we expect capital investment for the Group (excluding in First Rail, where such expenditures are typically matched by franchise receipts or other funding) to decrease modestly. ROCE was 7.2% (2015: 7.4% at constant exchange rates). However, after adjusting for the changes in First Rail franchise portfolio, lower number of First Student operating days and the change in the basis of estimate for accounting for First Rail pensions, ROCE would have increased by 60 basis points.

Revenue and adjusted operating profit

Revenue and adjusted operating profit by division is set out below. For more information on divisional operating performance, see the Business review on pages 10 to 19:

	Year to 31 March 2016			Year to 31 March 2015		
	Revenue £m	Operating profit[1] £m	Operating margin[1] %	Revenue £m	Operating profit[1] £m	Operating margin[1] £m
First Student	1,553.5	112.6	7.2%	1,478.8	114.9	7.8%
First Transit	864.8	60.1	6.9%	844.8	59.7	7.1%
Greyhound	605.1	35.5	5.9%	609.6	41.7	6.8%
First Bus	870.9	52.0	6.0%	896.1	51.8	5.8%
First Rail	1,308.4	72.9	5.6%	2,207.1	74.1	3.4%
Group[2]	15.4	(32.4)		14.3	(38.6)	
Total Group	**5,218.1**	**300.7**	**5.8%**	6,050.7	303.6	5.0%
North America in US Dollars	**$m**	**$m**	**%**	$m	$m	%
First Student	2,332.7	165.0	7.1%	2,368.6	177.3	7.5%
First Transit	1,303.4	90.6	7.0%	1,362.1	96.1	7.1%
Greyhound	914.0	54.4	6.0%	986.0	68.5	6.9%
Total North America	**4,550.1**	**310.0**	**6.8%**	4,716.7	341.9	7.2%

[1] Adjusted.

[2] Tramlink operations, central management and other items.

Finance costs and investment income

Net finance costs before adjustments were £132.4m (2015: £139.7m) with the decrease principally reflecting lower interest rates.

Profit before tax

Adjusted profit before tax as set out in note 4 to the financial statements was £168.3m (2015: £163.9m), with the increase due principally to lower net finance costs. An overall charge of £54.8m (2015: £58.1m) for adjustments including other intangible asset amortisation charges of £51.9m (2015: £54.3m) resulted in statutory profit before tax of £113.5m (2015: £105.8m).

Tax

The tax charge, on adjusted profit before tax, for the year was £38.7m (2015: £36.1m) representing an effective rate of 23.0% (2015: 22.0%). There was a tax credit of £21.6m (2015: credit of £15.8m) relating to other intangible asset amortisation charges and other adjustments. The total tax charge was £17.1m (2015: charge of £20.3m). The actual tax paid during the year was £7.0m (2015: £4.5m).

EPS

Adjusted EPS increased by 5.1% to 10.3p (2015: 9.8p). Basic EPS increased 21.0% to 7.5p (2015: 6.2p), with both improvements primarily due to lower net finance costs.

Shares in issue

As at 31 March 2016 there were 1,204.3m shares in issue (2015: 1,203.7m), excluding treasury shares and own shares held in trust for employees of 0.6m (2015: 1.2m). The weighted average number of shares in issue for the purpose of basic EPS calculations (excluding treasury shares and own shares held in trust for employees) was 1,204.0m (2015: 1,204.0m).

Change in the basis of estimate for accounting for First Rail pensions

The Group has re-estimated the calculation of the First Rail franchise pension adjustment under IAS19 (revised) to better reflect the commercial terms of the GWR and TPE franchises. This change in accounting estimate has been triggered by the new Direct Awards operated by GWR and First TransPennine Express in the year and has been applied prospectively from 1 April 2015. As a result of this change in accounting estimate the operating profit charge for First Rail pension schemes for the full year is £18.6m lower at £27.4m than it would otherwise have been. The change in the basis of estimate has no effect on the cash contributions made to the First Rail pension schemes in the year.

Reconciliation to non-GAAP measures and performance

Note 4 to the financial statements sets out the reconciliations of operating profit and profit before tax to their adjusted equivalents. The principal adjusting items are as follows:

Other intangible asset amortisation charges

The charge for the year was £51.9m (2015: £54.3m). The reduction primarily reflects a lower charge in First Rail as the GWR franchise intangible was fully expensed at the end of its first Direct Award period, partly offset by a higher charge in First Student due to the full year effect of the Mile Square acquisition.

Pensions past service gain

During the year we agreed with the FirstGroup Pension Scheme Trustee to change the basis for revaluing pensions in payment from RPI to CPI. This change has led to a reduction in the liabilities and as a result a £10.8m past service gain has been recognised.

Financial review
continued

North America insurance reserves

There have been significant adverse developments on a small number of old and unusual insurance claims in North America during the year. The impact of these adverse developments was a charge of £10.5m.

First Bus depot sales and closures

There was a charge of £1.8m (2015: £7.5m) in the year relating to operating losses on a legacy depot closure.

Legal claims

A legal claim that pre-dates the Laidlaw acquisition and was acquired with the former Laidlaw entities had further adverse developments during the year and has been settled for £1.0m more than was originally provided for within adjusted items.

Ineffectiveness on financial derivatives

There was a £0.4m (2015: £0.3m) non-cash charge during the year due to ineffectiveness on financial derivatives.

Capital expenditure

As planned we continue to invest in our businesses. Cash capital expenditure was £405.2m (2015: £428.9m) and comprised First Student £245.7m (2015: £174.9m), First Transit £20.5m (2015: £21.6m), Greyhound £21.1m (2015: £49.8m), First Bus £57.6m (2015: £104.1m), First Rail £58.1m (2015: £75.0m) and Group items £2.2m (2015: £3.5m). First Rail capital expenditure is typically matched by franchise receipts or other funding.

In addition during the year we entered into operating leases for passenger carrying vehicles with capital values in First Transit of £1.3m (2015: £9.2m).

Gross capital investment was £413.3m (2015: £425.1m) and comprised First Student £209.2m (2015: £170.4m), First Transit £20.4m (2015: £30.3m), Greyhound £24.8m (2015: £50.9m), First Bus £91.3m (2015: £93.9m), First Rail £65.4m (2015: £76.1m) and Group items £2.2m (2015: £3.5m).

Cash flow

The net cash inflow for the year before First Rail end of franchise cash flows was £36.0m (2015: £39.4m). This cash inflow combined with the end of franchise outflows of £20.8m (2015: £107.9m) and movements in debt due to foreign exchange contributed to a net debt increase of £2.9m (2015: £103.5m) as detailed opposite.

The net cash inflow before First Rail end of franchise cash flows was slightly lower than the prior year, principally reflecting the reduction in cash generated by operations, lower proceeds from disposals of property, plant and equipment partly offset by the planned lower capital expenditure.

Funding and risk management

Liquidity within the Group has remained strong. At 31 March 2016 there was £940.2m (2015: £1,023.8m) of committed headroom and free cash, being £800.0m (2015: £800.0m) of committed headroom and £140.2m (2015: £223.8m) of free cash. Largely due to the seasonality of First Student, committed headroom typically reduces during the financial year up to October and increases thereafter. Treasury policy requires a minimum of £150m of committed headroom at all times. Our average debt maturity was 4.4 years (2015: 5.2 years). The Group's main revolving bank facilities require renewal in June 2019.

The Group does not enter into speculative financial transactions and uses only authorised financial instruments for certain risk management purposes.

Interest rate risk

We seek to reduce our exposure by using a combination of fixed rate debt and interest rate derivatives to achieve an overall fixed rate position over the medium term of at least 50% of net debt.

Foreign currency risk

'Certain' and 'highly probable' foreign currency transaction exposures may be hedged at the time the exposure arises for up to two years at specified levels, or longer if there is a very high degree of certainty.

EBITDA

EBITDA by division is set out below:

	Year to 31 March 2016			Year to 31 March 2015		
	Revenue £m	**EBITDA[1] £m**	**EBITDA margin[1] %**	Revenue £m	EBITDA[1] £m	EBITDA margin[1] £m
First Student	**1,553.5**	**266.4**	**17.1%**	1,478.8	260.9	17.6%
First Transit	**864.8**	**74.7**	**8.6%**	844.8	72.1	8.5%
Greyhound	**605.1**	**69.7**	**11.5%**	609.6	73.1	12.0%
First Bus	**870.9**	**113.4**	**13.0%**	896.1	118.5	13.2%
First Rail	**1,308.4**	**122.4**	**9.4%**	2,207.1	137.8	6.2%
Group[2]	**15.4**	**(30.7)**		14.3	(38.0)	
Total Group	**5,218.1**	**615.9**	**11.8%**	6,050.7	624.4	10.3%
North America in US Dollars	**$m**	**$m**	**%**	$m	$m	%
First Student	**2,332.7**	**396.8**	**17.0%**	2,368.6	412.5	17.4%
First Transit	**1,303.4**	**112.6**	**8.6%**	1,362.1	116.1	8.5%
Greyhound	**914.0**	**105.9**	**11.6%**	986.0	119.1	12.1%
Total North America	**4,550.1**	**615.3**	**13.5%**	4,716.7	647.7	13.7%

[1] Adjusted operating profit less capital grant amortisation plus depreciation.
[2] Tramlink operations, central management and other items.

	Year to 31 March 2016 £m	Year to 31 March 2015 £m
EBITDA	**615.9**	624.4
Other non-cash income statement charges/(credits)	**6.4**	(14.0)
Working capital excluding First Rail end of franchise cash flows	**(16.0)**	(11.6)
Movement in other provisions	**(18.6)**	(27.2)
Pension payments in excess of income statement charge	**(33.6)**	(12.3)
Cash generated by operations excluding First Rail end of franchise cash flows	**554.1**	559.3
Capital expenditure	**(405.2)**	(428.9)
Acquisitions	**–**	(11.0)
Proceeds from disposal of property, plant and equipment	**19.5**	47.5
Interest and tax	**(122.4)**	(124.4)
Dividends payable to non-controlling minority shareholders	**(10.0)**	(2.0)
Other	**–**	(1.1)
Net cash inflow before First Rail end of franchise cash flows	**36.0**	39.4
First Rail end of franchise cash flows	**(20.8)**	(107.9)
Foreign exchange movements	**(15.3)**	(31.7)
Other non-cash movements in relation to financial instruments	**(2.8)**	(3.3)
Movement in net debt in the year	**(2.9)**	(103.5)

The Group does not hedge the translation of earnings into the Group reporting currency (pounds Sterling), but accepts that reported Group earnings will fluctuate as exchange rates against pounds Sterling fluctuate for the currencies in which the Group does business. During the year, the net cash generated in each currency may be converted by Group Treasury into pounds Sterling by way of spot transactions in order to keep the currency composition of net debt broadly constant.

Fuel price risk

We use a progressive forward hedging programme to manage commodity risk. In 2015/16 in the UK, 94% of our ‘at risk’ crude requirements (1.9m barrels p.a.) were hedged at an average rate of $88 per barrel. At year end we had hedged 89% of our ‘at risk’ UK crude requirements for the year to 31 March 2017 at $70 per barrel and 83% of our requirements for the year to 31 March 2018 at $62 per barrel.

In North America 77% of 2015/16 ‘at risk’ crude oil volumes (1.5m barrels p.a.) were hedged at an average rate of $86 per barrel. At year end we had hedged 68% of the volumes for the year to 31 March 2017 at $72 per barrel and 34% of our volumes for the year to 31 March 2018 at $61 per barrel.

Balance sheet

Net assets have increased by £147.0m since the start of the year. The principal reasons for this are the retained profit for the year of £96.4m, favourable translation reserve movements of £110.5m partly offset by actuarial losses on defined benefit pension schemes (net of deferred tax) of £43.1m and unfavourable after tax hedging reserve movements of £13.1m.

Goodwill

The carrying value (net assets including goodwill but excluding intercompany balances) of each cash generating unit (CGU) was tested for impairment during the year and there continues to be sufficient headroom in all of the CGUs.

Foreign exchange

The most significant exchange rates to Sterling for the Group are as follows:

	Year to 31 March 2016		Year to 31 March 2015	
	Closing rate	Effective rate	Closing rate	Effective rate
US Dollar	**1.41**	**1.49**	1.49	1.58
Canadian Dollar	**1.87**	**1.93**	1.88	1.83

Seasonality

First Student generates lower revenues and profits in the first half of the financial year than in the second half of the year as the school summer holidays fall into the first half. Greyhound operating profits are typically higher in the first half of the year due to demand being stronger in the summer months.

Pensions

We have updated our pension assumptions as at 31 March 2016 for the defined benefit schemes in the UK and North America. The net pension deficit of £239.4m at the beginning of the year has increased to £270.9m at the end of the year principally due to poor asset returns partly offset by higher real discount rates.

The main factors that influence the balance sheet position for pensions and the sensitivities to their movement at 31 March 2016 are set out below:

	Movement	Impact
Discount rate	+0.1%	Reduce deficit by £32m
Inflation	+0.1%	Increase deficit by £26m

Financial review
continued

Net debt

The Group's net debt at 31 March 2016 was £1,410.2m (2015: £1,407.3m) and comprised:

Analysis of net debt	Fixed £m	Variable £m	31 March 2016 Total £m	31 March 2015 Total £m
Sterling bond (2018)	**298.3**	**–**	**298.3**	297.8
Sterling bond (2019)	**–**	**249.8**	**249.8**	249.8
Sterling bond (2021)	**–**	**348.2**	**348.2**	348.2
Sterling bond (2022)	**320.5**	**–**	**320.5**	320.0
Sterling bond (2024)	**199.6**	**–**	**199.6**	199.5
HP contracts and finance leases	**219.9**	**18.4**	**238.3**	302.2
Senior unsecured loan notes	**105.9**	**–**	**105.9**	100.6
Loan notes	**8.7**	**1.0**	**9.7**	9.7
Gross debt excluding accrued interest	**1,152.9**	**617.4**	**1,770.3**	1,827.8
Cash			**(140.2)**	(223.8)
First Rail ring-fenced cash and deposits			**(217.5)**	(196.0)
Other ring-fenced cash and deposits			**(2.4)**	(0.7)
Net debt excluding accrued interest			**1,410.2**	1,407.3

Under the terms of the First Rail franchise agreements, cash can only be distributed by the TOCs either up to the lower amount of their retained profits or the amount determined by prescribed liquidity ratios. The ring-fenced cash represents that which is not available for distribution or the amount required to satisfy the liquidity ratio at the balance sheet date.

Forward-looking statements

Certain statements included or incorporated by reference within this document may constitute 'forward-looking statements' with respect to the business, strategy and plans of the Group and our current goals, assumptions and expectations relating to our future financial condition, performance and results.

By their nature, forward-looking statements involve known and unknown risks, assumptions, uncertainties and other factors which cause actual results, performance or achievements of the Group to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Shareholders are cautioned not to place undue reliance on the forward-looking statements. Except as required by the UK Listing Rules and applicable law, the Group does not undertake any obligation to update or change any forward-looking statements to reflect events occurring after the date of this document.

Other information

Unless otherwise stated, all financial figures for the year to 31 March 2016 (the 'year' or '2015/16') include the results of the rail business for the year to 31 March 2016 and the results of all the other businesses for the 52 weeks ended 26 March 2016. The figures for the year to 31 March 2015 (the 'prior year' or '2014/15') include the results of the rail business for the year to 31 March 2015 and the results of all the other businesses for the 52 weeks ended 28 March 2015. No account is taken of foreign exchange translation effects in the description of divisional performances and outlook.

All references to 'adjusted' figures throughout this document are before other intangible asset amortisation charges and certain other items as set out in note 4 to the financial statements.

All references to 'underlying' revenue throughout this document is in constant currency and adjusted for changes in First Rail franchise portfolio.

'ROCE' or Return on Capital Employed is calculated by dividing adjusted operating profit after tax by all year end assets and liabilities excluding debt items.

References to 'like-for-like' revenue adjust for changes in the composition of the divisional portfolio, holiday timing, severe weather and other factors that distort the year-on-year trends in our passenger revenue businesses.

Going concern

The Group has established a strong balanced portfolio of businesses with approximately 50% of Group revenues secured under medium term contracts with government agencies and other large organisations in the UK and North America.

The Group has a diversified funding structure with average debt duration at 31 March 2016 of 4.4 years (2015: 5.2 years) and which is largely represented by medium term unsecured bank facilities and long term unsecured bond debt. The Group has an £800m committed revolving banking facility of which £800m (2015: £800m) was undrawn at the year end. This facility has a maturity of June 2019.

The Directors have carried out a detailed review of the Group's budget for the year to 31 March 2017 and medium term plans, with due regard for the risks and uncertainties to which the Group is exposed, the uncertain economic climate and the impact that this could have on trading performance. Based on this review, the Directors believe that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

Tim O'Toole
Chief Executive
14 June 2016

Matthew Gregory
Chief Financial Officer
14 June 2016

Governance

Board of Directors

1. Wolfhart Hauser Ⓝ

Chairman

Appointed: 18 May 2015 and became Chairman on 16 July 2015
Key areas of prior expertise: Governance, Strategy
Skills and experience: He brings to the Board a strong track record of driving profitable growth and value creation in a large international organisation, as well as significant board experience in major UK listed companies. Wolfhart was CEO of Intertek Group plc, the international quality and safety services provider for ten years, before he retired from the role in May 2015.
Other appointments: Senior Independent Director of RELX PLC and RELX NV and a Non-Executive Director of Associated British Foods plc.
Nationality: German

2. Tim O'Toole CBE

Chief Executive

Appointed: 2009 and became Chief Executive in 2010
Key areas of prior expertise: Transportation, Strategy
Skills and experience: He brings to the Board a wealth of international transport management experience gained over a number of years in the sector. Prior to joining the Company, he was Managing Director, London Underground, having previously been at Transport for London, and prior to which he was President and Chief Executive of Consolidated Rail Corporation.
Other appointments: He is a Non-Executive Director of CSX Corporation, a rail freight transportation company in North America.
Nationality: American

3. Matthew Gregory

Chief Financial Officer

Appointed: 1 December 2015
Key areas of prior expertise: Finance, M&A
Skills and experience: He has strong financial and operational expertise, including strategic and financial planning and control, as well as extensive international experience of driving performance improvement and restructuring. Former Group Finance Director of Essentra plc, having previously been Director of Corporate Development as well as having held a number of senior finance roles. His early career was spent at Rank Group plc and Ernst & Young.
Nationality: British

6. Drummond Hall Ⓝ Ⓡ

Senior Independent Non-Executive Director

Appointed: 2014
Key areas of prior expertise: Marketing, Strategy
Skills and experience: He brings to the Board a wealth of experience gained across a number of customer-focused businesses in the UK, Europe and the US. Drummond was formerly Chief Executive of Dairy Crest Group plc, prior to which his career was spent mainly with Procter & Gamble, Mars and PepsiCo. He has also been Chairman and a Non-Executive Director of Mitchells & Butlers plc and a Non-Executive Director of Taylor Nelson Sofres PLC.
Other appointments: Senior Independent Non-Executive Director of WH Smith plc and a Non-Executive Director of The Sage Group plc.
Nationality: British

7. Brian Wallace Ⓐ Ⓝ Ⓡ

Independent Non-Executive Director

Appointed: 2012
Key areas of prior expertise: Finance
Skills and experience: He brings to the Board a wealth of financial and risk experience and knowledge. Brian has held executive board positions within a number of major organisations, most recently as Group Finance Director of Ladbrokes plc and previously as Group Finance Director and Deputy Chief Executive of Hilton Group. A chartered accountant, he began his career at Price Waterhouse and went on to perform senior finance roles at Geest, APV and Schlumberger. He previously served as a Non-Executive Director at Scottish & Newcastle plc, Hays plc, Merlin Entertainment and Miller Group.
Other appointments: Chairman of Travelodge Hotels Limited and SoftCat plc.
Nationality: British

8. Imelda Walsh Ⓡ Ⓝ Ⓑ

Independent Non-Executive Director

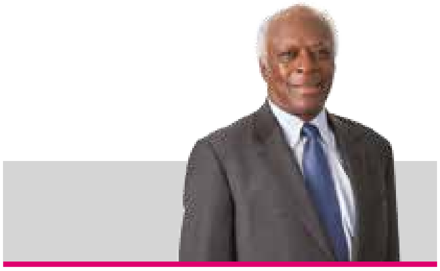
Appointed: 2014
Key areas of prior expertise: Remuneration
Skills and experience: She brings considerable experience to the Board gained across a number of sectors, as well as outstanding remuneration practice skills. Imelda was formerly a Non-Executive Director and Chair of the Remuneration Committee of Sainsbury's Bank plc and has held senior executive roles at J Sainsbury plc, where she was Group HR Director, Barclays Bank plc and Coca-Cola & Schweppes Beverages Limited.
Other appointments: Non-Executive Director and Chair of the Remuneration Committees of William Hill plc, Mitchells & Butlers plc and Mothercare plc.
Nationality: British

4. Mick Barker B
Non-Executive Employee Director

Appointed: 2012
Key areas of prior expertise: Rail Industry, Employee Relations
Skills and experience: He has been a railwayman for 40 years and is currently employed as a train driver for First Greater Western Limited, one of the Group's train operating companies. Mick brings to the Board considerable knowledge of the attitudes and concerns of employees and represents their views to the Board and its Committees.
Nationality: British

5. Warwick Brady A
Independent Non-Executive Director

Appointed: 2014
Key areas of prior expertise: Transportation
Skills and experience: He brings to the Board significant experience of the transport sector. Warwick has a strong track record of delivering restructuring, cost reduction and modernisation programmes. As Chief Operating Officer at easyJet plc since 2009, he is part of the management team responsible for improving the airline's financial and operating performance. His previous roles include Chief Executive of Indonesian Airline Mandala, Deputy Operations Director at Ryanair plc and Chief Operating Officer at Air Deccan.
Other appointments: Chief Operating Officer of easyJet plc.
Nationality: British



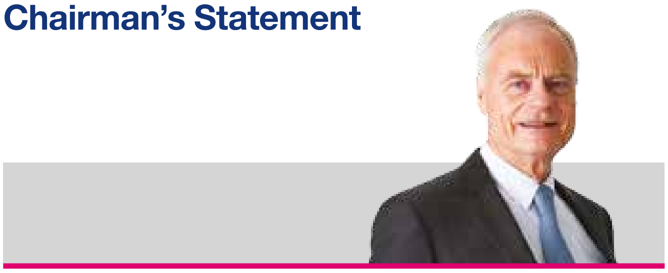
9. Jim Winestock B N A
Independent Non-Executive Director

Appointed: 2012
Key areas of prior expertise: Distribution
Skills and experience: He brings to the Board considerable operational experience gained within a large complex organisation, together with a track record of achievement. Jim has served in a number of senior roles and was a member of the management committee during his career at United Parcel Service, Inc., latterly as Senior Vice President and Director of US operations and global security with responsibility for all US operations and 360,000 employees.
Other appointments: Non-Executive Director of YRC Worldwide, Inc., a Fortune 500 company and one of the largest transportation service providers in the world, and also serves on the Board of two not-for-profit organisations in the US.
Nationality: American

Board Committees

A Audit Committee
R Remuneration Committee
N Nomination Committee
B Board Safety Committee
● Chair

Chairman's Statement



Dear fellow shareholder

I believe firmly that good governance lies at the heart of a successful and sustainable company. The Board seeks to achieve this through setting out the Group's strategic aims, monitoring the Group's strategic objectives and providing oversight of its implementation by the management team. The Board is also responsible for shaping the culture and values of the Group.

Our values

At a time when breaches of corporate trust and integrity are under the spotlight, resulting in ever greater scrutiny, regulation and control, we believe our values, which were put in place to promote the required culture for the delivery of our vision and the transformation of the Group into a customer focused entity, could not be more relevant:

- Committed to our customers
- Dedicated to safety
- Supportive of each other
- Accountable for performance
- Setting the highest standards

Our values are recognised across the Group and are fundamental to the way we operate. We see these values as key to the way we work with our customers, our suppliers, our employees and our other stakeholders across the Group. We will not get everything right all of the time, but we will aim to learn where we make mistakes, and our Board evaluation will assist us in highlighting areas in which improvements can be made.

Understanding our business

Corporate governance does not exist in isolation and cannot be reduced to compliance with checklists and codes. In order for the Board to be able to review strategy, to determine our approach to risk and to respond to events, we need to have a thorough understanding of our businesses.

During the year, the Board visited a number of our locations both in the UK and US. This provided us with an opportunity not only to see our businesses in action, but also to meet our employees and understand their views and opinions on the Group. These visits were combined with in-depth presentations from our divisional management teams on the risks, opportunities, performance, customer propositions and strategic initiatives of their businesses.

Board and Committee composition

During the year Chris Surch retired and was replaced by Matthew Gregory as Chief Financial Officer. Matthew brings a wealth of knowledge and experience across a broad range of operational and financial areas, which have been invaluable as we continue to move forward with our transformation plans and business objectives. I would like to thank Chris on behalf of the Board for his commitment and contribution over his three years with the Group.

In October 2015 Brian Wallace was appointed a member of the Remuneration Committee. His appointment increased the number of members on the Remuneration Committee to three and ensured it fully complied with the UK Corporate Governance Code.

Remuneration

There continues to be a great deal of focus on Directors' remuneration and the way it is disclosed. Under Imelda Walsh's leadership, the Remuneration Committee has ensured there is a clear line of sight for management between pay and performance in the areas most valued by our shareholders. At this year's Annual General Meeting shareholders will have the opportunity to participate in an advisory vote on the implementation of our remuneration policy which was approved by shareholders at last year's Annual General Meeting. I look forward to your support at the forthcoming Annual General Meeting.

Risk management

The Board has continued to debate and develop its understanding of risk, risk appetite and tolerance, risk testing and how we can best maximise the opportunities for us to grow the Group.

Protecting the Group from operational and reputational risk is an essential part of the Board's role. Supported by the Audit Committee, we have continued to drive a better understanding of the risks we face, further developed and tested our tolerance on risk and ensured our Group risk map continues to reflect the Group's strategic objectives and opportunities.

We continue to adopt a risk-based approach in establishing the Group's system of internal control and in reviewing its effectiveness. In the course of our business activities, the Group is exposed to strategic, reputational, financial, operational and compliance risks. Overall management of these risks is vested in the Board, with the Audit Committee having delegated authority for reviewing the Group's risk management framework. More detailed information on the Group's system of internal control and risk management can be found in the Principal risks and uncertainties section commencing on page 36 and this Corporate governance report.

Cyber risk

The Board received an in-depth presentation on security and cyber security in January 2016 which provided a framework for discussion around the threats we face and the effectiveness of our systems to mitigate the inherent risks. We have made significant strides over the last few years to improve our capabilities in this area so we can adapt to the ever-changing environment. In future, responsibility for assessing the effectiveness of our procedures for managing cyber security risk will be addressed by the Audit Committee, alongside the other risk responsibilities delegated to it by the Board.

Engaging with shareholders

Engaging with shareholders and being fully aware of their views is one of the key aspects of corporate governance. I and my fellow Directors welcome open, meaningful discussion with shareholders, particularly with regard to governance, strategy and remuneration. The Board and management have undertaken a number of activities in this regard during the year, many of which are detailed in this Annual Report and Accounts. Following my appointment as Chairman, I took the opportunity to meet a number of our major shareholders to gain an understanding of their perspectives on our business enabling these to be reflected in our decision making.

The Board receives regular reports on investor relations activities and, in particular, on shareholder sentiment and feedback. The Board continues to believe that ongoing engagement with shareholders and other stakeholders is vital to ensuring their views and perspectives are fully understood and taken into consideration. This will remain a key focus for the Board. At the Company's forthcoming Annual General Meeting, all Directors who are able to attend will be available, as usual, to meet with shareholders after the meeting to discuss any issues they may have. I encourage as many shareholders as possible to attend the Annual General Meeting on 19 July 2016.

Wolfhart Hauser
Chairman

Key achievements during the year

- Following the appointment of Brian Wallace as a member of the Remuneration Committee, the Company fully met the requirements of the UK Corporate Governance Code, with the exception of the recommendation to put the external audit contract out to tender at least every ten years which is explained in the report from the Audit Committee
- Board developed a greater understanding of the Group's businesses through site visits and in depth presentations from divisional management
- The independent, externally facilitated Board evaluation concluded that the Board's performance had moved forward and it was performing to a higher standard than in the past
- Board further developed its understanding and approach to risk in setting the Company's strategy and managing its risks

Areas of focus going forwards

- To address the recommendations arising out of the internal Board evaluation
- To further develop the Board's understanding and approach to risk appetite
- To further review succession planning and talent management for the Board and senior management
- To ensure delivery of the transformation plans and develop the Group's strategy and business objectives

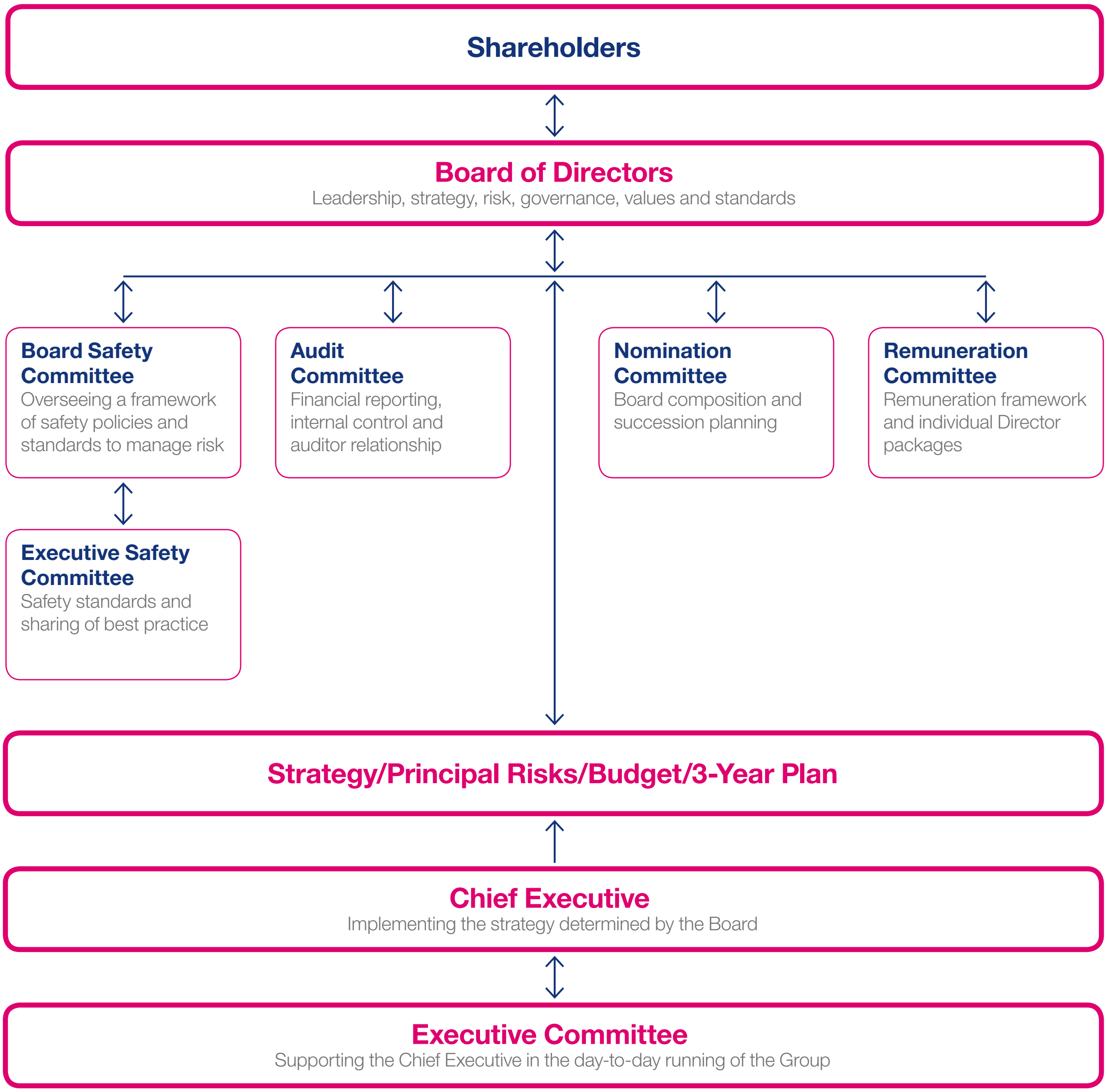
Index to section

Governance framework

The Annual Report and Accounts has been prepared in accordance with the UK Corporate Governance Code which was issued in September 2014 (the Code) by the Financial Reporting Council (the FRC) and is available to view at www.frc.org.uk. The Code applies to the Company's Annual Report and Accounts for the year ended 31 March 2016.

Code compliance

The Board confirms that throughout the year the Company has applied the main principles and complied with the provisions of the Code, with the exception of Code Provision C.3.7 which recommends that FTSE companies should put the external audit contract out to tender at least every ten years and the composition of the Remuneration Committee, which prior to 5 October 2015 comprised only two independent Non-Executive Directors. The Remuneration Committee dealt effectively and ably with the matters it was required to address during this period. Following the appointment of Brian Wallace as a member of the Remuneration Committee on 5 October 2015, the Committee fully complied with the requirements of the Code. The report from the Audit Committee explains the reasons why it has been decided not to undertake a tender of the external audit in the current year and confirms that a tender will be undertaken by no later than 2019. It is expected that Code Provision C.3.7 will be removed as part of revisions



Shareholders

Board of Directors
Leadership, strategy, risk, governance, values and standards

Board Safety Committee
Overseeing a framework of safety policies and standards to manage risk

Audit Committee
Financial reporting, internal control and auditor relationship

Nomination Committee
Board composition and succession planning

Remuneration Committee
Remuneration framework and individual Director packages

Executive Safety Committee
Safety standards and sharing of best practice

Strategy/Principal Risks/Budget/3-Year Plan

Chief Executive
Implementing the strategy determined by the Board

Executive Committee
Supporting the Chief Executive in the day-to-day running of the Group

being made to the Code later in the year, as it has been superseded by the EU and Competition and Markets Authority requirements for mandatory external audit tendering. This will enable the Company to report full compliance with the revised Code in future.

Leadership

The role of the Board

The Board is accountable to shareholders for managing the Company in a way which promotes the long term success of the Company for the benefit of the shareholders as a whole. The Board ensures that an appropriate balance between promoting long term growth and delivering short term objectives is achieved.

The Board provides entrepreneurial leadership of the Company within a framework of prudent and effective controls for risk assessment and management. The Board is primarily responsible for: determining strategic direction and demonstrating leadership; focusing on matters that consistently add value for shareholders of the Company both present and future; the governance and stewardship of the Group to provide protection and security for the shareholders' assets; the management of the Group's employees; setting the Group's culture, standards and values, and ensuring that its obligations to shareholders and other stakeholders are understood and met; and determining the nature and extent of the principal risks the Group is willing to take to achieve its strategic objectives. Another key responsibility of the Board is to ensure that management maintains a system of internal control that provides assurance of effective and efficient operations, internal financial controls and compliance with laws and regulations.

The Board is the decision-making body for all matters of such importance as to be significant to the Group as a whole because of their strategic, financial or reputational implications or consequences.

Specific key matters have been reserved for approval by the Board. These include approval of:

- the Group's strategy;
- risk appetite;
- major acquisitions, mergers or disposals;
- UK rail franchise bids;
- dealings with regulatory authorities on matters of significance;
- capital and liquidity matters;
- medium term plan and annual budget;
- Board and Committee membership; and
- financial results, viability statement and governance.

Board meetings and visits

The core activities of the Board are carried out in scheduled meetings of the Board and its Committees. Additional ad hoc meetings and conference calls of the Board and its Committees are arranged to consider matters which require decisions outside the scheduled meetings.

To ensure the Board sees the Group's operations in action, the Board normally holds at least three meetings each year at the Group's sites in the UK and North America. This provides senior management from across the Group with the opportunity to present to the Board and its Committees and to meet Board members informally. It also provides the Board with the opportunity to meet personally senior managers, to visit UK and North American sites and to review operational matters. For example, during the year the Board visited First Bus' depot in Glasgow, First Student's sites in New York and Greyhound's sites in Washington, DC, which included presentations from senior management on their businesses' performance, employees, opportunities, risks and strategy.

In order to carry out its work, the Board has established a planned programme of agendas to ensure all necessary matters are covered and to allow sufficient time for debate and challenge. The Board also takes time to review past decisions where necessary. At Board meetings, the Board receives and considers papers and presentations from management on relevant topics and senior executives are regularly invited to attend meetings for specific items. Effective review and decision-making is supported by providing the Board with high quality, accurate, clear and timely information including input from advisers where necessary.

Board meetings are structured around the following areas:

- divisional updates;
- strategy and transformation plans;
- financial and operational updates;

Board visit to First Bus' depot in Glasgow

In order to gain a more in-depth understanding of First Bus' operations and to see the business in action, the Board visited First Bus' depot in Glasgow in January 2016.

Directors toured the depot and met a number of employees as well as receiving a presentation from First Bus senior management on the performance, risks, opportunities, customer propositions and strategic initiatives of the First Bus business.

- assessment of risks and how they should be managed and mitigated;
- other reporting items for approval, including UK rail franchise bids; and
- feedback from Committees.

Division of responsibilities

The Board has agreed a clear division of responsibilities between the Chairman and the Chief Executive. The roles of the Chairman, Chief Executive and other Directors are clearly defined so that no single individual has unrestricted powers of decision.

Roles and responsibilities

Chairman – Wolfhart Hauser

- establishes the Group's values and standards and sets the tone from the top;
- promotes the interests of the Company with special regard to Group planning and development to secure the Group's future and sustainable success;
- promotes the Board, ensuring it functions efficiently and in conformity with the highest standards of corporate governance;
- ensures Board meetings are effective and open and constructive debate is promoted, the views of all Directors are taken into account and adequate time is available for discussion on all agenda items;
- ensures that shareholders and the Board receive accurate, timely, clear and high quality information;
- chairs the Nomination Committee;
- ensures effective induction and development of Directors;
- ensures the performance of the Board, its Committees and individual Directors is formally evaluated annually, with an externally facilitated evaluation performed at least every three years;
- facilitates effective and constructive relationships and communications between Non-Executive Directors and Executive Directors and senior management;
- ensures effective communication with shareholders and other stakeholders, and that their views are understood by the Board; and
- provides an appropriate balance of support and challenge to the Chief Executive in order to maintain an effective working relationship.

Chief Executive – Tim O'Toole

- promotes the creation and maintenance of a safe working environment and a safety-focused culture across the Group;
- leads the management team in the day-to-day running of the Group's business, including chairing meetings of the Executive Committee;
- develops the Group's business objectives and strategy having regard to the Group's responsibilities to its shareholders, customers, employees and other stakeholders;
- ensures the business of the Group is conducted, and results are delivered, in the right way;
- establishes and maintains an organisational structure that enables the Group's strategy to be implemented effectively;
- leads communication with shareholders;
- ensures at all times that the Group conducts its business in accordance with the legal requirements of the countries in which it operates and the Company's standards, if higher;
- establishes a strong senior management team which has the knowledge, skills, attitude and motivation to achieve the Group's business objectives and strategy, and with appropriate succession planning to ensure that this continues in the future;
- develops and maintains an effective framework of internal controls and risk management; and
- ensures the Board is kept appraised in a timely manner of the issues facing the Group and of events and developments as they arise.

Senior Independent Director – Drummond Hall

- acts as a point of contact for shareholders and other stakeholders to discuss matters of concern which would not be appropriate through the normal channels of communication with the Chairman, Chief Executive or Chief Financial Officer. No such matters of concern were raised by shareholders or stakeholders during the year ended 31 March 2016;
- acts as a sounding board for the Chairman and serves as an intermediary for the other Directors when necessary;
- meets with the Non-Executive Directors (without the Chairman being present) at least annually and leads the Board in the ongoing monitoring and annual performance evaluation of the Chairman; and
- deputises for the Chairman, as necessary.

Non-Executive Directors

The Non-Executive Directors provide a strong independent element to the Board and a solid foundation for good corporate governance. Although all Directors are equally accountable under the law for the stewardship of the Company's affairs, the Non-Executive Directors fulfil a vital role in corporate accountability. They have responsibility for constructively challenging the strategies proposed by the Executive Directors, scrutinising the performance of management in achieving agreed goals and objectives, as well as playing a leading role in the functioning of the main Board Committees. Between them, the current Non-Executive Directors have the appropriate balance of skills, experience, knowledge and independent judgement gained through experience in a variety of business sectors. See pages 48 and 49 for a description of the skills and experience of each Non-Executive Director.

Board Committees

The four principal Committees of the Board are: Audit; Board Safety; Nomination; and Remuneration. Board Committee members are appointed by the Board upon the recommendation of the Nomination Committee, which reviews the composition of each Committee regularly. The Committee memberships are spread between the Non-Executive Directors, drawing on each of their relevant skills and experience.

Committee members are expected to attend each Committee meeting, unless there are exceptional circumstances which prevent them from doing so. Only members of the Committees are entitled to attend their meetings, but others may attend at the Committee's discretion.

The terms of reference of each Committee are available to view on the Company's website (www.firstgroupplc.com) and on request from the Company Secretary at the Company's registered office. The terms of reference are normally reviewed annually.

Board Committee membership

The current membership of the Board's Committees is shown in the table below:

Director	Audit Committee	Board Safety Committee	Nomination Committee	Remuneration Committee
Wolfhart Hauser	–	–	C	–
Tim O'Toole	–	–	–	–
Matthew Gregory	–	–	–	–
Mick Barker	–	M	–	–
Warwick Brady	M	–	–	–
Drummond Hall	–	–	M	M
Brian Wallace	C	–	M	M
Imelda Walsh	–	M	M	C
Jim Winestock	M	C	M	–

C: Chair of Committee

M: Member of Committee

Effectiveness

Board balance

Effective management and good stewardship of the Group are led by the Board. The Board is currently comprised of the Chairman, two Executive Directors and six Non-Executive Directors. The balance of Directors on the Board ensures that no individual or small group of Directors can dominate the decision-making process and that the interests of the minority shareholders are protected. Biographies of all current Directors are set out on pages 48 and 49. John McFarlane stood down from the Chairmanship and Board at the conclusion of the 2015 Annual General Meeting on 16 July 2015 and was succeeded by Wolfhart Hauser. Chris Surch retired from the Board and was replaced by Matthew Gregory as Chief Financial Officer on 1 December 2015.

Board composition

— Chairman	1
— Executive Directors	2
— Independent Non-Executive Directors	5
— Non-Independent Non-Executive Director	1

Length of tenure

— 0-2 years	5
— 2-4 years	2
— 4-6 years	2

Board independence

It is the Company's policy that at least half the Board should be independent Non-Executive Directors. The Board carries out a review of the independence of its Directors on an annual basis. Other than Mick Barker, the Board considers each of its current Non-Executive Directors to be independent in character and judgement. In reaching its determination of independence, the Board has concluded that each provides objective challenge to management, is willing to stand up and defend his or her own beliefs and viewpoints in order to support the ultimate good of the Company and there are no business or other relationships likely to affect, or which could appear to affect, the judgement of Warwick Brady, Drummond Hall, Brian Wallace, Imelda Walsh or Jim Winestock. Mick Barker, the Group Employee Director, is not considered by the Board to be independent as he is an employee of one of the Group's subsidiaries. The Board considers, however, that it is extremely beneficial for its employees to be represented on the Board in this way as it enables employee-related issues to be raised directly at the Board and provides a two-way communication between the Board and employees. The Group Employee Director is elected by the Employee Directors' forum, which comprises the Employee Directors of the Company's UK subsidiaries, and serves a maximum of three, three-year terms.

Commitment

All Directors are expected to attend each Board meeting and each Committee meeting for which they are members, save for in exceptional circumstances. To help enable this, scheduled Board and Committee meetings are arranged at least a year in advance to allow Directors to manage other commitments. If a Director is unable to attend a meeting because of exceptional circumstances, he or she still receives the papers and other relevant information in advance of the meeting and has the opportunity to discuss with the relevant Chair or the Company Secretary any matters he or she wishes to raise and to follow up on the decisions taken at the meeting. The Chairman, Chief Executive and Company Secretary are always available to discuss issues relating to meetings or other matters with the Directors. Reasons for non-attendance are generally prior business and personal commitments or illness.

The Board is satisfied that each of the Non-Executive Directors is able to devote sufficient time to the Company's business. Non-Executive Directors are advised on appointment of the time required to fulfil the role and are asked to confirm that they can make the required commitment.

The attendance of Directors at scheduled Board meetings, which they were eligible to attend, and the number of meetings attended in the year ended 31 March 2016 is shown below:

Director	Number of scheduled Board meetings eligible to attend	Number of scheduled Board meetings attended
Chairman		
Wolfhart Hauser[1]	6	6
John McFarlane[2]	2	2
Executive Directors		
Tim O'Toole	6	6
Matthew Gregory[3]	2	2
Chris Surch[4]	4	4
Non-Executive Directors		
Mick Barker	6	6
Warwick Brady[5]	6	5
Drummond Hall	6	6
Brian Wallace	6	6
Imelda Walsh	6	6
Jim Winestock	6	6

[1] Wolfhart Hauser was appointed a Non-Executive Director on 18 May 2015 and became Chairman on 16 July 2015.

[2] John McFarlane stood down as Chairman and from the Board on 16 July 2015.

[3] Matthew Gregory was appointed to the Board on 1 December 2015.

[4] Chris Surch stood down from the Board on 1 December 2015.

[5] Warwick Brady was unable to attend one meeting due to an unavoidable prior business commitment.

During the year, the Chairman held a number of meetings with Non-Executive Directors without Executive Directors being present. The Senior Independent Director also led the Non-Executive Directors in evaluating the performance of the Chairman, with the Chairman showing effectiveness in leadership.

