



We provide easy and convenient mobility, improving quality of life by connecting people and communities. FirstGroup is a leading provider of transport services in the UK and North America. Our services are a vital part of society – transporting customers for business, education, health, social or recreational purposes. We create solutions that reduce complexity, making travel smoother and life easier.

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.

Easy and convenient mobility

Our businesses are constantly evolving, harnessing the latest technology and innovation that allows us to deliver effortless and convenient journeys for customers. Our goal is to make life simple and remove complexity, so that customers can enjoy smoother journeys and interact with our systems and our services as easily as possible.

Read more on page 5



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Improving quality of life

We provide greater choice and freedom in where to go and how to get there, giving our customers more time to spend on the things that matter to them. Our transport services are essential ingredients for vibrant and growing local economies, and help improve congestion and air quality too.

Read more on page 75

**Connecting people and communities**

Our businesses are part of the critical infrastructure of society. We are at the heart of the communities we serve and our services form part of the fabric of life for millions of people each and every day. We provide transport to get people where they want to be – whether it's for business, leisure, seeing friends and family, or exploring new destinations.

Read more on pages 2, 3 and 137



FirstGroup at the heart of our communities

Our businesses are part of the critical infrastructure of society. When the coronavirus pandemic led to wide scale lockdowns, our essential services made it possible for key workers to travel in order to carry out their crucial roles. As the restrictions ease, the resumption of our services is vital to helping local communities and economies open up safely. During a very difficult time our employees across the UK and North America provided direct assistance where it was needed most – to families and vulnerable people in the communities they serve.



Transporting frontline workers

Greyhound is providing free transport to first responders and medical professionals who are travelling to another town or city to provide their expertise and care. First Bus responded to the need for service modifications to cater for shifts of key NHS staff – including the provision of shuttle buses in some areas. First Student teams also provided buses for healthcare workers and others who are on the front line of the pandemic.

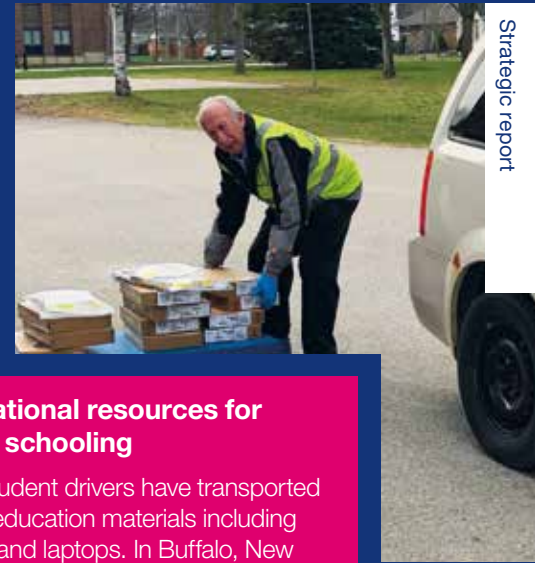
Providing skills and resources

Our UK employees have provided hundreds of hours of community support as NHS volunteers (Adrian Worsfold, pictured, volunteered in Manchester), armed services reservists, special constables or paramedics to help the response efforts. First Bus found opportunities to redeploy some of its employees to other much needed roles outside of the company, most notably, bus drivers in York were loaned to York City Council to help address the shortage of council vehicle drivers. First Student is assisting more than 25 school districts with the logistics and planning behind the delivery of meals and school supplies. Greyhound is delivering vital medical supplies and safety equipment in partnership with the American Red Cross and a number of blood banks, medical equipment manufacturers and testing centres.



Supporting vulnerable people

The Rail to Refuge scheme, in partnership with Women's Aid, was created to provide free assistance to those fleeing from abuse within their own home and went nationwide in April following a pioneering trial on Great Western Railway. Greyhound's longstanding 'Home Free' programme, in partnership with the National Runaway Safeline, continues to provide free journeys home to runaway and homeless youth. An influx of requests were received following the 'stay at home' orders issued across North America in order to contain the spread of coronavirus.



Educational resources for home schooling

First Student drivers have transported home education materials including books and laptops. In Buffalo, New York, for example, staff delivered 7,000 curriculum packets across the city in one single day. In addition, our train companies in the UK have made a number of children's educational activities available for home schooling.



Donating and delivering food supplies

First Student drivers have delivered more than one million meals to vulnerable students across the USA and Canada since the pandemic began. First Transit are also delivering food and medical supplies to communities, working in close partnership with various organisations to deliver the most appropriate support in each location, including the New York State National Guard; Walmart in Houston and the Salvation Army in Minnesota. One example is East Bay Paratransit in San Francisco where drivers delivered food to 2,400 senior citizens. Our First Rail companies have been donating food products from on-board shops to NHS teams and charities across the country.



Supporting disadvantaged children in the UK

In the UK the Group teamed up with Action for Children, our corporate charity partner, to support some of the most vulnerable children and families in the country. We are particularly pleased to support their coronavirus emergency appeal through the deployment of the matched funding proceeds raised from our partnership over the last year. Employees across the Group are also providing voluntary pro-bono support for Action for Children across a range of areas including data analysis and reporting.

Group overview

Our North American divisions

Each of our three North America-based divisions operate throughout the US and in parts of Canada, and together generated 56% of our revenue in 2020.



First Student

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

Student journeys last year

900m

Yellow school buses

43,000

🔗 See page 18



First Transit

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

Passenger journeys last year

318m

Vehicles owned or operated

14,200

🔗 See page 20



Greyhound

Greyhound is the only national operator of scheduled intercity coaches in the US and Canada, with an iconic brand and a unique network of 2,300 destinations.

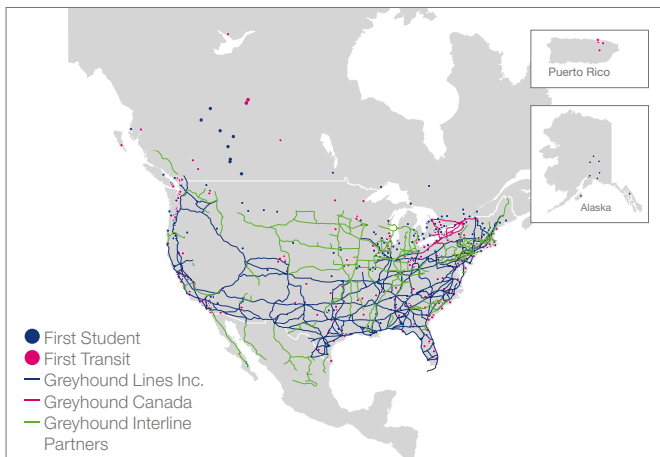
Passenger journeys last year

14m

In-year vehicle fleet

1,400

🔗 See page 22



Our UK divisions

First Rail operations and First Bus services throughout the UK generated 44% of our revenue in 2020.



First Bus

One of the largest bus operators in the UK with a fifth of the market outside London, serving two thirds of the UK's 15 largest conurbations.

Passenger journeys last year

500m

In-year vehicle fleet

5,200

🔗 See page 24



First Rail

One of the UK's largest and most experienced rail operators, carrying 340m passengers almost ten billion miles last year across our four franchises (Avanti, GWR, SWR, TPE) and open access operation (Hull Trains). We are also 'shadow operator' on the HS2 programme.

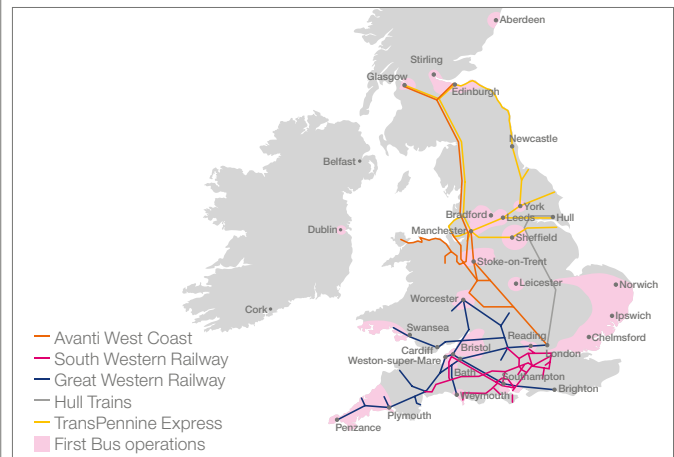
Passenger journeys last year

340m

Passenger miles last year

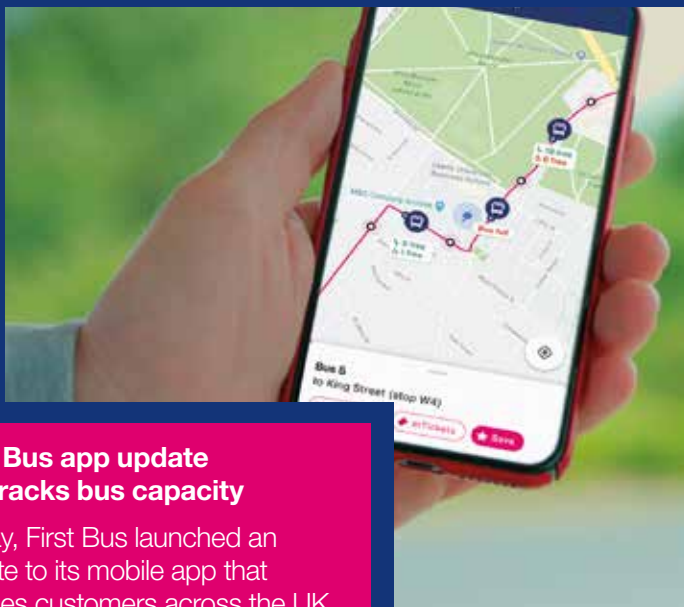
9.8bn

🔗 See page 26



Strategic report

Easy and convenient mobility



First Bus app update live tracks bus capacity

In May, First Bus launched an update to its mobile app that enables customers across the UK to track the location of their next bus as well as its available capacity. We are the first major bus operator to roll out live capacity tracking, enabling our customers to socially distance on board in response to coronavirus. In June we released a further app update enabling customers to view real-time availability of wheelchair spaces. Reducing uncertainty for our customers, these updates allow them to make more informed decisions about their journeys.

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Lyft partnership for wheelchair accessible vehicles

First Transit formed a partnership with transportation network company Lyft to pilot on-demand wheelchair accessible vehicles in San Francisco and Los Angeles, which has subsequently also been rolled out in Toronto and Boston (a trial of the service is pictured here). Using the Lyft app, passengers who use a fixed frame or non-collapsible wheelchair can request a vehicle with a ramp. This partnership with Lyft allows us to expand into more mobility offerings and new markets, further establishing First Transit as a leader in mobility solutions for North America.

Chairman's statement



David Martin
Chairman

Despite near-term uncertainty in the wider markets, there remains a fundamental need for people to travel safely and conveniently which is essential to sustainable and thriving economies and communities.

We are resolutely focused on delivering our plans – including the sale processes for the North American divisions – at the earliest appropriate opportunity and in the best interests of all shareholders.

I joined as Chairman in August 2019 and since then I have spent a great deal of time with our businesses and also met regularly with our major shareholders to develop a full understanding of their range of views and perspectives. It was clear to me that there are limited synergies, particularly between the UK and North American divisions, and significant value to be unlocked by separating them, in addition to improving the performance of our UK businesses.

North American sale processes

Working with management and supported by independent advisers, the Board formally reviewed the various options to maximise value for all shareholders (acknowledging that a sale process for Greyhound was already underway) and formally announced in December 2019 that the Group would explore all options in respect of our North American contract businesses, First Student and First Transit, including a potential disposal. By this point preparatory work had been undertaken, in conjunction with expert third-party consultants and advisers, for a possible carve-out and sale of these businesses, and the team began designing the optimal structure for implementation and compiling the detailed materials and reports necessary for a transaction of this scale. We formally announced the commencement of the sale process in early March 2020 having been encouraged by the significant interest expressed in our North American contract businesses.

The onset of the coronavirus pandemic and all its attendant uncertainties for potential buyers and their finance providers has impacted the speed at which this process can be concluded but it remains the objective. The Board has continued to regularly review all options to deliver value from these assets and continues to believe that the sale of these businesses remains the best way to unlock material value for all FirstGroup shareholders. Clearly the state of financing markets and the availability of capital, as well as greater visibility on the pace and profile of the resumption of services, will be important factors for buyers to be able to make an informed assessment of the divisions' prospects.

I believe the management, supported by the current Board, are well placed to deliver this outcome and that execution of this strategy at the right time is still the best route to enhance the long-term value of our businesses, while respecting our commitments to all our stakeholders.

Opportunities for bus and rail

On completion of the North American divestments the Group will become a UK-based transportation provider with bus and rail operations at the core of its business. We will continue to capture the benefits of our strong market positions and build on them to deliver significantly enhanced performance in First Bus over the medium term.

I believe that this is one of the most interesting moments for the bus industry, and for public transport more generally, that I have seen in my career in the sector. There is huge potential to play a key role in delivering the benefits of the UK Government's announced plans to invest in improving city connectivity, raising air quality and lowering carbon intensity, and 'levelling up' harder hit parts of the country through improved economic infrastructure and opportunity. These important issues are arguably even more relevant as the UK emerges from the coronavirus crisis. Public transport can and will be at the heart of all of these agendas.

In addition, we will continue to manage First Rail's existing portfolio of rail franchises to deliver sustainable benefits for passengers, shareholders and our other stakeholders. Despite some well-trailed challenges in SWR and TPE, First Rail as a whole has continued to deliver positive cash flow. I believe that with the appropriate political will and structural changes to the franchises, rail can deliver significant benefits for passengers and shareholders in and of itself and as part of an integrated transport strategy. We look forward to further clarity around the future shape of the rail industry in the UK in light of the government's long-awaited review of franchising and the indications of their potential strategy that are implied by more recent contract awards and the structure of the Emergency Measures Agreements currently in place.

Coronavirus

The coronavirus pandemic that has swept through our communities has undoubtedly overshadowed the year and its effects may well be felt for many years to come. The Group has responded quickly to the many issues presented by the pandemic and I am extremely proud of our employees and how they have risen to the challenges of the present situation. We are deeply saddened by the loss of employees in each of our five divisions due to the outbreak. On behalf of the Board and all employees at FirstGroup, I offer our heartfelt condolences and support to their families, friends and colleagues.

I have been very impressed by how quickly and comprehensively our businesses have responded to the unprecedented challenges created by the pandemic. Although passenger volumes decreased very rapidly during the final weeks of the financial year due to the actions taken by governments to control the outbreak, it was vital that we maintained a critical level of service so that people, such as key workers, could continue to travel. Our people, together with our local knowledge and platforms have allowed us to provide much needed services, support and assistance to our communities during this challenging time, as described on pages 2-3 and elsewhere.

Consistent with our leadership position in our markets, and the trusted role we play for our stakeholders, we also took an active role in engaging with policymakers at all levels of government to ensure that our operations providing essential transportation services were sustained during the crisis. As described in more detail in the Chief Executive's report on pages 9-11 and the business reviews (pages 18-27), the various forms of funding and support made available amply demonstrate how important the services we provide are to governments and our customers.

In light of the very substantially reduced passenger volumes across all our divisions, the Group also took a series of proactive steps to reduce costs and prioritise cash flow. By their nature, these types of decisions are very difficult but were necessary in order to protect the Group for the long term. Wherever possible we have sought to use the emergency schemes put in place by governments to maintain our people in employment during the crisis, and in several divisions we have now begun to bring employees back to work as activity levels have started to increase. The imperative has been to maintain critical services in the short term and be ready to respond quickly to resume the services that will reconnect people and re-open communities as restrictions are eased.

The fact that all of our businesses are leaders in their markets gives me confidence they are well placed to restore services rapidly when required, and potentially will see new opportunities for us to do more to deliver for all our stakeholders.

Preparing for the future

There are many uncertainties ahead which create a range of potential scenarios for our businesses to consider as our markets on both sides of the Atlantic emerge from the lockdown. The effects potentially will be felt at the macroeconomic level, the level of customer behaviour in our markets, in the level and duration of continued fiscal support provided to our and others' industries and in other ways we cannot yet predict. The material uncertainties facing the Group and the Board's consideration of them are discussed in more detail in the going concern and viability statements on pages 69-73. However, while the precise timing and details are unclear, I am confident that the underlying demand for children to travel to school, for commuters to get to work, friends and family to visit each other and meet up to socialise, and for people to shop and to do business face to face will return.

Since my appointment in mid-August, I have been actively engaging with our divisions' commercial plans to stay at the forefront of our markets, and I am encouraged by the innovations in customer experience we are delivering. Clearly another key factor, of increasing importance to our customers and communities, is for the public transport industry to make further progress in support of the environmental sustainability agenda. Our Group-wide sustainability framework, explained on pages 38-41, focuses on innovating for our customers, being a partner of choice for low- and zero-emission transport and supporting our people to help make the transition to greener transportation a reality.

The Board

As discussed in more detail on pages 96-97, the Board's composition, activities and processes have changed and adapted as a result of the events of this year, and have been working well. In addition to my appointment as Chairman, Ryan Mangold joined the Board as Chief Financial Officer while Julia Steyn and Sally Cabrini joined the Board as Non-Executive Directors during the year. The Directors have acted to promote the success of the Company for the benefit of shareholders, whilst having regard to the matters listed on section 172 of the Companies Act 2006 during the year. Details of how we did this can be found on pages 44-53 – our stakeholders and on pages 82-95 – Governance. In addition, the Board and Company fully applied the principles and complied with the provisions of the UK Corporate Governance Code 2018, which applies to FirstGroup for the first time this year. Further information on our governance

arrangements can be found in the Governance section of this report. I am also satisfied that the Board has the appropriate mix of skills, experience and knowledge to provide effective input and oversight to the portfolio rationalisation strategy.

Our people

The dedication and resilience of our more than 100,000 employees has been vividly demonstrated during the coronavirus pandemic and I am extremely proud of all of our employees who have more than risen to the challenges of the present crisis in support of our customers and communities.

Conclusion

Despite near-term uncertainty in the wider markets, there remains a fundamental need for people to travel safely and conveniently for business, education, social or recreational purposes which is essential to sustainable and thriving economies and communities. We are resolutely focused on delivering our plans – including the sale processes for the North American divisions – at the earliest appropriate opportunity and in the best interests of all shareholders. In the year ahead the Board will continue to focus its collective experience and expertise on the task of delivering value for all our stakeholders.

David Martin

Chairman
8 July 2020

Financial summary

(Percentage changes in constant currency¹ unless otherwise stated)

- Group revenue in constant currency¹ +7.2% or +2.6% excluding the West Coast Partnership franchise (now branded Avanti West Coast) that started in December 2019; reported Group revenue +8.8%
- Excluding the coronavirus impact, the Group's adjusted² operating profit performance was broadly comparable to the prior year, with revenue growth, first time contribution of Avanti and management action broadly offsetting labour cost pressures and increases to the self-insurance cost in the North American divisions, two adverse legal judgements in First Transit, Greyhound revenue reductions and cost pressures, and poor UK summer weather and slower cost efficiency programme progress in First Bus
- Statutory operating loss of £(152.7)m (2019: profit of £9.8m) and statutory EPS of (27.0)p (2019: (5.5)p) include the Greyhound impairment charge of £186.9m (of which £124.4m was in the first half), North American self-insurance provision of £141.3m, restructuring and reorganisation costs of £58.2m, and coronavirus-related charges of £21.5m
- The North American self-insurance provision reflects the hardening motor claims environment impacting historic claims together with a significant change in the market-based discount rate used. The self-insurance charge to operating profit for the year to March 2020 reflects this revised environment and the businesses continue to build the higher costs into their bidding processes and hurdle rates for investment

- Adjusted² operating profit decline of (20.1)% principally reflects the sudden and substantial reductions in service volumes and revenue due to the coronavirus outbreak in the final weeks of our financial year, which the Group was successful in partially offsetting through initial cost savings and the start of fiscal and contractual support. March is traditionally a significant trading period for the Group
- Several of the funding measures with governments were only concluded at the end of the financial year, and in most divisions we continue to negotiate further funding and support from governments or customers
- Adjusted² profit before tax and adjusted² EPS decreased by (48.2)% and (49.6)% respectively, reflecting the lower adjusted² operating profit and first-time adoption of IFRS 16 (lease accounting) on finance costs
- Pre-IFRS 16 net debt³ was essentially flat in the year at £896.2m (2019: £903.4m). As expected, first time adoption of IFRS 16 resulted in £2,381.9m of leased liabilities (mainly Rail rolling stock) being recognised, increasing reported net debt³ to £3,278.1m (2019: £903.4m)
- Net debt: EBITDA ratio on the 'frozen accounting standards' basis⁴ relevant to the bank covenant requirement of less than 3.75 times was 1.4 times (2019: 1.3 times) at year end. Adjusted net debt⁵: EBITDA (excluding Rail ring-fenced cash and the IFRS 16 leased assets) was 2.4 times (2019: 2.1 times)
- Broadly flat net pension deficit £313.4m (2019: £307.2m) reflects actions taken to derisk the scheme and improved investment strategy

- As at 31 March 2020 the Group's undrawn committed headroom and free cash was £585.7m (2019: £520.6m). Subsequent to the year end, the Group issued £300m in commercial paper through the UK Government's Covid Corporate Financing Facility (CCFF) scheme and entered into a committed £250m undrawn bridging loan for redemption of the £350m bond maturing in April 2021. The Group also has an uncommitted £150m accordion facility to the Revolving Credit Facility (RCF), as well as further lines of uncommitted leasing facilities and more than \$100m of uncommitted supplier credit

	Change in constant currency ¹			Change
Revenue				
£7,754.6m	+8.8%	+7.2%		
2019: £7,126.9m				
Adjusted² operating profit			Statutory operating (loss)/profit	
£256.8m	(18.4)%	(20.1)%	£(152.7)m	n/m ⁶
2019: £314.8m			2019: £9.8m	
Adjusted² operating profit margin			Statutory operating (loss)/profit margin	
3.3%	(110)bps	(110)bps	(2.0)%	n/m ⁶
2019: 4.4%			2019: 0.1%	
Adjusted² profit before tax			Statutory loss before tax	
£109.9m	(47.2)%	(48.2)%	£(299.6)m	+206.0%
2019: £208.2m			2019: £(97.9)m	
Adjusted² EPS			Statutory EPS	
6.8p	(48.9)%	(49.6)%	(27.0)p	+390.9%
2019: 13.3p			2019: (5.5)p	
Adjusted net debt⁵			Net debt³	
£1,508.1m	+5.6%	+3.9%	£3,278.1m	+262.8%
2019: £1,428.1m			2019: £903.4m	

1 Changes 'in constant currency' throughout this document are based on retranslating 2019 foreign currency amounts at 2020 rates.

2 'Adjusted' figures throughout this document reflect the adoption of IFRS 16 in the period and are before the Greyhound impairment charges, North American self-insurance provisions, restructuring and reorganisation costs, other intangible asset amortisation charges and certain other items as set out in note 4 to the financial statements.

3 Net debt is stated excluding accrued bond interest, as described on page 35.

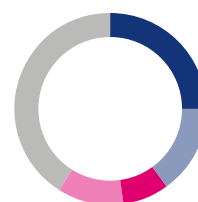
4 Net debt: EBITDA on the 'frozen accounting standards' basis refers to the methodology required for calculating the Group's compliance with the covenants on its banking facilities.

5 Adjusted net debt is stated after excluding cash ring-fenced in the Rail division and IFRS 16 operating leases.

6 Not meaningful.

Revenue

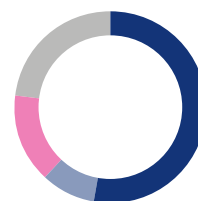
(as % of Group)



● First Student	25%
● First Transit	15%
● Greyhound	8%
● First Bus	11%
● First Rail	41%

Adjusted² operating profit

(as % of Group)

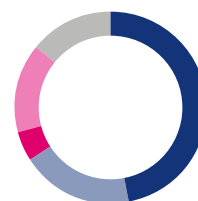


● First Student	53%
● First Transit	9%
● Greyhound	0%
● First Bus	15%
● First Rail	23%

Note: Greyhound adjusted operating loss of £(11.6)m in 2020; Group items of £(33.7)m allocated to divisions.

Number of employees

(as % of Group)



● First Student	47%
● First Transit	19%
● Greyhound	5%
● First Bus	15%
● First Rail	14%

Chief Executive's report



Matthew Gregory
Chief Executive

We took immediate action as soon as we began to see the pandemic's effects and will continue to do all that is necessary to ensure the Group emerges from this exceptional situation in the most robust position possible to deliver on our strategic plans.

This year will come to be remembered mainly for the rapid escalation of the coronavirus outbreak in our key markets in North America and the UK which took place in the final weeks of the financial year.

I would like to echo the Chairman's remarks in expressing my deepest condolences to the families and loved ones of our employees who have tragically lost their lives as a result of the coronavirus outbreak. We keep all those affected by the global health crisis in our thoughts.

The spread of the virus itself and government decisions to mandate lockdowns or 'shelter in place' orders resulted in a very rapid reduction in service volumes for all our businesses. The Group acted quickly and decisively to ensure we could continue to deliver essential services in the midst of the lockdowns and to restore capacity as restrictions on travel start to ease. Our ability to respond was enhanced by the actions we had been taking throughout the year to strengthen our businesses and execute their clear commercial strategies to deliver future progress and growth. While the pandemic has inevitably delayed our plans to rationalise the portfolio as potential buyers and providers of finance assess recent events, we remain committed to delivering this at the earliest appropriate opportunity. We face the future with strong market positions in each of our businesses to build on commercially, substantial liquidity and a clear strategy to reshape the Group's structure going forward.

Coronavirus response

Our priority since the start of the outbreak has been the health and safety of the Group's passengers, employees and communities. As the pandemic has progressed, we have worked closely with our suppliers to ensure we have the appropriate equipment in place, and we are following all relevant public health authority guidance for our businesses. The situation continues to evolve but we are following and also developing best practice in areas such as enhanced cleaning and decontamination of vehicles, depots and terminals and operating under social distancing rules.

We noted at our regular trading update in the middle of March that we had seen no significant impact from the coronavirus outbreak at that point and affirmed that the Group's overall outlook was in line with our expectations. Within days of that update we began to see rapid and unprecedented changes in the market environments for all our businesses. All of our passenger revenue businesses in North America and the UK experienced volume reductions, with Greyhound, First Bus and First Rail patronage reduced by between 80 and 90% compared with pre-pandemic

levels. All of the schools served by First Student were closed by the end of March, and First Transit also experienced reduced service requirements. Government advice and policy in our markets has changed rapidly throughout the pandemic, and at an early stage we began very active discussions with many of our customers about future service levels and full or partial payments in lieu of reduced service.

Our customers and government partners recognised the need to rapidly adjust services to fit demand from key workers, whilst preserving our ability to restore service when required. We had productive engagement with our major customers on revenue recovery, including school boards throughout North America, and local, state and national governments in all our markets. In particular, the UK Government quickly put in place comprehensive emergency measures, initially for six months, to maintain continuity of critical rail services and also introduced a package of funding to maintain bus industry capacity for key workers, which has subsequently been extended to support increased capacities with social distancing. Meanwhile, the US federal stimulus package (CARES Act) signed into law on 27 March 2020 provided substantial funding to the states, municipal and local authorities, including school boards, to sustain critical transportation and educational services and support businesses and their employees.

In light of the very substantially reduced passenger volumes across all our divisions, we took immediate and significant management actions to reduce costs and preserve cash. In doing so, our aim has been to protect the Group for the long term, ensuring critical services continued while travel limitations were at their most restrictive in our markets, while retaining the ability to increase capacity rapidly when appropriate. Actions implemented across the Group included reducing operating expenditure, halting discretionary spend and placing future capital expenditure orders on hold whilst managing existing commitments accordingly.

A substantial proportion of our total workforce in North America and the UK were placed on temporary furlough under the emergency job retention schemes put in place by governments in response to the pandemic. In several divisions we have now begun to bring employees back out of the schemes as activity levels have started to increase again. We also introduced hiring freezes and halted consultant and contract labour where possible across the Group. In certain areas it was regrettably necessary to reduce headcount permanently, particularly where customers chose not to support employee retention by maintaining

Chief Executive's report continued

some level of contractual payments during this time. We are also utilising the tax payment holidays and other emergency measures announced by governments to assist companies in managing their costs during this time. Both Ryan Mangold, Chief Financial Officer, and I volunteered to take a 20% reduction in salaries, and the Chairman and non-executive Board directors volunteered a corresponding reduction in their fees. In addition, a wider group of senior employees across the Group have also made voluntary salary reductions and deferrals.