Development

On appointment, all new Directors receive a comprehensive and structured induction, tailored to their individual requirements. The induction programme, which is arranged by the Company Secretary, includes visits to the Group's businesses and meetings with senior managers and advisers, as appropriate. The programme is designed to facilitate their understanding of the Group, the key drivers of business performance, the role of the Board and its Committees, the Company's corporate governance practices and procedures, as well as providing them with appropriate training and guidance as to their duties, responsibilities and liabilities as a director of a public limited company.

To assist Directors in the performance of their duties, there are procedures in place to provide them with appropriate and timely information, including receiving information between meetings regarding Group business developments and financial performance. This enables the Directors to discharge their duties on strategic, financial, operational, compliance and governance issues effectively.

Where appropriate, additional training and updates on particular issues are provided. During the year the Board received briefings on cyber security, insider dealing and the Company's approach to compliance with the requirements of the UK Corporate Governance Code to make a long term viability statement in its Annual Report and Accounts.

All Directors are provided with the opportunity for, and encouraged to attend, training to ensure they are kept up to date on relevant legal, regulatory and financial developments or changes in best practice. Typical training for Directors includes attendance at seminars, forums, conferences and working groups as well as receiving updates from relevant bodies on various legal, regulatory and corporate governance matters.

To ensure the Board as a whole remains fully informed of the views of shareholders, the Board receives regular reports on shareholder sentiment at Board meetings.

Although not part of their induction programme, all Non-Executive Directors can attend shareholder meetings and analyst presentations, and shareholders may meet informally with Directors at the Annual General Meeting.

Information and support

The Company Secretary, through the Chairman, is responsible for advising the Board on all governance matters and for ensuring that Board procedures are followed, applicable rules and regulations are complied with and that due account is taken of relevant codes of best practice. The Company Secretary is also responsible for ensuring communication flows between the Board and its Committees, and between senior management and Non-Executive Directors. All Directors have access to the advice of the Company Secretary and, in appropriate circumstances, may obtain independent professional advice at the Company's expense. The appointment and removal of the Company Secretary is a matter reserved for the Board as a whole.

All Directors receive detailed papers and other relevant information on the business to be conducted at each Board or Committee meeting well in advance and all Directors have direct access to senior management should they wish to receive additional information on any of the items for discussion. The head of each division attends Board meetings on a regular basis to ensure that the Board is properly informed about the performance of that division and any issues that it faces. Directors are provided between meetings with relevant information on matters affecting the business. Such updates were carried out by a variety of methods, including conference calls amongst the full Board or between the Chairman and/or the Chief Executive and the Non-Executive Directors, and by way of the Company Secretary circulating monthly financial and operational reports as well as papers and updates on relevant issues.

Throughout the year a fully encrypted electronic portal system was operated, which enabled the Board and Committee papers to be delivered securely to the Directors. This enables a faster and more secure distribution of information, accessed using electronic tablets, and reduced resource usage.

The Company Secretary is Robert Welch, who joined the Group in 2014. Robert Welch is secretary to all of the Board Committees, except the Audit Committee and Board Safety Committee. The secretary to the Audit Committee and Board Safety Committee is Bimbola Odumosu, Deputy Company Secretary.

Conflicts of interest

The Directors have a statutory duty under the Companies Act 2006 to avoid situations in which they have or can have a direct or indirect interest that conflicts or may conflict with the interests of the Company. This duty is in addition to the existing duty that a Director owes to the Company to disclose to the Board any transaction or arrangement under consideration by the Company. The Company's conflict of interest procedures are reflected in the Articles of Association. In line with that Act, the Company's Articles of Association allow the Directors to authorise conflicts and potential conflicts of interest where appropriate. The decision to authorise a conflict can only be made by non-conflicted Directors. Directors do not participate in decisions concerning their own remuneration or interests.

The Company Secretary minutes the consideration of any conflict or potential conflict of interest and authorisations granted by the Board. On an ongoing basis, the Directors inform the Company Secretary of any new, actual or potential conflict of interest that may arise or if there are any changes in circumstances that may affect an authorisation previously given. Even when authorisation is given, a Director is not absolved from his or her duty to promote the success of the Company.

Furthermore, the Company's Articles of Association include provisions relating to confidential information, attendance at Board meetings and availability of Board papers to protect a Director from breaching his or her duty if a conflict of interest arises. These provisions will only apply where the circumstance giving rise to the potential conflict of interest has previously been authorised by the Directors.

Performance evaluation

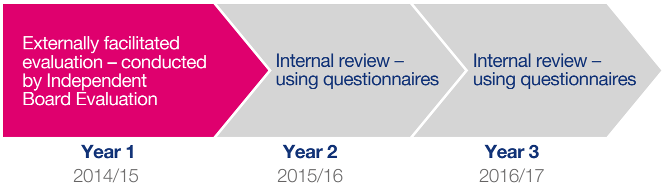
The Board undertakes regular evaluations of its own performance as well as that of its Committees providing an opportunity to consider ways of identifying greater efficiencies, maximising strengths and highlighting areas for further development.

Following an external review in 2015 by Independent Board Evaluation, who has no connection to the Group, the Board conducted an internal review in 2016 led by the Chairman with the support of the Company Secretary. The 2016 evaluation was carefully structured but pragmatic, designed to bring about a genuine debate on issues that were relevant, check on progress against matters identified in the previous evaluation and assist in identifying any potential for improvement in the Company's processes. It entailed completion of a detailed questionnaire to assess the effectiveness of the Board, its Committee and individual Directors and the preparation of a composite report. The questionnaire focused on the operation of the Board and its Committees, key areas of Board focus, composition and capability, risk management and internal control, leadership and accountability, and effectiveness of Board meetings and visits. The results of the performance evaluation were presented and discussed at the June 2016 Board meeting and therefore will be disclosed in next year's Annual Report and Accounts.

As set out in last year's Annual Report and Accounts, an external Board performance evaluation process was undertaken in 2015. The results of the Board performance evaluation report were presented at the June 2015 Board meeting and it was concluded that the dynamics, culture and effectiveness of the Board were improving and that the individual members of the Board remained effective in their ability to discharge their duties and responsibilities. Each Director continued to make a valuable contribution whilst demonstrating commitment to their role. The main areas identified for improvement and corresponding actions taken during 2015/16 were as follows:

Area identified	Action taken
Greater focus on longer term issues, such as strategy and succession planning *Responsibility: Chairman*	A Group strategy session was held in September 2015 and presentations on the strategies of the divisions were reviewed by the Board throughout the year. A detailed review of succession planning for Executive Directors and senior executives was conducted in 2016 identifying the skills, attributes, development needs and potential of key employees, with the results to be presented at the July 2016 Board meeting. The Nomination Committee reviewed succession planning arrangements for the Non-Executive Directors.
Greater alignment between the Board and its Committees *Responsibility: Chairman and Chairs of Committees*	Full and detailed presentations are made to the Board by the Committee Chair following each Committee meeting. Committee papers are normally made available to all Directors and not just those Directors on the Committee. Those Directors who are not a member of a Committee may attend Committee meetings at the discretion of the Committee. A number of Directors attended such Committee meetings during the year.
Team building *Responsibility: Chairman*	During the year, three meetings were held at Group sites in the UK and US providing an opportunity for professional and social interaction, and to forge closer ties. These visits were supplemented by Board dinners.

As shown in the diagram below, the Board is in the third year of its three year evaluation cycle, with the next externally facilitated evaluation forecast to take place in 2017/18.



Election and re-election of Directors

Directors newly appointed by the Board are required to submit themselves for election by shareholders at the Annual General Meeting following their appointment. Matthew Gregory having been appointed as a Director on 1 December 2015, will retire and submit himself for election at the forthcoming Annual General Meeting. In accordance with best practice and the Code, all other Directors will submit themselves for re-election at the forthcoming Annual General Meeting.

UK Bribery Act

There is increasing public and legislative scrutiny of ethics in business and 'doing the right thing' forms a central part of FirstGroup's values. In line with these values, the Group has a zero tolerance approach to bribery and corruption, which extends to all business dealings and transactions in which it is involved, regardless of location or sector. The anti-bribery policy, which applies to individuals across the Group, sets

A tailored induction programme

A tailored induction programme was designed for Wolfhart Hauser following his appointment to the Board to provide a greater understanding of FirstGroup and its businesses. This included:

- meetings with the executive team on key areas of the Group, including internal audit and risk management;
- meeting with the Company Secretary on governance;
- site visits to each division, including meetings with management as well as travelling on local trains, coaches and buses; and
- meetings with investors and advisers, including at the 2015 Annual General Meeting.

out clear and mandatory rules covering areas such as corporate gifts and hospitality, facilitation payments, breach reporting, risk assessments and training.

To help the Group meet the highest standards of integrity and professionalism in all its activities, each business unit and Group function is required to complete annual risk assessments in relation to anti-bribery and fraud. The Group has also a 24/7 global confidential reporting hotline for employees to report any concerns, including those relating to bribery or corruption.

During the year, the Group has continued to ensure that new employees whose role and/or seniority puts them at risk, and existing employees who switch roles, receive anti-bribery training. The anti-bribery steering committee, which includes senior representatives from across the Group, has reviewed the Group policy and recommended a number of improvements. Following approval by the Board, the revised policy will be formally implemented in 2016/17.

Modern Slavery Act 2015

The Board recognises the importance of the provisions of the Modern Slavery Act 2015 and the Directors aim to ensure that slavery and human trafficking have no part in the Group's supply chain. The Group has always been vigilant about employee welfare and aims to be transparent in its practices. The Group will develop and publish on the Group website www.firstgroupplc.com an appropriate transparency statement during the course of 2016/17. Further details on the Group's approach to human rights is set out on page 25.

Accountability

The Board is responsible for promoting the long term success of the Company for the benefit of shareholders and other stakeholders. This includes ensuring that an appropriate system of governance is in place throughout the Group. To discharge this responsibility, the Board has established a framework for risk management and internal control which identifies, evaluates and manages the principal risks associated with the Group's achievement of its business objectives, with a view to safeguarding the shareholders' investment and the Group's assets.

The Board considers the Annual Report and Accounts, taken as a whole, to be fair, balanced and understandable and provides the necessary information required for shareholders to assess the Company's position and performance, business model and strategy, and that the business continues to operate as a going concern. The co-ordination and review of the Annual Report and Accounts follows a well established and documented process, which is conducted in parallel with the formal audit process undertaken by the external auditor and the review by the Board and its Committees (of relevant sections).

Internal control

The Board is responsible for determining the nature and extent of any significant risks the Group is willing to take in order to achieve its strategic objectives and for maintaining sound risk management and internal control systems to ensure that an appropriate culture is embedded throughout the Group. The Board has established a Group-wide system of risk management and internal control which identifies and enables management and the Board to evaluate and manage the Group's principal risks with a view to safeguarding the Group's stakeholders. This system is bespoke to the Company's particular needs and the risks to which it is exposed and is designed to manage rather than eliminate risk. Owing to the limitations inherent in any system of internal control, this system provides robust, but not absolute, assurance against material misstatement or loss. The effectiveness of the Group's system of internal control is regularly reviewed by the Board.

The Board confirms that throughout the year ended 31 March 2016 and up to the date of approval of this Annual Report and Accounts, there have been rigorous processes in place to identify, evaluate and manage the principal risks faced by the Group, including those that would threaten its business model, future performance, solvency or liquidity in accordance with the Guidance on Risk Management and Internal Control published by the FRC.

To assist in the identification and management of the Group's principal risks, the Board has established a risk management framework, developed a system of regular reports from management and reserved specific key matters for its decision. The Board has authorised the Audit Committee to oversee the risk management framework and the effectiveness of the Group's financial reporting, internal control and assurance systems. Twice a year the Board is presented with an update for its robust assessment on the principal risks facing the Group together with a risk map, highlighting any changes made since the previous update and the reasons for any changes. Each Committee that reports regularly to the Board provides an update on the status of risks considered within its remit. Bi-annually, the Group's risk management framework is robustly reviewed by the Audit Committee, together with the process for identifying and assessing risks and a detailed analysis of the risks identified in the previous six months.

The Board has adopted a risk-based approach in establishing the Group's system of internal control and in reviewing its effectiveness. To assist in the identification and management of key risks, the Board has:

- established a number of Group-wide procedures, policies and standards;
- set up a framework for reporting matters of significance;
- authorised the Audit Committee to review the Group's approach to risk management and the effectiveness of the Group's financial reporting, internal control and assurance systems;
- authorised the Board Safety Committee to oversee the Group's framework of safety policies and procedures to manage risk;
- developed a system of regular reports from management; and
- reserved specific key matters for its decision.

The process is designed to provide assurance by way of cumulative assessment.

Key elements of the Group's system of internal control which have operated throughout the year are:

- a clearly defined organisation structure with established responsibilities;
- a focused business strategy, thus restricting potential risk exposures;
- Group financial, treasury, operating, compliance and administrative policies and procedures which incorporate statements of required behaviour. During the year, a treasury committee was established to enhance the governance of treasury activities within Board approved policies and procedures;
- ongoing review of safety, operating and financial performance of the Group's businesses;
- regular reports to the Board, Board Safety Committee and Executive Safety Committee on safety matters;
- monitoring by the Board of a comprehensive reporting system, including monthly results, periodic short term forecasts, annual budgets and a medium term business plan;
- well defined procedures for the assessment, approval, control and monitoring of major investments, with proposals being subject to rigorous strategic, financial and commercial examination;
- divisions identifying and reviewing their principal risks and controls for monitoring and managing risks, which are reviewed by senior executive management. The updated divisional and Group risk profiles, which are reviewed by the Chief Executive and Chief Financial Officer, are presented to the Executive Committee prior to being assessed by the Audit Committee;
- an established methodology for ranking the level of risk in each of its business operations and the principal risk issues associated therewith;
- implementation of appropriate strategies to deal with principal risks, including careful internal monitoring and ensuring external specialists are consulted where necessary;
- a centrally coordinated internal audit programme to verify that policies and internal control procedures are being correctly implemented and to identify any risks at an early stage;
- reviewing and monitoring the confidential reporting system to allow employees to raise concerns about possible legal, regulatory, financial reporting or any other improprieties;
- regular reports to the Audit Committee on the adequacy and effectiveness of internal controls; and
- a remuneration policy for executives which motivates them, without delivering excessive benefits or encouraging excessive risk-taking.

Reviews of internal controls within operating units by internal audit have sometimes highlighted control weaknesses, which are discussed with management, and where appropriate, the Audit Committee, and remedial action plans are agreed. Where appropriate, action plans are monitored by internal audit and, in some cases, follow up visits to the operating entity are conducted until such time as the controls that have been put in place are working effectively. No material losses, contingencies or uncertainties that would require disclosure in the Annual Report and Accounts have been identified during the year by this process.

The Board, in conjunction with management, continually reviews and develops the internal control environment. No significant internal control failings were identified during the year. Where any gaps are identified, processes are put in place to address them and these are continually monitored.

The Group's approach to risk management and how it profiles the risks identified is set out on page 36.

Financial and business reporting

In its reporting to shareholders the Board recognises its responsibility to present a fair, balanced and understandable assessment of the Group's position and prospects. This responsibility encompasses all published information including, but not limited to: the year-end and half-yearly financial statements; regulatory news announcements; and other public information.

The quality of the Company's reporting is ensured by having in place procedures for the review of information by management. There are also strict procedures determining who has authority to release information. A statement of the Directors' responsibilities for preparing the financial statements can be found on page 104.

The Group adopts a financial reporting and information system which complies with generally accepted accounting practice. A Group Finance Manual details the Group's accounting policies and procedures with which subsidiaries must comply. Budgets are prepared by subsidiary company management which are then consolidated into divisional budgets. These are subject to review by both senior management and the Executive Directors followed by formal approval by the Board. Regular forecast updates are completed during the year and compared against actions required. Each subsidiary unit prepares a monthly report of operating performance with a commentary on variances against budget and the prior year, which is reviewed by senior management. Similar reports are prepared at a Group level. Key performance indicators, both financial and operational, are monitored on a weekly basis. In addition, business units participate in strategic reviews, which include consideration of long term financial projections and the evaluation of business alternatives.

Treasury operations

The Board has set a policy for the management of the risks from treasury operations and this is set out in more detail in note 24 to the consolidated financial statements. A Group Treasury Policy has been formulated and adopted to ensure compliance with best practice and to control and monitor effectively the risks attendant upon treasury and banking operations. In addition, a treasury committee approves decisions regarding fuel, foreign exchange and other matters reserved for its decision as set out in the Group Treasury Policy.

Internal audit

Internal audit advises management on the extent to which systems of internal control are adequate and effective to manage business risk, safeguard the Group's resources, and ensure compliance with the Group's policies and legal and regulatory requirements as well as advising on ways in which areas of risk can be addressed. It provides objective assurance on risk and controls to senior management, the Audit Committee and the Board. Internal audit's work is focused on the Group's principal risks. The mandate and programme of work of the internal audit department is considered and approved by the Audit Committee. Based on the approved internal audit plan, a number of internal audits took place across the Group's divisions to facilitate improvement of the Group's internal controls and findings were reported to relevant operational management and to the Audit Committee. Internal audit follows up on the implementation of recommendations and reports on progress to senior management and to the Audit Committee.

The Group Director of Internal Audit reports regularly to the Chair of the Audit Committee and attends each Audit Committee meeting to present the internal control findings from the internal audits performed. The Audit Committee reviews and discusses the effectiveness of internal audits on an annual basis with the Group Director of Internal Audit. This is done by the review of the internal audit plan of work for the year and monitoring progress against the plan and actions identified by internal audit. The Group Director of Internal Audit meets with the Audit Committee at least twice a year, without management present.

Relations with shareholders

The Board welcomes the opportunity to openly and purposefully engage with shareholders as it recognises the importance of a continuing effective dialogue, whether with institutional shareholders, private or employee shareholders. The Board takes responsibility for ensuring that such dialogue takes place. The Chief Executive and Chief Financial Officer are closely involved in investor relations, and the Corporate Services Director has day-to-day responsibility for such matters. Feedback from shareholders is provided at Board meetings.

The Executive Directors are available, through the Corporate Services Director, to discuss the concerns of major shareholders at any time during the year and the Chairman is available to discuss governance and strategy with major shareholders. The Senior Independent Director is available to discuss matters of concern which would not be appropriate through normal channels of communication, including issues relating to the Chairman's performance. Non-Executive Directors make themselves available to attend meetings with shareholders in order to develop an understanding of their views.

The Company responds as necessary to requests from individual shareholders on a wide range of issues. There is regular dialogue with key institutional shareholders, fund managers and sell-side analysts to discuss strategy, financial performance and investment activities throughout the Group. General presentations to shareholders and the wider financial community are made by the Executive Directors following the announcement of Q1 and Q3 trading updates and half and full-year results. In light of changes in regulatory requirements and market practice, and following discussions with a number of shareholders and other stakeholders, the Board decided to discontinue publishing 'pre-close' trading updates around the end of the March and September trading periods. Specific consultations have been carried out with leading shareholders during the year on the changes to the Long Term Incentive Plan and the Chairman also met with a number of major investors following his appointment in July 2015.

Investors are kept informed of key business activities, decisions, appointments and other key announcements on an ongoing basis via the regulatory news service and press releases. The Group's website (www.firstgroupplc.com) contains all of this information together with financial reports, presentations and other information on the Group's operations.

Annual General Meeting

The Notice of Annual General Meeting is circulated to all shareholders at least 20 working days prior to such meeting and it is Company policy not to combine resolutions. All shareholders are invited to attend the Annual General Meeting where there is an opportunity for individual shareholders to question the Chairman and, through him, the Chairs of the principal Board Committees. After the Annual General Meeting, shareholders can meet informally with the Directors.

At the 2015 Annual General Meeting, the Chairman provided a brief summary of the Company's activities for the previous year to shareholders and the Chief Executive provided a business update. All resolutions at the 2015 Annual General Meeting were voted on by way of a poll. The procedure for voting on a poll follows best practice and allows the Company to count all votes rather than just those of the shareholders attending the meeting.

As recommended by the Code, all resolutions proposed at the 2015 Annual General Meeting were voted separately and the voting results, which included all votes cast for, against and those withheld, together with all proxies lodged prior to the meeting, were announced to the London Stock Exchange and made available on the Company's website as soon as practicable after the meeting. As in previous years, the Form of Proxy clearly advised that a vote withheld is not a vote in law and is not used in calculating the votes for or against a resolution.

Nomination Committee

Dear fellow shareholder

I am pleased to present my first report as Chairman of the Nomination Committee. I succeeded John McFarlane as Chairman of the Nomination Committee on 16 July 2015, following my appointment as Chairman of the Board, and am looking forward to continuing his good work.

The Committee is primarily responsible for leading the process for Board appointments and for keeping under review the balance of skills, experience, independence, knowledge and diversity, including gender, on the Board to ensure the orderly evolution of the membership of the Board and its Committees. In identifying and nominating candidates for approval by the Board, the Committee continues to take account of the Board's aims in relation to diversity, whilst ensuring that the right people with the right range of skills and experience are on the Board and in senior management positions in the coming years.

We have seen further change on our Board composition this year. In June 2015 we announced that Chris Surch would be retiring from the Board and his position as Group Finance Director in December 2015. Following an extensive search process, I am pleased to welcome our new Chief Financial Officer, Matthew Gregory. We announced Matthew's appointment in August 2015 and he took up his post on 1 December 2015. In September 2015, we recommended to the Board the appointment of Brian Wallace as a member of the Remuneration Committee, ensuring its compliance with the Code.

In the coming year, we will continue to monitor the needs of the Board and its Committees, with the aim of ensuring the Group's succession planning policy is aligned to, and evolves to meet, the ongoing business objectives and strategic goals of the Group.

Wolfhart Hauser
Chair, Nomination Committee

Role and responsibilities

The key roles and responsibilities of the Committee are to:

- regularly review the structure, size and composition (including skills, experience, independence, knowledge and diversity, including gender) of the Board and make recommendations to the Board with regard to any changes;
- identify and nominate for Board approval, candidates to fill Board vacancies having regard to, amongst other things, the benefits of diversity including gender, as and when they arise;
- recommend to the Board suitable candidates for the role of Senior Independent Director, and membership of the Board Committees;
- ensure that the Company's Board and executive leadership skills are fully aligned to the Company's long term strategy;
- oversee succession planning for Directors and other senior executives, taking into account the challenges and opportunities facing the Company, and the skills and experience that will be needed on the Board in the future;
- ensure any appointees have sufficient time to undertake their role;
- recommend the re-appointment of any Non-Executive Director at the conclusion of their specified term of office having given regard to their length of tenure, performance and ability to continue to contribute to the Board in the light of the skills, experience, independence and knowledge required;
- recommend the re-election by shareholders of any Director in accordance with the provisions of the Code having due regard to his or her performance and ability to continue to contribute to the Board, taking into consideration the skills, experience and knowledge required and the need for progressive refreshing of the Board; and
- report formally to the Board on how the Committee has discharged its responsibilities.

When considering the recruitment of a new Director, the Committee adopts a formal, rigorous and transparent procedure with due regard to diversity, including gender. Prior to making an appointment, the Committee will evaluate the balance of skills, knowledge, independence, experience and diversity on the Board and, in light of this evaluation, will prepare a full description of the role and capabilities required. In identifying suitable candidates, the Committee:

- uses open advertising or the services of external advisers to facilitate the search;
- considers candidates from different genders and a wide range of backgrounds;
- considers candidates on merit and against objective criteria ensuring that appointees have sufficient time to devote to the position, in light of other potential significant positions; and
- engages from time-to-time with the Group's major shareholders on future skills requirements and ideas for potential candidates.

Where the Committee appoints external advisers to facilitate the search, it ensures that the firm selected has signed up to the relevant industry codes (for example, on diversity) and has no connection with the Company.

The full terms of reference of the Committee can be found on the Company's website (www.firstgroupplc.com).

Membership and meetings

The current members of the Committee are:
Wolfhart Hauser, Chair
Drummond Hall
Brian Wallace
Imelda Walsh
Jim Winestock

The Committee is chaired by the Chairman of the Board and the members of the Committee are independent Non-Executive Directors, in accordance with the provisions of the Code. If a matter were to concern the Chairman, then he would leave the meeting and Drummond Hall, as Senior Independent Director, would instead take the Chair.

The Chief Executive attends meetings of the Committee at the invitation of the Committee. The Group Employee Director also attends meetings at the invitation of the Committee to represent the Group's employees.

Members of the Committee took no part in any discussions concerning their own membership of the Board or appointment as a Chair of a Committee, but were involved in the recommendations on Committee membership changes.

Committee attendance

The table below shows the Committee members during 2015/16 and their attendance at Committee meetings:

Committee member	Number of scheduled Committee meetings eligible to attend	Number of scheduled Committee meetings attended
Wolfhart Hauser, Chair	3	3
Drummond Hall	3	3
Brian Wallace	3	3
Imelda Walsh	3	3
Jim Winestock	3	3

[1] Wolfhart Hauser was appointed Chairman of the Committee on 16 July 2015, following the stepping down both as Chairman of the Board and the Committee of John McFarlane. Between 1 April 2015 and 16 July 2015 there were no meetings of the Committee.

Nomination Committee performance evaluation

As part of the Board's annual performance review, an assessment of the Committee's performance was commenced in 2016, in respect of the year ended 31 March 2016. The results of the performance assessment were presented and discussed at the June 2016 Board meeting and therefore will be disclosed in next year's Annual Report and Accounts. Details of the 2015 performance evaluation are set out on page 57.

Activities in 2015/16

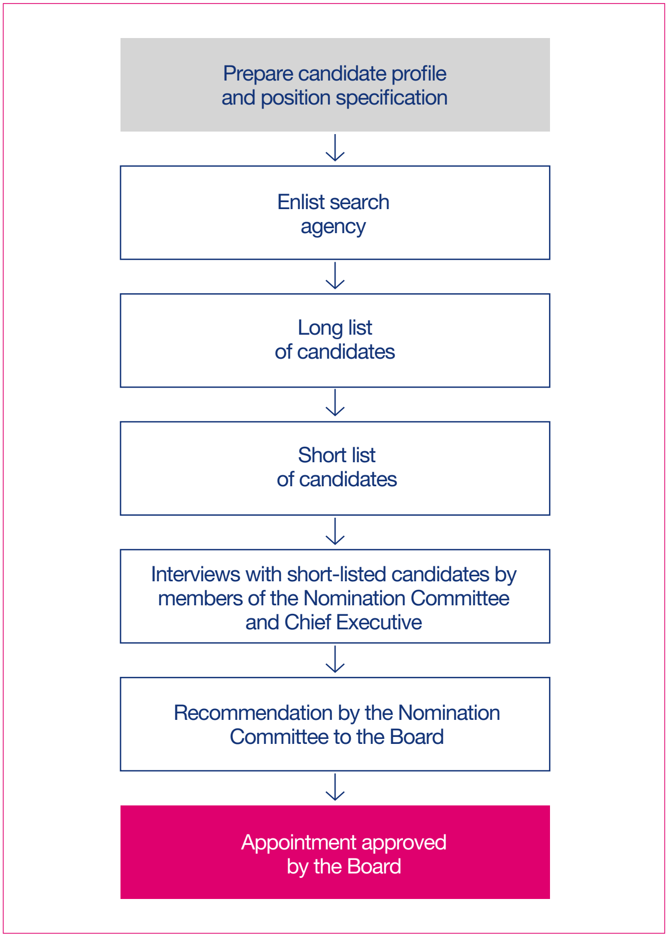
At its meetings in 2015/16, the Committee considered, amongst other matters, the following:

- selecting and recommending to the Board the appointment of a new Chief Financial Officer;
- selecting and recommending to the Board the appointment of Brian Wallace as a new member of the Remuneration Committee;
- reviewing the composition of the Board and its Committees;
- succession planning for the Non-Executive Directors and, in so doing, considering the tenure, mix and diversity of skills and experience of existing Board members and those of prospective Board members in the context of the Group strategy, and
- reviewed the results of the performance evaluation of the Committee.

Recruitment of Chief Financial Officer

Following the announcement on 10 June 2015 that Chris Surch would be stepping down from the Board and as Group Finance Director in December 2015, the Committee commenced the process for the appointment of a successor. A comprehensive and rigorous search process was put in place with a candidate profile and position specification. Spencer Stuart, an external search consultancy who has no other connection with the Company, was engaged to assist with the selection process and conducted a search to identify suitable, qualified candidates. A number of interviews and meetings were held with shortlisted candidates. Matthew Gregory was then recommended to the Board for approval by the Committee as he fully met the criteria required.

Key stages of the recruitment process are set out below:



Diversity

The Company takes account of diversity when recruiting, including when it considers Board appointments, and will continue to do so in the future. All appointments to the Board are made on merit and relevant experience, against the criteria identified by the Committee, having regard to the benefits of diversity, including gender.

The Board consists of Directors with a wide range of skills and business experience drawn from a number of industries, which is vital for bringing both the expertise required and to enable different perspectives to be brought to Board and Committee discussions. Furthermore, the Board comprises a range of nationalities, which bring cultural diversity as well as different geographical experiences and viewpoints. The combination of these factors means that the Board benefits from a diverse range of competencies, perspectives and thoughts, which provides a dynamic environment for decision making.

Whilst the Board is currently below its target of 25% female representation at 11%, it remains committed to achieving that goal as soon as practicable.

The Board recognises the need to create the conditions that foster talent and encourage more women to achieve their full potential in their careers in the Group. As part of an overall approach to human resource management a framework has been developed which includes an Equality, Diversity and Inclusion Policy as well as practical training materials and support for line managers to promote its communication across the Group. Further details on the Group's approach to diversity are set out in the Our people section on pages 20 and 21.

Audit Committee

Dear fellow shareholder

As Chairman of the Audit Committee, I am pleased to present the report of the Audit Committee for the year ended 31 March 2016.

The Committee welcomes the changes to the revised UK Corporate Governance Code and the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting published in September 2014. These changes apply to the Group for the first time this year and have been areas of focus for the Committee. We took the opportunity of these changes to review the Group's risk management methodology and considered the process through which the Company would make its long term viability statement in the Annual Report and Accounts.

During the year the Committee has continued to devote significant time to reviewing the integrity of the Group's financial statements, including the significant financial reporting judgements, as well as reviewing internal controls, and the effectiveness of both internal and external audit. In addition to these core responsibilities, the Committee spent further time considering its approach to external tendering and this is set out in further detail in this report, and undertook in depth reviews of First Rail accounting processes and the Insurance function.

In my role as Chair of the Committee I meet and communicate regularly with our external auditor, Deloitte, outside the normal meeting schedule and with various senior managers to further understand the way in which the Group operates, the risks it faces and its internal control framework. These discussions, which are reported to the Committee, help shape thought processes and decision making, and promote a more rounded view of the Group.

Brian Wallace
Chair, Audit Committee

Role and responsibilities

The Committee acts independently of management to ensure that the interests of shareholders are properly protected in relation to financial reporting, the effectiveness of the Group's system of internal control and risk management, and in maintaining an appropriate relationship with the external auditor. The key responsibilities of the Committee are to:

- monitor and challenge, where necessary, the integrity of the financial statements of the annual and half-yearly results relating to financial performance, including a review of the financial reporting judgements which they contain and the methodology and assumptions used in relation to them;
- review and challenge, where necessary, the actions and judgements of management taking into account the views of the external auditor, in relation to the Company's financial statements, strategic report, financial review, corporate governance statement (insofar as it relates to audit and risk management), half-yearly reports and preliminary announcements, including the going concern assumption;
- review the Company's internal controls, including financial controls and risk management systems;
- approve the internal audit plan and monitor the role and effectiveness of the internal audit function;
- oversee the Company's relationship with the external auditor, including the monitoring of its independence and expertise, the terms of reference of its engagement and fees, and assessing the effectiveness of the audit process with due regard to relevant UK professional and regulatory requirements;
- agreeing the scope of the external auditor's annual audit plan and the output;
- review and amend as necessary the policy on the provision of non-audit services by the external auditor with due regard to ethical guidance;
- consider and make recommendations to the Board in respect of the appointment, re-appointment, dismissal or resignation of the external auditor;
- review annually the Committee's own performance and terms of reference; and
- report formally to the Board on how the Committee has discharged its responsibilities.

The full terms of reference of the Committee can be found on the Company's website (www.firstgroupplc.com).

Membership and meetings

The current members of the Committee are:
Brian Wallace, Chair
Warwick Brady
Jim Winestock

Brian Wallace has recent and relevant financial experience for the purposes of the Code, being a chartered accountant and having held a number of senior finance roles. The other Committee members have significant current or recent executive experience in the transport and distribution industries. This range and depth of financial and commercial experience enables the Committee to deal effectively with the matters it is required to address and to challenge management when necessary. The Chief Executive, Chief Financial Officer, Group Employee Director, Company Secretary, Director of Finance, Group Director of Internal Audit and the external auditor are normally invited to attend Committee meetings. In addition, the heads of Group functions are invited to present to the Committee.

At the end of each meeting the Committee normally meets with the external auditor and twice a year with the Group Director of Internal Audit, without management present, to discuss any matters relating to their remit and any matters arising from external and internal audits.

Committee attendance

The table below shows the Committee members during 2015/16 and their attendance at Committee meetings:

Committee member	Number of scheduled Committee meetings eligible to attend	Number of scheduled Committee meetings attended
Brian Wallace, Chair	4	4
Warwick Brady	4	4
Jim Winestock	4	4

Audit Committee performance evaluation

As part of the Board's annual performance review, an assessment of the Committee's performance was undertaken in 2016 in respect of the year ended 31 March 2016. The results of the performance assessment were presented and discussed at the June 2016 Board meeting and therefore will be disclosed in next year's Annual Report and Accounts. Details of the 2015 performance evaluation are set out on page 57.

Activities in 2015/16

At its meetings in 2015/16, the Committee considered and discharged its responsibilities on the following matters:

Financial Reporting

- reviewed the Group's full-year and half-yearly results, and considered the significant accounting policies, principal estimates and accounting judgements used in their preparation and the transparency and clarity of disclosures within them, and compliance with financial reporting standards and governance;
- reviewed the matters which informed the Board's assessment that it was appropriate to prepare accounts on a going concern basis;
- reviewed the process for assessing the long term viability of the Company;
- received reports from management and the external auditor on accounting, financial reporting regulation and taxation issues;
- reviewed reports from the external auditor on its audit in respect of the full-year and review of the half-yearly results prior to them being signed on behalf of the Board;
- reviewed the accounting processes of the First Rail division; and
- reviewed and assessed the process by which the Annual Report and Accounts, taken as a whole, was fair, balanced and understandable and provided the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Internal control, risk management and internal audit

- reviewed the structure and effectiveness of the Group's system of risk management and internal control and the disclosures made in the Annual Report and Accounts on this matter;
- reviewed the Group's risk management activities undertaken by the divisions and at Group level in order to identify, measure and assess the Group's principal risks;
- reviewed the effectiveness of the Group's risk management framework, and reports arising from the risk management process;
- approved the annual internal audit plan and reviewed reports from the Internal Audit department relating to control matters. Progress against the internal audit plan was monitored and any deviations to the plan were agreed;
- considered reports on resourcing and expertise of the Internal Audit department;
- monitored and assessed the Group's insurance arrangements;
- considered reports from the Group Legal Director on litigation matters;
- received a report from the Chief Information Officer on cyber security and management's approach to the threat of such attacks; and
- reviewed the Group's approach to fuel hedging, foreign exchange, disaster recovery and business continuity planning.

External auditor

- approved the terms of engagement of the external auditor, the fees paid to it and the scope of work carried out by it;
- performed an annual review of the policies on the independence and objectivity of the external auditor, the use of the external auditor for non-audit services and the employment of former employees of the external auditor;
- reviewed the performance and effectiveness of the external auditor in respect of the previous financial year;
- assessed the objectivity and independence of the external auditor. In assessing independence and objectivity, the Committee considered the level and nature of service provided by the external auditor as well as confirmation from the external auditor that it has remained independent;
- considered and confirmed compliance with the provisions of the Competition and Markets Authority Order 2014 in respect of statutory audit services for large companies;
- received reports on the findings of the external auditor during the half-yearly review and annual audit, and reviewed the recommendations made to management by the external auditor and management's responses;
- reviewed letters of representation to the external auditor; and
- recommended the re-appointment of the external auditor.

Other matters

- reviewed the terms of reference and the results of the performance evaluation of the Committee;
- received a number of reports from divisional and functional management on a range of financial, operational risk management, legal and corporate governance matters;
- in conjunction with the Chief Financial Officer, reviewed the strength and calibre of the Finance function;
- received reports on the latest technical accounting, taxation and regulatory changes, including the new long term viability statement; and
- received reports on matters raised on the confidential reporting system and the process for the investigation of such matters to ensure that confidential arrangements are in place by which employees may raise concerns about possible legal, regulatory or other improprieties in matters of financial reporting and other matters.

Policy on the provision of non-audit services

The Committee's policy on the use of the external auditor for non-audit services includes the identification of non-audit services which may be provided and those prohibited, and a process through which other non-audit services may be provided. The policy can be summarised as follows:

- audit-related services – the external auditor can be invited to provide services, which in its position as external auditor, it must or is best placed to undertake as it is clearly audit related. These include reviews of half-yearly and other interim financial information, advice on correct accounting treatment of proposed transactions and reporting on regulatory returns;
- permitted non-audit services – there are a number of projects or engagements where the external auditor is best placed to perform the work due to their skills and knowledge of the business, or experience and market leadership in a particular area. These are set out in the policy and include providing tax compliance advice, formalities relating to shareholder circulars and various other regulatory reports, and professional training. Before engaging in any work of this type, approval is required from the Chief Financial Officer with services likely to cost more than £125,000 requiring the approval of the Committee;
- other permitted non-audit services – for those projects or engagements which are not covered by the permitted non-audit services category and where the external auditor is best placed to provide them, approval is required from the Chief Financial Officer, with services likely to cost more than £75,000 requiring the approval of the Committee. In addition, the Committee will consider whether a tender should be conducted before awarding such work to the external auditor; and
- not permitted – there are some projects that are not to be performed by the external auditor because these projects would represent a threat to the independence of the audit team, for example where the external auditor is remunerated through a success fee or where the project could lead to the external auditor being in a position of auditing their own work or making management decisions for the Company or its subsidiaries.

- The policy requires that non-audit services of the external auditor will only be used where the Group benefits in a cost effective manner and the external auditor maintains the necessary degree of independence and objectivity.

Twice a year the Committee is also provided with a report on all non-audit assignments awarded to the external auditor and a breakdown of non-audit fees incurred. Details of amounts paid to the external auditor for audit and non-audit services for the year ended 31 March 2016 is set out in note 6 to the consolidated financial statements.

The policy will be further reviewed in 2016/17 to ensure it meets the requirements of the EU Audit Regulation and Directive.

Auditor independence and objectivity

The independence of the external auditor is essential to the provision of an objective opinion on the true and fair view presented in the financial statements.

Auditor independence and objectivity is safeguarded by a number of control measures:

- limiting the nature of non-audit services performed by the external auditor;
- placing restrictions on the employment by the Group of certain employees of the external auditor;
- monitoring the changes in legislation related to auditor objectivity and independence to help ensure the Company remains compliant;
- providing a confidential helpline that employees can use to report any concerns, including those relating to the relationship between Group employees and the external auditor;
- the rotation of the lead auditor partner after five years;
- independent reporting lines from the external auditor to the Committee and the opportunity to meet the Committee independently; and
- an annual review by the Committee of the policy in place to ensure the objectivity and independence of the external auditor is maintained.

Internal control and risk management

During the year the Committee reviewed the requirements of the UK Corporate Governance Code in relation to the assessment and reporting of longer term viability, risk management and internal control. The Committee assessed the Group's risk management methodology, which is used to identify and manage the principal risks, as well as the reporting and categorisation of Group risks. The Committee also reviewed the process for assessing the principal risks that could threaten the Company's business model, future performance, solvency or liquidity in order to make the long term viability statement on page 41 and considered the appropriate period for which the Company was viable.

The Group's system of internal control and risk management was reviewed by the Committee throughout the year. Key external audit findings and management actions were discussed as well as reports at each meeting on the outcomes of the internal audit department's planned activities. The operation and effectiveness of the internal audit department was also reviewed, including its focus, plans and resources. The Committee monitored the progress of action plans to ensure they were completed satisfactorily.

Assessing the effectiveness of the external audit process

The Audit Committee manages the relationship with the external auditor, on behalf of the Board. During 2015/16, the effectiveness of the external audit process was reviewed by the Committee and the findings reported to the Board. This involved an initial assessment of the delivery and performance of the external auditor against the external audit plan for the year, which includes the reports and updates provided to the Committee. An annual assessment was then carried out by the Committee, taking into account the results of questionnaires completed by each of the divisions and Group management. These questionnaires covered a variety of topics including: the audit partners and team; the planning and execution of the audit approach; and insights and added value provided by the audit process. Feedback from the annual assessment was shared with the external auditor so that any areas for improvement could be followed up. The Committee concluded that the external audit process was effective.

External audit tendering

The current external auditor, Deloitte LLP, was appointed in 1998 following a full tendering process. The Committee has undertaken a review of Deloitte's performance every year since its appointment. The Committee which, appointed a new lead audit partner in 2015, who assumed his role following the conclusion of the 2014/15 audit, continues to be satisfied with Deloitte's performance. As the Group implements its transformation plans, consistency of approach in the audit is considered to be of particular importance. The Company will not, therefore, be putting its audit out to tender in the next year, but the Committee will review this annually.

The Committee has followed regulatory developments in the last 12 months and has considered the EU audit reform legislation passed in July 2014 and in force from 17 June 2016 and the Competition and Markets Authority (CMA) final order in respect of its market investigation into the supply of statutory audit services published in October 2014 and in force for financial years beginning on or after 1 January 2015. Under the transitional arrangements for both these regimes, Deloitte's last possible audit of the Group would be for the year ending 31 March 2024.

It remains the Committee's intention to put the external audit out to tender during the lead audit partner's five year tenure, which is due to expire at the conclusion of the 2019/20 audit, at a time that is right for the Group and its shareholders. This means that the latest time the external audit will be put out to tender is 2019 so that the process is completed by the conclusion of the 2019/20 audit. This approach is in accordance with the EU audit reform legislation and the CMA final order as it is well within the time frames specified by their transitional arrangements.

Significant issues

The external audit process identifies significant issues and accounting judgements which are reviewed by the Committee. These are summarised in the table below. Management prepared papers and analysis on the significant issues and judgements which were discussed in Committee meetings during the year. The Committee also discussed these issues with the external auditor at the half year and year end. All the significant issues were also areas of focus for the external auditor as detailed in the auditor's report.

Significant issues and judgements	How the Audit Committee addressed these issues
Carrying value of goodwill and intangible assets Management exercises a significant amount of judgement during the impairment testing process as it is based on an estimation of future cash flows and a suitable discount rate.	The Committee has considered the inputs for the impairment test model. The cash flow forecasts have been reviewed alongside past performance and committed operational changes to the business. The discount rate has been benchmarked to externally available data. The growth rate assumptions have been applied in line with both market data and the macro-economic environment in the UK and North America. Sensitivities to the model inputs have been tested for reasonableness. Further detail on impairment testing is provided in notes 2 and 11 in the consolidated financial statements.
Legal provisions Provisions are measured at management's best estimate of the likelihood and valuation of the expense required to settle the relevant obligation and, where applicable, the discount rate used to calculate the expected settlement.	The Committee has considered the assumptions used for estimating the valuation of provisions. The legal issues are regularly reviewed, with the related provisions being based on advice from external legal counsel. Further detail on previous and the assumptions used in determining the value is provided in notes 2 and 26 in the consolidated financial statements.
Self-insurance provisions Provisions are measured at management's best estimate of the likely settlement of all known incidents. A valuation of the expense required to settle the obligation and, where applicable, the discount rate is used to calculate the expected settlement.	The Committee has reviewed the provision and considered the assumptions used to calculate the liability. Independent actuarial expert advice on the adequacy of the provisions against such liabilities is sought on a regular basis and the discount rate has been benchmarked against external data. Further detail on previous and the assumptions used in determining the value is provided in notes 2 and 26 in the consolidated financial statements.
Pensions The Group participates in a number of defined benefit pension schemes. Management exercises significant judgement when determining the assumptions used to value the pension liabilities as these are materially sensitive to changes in the underlying assumptions.	Management has engaged with external experts and the Committee has considered the assumptions used for calculating the liability. Sensitivity analysis has been performed on the key assumptions which are: the discount rate; the inflation rate; and the mortality rates. The overall liability has also been assessed for reasonableness. Further detail on pensions is provided in notes 2 and 35 in the consolidated financial statements.
Revenue recognition Management must exercise judgement when determining the recoverability of amounts due and the carrying value of related assets and liabilities arising from franchises and long term service contracts.	The Committee has reviewed the revenue recognition policies. These policies and their application are in line with accounting standards. Regular forecasts are compiled on the outcome of these types of franchises and contracts to assess the reasonableness of the assumptions applied. Further detail on revenue recognition is provided in note 2 in the consolidated financial statements.

Board Safety Committee

Dear fellow shareholder

The Board Safety Committee was established in 2013/14 to assist the Board in overseeing management's processes, standards and strategies for managing safety commitments and responsibilities across the Group as well as challenging the Group to review and improve its operational safety performance and culture. It is my pleasure to Chair the Committee.

The Committee's approach to safety governance is characterised by:

- the Committee overseeing material safety matters and risks across the Group;
- management having primary responsibility for the design and implementation of an effective safety management system;
- management having accountability for safety performance;
- the safety function providing advice directly, as well as through a series of networks across the Group; and
- clear links between remuneration and safety performance.

The Committee met three times during the year. The Committee's agenda covered a range of safety issues including: reviewing a number of the Group's safety initiatives; development of a new Group safety strategy; reviewing significant safety incidents and performance; and setting stretching safety targets for the Group's incentive plans. A key focus of the Committee has been on reviewing the development, roll-out and impact of the Group's Be Safe programme, which is designed to deliver a step change in safety performance through the enhanced safety behaviours of our employees. Initial indications from those locations who were first to implement the Be Safe programme are encouraging, but we still have a long way to go to achieve our goal of zero harm.

To better understand the safety risk exposures and challenges faced by the divisions and the actions being taken to address these, the Committee has implemented a schedule of in-depth divisional safety reviews. During the year presentations were given by the senior management teams of both First Bus and First Student.

Jim Winestock
Chair, Board Safety Committee

Role and responsibilities

The key responsibilities of the Board Safety Committee are to:

- keep under review the development and maintenance of a framework of policies and standards for managing safety risks and their impact on the Group's activities;
- assess the impact of safety decisions and actions taken by the Group on its reputation, employees and other stakeholders;
- monitor and assess the commitment and behaviour of management towards safety-related risks;
- review safety performance and significant safety incidents, considering the key causes thereof and ensuring actions are taken and communications made by management to prevent similar incidents occurring in the future;
- make proposals to the Remuneration Committee regarding appropriate safety performance objectives for Executive Directors and certain senior managers;
- review the findings of any internal or external reports on the Group's safety systems, assessing any strategies and action plans developed by management in response to issues raised and, where appropriate, making recommendations to the Board on such matters; and
- report formally to the Board on how the Committee has discharged its responsibilities.

Membership and meetings

The current members of the Committee are:
Jim Winestock, Chair
Mick Barker
Imelda Walsh

Committee attendance

The table below shows the Committee members during 2015/16 and their attendance at scheduled Committee meetings:

Committee member	Number of scheduled Committee meetings eligible to attend	Number of scheduled Committee meetings attended
Jim Winestock, Chair	3	3
Mick Barker	3	3
Imelda Walsh	3	3

Board Safety Committee performance evaluation

As part of the Board's annual performance review, an assessment of the Committee's performance was commenced in 2016 in respect of the year ended 31 March 2016. The results of the performance assessment were presented and discussed at the June 2016 Board meeting and therefore will be disclosed in next year's Annual Report and Accounts. Details of the 2015 performance evaluation are set out on page 57.

Activities in 2015/16

At its meetings in 2015/16 the Committee considered, amongst other matters, the following:

- monitored the safety performance of the Group and its divisions and reviewed significant incidents across the Group;
- reviewed lessons learnt and steps taken following significant incidents;
- set safety targets for incentive plans and approved performance outturns;
- reviewed the governance of incident investigations;
- conducted in depth safety reviews of First Bus and First Student;
- reviewed the development, roll-out and impact of the Group's Be Safe programme for improving behavioural safety and the Group's safety culture;
- monitored the performance of, and facilitated the sharing of best practice across, the Group's safety committees;
- monitored and evaluated a number of key safety initiatives across the Group; and
- reviewed its terms of reference and the results of the performance evaluation of the Committee.

Statement by Chair of the Remuneration Committee

Dear fellow shareholder

Overview

Last year shareholders voted to approve our new Directors' Remuneration Policy. Although the approved remuneration policy is not subject to a shareholder vote this year, we have reprinted it on pages 91 to 100 for ease of reference, so as to assist shareholders in reviewing the implementation of the policy over the past year. The new policy was introduced following a comprehensive review of Executive Director and senior management remuneration. As a result of the review and having taken into account feedback from major shareholders, market practice and the key principles of good governance, the Committee made a number of amendments to the Group's remuneration framework that:

- introduced a number of best practice features and strengthened the alignment of an Executive Director's remuneration package with the Group's strategy and with shareholder interests;
- provided a recruitment policy which enables any new Executive Director to be recruited with a package mix that reflects the chosen comparator group; and
- enabled a transition strategy so that, over time, the package mix of existing Executive Directors will become more focused on variable pay, but with no intent to change the overall positioning of the value of the package against the market.

The Committee believes that the remuneration policy approved last year by shareholders provides a framework that drives performance of Executive Directors and senior managers aligned to the Group's strategic priorities and more appropriately reflects the market norms. This also allows the Company to recruit competitively, as required, whilst ensuring Executive Directors' remuneration packages are fully aligned with business performance. We will, however, continue to reassess the remuneration policy and its operation to ensure it continues to meet the objectives set by the Committee and the Company's shareholders. To this end, there are a few changes in the way we will apply the policy for this year. In particular, to reflect the importance of growth, a revenue metric has been added alongside the existing annual bonus metrics and, following consultation with our major shareholders, ROCE has replaced EPS as a LTIP metric. Further details are set out in this letter and on pages 77 and 78.

Approach to remuneration

The Group's strategic objectives as set out in the Strategic Report are:

- driving growth through attractive commercial propositions in our passenger revenue businesses;
- continuous improvement in operating and financial performance;
- prudent investment in our key assets (fleets, systems and people);
- focused and disciplined bidding in our contract businesses; and
- maintaining responsible partnerships with our customers and communities.

The Committee believes that achievement against these objectives, which underpin the transformation plans and medium term targets that have been communicated to shareholders, will deliver strong long term financial performance and shareholder value on a sustainable basis.

Remuneration philosophy

The key principles underpinning the Committee's approach to executive remuneration are:

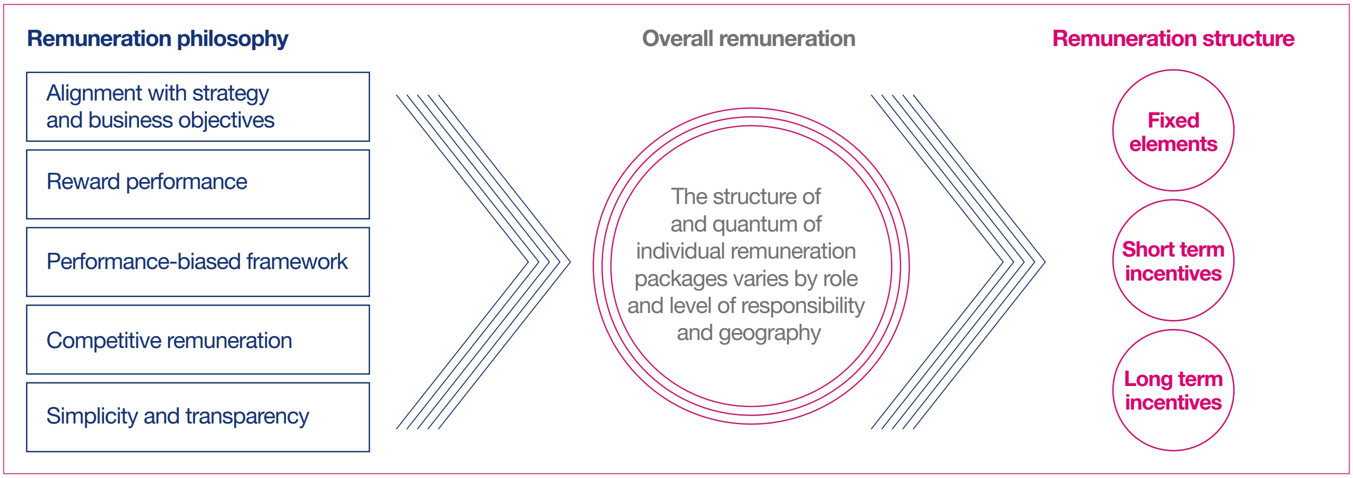
Alignment with strategy and business objectives – remuneration for Executive Directors and senior managers incentivises the delivery of both.

Reward performance – remuneration provides a strong and demonstrable link between incentives and performance delivery in a consistent and responsible way, ensuring there is a clear line of sight between the performance of the Company and payments made to Executive Directors and senior managers. Alignment between the interests of shareholders and Executive Directors to build a sustainable performance culture is a key focus.

Performance biased framework – components of remuneration offer a performance-biased framework for remuneration which is consistent with the Group's scale and unique circumstances, and which enables Executive Directors and senior managers to share in the long term success of the Group, without delivering over-generous benefits or encouraging short term measures or excessive risk taking.

Competitive remuneration – designed to facilitate the long term success of the Company and framed in the context of total remuneration packages offered by relevant comparator companies. The ability to recruit and retain high calibre executives with the appropriate skills to implement the Group's strategy and transformation plans is critical to its success.

Simplicity and transparency – the Committee seeks to deliver both for our shareholders and participants, a remuneration structure and incentive plans which are both simple and transparent with performance targets which are clearly aligned to the Company's short and long term goals.



Remuneration philosophy

- Alignment with strategy and business objectives
- Reward performance
- Performance-biased framework
- Competitive remuneration
- Simplicity and transparency

Overall remuneration

The structure of and quantum of individual remuneration packages varies by role and level of responsibility and geography

Remuneration structure

- Fixed elements
- Short term incentives
- Long term incentives

Appointment of new Chief Financial Officer

Chris Surch retired from the Board on 1 December 2015 and ceased employment on 8 January 2016. He was succeeded as Chief Financial Officer by Matthew Gregory. Details of Chris Surch's remuneration on departure are set out in this report and I can confirm that the decisions made by the Committee were taken within the terms of the approved remuneration policy. In light of his agreed retirement, Chris Surch was considered to be a good leaver for the purposes of the annual bonus plan. As such, he received a cash bonus of £44,834 in respect of the 2015/16 bonus, in line with the performance outturn. In accordance with the rules of the Group's share incentive plans he will also be treated as a good leaver for the purposes of his outstanding share awards.

Matthew Gregory joined the Board as Chief Financial Officer on 1 December 2015, with a starting salary of £425,000 per annum, which is below that of his predecessor. As part of the recruitment remuneration arrangements agreed with him at the time of his appointment, certain awards under the Company's share plans were granted to him in compensation for awards forfeited when he left his previous employer, Essentra plc. In order to enhance alignment with the interests of FirstGroup's shareholders, the Committee decided to use FirstGroup shares, rather than cash, as the medium for the majority of the compensation. In addition, the Committee agreed that replacement awards would not exceed what was considered by the Committee to be a fair estimate of the remuneration forfeited by him on leaving Essentra plc and took into account the nature and time horizons attaching to that remuneration, including the impact of any performance conditions. All of these arrangements are in line with the approved remuneration policy on recruitment remuneration. Full details of Matthew Gregory's recruitment remuneration are also set out in this report.

2015/16 performance and reward

In line with our remuneration philosophy, demanding targets were set across all incentives schemes, notwithstanding a smaller rail franchise portfolio and First Student facing the structural challenge of fewer operating days. Our transformation plans focus on enhancing the Group's long term ability to generate sustainable value through investing in its capital assets and customer offerings, and over 2015/16 good progress was made, with:

- First Bus – cost efficiency actions were expanded to deliver underlying margin progress, despite adverse passenger volume trends across the industry.
- Greyhound – as planned, yield management and real-time pricing systems were introduced, which will enhance its opportunities for growth, margin expansion and returns in the medium term.
- First Student – this year's bid season was concluded with higher average price increases than in the previous year and a solid contract retention rate, and further cost efficiencies were achieved.
- First Transit – continued to win business both in its core markets and in related areas such as Bus Rapid Transit and new geographies, such as India and Panama, though its activities in the Canadian oil sands region were impacted by lower oil prices.
- First Rail – continued to develop its franchise portfolio, winning the new TransPennine Express contract and securing opportunities to grow its open access operations. Good passenger volume and revenue growth and strong financial performance were maintained across all its operations.

However, despite these successes, the more challenging market environment and also some disappointments, such as the increased costs associated with driver shortages in First Student, did not allow the Group to report more progress, with adjusted operating profit broadly comparable to last year at £300.7m.

This was below the threshold level for the adjusted operating profit element of the annual bonus. Good progress was made on Group cash flow, before First Rail franchise portfolio changes, at £36.0m, which was above the target level. Combined with the non-financial elements of safety, customer satisfaction and individual performance, this resulted in an overall bonus outcome of 15.9% of maximum potential for Tim O'Toole, which compares to 57% of maximum potential in 2014/15, and 17.9% of maximum potential for Matthew Gregory. In addition, the 2013 Long Term Incentive Plan awards will also lapse in full in June 2016 on failing to achieve the required TSR and EPS targets. The Company's TSR ranking was below the threshold target of median and its EPS of 10.3p was below the threshold level of 11p.

No changes to base salary or incentive opportunities are planned for the Executive Directors for 2016/17, as Matthew Gregory was appointed recently and Tim O'Toole's base salary will not be increased for the duration of the approved remuneration policy.

Shareholder dialogue

The Company put both its annual report on remuneration and remuneration policy to a shareholder vote at the 2015 Annual General Meeting. The remuneration policy received votes in favour from 93% of shareholders and the annual report on remuneration received 95% of votes in favour.

As I reported in my last letter to shareholders, the Committee has undertaken a comprehensive review of the metrics, definitions, weightings and targets to be used for the Long Term Incentive Plan (LTIP), with the aim of creating greater alignment with the Company's strategy and business objectives. It is also important to ensure that Executive Directors and senior managers are rewarded appropriately for delivery against these targets, with the overall aim of delivering sustainable shareholder value. To enable the outcomes from the review to be appropriately reflected and to allow for the full input from our new Chairman, Wolfhart Hauser, the grants of LTIP awards were delayed until December 2015.

As a result of the review and following consultation with major shareholders, the Investment Association (IA) and Institutional Shareholder Services (ISS), the Committee replaced EPS with ROCE as a performance metric, alongside relative TSR. The two metrics will be evenly weighted. ROCE was selected by the Committee as it is an important performance metric, reflecting the efficient allocation of limited capital and returns generated for shareholders. It is also a key performance indicator of the Group providing clear alignment with Group's strategy and transformation plans.

2016/17 annual bonus

The Committee conducted a review of the executive annual bonus plan during the year to ensure the metrics remained aligned with the Company's current business strategy, supported the Group's transformation plans and motivated the beneficiaries. In summary, the Committee concluded that:

- whilst the weighting of the financial performance metrics should remain at 75% of bonus maximum, a revenue metric should be included alongside the existing metrics of operating profit and cash generation;
- the introduction of a revenue metric reflects the importance of growth to the Group as it begins to move beyond its transformation plans. Revenue is also a major KPI for FirstGroup and provides a clear line of sight for Executive Directors and senior managers. The combination of revenue and operating profit provides a balanced approach in the achievement of profitable growth, which is key to the future success of FirstGroup;
- operating profit and revenue would have a combined weighting of 65% of bonus maximum (operating profit: 45% and revenue: 20%), and cash generation a 10% weighting; and
- the non-financial metrics of safety, customer service and individual performance should remain unchanged at 7.5%, 7.5% and 10% of bonus maximum, with performance assessed against a balanced scorecard of measures.

Renewal of Sharesave (SAYE) plan

Our current SAYE plan rules reached their tenth anniversary in 2016 and hence expired. The Committee believes that the current SAYE plan has been an important factor in incentivising and motivating eligible employees to deliver performance to our shareholders. The Committee proposes essentially to replace the SAYE plan, retaining the existing structure, maximum savings amount and basis of calculating the option price. The new rules of the SAYE plan will be put to shareholders at the forthcoming Annual General Meeting and further details of the principal terms of the plan are set out in the Notice of Meeting.

Senior managers' remuneration

During the year the Committee introduced a Divisional Incentive Plan for those employees immediately below the Executive Directors. This provides a strong focus on each division achieving specific goals to underpin and drive overall Company performance. To avoid paying excessive benefits, the value of the LTIP award was reduced proportionately to compensate for participation in the Divisional Incentive Plan. The performance period of the plan is two years and the Committee will review whether it is still relevant and necessary following that period.

Shareholder engagement

The Committee is committed to an open and transparent dialogue with shareholders on the issue of executive remuneration and considers these engagements vital to ensure its remuneration strategy continues to be aligned with the long term interests of FirstGroup's shareholders.

I have appreciated the time various major shareholders and their representative bodies have put into helping us develop our LTIP over the past 12 months. The challenge of providing motivational and shareholder aligned remuneration arrangements in a recovery situation is complex, but we believe with the assistance of our major shareholders we can strike a fair balance. I look forward to your support at the forthcoming Annual General Meeting.

Imelda Walsh
Chair, Remuneration Committee

At a glance

Policy element	Tim O'Toole (Chief Executive)	Matthew Gregory (Chief Financial Officer)
Base salary from 1 April 2016	£845,625	£425,000
% increase from prior year	0%	0%
Pension	Defined benefit arrangement, providing 1/50th accrual for each year of service up to a fixed earnings cap of £140,705. Earnings above this cap receive an allowance of 20% of base salary	Allowance of 20% of base salary
Annual bonus	Up to 120% of base salary	Up to 150% of base salary
Annual bonus metrics	Group operating profit (45%) Revenue growth (20%) Cash generation (10%) Safety (7.5%) Customer service (7.5%) Individual performance (10%)	Group operating profit (45%) Revenue growth (20%) Cash generation (10%) Safety (7.5%) Customer service (7.5%) Individual performance (10%)
Payment for threshold performance	0%	0%
Deferred bonus plan	50% of annual bonus is deferred for three years in FirstGroup shares	50% of annual bonus is deferred for three years in FirstGroup shares
2015/16 bonus outturn (% maximum potential)	15.9%	17.9%
LTIP	120% of base salary	175% of base salary
LTIP metrics	50% ROCE growth and 50% relative TSR	50% ROCE growth and 50% relative TSR
Payment for threshold performance	25%	25%
Malus and clawback	Malus applies to the period prior to vesting for both the annual bonus and LTIP	
	Clawback applies to the cash and deferred shares awarded under the annual bonus for a period of three years from the date the cash payment is made and the date the share award is granted, and to the LTIP for two years following the end of the performance period	
Dividends on vested awards	Participants are eligible for dividend equivalents on awards granted from 2015 onwards	
Shareholding requirement	200% of base salary	150% of base salary
Shareholding as at year end	97% of base salary	0%
Shareholding requirement to be achieved by:	16 July 2020	1 December 2020

Non-executive fees:	
Chairman	£280,000
Basic NED fee	£52,500
Group Employee Director	£39,375
Additional fees:	
Senior Independent Director	£7,500
Audit Committee Chair	£12,000
Remuneration Committee Chair	£10,000
Board Safety Committee Chair	£10,000
% increase from prior year	0%
Date last reviewed	May 2014

Annual Report on Remuneration

This part of the report has been prepared in accordance with Part 3 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and Rule 9.8.6 of the Listing Rules. The Annual Report on Remuneration and the Annual Statement will be put to an advisory shareholder vote at the Annual General Meeting on 19 July 2016.

Executive Directors' total remuneration (audited)

				Short term annual bonus						
	Year	Salary £000s	Benefits[1] £000s	Cash £000s	Value of deferred shares £000s	Long Term Incentive Plan[2] £000s	Pension[3] £000s	Total before buyout £000s	Buyout[5] £000s	Total £000s
Tim O'Toole	2016	846	38	81	81	0	197	1,243	–	1,243
	2015	846	47	289	289	0	176	1,647	–	1,647
Matthew Gregory[4]	2016	142	5	19	19	0	28	213	692	905
	2015	–	–	–	–	–	–	–	–	–
Former Director										
Chris Surch[6]	2016	300	1	45	0	0	70	416	–	416
	2015	450	1	128	128	–	90	797	–	797

[1] Taxable benefits include: Tim O'Toole – £12,000 car allowance, £17,000 for US private medical insurance and £9,000 reimbursement of advisory fees (principally relating to taxation in the UK and US). Matthew Gregory – £4,000 car allowance (£12,000 on an annual basis) and £1,000 UK private medical insurance (£1,700 on an annual basis). Chris Surch – £1,000 UK private medical insurance.

[2] The LTIP award granted in 2012 to Tim O'Toole lapsed in June 2015 and those LTIP awards granted in 2013 to Tim O'Toole and Chris Surch will lapse in June 2016, on failing to meet the performance criteria.

[3] The following pension-related benefits were received during the year: Tim O'Toole – £141,000 pension allowance and a defined benefit pension input amount (net of inflation and Director's contributions) of £56,100. The increase in Tim O'Toole's defined benefit input amount compared to 2014/15 reflects an additional year of accrual and increase in his defined benefit final pensionable pay (which is based on a three year average) plus a late retirement uplift applied to benefits previously built up to his age 60 normal retirement age. Matthew Gregory received a pension allowance of £27,500 and a defined contribution pension input amount of £1,000 (aggregate of £85,000 on an annual basis, equivalent to 20% of base salary). Chris Surch received a pension allowance of £69,600.

[4] Matthew Gregory joined the Board as Chief Financial Officer on 1 December 2015. In respect of 2015/16, he received a pro rata annual bonus of £38,444 in aggregate which is set out under Short term annual bonus and a buyout bonus in lieu of the amount foregone under the Essentra 2015 annual bonus plan of £120,000 which is included in the Buyout figure. Details of the buyout awards granted to him during the year are set out on page 85.

[5] Buyout amount determined by the face value at the date of grant (assuming all awards vest in full) of buyout awards granted to Matthew Gregory as part of his recruitment remuneration, which are not subject to performance conditions. Details of the buyout awards granted to Matthew Gregory during the year are set out on page 85.

[6] Chris Surch retired as a Director on 1 December 2015 and ceased employment on 8 January 2016. He was paid £300,00 up to the date he retired as a Director and a further £48,000 up to the date he ceased employment. Details of his departure terms are set out on page 84.

Annual base salary (audited)

	2015	2016	% increase
Tim O'Toole[1]	846	846	0
Matthew Gregory[2]	425	425	0

[1] In accordance with the remuneration policy approved by shareholders in July 2015, the base salary of Tim O'Toole will not be increased for the duration of the policy.

[2] Matthew Gregory was appointed on 1 December 2015. Given the timing of his appointment, his salary shall remain unchanged and his next review will be March 2017.

Benefits (audited)

Benefits for Executive Directors include the provision of a company car allowance, US and UK private medical cover, life assurance and advisory fees.

Pension (audited)

Tim O'Toole participates in a defined benefit pension scheme. His contributions to this scheme are paid via salary sacrifice with an equivalent contribution being paid directly to the pension scheme by the Company. This provides him with 1/50th accrual for each year of service, based on average pensionable salary for the three tax years prior to retirement. Upon reaching age 60, he has amended his normal retirement age from 60 to 65, for future service. He will receive all his benefits at the same time, but those payable from age 60 will be increased for deferred payment, and those payable from age 65 are payable unreduced at that time. Pensions normally increase in line with the consumer prices index and provide a dependant's pension on a member's death. There is a scheme earnings cap of £140,705 above which a pension allowance of 20% of base salary is paid.

Information in the table below includes the total accrued benefit at 31 March 2016 which represents the annual pension that is expected to be payable on eventual retirement given the length of service and salary of Tim O'Toole.

	Age at 31 March 2016	Pension age	Total accrued benefit at 31 March 2016 £000s	Increase in accrued annual pension in the year to 31 March 2016 £000s
Tim O'Toole	60	65[1]	16	4

[1] Pension age is the earliest date a non-reduced pension is payable.

[2] Under the rules of the defined benefit scheme Tim O'Toole can continue to accrue benefits beyond the pension age.

[3] No additional benefits are available on early retirement.

An Executive Director employed after 1 April 2011 receives a 'pension allowance' equal to 20% of their base salary. The allowances paid during the year to Tim O'Toole, Matthew Gregory and Chris Surch were £141,000, £27,500 (plus a defined contribution pension input amount of £1,000) and £69,600, respectively.

Performance-related pay

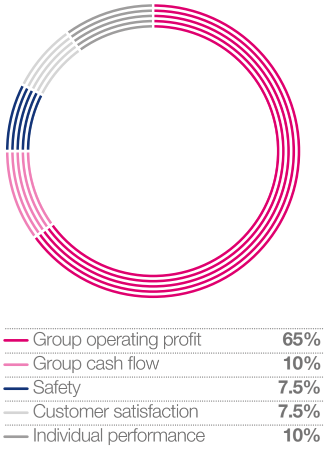
The Committee believes it is important that for Executive Directors a significant proportion of the remuneration package is performance-related and the performance conditions applying to incentive arrangements support the delivery of the Company's strategy and transformation plans. The Committee considers performance against a range of metrics to ensure that the assessment is rounded, taking into account both qualitative and quantitative factors.

The table below outlines each of the performance measures used in the Company's 2016/17 performance-related incentives and how they support the Company's strategy, transformation plans and business objectives as outlined in the Strategic Review.

	KPIs	Strategic objectives	Our values
LTIP			
ROCE	●	●	
TSR		●	
Bonus			
Group operating profit	●	●	
Revenue growth	●	●	
Group cash flow		●	
Safety	●	●	●
Customer satisfaction	●	●	●
Individual performance	●	●	●

Executive Annual Bonus Plan

2015/16 Executive Directors' annual bonus awards (audited)



For 2015/16, the annual bonus comprised five discrete elements as set out below.

Group operating profit – a key KPI used in managing the business

Group cash flow – adjusted for First Rail franchise portfolio changes of £20.8m encourages management to devise operational plans focused on cash generation to create options for the Board in relation to, among other uses, investment in key assets of fleet, systems and people

Safety – to ensure that risk controls, safety procedures and safety behaviours are constantly improved to reduce long term injuries and avoid safety incidents across all the divisions. Performance was assessed against a balanced scorecard across a broad range of indicators, including long term injuries, passenger injuries and collisions

Customer satisfaction – performance was assessed against a balanced scorecard of measures: customer satisfaction surveys, punctuality, cancellations and complaints across First Bus, First Rail, First Student, First Transit and Greyhound

Individual performance – performance was assessed against individual objectives for the year, which were aligned with the Group's strategy and transformation plans, and the Executive Director's core areas of responsibility

Stretching, relevant and measurable financial and non-financial annual bonus targets were set at the start of the performance period by the Committee. The Committee assessed each discrete element of the annual bonus separately as part of an overall balanced scorecard of measures. Within each element the Committee considered a number of sub-elements, including the performance of each division and the Company's performance on a rail and non-rail basis, and formed a rounded assessment of performance of the Executive Directors at the end of the year.

For 2015/16 payouts were as follows:

	Current Directors		Former Director
	Tim O'Toole	Matthew Gregory[1]	Chris Surch[2]
Maximum bonus opportunity (% of salary)	120	150	100
Annual bonus (% of salary)	19.1	26.9	14.9
Actual bonus (£000s)	162	38	45

[1] Matthew Gregory was appointed a Director on 1 December 2015 and his bonus payout was pro rated to reflect his period of employment.

[2] Chris Surch retired as a Director on 1 December 2015 and ceased employment on 8 January 2016, his bonus payout was pro rated up to the date he retired as a Director.

[3] Target bonus was 56.5% of maximum bonus opportunity.

For 2015/16, the financial and non-financial performance outcomes were as follows:

Metrics	Actual performance	Threshold (0%)	Target (50%)	Maximum (100%)	Maximum potential award	% of award which vested
Group operating profit	£300.7m	£307.4m	£321.0m[1]	£333.4m	65%	0
Group cash flow	£36.0m	£14.2m	£34.2m	£65.2m	10%	5.3
Safety	Between threshold and target	Balanced scorecard of indicators			7.5%	2.8
Customer satisfaction	Between threshold and target	Balanced scorecard of measures			7.5%	0.9

[1] Target payout for Group operating profit was 60% of maximum potential.

Details of performance outcomes were as follows:

Metrics	Outcomes
Group operating profit	▪ Actual performance was slightly below the prior year level of £303.6m, impacted by increased costs associated with driver shortages in First Student, and below the threshold level of performance of £307.4m. ▪ A strong performance from First Rail, underpinned by good passenger volume growth and operating performance, was offset by the more challenging market environment faced by the other divisions. ▪ Assessment of 0% relative to a target outcome of 39% and a maximum outcome of 65%.
Group cash flow	▪ Actual performance was slightly above target level of performance of £34.2m. ▪ Lower EBITDA and proceeds on the disposal of property, plant and equipment were offset by a better capital expenditure and working capital performance. ▪ Assessment of 5.3% relative to a target outcome of 5% and a maximum outcome of 10%.
Safety	▪ Despite an overall reduction in safety incidents, overall performance was below target. Improved performances from First Rail and First Student exceeded targets, but were offset by below threshold performances from the other divisions. ▪ Assessment of 2.8% relative to a target outcome of 3.75% and a maximum outcome of 7.5%.
Customer satisfaction	▪ A good performance from Greyhound was offset by below threshold performances from the other divisions. ▪ Assessment of 0.9% relative to a target outcome of 3.75% and a maximum outcome of 7.5%.
Individual performance	▪ The Committee carefully reviewed the performance of Tim O'Toole, Matthew Gregory and Chris Surch against objectives set at the beginning of the year (date of appointment for Matthew Gregory). ▪ Tim O'Toole's objectives related to supporting the long term growth of the Group through strategic leadership, delivery of the transformation plans, developing new business opportunities, including ensuring disciplined and successful rail bidding, and developing robust talent management and succession planning processes. The Committee concluded that Tim O'Toole had shown good leadership and sound judgement in pursuing the long term sustainability of the Group, and had met the vast majority of his objectives. ▪ Matthew Gregory's objectives related to developing constructive working relationships with the Board and divisional and functional managers, developing a clear understanding of the key business drivers and risks of the divisions, and identifying key areas of cost control and efficiency. The Committee confirmed that since being appointed as Chief Financial Officer on 1 December 2015 his financial stewardship of the Group had been excellent, and his objectives had been substantially achieved or exceeded. ▪ Chris Surch's objectives, which were assessed up to 1 December 2015, related to cost savings, corporate finance initiatives and support for the divisions in achieving their financial objectives. The Committee judged that he had met the majority of his objectives. ▪ Assessments of 7%, 9% and 6% were made for Tim O'Toole, Matthew Gregory and Chris Surch, respectively, relative to a target outcome of 5% and a maximum outcome of 10%.

2016/17 Executive Directors' annual bonus awards

The Committee took the opportunity during the year to review the performance metrics and targets for the executive annual bonus plan. As a result, some changes have been made to the 2016/17 awards to ensure that the metrics and targets used continue to align with the Group's business strategy.

For 2016/17 the executive annual bonus plan will incentivise improved performance against a range of financial and non-financial metrics. The structure of the bonus will be weighted such that 75% will be based on financial metrics, including the introduction of a revenue metric alongside Group operating profit and Group cash flow metrics, and 25% on non-financial metrics. The financial targets set by the Committee are stretching against budgeted performance to ensure payouts only occur for strong performance over the financial year. A summary of the structure is provided in the table overleaf.

Measure **Financial**	Weighting
Group operating profit	45%
Revenue growth	20%
Cash generation	10%
Non-financial	
Safety	7.5%
Customer service	7.5%
Individual performance	10%

Specific targets will not be disclosed in advance as they would give a clear indication of the Group's business objectives, which are commercially sensitive. Where bonus targets are no longer commercially sensitive, typically following the end of the financial year, they will be disclosed in that year's Directors' Remuneration Report.

Awards are subject to an underlying performance override enabling them to be scaled back to reflect the Group's performance as well as malus and clawback. Half of any bonus earned will be deferred into the Company's shares for three years, conditional upon continued employment.

The 2016/17 annual bonus maximum and threshold levels of bonus as a percentage of base salary are as follows:

Executive Director	Maximum	Threshold
Tim O'Toole	120%	0%
Matthew Gregory	150%	0%

Long Term Incentive Plan

2015 Long Term Incentive Awards (audited)

As set out in the 2015 Chair of the Remuneration Committee's letter to shareholders, the Committee undertook a comprehensive review of the Company's LTIP arrangements in 2015. This included consultations with major investors and their representative bodies on the inclusion of an additional returns-based metric (ROCE) as well as the definitions, weightings and target levels of performance of the LTIP metrics. ROCE was proposed as a measure as it reflects the returns generated for shareholders and measures the efficiency of capital use.

Following input from the new Chairman, Wolfhart Hauser, and feedback from major investors in response to a detailed consultation letter sent in October 2015, who were supportive of the overall LTIP approach, the Committee made a number of amendments to the structure of the LTIP, with ROCE replacing EPS as a metric alongside TSR. Half of the award is subject to the achievement of stretching ROCE target figures determined at the end of the performance period and the remaining half of the award is subject to the Company's relative TSR. Awards are subject to a two-year holding period following the three-year performance period as well as malus and clawback. In addition, before an award vests the Committee must be satisfied that the underlying performance of the Group is satisfactory. The Committee believes that having a performance override is an important feature of the plan as it mitigates the risk of unwarranted vesting outcomes.

Details of the performance metrics and targets for the 2015 LTIP awards, which were delayed until December 2015 to ensure the outcome of the above consultations were appropriately reflected, are set out below.

ROCE – a key KPI used in managing the business as it captures both growth in earnings and the efficient allocation of limited capital. Calculated by dividing adjusted operating profit after tax by net assets (excluding cash and debit items). To reflect those items outside of management's control, the definition of ROCE will be adjusted for:

- use of constant currency – the use of constant currency is established practice at FirstGroup and ensures that management are rewarded for improving the underlying performance of the business. LTIP targets are based on estimated foreign exchange rates in line with those rates included in the Group's 3-Year Plan, which is updated annually. The principal foreign exchange assumptions will be provided for each award;
- exclusion of pension deficit – the exclusion of the pension deficit is considered appropriate as the Committee believes management should not be rewarded for movements in this element; and
- exclusion of non-continuing rail franchises – First Rail franchises that are not contracted to be operated for the full duration of the LTIP performance period are excluded from the ROCE calculation of that LTIP award. Winning a franchise or being awarded an extension to an existing franchise (a Direct Award) within a performance period will lead to that franchise being included in subsequent LTIP awards, but not being included in the calculation of existing awards. This ensures a like-for-like comparison across the performance period.

Due to the way in which rail franchises are included, an appropriate ROCE target range will be determined in respect of each LTIP award. In order to provide transparency for each LTIP award, the Committee will disclose both the ROCE target range percentages and also the equivalent EPS CAGR percentages.

The Committee believes that this method of calculation results in a ROCE definition which will ensure management are rewarded for improving the effective allocation of capital across the business and then generating a return from this investment.

Details of the ROCE targets for the 2015 LTIP are set out below:

ROCE	Equivalent EPS CAGR	% of award which vests
<7.6%	<17%	0%
≥ 7.6%	≥ 17%	12.5%
≥ 8.7%	≥ 26%	50%

[1] Between 12.5% and 50% of the award will vest on a straight-line basis if ROCE at the end of the performance period is between 7.6% and 8.7%.

[2] The adjustments referred to above result in a re-statement of the 2014/15 reported ROCE from 7.8% to 6.2% based on the 2015-2018 3-Year Plan currency assumption of $1.55:£1. Excluding the pension deficit increases capital employed by £239.4m while adjusting for non-continuing rail franchises and constant currency reduces post-tax operating profit by £35.1m and capital employed by £44.0m. Taken together, these adjustments reduce adjusted operating profit after tax in 2014/15 to £201.7m and increases capital employed to £3,239.1m, or a ROCE of 6.2%. The proposed target range of 7.6% to 8.7% clearly represents a significant challenge for management in respect of the achievement of both threshold and stretch targets against this baseline.

[3] Equivalent EPS CAGR assumes interest charges, effective tax rate and capital employed assumptions are held in line with the 2015-2018 3-Year Plan projections for the year ended 31 March 2018.

Relative TSR – reflects actual returns delivered to shareholders. The relative nature of the metric, with TSR measured against a comparator group of 32 companies, creates an objective measure of long term value delivery to shareholders and rewards executives for delivering performance which is better than that of competitors.

Relative TSR will be determined over a three-year performance period commencing on 1 April 2015 using a three month average TSR at the beginning and end of the performance period by reference to the Company's positioning amongst a comparator group of companies.

The Committee believes that relative TSR is a suitable value metric, which takes into account performance of the Company's closest peers.

Details of the TSR targets for the 2015 LTIP are set out below:

TSR Ranking	% of award which vests
Below median	0%
Median	12.5%
Upper quartile	50%

[1] Between median and the upper quartile of the peer group, vesting will be on a straight-line basis between 12.5% and 50%.

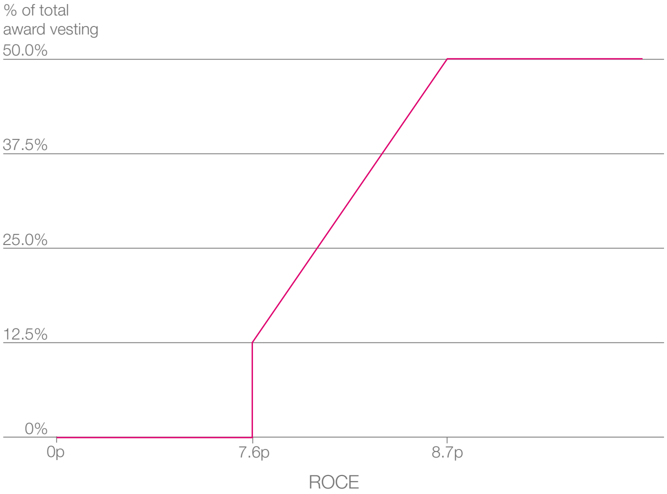
The comparator group for the benchmarking of remuneration and the relative TSR metric for awards granted in 2015 comprises:

Aggreko
Amec Foster Wheeler
Atkins (WS)
Babcock International Group
Balfour Beatty
Bunzl
Capita
Carillion
Carnival
DCC
easyJet
Electrocomponents
G4S
Galliford Try
GKN
Go-Ahead Group
Grafton Group
Hays
Interserve
Kier Group
Mitie Group
National Express
Regus
Rentokil Initial
Serco Group
SIG
Smith (DS)
Stagecoach Group
Thomas Cook Group
Travis Perkins
Wolseley
Wood Group (John)

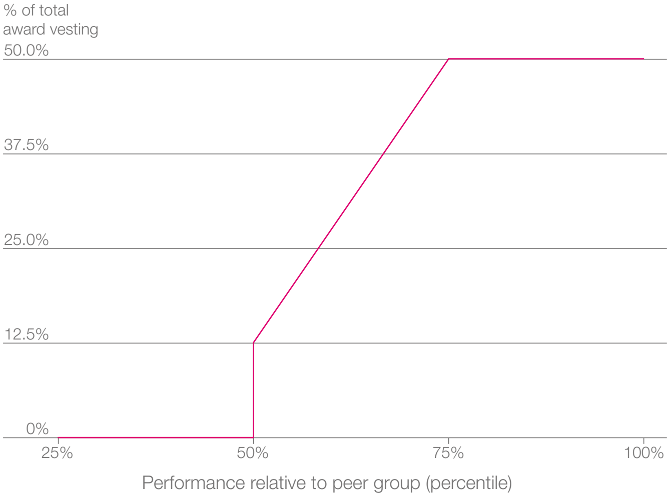
The comparator group comprises companies in the travel, business services and industrial sectors, which are of comparable scale, complexity and activity to FirstGroup. In the event of one or more of the constituents undergoing a takeover, merger, dissolution, variation in capital or any other event that will materially affect the calculation of a ranking, the Committee shall determine how this should be reflected in the ranking calculation.

In the event of a change of control, awards will normally vest on a pro rata basis by reference to the length of time since the award was granted, and only if the performance conditions can effectively be regarded as having been satisfied at that time, although the Committee may decide not to pro rata an award if it is inappropriate to do so in the particular circumstances.

ROCE performance vesting schedule



TSR performance vesting schedule



On this basis, awards were granted to Executive Directors on 17 December 2015 as follows:

Executive Director	Share price at date of grant[3]	Face value (% of base salary)	Number of shares awarded	Face value of award	% of award which vests at threshold	Performance period
Tim O'Toole[1]	104.3p	120	972,728	£1,014,750	25%	1.4.15 – 31.3.18
Matthew Gregory[2]	104.3p	300	1,222,200	£1,275,000	25%	1.4.15 – 31.3.18

[1] Awards were granted to Tim O'Toole as conditional nil-cost awards and those to Matthew Gregory as nil-cost options.

[2] Award granted to Matthew Gregory replaces awards granted in 2014 and 2015 under the Essentra Long Term Incentive Plan and other losses forfeited by him on leaving Essentra plc. Further details are set out on page 85.

[3] Award granted using the average five day closing mid-market share price at the time of grant.

[4] No award was granted to Chris Surch who resigned as a Director on 1 December 2015 and ceased employment on 8 January 2016.

2016 Long Term Incentive Awards

The structure of LTIP awards to be granted in 2016 will remain the same as for the 2015 awards, with half of the award subject to ROCE growth and the remaining half of the award subject to the Company's relative TSR. Awards will be subject to a two-year holding period following the three-year performance period as well as malus and clawback. In addition, before an award vests the Committee must be satisfied that the underlying performance of the Group is satisfactory. On this basis, awards will be granted in June 2016 to the Executive Directors as follows:

	Face value (% of base salary)	Minimum threshold performance (% of maximum potential)	Maximum performance (% of maximum potential)	Performance period
Tim O'Toole	120	25%	100%	1.4.16 – 31.3.19
Matthew Gregory	175	25%	100%	1.4.16 – 31.3.19

Details of the performance metrics and targets for the 2016 LTIP awards are set out below:

ROCE	Equivalent EPS CAGR	% of award which vests
<7.6%	<9.1%	0%
≥7.6%	≥9.1%	12.5%
≥8.7%	≥16.6%	50%

[1] Between 12.5% and 50% of the award will vest on a straight-line basis if ROCE at the end of the performance period is between 7.6% and 8.7%.

[2] The adjustments to the definition of ROCE result in a re-statement of the 2015/16 reported ROCE from 7.2% to 6.8% based on the 2016-2019 3-Year Plan currency assumption of $1.50:£1. Excluding the pension deficit increases capital employed by £270.9m while adjusting for non-continuing rail franchises and constant currency reduces post-tax operating profit by £8.3m and capital employed by £180.2m. Taken together, these adjustments reduce adjusted operating profit after tax in 2015/16 to £223.2m and increases capital employed to £3,289.5m, or a ROCE of 6.8%.The proposed target range of 7.6% to 8.7% clearly represents a significant challenge for management in respect of the achievement of both threshold and stretch targets against this baseline.

[3] Equivalent EPS CAGR assumes interest charges, effective tax rate and capital employed assumptions are held in line with the 2016-2019 3-Year Plan projections for the year ended 31 March 2019.

Relative TSR

TSR Ranking	% of award which vests
Below median	0%
Median	12.5%
Upper quartile	50%

[1] Between median and the upper quartile of the peer group, vesting will be on a straight-line basis between 12.5% and 50%.

[2] The averaging period for calculating TSR will be three months leading up to the start and the end of the performance period.

In setting the ROCE targets for the 2016 LTIP the Committee took into account the revised outlook for oil prices since the 2015 LTIP ROCE targets were set, and the corresponding impact on earnings. The Committee believes that given this revised outlook, retaining the ROCE targets at the same level as those set for the 2015 LTIP continues to provide a significant challenge at both threshold and stretch targets.

Directors’ remuneration report
continued

2013 Long Term Incentive Awards (audited)

The LTIP awards granted in 2013 to Tim O’Toole and Chris Surch will lapse in June 2016 on failing to achieve their performance targets. The performance outcomes were as follows:

Metrics	Actual performance	Threshold (25%)	Maximum (100%)	% of award which vested
EPS	10.3p	≥11p	≥15p	0
Relative TSR	Below median	Median	Upper quartile	0

[1] Half of the award was subject to EPS growth and the remaining half of the award to the Company’s relative TSR.

Directors’ interests in share awards (audited)

The outstanding LTIP, deferred share bonus and SAYE awards of Directors are set out in the table below. There have been no changes to the terms of any share awards granted to Directors. The number of awards detailed in the table below have been adjusted, where appropriate, to reflect the rights issue in 2013 following the application of the standard rights issue adjustment formula.

Director	Plan	Date of grant	Number of awards held as at 1.4.15	Awards granted	Awards vested	Awards lapsed during the year	Number of awards held as at 31.3.16	Exercise price	Date on which award vests/ becomes exercisable	Expiry date
Mick Barker	SAYE	9.12.11	681	–	–	681[2]	–	221p	1.2.15	31.7.15
		11.12.12	705	–	705	–	705	117p	1.2.16	31.7.16
		10.12.13	1,645	–	–	–	1,645	94p	1.2.17	31.7.17
		9.12.14	2,782	–	–	–	2,782	97p	1.2.18	31.7.18
		8.12.15	–	3,601	–	–	3,601	85p	1.2.19	31.7.19
Tim O’Toole	Deferred share bonus	10.6.14	223,554	–	–	–	223,554	nil	1.4.17	N/A
		15.6.15	–	230,748[3]	–	–	230,748	nil	1.4.18	N/A
	LTIP	3.7.12	563,278	–	–	563,278[5]	–	nil	1.4.15	N/A
		12.12.13	871,329	–	–	–	871,329[6]	nil	1.4.16	N/A
		2.7.14	785,288	–	–	–	785,288	nil	1.4.17	N/A
		17.12.15	–	972,728	–	–	972,728	nil	1.4.18	N/A
Matthew Gregory[4]	Share award	17.12.15	–	134,295	–	–	134,295	nil	1.4.16	16.12.25
		17.12.15	–	89,530	–	–	89,530	nil	1.4.17	16.12.25
		24.3.16	–	359,098	359,098	–	359,098	nil	24.3.16	23.3.26
	LTIP	17.12.15	–	1,222,200	–	–	1,222,200	nil	1.4.18	1.4.19
Former director										
Chris Surch	Deferred share bonus	10.6.13	73,875	–	–	–	73,875	nil	1.4.16	9.6.23
		10.6.14	99,137	–	–	–	99,137	nil	1.4.17	9.6.24
		15.6.15	–	102,327[3]	–	–	102,327	nil	1.4.18	14.6.25
	LTIP[7]	12.12.13	463,678	–	–	25,759	437,919[6]	nil	1.4.16	1.4.17
		2.7.14	417,891	–	–	162,513	255,378	nil	1.4.17	1.4.18

[1] The table above shows the maximum number of shares that could be released if awards were to vest in full. Participants do not receive dividends or dividend equivalent amounts on unvested share awards.