Through our actions we have worked hard to deliver the key services our customers and communities rely on while ensuring that we remain in a position to support an increase in service levels as our economies begin to emerge from the crisis.

Our people

I am proud of our immensely diverse workforce across the UK and North America, which is a strength of our business as we reflect the communities of which we are a part. We are committed to maintaining that diversity, with all the benefits it brings to our communities and the Group. Our businesses are part of the critical infrastructure providing essential transportation services to our communities, which have enabled key workers to travel to their destinations and perform their vitally important roles, and our people have played an important part in delivering these much-needed services. In addition, many of our colleagues and teams across the Group are providing direct assistance right at the heart of their local areas, offering support to those who are most in need. These examples include our drivers delivering food and medical supplies to vulnerable people in the community as well as curriculum support materials to school children; offering free transport to first responders and frontline medical professional volunteers or creating space in our bus terminals and train stations for community initiatives including key worker food collection points. I want to express my gratitude and thanks to all our employees who are working so hard to keep vital services running at this difficult time.

Year in review

As noted, the pandemic inevitably affected our financial results because March is typically a significant trading period for the Group, with all divisions usually operating at near-full capacity throughout the month. The sudden and substantial reductions in service volumes and revenue due to the coronavirus outbreak contributed significantly to a decline of (20.1)% in Group adjusted operating profit to £256.8m (2019: £314.8m), which the Group was successful in partially offsetting through a cost

and cash savings programme undertaken as we reacted to the start of the crisis as well as the initial phases of fiscal and contractual support from governments and customers in the period. The coronavirus outbreak reduced revenue significantly and its effect on adjusted operating profit in the final weeks of the year was material. The Group reported a statutory operating loss of £(152.7)m (2019: profit of £9.8m), reflecting the Greyhound impairment charge of £186.9m (of which £124.4m was in the first half), North American self-insurance provision of £141.3m, restructuring and reorganisation costs of £58.2m, and coronavirus-related charges of £21.5m.

Progress was being made in executing our clear commercial strategies for our five divisions during the rest of the year, up to the point when the coronavirus outbreak rapidly affected our business.

North American divisions

In particular, we were pleased to have delivered another strong bid season and three complementary acquisitions in our largest business **First Student**, based in no small part on the strong reputation for customer service and safety we have built up and sustained over many years. First Student's average customer satisfaction score reached an all-time high this year of 8.93 out of 10, underpinning our success in both retaining business and winning customers over from our competitors. **First Transit** was also successful in several contract bids which are likely to be of significance in future, including our paratransit partnership with Lyft and a major shuttle contract at Los Angeles airport, albeit the division experienced a number of cost headwinds throughout the year. We were disappointed with the deterioration in the US motor claims environment which, together with lower discount rates, have required an increase in the insurance reserves provided for all of our North American businesses. **Greyhound** also faced further challenges throughout the year as a result of the substantial reduction in long-distance passenger numbers from the south western US, fuel prices and increasing competition particularly in shorter haul routes.

UK divisions

In the UK, **First Bus** has sought to move to the forefront of the industry in terms of technology and customer experience, bringing to passengers a number of upgrades to our highly regarded passenger app, including becoming the first large operator to add the capability for customers to check in real time how full each bus is, and the availability of wheelchair spaces, helping them to make more informed travel decisions. This innovation

Coronavirus pandemic

Please find further information relating to its effects on the Group's markets, our response, and its potential consequences in the following parts of the 2020 Annual Report:

Business review	p.18
Financial review	p.28
Safety	p.42
Our stakeholders	p.44
Principal risks and uncertainties	p.59
Going concern and viability statements	p.69
Governance	p.76
Basis of preparation	p.141

was fast-tracked given its particular significance while bus capacity is limited due to social distancing requirements. We were the first major operator to bring contactless payment to the entire fleet; this, together with our mobile app, have become the preferred payment mechanisms for our customers, overtaking cash transactions during the year. Currently only 10% of our customers are paying by cash. A significant change in the political climate for local bus service and innovation funding has also been very welcome. We are focused on First Bus becoming a leader in the transition to a low-carbon future for public transportation. We are committing to operate a zero-emission bus fleet in the UK by 2035, and do not plan to purchase any new diesel buses after December 2022. We look forward to working closely with our supply chain, industry partners and the UK Government to ensure that our shared ambitions can be taken forward following the current crisis. This builds on our investments in buses to help deliver local authorities' air quality commitments over recent years.

We also continued to actively address the cost base of First Bus through a comprehensive efficiency programme, although the pace of progress has been slower than planned, in part due to the pandemic. This incorporates reviews of our networks using more granular passenger data than ever before thanks to our new digital ticketing systems, as well as changes to our procurement, back office and other functions. All of these actions have been incorporated into our plans for reintroducing services as the coronavirus-related restrictions on travel begin to ease. The announcement last May of our intention to rationalise our portfolio of businesses also enabled us to

undertake more detailed engagement in the development of a framework for funding the First Bus pension scheme towards low dependency. Importantly, it is anticipated that this framework should be deliverable in a range of transaction scenarios.

In **First Rail** we were pleased with the award and subsequent start-up of the West Coast Partnership by our 70:30 rail venture with Trenitalia, which was re-branded Avanti West Coast in December. In addition to Avanti we announced on 30 March 2020 an extension to our GWR contract for an additional three years, extendable by up to a year at the DfT's discretion. This follows a year when GWR successfully delivered substantial new fleets and the biggest timetable change in a generation, which contributed to a very strong improvement in its passenger satisfaction scores this year. By contrast, TPE experienced difficult operating conditions during the year, with the delayed delivery of new trains and network issues affecting our performance, while SWR's performance continued to be challenged principally by deep-rooted Network Rail infrastructure problems outside of our control, as well as protracted and unnecessary industrial action by the RMT. We remain resolved to finding a solution that will be of benefit to everyone involved with SWR. There is considerable uncertainty about the level of future rail passenger demand and hence the risk and reward balance for operators under existing contracts when the present emergency measures in place across the rail industry end in September or later. Notwithstanding these issues, we continue to work with our industry partners to deliver better customer experiences at all our train operating companies.

The future

Continuity of transport has been essential to governments, local communities and many of our customers throughout the coronavirus crisis, and it will also be critical to the restoration of economic growth when the present uncertain and difficult situation is overcome. The funding and support advanced by governments and customers to sustain these critical transport services is testament to their importance now and in the future.

Our businesses have always been proud of the role they play as part of the critical infrastructure of society, crucial to our local economies and their environmental impact, and today our teams are playing a vital role in helping communities to reopen safely and in accordance with local regulations and advice. At the same time, the world has had no experience of a similar pandemic in recent times, so there is no way of predicting with any certainty how the crisis

will continue to evolve, nor the long-term effect coronavirus will have on demand for our services, with the possibility that working and hence commuting patterns may change or more shopping may move online, for example. Travel restrictions and social distancing are likely to remain in place for some time to come and there is uncertainty as to what the medium-term funding models from governments may be in that context, as well as their impact on consumer behaviour.

However, we are market leaders in all of our businesses, and are well positioned to assist customers if smaller operators are unable or less willing to do so, and we are already seeing an increase in potential acquisition or new business opportunities in some of our markets as a consequence. Whilst the coronavirus pandemic has been a huge challenge to our societies and economies, it has also shown what life with far fewer cars on the road is like. This has not only meant benefits in terms of reduced emissions and improved air quality, it has also led to less congested roads, and hence faster, more reliable and safer journeys by other means as well. It has long been clear that public transport is a vital part of the solution in achieving radical decarbonisation, and the present emergency ought to hasten the transition to a vibrant zero-carbon public transportation system, fully playing its part in creating a better connected and healthier world. Our Group-wide sustainability framework, which focuses on innovating for our customers, being a partner of choice for low- and zero-emission transport and supporting our people, sets out how we aim to help make this transition a reality. Ultimately, there are significant gains for governments, society and our businesses if long-term modal shift to public transport from the car is one of the consequences of the present emergency. Our zero-emission commitment in First Bus, together with the innovative work we are doing to support autonomous vehicle programmes and developing Mobility as a Service (MaaS) business models will ensure we remain at the forefront of developments as transportation continues to change.

Our strategy

Despite the near-term uncertainty, the long-term fundamentals of our businesses are sound and we remain committed to our strategy to rationalise our portfolio, with the sale of our North American businesses remaining the best means to realise value. This is most likely to be delivered when there is sufficient clarity on the pace and profile of service resumption (including on schools reopening in North America), to allow potential buyers to make an informed assessment of the divisions' value, supported by fully functioning leveraged

finance markets. Meanwhile, we will continue to progress a range of value-creating business opportunities for these divisions, in accordance with their commercial strategies.

We took immediate action as soon as we began to see the pandemic's effects, and will continue to do all that is necessary to ensure the Group emerges from this exceptional situation in the most robust position possible to deliver on our strategic plans.

Current trading and outlook

The coronavirus pandemic and actions taken by governments and society in response to it have had a significant impact on all of our markets, and will continue to do so for some time to come. Travel volumes on all of our services have reduced very substantially and while guidance to limit travel and socially distance from other travellers remains in place, this will have a significant impact on our service capacity and hence financial performance. At the same time, governments and customers have recognised the critical necessity that we maintain a level of capacity for our transport services and are enabling us to do that through fiscal, contractual and other support. Given the material uncertainties as to how rapidly demand will increase, the rate at which current fiscal support measures are tapered and the duration of social distancing measures, as well as the timing of schools reopening in North America, it is currently not possible to provide guidance on the outlook for the financial year to 31 March 2021. While the Group currently has material fiscal and contractual support for running essential services across the divisions during the pandemic and committed undrawn liquidity of c.£850m as at the end of June, there are material uncertainties as to the future consequences of the coronavirus pandemic. The potential impact of certain scenarios have been highlighted in the going concern statement on page 72. However, based on current government and customer measures, and the cost reductions made in response to lower demand, the Group delivered adjusted operating profit and positive cash from operations before capital expenditure since the start of the current financial year. Recognising the usual seasonality of our First Student business over the school summer holiday period, we would expect this relatively resilient financial performance to persist while these arrangements remain in place.

Matthew Gregory

Chief Executive
8 July 2020

Our markets

Transport links are critical to support economic activity, to combat climate change and for our communities to flourish.

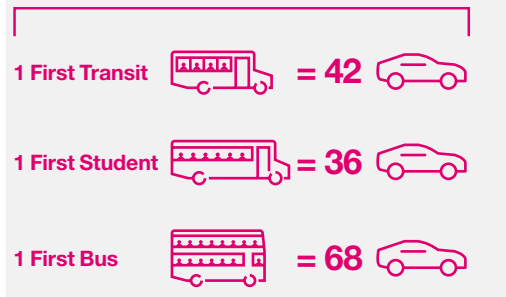
Although the coronavirus pandemic and the actions taken to restrict its spread have reduced activity levels in all our markets, they have also shown how important transport links are. Our operations are part of the critical infrastructure that underpins the functioning of our economies and communities, and we play a vital role in taking private car journeys off the roads; reducing congestion, improving air quality and helping to lower carbon emissions. Whilst there are many near-term uncertainties, in the longer term, public transport will be crucial to restoring economic growth, combating climate change, and improving quality of life for people and communities.

Congestion

In our key UK and North American markets, more than 80% of the population live in urban areas. In 2019, congestion was estimated to have cost the UK and US economies £6.9bn and £88bn respectively. Many (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. As economies recover from the global coronavirus pandemic, low-carbon transport systems that reduce congestion and improve air quality will be pivotal to sustaining healthy, connected communities, providing an essential service to those that need it whilst also helping to free up the street space for more active transport options like walking and cycling.

🔍 **Making the shift** - read about our sustainability aim for: **More people using bus and rail services, increasing ridership and taking private car journeys off the road on page 39.**

Potential of our vehicles to reduce congestion

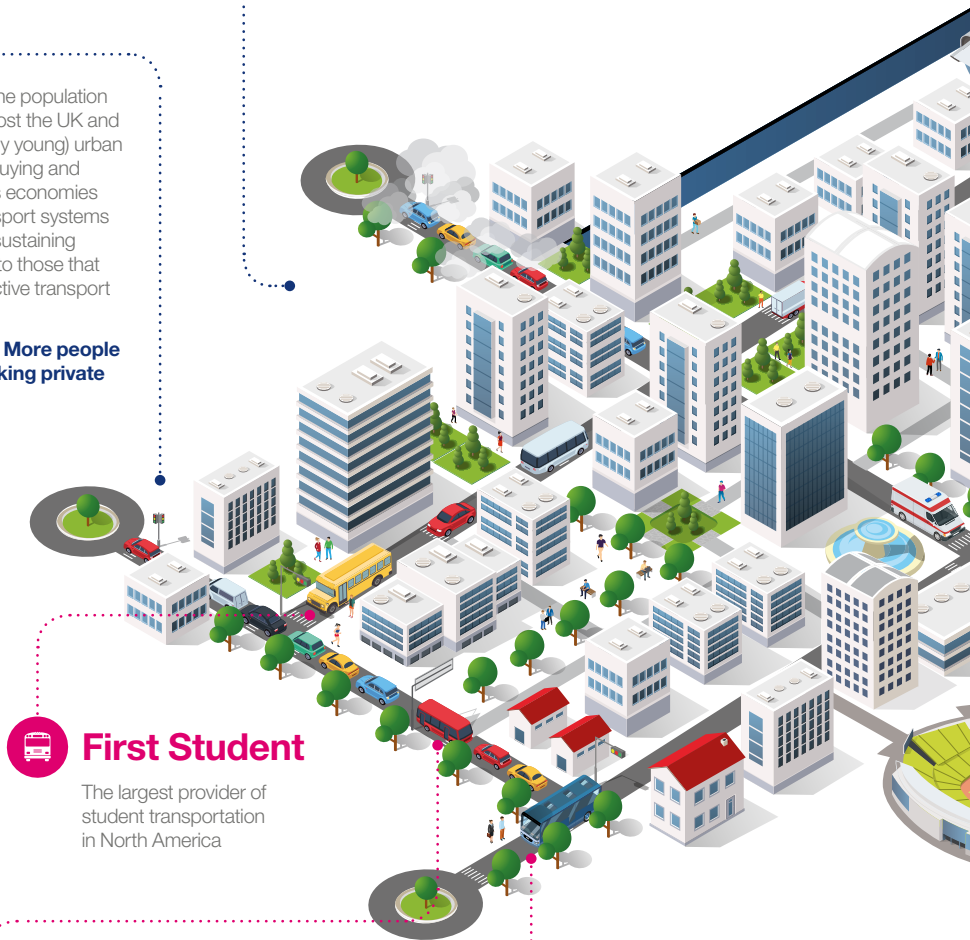


🔍 **For more information on the market environment for each of our divisions please go to the Business review section starting on page 18.**

Air quality

Air quality has a significant impact on the health of our communities, and many cities and towns are already working to place restrictions on the most polluting vehicles and prioritise public transport. An important aspect of improving local air quality is to make the shift away from car journeys, and to invest in convenient and cost-effective low emission public transport networks. Communities around the globe have noted the value of improved air quality during the coronavirus lockdown, and there is a groundswell of support for making this a long-term reality. We will continue to innovate and invest in our fleets to help improve local air quality in our towns and cities.

🔍 **Air quality** - read about our sustainability aim for: **Improving local air quality in our towns and cities through cleaner fleets on page 40.**



First Student
The largest provider of student transportation in North America

First Bus
One of the largest regional bus operators in the UK

Greyhound
Only national operator of scheduled intercity coaches in the US and Canada

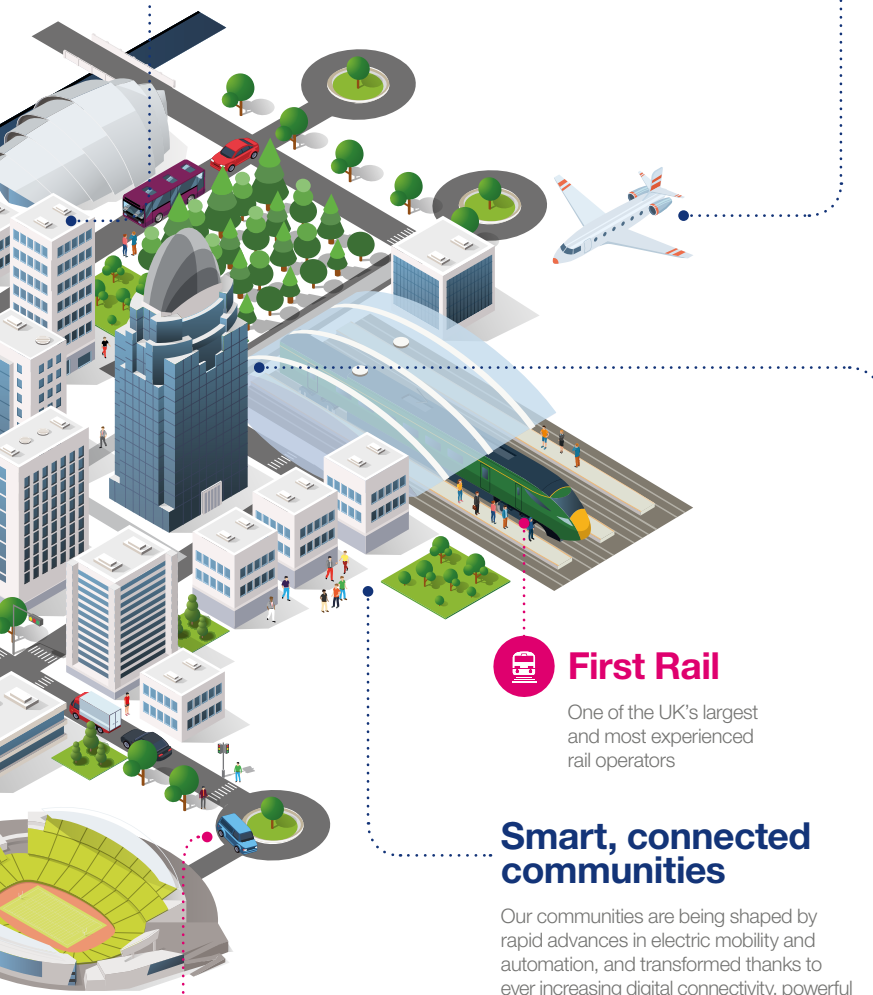
Demographics

Many segments of our communities – such as those in education, retired or those unable to drive themselves – have always been more reliant on mass transportation and these groups are growing, in part due to the rapidly aging population in many parts of the world. While certain people may reassess the frequency and purpose of their travel habits following the coronavirus pandemic, our customers will always want to visit friends and family affordably, students will still need to go to school or university and many in the global workforce will still need to commute to jobs that cannot be done at home. A smoother spread of passenger demand through the day would enhance the efficiency of our fleet usage.

Climate change

Climate change continues to be the greatest long-term challenge of our times, requiring collaboration and action on a global, national and local scale never seen before. Public transport already plays a critical role in reducing congestion on our roads, improving air quality and helping to lower carbon emissions. Now, we're going further by trialling, testing and investing in new technologies to step up to the challenge of decarbonisation and to support the transition to a zero-carbon world. See pages 38 to 41 for more information on our Group-wide strategic framework for sustainability, and pages 57 and 58 for our latest carbon and energy performance.

🔗 **Zero-carbon - read about our sustainability aim for: Eliminating the carbon emissions associated with our operations on page 40.**



Carbon emissions per passenger kilometre (gCO₂e)

First Rail (fleet average)	34	■
Greyhound	34	■
First Bus	76	■
New car (UK)	82	■
Domestic flight (US)	258	■

First Rail

One of the UK's largest and most experienced rail operators

Smart, connected communities

Our communities are being shaped by rapid advances in electric mobility and automation, and transformed thanks to ever increasing digital connectivity, powerful data analysis and new technologies. Our transport systems are becoming smarter, more connected and increasingly demand responsive. The economic, social and environmental prosperity of our towns and cities benefit as we use technology to tackle congestion, support decarbonisation and connect people and communities in smarter ways. We are leaders in the operation and maintenance of electric and autonomous vehicles, and we continue to invest in the technology and services to support connected and on-demand travel, including Mobility as a Service (MaaS).

First Transit

One of the largest providers of transit management and contracting services in North America

Local and national authorities

People need to travel for a wide range of reasons – business, education, healthcare, social and recreation – and across our five divisions we respond to these needs for our customers. The range of social and economic benefits of travel to communities in our core UK and North American markets has been recognised in the measures that governments have put in place during the coronavirus outbreak to sustain our services as well as the activities which are mandated or financially supported by the communities we serve over the longer term. Because of the importance of our services to restoring economic growth and reconnecting communities, governments and customers are also providing us with funding to ensure we can rapidly increase services while maintaining social distancing as travel restrictions in our communities ease.

Our markets by division

Each of our five divisions is a leader in its market, and all have opportunities to create long-term value.

More information on how the coronavirus pandemic has impacted our businesses and how we have responded, as well as how it may impact the structure of our markets in the future, can be found in the Business review section starting on page 18.



First Student

Market review and trends

North America's 14,000 school districts deploy around 520,000 yellow school buses and more than 90,000 smaller 'vans' to provide home-to-school transportation for millions of students. The total yellow school bus market is estimated to be worth around \$25bn per annum with an additional \$4bn market for special education transport. Approximately 38% of the total yellow bus fleet is outsourced by the school districts to private operators, with the remainder operated in-house.

Demand for home-to-school services is principally driven by the size of the school age population. School districts are funded from state and local sources, including property tax receipts, and their budgets (of which transportation is a small part), tend to be linked to the macroeconomic climate.

Customers

School districts' obligations to provide student transportation are determined by criteria set at state level. Contracts are typically three to five years in duration after which they are often competitively retendered, and specify fixed or annually indexed pricing, meaning that private operators bear cost risk. In addition to customers outsourcing for the first time ('conversion'), and the price indexation, growth is also driven by additional routes due to population growth or other factors ('organic growth'). Special education transport is a smaller but faster growing segment of the home-to-school market.

Competitors

The private outsourced market is highly fragmented, with only three companies operating fleets of more than 10,000 buses; together they account for around 40% of the outsourced market. 15 other operators have 1,000+ bus fleets, and the remaining 45% of the outsourced market is operated by more than 1,000 small local operators. 'Share shift', or winning contracts previously managed by other providers, together with acquisitions, offer further growth potential.

Market attractions

- Multi-year contracts with public sector customers, typically low credit risk
- Typically high levels of contract retention
- Customer service, security and safety track record often as important as price
- Fragmented marketplace – multiple M&A opportunities.



First Transit

Market review and trends

The transit market is worth around \$29bn per annum in North America, of which approximately a third is outsourced. Private providers manage, operate, maintain and organise transportation services for clients under contracts that typically last for three to five years. The market includes fixed route bus services (c.\$18bn segment, of which around a fifth is outsourced), paratransit bus and related services (c.\$4bn segment, around two thirds outsourced), shuttle services (c.\$3bn segment, around two thirds outsourced) and vehicle maintenance services (c.\$4bn segment, more than a third outsourced).

Customers

A wide range of customers contract out fixed route and paratransit services, including municipal transit authorities, federal, state and local agencies. These contracts typically are to operate and manage vehicle fleets owned by the client. Institutions such as universities, hospitals, airports and private companies are the main clients for the shuttle segment, and often require provision of the vehicle fleet. Vehicle maintenance services include contracts for private and public sector clients such as municipal fire and police departments. Customer demand for a broader range of mobility services solutions is increasing.

Competitors

First Transit has c.14% of the outsourced market in North America, which accounts for c.34% of the total market. The outsourced transit market is fragmented, though First Transit has two large competitors, MV Transportation, Inc. and Transdev North America.

Market attractions

- Multi-year contracts with public sector customers, typically low credit risk
- Typically high levels of contract retention
- Modest levels of capital required in most segments
- Established relationships with transit authorities provides a platform to grow in nascent Mobility as a Service (MaaS) and Shared Autonomous Vehicle (SAV) markets.



Greyhound

Market review and trends

In the past ten years the US intercity coach industry has enhanced its relevance to potential passengers through improvements in the on-board experience and new or improved offerings such as point-to-point 'express' services on high density routes. The potential market size remains a significant opportunity, with an estimated 42m people considering coach travel every year. A combination of convenient city centre destinations, a broad national network, tailored services and price has the potential to grow ridership and frequency of use. In many rural areas Greyhound is the only alternative travel option to the private car.

Customers

North American intercity coach firms serve a wide range of customers, many of whom prioritise value and whose primary purpose is to visit friends and family. Direct point-to-point services attract a younger, urban demographic with less interest in maintaining a private car.

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 especially point-to-point services in dense travel corridors such as the US north east and north west, where coach also competes with air and rail.

Market attractions

- Private car use becoming less attractive to customers, due to increasing urbanisation, congestion and overall costs of motoring
- Target demographic segments responsive to innovation through technology, value-for-money offering and environmental impact of car ownership
- Opportunities to expand penetration and footprint in US and Mexico
- Underutilised services may be part-funded by transport authorities.



First Bus

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. In local bus markets, operators set fares, frequencies and routes commercially while operating some 'socially necessary' services under local authority contracts. Around 2.6bn passenger journeys are made on bus services outside London, generating revenues of approximately £4.1bn a year.

Partnerships between operators and local authorities are a core principle for the industry and government, to support service delivery, minimise congestion and drive innovation and investment. There is a growing recognition at all levels of government that buses have a huge role to play in achieving social and environmental ambitions and improving local economies. In February 2020 a new five-year, multi-billion pound industry funding package was announced to support thousands of new green buses, simpler fares, improved routes and higher frequencies.

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). A significant proportion of customers use bus services to commute (to work or education), to shop and for leisure. Income is also generated through tendered local bus services and bespoke contracts such as Park & Ride schemes.

Competitors

The UK bus market (outside London) is deregulated and highly competitive with hundreds of 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 customer segments enhancing convenience and supporting clean air strategies
- Opportunity in youth demographic, where car ownership is falling
- Local buses account for 57% of all journeys by public transport in England – important component of local authorities' ability to fulfil their air quality obligations
- Bus travel diversified by journey purpose.



First Rail

Market review and trends

Passenger rail services are primarily provided by private train operating companies (TOCs) through franchises awarded by the relevant authority, but may also be provided on an open access basis. 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 £10bn per annum. Rail tracks and infrastructure (signalling and stations) are owned and managed by Network Rail, and TOCs typically lease most stations from Network Rail and rolling stock from leasing companies.

The UK's rail franchising system is currently undergoing a major review and there is currently uncertainty as to the likely balance of risks and rewards for franchising in future.

Customers

Rail markets are generally categorised into three sectors: London and south east commuter services; regional; and long distance. Certain networks also offer sleeper services. Parts of Great Western Railway (GWR) fall into all four categories. South Western Railway (SWR) customers are largely commuters. TransPennine Express (TPE) and Avanti West Coast are mainly long distance intercity operations, and Hull Trains caters to long distance and leisure travellers.

Competitors

The main competitor to rail in the UK is the private car. On some passenger flows there is competition 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 £10bn of long-term contract-backed passenger revenue available through 19 major contract opportunities
- Franchises have significant risk and reward opportunity for operators, and a capped downside with generally low overall capital intensity
- Regulated environment, including government-capped regulated fares
- Historically high levels of passenger numbers across the UK.

Our strategy and business model

Each of our five businesses is a market leader and shares a common vision to deliver safe and responsive passenger transport services in our communities. However, with limited direct synergies between the divisions our stated intent is to rationalise our portfolio, unlocking shareholder value through formal sale processes for our North American businesses.

Our business model

Our Vision

We provide easy and convenient mobility, improving quality of life by connecting people and communities



We are influenced by...

The world we live in and the need for sustainable transport solutions



Key inputs

Our people

Vehicle fleets, depots, stations and terminals

Relationships with key local authority and national government stakeholders

Reputation for safe and reliable transport services

A stable financial platform

We provide market leading transport solutions

Across our five market leading divisions



First Student



First Bus



First Rail



First Transit



Greyhound

Underpinned by our Values

Committed to our customers

Dedicated to safety

Supportive of each other

Accountable for performance

Setting the highest standards

How we manage the business

Leadership and governance

Each of our five divisions is run in a decentralised way, with clear commercial strategies so as to be responsive to the needs of our local customers. All, however, are managed in accordance with the Group's overall Vision and Values, and with regard to the strategic direction set by the Group. Our lean corporate centre focuses on fostering a high performance culture, sets the strategic direction, raises and allocates capital, oversees succession plans and personnel development, establishes key targets and standards, monitors performance and provides challenge. All of our businesses own and manage the risks they face with appropriate assistance from the Group functions as necessary.