[2] Lapsed in August 2015.

[3] In respect of the deferred share element of the 2014/15 bonus award, Tim O’Toole was granted an award over 230,748 shares structured as a conditional award for nil consideration with a face value of £289,196 and Chris Surch an award over 102,327 shares structured as a nil-cost option with a face value of £128,246. These awards were granted at an average three day closing mid-market price of 125p per share and will be deferred for three years from 1 April 2015. Tim O’Toole waived his bonus for 2012/13.

[4] Details of the awards granted to Matthew Gregory are set out on page 85.

[5] Award lapsed in June 2015 on failing to meet the EPS growth and relative TSR performance conditions.

[6] Award will lapse in June 2016 on failing to meet the EPS growth and relative TSR performance conditions.

[7] In accordance with the plan rules, Chris Surch’s LTIP awards were pro rated following his retirement, to reflect the number of months from the start of the performance period to the date of cessation of his employment.

[8] An award vests on the date the Committee determines whether performance conditions have been met, or if on that date dealing restrictions apply, the first date after dealing restrictions cease to apply.

Shareholding guidelines (audited)

Under the terms of the remuneration policy approved by shareholders at the 2015 Annual General Meeting, Executive Directors are required to build up a specified shareholding in the Company. This is to create greater alignment of the Executive Directors' interests with those of shareholders. The guidelines require Executive Directors to retain at least 75% of the shares, net of tax, vesting under a Group share incentive plan or otherwise acquire shares in the Company within a five-year period from the later of their date of appointment or the date of approval of the current remuneration policy, 16 July 2015, until a shareholding with a market value (calculated by reference to the year-end share price) equal to 200% of base salary in the case of the Chief Executive and 150% of base salary in the case of other Executive Directors is achieved. The Committee reserves the right to relax or waive the application of such guidelines in certain circumstances, including the impending retirement of an Executive Director.

The table below sets out the Executive Directors' and their connected persons' shareholdings (including beneficial interests) and a summary of outstanding and unvested share awards as at 31 March 2016.

Executive Director	Ordinary shares beneficially owned at 1.4.15 or date of appointment, if later	Ordinary shares beneficially owned at 31.3.16	Unvested deferred share bonus awards subject to continued employment	Unvested LTIP awards subject to performance conditions	Vested but not exercised share awards	Shareholding requirement[2] (% of basic salary)	Current shareholding (% of basic salary)
Tim O'Toole	770,882	849,370	454,302	2,629,345	–	200%	97%
Matthew Gregory	0	0	223,825	1,222,200	359,098	150%	0%

[1] Based on the middle market closing price of an ordinary share of the Company of 97p per share on 31 March 2016. The range of the Company's share price for the year was 81p to 128p.

[2] Tim O'Toole has until 16 July 2020 and Matthew Gregory has until 1 December 2020 to meet the shareholding requirement.

[3] In the period 1 April to 14 June 2016, Tim O'Toole acquired 15,350 shares in the Company, increasing his shareholding to 864,720 shares. No other changes in Executive Director interests occurred in the period.

[4] Chris Surch beneficially owned 76,335 ordinary shares as at 1 April 2015 and 1 December 2015 (the date he retired as a Director).

Since June 2015, Tim O'Toole has allocated £15,000 of his gross monthly base salary (equivalent to over 20% of his base salary) to acquire shares in the Company, with shares being purchased from the post-tax and post-NI amount. Matthew Gregory intends to exercise his vested share awards shortly after the announcement of the Group's 2015/16 preliminary results. He will retain all the shares upon exercise, except those shares required to be sold to cover the tax liability.

All-employee share schemes

Executive Directors are eligible to participate in the Company's Sharesave (SAYE) and Share Incentive Plan (BAYE) on the same terms as other eligible employees.

SAYE

The maximum participation level in the SAYE plan is £500 per calendar month with participants granted linked share options, by reference to projected savings, with a strike price up to a 20% discount to the prevailing share price at the time of grant. On the maturity of the savings contracts, participants can elect to use the accumulated savings to exercise the option or request the return of their savings.

BAYE

The maximum participation level in the BAYE is as per HMRC limits and provides for a combination of the following:

- free shares – the Company can give each participant free shares worth up to £3,600 each;
- partnership shares – participants can use up to £1,800 per year out of pre-tax and pre-NI pay to buy partnership shares;
- matching shares – the Company can give matching shares at a ratio of up to two matching shares for each partnership share bought by the employee; and
- dividend shares – participants can use up to £1,800 of dividends from plan shares each year to buy further shares in the Company through the plan.

At present the Company provides two matching shares for every three partnership shares, subject to a maximum Company contribution of shares to the value of £20 a month and any dividend shares. No free shares are provided. The shares are held in trust for up to five years, in which case no income tax or NI will be payable. The matching shares will be forfeited if the corresponding partnership shares are removed from trust within three years from award.

In accordance with the applicable legislation shares that remain subject to the plan are held on behalf of participants in a UK-based trust.

Preventing rewards for failure

In respect of awards made under the EABP and LTIP, from 2015 onwards, in the event of a triggering event, such as a material mis-statement of accounts, gross misconduct or computational error, the Company will have the ability to clawback awards. For the EABP, annual cash bonuses may be clawed back at any time up to the end of the third financial year after that in respect of which the payment is made and share awards will remain subject to clawback for three years following the date of grant. For the LTIP, awards will remain subject to clawback for two years following the end of the three-year performance period.

In addition, prior to the vesting of awards made under the EABP and LTIP, in respect of awards made from 2014 onwards, the Committee may reduce awards to reflect any triggering event, such as material mis-statement of accounts or gross misconduct.

Dilution

The Company ensures that the level of shares granted under the Company's share plans and the means of satisfying such awards remains within best practice guidelines so that dilution from employee share awards does not exceed 10% of the Company's issued share capital for all share plans and 5% in respect of executive share plans in any ten-year rolling period. The Committee monitors dilution levels at least once a year. At 31 March 2016, 3.7% of the Company's issued share capital had been allocated for the purposes of its share incentive plans over a ten-year period, including 2.0% in respect of the LTIP.

Employee Benefit Trust

The FirstGroup Employee Benefit Trust has been established to acquire ordinary shares in the Company, by subscription or purchase, from funds provided by the Group to satisfy rights to shares arising on the exercise or vesting of awards under the Group's share-based incentive plans. The trustee of the FirstGroup Employee Benefit Trust has informed the Company that its intention is to abstain from voting in respect of the FirstGroup shares held in the trust. As at 31 March 2016, 545,083 shares were held by the Employee Benefit Trust to hedge outstanding awards of 53,515,600. This means that the trust holds sufficient shares to satisfy 1.0% of outstanding awards.

Departure terms of Chris Surch (audited)

Chris Surch retired from the Board on 1 December 2015 and ceased employment on 8 January 2016. The Committee considered the overall circumstances of his departure as well as performance, contractual obligations and plan rules. In particular, the Committee considered his sustained performance and contribution to the Company over his three years of service. The Committee's determinations, which are consistent with the remuneration policy, are set out below:

<table>
<tr><th>Remuneration element</th><th>Description</th></tr>
<tr><td>Payment in lieu of notice</td><td>No payment in respect of salary or benefits (or compensation in lieu) in respect of any period after 8 January 2016 or compensation for loss of office was made.</td></tr>
<tr><td>Base salary</td><td>No 2015/16 base salary increase was awarded given his scheduled departure date.</td></tr>
<tr><td>Annual bonus</td><td>Given the circumstances and timing of his departure, the Committee determined that it would be appropriate for Chris Surch to receive a bonus in respect of the financial year ending 31 March 2016. The amount of bonus would be reduced in proportion to reflect only that part of the financial year in which he was actively employed and would be paid at the time annual bonus awards are normally made in respect of the financial year ending 31 March 2016. Accordingly, he will be paid a pro rated cash bonus of £44,834, in line with the bonus outturn of 14.9%. Details of the 2015/16 bonus outturn are set out on page 76.</td></tr>
<tr><td>Pension benefits</td><td>No pension benefits were made to Chris Surch in respect of any period after 8 January 2016 and no additional amounts were paid for loss of office.</td></tr>
<tr><td>Deferred share awards</td><td>Those amounts of Chris Surch's annual bonus from previous years that were compulsorily deferred into shares will vest in accordance with the good leaver provisions of the plan rules at the end of the relevant three year vesting period as set out in the table below:
<table>
<tr><th>Award</th><th>Number of deferred shares</th><th>Estimated value[1]</th><th>Vesting date</th></tr>
<tr><td>2013 deferred bonus award</td><td>73,875</td><td>£76,386</td><td>1.4.16</td></tr>
<tr><td>2014 deferred bonus award</td><td>99,137</td><td>£102,508</td><td>1.4.17</td></tr>
<tr><td>2015 deferred bonus award</td><td>102,327</td><td>£105,806</td><td>1.4.18</td></tr>
</table>
[1] Based on the mid-market share price on 8 January 2016 of 103p.</td></tr>
<tr><td>LTIP awards</td><td>No 2015 LTIP grant was made given Chris Surch's departure date.
In accordance with the good leaver provisions of the plan rules, the LTIP awards which remained unvested will be pro rated and will remain subject to performance conditions, measured at the normal performance measurement date. He did not hold any vested but unexercised LTIP awards. Details of the unvested awards are set out opposite.</td></tr>
</table>

Award	Number of shares awarded	Pro rated number of shares	Estimated value[1]	Performance period
2013 LTIP[2]	463,678	437,919	£452,800	1.4.13 – 31.3.16
2014 LTIP	417,891	255,378	£264,100	1.4.14 – 31.3.17

[1] Based on the mid-market share price on 8 January 2016 of 103p.

[2] Award will lapse in June 2016 on failing to meet the EPS growth and relative TSR performance conditions.

No payments (other than payments made to Chris Surch set out above) were made to former Directors during the year.

Recruitment remuneration for Matthew Gregory (audited)

Matthew Gregory's remuneration package comprises a basic salary of £425,000, benefits, a pension allowance of 20% of base salary and eligibility to participate in the Group's annual bonus plan up to a maximum of 150% of base salary per annum and in the LTIP up to a maximum of 175% of base salary per annum, which are entirely in line with the approved remuneration policy. Matthew Gregory has a service contract which requires 12 months' notice of termination by him and 12 months' notice by the Company.

Matthew Gregory held a number of share incentives under various incentive plans operated by his previous employer, Essentra plc. In line with the approved remuneration policy, replacement awards formed part of his recruitment remuneration.

Replacement awards were structured to reflect what the Committee considered to be a fair estimate of the remuneration forfeited by Matthew Gregory. The majority of the replacement awards were made under FirstGroup's existing LTIP, using the maximum available award of 300% of salary. These awards are subject to the achievement of stretching performance conditions and will vest, subject to performance in 2018. This approach brings the replacement award more immediately into line with the interests of FirstGroup's shareholders. Performance conditions which apply to the award are the same as those for other LTIP awards granted to executives in 2015, details of which are set out on pages 78 to 80.

In addition to the above awards, Matthew Gregory was awarded deferred shares under FirstGroup's Executive Annual Bonus Plan. The awards granted on 17 December 2015 under the Executive Annual Bonus Plan replaced awards made to Matthew Gregory under the Essentra Deferred Annual Share Bonus Plan, which were forfeited as a result of his resignation from Essentra. A further award was made on 24 March 2016 under FirstGroup's Executive Annual Bonus Plan in respect of compensation for the value of Matthew Gregory's 2013 award forfeited under the Essentra Long Term Incentive Plan which would have vested in March 2016. As agreed with him at the time of his recruitment, and as announced to the market on 17 December 2015, this award was only made once performance under the Essentra Long Term Incentive Plan was known and an accurate value could be placed on the award. The award vested immediately upon grant.

If Matthew Gregory were to tender his resignation within 12 months of the grant of any of the above awards, to the extent it remains unexercised, the award will lapse. To the extent an award has been exercised, the Committee may clawback the number of shares over which it was exercised or the amount of any proceeds of sale.

Income tax and employee's national insurance contributions are payable by Matthew Gregory upon exercise of the awards. Shares, net of tax, received by Matthew Gregory under the above awards must be retained by him until the requirements of the Company's shareholding guidelines as set out in the Directors' Remuneration Report from time to time are met.

Details of the awards made under the EABP are set out in the table below:

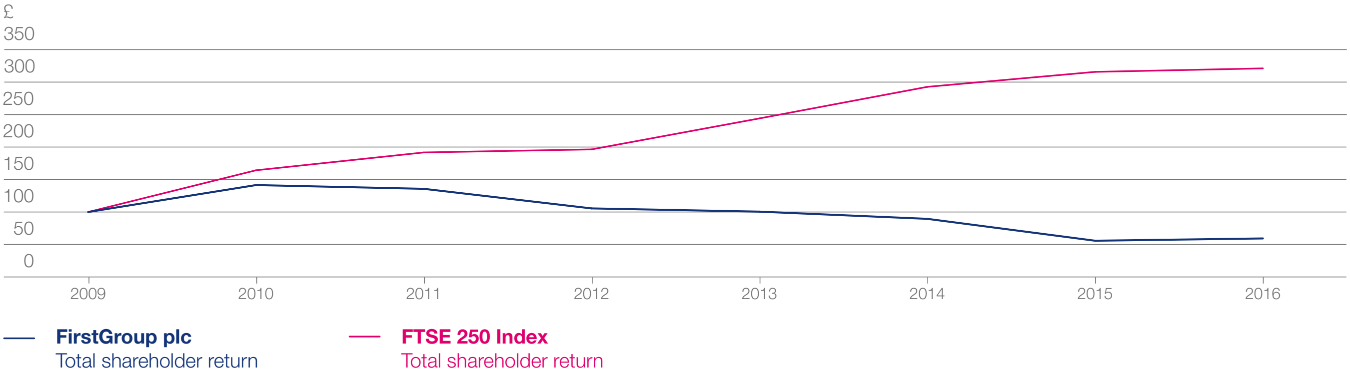
Plan under which Award granted	Awards being replaced	Number of shares awarded	Award date	Vesting date	Share price used for grant £	Value at date of award £000s
Executive Annual Bonus Plan	Essentra Deferred Annual Share Bonus 2013 award	134,295	17.12.15	1.4.16	1.046	141
Executive Annual Bonus Plan	Essentra Deferred Annual Share Bonus 2014 award	89,530	17.12.15	1.4.17	1.046	94
Executive Annual Bonus Plan	Essentra Long Term Incentive Plan 2013 award	359,098	24.3.16	24.3.16	0.940	337

Matthew Gregory also received a partial bonus for the year ending 31 March 2016 under the FirstGroup Executive Annual Bonus Plan in lieu of the amount foregone under the Essentra annual bonus plan (which is based on performance during 2015 and his Essentra base salary) amounting to £120,000 as well as a pro rata annual bonus under the FirstGroup Executive Annual Bonus Plan to reflect his period of service with FirstGroup from 1 December 2015 to 31 March 2016. Details of the bonus awarded in respect of 2015/16 are provided on page 76.

Performance graph

The graph below shows the TSR performance of £100 invested in FirstGroup plc shares over the last seven years compared to an equivalent investment in the FTSE 250. The FTSE 250 Index has been selected as it provides an established and broad-based index, of which the Company is a constituent.

Total shareholder return



Source: Thomson Reuters Datastream

TSR is measured according to a return index calculated by Datastream. It is measured on the basis that all the Company's dividends are reinvested in the Company's shares. The return is the percentage increase in the Company's index over the seven year period.

Remuneration of the Chief Executive

The table below shows the total remuneration figure for the highest paid Executive Director, the Chief Executive, during each of the last seven years. The total remuneration figure includes the annual bonus and LTIP awards which vested based on performance in those years. The annual bonus percentages show the pay out for each year as a percentage of the maximum.

	2010[1]	2011[1]	2012[2]	2013[2]	2014[2]	2015[2]	2016[2]
Total remuneration (£000s)	643	503	1,055	1,068	1,986	1,647	1,243
Annual bonus (% maximum potential)	0%	43.6%	0%[3]	0%[3]	59.1%	57.0%	15.9%
LTIP vesting	–	–	0%	0%	0%	0%	0%

[1] Relates to the remuneration of Sir Moir Lockhead, who resigned as Chief Executive in November 2010. From 1 November 2010 to 31 March 2011, Tim O'Toole received remuneration of £357,000.

[2] Relates to the remuneration of Tim O'Toole who was appointed Chief Executive in November 2010.

[3] Tim O'Toole waived his bonus in 2012 and 2013.

Percentage change in remuneration levels

The table below shows the movement in the salary, benefits and annual bonus for the Chief Executive between the current and previous financial year compared to that for the average UK employee (First Bus and First Rail, but excluding Group). The Committee has chosen this comparator as it feels that it provides a more appropriate reflection of the earnings of the average worker than the movement in the Group's total wage bill, which is distorted by movements in the number of employees and variations in wage practices in the US. However, the Committee will re-assess the comparator in 2016/17 to ensure it remains appropriate. For the benefits and bonus per employee, the figures are based on those employees eligible to participate in such schemes.

	Base salary	Benefits	Annual bonus
Chief Executive	0%	(19)%	(72.0)%
UK employees	1.5%	0%	0%

Relative importance of spend on pay

The table below illustrates the Company's expenditure on pay in comparison to adjusted operating profit and distributions to shareholders by way of dividend payments.

	2015 £m	2016 £m	% change
Group adjusted operating profit	304	301	(0.9)
Distributions to shareholders	–	–	–
Total employee pay	2,833	2,667	(6)

[1] Group adjusted operating profit has been used as a comparison as it is a key financial metric which the Board considers when assessing Company performance.

[2] Total employee pay is the total pay for all Group employees, including pension and social security costs. The average monthly number of employees in 2015/16 was 108,624 (2014/15: 114,370).

Non-Executive Directors' fees (audited)

Non-Executive Directors' fees were reviewed in 2014 and the Chairman's fee was reviewed as part of the appointment of the new Chairman in 2015. Fees paid to the Chairman and Non-Executive Directors during the year ended 31 March 2016 are set out below:

The fees will be reviewed in 2016/17, with any changes reported in the 2017 Directors' Remuneration Report.

Non-Executive Director	Fees		Benefits		Totals	
	2015 £000s	2016 £000s	2015 £000s	2016 £000s	2015 £000s	2016 £000s
Wolfhart Hauser[1]	–	208	–	0	–	208
Mick Barker[2]	39	39	2	0	41	39
Warwick Brady	40	53	0	0	40	53
Drummond Hall	46	60	1	0	47	60
Brian Wallace	63	65	1	0	64	65
Imelda Walsh	48	63	0	0	48	63
Jim Winestock	60	63	7	0	67	63
Former Non-Executive Directors						
David Begg[3]	14	–	0	–	14	–
Colin Hood[3]	14	–	1	–	15	–
John McFarlane[4]	250	74	0	0	250	74
John Sievwright[3]	12	–	0	–	12	–

[1] Wolfhart Hauser was appointed a Non-Executive Director on 18 May 2015 and became Chairman on 16 July 2015.

[2] In addition to his fee as a Non-Executive Director, Mick Barker receives earnings from the Group as an employee (including pension) amounting to £51,000 (2014/15: £57,000). As a participant in the BAYE he received 222 matching shares during the financial year. Based on the middle market closing price of a share on 31 March 2016 of 97p, the value of these were £215. Mick Barker has elected to receive 20% of his fees in the form of shares in the Company.

[3] David Begg, Colin Hood and John Sievwright stood down as Directors on 24 June 2014.

[4] John McFarlane stood down as a Director on 16 July 2015.

[5] Details of fee levels are set out in the approved remuneration policy on page 100.

External board appointments

Where Board approval is given for an Executive Director to accept an outside non-executive directorship, unless the appointment is in connection with the Group business, the individual Director is entitled to retain any fees received. For serving as a Director of CSX Corporation, Tim O'Toole receives a fee of $75,000 per annum which is taken in CSX common shares and an annual grant of $150,000 also in CSX common shares. Both elements are deferred until Tim O'Toole leaves the board of CSX Corporation and therefore he does not receive any current compensation.

Non-Executive Directors' interest in ordinary shares (audited)

The beneficial interests of the Non-Executive Directors and their connected persons who held office at 31 March 2016 in the shares of the Company as at that date and 1 April 2015 are shown below:

	Ordinary shares beneficially owned at 1.4.15 or date of appointment, if later	Ordinary shares beneficially owned at 31.3.16
Wolfhart Hauser	0	284,558
Mick Barker[1]	59,062	73,713
Warwick Brady	35,252	108,701
Drummond Hall	16,326	30,990
Brian Wallace	53,455	69,230
Imelda Walsh	9,933	19,429
Jim Winestock	49,434	64,743

[1] Mick Barker's total shareholding includes shares acquired under the Company's BAYE plan comprising Partnership Shares, Matching Shares and any Dividend Shares.

[2] Between 1 April and 14 June 2016, Mick Barker received the following shares as payment of fees: 1,127. In addition, Mick Barker received 511 shares under the Company's BAYE plan.

Non-Executive Directors' dates of appointment

Non-Executive Directors have an agreement for service for an initial three year term, which can be terminated by either party giving three months' notice. In line with the UK Corporate Governance Code, all Non-Executive Directors, including the Chairman, are subject to annual re-election by shareholders at each Annual General Meeting. The table below sets out these terms for those Non-Executive Directors serving as at 31 March 2016.

	Date of appointment	Notice period	Appointment end date in accordance with letter of appointment
Wolfhart Hauser[1]	18 May 2015	3 months	AGM 2016
Mick Barker	1 January 2012	3 months	AGM 2016
Warwick Brady	24 June 2014	3 months	AGM 2016
Drummond Hall	24 June 2014	3 months	AGM 2016
Brian Wallace	1 August 2012	3 months	AGM 2016
Imelda Walsh	24 June 2014	3 months	AGM 2016
Jim Winestock	1 August 2012	3 months	AGM 2016

[1] Wolfhart Hauser was appointed to the Board on 18 May 2015 and became Chairman on 16 July 2015.

Role of the Remuneration Committee

The Committee is primarily responsible for determining and recommending to the Board the framework for executive remuneration and for determining, on behalf of the Board, the remuneration of Executive Directors and senior managers.

The Committee's full terms of reference are available on the Company's website. The Committee's principal responsibilities are summarised below:

- determining and agreeing with the Board the framework for executive remuneration that ensures Executive Directors and senior managers are provided with appropriate incentives to encourage enhanced performance and are rewarded in a fair and responsible manner for their individual contribution towards the success of the Company;
- ensuring that the remuneration policy is appropriate and consistent with effective risk management;
- within the agreed framework, setting and determining the total individual remuneration arrangements for Executive Directors and senior managers, giving due regard to individual and Company performance, and remuneration trends across the Group;
- approving the design of, and determining the targets for, any performance-related plans and the total annual payments made under such plans to Executive Directors and senior managers; and
- determining the terms of employment and remuneration of each Executive Director and senior manager, including recruitment and termination arrangements.

Composition of the Remuneration Committee

The current members of the Committee are Imelda Walsh (Chair), Drummond Hall, and, from 5 October 2015, Brian Wallace. All members of the Committee are independent Non-Executive Directors. Other attendees at the Committee meetings include the Chairman, Chief Executive, Chief Financial Officer, Group Employee Director, Corporate Services Director, Group Reward & Pensions Director and PwC. The Company Secretary attends meetings as secretary to the Committee. Attendees are not involved in any decisions, and are not present for any discussions, regarding their own remuneration.

Committee attendance

The table below shows the Committee members during 2015/16 and their attendance at scheduled Committee meetings.

Members	Number of scheduled Committee meetings eligible to attend	Number of scheduled Committee meetings attended
Imelda Walsh	5	5
Drummond Hall	5	5
Brian Wallace (from 5 October 2015)	2	1

[1] Brian Wallace was unable to attend one meeting due to an unavoidable appointment arranged prior to joining the Committee. Prior to the meeting, he expressed his views on the matters to be discussed to the Chair of the Committee who then raised them at the meeting.

After each meeting, the Chair of the Committee presents a report on its activities to the Board.

Committee activities

In line with its remit, amongst other matters, the Committee took the following actions during the year:

- reviewed the current trends in remuneration practice and corporate governance;
- reviewed the Annual General Meeting outcome and feedback from institutional shareholders and shareholder bodies, giving consideration to the implications for future remuneration policy and its implementation;
- undertook a comprehensive review and investor consultation on the metrics, definitions, weightings and targets of the LTIP;
- reviewed and approved amendments to the structure and metrics of the annual bonus plan;
- reviewed and approved the terms of employment, remuneration and buy-out arrangements for Matthew Gregory;
- approved the departure terms for Chris Surch;
- approved individual remuneration arrangements for Executive Directors and senior managers;
- approved new SAYE plan rules;
- reviewed and approved revised incentive arrangements for senior managers, including the introduction of a Divisional Incentive Plan and Executive Share Plan;
- assessed the level of achievement against objectives under the EABP and LTIP;
- reviewed and approved the Directors' Remuneration Report;
- reviewed dilution limits under the Company's share plans;
- agreed the use of new issue shares to satisfy certain share plan awards; and
- reviewed the Committee's performance and its terms of reference.

Priorities for 2016/17

For the coming year it is anticipated that the Committee will focus on the following areas:

- supporting the Group's transformation plans, business objectives and strategic goals;
- ensuring compliance with regulatory requirements;
- implementing the remuneration policy;
- ongoing training of Committee members; and
- ensuring that remuneration arrangements are designed to promote the long term success of the Company and reward Company performance, with a focus on maintaining the link between performance and reward, whilst maintaining a prudent approach to cost and the risk to the business.

External adviser

The Committee has authority to obtain the advice of external independent remuneration consultants. It is solely responsible for their appointment, retention and termination and for approval of the basis of their fees and other terms. Over the course of the year, the Committee was supported by its appointed adviser, PwC. PwC was appointed adviser to the Committee in 2014. The Chair of the Committee agrees the protocols under which PwC provides advice.

PwC is a member of the Remuneration Consultants' Group and, as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. During the year, the Committee reviewed the advice provided by PwC and confirmed that it was objective and independent.

During the year, PwC provided independent advice and commentary on a range of topics including remuneration trends, corporate governance, incentive plan design and consulting with shareholders. PwC fees for advice provided to the Committee were £121,750 . Fees were charged on a time and materials basis. PwC also provided general consultancy services to FirstGroup during the year; however, the Committee is satisfied that this does not compromise the independence of the advice it has received from PwC.

Shareholder engagement

During the year, the Committee wrote to, and had discussions with, a number of major investors and their representative bodies to seek their views on revisions to the LTIP design and structure to provide them with an opportunity to provide feedback. The dialogue was constructive and shareholders were broadly supportive of the Committee's approach on these matters.

When reviewing the remuneration framework of Executive Directors and senior managers, the Committee takes into account the views and guidance expressed by major investors and their representative bodies.

Shareholder votes on remuneration matters

At the AGM on 16 July 2015, the resolutions on the remuneration policy and annual report on remuneration received the following votes from shareholders:

	Remuneration Policy	Annual Report on Remuneration
Votes for	779,923,966 (93%)	800,928,123 (95%)
Votes against	60,313,189 (7%)	39,629,864 (5%)
Total votes cast	840,237,155	840,557,987
Votes withheld	31,366,783	31,045,951

Directors' remuneration policy

Policy report

The full remuneration policy approved for three years from the date of the 2015 Annual General Meeting held on 16 July 2015 is set out below for ease of reference only. A shareholder vote on the remuneration policy is not required in 2016. Following the retirement of Chris Surch as a Director on 1 December 2015, the elements of the remuneration policy relating to existing Executive Directors only apply to Tim O'Toole. The remuneration policy has been updated to reflect the change of Chief Financial Officer. The original remuneration policy can be found on pages 79 to 87 of the 2015 Annual Report and Financial Statements on the Company's website (www.firstgroupplc.com).

There may be circumstances from time to time when the Committee will consider it appropriate to apply some judgement and exercise discretion in respect of the approved remuneration policy. This ability to apply discretion is highlighted where relevant in the approved policy, and the use of discretion will always be in the spirit of the approved policy.

Remuneration policy for Executive Directors

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Salary			
To attract and maintain high calibre executives with the attributes, skills and experience required to deliver the Group's strategy	Typically reviewed annually in March, effective from 1 April Any increases take account of: ▪ Company and individual performance ▪ role and responsibilities ▪ market positioning ▪ external indicators, such as inflation and market conditions ▪ pay increases of Group employees **Recovery or withholding** No recovery or withholding applies	While there is no maximum annual increase, salary increases (in percentage of salary terms) for Executive Directors will normally be within the range of those for Group employees, in particular those who are not within collective bargaining agreements Where the Committee considers it necessary or appropriate, larger increases may be awarded in individual circumstances such as a change in scope or responsibility or alignment to the peer group The Committee has the flexibility to set the salary of a new hire at a discount to the market level initially and to realign it over the following years as the individual gains experience in the role. In exceptional circumstances, the Committee may agree to pay above market levels to secure or retain an individual who is considered by the Committee to possess significant and relevant experience which is critical to the delivery of the Company's strategy Details of the salaries for each of the Executive Directors to be paid from 1 April 2016 are shown on page 74. Existing Executive Directors will not receive any base salary increases for the duration of this remuneration policy	Not applicable

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Benefits			
Provide market competitive benefits to assist in attracting and retaining executives	A range of benefits may be provided including, but not limited to, provision of company car (or cash equivalent), private medical insurance, life assurance, long term disability insurance, general employee benefits and travel and related expenses The Committee retains the discretion to offer additional benefits as appropriate, such as assistance with relocation, tax equalisation and overseas tax advisory fees **Recovery or withholding** No recovery or withholding applies	Benefits are not generally expected to be a significant part of the remuneration package in financial terms The cost of benefits is not pre-determined, reflecting the need to allow for normal increases associated with the provision of benefits	Not applicable
Pension benefits			
Allows executives to build long term savings for their retirement, ensures the total remuneration package is competitive and aids retention	Payment may be made into a pension scheme or delivered as a cash allowance **Recovery or withholding** No recovery or withholding applies	The Chief Executive participates in a defined benefit arrangement, which provides him with 1/50th accrual for each year of service up to a fixed scheme earnings cap of £140,705 per annum. For earnings above this cap he receives an allowance of 20% of base salary Executive Directors employed after April 2011 receive a pension allowance equal to 20% of base salary In the event of further changes to the pension tax regime adversely affecting individuals' pension benefits and/or the Group's pension arrangements, the Committee may amend the pension benefits available, but only on a basis which would not cost the Company materially more than the Executive Director's current arrangements in terms of percentage of base pay	Not applicable

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Annual bonus			
To focus on the delivery of annual goals, to strive for superior performance and to achieve specific targets which support the strategy Deferred share element encourages retention and provides a link between the bonus and share price growth	Bonuses are awarded annually under the Executive Annual Bonus Plan (EABP) At least half the bonus awarded in any year will be deferred into shares, normally for a period of three years The EABP is reviewed annually to ensure performance measures and targets are appropriate and support the strategy An amount of up to 25% of the maximum may be payable for threshold performance The Committee has a discretion to permit a dividend equivalent amount to accrue on shares which vest under the EABP **Recovery or withholding** The rules of the EABP contain malus and clawback provisions to take account of exceptional and adverse circumstances as described in more detail on page 84	**For existing Executive Directors** Maximum bonus opportunity is 120% of base salary for the Chief Executive The Committee has discretion to increase awards to the existing Chief Executive in order, over time, to re-align his remuneration to create a more leveraged package. Any such increase would be subject to prior consultation with major investors and be limited to 150% of base salary **For newly recruited Executive Directors** Maximum bonus opportunity will be 150% of base salary for newly recruited Executive Directors	The bonus is based on a combination of financial, operational and individual metrics, which the Committee may review from time to time. The precise allocation between financial and non-financial metrics (as well as weightings within these metrics), will depend on the strategic focus of the Company from year to year. At least half of any award will be subject to financial measures. Details of the bonus measures for EABP awards to be made in respect of the financial year ending 31 March 2017 are set out on pages 77 and 78 Vesting of deferred shares is dependent on continued employment or good leaver status The Committee retains the discretion, acting fairly and reasonably, to alter the bonus outcome in light of the underlying performance of the Company, taking account of any factors it considers relevant. The Committee will consult with major investors before any exercise of its discretion to increase the bonus outcome

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Long Term Incentive Plan			
Incentivises the execution of strategy, and drives long term value creation and alignment with longer term returns to shareholders	Awards under the LTIP are rights to receive conditional shares or nil-cost options over shares, subject to continued employment and performance conditions An amount of up to 25% of the maximum may be payable for threshold performance, with maximum vesting being equal to 100% of any award made Shares which vest under the LTIP are subject to an additional holding period of two years following the three-year performance period. Shares may be sold in order to satisfy tax or other relevant liabilities as a result of an award vesting The Committee has a discretion to permit a dividend equivalent amount to accrue on shares which vest under the LTIP **Recovery or withholding** The rules of the LTIP contain malus and clawback provisions to take account of exceptional and adverse circumstances as described in more detail on page 84	**For existing Executive Directors** Normal award policy currently set at a maximum opportunity of 150% of base salary, although the Committee has the discretion to make an award of up to 200% of base salary The Committee has discretion to increase awards to the existing Chief Executive in order, over time, to re-align his remuneration to create a more leveraged package. Any such increase would be subject to prior consultation with major investors and be limited to 200% of base salary for the existing Chief Executive **For newly recruited Executive Directors** Maximum award opportunity will be 200% of base salary for a newly recruited Chief Executive and 175% of base salary for other newly recruited Executive Directors In exceptional circumstances, awards of up to 300% of base salary may be made, such as to aid recruitment	LTIP awards will be subject to the achievement of a combination of stretching targets designed to incentivise performance in support of the Group's strategy and business objectives, measured over a three-year performance period. The Committee determines the measures, their relative weightings and targets prior to each award The Committee retains the discretion, acting fairly and reasonably, to alter the LTIP vesting outcome in light of the underlying performance of the Company during the performance period, taking account of any factors it considers relevant. The Committee will consult with major shareholders before any exercise of its discretion to increase the LTIP vesting outcome
All-Employee Share Plans			
To encourage all employees to make a long term investment in the Company's shares in a tax efficient way	Opportunity to participate in Sharesave and Share Incentive Plan on the same terms as other eligible employees **Recovery or withholding** No recovery or withholding applies	The maximum participation level is in accordance with HMRC limits	N/A

EABP and Long Term Incentive Plan flexibility

The Committee operates within its policy at all times. It will also operate the EABP and LTIP according to the rules of each respective plan and consistently with normal market practice and the Listing Rules, including flexibility in a number of areas. How the Committee will retain flexibility includes:

- when to make awards and payments;
- how to determine the size of an award, a payment, or when and how much of an award should vest;
- who receives an award or payment;
- how to deal with a change of control, restructuring or any other corporate event of the Group;
- whether an Executive Director or senior manager is a good/bad leaver for incentive plan purposes and whether and what proportion of awards vest at the time of leaving or at the original vesting date(s);
- how and whether an award or its performance conditions may be adjusted in certain circumstances (e.g. change of accounting policy);
- the choice of (and adjustment of) performance measures, weightings and targets for each incentive plan from year to year in accordance with the remuneration policy set out above and the rules of each plan; and
- amending plan rules in accordance with their terms.

Any use of the above discretions would, where relevant, be explained in the Annual Report on Remuneration and may, as appropriate, be the subject of consultation with the Company's major shareholders.

Setting performance measures and targets

In determining the levels of executive reward, the Committee places considerable emphasis on ensuring a strong and demonstrable link between actual remuneration received and the delivery of FirstGroup's strategic plans.

The measures and weightings used under the EABP are selected annually to reflect the Group's key strategic initiatives for the year and reflect both financial and non-financial objectives. The targets for the EABP are set by reference to the Company's strategy and internal budgets as well as the external context, such as market forecasts. This approach seeks to ensure that the targets are appropriately challenging.

The LTIP provides a focus on delivering superior returns to shareholders by providing rewards for longer term growth and shareholder return outperformance. The Committee reviews annually whether the performance measures, weightings and calibration of targets remain appropriate and sufficiently challenging taking into account the Company's strategic objectives and shareholder interests.

All-employee share awards are not subject to performance conditions in line with the treatment of such awards for all employees and in accordance with the applicable tax legislation.

Shareholding guidelines

The Chief Executive is expected to hold shares equivalent in value to a minimum of 200% of base salary and other Executive Directors 150% of base salary within a five-year period from the later of their date of appointment or the approval of this remuneration policy. Executive Directors are further required to retain at least 75% of the shares, net of tax, vesting under a Group share incentive plan or otherwise acquire shares in the Company until the shareholding guideline is met. The Committee reserves the right to relax or waive the application of the guidelines where it believes it is justified by the circumstances.

In addition, Executive Directors are required to hold shares which vest under the LTIP for an additional holding period of two years following the three year performance period, with only those shares required to cover a tax liability on exercise or vesting of an LTIP award permitted to be sold.

Group employee considerations

In setting the remuneration of the Executive Directors, the Committee takes into account the overall approach to reward for employees in the Group. FirstGroup operates in a number of markets and its employees carry out a diverse range of roles across the UK and US. All employees, including Directors, are paid by reference to the market rate and base salary levels are reviewed regularly. When considering salary increases for Executive Directors, the Committee pays close attention to pay and employment conditions across the wider workforce.

The key difference between Executive Director remuneration and other employees is that, overall, the remuneration policy for Executive Directors is more heavily weighted towards variable pay linked to business performance than for other employees, so that remuneration will increase or decrease in line with business performance and align the interests of Executive Directors and shareholders. In particular, long term incentives are provided only to the most senior executives as they are reserved for those considered to have the greatest potential to influence overall levels of performance.

The Committee does not formally consult with employees on Executive Director remuneration, but as a result of the Company's all-employee share plans UK-based employees are able to become shareholders in the Company and can comment on the remuneration policy in the same way as other shareholders. In addition, the Company provides a number of forums for employees to provide feedback on remuneration as well as receiving employee views from the Group Employee Director, who attends meetings of the Committee at the invitation of the Chair of the Committee.

Legacy arrangements

The Committee may approve payments to satisfy commitments agreed prior to the approval of this remuneration policy. This includes previous incentive awards that are currently outstanding and unvested which have been disclosed to shareholders in previous remuneration reports. The Committee may also approve payments outside of this remuneration policy in order to satisfy legacy arrangements made to an employee prior to (and not in contemplation of) promotion to the Board of Directors.

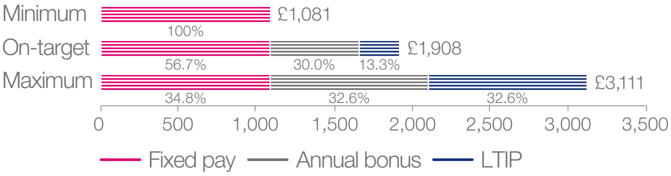
All historic awards that were granted but remain outstanding remain eligible to vest based on their original award terms.

Reward scenarios

The graphs below provide an indication of the reward opportunity for each of the current Executive Directors based on their roles as at 1 April 2016.

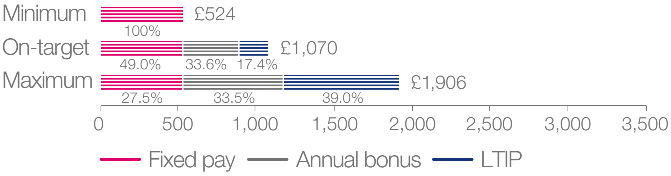
Chief Executive

Total remuneration (£000s)



Chief Financial Officer

Total remuneration (£000s)



The basis of calculation and key assumptions used to complete the charts above are as follows:

Minimum – only fixed pay is payable i.e. base salary, benefits and pension or cash in lieu of pension. No bonus is payable. No vesting under the LTIP. The value of the Chief Executive's pension benefit and allowance is assumed to be in line with that for 2015/16 as set out in the Executive Directors' total remuneration table. The value of the Chief Financial Officer's pension allowance is 20% of his base salary.

On-target – fixed pay plus 56.5% of maximum annual bonus pay-out and 25% vesting under the LTIP.

Maximum – fixed pay plus 100% of maximum annual bonus pay-out and 100% vesting under the LTIP.

Approach to recruitment remuneration

The Committee believes it is vital to be able to attract and recruit high calibre executives who are focused on delivering the Group's strategic plans, while relating reward to performance in the context of appropriate risk management, and aligning the interests of Executive Directors and senior managers with those of shareholders to build a sustainable performance culture.

The Committee's approach when considering the overall remuneration arrangements in the recruitment of a new Executive Director is to take account of his or her remuneration package in their prior role, the market positioning of the remuneration package and not to pay more than is necessary to facilitate their recruitment.

The remuneration package for a new Executive Director will be set in accordance with the terms of the Company's approved remuneration policy in force at the time of appointment, except:

Salary	The salary level shall take into account companies in the comparator group, which comprises companies that are broadly in line with FirstGroup's size, structure and complexity and have features that are comparable to FirstGroup. The Committee has the flexibility to set the salary of a new Executive Director at a discount to the market level initially, with a series of planned increases implemented over the following few years to bring the salary to the desired positioning, subject to individual performance. In exceptional circumstances, the Committee has the ability to set the salary of a new Executive Director at a rate higher than the market level to reflect the criticality of the role and the experience and performance of the individual.
Benefits	The Company may award certain additional benefits and other allowances including, but not limited to, those to assist with relocation support, temporary living and transportation expenses, educational costs for children and tax equalisation to allow flexibility in employing an overseas national.
Pension benefits	Any new Executive Director based outside the UK will be eligible to participate in pension or pension allowance, insurance and other benefit programmes in line with local practice.
Annual bonus	The maximum bonus opportunity shall be 150% of base salary.
Long Term Incentive Plan	The maximum opportunity shall be 200% of base salary for a newly recruited Chief Executive and 175% of base salary for other newly recruited Executive Directors. However, a maximum opportunity of 300% of base salary may be used in exceptional circumstances, in addition to any buy-out of forfeited awards.
Replacement awards	The Committee shall consider what cash or replacement share-based awards, if any, are reasonably necessary to facilitate the recruitment of a new Executive Director in all circumstances. This includes an assessment of the awards and any other compensation or benefits item that would be forfeited on leaving their current employer. These payments would not exceed what is considered by the Committee to be a fair estimate of remuneration lost when leaving the former employer and would reflect, as far as possible, the nature and time horizons attaching to that remuneration and the impact of any performance conditions. If the Executive Director's former employer pays a portion of the remuneration that was deemed foregone, the replacement payments will be reduced by an equivalent amount. In the case of an internal executive appointment, any variable pay element awarded in respect of the prior role will be allowed to pay out according to its existing terms, adjusted as relevant to take into account the appointment. In addition, any other ongoing remuneration obligations existing prior to appointment will continue.
Notice periods	The Committee shall utilise notice periods of up to 12 months.

For the appointment of a new Chairman or Non-Executive Director, the fee arrangement shall be set in accordance with the approved remuneration policy in force at that time.

Executive Directors' service agreements

The Executive Directors' service agreements, including arrangements for early termination, are carefully considered by the Committee and are designed to recruit, retain and motivate Executive Directors of the calibre required to manage the Company. The Committee's policy is for Executive Directors' service contracts to be terminable on no more than one year's notice. The details of existing Executive Directors' service contracts are summarised in the table below:

Executive Director	Date of service contract	Notice period
Tim O'Toole	25 January 2011	12 months
Matthew Gregory	1 December 2015	12 months

Policy on payment for loss of office

Executive Directors' service agreements contain provisions for payment in lieu of notice. The Company is unequivocally against rewards for failure; the circumstances of any departure, including the individual's performance, would be taken into account in every case. Directors' service agreements are kept for inspection by shareholders at the Company's registered office.

Service agreements may be terminated without notice and without payment in lieu of notice in certain circumstances, such as gross misconduct. The Company may require the Executive Director to work during their notice period or may choose to place the individual on garden leave, for example to ensure the protection of the Company's and shareholders' interests where the Executive Director has access to commercially sensitive information.

Except in the case of gross misconduct or resignation, the Company may at its absolute discretion reimburse for reasonable professional fees relating to the termination of employment and, where an Executive Director has been required to re-locate, to pay reasonable repatriation costs, including possible tax exposure costs.

In the event of an Executive Director's departure, any outstanding share awards will be treated in accordance with the plan rules as follows:

Plan	Treatment on cessation
EABP	The EABP provides no entitlement to a bonus following cessation of employment, unless the leaver is considered a good leaver. Where an individual is considered a good leaver (in the event of death or termination of employment by reason of ill-health, disability, injury, statutory redundancy, agreed retirement, sale of employing company or business out of the Group or at the discretion of the Committee) a performance-related bonus will be paid. This will be based on the proportion of the bonus year for which the individual has been actively employed and bonus (if any) will be paid at the normal time, although the Committee retains discretion to pay it earlier in appropriate circumstances. There is no entitlement to any bonus award under the EABP for any financial year where an Executive Director has not been actively working, even if still in employment. The Committee has discretion to make an award in these circumstances, but would only consider exercising its discretion if this were justified by the circumstances and timing of the Executive Director's departure. The Committee will not exercise that discretion in respect of any period when the Executive Director is on garden leave. Any resulting bonus payment will normally be time pro-rated and be based on the level of performance achieved. Deferred share awards will normally lapse on cessation of employment or, at the Committee's discretion, on service of notice of termination of employment. However, under 'good leaver' provisions (other than in the case of death) unvested EABP deferred shares will vest either at the end of the vesting period or in the event of termination by reason of ill-health on the date of cessation of employment or any other date determined by the Committee. Where an award vests early, the good leaver will receive a pro-rated number of shares to reflect the acceleration of vesting, although in the event of termination by reason of ill-health the Company may exercise discretion to waive pro-rating. In the case of death, deferred share awards vest on the date of death and no pro-rating is applied.
Long Term Incentive Plan	Awards will normally lapse on cessation of employment. However, in 'good leaver' circumstances (other than in the case of death) unvested LTIP shares will vest either at the end of the performance period or in the event of termination of employment by reason of ill-health on the date of cessation of employment to the extent the performance conditions have been satisfied as determined by the Committee. A good leaver will normally receive a pro-rated proportion of any outstanding LTIP awards. The Committee may choose to allow certain awards to vest while others lapse, depending on the circumstances of the case. In the case of death, awards vest on the date of death and are not subject to the performance conditions, with pro-rating applying in the same way as for good leavers.
All-employee share plans	Awards will vest in accordance with the rules of the relevant plan, which do not permit the exercise of any discretion by the Committee.

Policy on external appointments

The Committee believes that the Company can benefit from Executive Directors holding one approved non-executive directorship of another company, offering Executive Directors the opportunity to broaden their experience and knowledge. Company policy is to allow Executive Directors to retain the fees earned from such appointments.

Chairman and other Non-Executive Directors' letters of appointment

The Chairman and other Non-Executive Directors do not have service contracts, but each has a letter of appointment with the Company. Each letter of appointment generally provides for a three-month notice period. Non-Executive Directors are normally appointed for two consecutive three-year terms, with any third term of three years being subject to rigorous review and taking into account the need progressively to refresh the Board.

In line with the requirement of the UK Corporate Governance Code, all Non-Executive Directors including the Chairman are subject to annual re-election by shareholders at each AGM. The appointment of each of the Non-Executive Directors is subject to early termination without compensation if he or she is not re-appointed at a meeting of shareholders.

Remuneration policy for Non-Executive Directors

Non-Executive Directors may on occasion receive reimbursement of costs incurred in relation to professional advice. These payments, if made, are taxable benefits to the Non-Executive Director and the tax arising is paid by the Company on the Director's behalf.

Chairman's fee

The fee for the Chairman is determined by the Committee and reflects the commitment, demands and responsibility of the role. The fee is paid monthly and can either be taken in cash or shares or a combination of both. The fee is inclusive of all Committee roles and is not performance-related or pensionable. Limited benefits relating to travel, accommodation and meals may also be payable in certain circumstances, with the tax arising being paid by the Company on the Chairman's behalf.

Wolfhart Hauser receives a fee of £280,000. The fee payable to the Chairman may be varied (either up or down) from this level during the three year period that this remuneration policy operates to ensure it continues to appropriately recognise the requirements of the role.

Group Employee Director

The Group Employee Director receives a normal remuneration package, including participation in any benefit and incentive arrangements and pension scheme, for his or her regular employment duties appropriate to the role performed. The Group Employee Director's fee as a Non-Executive Director is payable in addition to normal remuneration as an employee of FirstGroup.

Non-Executive Director fees

Fees for the Non-Executive Directors are determined by the Board as a whole, upon the recommendation of the Executive Directors and the Chairman.

The policy on Non-Executive Directors' fees is:

Purpose and link to strategy	To be sufficient to attract, motivate and retain Non-Executive Directors necessary to contribute to a high performing Board.
Operation	Fees are determined by the Board, within the limits set out in the Company's Articles of Association, with Non-Executive Directors abstaining from any discussion or decision on their fees. The Board takes account of recognised best practice standards for such positions when determining the fee level and structure. The Non-Executive Directors receive a base fee, with additional fees payable for chairmanship of the Company's key Committees and for performing the Senior Independent Director role. Fees are paid monthly and can either be taken in cash or shares or a combination of both. Non-Executive Directors' letters of appointment contain provisions for payment in lieu of notice. Other than the Group Employee Director, Non-Executive Directors do not participate in any of the Company's incentive arrangements or receive any pension provision. Non-Executive Directors are reimbursed for expenses, and any tax arising on those expenses is settled directly by the Company. To the extent that these are deemed taxable benefits, they will be included in the Annual Report on Remuneration, as required. Reasonable costs of travel and accommodation for business purposes are reimbursed to Non-Executive Directors. On the limited occasions when it is appropriate for a Non-Executive Director's spouse or partner to attend, such as to a business event, the Company will meet these costs. The Company will meet any tax liabilities that may arise on such expenses.
Fee levels	Fees (per annum) are: ▪ Non-Executive Director base fee: £52,500 ▪ Group Employee Director: £39,375 ▪ Senior Independent Director: £7,500 ▪ Chair of Audit Committee: £12,000 ▪ Chairs of Remuneration Committee and Board Safety Committee: £10,000. The above fee levels may be varied (either up or down) during the three year period that the remuneration policy operates to ensure they continue to appropriately recognise the time commitment and responsibilities of the role, increases or decreases to fee levels for Non-Executive Directors in general and fee levels in companies of a similar size and complexity.

Consideration of shareholder views

The Committee values its continued dialogue with shareholders and engages directly with them and their representative bodies at the earliest opportunity. Shareholder feedback received in relation to the AGM, as well as any additional feedback and guidance received during the year is considered by the Committee as it develops the Company's remuneration framework and practices.

Imelda Walsh
Chair, Remuneration Committee
14 June 2016

Other statutory information

Directors

The Directors of the Company who served during the year and their biographical details are shown on pages 48 and 49, together with John McFarlane and Chris Surch who stood down from the Board on 16 July 2015 and 1 December 2015 respectively. Details of Directors' interests in shares can be found in the Directors' Remuneration Report.

The Company's Articles of Association provide that each Director who has been appointed by the Board since the last Annual General Meeting must retire from office and stand for election by the shareholders at the first Annual General Meeting after their appointment. Matthew Gregory, having been appointed to the Board on 1 December 2015, will be seeking election as a Director at the forthcoming Annual General Meeting. In accordance with the UK Corporate Governance Code, all other Directors will retire and submit themselves for re-election at the Company's forthcoming Annual General Meeting. Details of Directors' contracts or letters of appointment are included in the Directors' Remuneration Report.

The performance of each Director was reviewed and it was found that each of them continues to make an effective and valuable contribution to the deliberations of the Board and demonstrate commitment to the role. The performance of the Chairman was led by the Senior Independent Director.

During the year, no Director had any interest in any shares or debentures in the Company's subsidiaries, or any material interest in any contract with the Company or a subsidiary being a contract of significance in relation to the Company's business.

Directors' indemnities and liability insurance

FirstGroup maintains liability insurance for its Directors and Officers. The Company has also granted indemnities to each of the Directors as well as the Company Secretary, Group Director of Finance, Group Financial Controller and Group Head of Tax to the extent permitted by law. These indemnities are uncapped in amount, in relation to certain losses and liabilities which they may incur to third parties in the course of acting as a Director (or Officer or Company Secretary as the case may be) of the Company or any of its associated companies. In the case of the Group Director of Finance, Group Financial Controller and Head of Tax the indemnities are limited to their actions as Directors of specific associated companies. Neither the indemnity nor insurance cover provides cover in the event that a Director (or Officer or Company Secretary as the case may be) is proved to have acted fraudulently or dishonestly. The indemnity is categorised as a 'qualifying third-party indemnity' for the purposes of the Companies Act 2006 and will continue in force for the benefit of Directors (or Officers or Company Secretary as the case may be) on an ongoing basis.

Annual General Meeting

The Company's Annual General Meeting will be held at 1.30pm on Tuesday 19 July 2016 at Norwood Hall Hotel, Garthdee Road, Aberdeen AB15 9FX, United Kingdom. Details of the meeting venue and the resolutions to be proposed, together with explanatory notes, are set out in a separate Notice of Annual General Meeting which accompanies this Annual Report and Accounts.

A summary of the business carried out at the Annual General Meeting will be published on the Company's website (www.firstgroupplc.com).

Share capital

As at 31 March 2016, the Company's issued share capital was 1,204,926,756 ordinary shares of 5p, each credited as fully paid. As at the date of this report, the Company holds 157,229 ordinary shares in treasury, and the issued share capital of the Company which carries voting rights of one vote per share comprises 1,204,769,527 ordinary shares (excluding treasury shares). Further details of the Company's issued share capital are shown in note 8 to the Company financial statements.

The Company's shares are listed on the London Stock Exchange.

A list of subsidiary undertakings is given in note 38 to the consolidated financial statements.

Substantial shareholdings

As at 14 June 2016, the Company had been notified under Rule 5 of the Disclosure and Transparency Rules of the Financial Conduct Authority of the following interests in its total voting rights of 3% or more:

Name of holder	Number of ordinary shares	% of total voting rights
Orbis Investment Management Limited	72,664,252	6.03
Schroders plc	64,283,712	5.34
Threadneedle Asset Management Limited	63,621,244	5.28
Franklin Mutual Advisers, LLC	60,595,200	5.03
Jupiter Asset Management Limited	60,603,024	5.03

Results

The results for the year are set out in the consolidated income statement on page 106.

Articles of Association

The following description summarises certain provisions of the Company's Articles of Association and applicable Scottish law concerning companies (the Companies Act 2006). This summary is qualified in its entirety by reference to this Company's Articles of Association and the Companies Act 2006. The Company's Articles of Association may be amended by a special resolution of the Company's shareholders.

Shares

The rights attaching to the ordinary shares of the Company are defined in the Company's Articles of Association. No person has any special rights of control over the Company's share capital and all issued shares are fully paid. Details of the Company's issued share capital are set out in note 8 to the Company financial statements.

Voting rights

Shareholders are entitled to attend and vote at any general meeting of the Company. It is the Company's practice to hold a poll on every resolution at general meetings. Every member present in person or by proxy has, upon a poll, one vote for every share held. In the case of joint holders of a share the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the Register of Members in respect of the joint holding. The Notice of the 2016 Annual General Meeting accompanying this document specifies the deadlines for exercising voting rights.

Dividend rights

Shareholders may by ordinary resolution declare dividends but the amount of the dividend may not exceed the amount recommended by the Board. The Directors are not recommending payment of a final dividend this year.

Transfer of shares

There are no specific restrictions on the size of a holding nor on the transfer of shares which are both governed by the general provisions of the Company's Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights at any meeting of the Company.

Employee share plans

The Company operates a number of employee share plans details of which are set out in note 34 to the consolidated financial statements. Kleinwort Benson (Guernsey) Trustees Limited, as trustee of the FirstGroup plc Employee Benefit Trust (EBT), holds shares in the Company in trust in order to satisfy awards made to participants in the Company's LTIP, EABP, ESP and SAYE plan. The EBT waives its rights to vote and to dividends on the shares it holds which are unallocated.

Under the rules of the FirstGroup plc Share Incentive Plan (BAYE), employees buy shares and receive free matching shares in the Company. In order to preserve certain tax benefits these shares are held in a trust by Computershare for employees. Whilst these shares are held in trust, the voting rights attached to them are exercised by the trustee, but only at the direction of the employees. The trustee does not vote on the shares if no direction is given to it.

All of the Company's employee share plans contain provisions relating to change of control. On a change of control, options and awards granted to employees may vest and become exercisable, subject to the satisfaction of any applicable performance conditions at the time.

Powers of the Directors

The Directors are responsible for the management of the business of the Company and may exercise all powers of the Company subject to applicable legislation and regulation and the Company's Articles of Association.

Purchase of own shares

At the Annual General Meeting of the Company in 2015 authority was granted for the Company to purchase up to 10% of its ordinary shares. During the year no ordinary shares were purchased. Under the existing authority the Company may purchase up to 120,400,000 ordinary shares. This authority remains in place until the Annual General Meeting on 19 July 2016 when it is intended to seek a renewal.

Political donations

At the 2015 AGM, shareholders passed a resolution to authorise the Company and its subsidiaries to make political donations to political parties or independent election candidates, to other political organisations, or to incur political expenditure (as such terms are defined in sections 362 to 379 of the Companies Act 2006), in each case in amounts not exceeding £100,000 in aggregate. As the authority granted will expire at the 2016 AGM, renewal of this authority will be sought at this year's Annual General Meeting. Further details are available in the Notice of Annual General Meeting. It is not the policy of the Company to make donations to EU political organisations or to incur other political expenditure. However, as a result of the broad definition used in the Companies Act 2006 (the 'Act') of matters constituting political donations, it is possible that normal business activities, which might not be thought to be political expenditure in the usual sense, could be caught. Accordingly, authority is being sought as a precaution to ensure that the Company's normal business activities do not infringe the Act.

In the US it is far more common for businesses to participate in the political process through a variety of methods. During the year the Group's US businesses incurred political expenditure in the US of $26,250 (2014/15: $1,000) in the support of their business goals. The Group has fully complied with jurisdictional reporting of these contributions.

No other political donations or expenditure was incurred by the Company and its subsidiaries during 2015/16.

Employee involvement

An informed and consultative approach to employee communication is taken across the Group. As well as more traditional forms of communication, employees can also access online facilities. The employee portal provides an opportunity for employees to share information and work in collaboration with other Group employees on areas of mutual interest and benefit to the Group. In addition, management teams work to ensure that communication is cascaded face to face throughout their business areas and employees are encouraged to discuss any issues with management at any time and events, such as executive roadshows, are arranged periodically to allow employees the chance to feed back to senior management.

A significant proportion of the workforce belongs to trade unions, with our employees represented by approximately 32 different unions. The majority of our employees in North America, approximately 79% of our First Bus employees and a significant proportion of our First Rail employees are represented by unions.

Throughout the Group, regular dialogue with employee representatives, such as trade unions, is maintained. Each division has its own information and consultation arrangements and levels of employee involvement in the business differ.

As well as gathering feedback throughout the year through formal and informal channels, all employees are also given the opportunity to make their voice heard through regular employee surveys. These surveys at Group, divisional and local level provide a useful insight into what employees think about the Company. The priorities identified by employees help to shape the future employee strategy.

Policies concerning disabled employees

Full and fair consideration is given to applications for employment by disabled persons. We are committed to supporting disabled employees including employees who become disabled persons during their employment with regards to training, career development and promotion.

Change of control – significant agreements

(a) Financing agreements

The Group has a £800m multi-currency revolving credit and guarantee facility between, amongst others, the Company and The Royal Bank of Scotland plc dated 15 May 2014. This refinanced the Group's existing revolving credit and guarantee facility. Following any change of control of the Company, individual lenders may negotiate with the Company with a view to resolving any concerns arising from such change of control. If the matter has not been resolved within 30 days an individual bank may cancel its commitment and the Company must repay the relevant proportion of any drawdown.

The US$150m 4.26% notes due in three instalments of US$50m from 2016 to 2017, the £250m 6.125% bonds due 2019, the £300m 8.125% bonds due 2018, the £350m 8.750% bonds due 2021, the £200m 6.875% bonds due 2024 and the £325m 5.250% bonds due 2022 issued by the Company may also be affected by a change of control of the Company. A change of control in respect of the £250m 6.125% bonds due 2019 may result in an increase of 1.5% per annum in the interest rate payable on those bonds. However, the interest rate on the bonds will only be so increased if certain further thresholds in relation to the credit rating of the bonds are also met. In respect of the £300m 8.125% bonds due 2018, the £350m 8.750% bonds due 2021, the £200m 6.875% bonds due 2024 and the £325m 5.250% bonds due 2022, upon a change of control of the Company, provided that certain further thresholds in relation to the credit rating of the bonds are met, the bondholders have the option to require the Company to redeem the bonds. In respect of the US$150m 4.26% notes due from 2016 to 2017, upon a change of control, the Company must make an offer to noteholders to prepay the entire unpaid principal amount of the notes held by each bondholder (at par) together with interest accrued thereon but without any 'yield maintenance' amount.

(b) First Rail

The Group's franchised passenger rail operators, First TransPennine Express Limited and First Greater Western Limited, are each party to a franchise agreement with the Secretary of State for Transport. These franchise agreements are subject to termination clauses which may apply on a change of control. These operators and the Group's non-franchised rail operator, Hull Trains Company Limited, each hold railway licences as required by the Railways Act 1993 (as amended); these licences may be revoked on three months' notice if a change of control occurs without the approval of the Office of Rail and Road. All of these operators also require and hold track access agreements with Network Rail Infrastructure Limited under which they are permitted to access railway infrastructure. Failure by any of the operators to maintain its railway licence is a potential termination event under the terms of the track access agreements. The Group's railway operators also lease rolling stock from specialist rolling stock leasing companies such as Eversholt Rail Group, Porterbrook Leasing Company Limited and Angel Trains Limited. A material number of the individual leasing agreements include change of control provisions. The Group is also involved from time to time in bidding processes for UK rail franchises and transport contracts further afield which customarily include change in circumstance provisions which would be triggered on a change of control and could result in termination or rejection from further participation in the relevant competitions.

(c) Joint venture agreements

The Company has joint venture agreements with Keolis (UK) Limited in relation to the former TransPennine Express franchise and with Danske Statsbaner (Danish State Railways) in relation to DSB/First Aps and DSB Sverige AB. As is customary, these joint venture agreements include provisions addressing change of control. The operations to which each of these agreements apply have ceased to operate during 2015/16 (in March 2016 and December 2015, respectively), and the agreements are referred to here for completeness.

Financial risk management

The Company's policies on financial risk management, including the Company's exposure to liquidity risk, credit risk and certain market-based risks including foreign exchange rates, interest rates and fuel prices, can be found in note 24 to the consolidated financial statements.

Audit information

The Directors who held office at 14 June 2016 confirm that so far as they each are aware, there is no relevant audit information (being information needed by the auditor in connection with preparing their audit report), of which the Company's auditor is unaware, and each of the Directors has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

Having reviewed the independence, objectivity and performance of the auditor, the Audit Committee has recommended to the Board that the existing auditor, Deloitte, be re-appointed. Ordinary resolutions re-appointing Deloitte as auditor and authorising the Directors to set their remuneration will be proposed at the 2016 Annual General Meeting.

Going concern

Whilst the Group is affected by macro-economic developments, it has a strong balanced portfolio of businesses with approximately half of Group revenues generated through contracts with government agencies and other large organisations in the UK and North America.

While any changes in economic activity will impact First Bus and First Rail passenger numbers this potential risk is reduced in First Bus by the ability of the Group to modify services on relatively short notice. In North America, the First Student and First Transit businesses are highly contracted and, whilst Greyhound is more susceptible to the economy, its costs are largely variable.

The Group has a diversified funding structure which is largely represented by medium term unsecured committed bank facilities and long term unsecured bond debt. The Group has a £800m committed revolving banking facility, which expires on 28 June 2019.

The Group's management of exposure to financial risk, including liquidity, currency, interest rate and commodity risks, is disclosed in note 24 to the consolidated financial statements.

The Directors have carried out a detailed review of the Group's 2016/17 budget and medium term plans, with due regard to the risks and uncertainties to which the Group is exposed (of which the principal items are set out on pages 37 to 40), the uncertain economic climate and the impact that this could have on trading performance.

Based on this review, the Directors believe that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future (which is for this purpose a period of at least 12 months from the date of approval of these financial statements). Accordingly, the financial statements have been prepared on a going concern basis.

Post-balance sheet events

Post-balance sheet events are set out in note 37 of the consolidated financial statements.

Statement of Directors' responsibilities in respect of the annual report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have chosen to prepare the parent company financial statements in accordance with applicable UK Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities, and have adopted a control framework across the Group.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

Each Director confirms to the best of his or her knowledge that:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic report and Governance section include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's and the Group's position and performance, business model and strategy.

The Strategic report comprising pages 2 to 46 and the Governance section comprising pages 48 to 104, and including the sections of the Annual Report and Accounts referred to in these pages, have been approved by the Board and signed on its behalf by:

Robert Welch
Company Secretary
14 June 2016
395 King Street, Aberdeen AB24 5RP

Financial statements

Consolidated income statement

For the year ended 31 March

Continuing Operations	Notes	2016 £m	2015 £m
Revenue	3,5	**5,218.1**	6,050.7
Operating costs		**(4,971.8)**	(5,804.9)
Operating profit	5,6	**246.3**	245.8
Investment income	8	**1.4**	1.8
Finance costs	8	**(134.2)**	(141.8)
Profit before tax		**113.5**	105.8
Tax	9	**(17.1)**	(20.3)
Profit for the year		**96.4**	85.5
Attributable to:			
Equity holders of the parent		**90.3**	75.2
Non-controlling interests		**6.1**	10.3
		96.4	85.5
Earnings per share			
Basic	10	**7.5p**	6.2p
Diluted	10	**7.5p**	6.2p
Adjusted results[1]			
Adjusted operating profit	4	**300.7**	303.6
Adjusted profit before tax	4	**168.3**	163.9
Adjusted EPS	10	**10.3p**	9.8p

[1] Adjusted for certain items as set out in note 4.

The accompanying notes form an integral part of this consolidated income statement.

Consolidated statement of comprehensive income

Year ended 31 March

	2016 £m	2015 £m
Profit for the year	**96.4**	85.5
Items that will not be reclassified subsequently to profit or loss		
Actuarial (losses)/gains on defined benefit pension schemes	**(59.2)**	33.9
Deferred tax on actuarial (losses)/gains on defined benefit pension schemes	**16.1**	(6.7)
	(43.1)	27.2
Items that may be reclassified subsequently to profit or loss		
Derivative hedging instrument movements	**(13.7)**	(89.9)
Deferred tax on derivative hedging instrument movements	**0.6**	26.6
Exchange differences on translation of foreign operations	**110.5**	223.9
	97.4	160.6
Other comprehensive income for the year	**54.3**	187.8
Total comprehensive income for the year	**150.7**	273.3
Attributable to:		
Equity holders of the parent	**144.6**	263.0
Non-controlling interests	**6.1**	10.3
	150.7	273.3

The accompanying notes form an integral part of this consolidated statement of comprehensive income.

Consolidated balance sheet
As at 31 March

	Note	2016 £m	2015 £m
Non-current assets			
Goodwill	11	**1,736.3**	1,659.2
Other intangible assets	12	**162.2**	197.0
Property, plant and equipment	13	**2,142.2**	2,027.1
Deferred tax assets	25	**62.7**	60.5
Retirement benefit assets	35	**31.0**	32.9
Derivative financial instruments	24	**41.5**	45.3
Investments	14	**25.4**	3.1
		4,201.3	4,025.1
Current assets			
Inventories	16	**61.4**	69.9
Trade and other receivables	17	**694.4**	716.6
Cash and cash equivalents	20	**360.1**	420.5
Assets held for sale	18	**3.5**	1.4
Derivative financial instruments	24	**16.7**	15.5
		1,136.1	1,223.9
Total assets		**5,337.4**	5,249.0
Current liabilities			
Trade and other payables	19	**1,101.9**	1,139.0
Tax liabilities		**37.0**	35.3
Financial liabilities	21	**168.4**	136.0
Derivative financial instruments	24	**68.1**	74.5
		1,375.4	1,384.8
Net current liabilities		**239.3**	160.9
Non-current liabilities			
Financial liabilities	21	**1,712.1**	1,805.7
Derivative financial instruments	24	**35.5**	22.6
Retirement benefit liabilities	35	**301.9**	272.3
Deferred tax liabilities	25	**17.0**	40.7
Provisions	26	**262.3**	236.7
		2,328.8	2,378.0
Total liabilities		**3,704.2**	3,762.8
Net assets		**1,633.2**	1,486.2
Equity			
Share capital	27	**60.2**	60.2
Share premium		**676.4**	676.4
Hedging reserve	28	**(68.6)**	(55.5)
Other reserves	28	**4.6**	4.6
Own shares	28	**(1.4)**	(1.9)
Translation reserve	29	**352.2**	241.7
Retained earnings		**585.4**	533.1
Equity attributable to equity holders of the parent		**1,608.8**	1,458.6
Non-controlling interests		**24.4**	27.6
Total equity		**1,633.2**	1,486.2

The accompanying notes form an integral part of this consolidated balance sheet.

Tim O'Toole
14 June 2016

Matthew Gregory
14 June 2016

Consolidated statement of changes in equity

Year ended 31 March

	Share capital £m	Share premium £m	Hedging reserve £m	Other reserves £m	Own shares £m	Translation reserve £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
Balance at 1 April 2014	**60.2**	**676.4**	**7.8**	**4.6**	**(1.8)**	**17.8**	**446.4**	**1,211.4**	**11.6**	**1,223.0**
Total comprehensive income for the year	–	–	(63.3)	–	–	223.9	102.4	263.0	10.3	273.3
Purchase of non-controlling interests[1]	–	–	–	–	–	–	(7.0)	(7.0)	(4.0)	(11.0)
Acquisition of non-controlling interests	–	–	–	–	–	–	–	–	11.7	11.7
Non-controlling interests put option[2]	–	–	–	–	–	–	(12.8)	(12.8)	–	(12.8)
Dividends paid	–	–	–	–	–	–	–	–	(2.0)	(2.0)
Movement in EBT and treasury shares	–	–	–	–	(0.1)	–	(1.0)	(1.1)	–	(1.1)
Share-based payments	–	–	–	–	–	–	5.2	5.2	–	5.2
Deferred tax on share-based payments	–	–	–	–	–	–	(0.1)	(0.1)	–	(0.1)
Balance at 31 March 2015	**60.2**	**676.4**	**(55.5)**	**4.6**	**(1.9)**	**241.7**	**533.1**	**1,458.6**	**27.6**	**1,486.2**
Total comprehensive income for the year	–	–	(13.1)	–	–	110.5	47.2	144.6	6.1	150.7
Dividends paid	–	–	–	–	–	–	–	–	(10.0)	(10.0)
Movement in EBT and treasury shares	–	–	–	–	0.5	–	(1.3)	(0.8)	–	(0.8)
Share-based payments	–	–	–	–	–	–	6.4	6.4	–	6.4
Other	–	–	–	–	–	–	–	–	0.7	0.7
Balance at 31 March 2016	**60.2**	**676.4**	**(68.6)**	**4.6**	**(1.4)**	**352.2**	**585.4**	**1,608.8**	**24.4**	**1,633.2**

[1] On 14 August 2014, the Group purchased the non-controlling interests share of Hull Trains Limited for a consideration of £3.0m and on 24 March 2015, the Group purchased the non-controlling interests share of Cardinal Coach Lines UCL for a consideration of CAD$17.0m. As both of these represent a transaction with minority equity owners of the business without a change of control, they have been recognised as an equity transaction in the Group's reserves and not as a business combination or investment.

[2] On 25 August 2014, the Group completed the acquisition of a 51% share in Mile Square Transportation, Inc, a school bus transportation company based in New York. Included within the purchase agreement is a put option for the Group to purchase the remaining 49% from the non-controlling interest party for a fixed price of US$19.1m. As the put option is a contract to purchase the Group's own equity instruments it gives rise to a financial liability for the fixed price amount in accordance with paragraph 23 in IAS 32. The financial liability has been recognised in the balance sheet and the initial recognition is treated as a reclassification from equity.

The accompanying notes form an integral part of this consolidated statement of changes in equity.

Consolidated cash flow statement
Year ended 31 March

	Note	2016 £m	2015 £m
Net cash from operating activities	31	**409.5**	325.2
Investing activities			
Interest received		**1.4**	1.8
Proceeds from disposal of property, plant and equipment		**19.5**	47.5
Purchases of property, plant, equipment and software		**(405.2)**	(428.9)
Acquisition of subsidiary/business		**–**	(11.0)
Net cash used in investing activities		**(384.3)**	(390.6)
Financing activities			
Dividends paid to non-controlling shareholders		**(10.0)**	(2.0)
Shares purchased by Employee Benefit Trust		**–**	(1.1)
Repayments under HP contracts and finance leases		**(80.3)**	(67.9)
Fees for bank facility amendments and bond issues		**–**	(4.7)
Net cash flow used in financing activities		**(90.3)**	(75.7)
Net decrease in cash and cash equivalents before foreign exchange movements		**(65.1)**	(141.1)
Cash and cash equivalents at beginning of year		**420.5**	553.9
Foreign exchange movements		**4.7**	7.7
Cash and cash equivalents at end of year per consolidated balance sheet		**360.1**	420.5

Cash and cash equivalents are included within current assets on the consolidated balance sheet.

Note to the consolidated cash flow statement – reconciliation of net cash flow to movement in net debt

	2016 £m	2015 £m
Net decrease in cash and cash equivalents in year	**(65.1)**	(141.1)
Decrease in debt and finance leases	**80.3**	67.9
Fees capitalised against bank facilities and bond issues	**–**	4.7
Net cash flow	**15.2**	(68.5)
Foreign exchange movements	**(15.3)**	(31.7)
Other non-cash movements in relation to financial instruments	**(2.8)**	(3.3)
Movement in net debt in year	**(2.9)**	(103.5)
Net debt at beginning of year	**(1,407.3)**	(1,303.8)
Net debt at end of year	**(1,410.2)**	(1,407.3)

Net debt excludes all accrued interest.

The accompanying notes form an integral part of this consolidated cash flow statement.

Notes to the consolidated financial statements

1 General information

FirstGroup plc is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is 395 King Street, Aberdeen, AB24 5RP. The nature of the Group's operations and its principal activities are set out in the Strategic report on pages 4 to 46.

These financial statements are presented in pounds Sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the accounting policies set out in note 2.

2 Significant accounting policies

Basis of accounting

The financial statements have been prepared in accordance with IFRSs adopted and endorsed for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments, and on a going concern basis as described in the going concern statement within other statutory information on pages 103 to 104. The principal accounting policies adopted are set out below.

The figures for the year to 31 March 2016 include the results of the First Rail business for the year to 31 March 2016 and the results of all the other businesses for the 52 weeks ended 26 March 2016. The figures for the year to 31 March 2015 include the results of the First Rail businesses for the year to 31 March 2015 and the results of all the other businesses for the 52 weeks ended 28 March 2015.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Non-controlling interests in subsidiaries are identified separately from the Group's equity interest therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of their fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition by acquisition basis. Other non-controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations

The acquisition of subsidiaries is accounted for using the acquisitions method. The consideration for each acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in the income statement as incurred.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business Combinations* are recognised at their fair value at the acquisition date, with the exception of deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements, liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment and non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholder's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. As a general rule, significant influence will be presumed to exist when the Group holds, directly or indirectly through subsidiaries, 20% or more of the voting power, of the investee. However, where it is clear that the Group, although holding 20% or more of the voting power does not have significant influence, the investment is not accounted for as an associate. The Group has a 30% holding in DSBFirst but does not have significant influence and therefore the holding is treated as an investment.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*.

Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

2 Significant accounting policies continued

Assets held for sale

Assets held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year of the date of classification.

Goodwill and intangible assets

Goodwill arising on consolidation is recognised as an asset at the date that control is acquired. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units (CGUs) which are tested for impairment annually, or more frequently where there is an indication that the CGU may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the CGU, the impairment loss is allocated to the goodwill of the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU. An impairment loss recognised for goodwill is not reversed in a subsequent period. On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

The existing finite life intangible assets have a residual value of nil and are amortised on a straight-line basis over their useful economic lives as follows:

Customer contracts – over the estimated life of the contract (9 to 10 years)
Greyhound brand and trade name – over the estimated life of the brand (20 years)
Franchise agreements – over the initial term of the franchise (2 to 10 years)

Software

Computer software is recognised separately as an intangible asset and is carried at cost less accumulated amortisation and accumulated impairment losses. Costs include software licences, web-site development, costs attributable to the development, design and implementation of the computer software and internal costs directly attributable to the software. Amortisation is calculated using the straight-line method over its estimated useful life of 3 to 5 years.

Revenue recognition

Revenue principally comprises revenue from train passenger services, road passenger transport, and certain management and maintenance services in the UK and North America. Where appropriate, amounts are shown net of rebates and sales taxes.

Revenue is recognised by reference to the stage of completion of the customers' travel or services provided under contractual arrangements as the proportion of total services to be provided. Receipts for season tickets and travel cards are deferred within 'Season ticket deferred income' and recognised in the income statement over the period covered by the relevant ticket.

Revenue in First Rail includes franchise subsidy receipts from the Department for Transport (DfT) and Transport Scotland and amounts receivable under franchise arrangements. Franchise premium payments to the DfT for amounts due under the terms of a franchise are included in operating costs. Revenue also includes amounts attributable to the Train Operating Companies (TOCs), predominantly based on models of route usage, by the Railway Settlement Plan in respect of passenger receipts.

First Bus revenue principally comprises amounts receivable from ticket sales and concessionary fare schemes. Concessionary amounts are recognised in the period in which the service is provided. Greyhound coach revenue mainly comprises of amounts receivable from ticket sales. Other Bus, including First Student and First Transit, and services revenue from contracts with government bodies and similar organisations is recognised as the services are provided.

Interest income is recognised on an accruals basis.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases and the rental charges are charged against income on a straight-line basis over the life of the lease.

Assets held under hire purchase contracts and finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below).

Benefits received and receivable as an incentive to enter into an operating lease are spread on a straight-line basis over the lease term.

2 Significant accounting policies continued

Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds Sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

In order to hedge its exposure to certain foreign exchange risks, the Group holds currency swaps and borrowings in foreign currencies (see note 24 for details of the Group's policies in respect of foreign exchange risks).

On consolidation, the assets and liabilities of the Group's overseas operations are translated at the closing exchange rates on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising from the average or actual exchange rates used and the period end rate, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Non-GAAP measures and performance

In measuring the Group adjusted performance, additional financial measures derived from the reported results have been used in order to eliminate factors which distort year on year comparisons. The Group's adjusted performance is used to explain year on year changes when the effect of certain items are significant, including other intangible asset amortisation, business disposals, aged legal and self-insurance claims, revisions to onerous contracts and pension settlement gains or losses, as management consider that this basis more appropriately reflects operating performance and a better understanding of the key performance indicators of the business. See note 4 for the reconciliation to non-GAAP measures and performance.

Subsequent revisions to adjusting items are also recognised as an adjusting item in future periods. In the current year non-GAAP adjusting items principally relate to other intangible asset amortisation charges, pension past service gain, aged self-insurance and legal claims and business disposals. In the prior year the non-GAAP adjusting items principally related to amortisation charges, gain on disposal of property, aged legal claims associated with previous acquisitions, the impairment of a number of Group IT licences and business disposals.

Retirement benefit costs

The Group operates or participates in a number of pension schemes, which include both defined benefit schemes and defined contribution schemes.

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. There is no legal or constructive obligation to pay additional contributions into a defined contribution scheme if the fund has insufficient assets to pay all employees' benefits relating to employee service in the current and prior periods.

For defined benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial updates being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement and presented in the consolidated statement of comprehensive income.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

Where changes to the benefits in payment on defined benefit pension schemes require a change in scheme rules or ratification by the Trustees, the change is recognised as a past service charge or credit in the income statement. Where changes in assumptions can be made without changing the Trustee agreement these are recognised as a change in assumptions in other comprehensive income.

The retirement benefit position recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

Various TOCs in the First Rail business participate in the Railways Pension Scheme, which is an industry-wide defined benefit scheme. The Group is obligated to fund the relevant section of the scheme over the period for which the franchise is held. The full liability is recognised on the balance sheet, which is then reduced by a franchise adjustment so that the net liability reflects the Group's obligations to fund the scheme over the franchise term.

2 Significant accounting policies continued

Tax

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill, or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Property, plant and equipment

Properties for provision of services or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Passenger carrying vehicles and other plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost of assets, other than freehold land, the land element of long leasehold properties or on assets in the course of construction, over their estimated useful lives, using the straight-line method, on the following bases:

Freehold buildings	50 years straight-line
Long leasehold buildings	50 years straight-line
Short leasehold properties	period of lease
Passenger carrying vehicles	7 to 17 years straight-line
Other plant and equipment	3 to 25 years straight-line

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Capital grants

Capital grants relating to property, plant and equipment are treated as deferred income and released to the income statement over the expected useful lives of the assets concerned. Capital grants are not recognised until there is a reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or CGU in prior years. A reversal of an impairment loss is recognised as income immediately except in the case of goodwill, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

2 Significant accounting policies continued

Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

The Group measures financial assets on initial recognition at fair value, and determines the classification of such assets at initial recognition and on any subsequent reclassification event.

Where there is no active market for a financial asset, fair value is determined using valuation techniques including recent commercial transactions and discounted cash flows. Otherwise financial assets are carried at amortised cost.

Financial assets are classified into one of four primary categories:

Fair value through profit and loss

This covers any financial asset designated on initial recognition to be measured at fair value with fair value changes to go through the profit and loss, and financial assets acquired principally for the purpose of trading in the short term.

Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified here when the Group has the intention and ability to hold to maturity. These financial assets are held at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the investments are derecognised or impaired as well as through amortisation.

Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market have not been designated as either fair value through profit or loss or available for sale. Such assets are carried at amortised cost. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired as well as through amortisation.

The most significant financial assets under this category are trade receivables and bank deposits.

Trade receivables are measured at fair value, i.e. original invoice amount, less an allowance for uncollectable amounts. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

Bank deposits are included within cash and cash equivalents. Cash and cash equivalents as defined for the cash flow statement comprise cash in hand, cash held at bank with immediate access, other short term investments and bank deposits with maturities of three months or less from the date of inception and bank overdrafts. In the consolidated balance sheet cash and cash equivalents exclude bank overdrafts. Bank overdrafts that have no legal right of set-off against cash and cash equivalents are included within borrowings in current liabilities. All are carried on the balance sheet at cost. Cash and cash equivalents includes ring-fenced cash. The most significant ring-fenced cash balances are held by the Group's First Rail subsidiaries. Under the terms of the Rail franchise agreements, cash can only be distributed by the train operating companies up to the lower of the amount of retained profits or the amount determined by prescribed liquidity ratios. The ring-fenced cash represents that which is not available for distribution or the amount required to satisfy the contractual liquidity ratio at the balance sheet date.

Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are designated as such, or that are not classified in any of the other categories. After initial recognition these assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or the investment is determined to be impaired, at which time the previously reported cumulative gain or loss is included in the income statement.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received net of direct issue costs.

Financial liabilities

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs.

Bonds and loan notes

These are measured either on an amortised cost basis or at fair value, if adopted.

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments to hedge interest rate risks, foreign currency risks and fuel price risks. Use of such financial instruments is governed by policies and delegated authorities approved by the Board. The Group does not use derivative financial instruments for speculative purposes.

2 Significant accounting policies continued

The main derivative financial instruments used by the Group are interest rate swaps, fuel swaps, and cross currency interest rate swaps. Such instruments are initially recognised at fair value and subsequently remeasured to fair value at the reported balance sheet date. The fair values are calculated by reference to market exchange rates, interest rates and fuel prices at the period end, and supported by counterparty confirmations.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting as cash flow hedges or foreign currency hedges of a foreign net investment are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

Debt

Debt is initially stated at the amount of the net proceeds after the deduction of issue costs. The carrying amount is increased by the amortisation of debt issuance fees in respect of the accounting period and reduced by repayments made in the period.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material. Amounts due within 12 months of the balance sheet date are considered to be reliably measured and are therefore included within accruals.

Self-insurance

The Group's policy is to self-insure high frequency, low value claims within the businesses. In addition there are typically a smaller number of major claims during a financial year for which cover is obtained through third-party insurance policies subject to an insurance deductible. Provision is made under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* for the estimated cost of settling uninsured claims for incidents occurring prior to the balance sheet date.

Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and is adjusted for the effects of non-market-based vesting conditions.

Fair value is measured by use of a Black-Scholes or other appropriate valuation models. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

New standards and interpretations not applied

The International Accounting Standards Board and the International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards and interpretations for annual periods beginning on or after the effective dates as noted below:

IAS/IFRS standards		Effective for accounting periods starting on or after
Amendments to IAS 27 (August 2014)	Equity Method in Separate Financial Statements	1 January 2016[1]
Amendments to IAS 1 (December 2015)	Disclosure Initiative	1 January 2016[1]
Amendments to IAS 16 and IAS 38 (May 2014)	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016[1]
Amendments to IFRS 11 (May 2014)	Accounting for Acquisitions of Interests in Joint Operations	1 January 2016[1]
Amendments to IFRS 10, IFRS 12 and IAS 28 (December 2015)	Investment Entities: Applying the Consolidation Exception	1 January 2016[2]
Amendments to IAS 12 (January 2016)	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017[2]
Amendments to IAS 7	Disclosure Initiative	1 January 2017[2]
IFRS 9	Financial Instruments	1 January 2018[2]
IFRS 15	Revenue from Contracts with Customers	1 January 2018[2]
IFRS 16	Leases	1 January 2019[2]
Amendments to IFRS 10 and IAS 28 (September 2014)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	See below[3]

[1] Mandatory for accounting periods starting on or after 1 January 2016 under EU adopting regulations.

[2] The mandatory adoption under EU adopting regulations has not yet been confirmed.

[3] The IASB has acknowledged a conflict between these amendments and IAS 28 Investments in Associates and Joint Ventures. In December 2015 the IASB published an amendment to IFRS 10 and IAS 28, deferring the effective date of the amendments indefinitely.

2 Significant accounting policies continued

The Directors do not anticipate the adoption of these other standards will have a material impact on the Group's accounts in the period of initial application other than the following:

IFRS 9 may impact the measurement and disclosure of the Group's financial instruments.

The potential impact of IFRS 15 is being assessed.

IFRS 16 is expected to result in a material increase to both assets and liabilities of the Group and will reduce operating costs and increase finance costs.

A full assessment of the impact of these new standards will be undertaken prior to their adoption.

Adoption of new and revised standards

The accounting policies adopted are consistent with those of the previous financial year except for a number of new and revised Standards and Interpretations which have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements.

Critical accounting judgments and key sources of estimation uncertainty

In the process of applying the Group's accounting policies which are described above, management has made the following judgments and estimates that have the most significant effect on the amounts recognised in the financial statements.

Impairment of intangible assets (including goodwill)

Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which the goodwill has been allocated. The value in use requires the entity to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was £1,736.3m (2015: £1,659.2m) as set out in note 11 and the carrying amount of other intangible assets at the balance sheet date was £162.2m (2015: £197.0m) as set out in note 12.

Contract and franchise accounting

Judgments are made on an ongoing basis with regards to the recoverability of amounts due and the carrying value of related assets and liabilities arising from franchises and long term service contracts. Regular forecasts are compiled on the outcome of these types of franchises and contracts, which require assessments and judgments relating to the expected level of revenues and costs and, in cases where options exist, the life of the contract or franchise.

The useful economic lives of assets are determined by reference to the length of a franchise and matched to the franchise end date. The residual value of assets is determined by their condition at the franchise end date and by the amount of maintenance that has been carried out during the period of operation.

In particular First Rail has a number of contractual relationships including those with the DfT and Network Rail. Due to the regulated nature of the rail industry, disputes and claims typically arise with such bodies as well as other TOCs where one or more TOCs have access to common infrastructure such as railway lines. Judgment is required by management as to the amounts receivable and also payable taking account of the information available at the time.

Defined benefit pension arrangements

Measurement of defined benefit pension obligations requires estimation of a suitable discount rate, the expected return on scheme assets, expected rate of inflation of future salary and pension costs along with assumptions about mortality rates. The most significant of these are the discount rate and inflation rate assumptions. A 0.1% movement in the discount rate would impact operating profit and the balance sheet position by approximately £1m and £32m respectively. A 0.1% movement in the inflation rate would impact operating profit and the balance sheet position by approximately £1m and £26m respectively. The net pension deficit as at the balance sheet date was £270.9m (2015: £239.4m) as set out in note 35.

Self-insurance

Provision is made for all known incidents for which there is self-insurance using management's best estimate of the likely settlement of these incidents. The estimated settlement is reviewed on a regular basis with independent actuarial advice and the amount provided is adjusted as required. The Group's total self-insurance provisions, including those classified within accruals, as at the balance sheet date were £363.8m (2015: £316.2m) as set out in note 26.

Tax provisions

Assessing the outcome of tax uncertainties requires judgements to be made regarding the result of negotiations with and enquires from tax authorities in a number of jurisdictions. Management assessments are based on business transaction facts and circumstances and the status of ongoing discussions with the relevant tax authorities.

3 Revenue

	2016 **£m**	2015 £m
Services rendered	**5,197.7**	5,717.4
Rail franchise subsidy receipts	**20.4**	333.3
Revenue	**5,218.1**	6,050.7
Finance income	**1.4**	1.8
Total revenue as defined by IAS 18	**5,219.5**	6,052.5

4 Reconciliation to non-gaap measures and performance

In measuring the Group adjusted performance, additional financial measures derived from the reported results have been used in order to eliminate factors which distort year on year comparisons. The Group's adjusted performance is used to explain year on year changes when the effect of certain items are significant, including other intangible asset amortisation, business disposals, aged legal and self-insurance claims, revisions to onerous contracts and pension settlement gains or losses, as management consider that this basis more appropriately reflects operating performance and a better understanding of the key performance indicators of the business.