For more information on the overall governance of the Group see pages 76-134.

Key performance indicators (KPIs)

The Group focuses on financial and non-financial KPIs which align to our strategic drivers (opposite). Financial KPIs are Group revenue, adjusted operating profit, adjusted EPS and ROCE, which together drive our cash flow and value creation. Non-financial KPIs include contract retention, like-for-like revenue growth, punctuality, safety, employee engagement, average fleet age, customer and passenger satisfaction, community investment, greenhouse gas emissions and energy consumption.

See pages 54-58 for more information on our KPIs.

Principal risks and uncertainties

We take a holistic 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. All of our businesses are responsible for identifying, assessing and managing the risks they face with appropriate assistance, review and challenge from the Group functions as necessary. As the spread of coronavirus became apparent the Group's risk management processes and reporting focused on the immediate risks to the business and the mitigating actions that were needed in the days and weeks following the introduction of lockdown and 'shelter in place' orders put in place by governments in the UK and North America.

See pages 59-68 for more information on our principal risks and uncertainties.

Remuneration policy

A key principle underpinning the executive remuneration policy is to ensure it is aligned with the strategy of the Group. In addition, it provides a strong and demonstrable link between incentives and performance delivery in a consistent and responsible way, enables senior management to share in the long-term success of the Group without delivering overgenerous benefits or encouraging short-term measures or excessive risk taking, and is competitive, simple and transparent.

See pages 110-129 for our Remuneration Report.

By delivering on our strategic drivers

We aim to deliver our Vision and execute the clear commercial strategies in each of our divisions by focusing our experience and energy at key points in the transport service value chain, which we recognise in our five strategic drivers:

- 1 **Focused and disciplined bidding in our contract businesses**
- 2 **Driving growth through attractive commercial propositions in our passenger revenue businesses**
- 3 **Continuous improvement in operating and financial performance**
- 4 **Prudent investment in our fleets, systems and people**
- 5 **Maintain responsible partnerships with our customers and communities**

To create value for our stakeholders, and accelerate the transition to a zero-carbon world

Mobility Beyond Today

- 🔗 Read about our Group-wide strategic framework for sustainability on pages 38-41.
- 🔗 Read more about our stakeholders on pages 44 to 53, including:

Customers

Innovating to deliver safe, reliable and easy-to-use travel services for 2.1bn passengers each year

Investors

Sustainable financial performance, cash generation and value creation

Government

Efficient and reliable transportation services offering value for money for taxpayers

Our people

Rewarding long-term professional careers with opportunities to develop and grow

Communities

Stronger economies and more vibrant local communities

Strategic partners and suppliers

Dynamic industry ecosystem with opportunities for productive long-term relationships

Delivering on our strategic drivers

1

Typically almost half of our revenue is derived from around 1,400 contracts competitively procured on behalf of passengers by local government bodies and other parties such as school boards. Formulating innovative and attractive bids, with appropriate levels of risk and reward, and managing the delivery of our commitments in a range of changing circumstances is a core strength of our businesses. Both bidding and managing contractual commitments are also key in our rail franchise business in the UK, where revenues typically derive from passenger ticket sales within a contractual framework set by the government.

2

Our other main source of revenue is derived from direct ticket sales to passengers, who represent a broad demographic mix and use our services for a variety of business, commuting, social and recreational reasons. Understanding and responding to the changing needs of our local customers is therefore critical to the success of all our operations. A key part of the commercial strategy in all our businesses is to innovate through technology for our passengers in the areas of ticketing, real-time information and to enhance our ability to offer value for money.

3

Our goal is to operate reliable, convenient and safe low-carbon transport services on comfortable vehicles staffed by helpful and qualified employees, every day, in all weathers, and despite sharing increasingly congested road and rail infrastructure with other users. To do so, we must constantly reinforce the highest standards and seek out best practice from across the Group and beyond. We aim to bring the same focus on discipline and continuous improvement to our financial performance, managing employee productivity, asset and fuel efficiency, procurement, overheads, insurance and other costs.

4

To continue to deliver over the longer term, it is vital that we use the cash generated from our operating activities to reinvest appropriately in our key assets. Our most important assets are our people – we invest substantial sums in recruiting, retaining and developing our employees. The almost 50,000 vehicles we own across the Group are our most significant capital assets, which we must invest in to maintain standards, enhance efficiency and to offer the amenities our passengers require. We also invest in technology and systems to support our other strategic drivers.

5

By its nature, the transport industry involves the risk of injury to passengers, employees and third parties, which is why it is central to our culture to keep safety front of mind, reinforced through our Be Safe behaviour change programme. We have always taken our responsibility for the critical transport links binding our societies together very seriously, building long-term responsible partnerships with our customers and communities, including managing our environmental impact. Ultimately the core strength of our businesses is in the way we deliver critical services for the people and communities we are at the heart of.

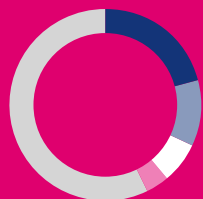
First Student



Paul Osland
President, First Student

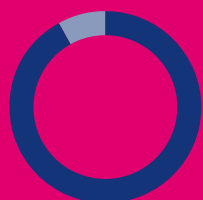
- **Sustainable and resilient returns from our market leading multi-year contract portfolio in the home-to-school market**
- **Opportunities for organic and M&A-led growth, entry into adjacent markets and provision of complementary services**

Share of outsourced market
(around 38% of total market)



● First Student	21%
● National Express	11%
● STA	7%
● NA Central, Krapf, Cook Illinois	4%
● Others	57%

2020 approximate revenue by type



● Home-to-school contracts	92%
● School and third-party charter	8%

Year to 31 March	2020	2019
Revenue	\$2,474.9m	\$2,424.9m
Adjusted operating profit	\$205.9m	\$227.1m
Adjusted operating margin	8.3%	9.4%
Average number of employees	48,000	48,000

First Student revenue was \$2,474.9m or £1,940.4m (2019: \$2,424.9m or £1,845.9m), representing growth in constant currency of 2.2%. This comprised growth of 4.1% in constant currency to the end of February 2020, benefiting from the pricing and contract wins we achieved in the summer 2019 bid season as well as from acquisitions made in the year. This was partially offset in March when substantially all North American schools had closed by the end of the month due to the coronavirus pandemic, albeit we continued to recover a proportion of our expected home-to-school revenue from school board customers as noted below.

Adjusted operating profit was \$205.9m or £158.8m (2019: \$227.1m or £171.2m), representing an adjusted operating profit margin of 8.3% (2019: 9.4%). Prior to the effect of the outbreak, net growth, management efficiencies and continued contract pricing discipline were largely offsetting the wage inflation from the tight US employment market experienced during the year and higher self-insurance costs. The division reported a statutory profit of £89.4m (2019: £115.3m) including the amortisation of intangibles, and after First Student's £52.5m portion of the North American self-insurance charge and profit on sale of property of £8.0m in the year.

Year in review

Following another strong bid season over the summer of 2019, First Student grew our already market leading school bus fleet and market share for the second year in a row; we have contracts to operate c.43,000 buses at year end (2019: 42,500) with strong pricing accompanying this growth. Our operational excellence drove record high customer satisfaction scores which underpinned our contract retention rate of 88% (2019: 92%) on business up for renewal, which was ahead of our expectations. Across our entire portfolio of multi-year relationships, retention was 96% (2019: 97%). This was notwithstanding the pricing requirements we had to seek from our customers due to the tight US employment market last year and resulting persistent driver shortages as well as higher self-insurance

costs. We attribute this continuing retention success to our excellent safety track record and consistent focus on building sustained customer relationships over many years, resulting in this year's record-breaking willingness to recommend and satisfaction scores, which saw fully 75% of our customers rating us nine or ten on a ten-point scale for overall satisfaction.

Our retention success was supplemented with organic growth, continuing conversions from in-house to private provision and good net market share gains from our larger competitors, in several cases at higher pricing than proposed by the incumbent.

We also continued to build out our ability to supplement growth and expand our addressable market via acquisitions in this fragmented segment of the mobility services industry. Since the start of the financial year we have closed three transactions adding a total of 850 buses. The most notable was Hopewell Transportation, a leading provider of transportation for students with special needs in the Chicago, Illinois area, utilising smaller 'vans'. Special needs transportation is a faster growing part of the overall student transportation market. This is also a segment where specialised training for frontline employees is especially valuable, which is an area where Hopewell Transportation has always been strong, and plays to our longstanding goal to recruit, train and retain the safest and best driver population in the industry. We assess all of our transaction opportunities on the same returns criteria as any other avenue for growth. Since the start of the coronavirus pandemic, we have begun to see fewer participants in bids due to capital constraints, and situations where incumbents have withdrawn from their contract obligations for the next school year. Additionally, some operators have become more willing to discuss acquisitions.

We further grew our market-leading school bus charter business by redesigning the consumer experience of finding our services, getting quotes, and booking trips despite the impact of the pandemic. In the year, charter generated revenues of \$204.7m (2019: \$203.6m) or 8% of divisional revenues.

Throughout the year we have worked to improve the efficiency of our procurement, maintenance and operational practices as well as investing in innovations to enhance the quality of our services for our school board customers, student passengers and their parents. In addition to the continued expansion of our FirstView® bus tracking app, this year we have been developing and scale-testing our tablet-based driver workflow system

DriverHub, which provides real-time navigation assistance, provides data links into our operations and maintenance systems, and enables us to monitor and coach our drivers' on-road performance individually, further enhancing our focus on safety.

We are also actively exploring opportunities at the frontier of the transition to alternative fuel-powered school bus services, with a number of electric vehicle pilots now underway and 6% of our fleet currently powered by alternative fuels. School start-up last autumn went well, and we are confident that our playbook is in good shape to restore service at the right time for each of our customers whenever they need it in the months ahead.

Coronavirus response

All schools served by First Student in North America were closed by the end of March as federal, state and local authorities responded to the coronavirus pandemic. The school closures also resulted in the cancellation of school charter trips and we have also seen a significant decline in the demand for external charters. While we have already restarted some school routes in Quebec and British Columbia the majority of our school board customers are not anticipating restarting school activities again before the end of the summer holidays. Although some of our 1,100 contracts include guaranteed minimum revenue commitments (mainly in Canada), the majority do not. First Student therefore rapidly began very active and productive discussions with all of our school board customers on a contract-by-contract basis to agree a level of payment to ensure we retain the capability to restart services when each school takes the decision to reopen. As the leader in the industry, we have reinforced the importance of maintaining the driver and operational capability for our customers through the current situation by engaging with industry bodies and the sector. It should be noted that most school districts remain fully funded to continue to provide education, school transportation and other services, and received additional funding to do so under the CARES Act and subsequent coronavirus response spending. To date First Student has agreed terms to receive either full or partial payment from customers representing c.74% of our bus fleet, based on which we have been recovering c.52% of the home-to-school revenue expected prior to the crisis. A number of customers have reduced the amount of revenue reimbursement to reflect our ability to mitigate certain labour and fuel-related costs while no services are running. Adjusting for this, our effective recovery rate is c.61% of our pre-crisis expectations, based on the

agreements reached with customers since March.

Key cost actions to mitigate the reduced service activities include the temporary furloughing of employees, insurance savings, salary deferrals and reductions, the ending of all non-essential contract staff, together with some more permanent reductions in headcount where unavoidable. In some cases, the terms of the Federal Pandemic Unemployment Compensation program meant it was more appropriate to assist our people to use this scheme temporarily than to maintain their employment. First Student is also making use of the CARES Act employee retention tax credit for companies whose business has been disrupted by government order, as well as other government tax deferral and other schemes to the extent possible. All non-essential capital expenditure has been reviewed in accordance with customers' requirements and some discretionary spend has been deferred, reprofiled or converted to leasing.

During the coronavirus crisis we have been very proud of the hundreds of First Student locations that have been actively supporting school districts with a variety of services. Our drivers have delivered more than 1.4 million meals and counting to students across North America, as well as instructional materials, including books and laptops. Many First Student locations have provided transportation shuttles for healthcare workers and others on the frontline of the pandemic, while First Transportation Solutions has also supported more than 25 school districts with the logistics and planning of their own meal and school supply deliveries.

We are in active discussions with our stakeholders about how we will support restarting schools safely and efficiently at the appropriate time, in accordance with their local requirements. We have set up a cross-functional team of experts to establish guidelines for leading our business and our stakeholders through the changes to our services that will be required to do so, including maintaining social distancing (which may require more buses or potentially split shift school days), protective personal equipment (PPE), enhanced bus and location cleaning and disinfection regimes, potential testing and screening protocols and additional driver training. Initial indications suggest that driver recruitment is likely to be less of a challenge in some regions than in previous years.

Current trading and the future

While some school districts may start earlier or later and with potentially varying approaches to maintaining social distancing, we are currently preparing for the majority to restart in August and early September, at the end of the summer holidays. We are not anticipating that summer school activities will take place this year, and are assuming at present that discretionary charter services will take longer to be restored than home-to-school services. First Student is always a highly seasonal business, with much lower activity levels over the school summer holiday period contributing to a significant weighting to the second half of our financial year in terms of profitability.

First Student is the clear market leader in the provision of contracted public transportation services across 40 US states and seven Canadian provinces, as well as a significant provider of charter bus services. The business has long-term, trusted relationships with a high-quality client base of schools across the continent, generating stable predictable revenues. The business benefits from its substantial scale, best-in-class operating track record, renowned customer service and strong safety expertise, which are testament to the long-term strategy of the highly experienced management team. We are confident that this is a very strong, resilient platform with several opportunities in its marketplace to add value for all stakeholders.

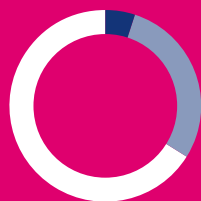
First Transit



Brad Thomas
President, First Transit

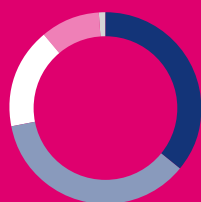
- Well-established platform to capture long-term growth in evolving transit management markets
- Winning MaaS and SAV opportunities and leveraging our partnerships with Transportation Network Companies (TNCs) and others

Approximate share of c.\$29bn North American transit market



● First Transit	5%
● Other outsourced providers	29%
● In-house	66%

2020 approximate revenue by type



● Fixed route	36%
● Paratransit	36%
● Shuttle	17%
● Vehicle services	10%
● Rail	1%

Year to 31 March	2020	2019
Revenue	\$1,488.4m	\$1,411.4m
Adjusted operating profit	\$36.2m	\$64.8m
Adjusted operating margin	2.4%	4.6%
Average number of employees	20,000	19,500

First Transit's revenue was \$1,488.4m or £1,171.4m (2019: \$1,411.4m or £1,075.8m), an increase of 5.6% in constant currency. This comprised growth of 6.6% in constant currency to the end of February, reflecting positive pricing, new contract opportunities throughout the portfolio and some pass-through revenue, followed by a meaningful reduction in activity levels during March with the start of the coronavirus pandemic.

Adjusted operating profit was \$36.2m or £28.3m (2019: \$64.8m or £49.3m), representing an adjusted operating margin of 2.4% (2019: 4.6%). Prior to the outbreak the division was experiencing a number of cost headwinds, principally higher self-insurance and legal costs, driver shortages in certain areas, changing business mix and the two adverse legal judgments in the first half of the year, which were being partially offset by pricing, net growth and cost efficiencies. The abrupt impact of the pandemic on revenue during the final month of the financial year was partially offset through variable cost reductions, but nevertheless had a meaningful impact. The division reported a statutory loss of £(21.9)m (2019: profit of £23.1m) including the amortisation of intangibles, the division's £43.5m portion of the North American self-insurance adjusting item charge and a legacy pension settlement, which are disclosed separately from adjusted operating profit.

Year in review

In the year First Transit continued to build its broad portfolio of both existing and emerging multi-year mobility services contracts, benefiting from consistently highly rated customer service credentials and its reputation for safe, innovative and best value solutions to customers. We were pleased with fixed route and paratransit wins in Merced, Arlington and San Bernardino from two of our largest competitors, along with securing the shuttle contract between airport terminals and the new taxi/Transportation Network Company (TNC) passenger waiting lots at Los Angeles airport. Additionally we were pleased to

expand our largest paratransit contract which operates in the greater Chicago area.

In emerging mobility services, our partnership with Lyft to provide wheelchair accessible and other paratransit services has been extended to several more US cities. We have continued to position ourselves as a leader in the maintenance and operation of both autonomous vehicles (AV) and electric vehicles (EV) with recent wins in Houston and Colorado. After the year end we were awarded a contract on a US military base to be the maintenance and operations partner for an innovative 'stackable' AV pilot – using AV technology that has been retrofitted to traditional manned vehicles.

Our contract retention rate on 'at risk' contracts was flat at 89% (2019: 89%), despite the loss of the two relatively large underperforming contracts mentioned at the half year stage. Since the start of the coronavirus pandemic, we have seen some commercial bidding processes slow down given the current uncertainties about the pace of emergence from current travel restrictions; in several cases our customers have proposed extensions to existing contracts that were approaching their end dates. We continue to assess all commercial opportunities on a rigorous risk-adjusted return on investment basis, using our broad-based expertise and leading operational and maintenance delivery platforms.

Throughout the year we continued to drive through further cost efficiencies and operational improvement from investments in lean maintenance, predictive analytics, procurement, systematic employee engagement/retention programmes and further back office alignment with First Student where value-adding, in order to help mitigate the cost headwinds we face. Although for the most part we operate vehicles procured and owned by our customers, wherever possible we continue to roll out the DriveCam safety system, which complements our safety standards and procedures and our behavioural change programme.

Coronavirus response

Clearly the onset of the coronavirus outbreak and government actions to control its spread toward the end of the last financial year will have a significant impact on the coming year. The majority of First Transit's contracts reflect payment for making services available over agreed time periods, with the principal exception being in paratransit where the revenue is driven more by the volume of trips undertaken by the business. Our fixed route operations are largely classed as essential services so, despite a significant reduction

in ridership and increasing orders to 'shelter in place' by the majority of US states, we saw service requirements reduce by only c.30% overall. Paratransit operations are seeing non-essential trips decline, although the requirement for social distancing has offset this to some extent, with overall activity levels down c.50%. Shuttle operations are seeing service reductions in certain airport contracts and all university clients have now reduced service requirements significantly to holiday timetables and/or engaged e-learning protocols. Overall the division has on average experienced a reduction of c.35% in its activity levels.

While many of our drivers and other employees have continued to maintain the essential transport links that our customers rely on, they have also been delivering food supplies across our communities to vulnerable members of the community.

The CARES Act made available \$25bn for "the operating expenses of transit agencies related to the response to a coronavirus public health emergency" which has been helpful for many of our transit agency customers, although it does have a complex interplay with other aspects of the Act most notably the short-term funding made available to workers under the Federal Pandemic Unemployment Compensation program. Since the onset of the outbreak we have maintained an active dialogue with our customers regarding payment through any reductions in service to ensure the operations are in a position to restore normal levels of operation efficiently at the appropriate time. Of those contracts with a material reduction in service, we have agreed terms to date with the result that we are currently recovering the equivalent of 79% of the divisional revenue expected prior to the crisis.

Key cost actions to mitigate the reduced service activities include the temporary furloughing of employees under the various emergency schemes put in place to support workers through the crisis, salary deferrals and reductions, the ending of all non-essential contract staff, together with some more permanent reductions in headcount where unavoidable. We have also utilised government tax deferral and other schemes to the extent possible. First Transit is not as capital intensive as some of the Group's other businesses, but all non-essential capital expenditure has been deferred or halted.

Current trading and the future

We continue to plan for a range of potential scenarios, but it is likely that customers in different regions and sub-segments of the division seek to raise service levels from their current provision at varying rates. Based on such decisions made so far and the latest discussions with our customers, our overall expectation is that revenues will only gradually improve from their present levels over the summer, and will begin to step up further from September.

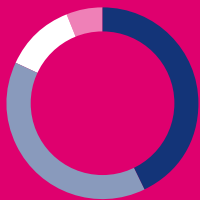
Notwithstanding the near-term uncertainties, the market for mobility services in North America continues to evolve and we are embracing the disruption. We aim to stay at the forefront of the changes, providing simplified mobility solutions that enhance our customers' lives. Our services are a compelling option for both local authorities and private customers to outsource their transportation management needs. We remain focused on bids that provide good value to clients while achieving appropriate margins with modest capital investment, as we continue to build our platform in mobility services over time.



Dave Leach
President, Greyhound

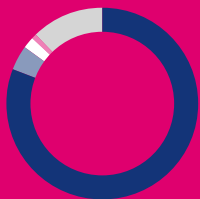
- Access available intercity bus funding via states
- Capture maximum value from our brand and nationwide network
- Deliver improved performance potential from revenue, cost and fleet management plans
- Continue property rationalisation

Distribution of Greyhound passengers (by mileage band)



1-200 miles	43%
201-450 miles	39%
451-1,000 miles	12%
1,000+ miles	6%

2020 approximate revenue by type



Passenger	81%
Package Express	4%
Food	2%
Charter	1%
Others	12%

Year to 31 March	2020	2019
Revenue	\$766.0m	\$846.7m
Adjusted operating profit	\$(15.3)m	\$2.7m
Adjusted operating margin	(2.0)%	0.3%
Average number of employees	5,500	5,500

Greyhound's revenue was \$766.0m or £603.2m (2019: \$846.7m or £645.1m), reflecting an increasingly challenging trading environment throughout the year. Lower fuel prices which typically make travel by car more cost-competitive, continuing reductions in immigration-related demand in the southern border states and intensifying competition in several markets from both coach and low-cost airline operators all contributed to a (3.5)% reduction in like-for-like revenues to the end of February, which was then compounded by a further reduction in passenger demand in March with the onset of the coronavirus pandemic. Greyhound total revenue for the full year reduced by (9.4)% in constant currency, representing a reduction of (5.7)% in the US and a (45.3)% reduction in Canada, due to our decision to withdraw from significant parts of that business during the prior year.

Despite further management action including commercial initiatives, mileage reductions, profit on certain property sales of \$10.6m or £8.3m (2019: \$10.8m or £8.4m) and the withdrawal from Western Canada, the reduction in revenue during the year and higher-self insurance costs were not fully offset and as a result, Greyhound's adjusted operating loss was \$(15.3)m or £(11.6)m (2019: profit of \$2.7m or £2.6m). The division reported a statutory loss of £(253.4)m (2019: loss of £33.8m) reflecting restructuring and reorganisation costs associated with the withdrawal from Western Canada, Greyhound's £45.3m share of the North American self-insurance adjusting item charge, and the £186.9m of impairments in the carrying value of the assets, partially offset by property disposals. Following the further impairment and the effects of IFRS 16, Greyhound is carried at a cash generating unit value of £188.7m (\$235.2m). The net book value of £(156.3)m (\$194.7m) is stated after £172.4m (\$214.8m) for pensions deficits under IAS 19 and £111.4m (\$138.8m) relating to the self-insurance reserve provision. The impairment has been recognised in the results on a pro-rata basis against the assets of the division excluding property. The valuations in excess of book value suggest no impairment to the carrying value of Greyhound's property.

Year in review

During the year Greyhound sought to build on its iconic brand and unique scale by continuing to transform all areas of its customer experience and cost efficiency through investment in technology. During the year the business has delivered further enhancements to its website, mobile app, customer call handling, revenue management and digital ticketing systems while completing the roll out of the new on-board entertainment platform to the entire US active fleet. These developments, coupled with disciplined fleet investments and several maintenance, procurement and operational projects during the year will deliver recurring savings over time. Meanwhile these improvements also resulted in improved customer perceptions, increased punctuality and lower emissions. At 33.6g CO₂(e) per passenger km, intercity travel by Greyhound already offers the lowest per-passenger carbon emissions of modal alternatives – around 87% lower emissions than an equivalent domestic passenger plane journey and 81% lower than the average US passenger car.

We continue to review our terminal footprint, looking for opportunities to move to intermodal transport hubs or new facilities better tailored to our needs. In addition to a number of smaller terminal changes, this year we completed the sale of Richmond, VA, with the gain on sale of \$6.1m or £4.8m included in adjusted operating profit.

Greyhound has been actively responding to the changes in demand throughout the year with tactical commercial initiatives to target overall revenue per mile growth, by optimising pricing and capacity allocation across our different markets and adjusting mileage in response to demand changes.

Coronavirus response

The pricing, mileage and capacity optimisation activity was stepped up as the coronavirus outbreak and government advice developed in March, with Greyhound revenues initially reducing by c.80%, compounded by border closures between the US and Canada. Greyhound rapidly reduced capacity and cost (principally through reduced variable costs, furlough and permanent headcount reductions) to match lower demand levels, including through the temporary cessation of the entirety of its Canadian services from 13 May 2020, and is utilising government tax deferral and other schemes as appropriate. In the US during the first quarter of the current year, Greyhound operated c.40% of its pre-outbreak timetabled mileage, sufficient to ensure that the community-critical transportation

network that it provides is maintained. Almost all of its main coach competitors have not been operating during this period.

As the only national intercity bus operator, Greyhound urgently sought federal and state assistance to sustain its network through the present crisis, and also sought to obtain relief on rents and fees for intermodal facilities from government transportation agencies. Following these efforts, the emergency federal appropriations bill (the 'CARES Act') signed into law on 27 March 2020 specifically allocated \$326m in funds to US states to fund continued intercity bus transportation via Title 49 section 5311(f) of the US Code. The CARES Act also waived normal requirements for matching state funds. Given its scale as the only provider of a national network of coach services across 44 US states, Greyhound anticipates being a major recipient of this funding. Greyhound continues to work through the processes to access the CARES Act funding for services in each state where it operates. A number of these states already have pre-existing arrangements where minor amendments to contracts are required before Greyhound's submissions can be processed. Where new or additional arrangements are required, Greyhound is working to expedite securing contracts and commencing billing.

Greyhound has deferred or halted all non-essential capital expenditure, and has improved the cost per mile, operational performance and customer perception of its active fleet by primarily operating its newest and most efficient buses. Greyhound has invested in industry-leading enhanced cleaning regimes for its buses and locations, mandated the use of face coverings on all its operations across the country and actively led the industry in providing prospective passengers with the latest coach travel safety information, as well as instituting a flexible booking policy to ease passengers' concerns.

Greyhound has been supporting our communities during the outbreak by providing free transport to first responder and frontline medical professional volunteers travelling to another town or city to provide assistance, and is also delivering vital medical supplies and safety equipment in partnership with the American Red Cross.

Current trading and the future

Greyhound's current focus is on continuing to secure support for its community-critical services from the CARES Act funding via state agencies, while very actively managing service levels and cost to match observed demand. As certain states have begun to ease 'shelter in place' restrictions and government advice has evolved, we are beginning to experience an incremental increase in passenger volumes, to c.70% below pre-pandemic levels in June compared with c.85% below in March/April. Revenue is currently c.60% below pre-pandemic levels, reflecting increased yields. As volumes increase, we are focused on delivering a safe, punctual service for our passengers while maintaining our discipline around incremental cost and agreeing further intercity bus funding contracts with the states we operate in.

A sale process in respect of Greyhound is ongoing and we will update the market as appropriate.



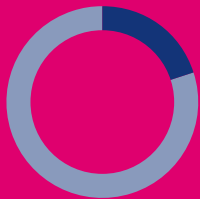
First Bus



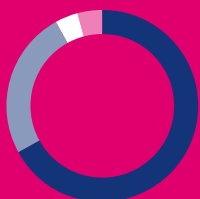
Giles Fearnley
Managing Director, First Bus

- **Manage transition beyond current industry funding support arrangements**
- **Prioritise partnerships with local authorities**
- **Transition to low- and then zero-emissions fleet**
- **Frictionless customer offering to drive growth**
- **Deliver further benefits from cost efficiency programme**

Approximate First Bus market share of UK market outside London



2020 approximate revenue by type



Year to 31 March	2020	2019
Revenue	£835.9m	£876.1m
Adjusted operating profit	£46.1m	£65.1m
Adjusted operating margin	5.5%	7.4%
Average number of employees	15,500	16,500

First Bus reported revenue of £835.9m (2019: £876.1m), in part reflecting the sale of two operating depots during the year. Adjusting for this and other factors, like-for-like passenger revenue increased by +0.7%, with commercial passenger volumes decreasing by (4.3%) including the effects of coronavirus. The role of buses has been increasingly recognised during the year, highlighted in particular by significant and high profile commitments to invest in the industry's future by the UK Government. First Bus delivered like-for-like passenger revenue growth of 1.8% to the end of February, with the local operations experiencing varying demand patterns due to changing retail footfall, challenging congestion issues and differing local economic conditions. Clearly the imposition of government guidelines to avoid all but essential travel in early March to check the spread of coronavirus meant passenger volumes and revenues were significantly affected from that point, as discussed further below.