Reconciliation of operating profit to adjusted operating profit	**Year to 31 March 2016 £m**	Year to 31 March 2015 £m
Operating profit	**246.3**	245.8
Adjustments for:		
Other intangible asset amortisation charges	**51.9**	54.3
Gain on disposal of property	**–**	(25.3)
Legal claims	**1.0**	12.2
IT licences	**–**	8.7
First Bus depot sales and closures	**1.8**	7.5
Pensions past service gain	**(10.8)**	–
North America insurance reserves	**10.5**	–
Other	**–**	0.4
Total operating profit adjustments	**54.4**	57.8
Adjusted operating profit (note 5)	**300.7**	303.6

Reconciliation of profit before tax to adjusted profit before tax	**Year to 31 March 2016 £m**	Year to 31 March 2015 £m
Profit before tax	**113.5**	105.8
Operating profit adjustments (see table above)	**54.4**	57.8
Ineffectiveness on financial derivatives	**0.4**	0.3
Adjusted profit before tax	**168.3**	163.9
Adjusted tax charge	**(38.7)**	(36.1)
Non-controlling interests	**(6.1)**	(10.3)
Adjusted earnings	**123.5**	117.5

The principal adjusting items are as follows:

Other intangible asset amortisation charges

The charge for the year was £51.9m (2015: £54.3m). The reduction primarily reflects a lower charge in First Rail as the GWR franchise intangible was fully expensed at the end of Direct Award 1 partly offset by a higher charge for First Student due to the full year effect of the Mile Square acquisition.

Legal claims

A legal claim that pre-dates the Laidlaw acquisition and was acquired with the former Laidlaw entities had further adverse developments during the year and has been settled for £1.0m more than was originally provided for within adjusted items.

First Bus depot sales and closures

There was a charge of £1.8m (2015: £7.5m) in the year relating to operating losses on a legacy depot closure.

Pensions past service gain

During the year we agreed with the FirstGroup Pension Scheme Trustee to change the basis for revaluing pensions in payment from RPI to CPI. This change has led to a reduction in the liabilities and as a result £10.8m past service gain has been recognised.

North America Insurance reserves

There have been significant adverse developments on a small number of old and unusual insurance claims in North America during the year. The impact of these adverse developments was a charge of £10.5m.

Ineffectiveness on financial derivatives

There was a £0.4m (2015: £0.3m) non-cash charge during the year due to ineffectiveness on financial derivatives.

Year to 31 March 2015 underlying

In addition, Management have presented underlying revenue for the year to 31 March 2015 which is in constant currency and adjusted for changes in the First Rail franchise portfolio.

4 Reconciliation to non-gaap measures and performance continued

A reconciliation is set out below:

	Revenue £m
Year to 31 March 2015 as reported	6,050.7
Changes in First Rail franchise portfolio	(952.4)
Foreign exchange movements	134.0
Year to 31 March 2015 underlying	**5,232.3**

5 Business segments and geographical information

For management purposes, the Group is organised into five operating divisions – First Student, First Transit, Greyhound, First Bus and First Rail. These divisions are managed separately in line with the differing services that they provide and the geographical markets which they operate in. The principal activities of these divisions are described in the Strategic report.

The segment results for the year to 31 March 2016 are as follows:

	First Student £m	First Transit £m	Greyhound £m	First Bus £m	First Rail £m	Group items[1] £m	Total £m
Revenue	1,553.5	864.8	605.1	870.9	1,308.4	15.4	5,218.1
EBITDA[2]	266.4	74.7	69.7	113.4	122.4	(30.7)	615.9
Depreciation	(153.8)	(14.6)	(34.2)	(61.4)	(60.0)	(1.7)	(325.7)
Capital grant amortisation	–	–	–	–	10.5	–	10.5
Segment results[2]	112.6	60.1	35.5	52.0	72.9	(32.4)	300.7
Other intangible asset amortisation charges	(42.1)	(3.4)	(3.1)	–	(3.3)	–	(51.9)
Other adjustments (note 4)	(2.8)	(7.2)	(1.5)	(1.8)	–	10.8	(2.5)
Operating profit[3]	67.7	49.5	30.9	50.2	69.6	(21.6)	246.3
Investment income							1.4
Finance costs							(134.2)
Profit before tax							113.5
Tax							(17.1)
Profit after tax							96.4

Other information	First Student £m	First Transit £m	Greyhound £m	First Bus £m	First Rail £m	Group items[1] £m	Total £m
Capital additions	207.5	20.6	24.8	91.3	65.6	2.2	412.0

Balance sheet[4]	Total assets £m	Total liabilities £m	Net assets/ (liabilities) £m
First Student	2,656.0	(421.9)	2,234.1
First Transit	501.6	(151.6)	350.0
Greyhound	632.9	(328.4)	304.5
First Bus	776.6	(296.5)	480.1
First Rail	212.1	(424.1)	(212.0)
	4,779.2	(1,622.5)	3,156.7
Group items[1]	135.4	(257.4)	(122.0)
Net debt	360.1	(1,770.3)	(1,410.2)
Taxation	62.7	(54.0)	8.7
Total	5,337.4	(3,704.2)	1,633.2

[1] Group items comprise Tram operations, central management and other items.

[2] EBITDA is adjusted operating profit less capital grant amortisation plus depreciation.

[3] Although the segment results are used by management to measure performance, statutory operating profit by operating division is also disclosed for completeness.

[4] Segment assets and liabilities are determined by identifying the assets and liabilities that relate to the business of each segment but excluding intercompany balances, net debt and taxation.

5 Business segments and geographical information continued

The segment results for the year to 31 March 2015 are as follows:

	First Student £m	First Transit £m	Greyhound £m	First Bus £m	First Rail £m	Group items[1] £m	Total £m
Revenue	1,478.8	844.8	609.6	896.1	2,207.1	14.3	6,050.7
EBITDA[2]	260.9	72.1	73.1	118.5	137.8	(38.0)	624.4
Depreciation	(146.0)	(12.4)	(31.4)	(66.7)	(96.2)	(0.6)	(353.3)
Capital grant amortisation	–	–	–	–	32.5	–	32.5
Segment results[2]	114.9	59.7	41.7	51.8	74.1	(38.6)	303.6
Other intangible asset amortisation charges	(39.8)	(3.4)	(2.9)	–	(8.2)	–	(54.3)
Other adjustments (note 4)	(12.2)	–	25.3	(7.9)	–	(8.7)	(3.5)
Operating profit[3]	62.9	56.3	64.1	43.9	65.9	(47.3)	245.8
Investment income							1.8
Finance costs							(141.8)
Profit before tax							105.8
Tax							(20.3)
Profit after tax							85.5

Other information	First Student £m	First Transit £m	Greyhound £m	First Bus £m	First Rail £m	Group items[1] £m	Total £m
Capital additions	179.9	21.1	50.9	93.9	76.1	3.5	425.4

Balance sheet[4]	Total assets £m	Total liabilities £m	Net assets/ (liabilities) £m
First Student	2,524.9	(465.9)	2,059.0
First Transit	460.2	(137.3)	322.9
Greyhound	616.1	(301.7)	314.4
First Bus	723.6	(230.6)	493.0
First Rail	275.3	(452.0)	(176.7)
	4,600.1	(1,587.5)	3,012.6
Group items[1]	167.9	(271.5)	(103.6)
Net debt	420.5	(1,827.8)	(1,407.3)
Taxation	60.5	(76.0)	(15.5)
Total	5,249.0	(3,762.8)	1,486.2

[1] Group items comprise Tram operations, central management and other items.

[2] EBITDA is adjusted operating profit less capital grant amortisation plus depreciation.

[3] Although the segment results are used by management to measure performance, statutory operating profit by operating division is also disclosed for completeness.

[4] Segment assets and liabilities are determined by identifying the assets and liabilities that relate to the business of each segment but excluding intercompany balances, net debt and taxation.

Geographical information

The Group's operations are located predominantly in the United Kingdom, United States of America and Canada. The following table provides an analysis of the Group's revenue by geographical market:

Revenue	**2016 £m**	2015 £m
United Kingdom	**2,194.7**	3,117.5
United States of America	**2,634.5**	2,460.7
Canada	**388.9**	472.5
	5,218.1	6,050.7

5 Business segments and geographical information continued

The following is an analysis of non-current assets excluding financial instruments, deferred tax and pensions, the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

	Non-current assets excluding financial instruments deferred tax and pensions		Additions to property, plant and equipment and intangible assets		Carrying amount of segment total assets	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
United Kingdom	**788.5**	762.7	**159.0**	173.5	**1,489.1**	1,587.2
United States of America	**2,939.8**	2,757.9	**242.3**	226.6	**3,383.1**	3,164.7
Canada	**337.8**	365.8	**10.7**	25.3	**402.5**	436.6
Unallocated corporate items	**–**	–	**–**	–	**62.7**	60.5
	4,066.1	3,886.4	**412.0**	425.4	**5,337.4**	5,249.0

6 Operating profit

Operating profit has been arrived at after charging/(crediting):

	2016 £m	2015 £m
Depreciation of property, plant and equipment (note 13)	**325.7**	353.3
Operating lease charges (note 33)	**267.5**	489.5
Other intangible asset amortisation charges (note 12)	**51.9**	54.3
Capital grant amortisation	**(10.5)**	(32.5)
Cost of inventories recognised as an expense	**600.0**	666.2
Employee costs (note 7)	**2,667.5**	2,832.7
Auditor's remuneration (see below)	**1.6**	1.7
Rail franchise payments	**105.8**	170.3
Other operating costs[1]	**962.3**	1,269.4
	4,971.8	5,804.9

[1] Includes £66.6m (2015: £65.7m) received or receivable from government bodies in respect of bus service operator grants and fuel duty rebates.

Amounts payable to Deloitte LLP and their associates by the Company and its subsidiary undertakings in respect of audit and non-audit services are shown below:

	2016 £m	2015 £m
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**0.1**	0.1
Fees payable to the Company's auditor and their associates for the audit of the Company's subsidiaries pursuant to legislation	**1.3**	1.4
Total audit fees	**1.4**	1.5
Audit-related assurance services	**0.2**	0.1
Other taxation advisory services	**–**	0.1
Total non-audit fees	**0.2**	0.2

Fees payable to Deloitte LLP and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

Details of the Group's policy on the use of auditors for non-audit services, the reasons why the auditor was used rather than another supplier and how the auditor's independence and objectivity was safeguarded are set out in the Corporate governance report on pages 65 to 66. No services were provided pursuant to contingent fee arrangements.

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7 Employee costs

The average monthly number of employees (including Executive Directors) was:

	2016 Number	2015 Number
Operational	**102,287**	107,843
Administration	**6,337**	6,527
	108,624	114,370

The aggregate remuneration (including Executive Directors) comprised:

	2016 £m	2015 £m
Wages and salaries	**2,340.5**	2,453.4
Social security costs	**253.6**	262.1
Other pension costs (note 35)	**73.4**	117.2
	2,667.5	2,832.7

Wages and salaries include a charge in respect of share-based payments of £6.4m (2015: £5.2m).

Disclosures on Directors' remuneration, share options, long term incentive schemes and pension entitlements required by the Companies Act 2006 and those specified for audit by the Financial Conduct Authority are contained in the tables/notes within the Directors' remuneration report on pages 70 to 100 and form part of these audited financial statements.

8 Investment income and finance costs

	2016 £m	2015 £m
Investment income		
Bank interest receivable	**(1.4)**	(1.8)
Finance costs		
Bonds	**84.2**	84.9
Bank borrowings	**13.0**	16.8
Senior unsecured loan notes	**4.3**	4.1
Loan notes	**1.0**	1.0
Finance charges payable in respect of HP contracts and finance leases	**8.9**	9.4
Notional interest on long term provisions	**14.8**	15.2
Notional interest on pensions	**7.6**	10.1
Finance costs before adjustments	**133.8**	141.5
Hedge ineffectiveness on financial derivatives	**0.4**	0.3
Total finance costs	**134.2**	141.8

Finance costs before adjustments	**133.8**	141.5
Investment income	**(1.4)**	(1.8)
Net finance cost before adjustments	**132.4**	139.7

Finance costs are stated after charging fee expenses of £2.5m (2015: £3.6m). There was no interest capitalised into qualifying assets in either the year ended 31 March 2016 or 31 March 2015.

9 Tax on profit on ordinary activities

	2016 £m	2015 £m
Current tax	**7.0**	11.2
Adjustments with respect to prior years	**14.1**	6.5
Total current tax charge	**21.1**	17.7
Origination and reversal and temporary differences	**22.4**	15.9
Adjustments with respect to prior years	**(26.4)**	(13.3)
Total deferred tax (credit)/charge (note 25)	**(4.0)**	2.6
Total tax charge	**17.1**	20.3

The current tax adjustment with respect to prior years mainly comprises the transfer of tax provisions from deferred tax to current tax. The deferred tax credit adjustment with respect to prior years primarily reflects the release of prior year provisions in addition to the transfer to current tax.

UK corporation tax is calculated at 20% (2015: 21%) of the estimated assessable profit for the year. Tax for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The charge for the year can be reconciled to the profit per the income statement as follows:

	2016 £m	2016 %	2015 £m	2015 %
Profit before tax	**113.5**	**100.0**	105.8	100.0
Tax at the UK corporation tax rate of 20% (2015: 21%)	**22.7**	**20.0**	22.2	21.0
Tax effect of expenses that are not deductible in determining taxable profit	**2.0**	**1.7**	1.8	1.7
Impact of subsidiaries operating outside of the UK	**5.1**	**4.5**	2.9	2.7
Impact of reduction in UK tax rate on current year's deferred tax	**(0.4)**	**(0.3)**	0.2	0.2
Impact of reduction in UK tax rate on prior years' deferred tax	**(0.7)**	**(0.6)**	–	–
Adjustments relating to taxation of prior years' results/transactions	**(11.6)**	**(10.2)**	(6.8)	(6.4)
Tax charge and effective tax rate for the year	**17.1**	**15.1**	20.3	19.2

The Group recognises provisions in respect of tax for items which are considered to have a range of possible tax outcomes in its open tax returns and its ongoing tax audits in respect of multiple years. These uncertainties exist due to a number of factors including differing interpretations of local tax laws. The nature of the assumptions made by management when calculating the carrying amounts relate to the estimated tax which could be payable as a result of differing interpretations and decisions by tax authorities in respect of transactions and events whose treatment for tax purposes is uncertain. The 2016 adjustment in respect of prior year primarily reflects a change in Group's judgement on those potential liabilities including whether certain liabilities are more likely than not. The group maintains engagement with tax authorities and engagement with peer groups that may have similar issues. We engage advisers to obtain opinion on tax legislation and we monitor proposed changes in legislation.

Future years' tax charges would be impacted if the final liability for currently open years is different from the amount currently provided for. The future tax charge may also be affected by the levels and mix of profits in the countries in which we operate, the prevailing tax rates and tax rules in each of those countries and also the foreign exchange rates that apply to those profits. At the balance sheet date changes to reduce the UK corporation tax rate to 19% from 1 April 2017 and 18% from 1 April 2020 have been substantively enacted. A further reduction to 17% from 1 April 2020 has been announced but not enacted.

In addition to the amount (credited)/charged to the income statement, deferred tax relating to actuarial(losses)/gains £(16.1)m (2015: £6.7m) and cash flow and net investment hedges £(0.6)m (2015: £(26.6)m), amounting to a total charge of £16.7m (2015: £19.9m) have been recognised in other comprehensive income. There has been no charge directly to equity in respect of share-based payments (2015: £0.1m).

10 Earnings per share (EPS)

EPS is calculated by dividing the profit attributable to equity shareholders of £90.3m (2015: £75.2m) by the weighted average number of ordinary shares of 1,204.0m (2015: 1,204.0m). The number of ordinary shares used for the basic and diluted calculations are shown in the table below.

The difference in the number of shares between the basic calculation and the diluted calculation represents the weighted average number of potentially dilutive ordinary share options.

	2016 Number m	2015 Number m
Weighted average number of shares used in basic calculation	**1,204.0**	1,204.0
Executive share options	**8.0**	3.6
Weighted average number of shares used in the diluted calculation	**1,212.0**	1,207.6

The adjusted EPS is intended to highlight the recurring results of the Group before amortisation charges, ineffectiveness on financial derivatives and certain other adjustments as set out in note 4. A reconciliation is set out below:

	2016		2015	
	£m	**EPS (p)**	£m	EPS (p)
Basic profit/EPS	**90.3**	**7.5**	75.2	6.2
Amortisation charges (note 12)	**51.9**	**4.4**	54.3	4.5
Ineffectiveness on financial derivatives	**0.4**	**–**	0.3	–
Other adjustments (note 4)	**2.5**	**0.2**	3.5	0.3
Tax effect of above adjustments	**(21.6)**	**(1.8)**	(15.8)	(1.2)
Adjusted profit/EPS	**123.5**	**10.3**	117.5	9.8

Diluted EPS	**2016 pence**	2015 pence
Diluted EPS	**7.5**	6.2
Adjusted diluted EPS	**10.2**	9.7

11 Goodwill

	2016 £m	2015 £m
Cost		
At 1 April	**1,663.2**	1,513.5
Additions (note 30)	**–**	1.7
Foreign exchange movements	**77.1**	148.0
At 31 March	**1,740.3**	1,663.2
Accumulated impairment losses		
At 1 April and 31 March	**4.0**	4.0
Carrying amount		
At 31 March	**1,736.3**	1,659.2

Goodwill acquired in a business combination is allocated, at acquisition, to the CGUs that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated as follows:

	2016 £m	2015 £m
Carrying amount		
First Student	**1,123.0**	1,073.5
First Transit	**273.2**	259.5
Greyhound	**257.6**	244.6
First Bus	**76.9**	76.0
First Rail	**5.6**	5.6
	1,736.3	1,659.2

11 Goodwill continued

Impairment testing

At the year end the carrying value of goodwill was reviewed for impairment in accordance with IAS 36 Impairment of Assets. For the purposes of this impairment review goodwill has been tested for impairment on the basis of discounted future cash flows arising in each relevant CGU.

The Group prepares cash flow forecasts derived from the most recent budget for 2016/17 and Three Year Plan projections up to 2018/19 (2015: Five Year Plan) which take account of both past performance and expectations for future market developments. The projections for First Student assume the incremental benefits of the existing recovery plan, the programme to address contract portfolio pricing together with an economic recovery. Cash flows beyond the plan period are extrapolated using estimated growth rates of 2.5% (2015: 2.5%) for the United Kingdom and 3.0% (2015: 3.0%) for North America which do not exceed the long term average growth rate for the market. Cash flows are discounted using a pre-tax discount rate of 8.1% (2015: 9.0%) for the United Kingdom CGUs and 8.9% (2015: 10.0%) for the North American CGUs to arrive at the value in use. The pre-tax discount rates applied are derived from a market participant's weighted average cost of capital. The assumptions used in the calculation of the Group's weighted average cost of capital are benchmarked to externally available data.

The Directors consider the assumptions to be reasonable based on the historic performance of each CGU and to be realistic in light of economic and industry forecasts.

The calculation of value in use for each CGU is most sensitive to the principal assumptions of discount rate, growth rates and margins achievable. Sensitivity analysis has been performed on the calculations and confirms that no reasonably possible changes in the assumptions would cause the carrying amount of the CGUs to exceed their recoverable amount in respect of the First Transit, Greyhound, First Bus and First Rail divisions.

The value in use of the First Student division exceeds its carrying amount by £232.3m (2015: £300.9m). The sensitivity analysis indicates that the First Student margin would need to fall in excess of 87 basis points compared to medium term expectations, or long term growth rates would need to fall in excess of 66 basis points for there to be an impairment to the carrying value of net assets in this business. An increase in the discount rate in excess of 59 basis points would lead to the value in use of the division being less than its carrying amount.

Following their review of goodwill the Directors have concluded that there is no impairment to any of the CGUs.

12 Other intangible assets

	Customer contracts £m	Greyhound brand and trade name £m	Rail franchise agreements £m	Software £m	Total £m
Cost					
At 1 April 2014	362.2	58.1	36.1	–	456.4
Acquisitions (note 30)	15.8	–	–	–	15.8
Additions	0.3	–	–	–	0.3
Foreign exchange movements	36.5	5.2	–	–	41.7
At 31 March 2015	414.8	63.3	36.1	–	514.2
Additions	–	–	–	11.6	11.6
Cessation of franchise	–	–	(30.6)	–	(30.6)
Foreign exchange movements	19.0	2.7	–	–	21.7
At 31 March 2016	**433.8**	**66.0**	**5.5**	**11.6**	**516.9**
Amortisation					
At 1 April 2014	194.5	19.2	24.8	–	238.5
Charge for year	43.3	2.9	8.1	–	54.3
Foreign exchange movements	22.5	1.9	–	–	24.4
At 31 March 2015	260.3	24.0	32.9	–	317.2
Charge for year	45.6	3.1	3.2	–	51.9
Cessation of franchise	–	–	(30.6)	–	(30.6)
Foreign exchange movements	15.0	1.2	–	–	16.2
At 31 March 2016	**320.9**	**28.3**	**5.5**	**–**	**354.7**
Carrying amount					
At 31 March 2016	**112.9**	**37.7**	**–**	**11.6**	**162.2**
At 31 March 2015	154.5	39.3	3.2	–	197.0

Intangible assets include customer contracts, the Greyhound brand and trade name which were acquired through the purchases of businesses and subsidiary undertakings and software. These are being amortised over their useful economic lives as shown in note 2 to the consolidated financial statements.

The rail franchise agreements' intangible asset represents the part of the economic benefit that is realised as a result of recognising our share of the rail pension deficit on the date of commencement of each respective franchise and is amortised on a straight-line basis over the initial term of each respective franchise.

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13 Property, plant and equipment

	Land and buildings £m	Passenger carrying vehicle fleet £m	Other plant and equipment £m	Total £m
Cost				
At 1 April 2014	451.9	2,656.3	825.4	3,933.6
Additions in the year	32.0	281.8	102.1	415.9
Acquisitions (note 30)	–	7.8	–	7.8
Disposals	(7.4)	(99.3)	(100.2)	(206.9)
Impairment	–	–	(8.7)	(8.7)
Reclassified as held for sale	–	(64.4)	–	(64.4)
Foreign exchange movements	20.6	196.0	23.8	240.4
At 31 March 2015	497.1	2,978.2	842.4	4,317.7
Additions in the year	16.7	285.3	98.4	400.4
Disposals	(41.3)	(96.5)	(281.2)	(419.0)
Reclassified as held for sale	(1.8)	(100.4)	–	(102.2)
Foreign exchange movements	12.3	117.3	14.6	144.2
At 31 March 2016	**483.0**	**3,183.9**	**674.2**	**4,341.1**
Accumulated depreciation and impairment				
At 1 April 2014	89.4	1,346.9	632.4	2,068.7
Charge for year	12.2	216.1	125.0	353.3
Disposals	(1.1)	(88.0)	(98.6)	(187.7)
Reclassified as held for sale	–	(63.0)	–	(63.0)
Foreign exchange movements	3.7	98.7	16.9	119.3
At 31 March 2015	104.2	1,510.7	675.7	2,290.6
Charge for year	9.3	225.8	90.6	325.7
Disposals	(33.7)	(87.2)	(274.9)	(395.8)
Reclassified as held for sale	(0.2)	(98.5)	–	(98.7)
Foreign exchange movements	2.6	64.0	10.5	77.1
At 31 March 2016	**82.2**	**1,614.8**	**501.9**	**2,198.9**
Carrying amount				
At 31 March 2016	**400.8**	**1,569.1**	**172.3**	**2,142.2**
At 31 March 2015	392.9	1,467.5	166.7	2,027.1

An amount of £1.2m (2015: £33.4m) in respect of assets under construction is included in the carrying amount of land and buildings, plant and equipment.

At 31 March 2016 the Group had entered into contractual capital commitments amounting to £168.0m (2015: £137.6m), principally representing buses ordered in the United Kingdom and North America and commitments under the Great Western Railway franchise.

Property, plant and equipment held under HP contracts and finance leases are analysed as follows:

	2016 £m	2015 £m
Passenger carrying vehicle fleet – cost	**465.5**	526.7
– depreciation	**(188.2)**	(170.9)
Net passenger carrying vehicle fleet	**277.3**	355.8
Other plant and equipment – cost	**0.7**	3.0
– depreciation	**(0.5)**	(1.3)
Net other plant and equipment	**0.2**	1.7
Total net book value	**277.5**	357.5

The title to the assets under HP contracts and finance leases is held by the lenders.

14 Investments

	2016 £m	2015 £m
US deferred compensation plan assets	**22.4**	–
Other investments	**3.0**	3.1
	25.4	3.1

The US deferred compensation plan assets have been reclassified from prepayments in the current year.

15 Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given below.

A full list of subsidiaries, joint ventures and associates is disclosed in note 38.

UK local bus and coach operators

First Aberdeen Limited[1]
First Beeline Buses Limited
First Bristol Limited
First Cymru Buses Limited
First Eastern Counties Buses Limited
First Essex Buses Limited
First Glasgow (No. 1) Limited[1]
First Glasgow (No. 2) Limited[1]
First Hampshire and Dorset Limited
First Manchester Limited
First Midland Red Buses Limited
First Potteries Limited
First Scotland East Limited[1]
First Somerset & Avon Limited
First South West Limited
First South Yorkshire Limited
First West Yorkshire Limited
First York Limited
Leicester CityBus Limited (94%)
Midland Bluebird Limited[1]

Rail companies

First Greater Western Limited
First/Keolis TransPennine Limited (55%)
Hull Trains Company Limited

North American school bus operators

Cardinal Coach Lines Limited[2]
First Canada ULC[2]
First Student, Inc[3]

Transit contracting and fleet maintenance

First Transit, Inc[3]
First Vehicle Services, Inc[3]

North American coach operators

Americanos USA, Inc[3]
Greyhound Lines, Inc[3]
Greyhound Canada Transportation ULC[2]

All subsidiary undertakings are wholly owned by FirstGroup plc at the end of the year except where percentage of ownership is shown above. All these companies above are incorporated in United Kingdom and registered in England and Wales except those:

[1] Registered in Scotland.

[2] Registered in Canada.

[3] Incorporated in the United States of America.

All shares held in subsidiary undertakings are ordinary shares, with the exception of Leicester CityBus Limited where the Group owns 100% of its redeemable cumulative preference shares, as well as 94% of its ordinary shares.

All of these subsidiary undertakings are owned via intermediate holding companies.

16 Inventories

	2016 £m	2015 £m
Spare parts and consumables	**61.4**	69.8
Property development work in progress	**–**	0.1
	61.4	69.9

In the opinion of the Directors there is no material difference between the balance sheet value of inventories and their replacement cost. There was no material write-down of inventories during the current or prior year. The provision for stock obsolescence at the balance sheet date was £7.7m (2015: £7.6m).

17 Trade and other receivables

Amounts due within one year	2016 £m	2015 £m
Trade receivables	**381.2**	355.3
Provision for doubtful receivables	**(4.3)**	(2.3)
Other receivables	**72.7**	66.3
Other prepayments	**88.2**	126.1
Accrued income	**156.6**	171.2
	694.4	716.6

Credit risk

Credit risk is the risk that financial loss arises from failure by a customer or counterparty to meet its obligations under a contract.

Credit risk exists in relation to the Group's financial assets, which comprise trade and other receivables of £694.4m (2015: £716.6m), cash and cash equivalents of £360.1m (2015: £420.5m) and derivative financial instruments of £58.2m (2015: £60.8m).

The Group's maximum exposure to credit risk for all financial assets at the balance sheet date was £1,112.7m (2015: £1,197.9m). The exposure is spread over a large number of unconnected counterparties and the maximum single concentration with any one counterparty was £75.0m (2015: £60.0m) at the balance sheet date.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment. The provision for doubtful receivables at the balance sheet date was £4.3m (2015: £2.3m).

Most trade receivables are with public or quasi public bodies, principally the DfT, Network Rail, Transport Scotland and city councils in the UK and school bus boards and city municipal authorities in North America. The Group does not consider any of these counterparties to be a significant risk. Each division within the Group has a policy governing credit risk management on trade receivables.

The counterparties for bank balances and derivative financial instruments are mainly represented by lending banks and large banks with a minimum of 'A' credit ratings assigned by international credit rating agencies. These counterparties are subject to approval by the Board. Group treasury policy limits the maximum deposit with any one counterparty to £75m, and limits the maximum term to three months.

An analysis of financial assets which are past due but not impaired and movements in the provision for doubtful receivables are set out below:

Ageing past due but not impaired trade receivables	2016 £m	2015 £m
Less than 30 days	**21.9**	25.2
30 – 90 days	**5.6**	6.7
90 – 180 days	**7.4**	7.9
180+ days	**4.0**	2.2
Total	**38.9**	42.0

Movement in the provision for doubtful receivables	2016 £m	2015 £m
At 1 April	**2.3**	2.9
Amounts written off during the year	**(1.9)**	(2.1)
Amounts recovered during the year	**(0.1)**	(0.2)
Increase in allowance recognised in the income statement	**3.8**	1.5
Foreign exchange movements	**0.2**	0.2
At 31 March	**4.3**	2.3

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

18 Assets held for sale

	2016 £m	2015 £m
Assets held for sale	**3.5**	1.4

The 2016 balance includes £1.8m in relation to a Greyhound property which was sold in April 2016. There are also First Student yellow school buses which are surplus to requirements and are being actively marketed on the Internet. Gains or losses arising on the disposal of such assets are included in arriving at operating profit in the income statement. The Group expects to sell such yellow school buses within 12 months of them going onto the 'for sale' list. The value at each balance sheet date represents management's best estimate of their resale value less cost of disposal. There are no liabilities associated with these held for sale assets at the balance sheet date.

Movement in assets held for sale	£m
At 1 April 2015	1.4
Net book value of additions	3.5
Net book value of disposals	(1.5)
Foreign exchange movements	0.1
At 31 March 2016	**3.5**

19 Trade and other payables

Amounts falling due within one year	2016 £m	2015 £m
Trade payables	**242.6**	248.3
Other payables	**239.6**	225.9
Accruals	**554.3**	572.1
Deferred income	**39.4**	59.3
Season ticket deferred income	**26.0**	33.4
	1,101.9	1,139.0

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 34 days (2015: 30 days). The Group has controls in place to ensure that all payments are paid within the appropriate credit timeframe.

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

20 Cash and cash equivalents

	2016 £m	2015 £m
Cash and cash equivalents	**360.1**	420.5

The fair value of cash and cash equivalents approximates to the carrying value. Cash and cash equivalents includes ring-fenced cash of £219.9m (2015: £196.7m). The most significant ring-fenced cash balances are held by the Group's First Rail subsidiaries. Under the terms of the rail franchise agreements, cash can only be distributed by these subsidiaries up to the lower of the amount of their retained profits or the amount determined by prescribed liquidity ratios. The ring-fenced cash represents cash which is not available for distribution and any additional amounts required to satisfy the liquidity ratios at the balance sheet date. Ring-fenced cash balances of £2.4m (2015: £0.7m) are held outside the First Rail subsidiaries.

21 Financial liabilities – borrowings

	2016 £m	2015 £m
On demand or within 1 year		
Finance leases (note 22)	**73.9**	77.0
Senior unsecured loan notes	**35.4**	–
Bond 8.125% (repayable 2018)[1]	**12.9**	12.9
Bond 6.125% (repayable 2019)[1]	**3.0**	3.0
Bond 8.75% (repayable 2021)[1]	**30.2**	30.1
Bond 5.25% (repayable 2022)[1]	**5.8**	5.8
Bond 6.875% (repayable 2024)[1]	**7.2**	7.2
Total current liabilities	**168.4**	136.0
Within 1 – 2 years		
Finance leases (note 22)	**58.3**	69.4
Loan notes (note 23)	**9.7**	9.7
Senior unsecured loan notes	**70.5**	33.5
	138.5	112.6
Within 2 – 5 years		
Finance leases (note 22)	**106.1**	140.3
Bond 8.125% (repayable 2018)	**298.3**	297.8
Bond 6.125% (repayable 2019)	**279.0**	286.3
Senior unsecured loan notes	**–**	67.1
	683.4	791.5
Over 5 years		
Finance leases (note 22)	**–**	15.5
Bond 8.75% (repayable 2021)	**370.1**	366.6
Bond 5.25% (repayable 2022)	**320.5**	320.0
Bond 6.875% (repayable 2024)	**199.6**	199.5
	890.2	901.6
Total non-current liabilities at amortised cost	**1,712.1**	1,805.7

Fair value of bonds and senior unsecured loan notes issued

	Par value £m	Interest payable	Month	**2016 Fair value £m**	2015 Fair value £m
Bond 8.125% (repayable 2018)	300.0	Annually	September	**352.3**	368.3
Bond 6.125% (repayable 2019)	250.0	Annually	January	**275.9**	284.0
Bond 8.75% (repayable 2021)	350.0	Annually	April	**464.0**	484.8
Bond 5.25% (repayable 2022)	325.0	Annually	November	**363.5**	372.8
Bond 6.875% (repayable 2024)	200.0	Annually	September	**248.4**	257.7
	$m			**£m**	£m
Senior unsecured loan notes	150.0	Semi-annually	April & October	**110.4**	108.8

The fair value of the bonds and senior unsecured loan notes are inclusive of accrued interest. The fair values are calculated by discounting the future cash flow that will arise under the contracts.

[1] Relates to accrued interest.

21 Financial liabilities – borrowings continued

Effective interest rates

The effective interest rates at the balance sheet dates were as follows:

	2016	2015
Bank overdraft	**LIBOR + 1%**	LIBOR + 1%
Bank borrowings	**LIBOR + 0.7%**	LIBOR + 0.7%
Bond 2018	**8.32%**	8.32%
Bond 2019[1]	**6.18%**	6.18%
Bond 2021[1]	**8.87%**	8.87%
Bond 2022	**5.49%**	5.49%
Bond 2024	**6.95%**	6.95%
Senior unsecured loan notes	**4.39%**	4.39%
HP contracts and finance leases	**LIBOR + 0.6% up to average fixed rate of 4.2%**	LIBOR + 0.6% up to average fixed rate of 4.0%
Loan notes	**LIBOR – 0.5% up to total fixed rate of 11.0%**	LIBOR – 0.5% up to total fixed rate of 11.0%

[1] The 2019 and 2021 bonds have been swapped to floating rates and hence have a lower effective rate net of these swaps.

Carrying amount of gross borrowings by currency	2016 £m	2015 £m
Sterling	**1,563.5**	1,577.6
US Dollar	**305.9**	351.1
Canadian Dollar	**11.2**	13.0
	1,880.6	1,941.7

Borrowing facilities

The Group had £800.0m (2015: £800.0m) of undrawn committed borrowing facilities as at 31 March 2016. Total bank borrowing facilities at 31 March 2016 stood at £815.7m (2015: £815.4m) of which £800.0m (2015: £800.0m) was committed and £15.7m (2015: £15.4m) was uncommitted.

Capital management

Overall the Group's objective is to achieve a post-tax return on capital employed (ROCE) in the range of 10% to 12% in the medium term. We also aim to maintain an investment grade credit rating and appropriate balance sheet liquidity headroom. The Group has net debt:EBITDA of 2.3 times as at March 2016 (2015: 2.3 times) and is targeting net debt:EBITDA of 2.0 times in the medium term.

ROCE is calculated by dividing adjusted operating profit after tax by net assets, excluding debt items.

Liquidity within the Group has remained strong. At 31 March 2016 there was £940.2m (2015: £1,023.8m) of committed headroom and free cash. Largely due to seasonality in the North American school bus business, committed headroom typically reduces during the financial year up to October and increases thereafter. The Group's Treasury policy requires a minimum of £150m of committed headroom at all times.

The Group's net debt, excluding accrued bond interest at 31 March 2016, was £1,410.2m (2015: £1,407.3m) as set out on page 46 of the Financial review.

22 HP contracts and finance leases

The Group had the following obligations under HP contracts and finance leases as at the balance sheet dates:

	2016 Minimum payments £m	**2016 Present value of payments £m**	2015 Minimum payments £m	2015 Present value of payments £m
Due in less than one year	**75.9**	**73.9**	79.2	77.0
Due in more than one year but not more than two years	**61.5**	**58.3**	73.3	69.4
Due in more than two years but not more than five years	**116.8**	**106.1**	157.1	140.3
Due in more than five years	**–**	**–**	18.7	15.5
	254.2	**238.3**	328.3	302.2
Less future financing charges	**(15.9)**	**–**	(26.1)	–
	238.3	**238.3**	302.2	302.2

HP lease obligations

Sterling denominated fixed rate leases	**2016**	2015
Sterling fixed rate leases	**£8.8m**	£13.0m
Average remaining lives	**2 years**	3 years
Effective borrowing rate	**3.60%**	3.49%

US Dollar denominated fixed rate leases	**2016**	2015
US Dollar fixed rate leases	**£200.0m**	£250.5m
Average remaining lives	**2 years**	3 years
Effective borrowing rate	**2.80%**	2.88%

Canadian Dollar denominated fixed rate leases	**2016**	2015
Canadian Dollar fixed rate leases	**£11.2m**	£13.0m
Average remaining lives	**2 years**	3 years
Effective borrowing rate	**4.13%**	4.00%

The Group considers there to be no material difference between the fair values of the Sterling and Canadian Dollar finance leases and the carrying amount in the balance sheet. The US Dollar finance leases have a fair value of £203.2m (2015: £255.6m). The fair value is calculated by discounting future cash flows that will arise under the lease agreements.

23 Loan notes

The Group had the following loan notes issued as at the balance sheet dates:

	2016 £m	2015 £m
Due in more than one year but not more than two years	**9.7**	9.7

The loan notes have been classified by reference to the earliest date on which the loan note holder can request redemption. Loan notes of £8.7m (2015: £8.7m) are supported by unsecured bank guarantees.

The loan notes have an average effective borrowing rate of 10.1% (2015: 10.1%) and an average remaining term of 4 years (2015: 5 years) assuming that the holders do not request redemption. The fair value of the loan notes has been determined to be £12.9m (2015: £13.4m). This has been calculated by discounting future cash flows that will arise under the loan notes.

24 Derivative financial instruments

	2016 £m	2015 £m
Total derivatives		
Total non-current assets	**41.5**	45.3
Total current assets	**16.7**	15.5
Total assets	**58.2**	60.8
Total current liabilities	**68.1**	74.5
Total non-current liabilities	**35.5**	22.6
Total liabilities	**103.6**	97.1
Derivatives designated and effective as hedging instruments carried at fair value		
Non-current assets		
Coupon swaps (fair value hedge)	**41.3**	45.3
Fuel derivatives (cash flow hedge)	**0.2**	–
	41.5	45.3
Current assets		
Coupon swaps (fair value hedge)	**16.4**	15.5
Fuel derivatives (cash flow hedge)	**0.3**	–
	16.7	15.5
Current liabilities		
Fuel derivatives (cash flow hedge)	**66.9**	66.9
	66.9	66.9
Non-current liabilities		
Fuel derivatives (cash flow hedge)	**35.5**	21.4
	35.5	21.4
Derivatives classified as held for trading		
Current liabilities		
Interest rate swaps	**1.2**	7.6
Non-current liabilities		
Interest rate swaps	**–**	1.2

Total cash flow hedges are a liability of £101.9m (2015: £88.3m asset). Total fair value hedges are an asset of £57.7m (2015: £60.8m).

During the year £80.6m was charged to the hedging reserve in respect of cash flow hedges (2015: £88.6m charge).

The following gains/(losses) transferred from equity into profit or loss during the year are included in line items in the consolidated income statement:

	2016 £m	2015 £m
Operating (losses)/gains	**(66.9)**	1.3

24 Derivative financial instruments continued

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis:

					2016
				Fair value	**Carrying value**
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**	**Total £m**
Financial assets					
Cash and cash equivalents	**360.1**	**–**	**–**	**360.1**	**360.1**
Derivative financial instruments	**–**	**58.2**	**–**	**58.2**	**58.2**
Financial liabilities and derivatives					
Financial liabilities	**–**	**2,068.9**	**–**	**2,068.9**	**1,880.6**
Derivative financial instruments	**–**	**103.6**	**–**	**103.6**	**103.6**

					2015
				Fair value	Carrying value
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Total £m
Financial assets					
Cash and cash equivalents	420.5	–	–	420.5	420.5
Derivative financial instruments	–	60.8	–	60.8	60.8
Financial liabilities and derivatives					
Financial liabilities	–	2,197.1	–	2,197.1	1,941.7
Derivative financial instruments	–	97.1	–	97.1	97.1

Level 1: Quoted prices in active markets for identical assets and liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly.

Level 3: Inputs for the asset or liability that are not based on observable market data.

There were no transfers between Level 1 and Level 2 during the current or prior year.

Financial assets/(liabilities)	**Fair values at 31 March 2016 £m**	Fair values at 31 March 2015 £m	Fair value hierarchy	Valuation technique(s) and key inputs
Derivative contracts				
1) Interest rate swaps	**56.5**	52.0	Level 2	Discounted cash flow; future cash flows are estimated based on forward interest rates and contract interest rates and then discounted at a rate that reflects the credit risk of the various counterparties.
2) Fuel derivatives	**(101.9)**	(88.3)	Level 2	Discounted cash flow; future cash flows are estimated based on forward fuel prices and contract rates and then discounted at a rate that reflects the credit risk of the various counterparties.

The following gains and losses on derivatives designated for hedge accounting have been charged through the consolidated income statement in the year:

	2016 £m	2015 £m
(Losses)/gains on hedging instruments in fair value hedges	**(4.1)**	19.1
Gains/(losses) on hedged item attributable to hedged risk fair value hedges	**3.8**	(19.2)
Change in the fair value of derivatives classified as held for trading	**–**	(0.2)
	(0.3)	(0.3)

Financial risk management

The Group is exposed to financial risks including liquidity risk, credit risk and certain market-based risks principally being the effects of changes in foreign exchange rates, interest rates and fuel prices. The Group manages these risks within the context of a set of formal policies established by the Board. Certain risk management responsibilities are formally delegated by the Board, principally to a sub-committee of the Board and to the Chief Financial Officer and to the Treasury Committee. The Treasury Committee comprises the Chief Financial Officer and certain senior finance employees and is responsible for approving hedging transactions permitted under Board approved policies, monitoring compliance against policy and recommending changes to existing policies.

24 Derivative financial instruments continued

Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulty in meeting obligations associated with financial liabilities. The objective of the Group's liquidity risk management is to ensure sufficient committed liquidity resources exist. The Group has a diversified debt structure largely represented by medium term unsecured syndicated committed bank facilities, medium to long term unsecured bond debt and finance leases. It is a policy requirement that debt obligations must be addressed well in advance of their due dates.

Group treasury policy requires a minimum of £150m of committed liquidity headroom at all times within medium term bank facilities and such facilities must be renewed or replaced well before their expiry dates. At 31 March 2016, the total amount of these facilities stood at £800.0m (2015: £800.0m), and committed headroom was £800.0m (2015: £800.0m), in addition to free cash balances of £140.2m (2015: £223.8m). The next material contractual expiry of revolver bank facilities is in June 2019. Largely due to the seasonality of the First Student school bus business, headroom tends to reduce from March to October and increases again by the following March.

The average duration of net debt (excluding ring-fenced cash) at 31 March 2015 was 4.4 years (2015: 5.2 years).

The following tables detail the Group's expected maturity of payables/(receivables) for its derivative financial instruments. The amounts in these tables are different to the balance sheet as the table is prepared on an undiscounted cash flow basis.

					2016
	< 1 year £m	1 – 2 years £m	2 – 5 years £m	> 5 years £m	Total £m
Interest rate derivatives	**1.2**	**–**	**–**	**–**	**1.2**
Coupon swaps	**(23.1)**	**(23.1)**	**(38.5)**	**(7.7)**	**(92.4)**
Coupon swaps	**6.6**	**7.1**	**17.7**	**1.1**	**32.5**
Fuel derivatives	**66.6**	**27.7**	**7.6**	**–**	**101.9**
	51.3	**11.7**	**(13.2)**	**(6.6)**	**43.2**

					2015
	< 1 year £m	1 – 2 years £m	2 – 5 years £m	> 5 years £m	Total £m
Interest rate derivatives	7.6	1.2	–	–	8.8
Coupon swaps	(21.9)	(23.1)	(53.8)	(15.5)	(114.3)
Coupon swaps	6.4	7.6	29.3	7.8	51.1
Fuel derivatives	66.9	20.4	1.0	–	88.3
	59.0	6.1	(23.5)	(7.7)	33.9

Total amounts payable per the tables are £135.6m (2015: £148.2m). Total amounts receivable per the tables are £92.4m (2015: £114.3m).

No derivative financial instruments had collateral requirements or were due on demand in any of the years.

Currency risk

Currency risk is the risk of financial loss to foreign currency net assets, earnings and cash flows reported in pounds Sterling due to movements in exchange rates.

The Group's principal operations outside the UK are in the US and Canada, with the US being the most significant. Consequently the principal currency risk relates to movements in the US Dollar to pounds Sterling.

"Certain" and "highly probable" foreign currency transaction exposures may be hedged at the time the exposure arises for up to two years at specified levels, or longer if there is a very high degree of certainty. The Group does not hedge the translation of earnings into the Group reporting currency (pounds Sterling), but accepts that reported Group earnings will fluctuate as exchange rates against pounds Sterling fluctuate for the currencies in which the company does business. During the year, the net cash generated in each currency may be converted by Group Treasury into pounds Sterling by way of spot transactions in order to keep the currency composition of net debt broadly constant.

IFRS 7 requires the Group to show the impact on profit after tax and hedging reserve on financial instruments from a movement in exchange rates. The following analysis details the Group's sensitivity to a 10% strengthening in Sterling against the US Dollar. The analysis has been prepared based on the change taking place at the beginning of the financial year and being held constant throughout the reporting period. A positive number indicates an increase in earnings or equity where Sterling strengthens against the US Dollar.

24 Derivative financial instruments continued

	2016 £m	2015 £m
Impact on profit after tax	**9.9**	12.0
Impact on hedging reserve	**6.8**	5.7

Interest rate risk

The Group has variable rate debt and cash and therefore net income is exposed to the effects of changes to interest rates. The Group treasury policy objective is to maintain fixed interest rates at a minimum of 50% of on-balance sheet net debt over the medium term, so that volatility is substantially reduced year on year to EPS. The policy objective is primarily achieved through fixed rate debt. The main floating rate benchmarks on variable rate debt are US Dollar LIBOR and pounds Sterling LIBOR.

At 31 March 2016, 82% (2015: 85%) of net debt was fixed. This fixed rate protection had an average duration of 4.6 years (2015: 5.3 years).

Interest rate risk within operating leases is hedged 100% by agreeing fixed rentals with the lessors prior to inception of the lease contracts.

Fair value changes in the £250.0m 2019 and the £350.0m 2021 Sterling bonds relating to the LIBOR element are hedged with coupon swaps. These swaps offset the fair value movements in the bond in the income statement and have the same term as the bonds.

The following sensitivity analysis details the Group's sensitivity to a 100 basis points (1%) increase in interest rates throughout the reporting period with all other variables held constant.

	2016 £m	2015 £m
Impact on profit after tax	**(1.8)**	0.3

Interest rate hedges

The following table details the notional amounts of interest rate swap contracts designated as a cash flow or fair value hedge which were outstanding at the reporting date, the average fixed rate payable or receivable under these swaps and their fair value. The average interest rate is based on the outstanding balances at the reporting date. The fair value of interest rate swaps is determined by discounting the future cash flows.

The interest rate swaps settle on a monthly, quarterly or semi-annual basis. The differences between the fixed and floating rates are settled on a net basis.

	Average fixed rate		Notional principal amount		Fair value asset	
Fair value hedges	2016 %	2015 %	2016 £m	2015 £m	2016 £m	2015 £m
Two to five years	**3.84**	6.13	**600**	250	**50.0**	36.1
More than five years	**–**	2.21	**–**	350	**–**	18.0

Fuel price risk

The Group purchases diesel fuel on a floating price basis in its First Bus, First Rail, US and Canadian bus operations and therefore is exposed to changes in diesel prices, of which the most significant element is crude oil price risk. The Group's policy objective is to maintain a significant degree of fixed price protection in the short term with lower levels of protection over the medium term, so that the businesses affected are protected from any sudden and significant increases and have time to prepare for potentially higher costs, whilst retaining some access for potentially lower costs over the medium term. The Group primarily uses fixed rate swap instruments to achieve significant fixed price certainty. During the year to 31 March 2016, the Group was hedged 82% on fuel price risk.

The Group has also entered into swaps for periods from April 2016 to March 2019 with the majority of these swaps relating to the year to 31 March 2017. The swaps give rise to monthly cash flow exchanges with counterparties to offset the underlying settlement of floating price costs, except where they have a deferred start date. Gains or losses on fuel derivatives are recycled from equity to the income statement on qualifying hedges to achieve fixed rate fuel costs within operating results.

The following analysis details the Group's sensitivity on profit after tax and equity if the price of crude oil had been $10 per barrel higher at the year end:

	2016 £m	2015 £m
Impact on profit after tax	**(2.5)**	(2.0)
Impact on hedging reserve	**27.3**	17.6

Volume at risk for the year to 31 March 2017 is 3.2m (year to 31 March 2016: 3.5m) barrels for which 80% is hedged to diesel price risk.

25 Deferred tax

The major deferred tax liabilities/(assets) recognised by the Group and movements thereon during the current and prior reporting periods are as follows:

	Accelerated tax depreciation £m	Retirement benefit schemes £m	Other temporary differences £m	Tax losses £m	Total £m
At 1 April 2014	136.4	(72.2)	115.8	(178.8)	1.2
Charge/(credit) to income	13.9	3.5	(18.9)	4.1	2.6
(Credit)/charge to other comprehensive income	–	6.7	(26.6)	–	(19.9)
Charge direct to equity	–	–	0.1	–	0.1
Acquisition of business/subsidiary	–	–	(0.9)	–	(0.9)
Foreign exchange movements	12.4	(5.4)	11.1	(21.0)	(2.9)
At 31 March 2015	162.7	(67.4)	80.6	(195.7)	(19.8)
(Credit)/charge to income	4.7	8.1	(10.7)	(6.1)	(4.0)
Credit to other comprehensive income	–	(16.1)	(0.6)	–	(16.7)
Foreign exchange and other movements	6.8	(2.9)	1.4	(10.5)	(5.2)
At 31 March 2016	**174.2**	**(78.3)**	**70.7**	**(212.3)**	**(45.7)**

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2016 £m	2015 £m
Deferred tax assets	**(62.7)**	(60.5)
Deferred tax liabilities	**17.0**	40.7
	(45.7)	(19.8)

Deferred tax assets of £42.8m (2015: £36.7m) have not been recognised as it is not considered probable that there will be future profits against which these assets can be offset. The earliest period in which some of the assets will expire is year ended 31 March 2027.

No deferred tax asset has been recognised in respect of £2.3m (2015: £nil) of capital losses.

26 Provisions

	2016 £m	2015 £m
Insurance claims	**219.9**	205.5
Legal and other	**39.6**	28.1
Pensions	**2.8**	3.1
Non-current liabilities	**262.3**	236.7

	Insurance claims £m	Legal and other £m	Pensions £m	Total £m
At 1 April 2015	316.2	49.4	3.1	368.7
Charged to the income statement	172.9	11.7	–	184.6
Transfer from accruals	–	8.3	–	8.3
Utilised in the year	(153.6)	(30.6)	(0.3)	(184.5)
Notional interest	14.7	–	–	14.7
Foreign exchange movements	13.6	5.2	–	18.8
At 31 March 2016	**363.8**	**44.0**	**2.8**	**410.6**
Current liabilities	**143.9**	**4.4**	**–**	**148.3**
Non-current liabilities	**219.9**	**39.6**	**2.8**	**262.3**
At 31 March 2016	**363.8**	**44.0**	**2.8**	**410.6**
Current liabilities	110.7	21.3	–	132.0
Non-current liabilities	205.5	28.1	3.1	236.7
At 31 March 2015	316.2	49.4	3.1	368.7

The current liabilities above are included within accruals in note 19.

The insurance claims provision arises from estimated exposures for incidents occurring prior to the balance sheet date. It is anticipated that the majority of such claims will be settled within the next six years although certain liabilities in respect of lifetime obligations of £20.3m (2015: £19.0m) can extend for up to 30 years. The utilisation of £153.6m (2015: £163.7m) represents payments made largely against the current liability of the preceding year.

Amounts charged to the income statement for insurance claims contains £25.5m which is recoverable from insurance companies and is included within other receivables in note 17.

Legal and other provisions relate to estimated exposures for cases filed or thought highly likely to be filed for incidents that occurred prior to the balance sheet date. It is anticipated that most of these items will be settled within 10 years. Also included are provisions in respect of costs anticipated on the exit of surplus properties which are expected to be settled over the remaining terms of the respective leases and dilapidation and other provisions in respect of contractual obligations under rail franchises. The dilapidation provisions are expected to be settled at the end of the respective franchise.

The pension's provision relates to unfunded obligations that arose on the acquisition of certain First Bus companies. It is anticipated that this will be utilised over five to 10 years.

27 Called up share capital

	2016 £m	2015 £m
Allotted, called up and fully paid		
1,204.9m ordinary shares of 5p each	**60.2**	60.2

The Company has one class of ordinary shares which carries no right to fixed income.

28 Reserves

The hedging reserve records the movement on designated hedging items.

The share premium account represents the premium on shares issued since 1999 and arose principally on the rights issue on the Ryder acquisition in 1999 and the share placings in 2007 and 2008. The reserve is non-distributable.

The own shares reserve represents the cost of shares in FirstGroup plc purchased in the market and either held as treasury shares or held in trust to satisfy the exercise of share options.

Hedging reserve

The movements in the hedging reserve were as follows:

	2016 £m	2015 £m
Balance at 1 April	**(55.5)**	7.8
Losses recognised:		
Fuel derivatives	**(80.6)**	(88.6)
Charged/(credited) to income statement:		
Fuel derivatives	**66.9**	(1.3)
Tax on derivative hedging instrument movements	**0.6**	26.6
Balance at 31 March	**(68.6)**	(55.5)

Own shares

The number of own shares held by the Group at the end of the year was 669,374 (2015: 1,252,757) FirstGroup plc ordinary shares of 5p each. Of these, 479,625 (2015: 1,063,008) were held by the FirstGroup plc Employee Benefit Trust, 32,520 (2015: 32,520) by the FirstGroup plc Qualifying Employee Share Ownership Trust and 157,229 (2015: 157,229) were held as treasury shares. Both trusts and treasury shares have waived the rights to dividend income from the FirstGroup plc ordinary shares. The market value of the shares at 31 March 2016 was £0.6m (2015: £1.1m).

Other reserves	Capital redemption reserve £m	Capital reserve £m	Total other reserves £m
At 31 March 2016 and 31 March 2015	**1.9**	**2.7**	**4.6**

There have been no movements on the capital redemption reserve or capital reserve during the year ended 31 March 2016. The capital redemption reserve represents the cumulative par value of all shares bought back and cancelled. The capital reserve arose on acquisitions in 2000. Neither reserve is distributable.

29 Translation reserve

	£m
At 1 April 2015	241.7
Movement for the financial year	110.5
At 31 March 2016	**352.2**

The translation reserve records exchange differences arising from the translation of the balance sheets of foreign currency denominated subsidiaries offset by movements on loans used to hedge the net investment in those foreign subsidiaries.

30 Acquisition of businesses and subsidiary undertakings

Acquisition of businesses and subsidiary undertakings	2016 £m	2015 £m
Fair value of net assets acquired:		
Property, plant and equipment	–	7.8
Other intangible assets	–	15.8
Deferred tax	–	0.9
Other liabilities	–	(2.3)
Non-controlling interests	–	(11.7)
	–	10.5
Goodwill (note 11)	–	1.7
Satisfied by cash paid and payable	–	12.2

On 25 August 2014, the Group completed the acquisition of a 51% share in Mile Square Transportation, Inc., a school bus transportation company based in New York. The £12.2m consideration represents £11.0m cash paid in the year to 31 March 2015 and £1.2m of deferred consideration.

Included within the purchase agreement is a put option for the Group to purchase the remaining 49% from the non-controlling interest party for a fixed price of US$19.1m. As the put option is a contract to purchase the Group's own equity instruments it gives rise to a financial liability for the fixed price amount in accordance with paragraph 23 in IAS 32. We have recognised the financial liability in the balance sheet and the initial recognition is treated as reclassified from equity.

The business acquired during the year contributed £nil (2015: £6.4m) to the Group's net operating cash flows and utilised £nil (2015: £11.0m) for capital expenditure.

The business acquired during the year contributed £nil (2015: £12.1m) to Group revenue and £nil (2015: £3.5m) to Group operating profit from date of acquisition to 31 March 2016.

If the acquisition of the business acquired during the year had been completed on the first day of the financial year, Group revenue from this acquisition for the period would have been £nil (2015: £16.6m) and the Group operating profit from this acquisition attributable to equity holders of the parent would have been £nil (2015: £3.8m).

31 Net cash from operating activities

	2016 £m	2015 £m
Operating profit	**246.3**	245.8
Adjustments for:		
Depreciation charges	**325.7**	353.3
Capital grant amortisation	**(10.5)**	(32.5)
Amortisation charges	**51.9**	54.3
Impairment charges	**–**	8.7
Share-based payments	**6.4**	5.2
Profit on disposal of property, plant and equipment	**–**	(27.9)
Operating cash flows before working capital and pensions	**619.8**	606.9
Decrease in inventories	**10.0**	4.5
Decrease/(increase) in receivables	**29.3**	(7.5)
Decrease in payables	**(73.6)**	(113.0)
Decrease in provisions	**(18.6)**	(27.2)
Defined benefit pension payments in excess of income statement charge	**(33.6)**	(12.3)
Cash generated by operations	**533.3**	451.4
Tax paid	**(7.0)**	(4.5)
Interest paid	**(107.9)**	(112.2)
Interest element of HP contracts and finance leases	**(8.9)**	(9.5)
Net cash from operating activities	**409.5**	325.2

32 Contingent liabilities

To support subsidiary undertakings in their normal course of business, the Company and certain subsidiaries have indemnified certain banks and insurance companies who have issued performance bonds for £505.4m (2015: £489.2) and letters of credit for £310.4m (2015: £304.4m). The performance bonds relate to the North American businesses of £462.2m (2015: £421.1m) and the First Rail franchise operations of £43.2m (2015: £68.1m). The letters of credit relate substantially to insurance arrangements in the UK and North America.

The Company is party to certain unsecured guarantees granted to banks for overdraft and cash management facilities provided to itself and subsidiary undertakings. The Company has given certain unsecured guarantees for the liabilities of its subsidiary undertakings arising under certain loan notes, HP contracts, finance leases, operating leases and certain pension scheme arrangements. It also provides unsecured cross guarantees to certain subsidiary undertakings as required by VAT legislation. First Bus subsidiaries have provided unsecured guarantees on a joint and several basis to the Trustees of the First Bus Pension Scheme.

The Group has issued guarantees of £0.9m (2015: £4.0m) to the Danish and Swedish authorities in respect of DSBFirst. These guarantees relate to the operational performance of the Danish rail activities and certain train maintenance activities in Sweden.

The Group is party to legal proceedings and claims which arise in the normal course of business, including but not limited to employment and safety claims. The Group takes legal advice as to the likelihood of success of claims and counterclaims. No provision is made where due to inherent uncertainties, no accurate quantification of any cost, or timing of such cost, which may arise from any of the legal proceedings can be determined.

In its normal course of business First Rail has ongoing contractual negotiations with government and other organisations.

33 Operating lease arrangements

	2016 **£m**	2015 £m
Minimum lease payments made under operating leases recognised in the income statement for the year:		
Plant and machinery	**21.0**	16.7
Track and station access	**103.8**	267.1
Hire of rolling stock	**80.8**	170.2
Other assets	**61.9**	35.5
	267.5	489.5

At the balance sheet dates, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2016 **£m**	2015 £m
Within one year	**278.2**	253.2
In the second to fifth years inclusive	**1,043.9**	816.2
After five years	**164.7**	107.5
	1,486.8	1,176.9

Included in the above commitments are contracts held by the First Rail businesses with Network Rail for access to the railway infrastructure track, stations and depots of £343.8m (2015: £146.1m). They also have contracts under which they lease rolling stock of £848.8m (2015: £730.4m).

34 Share-based payments

Equity-settled share option plans

The Group recognised total expenses of £6.4m (2015: £5.2m) related to equity-settled share-based payment transactions.

(a) Save as you earn (SAYE)

The Group operates an HMRC approved savings related share option scheme. Grants were made as set out below. The scheme is based on eligible employees being granted options and their agreement to opening a sharesave account with a nominated savings carrier and to save weekly or monthly over a specified period. Sharesave accounts are held with Computershare. The right to exercise the option is at the employee's discretion at the end of the period previously chosen for a period of six months.

	SAYE Dec 2011 Options Number	SAYE Dec 2012 Options Number	SAYE Dec 2013 Options Number	SAYE Dec 2014 Options Number	SAYE Dec 2015 Options Number
Outstanding at the beginning of the year	1,987,733	2,469,476	6,009,353	7,429,845	–
Awarded during the year	–	–	–	–	7,730,075
Exercised during the year	–	(12,773)	(57,361)	(1,320)	–
Lapsed during the year	(1,987,733)	(953,058)	(1,500,635)	(965,687)	(159,070)
Outstanding at the end of the year	–	1,503,645	4,451,357	6,462,838	7,571,005
Exercisable at the end of the year	–	1,503,645	–	–	–
Weighted average exercise price (pence)	221.4	117.3	94.1	97.0	85.0
Weighted average share price at date of exercise (pence)	N/A	110.1	114.5	102.6	N/A

(b) Deferred bonus shares (DBS)

	DBS 2005 Options Number	DBS 2006 Options Number	DBS 2007 Options Number	DBS 2008 Options Number	DBS 2009 Options Number
Outstanding at the beginning of the year	29,472	74,716	167,333	77,651	68,147
Granted during the year	–	–	–	–	–
Forfeited during the year	(21,519)	–	–	–	–
Exercised during the year	(7,953)	(50,758)	(47,755)	(19,093)	(25,913)
Outstanding at the end of the year	–	23,958	119,578	58,558	42,234
Exercisable at the end of the year	–	23,958	119,578	58,558	42,234
Weighted average exercise price (pence)	Nil	Nil	Nil	Nil	Nil
Weighted average share price at date of exercise (pence)	98.3	97.2	101.0	99.9	104.9

	DBS 2010 Options Number	DBS 2011 Options Number	DBS 2012 Options Number	DBS 2013 Options Number	DBS 2014 Options Number	DBS 2015 Options Number
Outstanding at the beginning of the year	173,989	223,430	964,755	1,976,021	2,204,516	–
Granted during the year	–	–	–	–	–	3,426,028
Forfeited during the year	–	–	(3,472)	(75,211)	(77,805)	(146,670)
Exercised during the year	(75,331)	(55,979)	(665,857)	(40,328)	(16,187)	(12,538)
Outstanding at the end of the year	98,658	167,451	295,426	1,860,482	2,110,524	3,266,820
Exercisable at the end of the year	98,658	167,451	295,426	–	–	–
Weighted average exercise price (pence)	Nil	Nil	Nil	Nil	Nil	Nil
Weighted average share price at date of exercise (pence)	99.9	103.1	118.2	110.5	118.1	108.5

34 Share-based payments continued

(c) Buy As You Earn (BAYE)

BAYE enables eligible employees to purchase shares from their gross income. The Company provides two matching shares for every three shares bought by employees, subject to a maximum Company contribution of shares to the value of £20 per employee per month. If the shares are held in trust for five years or more, no income tax and national insurance will be payable. The matching shares will be forfeited if the corresponding partnership shares are removed from trust within three years of award.

At 31 March 2016 there were 5,658 (2015: 7,338) participants in the BAYE scheme who have cumulatively purchased 14,438,419 (2015: 11,916,378) shares with the Company contributing 4,783,319 (2015: 3,931,908) matching shares on a cumulative basis.

(d) Long Term Incentive Plan (LTIP)

	LTIP 2012 Options Number	LTIP 2013 Options Number	LTIP 2014 Options Number	LTIP 2015 Options Number
Outstanding at the beginning of the year	6,321,305	11,649,324	11,051,874	–
Granted during the year	–	–	–	3,458,103
Forfeited during the year	–	(901,940)	(1,220,972)	–
Lapsed during the year	(6,321,305)	–	–	–
Outstanding at the end of the year	–	10,747,384	9,830,902	3,458,103
Weighted average share price at date of exercise (pence)	Nil	Nil	Nil	Nil

(e) Divisional Incentive Plan (DIP)

	DIP 2015 Options Number
Outstanding at the beginning of the year	–
Granted during the year	8,450,850
Forfeited during the year	–
Exercised during the year	–
Outstanding at the end of the year	8,450,850
Exercisable at the end of the year	–
Weighted average exercise price (pence)	Nil
Weighted average share price at date of exercise (pence)	–

(f) Executive Share Plan (ESP)

	ESP 2015 Options Number
Outstanding at the beginning of the year	–
Granted during the year	1,446,677
Forfeited during the year	–
Exercised during the year	–
Outstanding at the end of the year	1,446,677
Exercisable at the end of the year	–
Weighted average exercise price (pence)	Nil
Weighted average share price at date of exercise (pence)	–

34 Share-based payments continued

The fair values of the options granted during the last two years were measured using a Black-Scholes or other appropriate valuation models. The inputs into the models were as follows:

	2016	2015
Weighted average share price at grant date (pence)		
– DBS	**123.1/105.1**	139.6
– SAYE December 2014	**–**	108.9
– SAYE December 2015	**103.1**	–
– LTIP	**105.1**	129.1
– ESP	**105.1**	N/A
Weighted average exercise price at grant date (pence)		
– DBS	**–**	–
– SAYE December 2014	**–**	97.0
– SAYE December 2015	**85.0**	–
– LTIP	**–**	–
– ESP	**–**	N/A
Expected volatility (%)		
– DBS	**N/A**	N/A
– SAYE December 2014	**–**	35
– SAYE December 2015	**35**	–
– LTIP	**35**	45
– ESP	**N/A**	N/A
Expected life (years)		
– DBS	**2.8/2.3**	3
– SAYE schemes	**3**	3
– LTIP	**2.3**	3
– ESP	**2.5**	N/A
Rate of interest (%)		
– DBS	**N/A**	N/A
– SAYE December 2014	**–**	0.9
– SAYE December 2015	**0.8**	–
– LTIP	**–**	1.2
– ESP	**–**	N/A
Expected dividend yield (%)		
– DBS	**–**	–
– SAYE December 2014	**–**	–
– SAYE December 2015	**–**	–
– LTIP	**–**	–
– EPS	**–**	N/A

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous five years. The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Allowances have been made for the SAYE schemes for the fact that, amongst a group of recipients some are expected to leave before an entitlement vests. The accounting charge is then adjusted over the vesting period to take account of actual forfeitures, so although the total charge is unaffected by the pre-vesting forfeiture assumption, the timing of the recognition of the expense will be sensitive to it. Fair values for the SAYE include a 10% per annum pre-vesting leaver assumption whereas the Executive, LTIP and deferred share plans exclude any allowance for pre-vesting forfeitures.

The Group used the inputs noted above to measure the fair value of the new share options.

	2016 pence	2015 pence
Weighted average fair value of options at grant date		
– DBS	**123.1/105.1**	139.6
– SAYE December 2014	**–**	39.0
– SAYE December 2015	**34.0**	–
– LTIP	**86.9**	104.7
– EPS	**105.1**	N/A

35 Retirement benefit schemes

Defined contribution plans

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. There is no legal or constructive obligation to pay additional contributions into a defined contribution scheme if the fund has insufficient assets to pay all employees' benefits relating to employee service in the current and prior periods.

UK

The Group operates defined contribution retirement benefit plans for all Group and First Bus division employees who have joined a pension arrangement since January 2011 and April 2013, respectively. They will receive a Company match to their contributions, which varies by salary and/or service level.

North America

Employees in the US have been able to join a defined contribution arrangement for many years. They will receive a Company match to their contributions, which varies by employment status. The Company match is 50% of member contributions, to a Company maximum of 3% for full-time employees and $250 per annum for part-time employees.

All new employees in Canada join a defined contribution arrangement. Union employees join the Eastern or Western plan, dependent upon their geographical location, whilst managers and supervisors join the Supervisory plan. Members of the Western and Supervisory plans can contribute 2%, 3%, 4% or 5%, and receive a 50% Company match. Members of the Eastern plan may contribute 2%, 3% or 4%, and receive a 100% Company match.

The total expense recognised in the consolidated income statement of £18.2m (2015: £23.0m) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

Defined benefit plans

The Group sponsors 16 funded defined benefit plans across its operations, covering approximately 70,000 former and current employees.

UK

The majority of defined benefit provision is through Trust-based schemes. With the exception of the Railways Pension Schemes (RPS), these arrangements are now closed to new entrants. In these arrangements the assets of the schemes are invested separately from those of the Group, and the schemes are run by independent Trustee boards. The Trustee board of the pension schemes is required by law, or by their Articles of Association, to act in the best interest of the fund and of all relevant stakeholders in the scheme, i.e. active employees, inactive employees, retirees, beneficiaries and employers. There is a requirement for the Trustee board to have some member representation with the other Trustees being company appointed.

The Trustee board is responsible for the investment policy in respect of the assets of the fund, although the Company must be consulted on this, and typically has some input into the investment decisions.

Schemes are valued at least triennially, when the cost of future service is calculated and the funding position established. The Company and Trustee board are required to agree on assumptions for the valuation and to agree the contributions that result from this. The contributions may need to incorporate deficit recovery contributions in addition to future service contributions, if a deficit position is determined through the valuation. If a surplus is shown at the valuation, this may be used to reduce future service contributions. In agreeing contribution rates, reference must be made to the affordability of contributions by the employer.

In most arrangements, any surplus after benefits have been paid/secured, can be repaid to the employer.

The First UK Bus Pension Scheme

This predominantly provides pension benefits to employees in the First Bus division. Historically the scheme provided final salary benefits and career average benefits. However, with effect from April 2012, the scheme provides career average benefits with a retirement age linked to State Pension age and a cap on the pensionable pay on which defined benefits can be built.

The defined benefit pensionable pay is capped at £21,580 per annum, with defined contribution benefit building on any pensionable pay above this amount.

The costs of future service are shared between the employer and member, so that the employer and employees each meets 50% of the cost.

The funding level of the scheme will be calculated on 5 April 2017, and if agreed funding levels are not achieved, the scheme will close to defined benefit accrual 12 months later.

In addition there is a smaller Group scheme which provides defined benefit pensions to Group employees and executives. This closed to new entrants in 2011. This scheme is subject to the same funding level test at 5 April 2017 as The First UK Bus Pension Scheme, and will also close to defined benefit accrual from April 2018 if the First Bus scheme does.

During the year the Trustee of the Group scheme agreed to change the index used for the revaluation of pensions from the Retail Price Index (RPI) to the Consumer Price Index (CPI). This produced a past service gain of £10.8m in the year.

35 Retirement benefit schemes continued

The Railways Pension Scheme

The Group currently sponsors four sections of the RPS, relating to its franchising obligations for its TOCs, and for Hull Trains, its Open Access operator.

Under this scheme members build a 1/60th pension and 1/40th lump sum based upon their pensionable pay. Some members of the RPS are subject to Protected Persons legislation, which requires individual consent to changes to benefits, and certain rights upon transfer between sections of the scheme.

The RPS is a shared cost arrangement. All costs, and any deficit or surplus is shared 60% by the employer and 40% by the members. Furthermore, under the franchising obligations, the responsibility of the employer is to pay the contributions requested of the Trustee whilst it operates the franchise. There is no residual liability or asset for any deficit, or surplus, which remains at the end of the franchise period.

During the year, some changes to benefits were agreed with members of the TOC sections, to take account of the fact that the RPS would no longer be contracted-out from April 2016. Pensionable pay growth for past service benefits is capped at RPI plus 0.25%. The Normal Pension Age for future service has also increased to 62 for members who are not Protected Persons. The pensionable pay cap has resulted in a past service gain of £28.8m. Given the franchise nature of these operations, the balance sheet franchise adjustment has decreased by an offsetting £28.8m, recognising that not all of this benefit will be available to First Rail, and that the element that will be available will be recognised in full via lower cash obligations during the remainder of the franchise.

In calculating the Group's pension obligations in respect of the RPS the Group has calculated the total pension deficits in each of the RPS sections in accordance with IAS 19. These deficits are reduced by a 'franchise adjustment' which is that portion of the deficit which is projected to exist at the end of the franchise and for which the Group will not be required to fund. The franchise adjustment, which has been calculated by the Group's actuaries, is offset against the present value of the RPS liabilities so as to fairly present the financial performance, position and cash flows of the Group's obligations. Allowance is also made in the preparation of the financial statements for the cost sharing nature of the benefit and in particular, only 60% of the total profit and loss charge and balance sheet position are attributed to the Group and recognised in the accounts. Hull Trains is not subject to franchising obligations, and as such it is accounted for under IAS 19 as a defined benefit scheme, although subject to the same cost sharing obligations as for the franchised sections.

The Group has re-estimated the calculation of the franchise adjustment under IAS19 (revised) to better reflect the commercial terms and shorter duration of the GWR and TPE franchises. This change in accounting estimate has been triggered by the new Direct Awards operated by GWR and First TransPennine Express in the year and has been applied prospectively from 1 April 2015. As a result of this change in accounting estimate the operating profit charge for First Rail pension schemes for the full year is £18.6m lower at £27.4m than it would otherwise have been. The change in the basis of estimate has no effect on the cash contributions made to the First Rail pension schemes in the year.

Local Government Pension Schemes

The Group participates in five Local Government Pension Schemes (LGPS), three in England and two in Scotland. These differ from Trust-based schemes in that their benefits are prescribed by legislation, and they are administered by local authorities, and pension committees consisting of local councillors. Typically the Group has less control over the investment strategy adopted by the LGPS compared to the UK Trust-based schemes.

Historically benefit accrual in these schemes has been based on final salary. The benefit structure changed to a 1/47th career average benefit in England in April 2014 and in Scotland in April 2015. Normal pension age will be aligned with State Pension Age from that time. Some members have a right to receive some of their benefits on an unreduced basis, conditional on age and service.

As with the Trust-based schemes, valuations take place at least triennially. Generally contribution rates are agreed for the three year period until the next valuation. Whilst these are balance of cost schemes, at termination there is no right for the Company to receive any surplus in the schemes, although there is an obligation on the Company to fully fund the benefits. To reflect this, the Group only recognise existing surpluses relating to the LGPS when determining the balance sheet position, to the extent that these surpluses could be recouped by the reduction of future company contributions.

North America

US

The Group operates two defined benefit arrangements in the US. These are legacy arrangements with benefit accrual having ceased some years ago. The schemes are valued annually, when the funding position and minimum and maximum contributions are established.

Changes in funding position create new surplus or deficit each year, which is normally spread over seven years, as required by legislation. However, funding relief passed by Congress has allowed greater flexibility following the global financial crisis, having the effect of increasing the funding discount rate, which acts to lower liabilities, deficits and contributions or spreading deficit payments over a longer period.

Greyhound Canada

There are three plans, relating to Eastern, Western and Supervisory employees. All these plans are now closed to new members, although benefit accrual continues for existing members. Very small executive arrangements also exist.

The plans are valued annually, where the cost of future service and the funding position are identified. Future service costs are shared in proportion between the members and the Company, although there are caps on the member rates. Deficit contributions are met entirely by the Company. Cash contributions are required to fund the plans on a 'going concern' basis, whilst the (usually higher) 'solvency' deficit can be made good through a combination of cash contributions and Letters of Credit. There is a cap on the value of the Letter of Credit, which cannot exceed 15% of the value of the assets held in the plan.

Valuations

At their last valuations, the defined benefit schemes had funding levels between 76.2% and 105.4% (2015: 74.1% and 105.1%). The market value of the assets at 31 March 2016 for all defined benefit schemes totalled £4,045m (2015: £4,146m).

35 Retirement benefit schemes continued

The valuation assumptions used for accounting purposes have been made uniform to Group standards, as appropriate, when each scheme is actuarially valued.

	First Bus 2016 %	First Rail 2016 %	North America 2016 %	First Bus 2015 %	First Rail 2015 %	North America 2015 %
Key assumptions used:						
Discount rate	3.70	3.70	3.60	3.50	3.50	3.45
Expected rate of salary increases	1.75	3.10	2.50	1.85/2.95	3.45	2.50
Inflation – RPI	–	–	–	2.95	2.95	–
Inflation – CPI	2.85	2.85	2.00	1.85	1.85	2.00
Future pension increases	1.75	1.75	–	1.85/2.85	1.85	–

Disclosures on sensitivity of the defined benefit obligation to changes in the relevant actuarial assumptions can be found in the table/notes in the Financial review on page 45 which forms part of these audited financial statements.

(a) Income statement

Amounts (charged)/credited to the income statement in respect of these defined benefit schemes are as follows:

Year to 31 March 2016	First Bus £m	First Rail £m	North America £m	Total £m
Current service cost	(20.2)	(46.0)	(7.6)	(73.8)
Franchise adjustment	–	(10.2)	–	(10.2)
Past service gain on TOC schemes	–	28.8	–	28.8
Past service gain on Group scheme (note 4)	10.8	–	–	10.8
Interest cost	(1.4)	(8.8)	(6.1)	(16.3)
Interest on franchise adjustment	–	8.7	–	8.7
	(10.8)	(27.5)	(13.7)	(52.0)

Year to 31 March 2015	First Bus £m	First Rail £m	North America £m	Total £m
Current service cost	(25.5)	(61.5)	(7.2)	(94.2)
Interest cost	(3.2)	(11.5)	(6.1)	(20.8)
Interest on franchise adjustment	–	10.7	–	10.7
	(28.7)	(62.3)	(13.3)	(104.3)

Net interest comprises:

	2016 £m	2015 £m
Interest cost (table (c))	(127.7)	(160.3)
Interest income on assets (table (d))	114.2	142.4
Interest on irrecoverable surplus (table (i))	(2.8)	(2.9)
	(16.3)	(20.8)

During the year £9.7m (2015: £9.8m) of administrative expenses were incurred.

Actuarial gains and losses have been reported in the consolidated statement of comprehensive income.

The actual return on scheme assets was:

	2016 £m	2015 £m
First Bus	(6.9)	333.2
First Rail	73.3	143.6
North America	(4.1)	88.0
	62.3	564.8

35 Retirement benefit schemes continued

Reconciliation of the actual return on scheme assets:

	2016 £m	2015 £m
Interest income on assets	**114.2**	142.4
Employee share of return on assets (First Rail)	**29.0**	56.5
Employee share of administration expenses	**0.7**	1.0
Actuarial (loss)/gain on assets	**(93.5)**	335.7
Currency gain	**11.9**	29.2
Actual return on scheme assets	**62.3**	564.8

(b) Balance sheet

The amounts included in the balance sheet arising from the Group's obligations in respect of its defined benefit pension schemes are as follows:

At 31 March 2016	**First Bus £m**	**First Rail £m**	**North America £m**	**Total £m**
Fair value of schemes' assets	**2,281.3**	**875.5**	**455.4**	**3,612.2**
Present value of defined benefit obligations	**(2,208.9)**	**(1,168.5)**	**(667.9)**	**(4,045.3)**
(Deficit)/surplus before adjustments	**72.4**	**(293.0)**	**(212.5)**	**(433.1)**
Adjustment for irrecoverable surplus[1] (table (i))	**(129.9)**	**–**	**–**	**(129.9)**
First Rail franchise adjustment (table (e)) (60%)	**–**	**174.9**	**–**	**174.9**
Adjustment for employee share of RPS deficits (40%)	**–**	**117.2**	**–**	**117.2**
Deficit in schemes	**(57.5)**	**(0.9)**	**(212.5)**	**(270.9)**
Liability recognised in the balance sheet	**(57.5)**	**(0.9)**	**(212.5)**	**(270.9)**
The amount is presented in the consolidated balance sheet as follows:				
Non-current assets	**31.0**	**–**	**–**	**31.0**
Non-current liabilities	**(88.5)**	**(0.9)**	**(212.5)**	**(301.9)**
	(57.5)	**(0.9)**	**(212.5)**	**(270.9)**

At 31 March 2015	First Bus £m	First Rail £m	North America £m	Total £m
Fair value of schemes' assets	2,329.2	1,302.8	513.9	4,145.9
Present value of defined benefit obligations	(2,302.3)	(1,904.3)	(698.7)	(4,905.3)
Surplus/(deficit) before adjustments	26.9	(601.5)	(184.8)	(759.4)
Adjustment for irrecoverable surplus[1] (table (i))	(80.4)	–	–	(80.4)
First Rail franchise adjustment (table (e)) (60%)	–	359.8	–	359.8
Adjustment for employee share of RPS deficits (40%)	–	240.6	–	240.6
Deficit in schemes	(53.5)	(1.1)	(184.8)	(239.4)
Liability recognised in the balance sheet	(53.5)	(1.1)	(184.8)	(239.4)
The amount is presented in the consolidated balance sheet as follows:				
Non-current assets	32.9	–	–	32.9
Non-current liabilities	(86.4)	(1.1)	(184.8)	(272.3)
	(53.5)	(1.1)	(184.8)	(239.4)

[1] The irrecoverable surplus represents the amount of the surplus that the Group could not recover through reducing future Company contributions to LGPS.

35 Retirement benefit schemes continued

(c) Defined benefit obligations (DBO)

Movements in the present value of DBO were as follows:

	First Bus £m	First Rail £m	North America £m	Total £m
At 1 April 2015	**2,302.3**	**1,904.3**	**698.7**	**4,905.3**
Cessation of franchise (First ScotRail)	**–**	**(724.2)**	**–**	**(724.2)**
Current service cost	**16.2**	**44.9**	**4.3**	**65.4**
Past service costs and curtailments	**(10.8)**	**(28.8)**	**–**	**(39.6)**
Effect of settlements	**–**	**–**	**(16.5)**	**(16.5)**
Interest cost	**79.6**	**25.3**	**22.8**	**127.7**
Employee share of change in DBO (not attributable to franchise adjustment)	**13.7**	**46.8**	**1.1**	**61.6**
Experience loss/(gain) on DBO	**11.8**	**(5.6)**	**(1.5)**	**4.7**
Loss on change of assumptions (demographic)	**–**	**–**	**5.8**	**5.8**
Gain on change of assumptions (financial)	**(111.7)**	**(72.3)**	**(12.1)**	**(196.1)**
Benefit payments	**(92.2)**	**(21.9)**	**(55.7)**	**(169.8)**
Currency loss	**–**	**–**	**21.0**	**21.0**
At 31 March 2016	**2,208.9**	**1,168.5**	**667.9**	**4,045.3**

	First Bus £m	First Rail £m	North America £m	Total £m
At 1 April 2014	2,062.5	1,881.2	615.5	4,559.2
Cessation of franchise (First Capital Connect)	–	(390.8)	–	(390.8)
Current service cost	20.7	60.0	3.7	84.4
Interest cost	89.8	45.3	25.2	160.3
Employee share of change in DBO (not attributable to franchise adjustment)	12.6	182.2	1.1	195.9
Experience (gain)/loss on DBO	(28.8)	13.0	6.4	(9.4)
Loss on change of assumptions (demographic)	20.2	11.6	9.1	40.9
Loss on change of assumptions (financial)	211.9	146.5	45.0	403.4
Benefit payments	(86.6)	(44.7)	(51.3)	(182.6)
Currency loss	–	–	44.0	44.0
At 31 March 2015	2,302.3	1,904.3	698.7	4,905.3

(d) Fair value of schemes' assets

Movements in the fair value of schemes' assets were as follows:

	First Bus £m	First Rail £m	North America £m	Total £m
At 1 April 2015	**2,329.2**	**1,302.8**	**513.9**	**4,145.9**
Cessation of franchise (First ScotRail)	**–**	**(525.1)**	**–**	**(525.1)**
Settlement impact on assets	**–**	**–**	**(15.3)**	**(15.3)**
Interest income on assets	**81.0**	**16.5**	**16.7**	**114.2**
Company contributions	**41.6**	**27.1**	**20.1**	**88.8**
Employee contributions	**13.6**	**21.1**	**1.1**	**35.8**
Employee share of return on assets	**–**	**29.0**	**–**	**29.0**
Actuarial (loss)/gain on assets	**(87.9)**	**27.1**	**(32.7)**	**(93.5)**
Benefit paid from schemes	**(92.2)**	**(21.9)**	**(55.7)**	**(169.8)**
Employer administration expenses	**(4.0)**	**(1.1)**	**(4.6)**	**(9.7)**
Currency gain	**–**	**–**	**11.9**	**11.9**
At 31 March 2016	**2,281.3**	**875.5**	**455.4**	**3,612.2**

35 Retirement benefit schemes continued

	First Bus £m	First Rail £m	North America £m	Total £m
At 1 April 2014	2,033.3	1,405.4	463.1	3,901.8
Cessation of franchise (First Capital Connect)	–	(277.4)	–	(277.4)
Interest income on assets	89.5	33.8	19.1	142.4
Company contributions	41.5	48.5	16.5	106.5
Employee contributions	12.6	29.9	1.1	43.6
Employee share of return on assets	–	56.5	–	56.5
Actuarial gain on assets	243.7	52.3	39.7	335.7
Benefit paid from schemes	(86.6)	(44.7)	(51.3)	(182.6)
Employer administration expenses	(4.8)	(1.5)	(3.5)	(9.8)
Currency gain	–	–	29.2	29.2
At 31 March 2015	2,329.2	1,302.8	513.9	4,145.9

(e) First Rail franchise adjustment

Movements in the total First Rail franchise adjustment were as follows:

	2016 £m	2015 £m
At 1 April	**599.7**	452.5
First ScotRail/First Capital Connect/First Great Western	**(199.1)**	(113.4)
Interest on franchise adjustment	**8.7**	10.7
Employee share of change in franchise adjustment	**16.3**	104.3
Actuarial (loss)/gain on franchise adjustment	**(133.5)**	145.6
At 31 March	**292.1**	599.7

Under the terms of the RPS cost sharing this franchise adjustment is split 60:40 between the employer and the employees. This is reflected in table (b) which shows the Group's 60% share of the franchise adjustment.

(f) Asset allocation

The vast majority of the assets held by the pension arrangements are invested in pooled funds with a quoted market price. The analysis of the schemes' assets at the balance sheet dates were as follows:

At 31 March 2016	**First Bus £m**	**First Rail £m**	**North America £m**	**Total £m**
Equities	**872.9**	**222.6**	**228.8**	**1,324.3**
Bonds	**769.7**	**248.1**	**177.7**	**1,195.5**
Property	**53.4**	**82.7**	**23.0**	**159.1**
Cash	**(13.4)**	**87.6**	**7.5**	**81.7**
Infrastructure	**60.0**	**–**	**–**	**60.0**
Cash plus	**451.6**	**234.5**	**18.4**	**704.5**
Commodities	**28.3**	**–**	**–**	**28.3**
Private equity	**58.8**	**–**	**–**	**58.8**
	2,281.3	**875.5**	**455.4**	**3,612.2**

At 31 March 2015	First Bus £m	First Rail £m	North America £m	Total £m
Equities	892.9	–	259.7	1,152.6
Bonds	876.2	60.4	218.2	1,154.8
Property	68.4	–	20.5	88.9
Cash	45.2	4.4	5.4	55.0
Infrastructure	6.9	60.8	3.0	70.7
Cash plus	335.4	1,016.5	7.1	1,359.0
Commodities	22.9	–	–	22.9
Private equity	81.3	160.7	–	242.0
	2,329.2	1,302.8	513.9	4,145.9

35 Retirement benefit schemes continued

(g) Accounting for First Rail pension arrangements

Had the Group accounted for First Rail pensions as if the respective franchises had an indefinite duration, the impact on the financial statements would have been as follows:

	2016 £m	2015 £m
Balance sheet		
Pension deficit	**(174.9)**	(359.8)
Intangible assets	**–**	(3.6)
Deferred tax	**31.5**	72.7
Impact on net assets	**(143.4)**	(290.7)
Income statement		
Unwinding of discount on franchise adjustment	**(27.4)**	(10.7)
Past service gain	**28.8**	–
Intangible asset amortisation	**–**	7.8
Deferred tax	**(0.3)**	0.5
Impact on profit for the year from continuing operations	**1.1**	(2.4)
Consolidated statement of comprehensive income		
Actuarial loss/(gain) on franchise adjustment	**133.5**	(145.6)
Deferred tax on actuarial (loss)/gain	**(24.0)**	29.1
	109.5	(116.5)

(h) Consolidated statement of comprehensive income

Amounts presented in the consolidated statement of comprehensive income comprise:

	2016 £m	2015 £m
Actuarial gain/(loss) on DBO	**185.6**	(434.9)
Actuarial (loss)/gain on assets	**(64.5)**	335.7
Actuarial (loss)/gain on franchise adjustment	**(133.5)**	145.6
Adjustment for irrecoverable surplus	**(46.8)**	(12.5)
Actuarial (losses)/gains on defined benefit schemes	**(59.2)**	33.9

(i) Adjustment for First UK Bus irrecoverable surplus

Movements in the adjustment for the First UK Bus irrecoverable surplus were as follows:

	2016 £m	2015 £m
At 1 April	**(80.4)**	(65.0)
Interest on irrecoverable surplus	**(2.7)**	(2.9)
Actuarial loss on irrecoverable surplus	**(46.8)**	(12.5)
At 31 March	**(129.9)**	(80.4)

Cash contributions

As at 31 March 2016 the Group is committed to make deficit recovery payments with a net present value of £136m (2015: £130m), over the period to 5 April 2029, in respect of the First UK Bus Pension Scheme. The net present value reflects the current value of deficit recovery payments that would be required to meet the actuarial deficit in full, discounted at 9.0% per annum. The IAS 19 deficit of the scheme at 31 March 2016 is £64.9m (2015: £55.4m). Management consider that, were a pension asset to arise in respect of this scheme, this would be fully recoverable through actions within the Group's control, in line with the rules of the scheme.

The estimated amounts of employer contributions expected to be paid to the defined benefit schemes during the financial year to 31 March 2017 is £94.8m (year to 31 March 2016: £88.3m).

Risks associated with defined benefit plans:

Generally the number of employees in defined benefit plans is reducing rapidly, as these plans are largely closed to new entrants, and in many cases to future accrual. Consequently, the number of defined contribution members is increasing.

Furthermore, changes have been implemented to the First UK Bus Pension Scheme with effect from April 2015 which allow for the closure of the scheme if the funding level is not in line with the target level. This change will serve to limit the risks associated with defined benefit pension provision by the Group.

Despite remaining open to new entrants and future accrual, the risks posed by the RPS are limited, as under the franchise arrangements, the First Rail TOCs are not responsible for any residual deficit at the end of a franchise. As such, there is only short term cash flow risk within this business.

35 Retirement benefit schemes continued

The key risks relating to the defined benefit pension arrangements and the steps taken by the Group to mitigate them are as follows:

Risk	Description	Mitigation
Asset volatility	The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. Most of the defined benefit arrangements hold a significant proportion of return-seeking assets (equities, diversified growth funds and global absolute return funds) which, though expected to outperform corporate bonds in the long term, create volatility and risk in the short term.	Asset liability modelling has been undertaken to ensure that any risks taken are expected to be rewarded.
Inflation risk	A significant proportion of the UK benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities.	The business has certain inflation linking in its revenue streams, which helps to offset this risk. In addition, the investment strategy reviews have led to increased inflation hedging, mainly through swaps or holding Index Linked Gilts in the UK schemes.
Uncertainty over level of future contributions	Contributions to defined benefit schemes can be unpredictable and volatile as a result of changes in the funding level revealed at each valuation.	The Group engages with the Trustees and Administering Authorities to consider how contribution requirements can be made more stable. The level of volatility and the Group's ability to control contribution levels varies between arrangements.
Life expectancy	The majority of the scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.	Linking retirement age to State Pension Age (as in the First UK Bus Pension Scheme and LGPS) has mitigated this risk to some extent.
Trapped surplus	At termination of LGPS arrangements there is no right for the company to receive any surplus that exists within the scheme. Therefore there is a risk of overfunding the schemes.	This issue is discussed with the Administering Authorities when contribution schedules are set, and the Group receives professional advice on potential ways of mitigating some of this risk.
Legislative risk	Future legislative changes are uncertain. In the past these have led to increases in obligations, through introducing pension increases, and vesting of deferred pensions, or reduced investment return through the ability to reclaim Advance Corporation Tax.	The Group receives professional advice on the impact of legislative changes.