Adjusted operating profit was £46.1m (2019: £65.1m) and adjusted operating margin was 5.5% (2019: 7.4%), mainly reflecting the substantial reduction in passenger demand in March which was difficult in the short term to offset through cost reductions. The division also experienced poorer weather in the previous summer which capped like-for-like growth and higher hedged fuel prices and other inflation, which was not fully offset by continued cost efficiencies and the actions we have been taking to improve the passenger experience. The division reported a statutory operating profit of £32.4m (2019: £27.4m) as a result of restructuring and reorganisation costs and trading losses up to the point of disposal of the two depots sold in Manchester.

Year in review

We are creating a better offering to our passengers, designed and delivered around their needs and aspirations, with a particular focus on easy, innovative and convenient ticketing. We were the first major bus operator to offer contactless payment on every bus, which simplifies payment, enhances convenience and speeds up journeys by

reducing boarding time. We have made regular upgrades to our highly regarded passenger app which reached 1m monthly active users during the year, including in recent months being the first large operator to bring to our app the capability for passengers to check in real time how full each bus is, including for wheelchair spaces, helping them to make more informed travel decisions. This exciting development was delivered in just two weeks given buses' reduced capacity under social distancing rules. Contactless and our mobile app have become the preferred payment mechanisms for our passengers, overtaking cash and now accounting for more than half of all commercial revenue. We have introduced capped fares via contactless payments in Aberdeen and Doncaster, representing a price promise to customers as well as significantly faster boarding times, and are developing plans for further roll out. We are working alongside other companies in developing similar multi-operator products.

We have continued to take action to improve our efficiency, including by continuously optimising networks to both meet existing and stimulate new demand for our services, deploying our resources accordingly. We can now do this in much finer detail than ever before by interrogating the much richer data sets we have available to us as a result of the GPS-enabled ticketing system rolled out in previous years, enabling us to identify significant efficiencies by matching timetables with actual running times. We are also implementing improvements to our back office procedures, for example by redesigning engineering practices to be leaner and more agile.

Our capital investment this year was focused on areas where we work closely with stakeholders to progress our shared ambitions to deliver thriving and sustainable bus services, with investment in Leeds, Glasgow, Norfolk, Portsmouth and Bristol. Buses have a huge role to play in creating a connected and healthy world by contributing to local prosperity and growth and there is growing recognition of this by all stakeholders. In February we welcomed the UK Government's announcement of a new £5bn, five-year funding package for buses, cycling and walking which will include support for simpler fares, thousands of new green buses, improved routes and higher frequencies across England. The Scottish Government has also announced more than £500m in investments for infrastructure, including new bus priority routes and other schemes to encourage more people to use public transport and reduce congestion across the country.

Across all our networks we work very closely with all our stakeholders, including local authorities, to determine the most effective application of these monies to improve the passenger offering. The landmark West Yorkshire bus alliance has made good progress in delivering bus priority measures during the year. In March the UK Government committed to significant Transforming Cities Fund spending on bus priority in Leicester, Southampton, South Yorkshire and West Yorkshire with the DfT negotiating further settlements for Norwich, Portsmouth/Solent and Stoke at year end. An outline Bus Deal has been agreed with Bristol, and discussions are continuing on a Bus Deal for Glasgow.

We are a leader in the industry for low emission buses and our vehicles play a key role in helping reduce congestion on the roads, improving air quality and lowering carbon emissions. We are focused on First Bus becoming a leader in the transition to a low-carbon future for public transportation, and are committing to operate a zero-emission bus fleet by 2035, and do not plan to purchase any new diesel buses after December 2022. We look forward to working closely with our supply chain, industry partners and the UK Government to ensure that our shared ambitions can be taken forward following the current crisis. We are already pioneers in the use of various alternative fuel buses, and over the last two years we have made considerable progress in downsizing the diesel fleet and securing clean air compliance. 35% of our fleet is now comprised of either Euro VI-compliant diesels or gas, electric or fuel cell vehicles. In the year we introduced 193 new Euro VI or better buses, including 74 methane gas powered 'bio-buses' for Bristol and currently have 30 electric vehicles on order – including 21 double-decker buses for the York Park & Ride network and nine single-deckers for Leeds. We have also taken delivery of two single deck electric buses, funded by SP Energy Networks, for Glasgow. We continue to bring hydrogen-powered buses into use in Aberdeen, preparing to launch 15 double-deckers in the city with funding assistance from the City Council, the EU and the Scottish Government. The coronavirus pandemic has led to temporary deferrals in our fleet investment for 2020/21; future investment will be focused on our environmental and partnership commitments, while improving operating costs.

During the year we successfully launched our Bright Bus tour services in Edinburgh, which competed well against the market leader. We took on full responsibility for services to Swansea's Park & Ride site, integrating it into

our core network and increasing the destinations offered. We upgraded our services to Glasgow airport through investments in high-specification double-deckers, significantly increasing capacity.

Following a review of our Manchester operations in anticipation of changes proposed to the structure of that market we completed the sales of our Queen's Road and Bolton depots during the first half of the year. We continue to operate from Oldham and on the award-winning Vantage guided bus route.

Coronavirus response

When the coronavirus pandemic began to escalate in the UK in the second half of March, within days First Bus experienced c.90% declines in fare-paying passenger revenue and concessionary volumes. Across all our networks we rapidly reduced service levels in consultation with our local authority partners and were able to do so following relaxation of usual notice periods, which was granted by the Traffic Commissioners. On the back of funding grants we initially reduced service levels to c.40% of normal capacity, with a corresponding mileage reduction, in order to continue to transport healthcare and other key workers. The business furloughed c.55% of its workforce under the UK Government's job retention scheme in this period. Working with our industry partners and the Confederation of the Passenger Transport (CPT), we engaged with the government to agree an initial three-month industry-wide funding agreement for crucial services provided by regional bus operators in England. This funding totalled £167m across the industry and completed a package of measures to maintain vital bus services and networks committed by the DfT, Scottish and Welsh Governments to continue to (either themselves or by directing local authorities to) fund the Bus Service Operators Grant, concessionary fares and contracts for tendered services at levels prior to the pandemic.

At the end of May a further COVID-19 Bus Service Support Grant (CBSSG) Restart programme for England was announced, which built on the previous funding arrangements. Under the new scheme regional bus services in England have initially been allocated £254m in additional funding by the DfT allowing us to increase bus service capacity as government guidance on travel restrictions eases, supporting the restart of our local economies and getting people back to work. Within four days of this funding being confirmed, we had increased services to c.80% of pre-pandemic levels, passenger volumes have begun to increase and the majority of our furloughed employees had returned to work. The funding, which runs for

an initial 12-week period backdated to 12 May, is designed to support the industry while social distancing guidelines require buses to run substantially below their potential capacity, and will be kept under review. Bus operators will be able to claim funding for the difference between their revenue from passenger and other non-tendered contractual sources and the costs of operating services. Recoverable costs include all reasonable operational costs as well as depreciation, pension funding and debt finance costs reasonably allocated to English local bus services. In June, the Scottish Government announced their intention to put in place a similar system, and discussions are ongoing with the Welsh Government to secure the additional funding necessary to support increases in service capacity there through the recovery period.

Our bus operations perform a vital service and are a critical piece of the daily lives of many people in communities across the country. Our team has offered additional support and assistance to these communities during the pandemic, including making space available at our bus terminals for community initiatives, and drivers volunteering to complete additional training in order to drive local authority vehicles.

Current trading and the future

Our current priority is to ensure First Bus is able to support increases in passenger demand in an effective and efficient way, under the terms of the government funding schemes noted above, while achieving a stronger bus division for the future for all of our stakeholders. We will continue to actively address our cost base through our comprehensive efficiency programme, the benefits of which we expect will be more evident once the effects of the coronavirus pandemic begin to subside.

Uncertainty remains about near-term customer demand due to coronavirus. While local economic activity is weak and social distancing guidelines require buses to run substantially below their potential capacity, a degree of funding will remain critical to our ability to sustain service levels. However, the fundamentals of First Bus are sound and coronavirus does not change the principles of what we are doing, nor that bus travel will play a critical role in restoring the economies of the local communities in which we operate. We will lead the way on sustainability including delivering a zero-emission fleet by 2035. Being the partner of choice for public authorities and the travel preference of our passengers will enable us to deliver an improved and sustainable business in future.

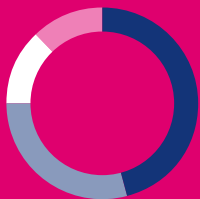
First Rail



Steve Montgomery
Managing Director, First Rail

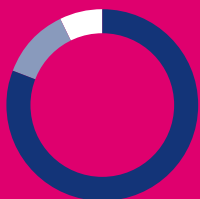
- Deliver enhanced services in accordance with our contractual agreements
- Work alongside government and industry partners to shape longer term industry structure, focused on passengers
- Seek appropriate balance of risk and reward in any future commitments

Passenger revenue base of First Rail operations



Leisure	46%
Business	29%
Commuter	13%
Travelcard (including Oyster)	12%

2020 approximate revenue by type



Passenger revenue	81%
Franchise subsidy and EMA funding	12%
Other income	7%

Year to 31 March	2020	2019
Revenue	£3,185.9m	£2,666.7m
Adjusted operating profit	£68.9m	£68.8m
Adjusted operating margin	2.2%	2.6%
Average number of employees	14,000	12,500

First Rail revenue increased to £3,185.9m (2019: £2,666.7m), principally reflecting the inclusion of the West Coast Partnership's Avanti West Coast franchise from December 2019 and passenger revenue growth, higher subsidy receipts and final settlement of certain GWR contractual amendments. Excluding Avanti, like-for-like passenger revenue growth was 0.2% with passenger volume decreasing by (1.3)% reflecting changing work patterns and lifestyles resulting in a shift away from season tickets towards pay-as-you-go offerings as well as the coronavirus impact. Operational conditions across the industry this year were challenging with infrastructure upgrade works across our networks and the industrial action in SWR affecting our franchise performance levels. UK macroeconomic uncertainty also weighed on passenger revenue in the year and the effect of coronavirus is likely to prolong this uncertainty.

Adjusted operating profit was £68.9m (2019: £68.8m) with a margin of 2.2% (2019: 2.6%). Divisional profitability was driven by the additional capacity and services as a result of the introduction of new trains by GWR and the inclusion of Avanti, offset by the impact of the coronavirus outbreak and moving to the Emergency Measures Agreements from 1 March, while the expected effect of first time adoption of IFRS 16 on First Rail's adjusted operating profit was less than expected. The division reported a statutory operating profit of £67.8m (2019: loss £77.1m).

Year in review

In August 2019 we were pleased that our 70:30 rail venture with Trenitalia was awarded the West Coast Partnership contract to operate existing InterCity services on the West Coast Mainline, and to help deliver High Speed 2 (HS2). After a successful mobilisation and a constructive handover period with the previous operators we launched the operation with the new brand of Avanti West Coast in December 2019. Since launch, Avanti performed in line with our expectations until the final weeks of March. Our future plans for new, greener electric and bi-mode trains, more services and new destinations will significantly enhance

the quality of rail journeys for our customers on Avanti, and we look forward to performing the role of 'Shadow Operator' to the HS2 programme.

GWR's new environmentally-friendly fleets of commuter Electrostar trains and bi-mode InterCity Express Trains (IETs) have delivered more seats and increased levels of punctuality. The new trains, in turn, allowed us to redeploy the rolling stock previously used in London and the Thames Valley to enhance capacity on routes in the South West. The largest timetable change since the 1970s was successfully introduced in December 2019, taking advantage of the new trains to offer faster journey times and more frequent services to key locations. All of these changes led to the highest levels of customer satisfaction GWR has recorded and a significant improvement in its independent National Rail Passenger Survey (NRPS) score in the period. During the period GWR also took over the operational aspects of Heathrow Express and is working closely with contractor Heathrow Airport on further improvements to the service. In the period the Group signed a direct award agreement with the DfT to continue operating GWR until March 2023, with a possible extension of up to one further year at the DfT's discretion. Our experience of managing the route over many years will be crucial to facilitating the ongoing transformation of GWR through the biggest changes to the network in a generation. In the near term the structure is superseded by the Emergency Measures Agreements put in place across the industry by the UK Government as discussed below, but at the conclusion of the Emergency Measures Agreement period, GWR will operate services as a franchise with revenue risk shared with the DfT through a Forecast Revenue Mechanism (FRM), which also makes provision for a revenue rebasing exercise for GWR as required.

SWR's performance was principally challenged in the year to March 2020 by industrial action by the RMT trade union which caused significant issues for our passengers throughout the year, including an unwarranted month-long strike in December 2019. We are committed to delivering a resolution to this dispute which remains ongoing despite our offer of an agreement that means no-one loses their job and a guard is kept on every train. We are resolved to finding a solution that will be of benefit to everyone involved with SWR, in particular our customers. Ongoing Network Rail infrastructure problems outside of our control have also continued to have an impact on our performance and we continue to work with them to mitigate these. In the

meantime, we are focused on delivering improvements to the passenger experience and as part of this we introduced refurbished trains to the Portsmouth-London line in late 2019, with new suburban rolling stock due in the next few months. Timetable changes in May and December 2019 added more than 350 new services per week and we also announced a package of investment for the Isle of Wight's railway.

Our long-term ambition for our TPE franchise is for it to continue evolving into the true intercity network for the North. To that end, capacity is being significantly increased and we began to introduce the first of 220 new carriages from late 2019, comprising Hitachi IET-type trains and a further intercity fleet from CAF. Although TPE delivered growth and traded ahead of expectations during the first half of the year, in the second half the franchise experienced difficult operating conditions due to the delayed delivery of these new train sets and infrastructure issues affecting our performance. We were able to meet a major commitment by introducing a new direct Liverpool-Glasgow service in December, although further key changes which were included in the original bid have not yet taken place due to industry-wide decisions not to alter timetables at the scale originally envisaged. Our revised plans for transforming the franchise are continuing and all of our new trains are now expected to be in service within the next 12 months.

In December 2019 our open access operator Hull Trains began operating a new leased fleet, which significantly improved the passenger experience on what was already a successful route, and removed some of the performance uncertainty that the previous fleet was causing. We are carefully considering our plans for a second open access operation on the East Coast mainline in light of the current demand environment.

We were pleased that in the autumn 2019 NRPS, all of the rail operations we controlled in the period achieved year-on-year improvements in overall satisfaction, with GWR being a standout performer having fully delivered new trains into operation. All of our rail companies have further plans to improve the passenger experience, principally by delivering new trains along some or all of their routes. Customers will see benefits including more seats and space, better Wi-Fi and on-board entertainment options and several other fleets are being completely refurbished to provide customers with similar amenities. Our franchises are also working to introduce convenient types of ticket

including smartcards, barcodes and auto-renewing or flexible season tickets.

First Rail and our partners are industry leaders in reducing carbon emissions. This includes the introduction of bi-mode diesel and overhead electric powered trains enabling us to make use of electrification where available, whilst still being able to operate on shorter sections of non-electrified track. We are signatories to the UK Government's challenge to take all diesel-only trains out of service by 2040 and this progress will be made easier as the UK power grid further decarbonises and our rail network is progressively electrified.

Coronavirus response

In line with the wider UK rail industry, passenger volumes in our businesses reduced substantially from the second half of March 2020 as government advice and regulations changed, with revenue c.95% lower. Following consultation with the DfT, the industry began operating a reduced timetable from 23 March. Services are gradually being restored beginning with the 2020 timetable change on 18 May although demand remains at unprecedentedly low levels. To try and ensure current social distancing can be maintained in line with government advice, some of our rail businesses introduced demand management measures such as limiting the number of advance tickets on sale for certain services, and we worked with our partners to ensure our customers could use stations safely.

The UK Government acted swiftly to sustain the country's critical rail networks during the pandemic, ensuring services could continue to be operated for essential workers to travel by rail to perform their vital roles. In March all of the Group's rail franchises entered into Emergency Measures Agreements with the UK Government which will last until September, or longer if required, and which provide continuity and certainty. For the duration of these agreements, the government will waive our revenue, cost and contingent capital risk and pay our train operating companies a fixed management fee, which varies according to the individual profile of the franchise. There is also the potential for an additional performance-based fee. In preparing the accounts the Directors have assumed that the Emergency Measures Agreements or a similar structure remain in place until the end of their respective franchises. Hull Trains was not eligible for the Emergency Measures Agreement system and as a result we announced on 29 March that our Hull Trains open access business would suspend operations for a period.

Our First Rail teams are also using their unique position as part of the essential fabric of the communities in which they operate to deliver support and assistance during this challenging time. We are responsible partners with our customers and communities and we work with community organisations across the network. In particular, we were pleased the Rail to Refuge scheme with Women's Aid, which offers free rail travel to those fleeing domestic violence, went nationwide during the lockdown period following a successful trial in GWR. Where we have a catering offer, our rail companies have been donating food from on-board shops to NHS teams and charities.

Current trading and the future

First Rail is currently operating in accordance with the terms of the Emergency Measures Agreements in place. There is uncertainty about the level of future passenger demand and revenue growth in the light of the challenging circumstances of coronavirus. Throughout the pandemic we have been in discussions with the DfT concerning the commercial effects on our train operating companies, and what continuing support or contractual variations may be needed in due course. Those discussions are continuing. In preparing the accounts the Directors have assumed that the Emergency Measures Agreements or a similar structure remain in place until the end of their respective franchises.

Over time our rail portfolio has generated good returns overall despite challenging recent industry conditions. The UK's rail franchising system is currently undergoing a major review led by Keith Williams of the most appropriate commercial model to deliver services in future, and we look forward to the outcome of this review in order to understand the balance of risks and rewards on offer for future UK rail opportunities. Notwithstanding these issues, we are focused on working with our industry partners to deliver better customer experiences at all our train operating companies, which will in turn result in passengers returning to the railway over time.

Financial review



Ryan Mangold
Chief Financial Officer

Focus is on cash flow and maintaining liquidity to ensure the Group's ability to continue providing services to our customers and communities through the pandemic. As we emerge from the crisis, improving business financial performance will be a key goal.

The Group has received contractual and direct fiscal support as a result of the coronavirus pandemic. The basis of preparation of the financial statements is that this support will continue to be provided to the Road Divisions until passenger volumes and operated service activities return towards pre-coronavirus pandemic levels. In addition it is assumed that Emergency Measures Agreements (EMA) or similar arrangements will exist for the duration of our existing First Rail franchises. Further details are set out in the Going Concern statement on pages 72 to 73. During the year the principal contractual and direct fiscal support recognised comprised £131.8m of EMA funding in First Rail, £48.2m of coronavirus recoveries and £10.4m of CARES Act employee retention credits in First Student, £6.6m of CARES Act 5311(f) funding in Greyhound, £7.4m of CBSSG and other funding in First Bus and £1.6m of coronavirus recoveries in First Transit.

Group revenue in the year increased by 8.8%. In constant currency, revenue increased by 7.2%, or by 2.6% excluding the initial contribution of the Avanti rail franchise. This principally reflects growth in First Student, First Transit and First Rail; like-for-like passenger revenue growth in First Bus was offset by disposals while Greyhound experienced like-for-like passenger revenue declines compared with the prior year and the effect of the withdrawal from loss-making routes in Western Canada. The coronavirus outbreak and the measures taken by authorities to control its spread in the final weeks of the year significantly affected revenue in all divisions.

Group adjusted operating profit decreased by (20.1)% in constant currency, or by (24.5)% adjusting for Avanti, reflecting a material impact from the coronavirus outbreak in the period comprising drop through of lower revenues offset by lower variable costs from reduced service levels, limited initial customer support and government funding and commencement of cost actions in the final week. The Road divisions' contribution to adjusted operating profit decreased by (25.6)% in constant currency, reflecting the impact of the coronavirus outbreak, £29.4m (\$36.8m) increase in insurance costs for the year reflecting the continued hardening of the North American insurance market, labour cost pressures in the US, two adverse legal judgements in First Transit, Greyhound revenue reductions, and poorer UK summer weather compared with prior year and slower cost efficiency programme progress in First Bus, partially offset by the First Student, First Transit and First Rail revenue growth noted above and management actions. Software amortisation in the year of £16.1m (2019: £18.1m) has been charged to divisional results in arriving at adjusted operating profit and prior year Group and divisional adjusted operating profit has been restated accordingly. In prior years this was separately disclosed as an adjusting item. In the year, Greyhound recorded a £8.3m profit (2019: £8.4m) on sale of real estate. The adjusted operating profit contribution from First Rail in the year was flat, with the impact of the coronavirus outbreak and moving to the Emergency Measures Agreements from 1 March largely offset by the first-time contribution from Avanti. Group adjusted operating profit margin in constant currency decreased by (110)bps. In reported currency, adjusted operating profit decreased by (18.4)% to £256.8m (2019: £314.8m).

	Year to 31 March 2020			Year to 31 March 2019		
	Revenue £m	Adjusted operating profit ¹ £m	Adjusted operating margin ¹ %	Revenue £m	Adjusted operating profit ¹ £m	Adjusted operating margin ¹ %
First Student	1,940.4	158.8	8.2	1,845.9	171.2	9.3
First Transit	1,171.4	28.3	2.4	1,075.8	49.3	4.6
Greyhound	603.2	(11.6)	(1.9)	645.1	2.6	0.4
First Bus	835.9	46.1	5.5	876.1	65.1	7.4
Group items ²	17.8	(33.7)		17.3	(42.2)	
Road divisions	4,568.7	187.9	4.1	4,460.2	246.0	5.5
First Rail	3,185.9	68.9	2.2	2,666.7	68.8	2.6
Total Group	7,754.6	256.8	3.3	7,126.9	314.8	4.4
North America in USD	\$m	\$m	%	\$m	\$m	%
First Student	2,474.9	205.9	8.3	2,424.9	227.1	9.4
First Transit	1,488.4	36.2	2.4	1,411.4	64.8	4.6
Greyhound	766.0	(15.3)	(2.0)	846.7	2.7	0.3
Total North America	4,729.3	226.8	4.8	4,683.0	294.6	6.3

1 'Adjusted' figures throughout this document reflect the adoption of IFRS 16 in the period and are before the Greyhound impairment charges, North American self-insurance provisions, restructuring and reorganisation costs, other intangible asset amortisation charges and certain other items as set out in note 4 to the financial statements. The statutory operating loss for the year was £(152.7)m (2019: profit of £9.8m) as set out in note 5.

2 Tramlink operations, central management and other items.

The statutory operating loss for the year was £(152.7)m (2019: profit of £9.8m), reflecting a total of £409.5m in costs and charges that have been excluded from the adjusted operating profit measure. This includes the Greyhound impairment charge of £186.9m of which £124.4m was taken in the first half, £141.3m in relation to the North American self-insurance provision reflecting historic claims experience in the insurance market and lower discount rates at the balance sheet date, restructuring and reorganisation costs of £58.2m, £21.5m in coronavirus-related charges (comprising a First Student onerous contract provision of £14.1m and a fuel over hedge charge of £7.4m due to lower than forecast fuel utilisation), and £8.0m of profit on sale of real estate in First Student.

Net finance costs were £146.9m (2019: £106.6m) with the increase mainly reflecting the transition to IFRS 16, resulting in adjusted profit before tax of £109.9m (2019: £208.2m). Adjusted earnings were £82.7m (2019: £159.8m) with the decrease due to the lower adjusted profit before tax together with higher non-controlling interests while the effective tax rate was stable at 22.4% (2019: 22.4%). Adjusted EPS was 6.8p (2019: 13.3p). In constant currency, adjusted EPS decreased by

49.6%, or by 33.3% excluding the net effect of implementing IFRS 16. EBITDA was £1,108.9m (2019: £670.3m); excluding the effect of adopting IFRS 16, EBITDA was £619.2m, a decrease of (9.4)% over the prior year, with Road EBITDA decreasing by (13.2)% in constant currency and Rail EBITDA increasing by 7.1%, benefiting from Avanti.

The statutory loss attributable to equity shareholders was £(327.2)m (2019: £(66.9)m), and statutory EPS was (27.0)p in the year (2019: (5.5)p).

The pre-IFRS 16 adjusted cash inflow of £98.5m (2019: £197.3m) includes a Rail net cash inflow of £90.6m (2019: inflow of £172.7m). This includes a net £67.3m of capital expenditure for which funding was received in prior periods and a £106.8m outflow for the utilisation of onerous contract provisions at SWR and TPE. Rail ring-fenced cash increased by £87.2m to £611.9m (2019: £524.7m) including the start-up of Avanti. Under the Emergency Measures Agreements, the working capital requirements of each of our TOCs are provided by the DfT. The Road divisions' cash inflow of £7.9m (2019: £24.6m) was after capital expenditure of £283.4m as our targeted fleet investment programmes continued during the year.

Pre-IFRS 16 net debt was flat at £896.2m (2019: £903.4m). Net debt: EBITDA on the 'frozen accounting standards' basis relevant to the Group's banking covenants was broadly flat at 1.4 times (2019: 1.3 times) and Rail ring-fenced cash adjusted net debt: EBITDA on the same basis was 2.4 times (2019: 2.1 times).

Liquidity within the Group increased compared with the prior year; as at 31 March 2020 the Group's undrawn committed headroom and free cash was £585.7m (2019: £520.6m), comprising £237.1m (2019: £167.3m) in free cash and £348.6m (2019: £353.3m) of undrawn committed bank revolving credit (RCF) facilities. Subsequent to the year end, the Group was confirmed as an eligible issuer for the UK Government's Covid Corporate Financing Facility (CCFF) scheme, with an issuer limit of £300m based on its credit ratings under the terms of the scheme as published by the Bank of England. On 27 April 2020 the Group issued £300m in commercial paper through the scheme to further enhance liquidity levels. The Group's diversified funding structure also includes undrawn facilities comprising a committed £250m bridging loan entered into in March 2020 for the redemption of the £350m bond that matures in April 2021, an uncommitted £150m accordion facility to

Financial review continued

the RCF, as well as further lines of uncommitted leasing facilities and more than \$100m of uncommitted supplier credit for the procurement of buses. Average maturity of bond debt, senior unsecured loan notes and bank facilities was 3.3 years (2019: 4.3 years). As at the end of June 2020 the Group had c.£850m in free cash (before Rail ring-fenced cash) and committed undrawn revolving banking facilities. The level of free cash and undrawn committed revolving banking facilities has increased over the past two months and is anticipated to decline with the normal seasonal decline in revenues in First Student when schools are closed for the summer and due to working capital requirements as the business prepares for school start-up during August.

During the year, gross capital expenditure, excluding right of use assets, of £489.8m (2019: £444.0m) was invested in our business, with the Road divisions' capital expenditure being £366.7m (2019: £332.0m). The Road divisions' gross capital expenditure was driven principally by the higher retention rates and

new business wins achieved in First Student's recent bid season and targeted investment in our other fleets in Greyhound and First Bus during the year.

ROCE before the impact of IFRS 16 was 8.2% (2019: 10.5%), or 4.4% following the addition of right of use assets to capital employed under IFRS 16.

While the Group currently has material fiscal and contractual support for running essential services across the divisions during the pandemic and committed undrawn liquidity of c.£850m as at the end of June, there are material uncertainties as to the future consequences of the coronavirus pandemic. The potential impact of certain scenarios have been highlighted in the going concern statement on page 72 to 73.

Impact of new accounting standards (IFRS 16)

The new accounting standard, IFRS 16 (Leases) came into effect on 1 January 2019, and was adopted by the Group from 1 April 2019.

The new standard eliminates the operating lease classification and therefore on the balance sheet lessees are required to recognise an asset (the right to use the leased item) and lease liabilities for all leases unless they have a remaining term of less than 12 months or are of low value. On the income statement, the operating lease expense are replaced by a combination of depreciation and interest.

IFRS 16 has been adopted in the period using the modified retrospective method. This resulted in a right of use asset of £1,140.4m and a lease liability of £1,168.2m recognised on 1 April 2019. The transition method has not required the balance sheet comparatives to be restated. All statutory and adjusted figures for the year to 31 March 2020 throughout this document are reported under IFRS 16 unless otherwise stated.