36 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Remuneration of key management personnel

The remuneration of the Directors, which comprise the plc Board who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 *Related Party Disclosures*. Further information about the remuneration of individual Directors is provided in the Directors' remuneration report on pages 70 to 100.

	Year to 31 March 2016 £m	Year to 31 March 2015 £m
Basic salaries[1]	**1.6**	1.6
Performance-related bonuses	**0.3**	0.8
Benefits in kind	**0.1**	0.1
Fees	**0.6**	0.6
Payment in lieu of notice	**–**	0.0
Share-based payment	**0.3**	0.3
	2.9	3.4

[1] Basic salaries include cash emoluments in lieu of retirement benefits and car and tax allowances.

37 Post-balance sheet events

On the 1 April 2016 the new TPE rail franchise commenced and as a result additional Performance Bonds of £101.6m became effective.

On the 7 April 2016 the sale of a Greyhound property in San Jose, California was completed. The net book value of the property at 31 March 2016 of £1.8m is included within Assets held for sale in note 18. Proceeds of £23.4m were received in relation to the sale resulting in a gain of £21.6m which will be recognised in the Financial Statements for the year to 31 March 2017.

In April 2016, First Student announced the realignment of its regional management and central service structures resulting in the elimination of 130 positions.

38 Information about related undertakings

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiaries and equity accounted investments as at 31 March 2016 is disclosed below:

Subsidiaries – wholly owned and incorporated in the United Kingdom

A E & F R Brewer Limited
Airport Buses Limited
Airport Coaches Limited
Badgerline Group Limited
Bolton Coachways and Travel Limited
Bristol Bus Station Limited
Butler Woodhouse Limited
Cawlett Limited
CCB Holdings Limited
CCB TV Limited
CentreWest Limited
CentreWest London Buses Limited
CentreWest ESOP Trustees (UK) Limited
Chester City Transport Limited
Crosville Limited
Don Valley Buses Limited
East Coast Trains Limited
East West Rail Limited
Eastern Scottish Omnibuses Limited
ECOC (Holdings) Limited
FB Canada Holdings Limited
FG Canada Investments Limited
FG Learning & Development Limited[1]
FG Properties Limited
FGI Canada Holdings Limited
First Aberdeen limited
First Ashton Limited
First Beeline Buses Limited
First Bristol Limited
First Caledonian Sleeper Limited
First Capital Connect Limited
First Capital East Limited
First Capital North Limited
First CentreWest Buses Limited
First Coaches Limited
First Cross Country Limited
First Crossrail Limited
First Cymru Buses Limited
First Docklands Limited
First Dublin Metro Limited
First East Anglia Limited
First East Midlands Limited
First Eastern Counties Buses Limited
First Essex Buses Limited
First European Holdings Limited[1]
First Games Transport Limited
First Glasgow Limited[1]
First Glasgow (No.1) Limited
First Glasgow (No.2) Limited
First Great Northern Limited
First Great Western Link Limited
First Great Western Trains Limited
First Greater Western Limited
First Hampshire & Dorset Limited
First Information Services Limited[1]
First International (Holdings) Limited[1]
First International No.1 Limited
First Leicester Buses Limited[3]
First London Buses Limited[3]
First Manchester Limited
First Merging Pension Schemes Limited
First Metro Limited
First Midland Red Buses Limited
First North West (Schools) Limited
First North West Limited
First Northern Ireland Limited
First Northern Railway Holdings Limited
First Northern Railway Limited
First Pioneer Bus Limited
First Potteries Limited
First Provincial Buses Limited
First Rail Holdings Limited[1]
First Scotland East Limited
First ScotRail Limited
First ScotRailRailways Limited
First Shared Services Limited
First Somerset & Avon Limited
First South West Limited
First South Western Trains Limited
First South Yorkshire Limited
First Student UK Limited
First Thameslink Limited
First TransPennine Express Limited
First Wessex National Limited
First West Coast Limited
First West Yorkshire Limited
First York Limited
FirstBus (North) Limited[1]
FirstBus (South) Limited[1]
FirstBus Group Limited
FirstBus Investments Limited[1]
FirstGroup Airports Limited[1]
FirstGroup American Investments
FirstGroup Canadian Finance Limited[1]
FirstGroup CIF Trustees Limited
FirstGroup Construction Limited
FirstGroup Holdings Limited[1]
FirstGroup (QUEST) Trustees Limited[1]
FirstGroup US Finance Limited[1]
FirstGroup US Holdings
Fleetrisk Management Limited
G.E. Mair Hire Services Limited
G.A.G. Limited[1]
GB Extended Ventures Limited
GB Railways Group Limited[1]
GB Railways Limited
GMBN Employees' Share Scheme Trustee Limited
Great Western Holdings Limited[1]
Great Western Trains Company Limited
Great Western Trustees Limited
Grenville Motors Limited
Greyhound Limited
Greyhound UK Limited
GRT Bus Group Limited
Gurna Limited
Halesworth Transit Limited
Hampshire Books Limited
Horizon Trains Limited
Hull Trains Company Limited
Indexbegin Limited
KCB Limited
Kelvin Central Buses Limited
Kelvin Scottish Omnibuses Limited
Kirkpatrick of Deeside Limited
Lynton Bus & Coach Limited
Lynton Company Services Limited
Mainline ESOP Trustees (No 1) Limited
Mainline ESOP Trustees (No 2) Limited
Mainline Partnership Limited[1]
Mainline Partnership Pension Trustees Limited
Mainline Employees' Shareholding Trustees Limited
Midland Bluebird Limited
Midland Travellers Limited
North Devon Limited
North Western Trains Company Limited[4]
Northampton Transport Limited
Portsmouth Transit Limited
Quickstep Travel Limited
Reiver Venture Properties Limited
Reiver Ventures Limited
Reynard Buses Limited
Rider Holdings Limited
Rider Travel Limited
S Turner & Sons Limited
Scott's Hospitality Limited
Sheafline (S.U.T.) Limited
Sheffield & District Traction Company Limited
Sheffield United Transport Limited
Skillplace Training Limited
Smiths of Portland Limited
SMT Omnibuses Limited
Southampton CityBus Limited
Southampton City Transport Company Limited
Sovereign Quay Limited
Strathclyde Buses Limited
Streamline Buses (Bath) Limited[1]
Taylors Coaches Limited
The FirstGroup Midlands & East Anglia Pension Scheme Trustee Limited
The FirstGroup North West Pension Scheme Trustee Limited
The FirstGroup Pension Scheme Trustee Limited
The FirstGroup Scottish Pension Scheme Trustee Limited
The First South & Wales Pension Scheme Trustee Limited
The First UK Bus Pension Scheme Trustee Limited
The New Great Eastern Railway Company Limited[1]
Totaljourney Limited[1]
Tram Operations Limited
Transportation Claims Limited
Turonian Limited
Wessex of Bristol Limited
West Dorset Coaches Limited
Western National Holdings Limited

38 Information about related undertakings continued

Subsidiaries – wholly owned and incorporated in the United States of America

Americanos USA, LLC
ATE Management of Duluth
Atlantic Greyhound Lines of Virginia, Inc.
Berkshire Transit Management, Inc.
Central Mass Transit Management Co, Inc.
Central Virginia Transit Management, Inc.
Clinton Area Regional Transit Management, Inc.
Durham City Transit Company
First DG, Inc.
FirstGroup Investment Corporation
First Management Services LLC
First Student Management Services LLC
First Student, Inc.
First Transit, Inc.
First Vehicle Services, Inc.
FirstGroup America Holdings, Inc.
FirstGroup America, Inc.
FirstGroup International, Inc.
Franklin Transit Management, Inc.
GLI Corporate Risk Solutions, Inc.
Greyhound Lines, Inc.
H.N.S. Management Company, Inc.
Laidlaw International Finance, Inc.
Laidlaw Medical Holdings, Inc.
Laidlaw Transportation Holdings, Inc.
Laidlaw Transportation Management, Inc.
Laidlaw Transportation, Inc.
Laidlaw Two, Inc.
Laredo Transit Management, Inc.
LSX Delivery, LLC
Merrimack Valley Area Transportation, Inc.
MidSouth Transportation Management, Inc.
National Insurance and Indemnity Corporation
On Time Delivery Service, Inc.
Paratransit Management of Berkshire, Inc.
Paratransit Brokerage Services TM, Inc.
Safe Transport LLC
Safe Ride Services, Inc.
Shuttle Services M.I.A., Inc.
South Coast Transit Management, Inc.
Southwestern Virginia Transit Management, Inc.
Special Transportation Services, Inc.
Springfield Area Transit Company, Inc.
SuTran, Inc.
Transit Management of Abilene, Inc.
Transit Management of Alexandria, Inc.
Transit Management of Ashville, Inc.
Transit Management of Central Maryland, Inc.
Transit Management of Denton, Inc.
Transit Management of Dutchess County, Inc.
Transit Management of Montgomery, Inc.
Transit Management of Racine, Inc.
Transit Management of Richland, Inc.
Transit Management of Rocky Mount, Inc.
Transit Management of Sherman, Inc.
Transit Management of Spartanburg, Inc.
Transit Management of St Joseph, Inc.
Transit Management of Washoe, Inc.
Transit Management of Wilmington, Inc.
Valley Area Transit Company, Inc.
Valley Garage Co
Valley Transit Co, Inc.

Subsidiaries – not wholly owned but incorporated in the United States of America

DG 21 LLC (51%)
First Mile Square LLC (51%)
SYPS LLC (87.5%)
Transportation Realty Income Partners L.P. (50%)

Subsidiary – wholly owned and incorporated in US Virgin Islands

Primaisla, Inc.

Associates – incorporated in Denmark

DSP APS (30%)
DSB Danmark A/S (30%)

Subsidiaries – wholly owned and incorporated in Ireland

Aeroporto Limited
Last Passive Limited

Subsidiary – wholly owned and incorporated in India

Transit Operations India Private Limited

Subsidiary – wholly owned and incorporated in Panama

First Transit de Panama, Inc.

Subsidiaries – wholly owned and incorporated in Canada

Autobus Transco (1988) Limited
Cardinal Coach Lines ULC
FirstCanada ULC
Gray Coach Travel, Inc.
Greyhound Canada Transportation ULC
Greyhound Courier Express Limited
Manhattan Equipment Supply Company Limited

Subsidiaries not wholly owned but incorporated in Canada

Greyhound and Coach Canada Terminal Operation Limited (50%)

Subsidiaries – wholly owned and incorporated in Puerto Rico

First Transit of Puerto Rico, Inc.
First Transit Rail of Puerto Rico, Inc.

Subsidiary – wholly owned and incorporated in Mexico

Greyhound de Mexico, S.A. de C.V.
Greyhound Lines Mexico, S.A. de R.L. de C.V.

Subsidiaries not wholly owned but incorporated in the United Kingdom

Careroute Limited (80%)
First/Keolis Holdings Limited (55%)
First/Keolis TransPennine Holdings Limited (55%)
First/Keolis TransPennine Limited (55%)[1]
PTI (South East) Limited (20%)
PTI Website Limited (20%)[1]
Leicester City Bus Limited (94%)[2]
LCB Engineering Limited (94%)
Leicester City Bus Benefits Limited (94%)
Nicecon Limited (50%)
Somerset Passenger Solutions Limited (50%)

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[1] Directly owned by FirstGroup plc.

[2] All shares held in subsidiary undertakings are ordinary shares, with the exception of Leicester CityBus Limited where the Group owns 100% of its redeemable cumulative preference shares and 94% of its ordinary shares.

[3] Dissolved 10 May 2016.

[4] In liquidation.

Independent auditor's report to the members of FirstGroup plc

Opinion on financial statements of FirstGroup plc

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity and the consolidated cash flow statement, and the related notes 1 to 38, the parent company balance sheet, the parent company statement of changes in equity and the related notes to the parent company balance sheet 1 to 10. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS101 "Reduced Disclosure Framework".

Going concern and the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

As required by the Listing Rules we have reviewed the Directors' statement regarding the appropriateness of the going concern basis of accounting contained with the Strategic report on page 46 and Other statutory information on pages 103 to 104 and note 2 to the financial statements and the directors' statement on the longer-term viability of the group contained within the strategic report on page 41.

We have nothing material to add or draw attention to in relation to:

- the directors' confirmation on page 58 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 36 to 41 that describe those risks and explain how they are being managed or mitigated;
- the directors' statement within the Strategic report on page 46 and Other statutory information on pages 103 to 104 and note 2 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the directors' explanation on page 41 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Risk	How the scope of our audit responded to the risk
The assessment of the carrying value of First Student goodwill (£1,123m) in the consolidated balance sheet The assessment of the carrying value of goodwill and intangibles, as described in note 2, involves judgement in relation to forecasting future cash flows and is sensitive to growth rates and the discount rate applied to the future cash flows. The Cash Generating Unit (CGU) most sensitive to variation in these assumptions is the First Student CGU, as described in note 11 to the financial statements, where headroom has decreased from £301m to £232m as it continues to implement its returns based strategy while facing certain cost challenges. Management has highlighted impairments of intangible assets (including goodwill) as a key accounting judgement and source of estimation uncertainty in note 2.	We challenged management's assumptions used in their impairment model for goodwill, specifically including the cash flow projections, discount rates and growth rates applied. Our procedures included: ■ considering the identification of appropriate cash generating units; ■ assessing profit forecast projections with reference to historical trading performance and profit forecasting accuracy; ■ comparing the discount rate applied against a broad comparator group as well as involving our internal valuation specialists to review underlying calculations and assess the key components of the discount rate calculation; ■ comparing the growth rates applied to the long term average growth rate of the relevant jurisdiction, as well as comparing historical growth rates to the equivalent measures; ■ considering the reasonableness of, and recalculating, the sensitivity assessment applied by management; ■ performing further independent sensitivity analysis on the impairment model; and ■ considering the appropriateness of the disclosure on reasonably possible changes.
The assessment of the valuation and completeness of third party claims and associated provisions (£408m) in the consolidated balance sheet The valuation and completeness of both legal and US self-insurance provisions are a source of estimation uncertainty, as described in note 26, which require management's best estimate in assessing the likeliness and valuation of settlement, where applicable, the discount rate applied to the expected settlement values. The US self-insurance claims have decreased in both volume and severity during the year, but the claim development has increased. Management has highlighted self-insurance as a key accounting judgement and source of estimation uncertainty in note 2.	The audit procedures we performed in respect of this risk included: ■ working with our own actuarial experts to test a range of estimates determined by management and their external actuary considering the methodologies employed and comparing assumptions used to the Group's historical experience; ■ independently developed an actuarial calculation and compared the provision recorded to the actuarial range calculated by the external actuary; ■ tested a sample of the underlying data used to develop the provision for completeness and accuracy and challenged the appropriateness of the discount rate used through comparison to previous years and those used by similar entities; ■ evaluating historical accuracy of claims forecasting to determine the reasonableness of the provision; and ■ for legal claims, obtaining confirmations from internal and independent external legal counsel.
Valuation of pension scheme liabilities (£4.0bn) in the consolidated balance sheet The Group operates in a labour intensive industry with large membership to a number of defined benefit pension schemes. The gross pension liabilities, as disclosed in note 35, are materially sensitive to changes in the underlying assumptions adopted. Management exercise significant judgement when determining those assumptions, particularly the discount rate, inflation, and mortality rates. During the year the Group has revised the calculation of the First Rail franchise pension adjustment under IAS19 (Revised) to more accurately reflect the shorter duration and commercial terms of GWR and TPE franchises. This change in accounting estimate has been triggered by the new direct awards operated by GWR and TPE in the period and has been applied prospectively from 1 April 2015. Management has highlighted defined benefit pension arrangements as a key accounting judgement and source of estimation uncertainty in note 2.	The audit procedures we performed in respect of this risk included: ■ working with our own actuarial experts to test the assumptions used by management in valuing the Group's defined benefit pension scheme liabilities such as the discount rate, inflation and mortality rate; ■ testing the values of the assets in the schemes and the accuracy and completeness of the member data used by the actuaries in performing their assessment of the schemes; ■ performing sensitivity analysis on the key assumptions and comparing them to industry benchmarks and the prior years' rates adopted; and ■ audited the change in estimate for the calculation of the rail franchise adjustment, confirming its consistency with the principles of IAS19 (Revised) and market practice in the sector.

Risk	How the scope of our audit responded to the risk
Revenue recognition including contract accounting The Group operates a number of long term contracts including First Rail franchises and certain North American passenger and service contracts. Management exercise judgement in determining the appropriate timing and valuation of revenue recognised, valuation of associated deferred and accrued income and the evaluation of the overall profitability of these contracts. Management has highlighted contract and franchise accounting as a key accounting judgement and source of estimation uncertainty in note 2.	To test the risk of material misstatement in respect of revenue recognition, our procedures included: ▪ assessing and challenging the judgements taken by management by reference to the underlying contract terms and applicable accounting standards; and ▪ challenging the levels of income accrued at the balance sheet date in relation to unbilled contract revenue in particular in the North American businesses, and deferred in relation to ongoing compensation claims in the UK rail businesses.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 67.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be £8.0m (2015: £7.9m), which is 4.8% (2015: 4.8%) of adjusted pre-tax profit (as defined on page 118), and below 1% (2015: 1%) of equity. The adjusted pre-tax profit measure has been used to exclude the volatility of non-recurring items. In addition, the exclusion of amortisation and the income statement effect of ineffective and unhedged financial derivative valuation is consistent with the key measure used by the Group for internal and external reporting purposes. This measure has been used to facilitate a better understanding of the trading performance of the Group.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £160,000 (2015: £158,000) as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our Group audit scope primarily on the four First Bus operating regions, two significant Train Operating Companies, the operations in North America and the Group, Rail division and Bus division corporate head office functions as well as the UK Shared Service Centre. These locations were subject to full audit procedures. First Rail Holdings was subject to specified audit procedures on rail franchise bid costs based on our assessment of the risks of material misstatement and of the materiality of the Group's operations at that location. These locations were subject to full audit procedures and represent the principal business units and account for 89% of the Group's net assets, 99% of the Group's revenue and 100% of the Group's profit before tax. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work at locations subject to full audit procedures was executed at levels of materiality applicable to each individual location which was lower than Group materiality.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

We include all component audit teams in our team briefing, discuss their risk assessment and a senior member of the Group audit team has visited all locations to review documentation of the findings from their work. Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the Company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team, strategically focused second partner reviews and independent partner reviews.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Mark Mullins (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London

14 June 2016

Group financial summary

Unaudited

Consolidated income statement	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Group revenue	**5,218.1**	6,050.7	6,717.4	6,900.9	6,678.7
Operating profit before amortisation charges and other adjustments	**300.7**	303.6	268.0	254.1	361.0
Amortisation charges	**(51.9)**	(54.3)	(53.4)	(52.0)	(30.9)
Other adjustments	**(2.5)**	(3.5)	17.6	(62.3)	59.6
Operating profit	**246.3**	245.8	232.2	139.8	389.7
Net finance cost	**(132.4)**	(139.7)	(156.1)	(163.2)	(155.6)
Ineffectiveness on financial derivatives	**(0.4)**	(0.3)	(17.6)	(5.5)	(11.0)
Profit/(loss) before tax	**113.5**	105.8	58.5	(28.9)	223.1
Tax	**(17.1)**	(20.3)	5.7	23.9	(34.9)
Profit/(loss) for the year from continuing operations	**96.4**	85.5	64.2	(5.0)	188.2
Loss for the year from discontinued operations	**–**	–	–	–	(9.5)
Profit/(loss) for the year	**96.4**	85.5	64.2	(5.0)	178.7
EBITDA	**615.9**	624.4	579.8	585.7	675.4

Earnings per share	pence	pence	pence	pence	pence
Adjusted	**10.3**	9.8	7.5	11.0	24.4
Basic	**7.5**	6.2	5.1	(3.0)	27.8

Consolidated balance sheet	£m	£m	£m	£m	£m
Non-current assets	**4,201.3**	4,025.1	3,686.7	4,060.3	4,072.7
Net current liabilities	**(239.3)**	(160.9)	(78.4)	(320.4)	(265.9)
Non-current liabilities	**(2,066.5)**	(2,141.3)	(2,123.7)	(2,602.3)	(2,596.1)
Provisions	**(262.3)**	(236.7)	(261.6)	(323.1)	(338.1)
Net assets	**1,633.2**	1,486.2	1,223.0	814.5	872.6

Share data

Number of shares in issue (excluding treasury shares and shares in trusts)	millions	millions	millions	millions	millions
At year end	**1,204.3**	1,203.7	1,204.2	591.2	590.7
Average	**1,204.0**	1,204.0	1,059.3	590.8	590.7

Share price	pence	pence	pence	pence	pence
At year end	**97**	91	146	201	238
High	**128**	140	224	261	370
Low	**81**	91	92	176	238

Market capitalisation	£m	£m	£m	£m	£m
At year end	**1,168**	1,095	1,757	969	1,147

Company balance sheet
As at 31 March

		Note	2016 £m	2015 £m
Fixed assets				
Investments		3	**1,847.0**	2,078.4
Current assets				
Cash and cash equivalents			**62.1**	102.9
Derivative financial instruments	– due within one year	4	**16.7**	15.5
	– due after more than one year	4	**41.5**	45.3
Debtors	– due within one year	5	**2,393.8**	1,898.7
	– due after more than one year	5	**1.6**	2.5
			2,515.7	2,064.9
Current liabilities				
Creditors – amounts falling due within one year		7	**(376.3)**	(367.2)
Derivative financial instruments		4	**(68.1)**	(74.5)
			(444.4)	(441.7)
Net current assets			**2,071.3**	1,623.2
Total assets less current liabilities			**3,918.3**	3,701.6
Non-current liabilities				
Creditors – amounts falling due after more than one year		7	**(1,538.0)**	(1,570.8)
Derivative financial instruments		4	**(35.5)**	(22.6)
Net assets			**2,344.8**	2,108.2
Capital and reserves				
Called up share capital		8	**60.2**	60.2
Share premium			**676.4**	676.4
Other reserves			**268.8**	268.8
Own shares		9	**(1.6)**	(1.9)
Profit and loss account			**1,341.0**	1,104.7
Shareholders' funds			**2,344.8**	2,108.2

Tim O'Toole
14 June 2016

Matthew Gregory
14 June 2016

Company number SC157176

Statement of changes in equity
As at 31 March

	Share capital £m	Share premium £m	Own shares £m	Hedging reserve £m	Merger reserve £m	Capital reserve £m	Capital redemption reserve £m	Retained earnings £m	Total £m
Balance at 1 April 2014	**60.2**	**676.4**	**(1.8)**	**6.7**	**166.4**	**93.8**	**1.9**	**939.0**	**1,942.6**
Total comprehensive income for the year	–	–	–	–	–	–	–	162.0	162.0
Movement in EBT and treasury shares	–	–	(0.1)	–	–	–	–	(1.5)	(1.6)
Share-based payments	–	–	–	–	–	–	–	5.2	5.2
Balance at 31 March 2015	**60.2**	**676.4**	**(1.9)**	**6.7**	**166.4**	**93.8**	**1.9**	**1,104.7**	**2,108.2**
Total comprehensive income for the year	–	–	–	–	–	–	–	231.9	231.9
Movement in EBT and treasury shares	–	–	0.3	–	–	–	–	(2.0)	(1.7)
Share-based payments	–	–	–	–	–	–	–	6.4	6.4
Balance at 31 March 2016	**60.2**	**676.4**	**(1.6)**	**6.7**	**166.4**	**93.8**	**1.9**	**1,341.0**	**2,344.8**

Notes to the Company financial statements

1 Significant accounting policies

Basis of accounting

The financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial instruments and on a going concern basis as described in the going concern statement within other statutory information on pages 103 to 104.

The Company has applied Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) issued by the Financial Reporting Council (FRC) incorporating the Amendments to FRS 101 issued by the FRC in July 2015 other than those relating to legal changes and has not applied the amendments to Company law made by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 that are effective for accounting periods beginning on or after 1 January 2016.

Adoption of FRS 101

The separate financial statements of the company are presented as required by the Companies Act 2006. The Company meets the definition of a qualifying entity under Financial Reporting Standard (FRS 101) 'Reduced Disclosure Framework' issued by the Financial Reporting Council. Accordingly, in the year ended 31 March 2016 the Company has changed its accounting framework from pre-2015 UK GAAP to FRS 101 and has, in doing so, applied the requirements of IFRS 1.6-33 and related appendices. These financial statements have been prepared in accordance with FRS 101. This transition is not considered to have had a material effect on the financial statements and as such the Company has not presented a restated balance sheet or a reconciliation of equity on transition to FRS 101.

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payment, financial instruments, capital management, presentation of a cash-flow statement and certain related party transactions.

The financial statements have been prepared on the historical cost basis except for the re-measurement of certain financial instruments to fair value.

Where relevant, equivalent disclosures have been given in the consolidated financial statements. The financial statements have been prepared on the historical cost basis except for the re-measurement of certain financial instruments to fair value. The principal accounting policies adopted are the same as those set out in note 2 to the consolidated financial statements except as noted below.

Investments

Fixed asset investments in subsidiaries and associates are shown at cost less provision for impairment. For investments in subsidiaries acquired for consideration, including the issue of shares qualifying for merger relief, cost is measured by reference to the nominal value only of the shares issued. Any premium is ignored.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

Dividend receivable from the Company's subsidiaries are recognised only when they are approved by Shareholders.

2 Profit for the year

As permitted by section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year. FirstGroup plc reported a profit for the financial year ended 31 March 2016 of £231.9m (2015: £162.0m).

Proposed final dividend per share for the year ended 31 March 2016 of nil p (2015: nil p).

Fees payable to the Company's auditors for the audit of the Company's annual financial statements are disclosed in note 6 of the Group accounts.

The Company had no employees in the current or preceding financial year.

3 Investments in subsidiary undertakings

	Unlisted subsidiary undertakings £m
Cost	
At 1 April 2015	2,094.3
Additions	6.4
Disposals	(237.8)
At 31 March 2016	**1,862.9**
Provisions for impairment	
At 1 April 2015 and 31 March 2016	(15.9)
Net book value	
At 31 March 2016	**1,847.0**
At 31 March 2015	2,078.4

A full list of subsidiaries and investments can be found in note 38 to the consolidated accounts.

During the year the company disposed of its investment in FirstGroup Acquisitions Limited.

4 Derivative financial instruments

	2016 £m	2015 £m
Total derivatives		
Total assets – due after more than one year	**41.5**	45.3
Total assets – due within one year	**16.7**	15.5
Total assets	**58.2**	60.8
Total creditors – amounts falling due within one year	**68.1**	74.5
Total creditors – amounts falling due after more than one year	**35.5**	22.6
Total creditors	**103.6**	97.1
Derivatives designated and effective as hedging instruments carried at fair value		
Current assets		
Coupon swaps (fair value hedge)	**16.4**	15.5
Fuel derivatives (cash flow hedge)	**0.3**	–
	16.7	15.5
Non-current assets		
Coupon swaps (fair value hedge)	**41.3**	45.3
Fuel derivatives (cash flow hedge)	**0.2**	–
	41.5	45.3
Total assets	**58.2**	60.8
Derivatives classified as held for trading		
Current liabilities		
Interest rate swaps	**1.2**	7.6
Fuel derivatives	**66.9**	66.9
	68.1	74.5
Non-current liabilities		
Interest rate swaps	**–**	1.2
Fuel derivatives	**35.5**	21.4
	35.5	22.6
Total liabilities	**103.6**	97.1

Full details of the Group's financial risk management objectives and procedures can be found in note 24 of the Group accounts. As the holding company for the Group, the Company faces similar risks over foreign currency and interest rate movements.

5 Trade and other receivables

	2016 £m	2015 £m
Amounts due within one year		
Amounts due from subsidiary undertakings	**2,387.6**	1,889.4
Deferred tax asset (note 6)	**6.2**	7.9
Corporation tax recoverable	**–**	1.3
Other debtors	**–**	0.1
	2,393.8	1,898.7
Amounts due after more than one year		
Deferred tax asset (note 6)	**1.6**	2.5

6 Deferred tax

The major deferred tax assets recognised by the Company and the movements thereon during the current and prior reporting periods are as follows:

	Other temporary differences £m
At 1 April 2015	(10.4)
Charge to income	2.6
At 31 March 2016	(7.8)

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2016 £m	2015 £m
Deferred tax asset due within one year	**(6.2)**	(7.9)
Deferred tax assets due after more than one year	**(1.6)**	(2.5)
	(7.8)	(10.4)

7 Creditors

	2016 £m	2015 £m
Amounts falling due within one year		
Bank loans and overdrafts	**56.4**	77.5
Senior unsecured loan notes	**35.4**	–
Bond interest accrual	**59.2**	59.0
Corporation tax	**0.6**	–
Amounts due to subsidiary undertakings	**214.0**	222.9
Accruals and deferred income	**10.7**	7.8
	376.3	367.2
Amounts falling due after more than one year		
£300.0m Sterling bond – 8.125% 2018	**298.3**	297.8
£250.0m Sterling bond – 6.125% 2019	**279.0**	286.3
£350.0m Sterling bond – 8.750% 2021	**370.1**	366.6
£325.0m Sterling bond – 5.250% 2022	**320.5**	320.0
£200.0m Sterling bond – 6.875% 2024	**199.6**	199.5
Senior unsecured loan notes	**70.5**	100.6
	1,538.0	1,570.8

Borrowing facilities

The maturity profile of the Company's undrawn committed borrowing facilities is as follows:

	2016 £m	2015 £m
Facilities maturing:		
Due in more than two years	**800.0**	800.0

Details of the company's borrowing facilities are given in note 21 to the Group accounts.

8 Called up share capital

	2016 £m	2015 £m
Allotted, called up and fully paid		
1,204.9m ordinary shares of 5p each	**60.2**	60.2

The number of ordinary shares of 5p in issue, excluding treasury shares held in trust for employees, at the end of the period was 1,204.2m (2015: 1,203.7m). At the end of the period 0.7m shares (2015: 1.2m shares) were being held as treasury shares and own share held in trust for employees.

9 Own shares

	Own shares £m
At 1 April 2015	(1.9)
Movement in EBT, QUEST and treasury shares during the year	0.3
At 31 March 2016	**(1.6)**

The number of own shares held by the Group at the end of the year was 669,374 (2015: 1,252,757) FirstGroup plc ordinary shares of 5p each. Of these, 479,625 (2015: 1,063,008) were held by the FirstGroup plc Employee Benefit Trust, 32,520 (2015: 32,520) by the FirstGroup plc Qualifying Employee Share Ownership Trust and 157,229 (2015: 157,229) were held as treasury shares. Both trusts and treasury shares have waived the rights to dividend income from the FirstGroup plc ordinary shares. The market value of the shares at 31 March 2016 was £0.6m (2015: £1.1m).

10 Contingent liabilities

To support subsidiary undertakings in their normal course of business, the Company and certain subsidiaries have indemnified certain banks and insurance companies who have issued performance bonds for £505.4m (2015: £489.2m) and letters of credit for £310.4m (2015: £304.4m). The performance bonds relate to the North American businesses of £462.2m (2015: £421.1m) and the First Rail franchise operations of £43.2m (2015: £68.1m). The letters of credit relate substantially to insurance arrangements in the UK and North America.

The Company is party to certain unsecured guarantees granted to banks for overdraft and cash management facilities provided to itself and subsidiary undertakings. The Company has given certain unsecured guarantees for the liabilities of its subsidiary undertakings arising under certain loan notes, hire purchase contracts, finance leases, operating leases, supply contracts and certain pension scheme arrangements. It also provides unsecured cross guarantees to certain subsidiary undertakings as required by VAT legislation. First Bus subsidiaries have provided unsecured guarantees on a joint and several basis to the Trustees of the First Bus Pension Scheme.

In its normal course of business First Rail has ongoing contractual negotiations with governmental and other organisations.

Shareholder information

Annual General Meeting

The Annual General Meeting of the Company will be held at 1.30pm on Tuesday 19 July 2016 at Norwood Hall Hotel, Garthdee Road, Aberdeen AB15 9FX, United Kingdom.

The Notice of Annual General Meeting and Form of Proxy are enclosed with this Annual Report and Accounts. The Notice of Annual General Meeting can also be found on the FirstGroup website (www.firstgroupplc.com).

Electronic shareholder communications

FirstGroup uses its website (www.firstgroupplc.com) as its primary means of communication with its shareholders provided that the shareholder has agreed or is deemed to have agreed that communications may be sent or supplied in that manner. Electronic communications allow shareholders to access information instantly as well as helping FirstGroup reduce its costs and its impact on the environment. Shareholders that have consented or are deemed to have consented to electronic communications can revoke their consent at any time by contacting the Company's Registrar, Equiniti.

Shareholders can sign up for electronic communications online by registering with Shareview, the internet based platform provided by Equiniti. In addition to enabling shareholders to register to receive communications by email, Shareview provides a facility for shareholders to manage their shareholding online by allowing them to:

- receive trading updates by email;
- view their shareholdings;
- update their records, including change of address;
- view payment and tax information; and
- vote in advance of company general meetings.

To find out more information about the services offered by Shareview, please visit www.shareview.co.uk.

Electronic voting

Shareholders can submit proxies for the 2016 Annual General Meeting electronically by logging on to www.sharevote.co.uk. Electronic proxy appointments must be received by the Company's Registrar, Equiniti, no later than 1.30pm on Friday 15 July 2016 (or not less than 48 hours before the time fixed for any adjourned meeting).

Corporate website

A wide range of information on FirstGroup is available at the FirstGroup website (www.firstgroupplc.com) including:

- financial information – annual and half-yearly reports as well as trading updates;
- share price information – current trading details and historical charts;
- shareholder information – Annual General Meeting results, details of the Company's advisers and frequently asked questions; and
- news releases – current and historical.

Shareholder enquiries

The Company's share register is maintained by the Company's Registrar, Equiniti. Shareholders with queries relating to their shareholding should contact Equiniti directly using one of the methods listed below.

Registrar

Equiniti Limited
Aspect House
Spencer Road
Lancing, West Sussex BN99 6DA
Tel: 0371 384 2046* (or from overseas on Tel: +44 (0)121 415 7050)
Online: help.shareview.co.uk (from here, you will be able to securely email Equiniti with your enquiry).

* Telephone lines are open from 8.30 am to 5.30 pm, Monday to Friday.

Duplicate shareholder accounts

If you receive more than one copy of Company mailings this may indicate that more than one account is held in your name on the register. This happens when the registration details of separate transactions differ slightly. If you believe more than one account exists in your name you may contact the Company's Registrar, Equiniti, to request that the accounts are combined. There is no charge for this service.

ShareGift

If shareholders have a small number of shares and the dealing costs or the minimum fee make it uneconomical to sell them, it is possible to donate these to ShareGift, a registered charity, who provide a free service to enable you to dispose charitably of such shares. More information on this service can be found at www.sharegift.org or by calling +44 (0)20 7930 3737.

FirstGroup plc's policy on discounts for shareholders

Shareholders are reminded that it is not Group policy to offer travel or other discounts to shareholders, as they may be used only by a small number of individuals. The Group is focused on overall returns which are of benefit to all shareholders.

Unsolicited telephone calls and correspondence

Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount, or offers of free reports about the Company. These are typically from overseas based 'brokers' who target US or UK shareholders, offering to sell them what often turns out to be worthless or high risk shares. These operations are commonly known as 'boiler rooms' and the 'brokers' can be very persistent and extremely persuasive.

Shareholders are advised to deal only with financial services firms that are authorised by the Financial Conduct Authority (FCA). You can check a firm is properly authorised by the FCA before getting involved by visiting www.fca.org.uk/register. If you do deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme if anything goes wrong. For more detailed information on how you can protect yourself from an investment scam, or to report a scam, go to www.fca.org.uk/consumers/scams/report-scam or call 0800 111 6768.

Half-yearly results

The half-yearly results, to be announced on the London Stock Exchange, in November 2016, will continue to be available on the Company's website in the form of a press release and not issued to shareholders in hard copy. Shareholders that have signed up for electronic shareholder communication will be sent a notification when these are available on the FirstGroup website www.firstgroupplc.com.

Shareholder interests at 31 March 2016

	Number of accounts	% of total accounts	Number of ordinary shares	% of ordinary share capital
By category of shareholders				
Public limited company	3	0.0%	187,230	0.0%
Nominee	497	1.4%	1,033,701,598	85.8%
Limited company	683	2.0%	94,559,390	7.9%
Other organisation	70	0.2%	24,038,987	2.0%
Individuals	33,717	96.4%	52,113,750	4.3%
Trust	1	0.0%	260	0.0%
Bank	4	0.0%	318,813	0.0%
Pension fund	2	0.0%	6,428	0.0%
Insurance company	1	0.0%	300	0.0%
Total	**34,978**	**100.0%**	**1,204,926,756**	**100.0%**
By size of holding				
1-1,000	24,814	71.0%	6,263,739	0.5%
1,001-5,000	7,439	21.3%	17,860,605	1.5%
5,001-10,000	1,512	4.3%	10,634,097	0.9%
10,001-100,000	922	2.6%	21,882,642	1.8%
Over 100,000	291	0.8%	1,148,285,673	95.3%
Totals	**34,978**	**100.0%**	**1,204,926,756**	**100.0%**

Financial calendar

Q1 Trading update	**July 2016**
Annual General Meeting	**19 July 2016**
Half-yearly results announcement	**November 2016**
Q3 Trading update	**January 2017**

Contact information

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Cautionary comment concerning forward-looking statements

This Annual Report and Accounts includes forward-looking statements with respect to the business, strategy and plans of FirstGroup and its current goals, assumptions and expectations relating to its future financial condition, performance and results. Generally, words such as ‘may’, ‘could’, ‘will’, ‘expect’, ‘intend’, ‘estimate’, ‘anticipate’, ‘aim’, ‘outlook’, ‘believe’, ‘plan’, ‘seek’, ‘continue’, ‘potential’, ‘reasonably possible’ or similar expressions are intended to identify forward-looking statements.

By their nature, forward-looking statements involve known and unknown risks, assumptions, uncertainties and other factors which may cause actual results, performance or achievements of FirstGroup to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Forward-looking statements are not guarantees of future performance, and shareholders are cautioned not to place undue reliance on them. Forward-looking statements speak only as of the date they are made and except as required by the UK Listing Rules and applicable law, FirstGroup does not undertake any obligation to update or change any forward-looking statements to reflect events occurring after the date of this Annual Report and Accounts.

Glossary

Set out below is a guide to commonly used financial, industry and Group related terms in the Annual Report and Accounts. These are not precise definitions and are included to provide readers with a guide to the general meaning of the terms.

AGM
Annual General Meeting

APB
Auditing Practices Board, part of the Financial Reporting Council

BAYE
Buy As You Earn

The Board
The Board of Directors of the Company

BRT
Bus rapid transit

CGU
Cash generating unit

Company
FirstGroup plc, a company registered in Scotland with number SC157176 whose registered office is at 395 King Street, Aberdeen AB24 5RP

CPI
Consumer price index, an inflation measure that excludes certain housing related costs

DECC
Department of Energy and Climate Change (UK Government)

Defra
Department for Environment, Food and Rural Affairs (UK Government)

DfT
Department for Transport

Dividend
Amount payable per ordinary share on an interim and final basis

EABP
Executive Annual Bonus Plan

EBITDA
Earnings before interest, tax, depreciation and amortisation, calculated as adjusted operating profit less capital grant amortisation plus depreciation

EBT
Employee benefit trust

EMV
Technical standard for smart payment cards and associated machines, originally developed by Europay, Mastercard and Visa

EPA
United States Environmental Protection Agency

EPS
Earnings per share

ESOS
Executive share option scheme

FTA
Freight Transport Association

GHG
Greenhouse gas emissions

GPS
Global positioning system

Group
FirstGroup plc and its subsidiaries

GWR
Great Western Railway franchise

IAS
International Accounting Standards

IFRS
International Financial Reporting Standards

KPIs
Key performance indicators, financial and non-financial metrics used to define and measure progress towards our strategic objectives

LBG
London Benchmarking Group, an organisation that has created a framework for measuring community impact

LGPS
Local Government Pension Scheme

Local authority
Local government organisations in the UK, including unitary, metropolitan, district and county councils

LTIP
Long Term Incentive Plan

Net debt
The value of Group external borrowings excluding the fair value adjustment for coupon swaps designated against certain bonds, excluding accrued interest, less cash balances

Network Rail
Owner and operator of Britain's rail infrastructure

OECD
Organisation for Economic Co-operation and Development

Ordinary shares
FirstGroup plc ordinary shares of 5p each

PLC
Public limited company

PPM
The rail industry's Public Performance Measure reflects punctuality and reliability. Trains are deemed punctual if they arrive at their destination, having made all timetabled stops, within five minutes of scheduled time for London and South East and regional/commuter services and ten minutes for long distance trains

ROCE
Return on capital employed is calculated by dividing adjusted operating profit after tax by all assets and liabilities excluding debt items

RPI
Retail price index, an inflation measure that includes certain housing related costs

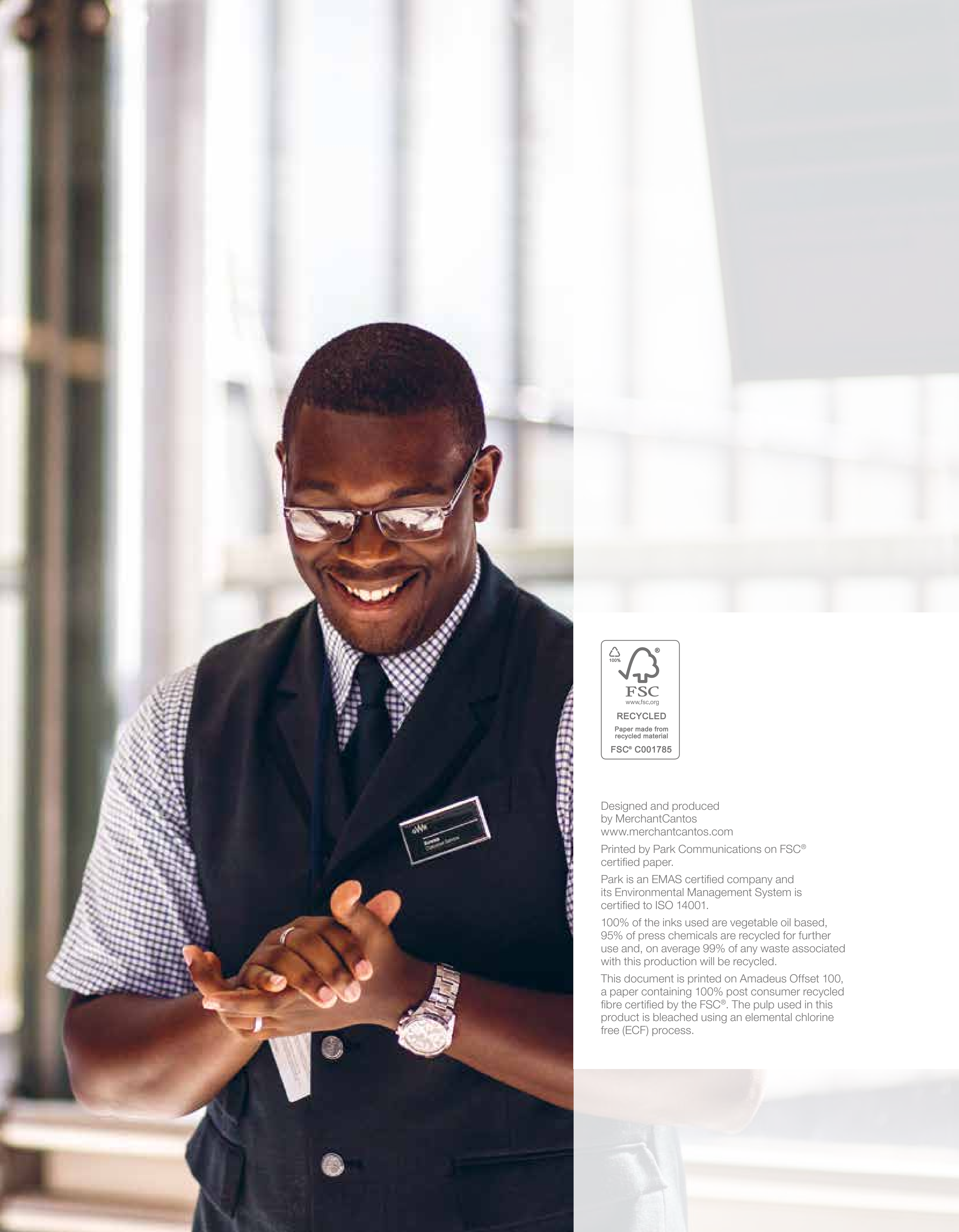
SAYE
Save As You Earn

TOC
Train operating company

TPE
TransPennine Express rail franchise

TSR
Total shareholder return, the growth in value of a shareholding over a specified period assuming that dividends are reinvested to purchase additional shares

WRI/WBCSD
The Greenhouse Gas Protocol was developed by the World Resources Institute and World Business Council for Sustainable Development



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