The impact of IFRS 16 is detailed further in note 2, and is summarised below:

	Year to 31 March 2020			Year to 31 March 2019
	Per IAS 17 accounting treatment £m	Impact of IFRS 16 £m	Per IFRS 16 accounting treatment £m	Per IAS 17 accounting treatment £m
EBITDA	619.2	+489.7	1,108.9	670.3
Adjusted operating profit	250.4	+6.4	256.8	314.8
Net finance costs	(106.7)	(40.2)	(146.9)	(106.6)
Adjusted profit before tax	143.7	(33.8)	109.9	208.2
Adjusted EPS	9.0p	(2.2)p	6.8p	13.3p
Net debt	896.2	+2,381.9	3,278.1	903.4

In accordance with IAS 36 (impairment of assets) the opening onerous contract provision for SWR of £145.9m was reclassified as an impairment on right of use assets (ROUA) on adoption of IFRS 16. Similarly, £62.7m of the opening TPE onerous contract provision was reclassified as an opening impairment on ROUA with the remaining balance of £44.2m being reclassified as impairment on ROUA additions in the year.

The adoption of IFRS 16 has impacted the Rail division's results more significantly than the Road divisions, reflecting the high value of rolling stock leases as well as the change in accounting for onerous contract provisions. To aid understanding, set out overleaf are the impacts by division on adjusted operating profit and EBITDA:

	Pre-IFRS 16 basis				
	Revenue £m	Adjusted operating profit £m	Adjusted margin %	EBITDA £m	EBITDA margin %
Year to 31 March 2020					
First Student	1,940.4	158.0	8.1	350.2	18.0
First Transit	1,171.4	28.1	2.4	51.3	4.4
Greyhound	603.2	(16.3)	(2.7)	15.7	2.6
First Bus	835.9	44.6	5.3	95.9	11.5
Group items	17.8	(33.8)		(30.4)	
Road divisions	4,568.7	180.6	4.0	482.7	10.6
First Rail	3,185.9	69.8	2.2	136.5	4.3
Total Group	7,754.6	250.4	3.2	619.2	8.0

	\$m	\$m	%	\$m	%
North America in USD					
First Student	2,474.9	204.8	8.3	449.1	18.1
First Transit	1,488.4	35.9	2.4	65.3	4.4
Greyhound	766.0	(21.3)	(2.8)	19.1	2.5
Total North America	4,729.3	219.4	4.6	533.5	11.3

	IFRS 16 impact	
	Adjusted operating profit £m	EBITDA £m
Year to 31 March 2020		
First Student	+0.8	+37.4
First Transit	+0.2	+11.6
Greyhound	+4.7	+19.6
First Bus	+1.5	+17.3
Group items	+0.1	+1.7
Road divisions	+7.3	+87.6
First Rail	(0.9)	+402.1
Total Group	+6.4	+489.7
North America in USD	\$m	\$m
First Student	+1.1	+47.6
First Transit	+0.3	+14.7
Greyhound	+6.0	+24.9
Total North America	+7.4	+87.2

Financial review continued

	Post IFRS 16 basis				
	Revenue £m	Adjusted operating profit £m	Adjusted margin %	EBITDA £m	EBITDA margin %
Year to 31 March 2020					
First Student	1,940.4	158.8	8.2	387.6	20.0
First Transit	1,171.4	28.3	2.4	62.9	5.4
Greyhound	603.2	(11.6)	(1.9)	35.3	5.9
First Bus	835.9	46.1	5.5	113.2	13.5
Group items	17.8	(33.7)		(28.7)	
Road divisions	4,568.7	187.9	4.1	570.3	12.5
First Rail	3,185.9	68.9	2.2	538.6	16.9
Total Group	7,754.6	256.8	3.3	1,108.9	14.3
North America in USD	\$m	\$m	%	\$m	%
First Student	2,474.9	205.9	8.3	496.7	20.1
First Transit	1,488.4	36.2	2.4	80.0	5.4
Greyhound	766.0	(15.3)	(2.0)	44.0	5.7
Total North America	4,729.3	226.8	4.8	620.7	13.1

Reconciliation to non-GAAP measures and performance

In measuring the Group and divisional adjusted operating performance, additional financial measures derived from the reported results have been used in order to eliminate factors which distort year-on-year changes when the effect of certain items are significant including restructuring and reorganisation costs, material property gains or losses, aged legal and self-insurance claims, significant adverse development factors on insurance provisions, significant movements on discount rates used to discount insurance reserves, onerous contracts, impairment charges and pension settlement gains or losses. Note 4 to the financial statements sets out the reconciliations of operating profit and loss before tax to their adjusted equivalents. The adjusting items are as follows:

Other intangible asset amortisation charges

The charge for the year was £4.9m (2019: £11.8m) with the reduction due to a number of customer contract intangibles which have now been fully amortised with the remainder mainly relating to brand amortisation in Greyhound.

Greyhound impairment charges

We have assessed the value of Greyhound under a Fair Value Less Costs To Sell (FVLCTS) approach, rather than the IAS 36 Value-in-Use method applied to our other trading Divisions and in the prior year. This approach considers the value that a potential Market Participant may ascribe to Greyhound, including recognition of significant unrealised property values in the Greyhound portfolio.

An impairment charge of £124.4m was recorded in the first half of the year on our Greyhound business largely as a result of a decline in immigration flows on the Southern US border and increased competition on some routes leading the Group to lower its short to medium term financial projections for this business.

In the second half we have recorded a further impairment charge of £62.5m to reflect poor business performance and an increase in the discount rate used to value the future cash flows. As a result the total impairment charge for Greyhound for the year was £186.9m (2019: £nil).

Both impairments have been recognised in the results on a pro-rata basis against the assets of the division excluding property. Valuations in excess of book value suggest no impairment to the carrying value of property.

North America insurance provisions

FirstGroup North American insurance arrangements involve retaining the working loss layers in a captive and insuring against the higher losses. Based on our actuaries' recommendation and a second additional, independent actuarial review, last year we increased our reserve to \$533m. During this financial year we have continued to see a deteriorating claims environment with legal judgements increasingly in favour of plaintiffs and punitive in certain regions. In this hardening motor claims environment, we have seen further significant new adverse settlements and developments on a number of aged insurance claims, and as a result our actuaries have increased their expectation of the reserve required on historical claims.

In addition, there has been a significant change in the market-based discount rate used in the actuarial calculation from 2.7% to 0.8%, creating the requirement to increase the provision. This is the first time that a movement in the discount rate has been treated as an adjusting item. Management consider that this treatment is appropriate due to the size of the financial impact. In other recent years movements in discount rates have not been significant and the financial impact has been included in operating results.

In light of the continued change in claims environment we have increased the provision to provide more protection for historical claims, and the resulting self-insurance reserve level is above the midpoint of the actuarial range. These changes in accounting estimates combined with the discount rate movement has resulted in the Group recording an additional charge of \$175.2m or £141.3m (2019: \$125.0m or £94.8m); \$149.5m or £120.6m relating to losses from historical claims and \$25.7m or £20.7m relating to the change in the discount rate. It is expected that the majority of these claims will be settled over the next five years. Following these charges, the provision at 31 March 2020 stands at \$657m (2019: \$533m) compared with the actuarial range of \$551m to \$683m (2019: \$447m to \$572m).

The charge to the adjusted operating profit for the current period reflects this revised environment and the businesses continue to build the higher insurance costs into their bidding processes and hurdle rates for investment. The Group also actively evaluates alternatives to reduce insurance risk and ongoing expense, and has made improvements to claims management processes during the second half. It is anticipated that the Group would extinguish the relevant self-insurance provisions as part of the sale processes for the North American divisions.

The Group has a strong focus on safety and risk management. In First Student for example, the culture of safety we have built and continue to foster has resulted in four consecutive years of reduced injuries, down 34% over that period. We continue to maintain high standards and levels of investment in safety and this will continue to be a key area of focus for the Group.

Restructuring and reorganisation costs

There was a charge of £58.2m (2019: £24.1m) for restructuring and reorganisation costs of which a large part relates to a Group-wide initiative to achieve systematic and structured cost savings across the businesses with the assistance of a market leading organisation in this field. Although this assistance has now ended, the programme has shown some benefits in the year just ended prior to the coronavirus pandemic and is anticipated to have further benefits in future years. Restructuring costs also include legal, professional and other costs associated with the proposed rationalisation of the Group. In addition, trading losses in the two Manchester depots to the date of disposal have been included.

Fuel over hedge

There was a charge of £7.4m (2019: £nil) relating to ineffectiveness on fuel hedges as a result of dramatically lower than forecast volumes due to the short-term reduction in service levels as a result of the coronavirus pandemic, particularly in First Bus and First Student.

First Student onerous contract provision

As a result of the coronavirus pandemic, a significant number of school bus contracts which have either been lost or were up for rebid at the balance sheet date, will incur unavoidable losses from the start of the new financial year until the end of the school year. The total charge for unavoidable losses on these contracts was £14.1m (2019: £nil).

Legacy pension settlement

This relates to a legacy pension liability from a business disposal which First Transit made in 2013.

Property profits

First Student recognised a profit of £8.0m on sale of property in the year. Greyhound recognised a profit of £1.3m on sales of property, principally relating to the withdrawal from Western Canada.

Finance costs and investment income

Net finance costs were £146.9m (2019: £106.6m) with the increase principally reflecting the additional interest charges under IFRS 16. Finance costs pre-IFRS 16 were £106.7m (2019: £106.6m) reflecting largely stable debt levels relative to prior year.

Profit before tax

Adjusted profit before tax as set out in note 4 to the consolidated financial statements was £109.9m (2019: £208.2m). An overall charge of £409.5m (2019: £305.0m) for adjustments principally reflecting the Greyhound impairment of £186.9m (2019: nil), North America self-insurance reserve charge of £141.3m (2019: £94.8m), restructuring and reorganisation charges of £58.2m (2019: £24.1m), a legacy pension settlement in First Transit of £4.9m (2019: £nil) and other intangible asset amortisation charges of £4.9m (2019: £11.8m), resulted in a statutory loss before tax of £299.6m (2019: loss before tax of £97.9m).

Tax

The tax charge, on adjusted profit before tax, for the year was £24.6m (2019: £46.6m) representing an effective tax rate of 22.4% (2019: 22.4%). There was a tax credit of £39.6m (2019: a tax credit of £36.5m) relating to other intangible asset amortisation charges and other adjustments, partly offset by the write down of previously recognised deferred tax assets of £40.0m (2019: £nil). The total statutory tax charge was £25.0m (2019: £10.1m) representing an effective tax rate on the statutory loss before tax of (8.3)% (2019: (10.3)%). This rate is different from the effective tax rate on adjusted profits primarily because the potential tax credit on the impairment in Greyhound is not recognised and the write down of deferred tax assets. The Group's effective tax rate is sensitive to the geographic mix of profits including tax rates in the US and Canada (including state taxes) that are higher than in the UK and to changes in tax law and rates in the jurisdictions in which it operates.

The actual tax paid during the year was £2.9m (2019: £7.5m) and differs from the tax charge of £25.0m primarily because of the write down of deferred tax assets, partly offset by capital allowances in excess of depreciation and the utilisation of carried forward tax assets.

EPS

Adjusted EPS was 6.8p (2019: 13.3p). Basic EPS was (27.0)p (2019: (5.5)p).

Shares in issue

As at 31 March 2020 there were 1,210.8m shares in issue (2019: 1,208.6m), excluding treasury shares and own shares held in trust for employees of 8.7m (2019: 5.3m). 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 1,210.9m (2019: 1,205.9m).

Cash flow

The pre-IFRS 16 adjusted cash inflow was £98.5m (2019: £197.3m). This includes a £106.8m outflow for the utilisation of onerous contract provisions at SWR and TPE. Rail ring-fenced cash increased by £87.2m to £611.9m (2019: £524.7m) reflecting the start-up of Avanti. The Road divisions' cash inflow of £7.9m was after £283.4m of capital expenditure as our targeted fleet investment programmes continued during the financial year.

Financial review continued

Net debt increased in the period to £3,278.1m (2019: £903.4m). The increase is principally due to a £1,168.2m adjustment on transition to IFRS 16 and inception of new leases of £1,750.8m, primarily due to the commencement of Avanti and the award of DA3 in GWR. The cash flow on a pre- and post- IFRS 16 basis is set out below:

	Year to 31 March 2020			Year to 31 Mar 2019 £m
	Pre- IFRS 16 £m	IFRS 16 impact £m	Post- IFRS 16 £m	
EBITDA	619.2	489.7	1,108.9	670.3
Other non-cash income statement charges	(1.4)	–	(1.4)	3.7
Working capital	79.7	(7.1)	72.6	53.8
Movement in other provisions	(171.3)	106.8	(64.5)	(24.8)
Pension payments in excess of income statement charge	(38.8)	–	(38.8)	(47.8)
Cash generated by operations	487.4	589.4	1,076.8	655.2
Capital expenditure and acquisitions	(352.8)	–	(352.8)	(432.5)
Proceeds from disposal of property, plant and equipment	30.5	–	30.5	63.5
Proceeds from disposal of business	16.2	–	16.2	–
Interest and tax	(85.9)	(40.2)	(126.1)	(88.8)
Operating lease payments now in debt/other	3.1	(549.2)	(546.1)	(0.1)
Adjusted cash flow	98.5	–	98.5	197.3
Foreign exchange movements	(12.0)	(12.1)	(24.1)	(28.3)
Inception of new leases	(77.3)	(1,750.8)	(1,828.1)	–
Operating lease payments now in debt	–	549.2	549.2	–
Other non-cash movements	(2.0)	–	(2.0)	(2.1)
Adjustment on transition to IFRS 16	–	(1,168.2)	(1,168.2)	–
Movement in net debt in the period	7.2	(2,381.9)	(2,374.7)	166.9

Capital expenditure

Road cash capital expenditure was £283.4m (2019: £322.3m) and comprised First Student £193.0m (2019: £232.3m), First Transit £18.8m (2019: £32.2m), Greyhound £38.8m (2019: £31.7m), First Bus £30.1m (2019: £25.1m) and Group items £2.7m (2019: £1.0m). First Rail capital expenditure was £115.7m (2019: £110.2m) and is typically matched by franchise receipts or other funding. In addition, during the period we entered into leases in the Road divisions with capital values in First Student of £75.1m (2019: £27.0m), First Transit of £13.8m (2019: £3.4m), Greyhound of £21.3m (2019: £34.8m) and First Bus of £6.3m (2019: £61.9m). During the period First Rail entered into leases with a discounted present value of £1,719.8m being mainly for rolling stock.

Gross capital investment (fixed asset and software additions plus the capital value of new leases) was £2,326.5m (2019: £571.1m) and comprised First Student £331.9m (2019: £284.8m), First Transit £30.5m (2019: £30.7m), Greyhound £65.4m (2019: £62.8m), First Bus £52.6m (2019: £79.8m), First Rail £1,842.9m (2019: £112.0m) and Group items £3.2m (2019: £1.0m). The balance between cash capital expenditure and gross capital investment

represents new leases and creditor movements in the year.

Balance sheet

Net assets have decreased by £346.6m since the start of the year. The principal reasons for this are the retained loss for the year of £327.2m, unfavourable hedging reserve movements of £45.8m, actuarial losses on defined benefit pension schemes, including deferred tax of £53.6m partly offset by favourable translation reserve movements of £91.3m.

CGU carrying value

Other than Greyhound, the carrying value (net assets including goodwill but excluding intercompany balances) of each cash generating unit (CGU) was tested for impairment during the year by reference to their projected value in use and following their review of these projections, the Directors concluded that there continues to be adequate headroom in First Student, First Transit, First Bus and First Rail. Details of sensitivities to reasonably possible changes in the assumptions for these CGUs is set out in note 11.

We assessed the value of Greyhound under a Fair Value Less Costs To Sell ("FVLCTS") approach, rather than the IAS 36 Value-in-Use

method applied to our other trading divisions and in the prior year. For Greyhound the carrying value was assessed to be in excess of the Fair Value Less Costs To Sell for this business due to poor business performance and an increase in the rate used to discount the future cash flows. A further impairment charge of £62.5m was recorded in the second half of the year which, together with the £124.4m impairment charge recorded in the first half of the year, brought the full year impairment charge to £186.9m.

Fuel price risk

We use a progressive forward hedging programme to manage commodity risk. In 2019/20 in the UK, 90% of our 'at risk' crude requirements (1.7m barrels p.a.) were hedged at an average rate of \$65 per barrel. We have hedged 63% of our 'at risk' UK crude requirements for the year to 31 March 2021 at \$64 per barrel and 41% of our requirements for the year to 31 March 2022 at \$64 per barrel.

In North America 60% of 2019/20 'at risk' crude oil volumes (1.3m barrels p.a.) were hedged at an average rate of \$62 per barrel. We have hedged 58% of the volumes for the year to 31 March 2021 at \$63 per barrel and

20% of our volumes for the year to 31 March 2022 at \$65 per barrel, predominantly in relation to First Student and First Transit. Greyhound's fuel exposure is largely unhedged because its competitors – passenger cars and the airlines – have no hedging on their exposures, so Greyhound's pricing is responsive to fuel price changes.

Funding and risk management

Liquidity within the Group increased compared with the prior year; as at 31 March 2020 the Group's undrawn committed headroom and free cash was £585.7m (2019: £520.6m), comprising £237.1m (2019: £167.3m) in free cash (before Rail ring-fenced cash) and £348.6m (2019: £353.3m) of undrawn committed bank revolving credit facilities. The level of free cash and undrawn committed revolving banking facilities has increased over the past two months and is anticipated to decline with the normal seasonal decline in revenues in First Student when schools are closed for the summer and due to working capital requirements as the business prepares for the school start-up during August. Treasury policy requires a minimum level of committed headroom is maintained.

Subsequent to the year end, the Group was confirmed as an eligible issuer for the UK Government's Covid Corporate Financing Facility (CCFF) scheme, with an issuer limit of £300m based on its credit ratings under the terms of the scheme as published by the Bank of England. On 27 April 2020 the Group issued £300m in commercial paper through the scheme to further enhance liquidity levels. As at the end of June 2020 the Group had c.£850m in free cash (before Rail ring-fenced cash) and committed undrawn revolving banking facilities.

The Group's diversified funding structure also includes undrawn facilities comprising a committed £250m undrawn bridging loan entered into in March 2020 for the redemption of the £350m bond that matures in April 2021, an uncommitted £150m accordion facility to the RCF, as well as further lines of uncommitted leasing facilities and more than \$100m of uncommitted supplier credit for the procurement of buses.

Average maturity of our bond debt, senior unsecured loan notes and bank facilities is 3.3 years (2019: 4.3 years). The Group's main revolving bank facilities of £800m require renewal in November 2023. The Group does

not enter into speculative financial transactions and uses only authorised financial instruments for certain financial 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 including fuel purchases for the UK divisions 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 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.

Foreign exchange

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

	Year to 31 March 2020		Year to 31 March 2019	
	Closing rate	Effective rate	Closing rate	Effective rate
US Dollar	\$1.25	\$1.29	\$1.30	\$1.32
Canadian Dollar	\$1.74	\$1.72	\$1.74	\$1.74

Net debt

The Group's net debt at 31 March 2020 was £3,278.1m (2019: £903.4m) including first time recognition of £1,168.2m in operating leases under IFRS 16 as well as new operating leases under IFRS 16 relating to Avanti of £820.9m and the DA3 award in GWR of £729.7m, and comprised:

Analysis of net debt	31 March 2020		31 March 2020	31 March 2019
	Fixed £m	Variable £m	Total £m	Total £m
Sterling bond (2021)	–	348.7	348.7	348.4
Sterling bond (2022)	322.6	–	322.6	322.1
Sterling bond (2024)	199.8	–	199.8	199.8
Bank loans	–	573.9	573.9	446.7
Lease liabilities	2,473.2	–	2,473.2	59.9
Senior unsecured loan notes	219.8	–	219.8	210.0
Loan notes	8.7	0.7	9.4	9.4
Gross debt excluding accrued interest	3,224.1	923.3	4,147.4	1,596.3
Cash			(237.1)	(167.3)
First Rail ring-fenced cash and deposits			(611.9)	(524.7)
Other ring-fenced cash and deposits			(20.3)	(0.9)
Net debt excluding accrued interest			3,278.1	903.4

Financial review continued

First Rail ring-fenced cash increased by £87.2m in the period principally due to start-up of Avanti and working capital movements. Net debt excluding Rail ring-fenced cash and IFRS 16 operating leases was £1,508.1m (2019: £1,428.1m).

Pensions

We have updated our pension assumptions as at 31 March 2020 for the defined benefit schemes in the UK and North America. The net pension deficit of £307.2m at the beginning of the period has increased to £313.4m at the end of the period. Assets performed well over the period to 29 February, although the fall in global markets during March as a result of the coronavirus pandemic reduced the value of some of our pension scheme assets.

Diversification and timely de-risking actions mitigated the impact of falling equity prices. The value placed on liabilities has decreased due to changes in financial conditions, especially lower levels of market implied inflation. This was partially offset by changes in demographic assumptions and exchange rate movements. The main factors that influence the balance sheet position for pensions and the principal sensitivities to their movement at 31 March 2020 are set out below:

	Movement	Impact
Discount rate	+0.1%	Reduce deficit by £28m
Inflation	+0.1%	Increase deficit by £23m
Life expectancy	+1 year	Increase deficit by £63m

The Trustee and Group have agreed the results of the 2019 funding valuation for the First UK Bus Pension Scheme, and are currently finalising the documentation. The funding deficit as at the valuation date (April 2019) had reduced compared with the previous triennial valuation (April 2016), and the Trustee and Group have agreed a significantly shorter recovery period within which contributions will be paid to repair the deficit.

Additionally, the Trustee and Group are in the final stages of agreeing an updated long-term funding plan for the First UK Bus Pension Scheme. This plan will work towards a funding target that is well aligned to the long-term targets articulated in the Pension Regulator's recently announced draft Funding Code. Central to this plan is reducing the level of asset risk, and the Group is making good progress with collaborative discussions with the trustees on reducing the exposure to investment risk within the scheme in a reasonably short time horizon.

The 2019 funding valuation for the Greater Manchester Pension Fund was completed during the financial year, and it showed an improvement in funding position compared to the previous valuation. This has allowed the Group to stop paying additional secondary contributions to the Fund from the end of the 2020-21 financial year, and also enabled the Group to agree a significant level of asset de-risking during the financial year. This has reduced the exposure to assets that are primarily return-seeking (and therefore risk bearing), such as equities, from c.32% to c.19%. The result of this funding valuation has therefore been an immediate reduced cash requirement for the Group, and reduced risk of continued cash requirements in the future.

Following on from the consolidation of the various LGPS plans in England during the previous financial year, the Group has completed a rationalisation of their LGPS plans in Scotland during the year to 31 March 2020. The merger of the Strathclyde fund into the Aberdeen fund has improved the funding position in the Aberdeen plan, and has also facilitated reduction of the relative asset risk across these obligations.

During the financial year the Group has taken over the West Coast Partnership rail franchise, and therefore the pension obligations have been brought onto the balance sheet. The risks associated with pensions costs have been suitably reflected in the overall contract, meaning the Group considers that it is sufficiently well protected against any adverse movements in scheme funding levels and cash contribution levels. These protections are also reflected within the agreement to continue operating the Great Western franchise. The low exposure to pensions risk across the rail franchises is reflected in the treatment on the Group balance sheet, which reflects a zero surplus/deficit position for all franchises currently operated by the Group.

Dividends

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. The Board is not proposing to pay a dividend in FirstGroup plc for the year to 31 March 2020 but will continue to review the appropriate timing for restarting dividend payments.

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.

Contingent liabilities

The Group's operations are required to comply with a wide range of regulations, including environmental and emissions regulations. Failure to comply with a particular regulation could result in a fine or penalty being imposed on that business, as well as potential ancillary claims rooted in non-compliance.

While the British Transport Police have now concluded their investigations into the Croydon tram incident in November 2016 without bringing any charges, the Office of Rail & Road (ORR) investigations are ongoing and it is uncertain when they will be concluded. The tram was operated by Tram Operations Limited (TOL), a subsidiary of the Group, under a contract with a Transport for London (TfL) subsidiary. TOL provides the drivers and management to operate the tram services, whereas the infrastructure and trams are owned and maintained by a TfL subsidiary. Management continue to monitor developments. To date, no ORR proceedings have been commenced and, as such, it is not possible to assess whether any financial penalties or related costs could be incurred.

On 14 November 2017, Reading Borough Council served First Greater Western Limited (GWR), a subsidiary of the Group, and Network Rail Infrastructure Limited (a third party) with noise abatement notices in respect of the operations at the Reading railway depot. The serving of the notices has been appealed and the parties agreed in principle in June 2020 that the related court hearing should be put on hold until 31 May 2021 to allow the Council further time to monitor GWR's operations at the depot. The parties further agreed that in May 2021 the Council will be obliged to consider whether the 2017 abatement notices should be withdrawn and, if the notices are not withdrawn, the appeal proceedings will restart. The precise wording and mechanisms to achieve this in principle agreement are currently being negotiated by the parties – if it is not possible to agree this, a further court hearing has been listed for 4 September 2020 at which the court will decide how the appeal proceedings should be taken forward. As a result it is not possible at this stage to quantify the implications for the GWR operations, if any, if the notices are not withdrawn by the Council or if GWR are not ultimately successful with respect to any appeal.

On 26 February 2019, collective proceedings were commenced in the UK Competition Appeal Tribunal (CAT) against First MTR South Western Trains Limited (SWR). Equivalent claims have been brought against Stagecoach South Western Trains Limited and London & South Eastern Railway. It is alleged that SWR and the other defendants breached their obligations under competition law, by (i) failing to make available, or (ii) restricting the practical availability of, boundary fares for TfL Travelcard holders wishing to travel outside TfL fare zones. The first substantive hearing, at which the CAT will decide whether or not to certify the collective proceedings, has been postponed pending the outcome of an appeal to the Supreme Court in a different collective proceedings action and is therefore unlikely to occur until late 2020 at the earliest. It is not possible at this stage to determine accurately the likelihood or quantum of any damages and costs, or the timing of any such damages or costs, which may arise from the proceedings.

The Pensions Regulator (TPR) has been in discussion with the Railways Pension Scheme (the Scheme) regarding the long-term funding strategy of the Scheme. The Scheme is an industry-wide arrangement, and the Group, together with other owning groups, has been participating in a review of scheme funding led by the Rail Delivery Group. Whilst the review is still ongoing, changes to the current funding strategy are not expected in the short term. Whilst TPR believes that a higher level of funding is required in the long term, it is not possible at this stage to determine the impact to ongoing contribution requirements.

Post-balance sheet events

The impact of the coronavirus pandemic on the Group's operations is discussed within the principal risks and uncertainties on page 99 as well as set out within note 2 and the basis of preparation on page 141 which summarises the coronavirus scenario modelled by the Group.

Subsequent to the balance sheet date, the Group has monitored the business performance, internal actions, as well as other relevant external factors (such as changes in any of the government restrictions and policy guidance). No adjustments to the key estimates and judgements that impact the balance sheet as at 31 March 2020 have been identified.

The following non-adjusting events have occurred since 31 March 2020:

- Use of the UK government's Coronavirus Job Retention Scheme for furloughed staff as required under the Covid-19 Bus Service Support Grant (CBSSG) in England and support in Scotland and Wales
- Use of the CARES Act support for our North American businesses for the Employee Retention Credits
- Contracted with six states with 5311 (f) subsidy funding in Greyhound and continued to progress agreements with other states we operate in
- Signed a DA3 award for GWR for a further three years plus one at the DfT's option
- The Group received confirmation from the Bank of England that it was an eligible issuer under the UK government's Covid Corporate Financing Facility (CCFF) and allocated an issuer limit of £300m and issued £300m in commercial paper on 27 April
- Continued to progress contractual support arrangements in First Student and First Transit
- Agreed CBSSG Restart in England and agreed fiscal support in Scotland for increased bus service levels.

Ryan Mangold

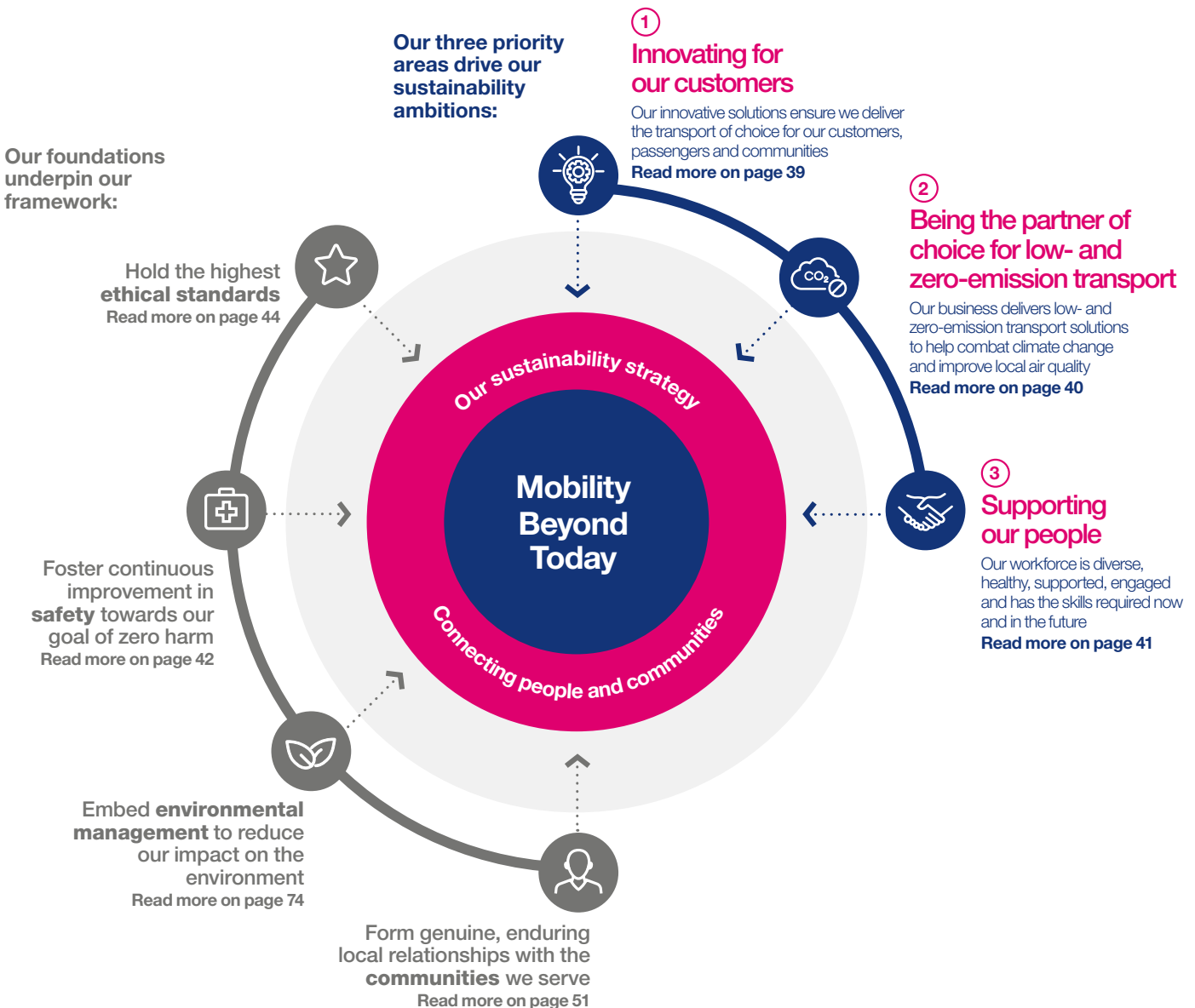
Chief Financial Officer
8 July 2020

Sustainability

Through Mobility Beyond Today, our ambition is to be the partner of choice for innovative and sustainable transport, accelerating the transition to a zero-carbon world.

Mobility Beyond Today is our Group-wide strategic framework for sustainability. Recognising that climate change is the greatest long-term challenge of our times, we have committed to accelerate the change in the transport sector through leadership in three priority areas: innovating for our customers, being the partner of choice for low- and zero-emission transport, and supporting our people.

We know we have a critical role in creating a connected, healthy, zero-carbon world, contributing to local prosperity and growth, reducing congestion on the roads, improving air quality and helping to lower carbon emissions.



Bringing our framework to life

On pages 38 to 41, we set out how we are embracing the challenge of decarbonisation in a way that drives and delivers value for our business, our people and our customers – now and in the future. The implementation of Mobility Beyond Today within each of our divisions reflects the different internal and external opportunities unique to each business, but each of FirstGroup’s approximately 100,000 employees has a role to play in making our commitments a reality. Read more about Mobility Beyond Today at www.firstgroupplc.com/responsibility

1 Innovating for our customers

For more information on sustainability go to www.firstgroupplc.com/responsibility

Our ambition is to be the partner of choice for innovative and sustainable transport solutions for our customers, partners and communities. We want more people than ever to join us in travelling on our bus and rail services, taking cars off the road, and that means providing services that have innovation, ease and convenience at their core.

Our aims



Making the shift

More people using bus and rail services, increasing ridership and taking private car journeys off the road



Innovation

Embracing new technologies and ways of working to deliver easy and convenient mobility solutions for our customers



Using our influence

Collaborating and partnering with stakeholders to shape the sustainable communities of the future

Our commitments

- 1 To provide easy and convenient mobility, encouraging the switch from private car journeys to our mobility solutions
- 2 To promote and proudly champion the social, environmental and economic benefits of the services we offer
- 3 To support accessibility and inclusion, and to integrate the needs of vulnerable people into our decision-making to deliver safe and inclusive mobility solutions and practices
- 4 To stimulate a culture of innovation, embracing new technologies and ways of working to deliver easy and convenient mobility solutions in a low-carbon economy
- 5 To scale up innovations rapidly to harness the opportunities of the low-carbon economy
- 6 To continue building collaborative relationships to support new research and development, access new technologies and accelerate the adoption of innovative approaches
- 7 To advocate for sustainable urban planning and transport infrastructure decisions to help reduce congestion, enhance customer experience and decrease journey times
- 8 To continue working with government, elected officials and policymakers, and our professional associations, to advocate for innovation and investment in sustainable mobility

Our commitments in action

- In **First Transit** we've been testing electric autonomous vehicles (AV) since 2017, with pilots in progress across the US, helping to tackle congestion, open up services to new customers, and reduce carbon emissions. Our leadership in the maintenance and operation of both AV and electric vehicles has been consolidated with recent contract wins in Houston and Colorado.
- In **First Student**, we're trialling new electric school buses in Chicago, Montreal, and Minnesota. We're evaluating all major manufacturers, including Lion Electric, Bluebird, and Thomas Built Bus. Using our market leadership, we're helping to accelerate the adoption of zero-emission technology in our industry.
- In **First Bus**, we continue to use our influence to advocate for innovation and investment in sustainable public transport, and are one of a leading group of bus

operators calling on the UK Government to outline a national strategy to encourage more people to use buses.

- We have also pledged to harness the opportunities of the low-carbon economy by committing to operate a **zero-emission fleet in First Bus by 2035**, and do not plan to purchase any new diesel buses after December 2022. Read more about our zero-carbon and air quality aims on page 40.
- We're already scaling up low-emission innovation in **First Bus**, working closely with key stakeholders and our supply chain to roll out 77 state-of-the-art biomethane buses and a new gas-filling station in Bristol this year, giving us a fleet with 84% lower life cycle carbon emissions compared to conventional Euro V diesel buses. The biogas that fuels these buses comes from waste food and is supplied by anaerobic digesters across the UK.



“ We embrace a culture of innovation, investing in new technologies and ways of working. The investments we are making now in electric autonomous vehicles, MaaS, cleaner energy and digital customer channels will power the transition to the low-carbon economy of the future. ”

Dave Lynch, Chief Information Officer, FirstGroup

Sustainability continued

② The partner of choice for low- and zero-emission transport

For more information on sustainability go to www.firstgroupplc.com/responsibility

We're taking action to combat climate change and improve local air quality by delivering low- and zero-emission mobility solutions for our customers. Our aim is to eliminate the carbon emissions associated with our operations. FirstGroup's total carbon emissions reduced by 10.8% between 2016 and 2020, thanks to cleaner fuels, more efficient fleets and significant decarbonisation of the electricity grid in the UK. During 2020/21, we will model science-based carbon trajectories to 2040, helping us identify how we can support the transition to a low-carbon economy. We also strive to improve local air quality in our communities through lower emissions of air pollutants such as nitrous oxides (NOx) and particulates (PMs).

Our aims



Zero-carbon

Eliminating the carbon emissions associated with our operations



Air quality

Improving local air quality in our towns and cities through cleaner fleets



Climate resilience

Incorporating climate adaptation measures to improve the resilience of our services

Our commitments

- 1 To be the partner of choice for our customers, passengers and communities for low- and zero-emission mobility solutions
- 2 To continue working with vehicle manufacturers, energy partners, our professional associations and others on the transition to low- and zero-emission mobility solutions
- 3 To enhance our knowledge of the short-, medium- and long-term risks and opportunities for our business in the transition to a low-carbon economy
- 4 To plan our transition in a way that means that we continue to drive growth, be cost efficient, build trust with our stakeholders and future proof our business
- 5 To embed our approach of eliminating carbon and air emissions from our operations into our divisional strategies and business plans
- 6 To address both air quality (e.g. NOx, PMs) and carbon emissions, ensuring we have a holistic and long-term plan
- 7 To model science-based carbon reduction trajectories to 2040 to help inform our transition plans
- 8 To understand the risks from the physical impacts of climate change in line with recognised climate change scenarios*, and build resilience where needed
- 9 To be transparent with our progress and publicly disclose decision-useful climate-related financial information*

* In alignment with Task Force on Climate-related Financial Disclosures (TCFD) recommendations. The TCFD is developing voluntary, consistent climate-related financial risk disclosures for use by companies in their public reporting.

Our commitments in action

- In **First Bus** we've been introducing electric, biogas and hydrogen buses across our services. In the UK, the city of York will be home to one of the biggest fleets of double-decker electric buses outside London. These zero-emission vehicles can carry 99 passengers each and have a range of over 150 miles – and will help us on our journey to a zero-emission First Bus fleet by 2035.
- In **First Transit** we have added more than 40 electric vehicles to our shuttle fleet for one of our university campus clients, with further vehicles planned to be added soon. Electric school buses in **First Student** are also becoming a reality, with our industry-leading trials underway in a number of school districts.
- In January 2020, **First Glasgow**, in partnership with SP Energy Networks, launched the first fully electric vehicles onto a commercial route in the city since the 1960s.
- The electrification of our **First Rail** routes has contributed to a 15% reduction in carbon emissions per passenger kilometre in the past three years, and progress is set to continue as the UK rail network is progressively electrified.
- We're also driving cross-industry research into the impact rail transport can have in reducing NOx emissions through our leadership of the rail industry's Air Quality Steering Group. In 2019, its research was focused on the contribution of rail to air quality in urban areas, and explored the potential benefit to Clean Air Zones when diesel trains are replaced with electric alternatives. This research has shown that our bi-mode trains (trains that can be powered either by electricity or diesel) in GWR produced on average 41% less NOx emissions compared with the diesel trains they replaced.



“ We are delighted to launch the city's first conversion of a commercial bus service to fully electric operation. We are thrilled to team up with SP Energy Networks to bring these state-of-the-art zero-emission vehicles to the city of Glasgow. ”

Andrew Jarvis, Managing Director, First Glasgow

③ Supporting our people

For more information on sustainability go to www.firstgroupplc.com/responsibility

Our 100,000 people are the core of our business. The changing nature of transport and mobility – particularly moving to new vehicle technologies – will require us to adapt the way we bid for, plan and operate our services, and how we maintain our vehicles. To deliver that change, we need a healthy, engaged, agile and diverse workforce with the skills and expertise for a low-carbon economy – ready to innovate and deliver mobility for the future.

Our aims



Diversity and inclusion

We value diversity and inclusion, and our workforce represents the communities we serve, increasing effective participation and equal opportunities



Skills for the future

Our people have the skills, expertise and knowledge to drive the transition to a sustainable future



Wellbeing

Our culture means that our employees are supported towards good mental and physical wellbeing

Our commitments

- 1 To develop and implement a plan to attract, recruit and retain a diverse workforce and foster a culture of inclusion
- 2 To increase the diversity of employees reaching management roles by investing in programmes to support the development of underrepresented groups
- 3 To provide employment opportunities for people from disadvantaged or underprivileged backgrounds to promote social mobility and economic development, while increasing workforce diversity
- 4 To build the necessary skills within our workforce to support the transition to a low-carbon economy
- 5 To promote and invest in STEM (science, technology, engineering and mathematics) education, increasing the number of young people with the skillsets needed by the transport sector of the future
- 6 To engage and empower employees to become ambassadors for the business and advocates of sustainable transport
- 7 To provide a proactive employee wellbeing plan with programmes for all, which promote and enable mental, physical and social wellbeing, including industry-specific needs
- 8 To pay our employees a competitive wage and encourage others within our sphere of influence to do the same

Our commitments in action

- We now have trained mental health first aiders across **First Bus** and our larger **First Rail** franchises, and all of our businesses offer employees access to free and confidential counselling. Mental health first aiders have been trained to recognise the signs that someone may be experiencing an issue, to offer initial support, and to direct them to appropriate help if required. In TPE, our 'Take 10 Together' campaign encourages employees to take ten minutes to initiate a conversation with a colleague if they seem to be feeling anxious or depressed. Read more about wellbeing on pages 50 and 51.
- In **First Transit** we're investing in skills for the low-carbon economy to ensure our businesses can solve the engineering challenges of tomorrow head-on. In close partnership with our supply chain, we're

developing the engineering skills and expertise to thrive in a zero-carbon world.

- In **First Rail**, TPE was ranked 26th in the Inclusive Top 50 Employers List in 2019 – a definitive list of UK-based organisations that promote diversity throughout every level of employment, while **FirstGroup** in North America made it onto the Forbes Best Employers for Diversity 2020 list. GWR is home to ASPECT, an LGBTQ+ network, to promote workplace equality and inclusion, with diversity networks also active within Avanti. Read more on pages 49 and 50.
- Across **FirstGroup** in the UK, we have three development programmes aimed at empowering women – Step Up, Step Forward and the Women's Career Development Programme, aimed at women in non-management, junior management and senior management roles respectively. Read more on page 50.



“Engineering and maintenance skills are going to be critical in a low-carbon economy, so we're working closely with our supply chain, including our vehicle manufacturers and others to ensure that we are fit for the future.”

Todd Hawkins, Senior Vice President of Maintenance, FirstGroup America

Safety

Our commitment to safety is unwavering and is articulated through our Values. We are dedicated to safety which is always front of mind, and our way of life.

By its nature, the transport industry involves the risk of injury to passengers, employees and third parties. This is why we take seriously our duty of care to ensure that our customers, stakeholders and any third parties we interact with can use our services, and our people can carry out their work, safely.

Our more than 100,000 employees deliver more than two billion passenger journeys each year on more than 60,000 buses, trains and other vehicles, sharing increasingly congested road and rail infrastructure every day with other users. The industry we operate in therefore has significant inherent safety challenges, but we are determined to achieve our long-term goal of zero harm.

We maintain robust safety management systems throughout the Group, and a clear focus on ensuring compliance with policies, processes and procedures. Be Safe, our safety behavioural change programme, builds on this, making safety a personal core value for every employee.

Coronavirus

Since the coronavirus pandemic began, our overriding priority has been to protect our customers and our employees as we continue to run vital services.

As a transport provider, our frontline teams are themselves key workers, providing transport to take essential workers to and from their workplaces throughout the UK and North America.

We are extremely proud of our colleagues across the Group and we recognise their dedication, professionalism and commitment in making this possible.

Our response

Our established safety culture, and the well-rehearsed emergency response processes embedded throughout the Group, put us in a strong starting position to respond to the pandemic in a comprehensive and effective manner.

In addition to our robust safety systems and behaviours, we have rolled out additional measures to help limit, as far as we possibly can, the spread of coronavirus.

These measures have included:

- Cleaning protocols for our vehicles and buildings – we enhanced our already stringent vehicle cleaning protocols across all divisions, using antiviral products and disinfectants, and trialling and deploying new products developed to address the coronavirus pandemic. In depots and stations, enhanced cleaning protocols have been introduced, including disinfecting and sanitising high touchpoint areas at increased frequencies. Ozonation, which is a highly effective deep cleaning method for vehicles, has been rolled out across First Transit and Greyhound, and is being deployed as required in First Bus and First Rail alongside products to give extended protection from recontamination after cleaning.
- Social distancing – we have enabled social distancing on our vehicles where we can through a variety of methods, and throughout all our workplaces, depots, terminals and stations. We have encouraged and enabled our customers to use contactless or card payment where possible and are looking at further ways to reduce cash handling whilst still ensuring everyone that needs to is able to travel on our services. Wherever possible employees have been working from home throughout lockdown periods.
- Live bus capacity tracking – in June 2020 we launched an update to our First Bus mobile app that enables customers across the UK to live track not only the location of their next bus but also its available capacity. We continue to develop ways to help customers social distance on board our fleet. First Bus was the first major bus operator to roll out live capacity tracking, including for wheelchair spaces, reducing uncertainty for customers and allowing them to make more informed decisions about their essential journeys.
- Employee equipment – we have worked closely with government, health authorities and regulators, as well as our customers, unions and other stakeholders to stay at the forefront of evolving guidance and advice on safety equipment for our employees. At the start of the pandemic, we rapidly mobilised effective supply chains to ensure that our employees could be provided with appropriate equipment in line with the latest guidance for our different operating environments and role requirements. Across all divisions we have made face coverings, hand sanitiser and anti-viral wipes available to employees. In First Bus, for example, our vehicles have Perspex screens to provide an extra protective barrier for our drivers. In certain states in the US, in line with current advice and contract customer requirements, we are using infrared thermometers to screen employees for coronavirus symptoms.
- Vulnerable employees – we are protecting our most vulnerable employees and have taken steps to shield them wherever we can. For example, taking them off the front line and, in the UK, by offering them the option to remain at home through the UK Government's furlough scheme. See pages 50 and 51 for more on how we support the mental health and wellbeing of our employees.
- Industry collaboration and best practice – as a leader in all of our markets we have been at the centre of industry efforts to tackle the unique challenges posed by coronavirus. This has included working with the Rail Delivery Group (RDG) and rail providers in the UK, the National School Transportation Association (NSTA) and the American Public Transportation Association (APTA) in North America as well as taking the lead on preparing a driver risk assessment alongside CPT for the UK bus industry.

Be Safe

Be Safe is our Group-wide programme to embed safety as a personal core value for all colleagues through behaviour change. The core elements of our Be Safe programme, including daily conversations ('touchpoints') to reinforce good safety behaviours, are proving to be even more important for safety engagement in light of the coronavirus pandemic.

Weekly Be Safe debrief sessions for managers and supervisors have continued throughout the lockdown period, respecting social distancing measures by bringing teams together via remote-working IT tools. These weekly debriefs, where Be Safe touchpoints are reviewed, are used for knowledge sharing and to strengthen understanding around best practice.

Committed to safety

As lockdowns begin to ease it is paramount that we continue to do all that is necessary to safeguard the health and wellbeing of our employees and our customers. This is our overriding priority and will continue to guide our decisions as we move towards a 'new normal' way of living.

Across all our businesses we continue to work with governments and health authorities to ensure we comply with and promote the guidance for the safety of our employees and passengers. This guidance varies by location and by business, and we are working closely with suppliers to ensure we have adequate stocks of the appropriate equipment in place to minimise the risk of transmission and keep customers and colleagues safe.

The situation continues to evolve but, as we have done throughout, we are continuing to follow and also develop best practice in areas such as the cleaning and decontamination of vehicles, depots, terminals and stations.

Our overall response to the fast-moving coronavirus outbreak has at all times been overseen by an Executive steering committee led by the Chief Executive, considering the health, safety and welfare of colleagues, customers and those coming into contact with our business, while ensuring business continuity within all functions and departments.

The Executive steering committee is supported by a working group made up of representatives from all divisions and certain functional areas within the business. Weekly review meetings have taken place with each division since March 2020 to assess the safety and wider impacts of the pandemic across the Group.

Progress towards zero harm

We are proud of the safety culture we have worked hard over many years to establish. Our response to the coronavirus pandemic demonstrates that safety is an ever-present focus for the Group. We are constantly striving for ways to build on our achievements and make the safest possible environment for customers, employees and all those who interact with our business.

This year, our safety teams have helped ensure the safe implementation of a number of significant changes within the Group, including the introduction of many new trains, alternative-fuelled buses (including electric, hybrid and biogas), and the mobilisation and start up of our Avanti rail franchise.

Through our ongoing efforts and relentless focus on everyday safety procedures, and behaviour change role-modelled from the Boardroom to the front line through our Be Safe programme, employee lost time injuries across the Group reduced by 12% this year. The overall severity of employee injuries has also reduced, with major injuries down 18% against the prior year.

Collisions with injury reduced by 5% and passenger injuries per million miles reduced by 3%, primarily driven by safety performance improvements in First Bus and First Rail.

Notwithstanding the improvement in these metrics, we are not complacent, and consider that every injury sustained is one too many. We continue to make progress in reducing incidents and harm by prioritising the safety of our customers and people in our operating procedures, investment strategy, culture and future plans.

Safety leadership and governance

Strong leadership from the top is vital to our safety culture. Our Executive Safety Committee (ESC), chaired by the Chief Executive, oversees the Group's safety strategy and the performance, procedures and practices of our divisions and operating companies. It supports the Board Safety Committee in promoting a positive safety culture across the Group. Discussions also take place monthly at business review meetings with each division.

The ESC monitors relevant legislation and updates to standards as part of our control framework and commitment to maintaining safety compliance. It also provides visible safety leadership, with members undertaking regular site safety tours, giving senior management and frontline colleagues the opportunity for direct engagement on safety and other matters. This direct connection and interaction at site level allows individual and local perspectives to be shared, and is pivotal in supporting the ESC and senior leadership in their role of promoting a positive safety culture across the organisation.

Other key activities for the ESC this year included overseeing the introduction of our new Global Standards, setting common standards for Safety Validation of Change, Driver Monitoring and Safety Audit across the Group. The standards were designed to improve consistency of safety across the Group while respecting current strengths, practicalities and resources.

Each period the ESC looks at safety assurance across the Group, including reports from security and risk teams. The ESC also undertakes in-depth reviews of performance. For example, a deep dive into our incidents of slips, trips and falls resulted in new preventative measures and campaigns.

Information on our approach to safety governance can be found in the Governance section which starts on pages 76, and in our Board Safety Committee report on pages 108 and 109. Information on employee health and wellbeing can be found on pages 50 and 51.

Case Study: First Student's industry-leading safety culture

Culture

The First Student safety programme is designed to develop employees who are personally dedicated to safety. Our programme includes:

- Six 'critical behaviours' that our safety experts focus on, and that link to collision and on-road risk prevention, and to injury prevention, both across the division and specifically within our maintenance facilities.
- Daily 'touchpoints' that location managers plan with team members. These are focused on our six safety critical behaviours and on reinforcing good safety behaviours.
- Debrief sessions that managers conduct on a weekly basis with a primary focus on refining coaching techniques. This provides opportunities for peers to learn from one another.

The culture of safety we have built and continue to foster has resulted in four consecutive years of reduced injuries, down 34% over that period. Our Fatalities and Weighted Injuries (FWI) metric has reduced by 22% in the past three years.

Our drivers

Our rigorous background checks go beyond federal and state regulations, and our driver training programme is customised to the driver's experience level, and exceeds training standards in 41 states. Drivers also receive ongoing training. First Student's focus on driver training pays off and is evidenced in our industry-leading safety record.

Technology

To further elevate safety, we partner with school districts to develop programmes and deploy and pilot new technologies. Zonar GPS technology ensures effective, real-time responses to safety concerns, while also monitoring vehicle performance. Zonar captures five different types of data: latitude, longitude, time, odometer and fuel consumption. It provides near real-time transmission of vehicle data, driver performance data and spatially encoded event information. Zonar has been rolled out across all of our First Student fleet.

Our stakeholders

We believe that strong engagement, collaboration and dialogue are critical to the effectiveness of our long-term relationships with key stakeholders.

This includes our customers, investors, government and political stakeholders, our people, our suppliers and partners, and the communities we serve.

Engaging ethically

In line with our values and the expectations of our customers and partners, we are committed to conducting our relationships with our stakeholders with high ethical and moral standards in all our interactions. Our values and ethical commitment shape not only what we do, but also how we do it.

We invest time and effort to put in place the right processes, policies and governance structures to ensure we meet these high standards of integrity and professionalism.

Our Code of Ethics applies to everybody working for, or on behalf of, FirstGroup. The code sets out the standards that our customers and stakeholders expect of us, and which we expect of each other. It is supported by detailed policies and procedures which apply across the Group and are implemented and managed by the senior management team in each of our divisions, including our Code of Conduct on Anti-Slavery and Human Trafficking Prevention and our Anti-Bribery Policy.

We are committed to recognising human rights on a global basis. We are committed to the prevention of modern slavery and human trafficking in all its forms, which extends to all business dealings and transactions in which we are involved, regardless of location or sector. We have a zero-tolerance approach to any violations within our Company or by business partners. Our Modern Slavery and Human

Trafficking Statement, which is updated annually, sets out our policies and the steps we take to address risks in our business and our supply chains and can be found at www.firstgroupplc.com.

We have a zero-tolerance approach to bribery, and never offer or accept any form of payment or incentive intended to improperly influence a business decision. Equally, we support free and open competition, gaining our competitive advantage by providing the highest level of service, not through unethical or illegal business practices. We have internal control systems and procedures in place to counter bribery and corruption, and to ensure that we comply with competition and trade laws.

Similarly, we respect and protect the privacy of our customers, employees and stakeholders, and are committed to conducting our business in accordance with all applicable data protection legislation, including the General Data Protection Regulation, UK Data Protection Act and the California Consumer Privacy Act.

We have an externally managed whistleblowing service for colleagues available across the Group with a helpline (online and phone-based) for the anonymous reporting of suspected wrongdoing or dangers at work. All reported issues or concerns to the hotline are taken seriously and investigated as appropriate, ensuring that confidentiality is respected at all times.

For further information on our governance arrangements, see pages 75 to 134.



Customers

We are committed to our customers and passionate about improving their experience and satisfaction. We keep our customers at the heart of everything we do, and our teams strive to always exceed their expectations.

How we engage with customers

- Regular customer and passenger satisfaction surveys to identify what we do well and where we can improve
- Robust customer feedback processes through online and traditional channels
- Customer panels and events
- Ongoing dialogue with customer representative groups

Board engagement on customers this year

- Monitoring the embedding of the Group's customer-centric vision
- Monthly customer updates by the Chief Executive
- Specific customer updates from the Group Corporate Services Director and Chief Information Officer as required
- Updates from divisional leadership teams as required

Our five divisions have a varied mixture of customer types and revenue models. While some deliver directly to passengers, others serve clients or partners such as states, local government, school boards or transportation authorities and private organisations, like airports and universities. Across all our divisions, however, the focus of our businesses is on delivering our Vision; providing easy and convenient mobility, improving quality of life by connecting people and communities (see page 16 for more on our Vision and Values).

Our customers' requirements are complex and constantly evolving, so listening, identifying future needs and being able to respond quickly is critical. In some cases, like our rail franchises, collecting and responding to customer feedback forms is stipulated in our contracts. Our teams use a variety of channels and approaches to engage with customers, assessing satisfaction and gathering feedback.

Sustainable Development Goals

The global Sustainable Development Goals (SDGs) were adopted by UN member states in September 2015, covering 17 key areas aimed at creating a world that is comprehensively sustainable, socially fair, environmentally secure, economically prosperous, inclusive and predictable by 2030. Although we can have a positive impact in some way on all the SDGs, we have identified the key areas where our contribution to the delivery of the goals can be greatest. The icons for each of these goals are shown against each of our key stakeholder groups.



The Board receives regular updates on matters relating to customers, including the results of customer surveys, and information and trends relating to customer satisfaction and feedback.

Supporting customers during the coronavirus pandemic

Our primary concern since the start of the coronavirus pandemic has been to protect our customers and colleagues as we continue to run vital services.

We have continued to follow the latest guidelines from local and national governments, the World Health Organization and relevant advisory bodies, such as Public Health England. We have implemented enhanced cleaning of vehicles and have introduced social distancing measures to help our customers adhere to government guidelines.

Our customers have responded positively to the action taken by our companies to deploy our people, vehicles and logistics to good effect, going above and beyond typical transport operations by providing direct support for families and communities.

At East Bay Paratransit in San Francisco for example, our First Transit drivers delivered food to 2,400 housebound seniors through SOS Meals on Wheels, a local non-profit organisation, whilst the First Student team helped to deliver curriculum packets to approximately 7,000 elementary students across Buffalo, New York. Greyhound has worked with partners in moving vital cargo, including food and medical supplies, across its network.

In the UK, we supported our partners at York City Council who were facing a shortage of drivers for refuse vehicles the city, with First York bus drivers working on a loan basis from First Bus rather than being furloughed. These, and the many other examples besides, make us immensely proud of our colleagues across the Group for their commitment to our customers and communities during such unprecedented times.

More information on our response to the coronavirus pandemic can be found in the Chief Executive's statement on pages 9 and 10, and our Safety section on pages 42 and 43.

Enhancing customer experience

In all of our divisions, we are striving to improve customer experience, delivering more convenient services, smarter, easier and more flexible ticketing, better real-time information, improved on-board amenities, and lower emission vehicles.



“
This is a chance to use our skills to support our local partners during lockdown and help other essential services continue to run as normally as possible.
”

First Bus driver, Robert Dande, supporting York City Council

We are using technology and innovation to help to reduce complexity and deliver the best experience for our customers – from e-tickets in Greyhound and First Rail, to convenient online tools for student conduct in First Student, and the latest SAV technology in First Transit.

For example, this year we completed the transition to paperless boarding in Greyhound; now every driver can board customers quickly and efficiently with their driver device.

We have also made it much easier for First Bus customers to pay through mobile and contactless ticketing, with more than half the division's revenue now coming through digital channels. We were the first major bus operator to offer contactless payment for all customers on every bus.

Our First Bus passenger app reached 1m monthly active users during the year, and in May 2020 we became the first major bus operator to offer our customers live tracking of not only the location of their next bus, but also its available capacity, via our mobile app. This innovative functionality supports our customers in social distancing and allows them to make informed decisions about their essential journeys.

In First Rail, we continue to deliver on our commitment to modernise ticketing and increase convenience for our customers. In SWR this year we launched Tap2Go, a new account-based ticketing system on services outside London. Once registered with Tap2Go, customers no longer need to buy a ticket before their journey. Instead our system works out the best daily fare when a customer touches in and out with their Tap2Go enabled smartcard. More than half of SWR journeys are made with smart tickets now.

Our businesses that provide long-distance journeys for customers are ensuring that time spent travelling can be productive and entertaining. Our TOCs offer free Wi-Fi and we are trialling 5G technology on board our trains. In Greyhound, we have deployed a world class on-board entertainment programme across our fleet, including revenue generating Wi-Fi offerings and content and channel programming which has led to double digit improvements in customer satisfaction, as measured through our Net Promoter Score.

Technology and innovation is also helping to bring our low- and zero-carbon transport services to market for our customers across the Group. We're taking action to combat climate change and improve local air quality by delivering low- and zero-emission mobility solutions, and encouraging customers to make the modal shift from private vehicles to more efficient public transport modes. More information on our ambition for zero-carbon, improving air quality and making the shift to our bus and rail services can be found on page 39 and 40.

More information on enhancing customer experience can be found in the Business review on pages 18 to 27.

Accessible journeys

We are committed to supporting customers with disabilities or restricted mobility and recognise that access to public transport services is often fundamental to their independence. Working with both national and local disability groups, we continue to invest in making our services more accessible and to improving the service we offer those with disabilities, for example, through more effective employee training or more accessible vehicles.

First Bus was a launch partner with the DfT on the UK Government's 'It's Everyone's Journey' campaign which is designed to get passengers to be more considerate of their fellow travellers, in particular those with disabilities, with the bus minister attending a launch event at First West of England in Bristol in February 2020.

Two of our TOCs, Hull Trains and TPE, have adopted the 'Sunflower Lanyard', which provides a simple means for customers to indicate that they have a non-visible disability, and may need assistance or additional consideration when travelling. Our newest franchise, Avanti West Coast has a programme of accessibility and wayfinding audits at stations and, along with other TOCs, has plans to install Changing Places toilets at some stations for customers with more complex needs who require adult changing facilities.

Our stakeholders continued

Investing in customer service excellence

This year we continued to deliver high-quality customer service training. In TPE and SWR, our customer experience training programmes received national accreditation from the Institute of Customer Service, holding Creating Great Customer Experiences events for nearly 2,000 colleagues and employees from partner organisations like Network Rail over the past year.

Colleagues from First Student and First Transit benefited from online customer service training modules through our First America University portal, and in First Bus our Journey Makers training has continued to be rolled out across the business. More information about customer service training across our divisions can be found on page 50.

Delivering customer satisfaction

We use the results of regular surveys, and dialogue with our customers and our people, to help shape our services.

We ask our customers for their views on the topics that matter to them, including service performance, safety and value for money. Our customer and passenger satisfaction surveys allow us to measure this, identifying what we do well and where we can improve. We also link remuneration to customer satisfaction scores for our senior divisional and Group leadership teams.

First Student and First Transit conduct annual customer satisfaction surveys, offering our contract customers the opportunity to give their opinion about all aspects of our service, and First Transit undertakes mystery shopper exercises for a number of shuttle clients.

In Greyhound, more than 108,000 passengers completed a post-trip survey on their travel experience this year, helping us to understand their journey better, and use this to improve our services.

In First Bus and First Rail, we use the insights gathered through surveys conducted by the independent passenger watchdog, Transport Focus. They consult a representative sample of passengers to produce the annual Bus Passenger Survey and twice-yearly National Rail Passenger Survey (NRPS). Taken with mystery shopping feedback and social media sentiment, this creates overarching measures of customer sentiment that informs the way we shape and develop our services.

More information on our customer satisfaction KPIs can be found on pages 56 and 57.



Responding to customer feedback

We are working across our businesses to make our customer feedback processes more convenient and easier to use for our customers. For example, TPE was the first rail company in the UK to offer support via WhatsApp to customers; SWR now uses this channel to proactively to support its 'Assisted boarding' scheme for customers with mobility issues.

In First Rail, we are taking steps to ensure that claiming compensation is as easy as possible for customers, which includes the introduction or enhancement of 'delay repay' systems. We hold regular customer panels and events throughout our networks so that passengers can hear the latest developments in their area and ask questions of our management teams. Avanti West Coast has begun to establish the five independently chaired panels it has committed to run as part of its contract, to help engage with customers along its routes.

In First Bus, around 31,000 customers completed an online Tell First Bus survey this year, which is promoted via websites, social media and posters on our vehicles. Our contact centre also handles enquiries from customers about any aspect of their journey, with more than 410,000 customer interactions last year across a range of channels, including phone, web, email and Twitter.

In First Student this year we launched our First Feedback platform, allowing customers, students and their families to tell us about their experience of using our services through an easy and convenient online platform.

Improving on-time performance and punctuality

We know that our customers want punctual, reliable transport services that get them where they want to be, when they want to be there. Good service performance has a major influence on customer satisfaction, so we constantly strive to improve our on-time performance, punctuality and reliability.

More information on our punctuality KPIs can be found on page 55.



Investors

FirstGroup is committed to ensuring that it promotes the success of the Company for the long-term benefit of our members as a whole.

How we engage with investors

- Presentations from Executive Directors
- Annual report, website and statements
- Ongoing dialogue and individual engagement with shareholders
- Engagement via Investor Relations function with potential investors and other market participants

Board engagement on investors this year

- Monthly updates by the Chief Executive
- Regular reports to the Board on investor relations activities and periodic updates by the Group Corporate Services Director and corporate brokers
- Regular meetings and calls held with large investors by the Chairman and the Senior Independent Director
- Engagement on remuneration matters via the Remuneration Committee Chair
- Meetings and calls with investor representatives – ISS, Glass Lewis, IA
- General Meeting requisitioned by major shareholder Coast Capital – June 2019
- AGM – July 2019

Engaging with shareholders and being fully aware of their range of views is one of the key aspects of corporate governance. The Group welcomes open, meaningful discussion with shareholders on all matters, but particularly with regard to strategy, governance and remuneration.

The Board receives regular reports on investor relations activities from the Company and, in particular, on shareholder sentiment and feedback from our corporate brokers. Senior management and Board members have engaged throughout the year on a range of matters with institutional shareholders, private or employee shareholders.

The Executive Directors are available, through the Investor Relations team, to discuss the Group's progress, strategy and plans with major shareholders at any time during the year and since his appointment in August 2019 Chairman David Martin has regularly engaged with large shareholders to fully understand their views on governance, corporate strategy and other matters.

The Senior Independent Director is available to discuss matters of concern that 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, and (in a normal year) any shareholders may meet informally with Directors at the AGM.

There is regular dialogue with key institutional shareholders, fund managers and sell-side analysts to discuss strategy, financial and operating performance throughout the Group.

In the last year, Board members met with shareholders representing approximately half of the issued share capital prior to the notice requisitioning a General Meeting by Coast Capital (described further on page 91), and engaged with shareholders representing more than three quarters of the issued share capital immediately prior to that General Meeting and thereafter to explore their views.

An active dialogue with investor groups such as the Investment Association, and Investor Forum, as well as proxy advisory firms, has also been maintained this year.

General presentations to shareholders and the wider financial community are made by the Executive Directors following trading updates and half and full year results and these are attended from time to time by the Chairman. The Company responds as necessary to requests from individual shareholders on a wide range of issues.

All 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 tempo of updates was increased to keep investors informed as the impact of the coronavirus pandemic on the Group's operations evolved. 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.

The Remuneration Committee recognises that appropriate arrangements with respect to executive pay are of high interest to shareholders. The Committee takes significant account of guidelines issued by the Investment Association, ISS and other shareholder bodies when setting the remuneration framework and seeks to maintain an active and constructive dialogue with investors in this area.

The Board believes that ongoing engagement with shareholders and other stakeholders is vital to ensuring their views and perspectives are fully understood and taken into consideration, and sustaining a high level of dialogue with investors remains a key focus of the Board going forward.

Further information on our governance arrangements including remuneration, can be found in the Governance section which starts on page 76.

Performing sustainably

We participate in evaluations, ratings and rankings of our environmental, social and governance (ESG) performance.

These provide insights to investors on our non-financial performance and demonstrate how we manage ESG risks and opportunities in a way that positions us strongly for the future.

We have been recognised for our ESG leadership, having been named in the FTSE4Good Index Series for the 18th consecutive year.

Our above-average results (compared to our industry peers) in the CDP global disclosure rating also demonstrate our commitment to climate change mitigation, adaptation and transparency.



Government

Strong engagement with government at all levels is essential to our businesses in both the UK and North America.

How we engage with government

- Engagement with industry forums
- Direct engagement with policymakers
- Strong links with devolved national, regional, state and provincial governments
- Regular surveys of political stakeholders

Board engagement on governmental issues this year

- Meetings, calls and correspondence with the regulator (FRC) by the Audit Committee Chair
- Monthly updates by the Chief Executive
- Updates by the Group Corporate Services Director and Group Head of Policy and Public Affairs as required
- Updates from divisional leadership teams as required on specific initiatives

At Group level, we have long-established strong relationships with government officials as well as positive interactions with ministers and both government and opposition policy teams and advisers, as well as significant political influencers, including Parliamentary and Congressional committee members. We use our market leading positions to inform our contributions to policy development and engage meaningfully with decision-makers and promote the most effective form of private sector transport provision in our respective markets.

We also engage with policymakers and seek to influence the development of policy both directly, and through our trade organisations, including RDG, CPT, NSTA and APTA, which advocate with national or federal government and regulators on behalf of our sector.

This has been particularly true in response to the coronavirus pandemic, where we have shown leadership in these forums and helped shape and deliver policy and funding responses from governments. This has allowed us to continue providing services to key workers

Our stakeholders continued

and maintain essential transport networks across all our sectors, as well as planning for a smooth and sustainable recovery of services as lockdown eases and demand for transport increases in our markets.

Of equal importance is our relationship on the ground with state administrations and local government. Our North American businesses foster strong links with partners in all levels of government. First Student has a focus on local school districts, with whom it contracts to deliver student transportation services, as well as school transport associations at state level. First Transit engages in the main with cities, counties and municipalities. Greyhound engages at state and provincial level in relation to its locations and terminals, whilst maintaining strong links with federal government with respect to national legislation and regulation, particularly around road safety issues.

For all our North American businesses, the importance of securing federal coronavirus funding, distributed by state and provincial administrations, has meant a greater than normal focus on engagement at those levels.

We have engaged positively and proactively with the devolutionary framework which has developed in the UK to create strong relationships with regional leaders. Elected mayors for city regions or combined authorities, together with MPs in the areas in which we operate, are a key stakeholder group. We also work closely with regional bodies like Transport for the North, which provides an important focal point for leaders across the North, as well as national governments in Scotland and Wales, principally through Transport Scotland and Transport for Wales. Our businesses conduct regular surveys of our political stakeholders to better understand and respond to their interests and needs.

First Bus also works closely with a number of local authorities to pursue formal and informal partnerships which help us deliver better services through measures which cut road congestion and give priority to buses. For those councils identified by national governments as needing to take urgent action on air quality, we are a key partner in helping develop Clean Air Zones. In both cases, our expertise and experience helps local authorities identify and successfully bid into national funding streams.

This commitment to, and experience of, effective local and regional partnerships, underpins our advocacy for policy solutions which ensure that the experience and expertise of private operators remain central to the delivery of customer-focused bus services.

In First Rail, our TOCs engage regularly with the DfT, which, as the procuring authority letting franchise contracts, actively monitors our performance and progress towards franchise targets. Our franchised TOCs also deploy Regional Development Managers who liaise with local and regional government, local businesses, user groups and others.

Our newer franchises, like Avanti, have committed franchise obligations to ensure regular engagement with stakeholders, including through the establishment of forums and groups along the route.

Tram Operations Limited (which operates in South London) contracts directly with the Mayor of London's transport agency and has a close working relationship. As a consequence, there is regular contact with London Assembly members and the Deputy Mayor for Transport – in 2019/20 this included giving evidence to an inquiry by the London Assembly's Transport Committee.

We comply with the Lobbying (Scotland) Act 2016 regulations and key personnel are registered with the UK Lobbying Register. FirstGroup's gifts and hospitality policy is strictly adhered to when engaging with stakeholders at all levels.

In line with Company policy, we do not make political donations in the UK, and the US businesses only participate directly in the political process on limited occasions. In the US, all political donations are approved by our US General Counsel to ensure that they comply with all relevant laws and are properly disclosed.

Greyhound has a political action committee, which pools campaign contributions from members or employees and donates those funds to campaign on ballot initiatives or legislation, but it is not heavily used.

Please see page 91 for how we responded to shareholder feedback on political donations and page 132 for our approach to political donations in general and how we intend to cover it at this year's AGM.



Our people

More than 100,000 FirstGroup employees work in depots, stations and offices across North America, the UK and beyond, to deliver great service to our millions of passengers.

How we engage with our people

- Regular 'Your Voice' employee engagement surveys
- Dialogue with employee representatives, including Employee Directors and trade unions
- Inductions, onboarding sessions and employee handbooks
- Multiple internal communications channels, including our intranet, briefings, newsletters and our employee mobile apps
- Individual performance reviews and development discussions

Board engagement on people issues this year

- The Group Employee Director attends all Board and Committee meetings
- The Chief Executive attends every Employee Directors' Forum, and the Chairman (and his predecessor) attended the Forum in 2019
- The Group Employee Director visits our UK sites to understand employees' views and local perspectives. He is assisted by the network of Employee Directors
- Site visits by members of the Board, in particular as part of their induction programme, provide direct interaction with employees
- Specific updates from the Chief Executive, Group Corporate Services Director and Group HR Director on people issues, for example on talent and succession planning

Supporting our employees during the coronavirus pandemic

Since the start of the coronavirus pandemic, our primary concern has been to protect our customers and colleagues as we continue

to run vital services. Comprehensive safety measures designed to limit the spread of coronavirus were implemented as soon as the pandemic began, and are detailed in the safety section on pages 42 and 43.

We recognise that this has been an extremely difficult and uncertain time. Accordingly, we have taken a number of additional steps to support our employees with all aspects of their welfare, including:

- **Vulnerable employees:** we took steps to protect those who were most at risk, and we reminded all employees about the provisions in place in each of our divisions to support mental health and wellbeing.
- **Homeworking:** technology and associated systems support were provided to enable employees to work effectively at home wherever the nature of their role made this possible.
- **Communications:** we used multiple channels to keep in touch with our employees to convey important information, maintain engagement and prevent social isolation. The Chief Executive, and divisional leaders, recorded regular video updates which supported business-specific communications issued via the intranet, email, newsletters, management briefings and our employee apps. Our mobile apps have seen particularly large increases in the numbers of users during this time.

Employee engagement and representation

Our regular 'Your Voice' engagement surveys give employees the opportunity to express their satisfaction with the way they are managed, the pride they feel in working for the business and how likely they are to recommend FirstGroup to others as a great place to work.

During 2019, surveys were carried out in First Bus and First Rail. Engagement scores in every participating business were up on the previous year's score and ranged from 59% to 83%.

Throughout the Group, regular dialogue is maintained with employee representatives, including more than 30 trade unions and our employee-elected Employee Directors.

Employee Directors

We are committed to promoting employee involvement at every level of the business and we are proud to be one of the few publicly listed companies with Employee Directors to engage with its workforce in the UK. This gives the Boards of our bus and rail operating companies an employee viewpoint on matters affecting the direction and governance of our business as well as providing an additional route for

employee feedback on a wide variety of topics, from share ownership and innovation to new commercial opportunities and efficiencies.

Employee Directors are elected by an independently supervised ballot of employees in their respective companies, whilst the Group Employee Director is elected by the Employee Directors' Forum.

The Employee Directors' Forum meets in person twice a year and monthly by other means. They also collaborate and share experience on a regional basis. FirstGroup provides a formal induction for all newly elected Employee Directors, and two training sessions each year for the Employee Directors' Forum as a team.

These sessions are designed to develop their leadership, communication and influencing skills. In addition, each Employee Director undergoes a formal performance and development review with their Managing Director. This ensures they are supported to develop the skills and knowledge they need to be effective in their role.

We were delighted to welcome three female Employee Directors this year. Sally Bennett was elected as the Employee Director at GWR, Natalie Rees was elected as the Employee Director at First Cymru in First Bus, and Elizabeth Power was elected as the Employee Director at Avanti.



Left to right: Sally Bennett and Natalie Rees

Further information on our corporate governance framework, including our Group Employee Directors, can be found on page 82.

Diversity and inclusion

To understand the needs of our customers, our workforce must reflect the diversity of the communities we serve. To support this, we are committed to making our workplaces inclusive for all our employees.

The overall proportion of female employees in the Group remained steady this year at 40.5% (2019: 40.0%). The proportion of women in senior management positions has continued to increase, up from 23.2% in 2019 to 26.3% this year.

At Board level, 30% of our Non-Executive Directors are women. Our full gender diversity snapshot, as at 31 March 2020, is shown in the table below. For more information on our approach to Board diversity, and for details of our submission to the 2019 Hampton-Alexander Review, please see page 97.

Gender diversity

As at 31 March 2020

● Female ● Male

Total employees¹

Year	Female (%)	Female Count	Male (%)	Male Count
2020	40.5%	45,557	59.5%	66,837
2019	40.0%	43,438	60.0%	65,284
2018	38.9%	41,648	61.1%	65,414

Senior managers²

Year	Female (%)	Female Count	Male (%)	Male Count
2020	26.3%	101	73.7%	283
2019	23.2%	86	76.8%	284
2018	22.3%	78	77.7%	272

Board directors

Year	Female (%)	Female Count	Male (%)	Male Count
2020	30.0%	3	70.0%	7
2019	20.0%	2	80.0%	8
2018	20.0%	2	80.0%	8

1 In 2020, the gender of 54 of our employees was unknown (2019: 0; 2018: 47).

2 Using the Companies Act definition of 'any employee who has responsibility for planning, directing or controlling the activities of the Company or a strategically significant part of the Company'.

Improving diversity

During the year we have continued to make progress on our four commitments to improve gender diversity, which are to:

- Increase the number of female applicants for all roles
- Encourage more women to stay and progress
- Support and develop more women into higher paying roles
- Ensure men are more aware and can play their part in creating an inclusive workplace that is welcoming to women.

Our stakeholders continued

Information on the actions we are taking in support of each commitment is contained in our 2019 Gender Pay Gap Report which can be found at www.firstgroupplc.com.

More than 100 women have already participated in our dedicated development programmes, with further courses planned in 2020. 'Step Up' supports women to prepare for and attain their first management or supervisory role, while our 'Women's Career Development Programme' aims to help women in middle management roles progress to senior leadership positions.



“
The 'Step Up' course helped me prepare for job applications and interviews and gave me an insight into the leadership and management qualities I would need to progress. I've since been promoted into a team leader role and will use the skills I learned to develop further in future.
”

Shannon Fox, Maintenance Team Leader, South Western Railway

We recognise that even more needs to be done to build a pipeline of talented women to fill positions at all levels of management. As a result, we have introduced a third development programme, 'Step Forward', to support women in junior managerial roles to prepare for middle management jobs. Twenty women from across our UK businesses are already participating in a pilot programme, with plans to run further events in 2020.

We also recognise that more needs to be done to support the attraction, retention and career progression of people from a black, Asian and minority ethnic (BAME) background across the passenger transport sector. In the US, of those employees who disclosed their ethnic origin this year, 51.3% were from an ethnic minority background. In the UK, data on ethnicity has only been collected at recruitment for the last few years, so our overall workforce data is less comprehensive than in the US. Ensuring our job adverts show diverse employees and are visible to a broader pool of candidates, and implementing

unconscious bias training for hiring managers, have all helped to increase BAME hires in the UK from 12% to 15% in 2019/20; 36% of our 2019 graduate intake were from a BAME background. Our key area of focus in the coming year is to increase the proportion of BAME managers across the Group.

During the year, all of our businesses have taken action to make our workplaces more inclusive. Greyhound, First Bus, and our larger rail franchises have all implemented unconscious bias training to make managers more aware of, and therefore better able to, overcome any discrimination within the workplace.

Other actions taken this year to promote diversity and inclusion include:

- First Bus and First Rail both supported PRIDE events across their networks; for example, SWR was an official partner of Southampton PRIDE 2019.
- The partnership between First Rail and The Prince's Trust continues to provide work placements and mentoring for disadvantaged young people.

Across the Group, full and fair consideration is given to applications for employment by people with disabilities. We are committed to supporting disabled employees, including employees who become disabled during the course of their employment with the Group, with regards to training, career development and promotion.

Training and development

Each of our divisions provides training to enable employees to deliver great service for our customers, including new programmes like 'Leading with a service mindset' in First Transit alongside established programmes such as Journey Makers in First Bus.

The needs of some of our customers mean that additional training is required for the employees who transport them. First Student, in partnership with Cincinnati Children's Hospital, has developed the 'First Serves' programme for drivers whose role it is to transport children with special needs. The course was piloted in several First Student locations during 2019 and will be extended further during 2020.

In order to address the shortage of engineering and maintenance skills affecting many employers, several schemes are underway in different locations across North America to provide technician apprentice training before or at the beginning of maintenance careers in First Student and First Transit. This allows maintenance staff to earn while they learn, by driving for us alongside their maintenance training.

Building future capability

In North America, our new college recruitment scheme, 'Aspiring Managers', is bringing new talent into the business. Ten graduates have joined in a variety of operational and corporate roles across First Student and First Transit, and a further 20 will join in 2021. In Greyhound, we continue to run the 'Top Dog' talent development programme for high-potential employees.

In the UK, our graduate and apprenticeship programmes remain important sources of engineering and leadership talent. We currently have 186 apprentices in training across the UK, and 18 graduates joined us in a variety of engineering and operational management roles in 2019. We have continued to promote our opportunities to female undergraduates, and are pleased that as a result, women made up 39% of our 2019 UK graduate intake, up from 25% in 2017.



“
I used to work in childcare, but as my daughter got older, I decided it was time for something different and went back to university as a mature student in mechanical engineering.
”

The First Bus engineering graduate scheme really appealed to me as I wanted to be able to get hands-on with the buses. Everyone has been really supportive and I know that there are a huge number of career opportunities open to me.

Laura Dixon, Engineering Management Graduate, First Bus Operations Graduate

Health and wellbeing

We actively encourage our employees to take care of their physical and mental health and have a range of initiatives in place across our operating companies to support them.

For example, in First Bus this year our wellbeing campaign for drivers focused on the importance of sleep and nutrition in maintaining physical wellbeing. Avanti provides health and wellbeing events across its network to educate employees about the importance of maintaining a healthy lifestyle.

In North America, we continue to offer the Greyhound 'Healthy Hound' programme, and this year more than 560 Greyhound employees have received training on safe lifting techniques to prevent back injuries and reduce time lost through employee absence.

In First Student and First Transit our new employee wellbeing strategy is supported by regional wellbeing champions, and incorporates both physical and mental wellbeing initiatives.

We recognise that good mental health enables our employees to work safely and provide great service to our customers. In the UK, we have introduced mental health first aiders, who have been trained to recognise the signs that someone may be experiencing an issue, to offer initial support and direct them to appropriate help if required. We now have mental health first aiders across First Bus and the majority of our rail franchises. In addition, all of our businesses offer employees access to free, confidential counselling.

Mental health at work

Chris Gunns, a Sheffield train guard, has spoken publicly about his own battles with mental health issues in a bid to encourage other men to talk – particularly those in the rail industry. Since being diagnosed with clinical depression in 2006, Chris has launched his own blog and now campaigns to raise awareness of mental health issues.



“It’s important to take that first step and talk to people about mental health – once you’ve done it you’ll feel a weight off your shoulders.”

Chris Gunns, TransPennine Express



Communities

We aim to be the partner of choice for the communities we serve. We listen and use feedback from our communities to better understand their needs, and bring this insight into everything we do.

How we engage with our communities

- Targeted engagement plans and activities
- Regular dialogue, events and direct engagement activities
- Stakeholder reports and surveys
- Community investment, charitable engagement and employee volunteering

Board engagement on communities this year

- Monthly updates by the Chief Executive
- Specific updates from the Group Corporate Services Director and the Group Director of Corporate Responsibility on community issues as required
- Updates from divisional leadership teams as required

Supporting our communities during the coronavirus pandemic

We are proud of the community support our teams have provided during the coronavirus pandemic, going above and beyond to help our communities in the most difficult of times.

This has included the distribution of food supplies to vulnerable families; the movement of medical supplies and safety kits around our networks; the delivery of schoolwork for students; donations of food and supplies; and enabling employees to take time away from duties to volunteer for charities, community groups and other organisations.

In Greyhound, we launched 'Rides for Responders', a programme that provides free travel for medical personnel and first responders who need to travel during the coronavirus pandemic. We have also supported the National Guard with transportation to cities that are building temporary hospital facilities.

Through our long-standing Greyhound programme, 'Home Free', in partnership with the National Runaway Safeline, we have continued to provide free tickets home to runaway and homeless youth. The programme has seen an influx of calls related to the coronavirus pandemic due to stay-at-home orders across the US.

Greyhound has also continued to work with partners to move vital cargo across our network, including medical supplies and essential foodstuffs.

First Bus has responded to community requests for service modifications to cater for shifts of key NHS staff, including some bespoke NHS services in South Yorkshire, Scotland and Hampshire.

Avanti, GWR and TPE have released employees with vital skills in order to support partner organisations during the pandemic, including NHS volunteers, pharmacists, police drone pilots, armed services reservists, paramedics and special constables to help the response efforts, providing hundreds of hours of support for the communities we serve.

After a pioneering trial that included GWR, the Rail to Refuge scheme, designed in partnership with Women's Aid to provide free assistance to those fleeing abuse in their own home during lockdown, went nationwide and was adopted by all rail companies for the duration of the coronavirus lockdown period.

Our TOCs are also donating food and other supplies that can no longer be served on board. Donations so far have gone to organisations including South Western Ambulance Service, North Bristol Food Bank, Fareshare South West, Torbay General Hospital, Derriford Hospital Plymouth, Cheltenham Hospital and Quwwat-ul-Islam Mosque in London.

More information on our community response to the pandemic can be found on pages 2 and 3.

Community engagement strategies

Throughout the year across the Group our teams have continued to establish community engagement plans at a local level, ensuring that they are going beyond their daily contact with our direct customers, and are listening, understanding and responding to the needs of our communities and wider stakeholders.

We continue to offer tools such as structured, standardised community engagement plans, and training on engagement techniques to employees at the local level across the Group.

Our stakeholders continued

We conduct regular surveys to seek the views of our communities, such as our annual stakeholder satisfaction surveys in First Rail. We use the results of these surveys to enhance our community engagement activities and deepen the partnerships we have with our stakeholders and the customers and communities we serve.

Working with charities

We also commit our time, skills and resources to help those charitable causes that are important to our communities, both locally and nationally.

This year we supported hundreds of charitable organisations through corporate donations and gifts in kind, including donating advertising space and vehicle hires, event sponsorships and travel tickets.

In North America, we have continued to use our unique resources as a transport provider, volunteering drivers and vehicles to support projects for our community partners.

In the UK, we donate advertising space across our network to help our employee-chosen charity partner, Action for Children, to share their messages with millions of people.

Our employees provide further support, giving their time and effort to fundraise and support the causes they are passionate about. In the UK, colleagues have donated to charity through their pay, with over £160,000 given through our Payroll Giving scheme this year.

In total, FirstGroup and our employees donated £3.7m during 2019/20, as measured by the London Benchmarking Group model for community impact. See page 57 for a more detailed breakdown of our contribution.

Our Community Rail Partnerships and local community investment

In First Rail, we work in partnership with local councils, the Community Rail Network (previously known as the Association of Community Rail Partnerships) and the DfT to provide funding, advice and support for Community Rail Partnerships (CRPs).

Our CRPs work with their local communities to encourage rail travel. They develop volunteer support networks and help deliver station and service improvements.

We also provide support through our Customer and Communities Improvement Funds (CCIFs), investing in schemes along our lines of route that demonstrate real benefit to the community, meet a social need, and are not for commercial gain, in areas including education, social inclusion, transport integration, and the provision of better travel information.

More information about the impact of our CCIF funding can be found on our First Rail websites.

Our UK Charity of Choice partnership 2018-2021: Action for Children

Now two years into our three-year employee-chosen charity partnership with Action for Children, the partnership is valued at over £2.1m in corporate donations, employee fundraising and the commercial value of gifts in kind.

In 2020, the success of our partnership was recognised at the ThirdSector Business Charity Awards, winning in the Automotive and Transport category.

This award reflects the community spirit of FirstGroup colleagues across the UK who continue to find innovative ways to raise funds and awareness for the charity, including setting a Guinness World Record for skipping, sky dives, auctions, bake sales and Three Peaks Challenges.

Through our partnership, Action for Children benefits from gifted advertising space and travel support across our bus and rail network, as well as the support of employee volunteers, fundraisers and over 30 charity champions in our workplaces around the UK.

Our fourth annual Graduate Charity Challenge achieved a fundraising total of over £13,000 for Action for Children this year, raising vital funds and awareness to help young people on their journey to better mental health.

Thanks to our support, Action for Children has been able to deliver more than 500 hours of mental health interventions in our communities and upskill more than 230 of their employees around mental health.

In the year ahead, thanks to FirstGroup funding, 3,500 primary school children will benefit through the delivery of FRIENDS, an early intervention and prevention programme that builds mental health resilience in children aged 4 to 11.

Action for Children protects and supports vulnerable children and young people by providing practical and emotional care and support, ensuring their voices are heard and campaigning to bring lasting improvements to their lives.

With 476 services in communities across the country, the charity helps more than 387,000 children, teenagers, parents and carers a year. Find out more by visiting www.actionforchildren.org.uk.



Strategic partners and suppliers

Our key partners help us to understand and respond to the needs of our customers and stakeholders, through collaboration and the sharing of best practice. We work with more than 30,000 suppliers globally across our business, spending around £4.4bn each year on goods and services that help us deliver value to our customers and stakeholders.

How we engage with strategic partners and suppliers

- Regular dialogue with key partners
- Collaboration in cross-industry forums
- Certified systems for collaborative supplier relationships
- Clear ethical and sustainability standards

Board engagement on suppliers and partners this year

- Monthly updates by the Chief Executive
- Updates as required by the Group Tax & Treasury Director who leads on procurement and supplier matters
- Updates from divisional leadership teams as required

Working with our strategic partners and suppliers during the coronavirus pandemic

Like many organisations, we have responded rapidly and comprehensively to mitigate potential disruption to our supply chain during the coronavirus pandemic.

Public transport has played a vital role in keeping essential workers moving during the crisis, and our swift and thorough procurement efforts have supported the safe and effective delivery of our services throughout this time.

Our efforts have been led by a dedicated procurement taskforce, which was set up to review and manage coronavirus risks to our supply chains across our divisions and the Group.

This has included workstreams in the following areas:

- Key supplier engagement – including assessments conducted with all of our key suppliers to identify the operational risks and impacts of the coronavirus pandemic on our supply chain. This has been kept under constant review throughout the pandemic.
- Regular dialogue with these key suppliers – including planning for the transition back to a ‘new normal’ operation as our bus and rail services increase.
- Procurement activity to support the robust safety measures that were implemented by the Group to help limit, as far as we possibly can, the spread of coronavirus – including the sourcing and supply of PPE and specialist equipment, with rigorous processes in place to ensure full validation of the authenticity and certification of these critical products. Securing the timely supply of antiviral products, disinfectants and other new products developed to address the coronavirus pandemic has been vital in delivering enhancements to our already stringent cleaning protocols for our vehicles and buildings across all divisions. For example, ozonation, which is a highly effective deep cleaning method for vehicles, has been deployed, as well as a number of innovative products that give extended protection from recontamination after cleaning.

More information on risk in relation to the coronavirus pandemic can be found on page 59, and safety can be found on pages 42 and 43.

Strategic partners

We work closely with our strategic partners across all our businesses. Our experience and strong operational track record allow us to maximise the potential of our key relationships, irrespective of scale. For instance, our TOCs work closely with small local user groups and Community Rail Partnerships to provide enhanced services to specific communities, whilst also developing long-term strategic alliances with Network Rail, a national infrastructure supplier.

Our local management teams are adept at mapping and understanding the needs of their local stakeholders, as well as developing partnerships which deliver enhanced services and value to both the business and the communities it serves. For instance, in our newest rail operation, West Coast Partnership, we will transform engagement with local, regional and national partners through an independently chaired Economic Development Forum and an Integrated Transport Forum, giving stakeholders a voice to shape future

high speed and conventional rail services. Specifically, our partnerships team within West Coast Development will work with HS2 Ltd to ensure smooth design and development, mobilisation and delivery of services on the new HS2 line. More information on our community engagement strategies can be found on page 51.

We also engage in strategic high-level partnerships through trade bodies to ensure a coordinated response to industry-wide challenges. Most recently, we have worked effectively through the RDG, CPT, NSTA and APTA, to secure essential government support for our operations as a consequence of travel restrictions imposed to tackle the coronavirus pandemic.

We also engage in these forums to gain and share knowledge and expertise, as well as develop common industry positions in a range of policy areas including Brexit or climate change.

In the US, First Transit President Brad Thomas was appointed to the National Safety Council’s (NSC) Board of Directors in November 2019, to inform and promote the NSC’s work on workplace safety.

In First Rail for example, we chair the Sustainable Development Steering Group for our industry representative body, the Rail Safety and Standards Board (RSSB), to help set sustainability goals for the rail industry and develop tools and guidance to support the industry transition to a lower carbon future.

Similarly, First Bus has led industry engagement with accessibility groups and disability NGOs on the UK Government’s ‘It’s Everyone’s Journey’ campaign, which launched in February 2020.

Procurement

We work with more than 30,000 suppliers globally across our business, spending around £4.4bn each year on goods and services that help us deliver value to our customers and stakeholders.

We have dedicated teams of procurement specialists within our divisions that build and maintain our relationships with our suppliers, making sure they understand our needs and can deliver the highest quality at the best price whilst promoting innovation and managing supply chain risks.

Building long-term relationships

The long-term partnerships we build with our suppliers are based on mutual trust. We have regular forums to share knowledge and best practice with our suppliers and work to continually build on our existing relationships with clear systems and controls in place to

make sure we work together in a fair, consistent and transparent manner.

Within First Rail we use the international standard ISO 44001 for managing our supplier relationships and this year we were recognised as an ‘advanced leader’ by external benchmarking organisation State of Flux for the best practice we demonstrate in this area.

We make sure that all payments to our suppliers are made within the appropriate credit timeframe. The average credit period taken for trade purchases across our business in 2020 was 28 days (2019: 31 days). We also provide our suppliers with clear governance and compliance standards and conduct regular feedback meetings to share knowledge and address challenges.

Sustainability in our supply chain

It’s important to us that we work with our suppliers to improve the environmental, social and broader sustainability impacts of the services they provide us. We expect our suppliers to observe business principles and ethics consistent with our own and will not procure goods and services from sources that jeopardise human rights, safety or the environment. Our minimum expectations on anti-bribery, safety, environment, data protection and modern slavery are outlined in our Group-wide Supplier Code of Conduct and Code of Ethics and incorporated into our standard contracting terms and conditions. In addition, we screen suppliers to assess the level of associated environmental and social risk, conduct audits and follow up issues identified where necessary.

Where possible we work with partners and suppliers to find more innovative ways of providing the highest standard of service with an improved environmental impact.

We continue to partner with a range of organisations across our divisions to drive innovation and the adoption of low- and zero-carbon vehicles in our fleets. More information on our Group-wide strategic framework for sustainability, *Mobility Beyond Today*, can be found on page 38.

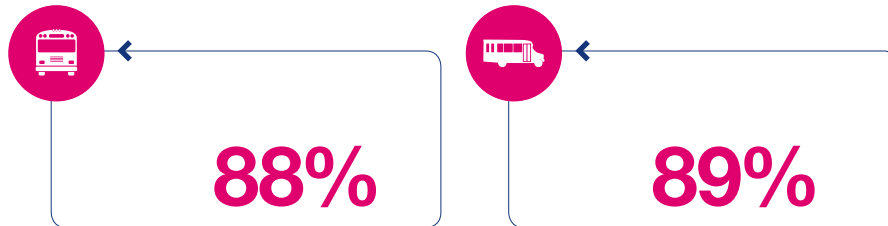
Working with local businesses

Our support of small and medium-sized enterprises (SMEs) in the local communities we serve is also a focus and of importance to us at FirstGroup. This year we introduced a new analytical tool that provides us with a quicker way to understand our supply base across our UK divisions. This tool enables us to easily identify areas for supplier consolidation and increased value, as well as identify where and how we support SMEs and enable us to do so more quickly and effectively.

Key performance indicators

1 Focused and disciplined bidding in our contract businesses

First Student and First Transit contract retention (%)



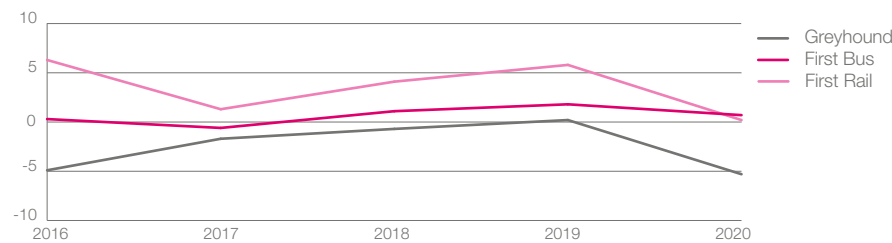
We measure contract retention as a percentage of existing business subject to bid in the year, rather than as a percentage of the contract portfolio as a whole.

First Student's record high customer satisfaction scores assisted in delivering a contract retention rate of 88% (2019: 92%) on business up for renewal, ahead of our expectations and balanced with favourable pricing. Across our entire portfolio of multi-year relationships, retention was 96% (2019: 97%).

In First Transit, we maintained our retention of at-risk contracts at 89% (2019: 89%) in the year.

2 Driving growth through attractive commercial propositions in our passenger revenue businesses

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



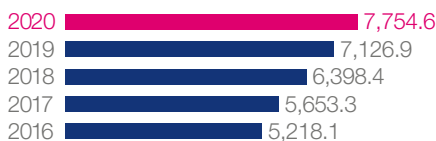
Like-for-like (LFL) revenue adjusts for changes in the composition of the divisional portfolio, holiday timing, severe weather and other factors that distort the year-on-year trends in our passenger revenue businesses.

Coronavirus compounded a challenging year for Greyhound with lower immigration-related demand, strong competition and lower fuel prices resulting in LFL revenue reductions of (5.3)%.

First Bus LFL passenger revenue of +0.7% reflects the previously reported poor weather in H1 and the coronavirus outbreak.

In First Rail, excluding Avanti, LFL passenger revenue growth was +0.2% reflecting changing work patterns and lifestyles resulting in a shift away from season tickets towards pay-as-you-go offerings, as well as the coronavirus impact.

Group revenue (£m)



Group revenue in the year increased by 8.8%.

In constant currency, Group revenue increased by 7.2%, or by 2.6% excluding the initial contribution of the Avanti rail franchise. This principally reflects growth in First Student, First Transit and First Rail; LFL passenger revenue growth in First Bus was offset by disposals while Greyhound experienced LFL revenue declines compared with the prior year and the effect of the withdrawal from loss-making routes in Western Canada. The coronavirus outbreak and the measures taken by authorities to control its spread in the final weeks of the year significantly affected revenue in all divisions.

3 Continuous improvement in operating and financial performance

Punctuality

Greyhound on-time performance¹ (%)

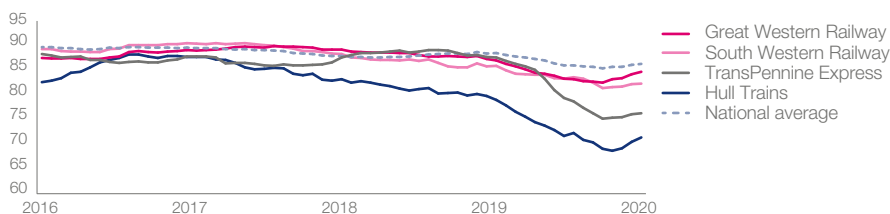


First Bus punctuality (%)



¹ We implemented GPS tracking in 2017; earlier data is not comparable due to this change in methodology.

First Rail Public Performance Measure (PPM)



Note: The Group began operation of the Avanti West Coast rail franchise in December 2019. A complete year of data will be included in the 2021 Annual Report.

Safety

Employee lost time injury rate (per 1,000 employees per year)



Passenger injury rate (per million miles)



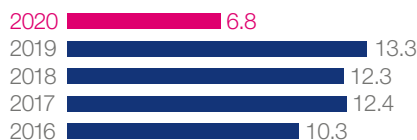
Note: Historical data is restated annually to incorporate the most accurate information for the previous 36 months.

Financial performance

Adjusted operating profit (£m)



Adjusted EPS (pence)



Greyhound's on-time performance improved to 78.4% for the year. The retirement of older buses from the fleet as well as introduction of some newer, more reliable buses plus focused efforts to improve driver retention contributed to the increase.

First Bus punctuality measures percentage of services no more than one minute early or five minutes late and has seen a further year-on-year improvement, even though congestion remained a significant issue for much of the year in many of the cities we operate in. Further work has taken place to try and mitigate this, both with local authorities and through insights gained from GPS data systems on board our buses.

The national average score of rail punctuality and reliability (PPM) saw a decrease during the year with contributory factors including poor Network Rail infrastructure performance and external events (e.g. trespass). The introduction of new fleets presented particular challenges across several of our networks including TPE and Hull Trains, however, improvement plans were put in place to address this and new trains are delivering benefits for passengers where they have been introduced. GWR's new fleet plans stabilised and they outperformed their target this year.

We achieved a 12% reduction in our employee lost time injury rate thanks to reductions in all divisions. Total employee injuries were also reduced by 4%, in line with the continuing focus on positive reinforcement of safe behaviours, supported by rules enforcement, in our Be Safe programme. There has also been progress in all divisions in reducing severity of injuries, with major injuries significantly down.

Passenger Injuries per million miles have reduced by 3%, primarily driven by reductions in First Bus and First Rail. Although total reported passenger injuries in Greyhound, First Transit and First Student increased, these divisions had significant reductions in passenger major injuries. We continually review the root cause of passenger injuries, using data analysis to shape the focus of our safety programmes. More information on our approach to safety can be found on page 42.

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.

Excluding the coronavirus impact, the Group's adjusted operating profit performance was broadly comparable to the prior year; adjusted operating profit decline of (20.1)% in constant currency principally reflects reductions in service volumes due to coronavirus in the final weeks of the financial year.

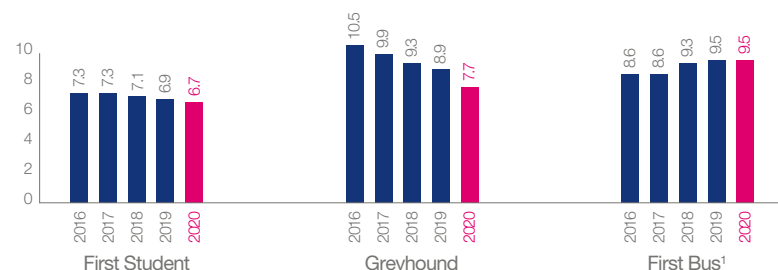
Adjusted EPS decreased by (49.6)% in constant currency, reflecting the lower adjusted operating profit and first-time adoption of IFRS 16 (lease accounting) on financing costs.

Key performance indicators continued

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

Average fleet age

(Years)



¹ First Bus 2018 data onwards calculated on basis of vehicles in service. 2017 data also restated on that basis.

First Student made investments in buses during the year, reflecting the strong retention rates and uplift in new business wins achieved; therefore, our average fleet age reduced to 6.7 years.

Following a number of years where Greyhound required few additional vehicles, the fleet renewal plan added 120 vehicles this year. As a result the reported average fleet age reduced to 8.3 years at the end of February (March 2019: 11.6 years) with the effective fleet age reduced to 7.7 years (March 2019: 8.9 years). Adjusting for the 600 buses parked due to the coronavirus pandemic at the end of March, the effective age was 5.5 years.

In First Bus, our capital investment during the year was focused on areas where we work closely with stakeholders to progress our shared ambitions to deliver thriving and sustainable bus services. Over the last two years we have made considerable progress in downsizing the fleet and securing clean air compliance. Average fleet age remained stable at 9.5 years (2019: 9.5 years).

Group ROCE

(%)



Reported return on capital employed (ROCE) is a measure of capital efficiency and is calculated by dividing adjusted operating profit after tax by all year end assets and liabilities excluding debt items.

Group ROCE pre-IFRS 16 was 8.2%. In the prior year on a comparable basis it was 9.7% at constant exchange rates and 10.5% as reported. ROCE in the Road divisions was 4.8% (2019: 5.9% at constant exchange rates and 6.4% as reported).

5 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)



First Student increased their overall customer satisfaction score to record levels this year (8.93 out of ten), despite sector-wide driver shortage challenges. Our teams collaborated with school districts to collectively problem solve and develop awareness around recruitment measures.

First Transit also maintained their strong overall satisfaction score, with 8.87 out of ten; just below last year's high achievement of 8.88.

Greyhound's Net Promoter Score improved year-on-year thanks to improvements in on-time performance and as a result of fleet investments.

Greyhound

(Net Promoter Score)



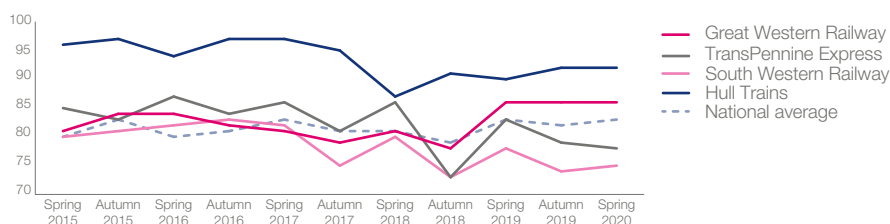
First Bus

(% satisfied with their journey overall)



Overall satisfaction with First Bus in the independent Transport Focus Bus Passenger Survey in England was 84%, a slight increase compared to last year (83%). A key factor in overall customer satisfaction is punctuality, where our satisfaction score improved by 1%. Our driver welcome/greeting score improved again in 2019 from 70% to 72%, and our driver helpfulness and attitude score improved from 72% to 73%. These results demonstrate the benefit of focus given to driver behaviour through our Journey Makers programme and to driver engagement, facilitated by First Bus Connect, our colleague app which is well used by drivers.

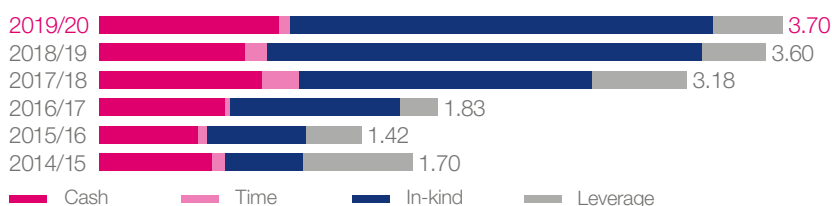
Transport Focus National Rail Passenger Survey (% satisfied with their journey overall)



Note: The Group began operation of the Avanti West Coast rail franchise in December 2019. A complete year of data will be included in the 2021 Annual Report.

Independent passenger watchdog Transport Focus undertakes the National Rail Passenger Survey (NRPS) twice yearly. The Spring 2020 survey was curtailed due to coronavirus, with 19,500 interviews completed, three-quarters of the target. Nationally, overall satisfaction was unchanged from the previous Autumn 2019 survey at 82%. GWR's overall score was four points higher than the national average, unchanged from the previous survey. Customer satisfaction with TPE fell by 1%, reflecting disruption caused by a delayed roll out of new trains. Although SWR also saw performance issues in this period, three-quarters of customers were satisfied, unchanged from the previous survey. Hull Trains is consistently one of the strongest performers in this survey. This continued with a 92% score, 10% higher than the UK average.

Community investment (£m measured using LBG model)



This year we contributed £3.7m to the communities we serve across the UK and North America. This was measured by using the method of the London Benchmarking Group (LBG) model which tracks cash contributions made directly by the Group, time (employee volunteering), in-kind support (such as travel tickets, advertising space) and leverage (including contributions from other sources such as employees, customers and suppliers).

Greenhouse gas emissions (Tonnes of carbon dioxide equivalent – tCO₂(e))

Data is split between Non-UK and UK in order to comply with SECR* requirements	2020**	2019	Baseline year 2016
Scope 1 – Non-UK	1,414,417	1,542,650	1,568,008
Scope 1 – UK	696,782	802,118	848,773
Scope 2 – Non-UK	40,907	48,647	127,634
Scope 2 – UK	221,164	217,277	139,607
Scope 1 + 2 – Total Non-UK	1,455,324	1,591,296	1,695,642
Scope 1 + 2 – Total UK	917,946	1,019,396	988,380
Scope 1 + 2 – Total FirstGroup	2,373,270	2,610,692	2,684,022
Scope 3 – Total FirstGroup	19,670	18,179	15,126
Out of Scope – Total FirstGroup	27,532	14,654	13,585
All scopes – Total FirstGroup	2,420,471	2,643,524	2,712,733
% change (against prior year)	-8.4%	-	-
% change (against baseline year)	-10.8%	-2.6%	-
Scope 2 (market-based) – Total FirstGroup	42,587	48,768	72,134
Per £1m of revenue	312	371	-
% change (against prior year)	-15.8%	-	-

* Streamlined Energy and Carbon Reporting (SECR).

** Emissions from Avanti are included in our 2020 data, but only from the franchise start date of 8 December 2019.

Further notes on methodology can be found on page 58. For more information on our ambition to eliminate the carbon emissions associated with our operations, see page 38.

97.4% of our carbon emissions derive from the fuel and electricity we use to power our road and rail vehicles (2019: 94%).

In the past year, we have reduced our overall gross carbon emissions by 8.4%, and our carbon intensity (per £1m revenue) by 15.8%. Since our baseline year of 2015/16, our carbon footprint has reduced by 10.8%.

Relevant factors in this include a reduction in our use of fossil fuels, through efficiency and other measures such as replacing older buses and trains with newer, more efficient alternatives, and an increasing swing towards electric traction in our rail portfolio, primarily through the addition of Avanti West Coast.

The decarbonisation of the power networks we draw from continues at pace, as renewable and lower carbon power generation replaces fossil fuel power plants. This, coupled with the aforementioned increased electrification in First Rail, has played a key role in reducing our carbon intensity per passenger km and per £1m revenue. This electrification is also driving improvements in our air emissions, supporting our ambitions to be the partner of choice for cleaner fleets for our customers and communities, improving local air quality in our cities and towns (read more on page 38).

An Environmental Data Report (2020) is available on our website (www.firstgroupplc.com/responsibility) and provides further analysis on our carbon, energy and environmental impacts, alongside information on our data and assurance processes.

Key performance indicators continued

Energy consumption (Kilowatt-hour equivalent – kWh_e)

Data is split between Non-UK and UK in order to comply with SECR* requirements	Reporting year				Baseline year	
	2020**		2019		2016	
	Non-UK	UK	Non-UK	UK	Non-UK	UK
Scope 1 (kWh _e)	5,387,526,267	3,261,710,888	5,954,334,260	3,076,736,576	5,669,749,085	3,203,454,096
Scope 2 (kWh _e)	94,094,333	864,652,714	108,031,558	767,147,091	115,378,135	82,254,804
Scope 1 + 2 (kWh _e)	5,481,620,600	4,126,363,602	6,062,365,818	3,843,883,667	5,785,127,220	3,285,708,900
Total FirstGroup (kWh_e)	9,607,984,203		9,906,249,485		9,070,836,120	
% change (against baseline)	5.9%		9.2%		–	
Energy intensity:						
kWh _e per £1m of revenue	1,475,537	1,021,478	1,699,665	1,079,712	–	–
Total FirstGroup kWh_e per £1m of revenue	2,497,015		2,779,377		–	–
% change (against previous year)	-10.2%		–		–	

* Streamlined Energy and Carbon Reporting (SECR).

** Energy consumption equivalent from Avanti is included in our 2020 data, but only from the franchise start date of 8 December 2019.

Energy and emission reduction initiatives

In the past year, we have continued to optimise our energy use, leading to a year-on-year reduction in our energy intensity (per £1m revenue) of 10.2%, as shown in the table above.

Since our baseline year of 2015/16, our absolute energy footprint has increased by 5.9%, primarily driven by the addition of Avanti and SWR to our rail portfolio in that time.

In 2020, we continued to undertake energy efficiency initiatives and investment in measures to reduce our carbon emissions and limit local air emissions, including the following:

- In our road fleets, we have continued to replace older vehicles with more efficient, newer model year alternatives. In First Student, for example, this has contributed to a reduction of 38,666 tCO₂e from fuel burnt by our vehicles this year and a reduction of 180 tonnes of NO_x. 32% of all miles driven by First Student buses in 2020 were achieved by vehicles from the 2017 model year or newer.
- In First Bus this year, we introduced 193 new Euro VI or better buses, including 74 biogas buses for Bristol (with a further three scheduled for delivery shortly). Our biogas fleet offers a certified carbon reduction of 84% (Well-to-Wheel) when compared to an equivalent Euro V diesel bus fleet.
- Across First Rail, the average carbon intensity of journeys undertaken on our services has reduced to 33.7g CO₂/pkm, supported in part by the continuing electrification of our

portfolio, and the use of more biofuel blends in some of our diesel services.

- The carbon intensity of the electricity grid used to power our First Rail fleets has fallen this year by 9.7%, helping to reduce the emissions of our rail business.
- We have achieved carbon reductions related to our use of fuel additives in GWR, SWR and TPE and from the extension of our Driver Advisory System to our new Hull Trains fleet.
- Lighting accounts for around 80% of the energy used at stations in First Rail. In 2019/20, we completed a replacement programme for 4,940 light fittings using efficient LEDs on GWR and SWR station platforms, car parks and ticket halls.
- We have fitted emission-reducing technology ('selective continuously regenerating traps') on trial fleet in SWR. This has contributed to a reduction in carbon emissions, and a reduction of up to 80% in NO_x emissions.

Notes and methodology

Our carbon and energy reporting approach is described in full in our Environmental Data Report (2020), which is available on our website (www.firstgroupplc.com/responsibility).

Our reporting follows the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard, applying the operational control approach to our organisation boundary against a materiality threshold of 5%. Any operation emitting less than 5% of the Group's total GHG emissions (or in combination with other emissions, less than 5% of corporate emissions) is regarded as immaterial.

Carbon and energy figures have been restated in consideration of changes in methodologies, improvements in the accuracy, or discovery of errors in previous years' data as per our stated policy.

Our gross carbon emissions have been classified in the following way:

- Scope 1 – Direct emissions from: vehicle use (owned and leased); fugitive refrigerant gas emissions; heating fuels used in buildings, and road and rail fuel use. This year we have also included business car mileage (in compliance with the Streamlined Energy and Carbon Reporting Regulations 2019).
- Scope 2 – Indirect emissions from: electricity used in our buildings, and to power our electric rail and bus fleet. We report both location-based emissions (taking into account the UK grid average) and market-based emissions (reflecting the amount of energy from renewable sources).
- Scope 3 – Indirect emissions from: First Travel Solutions (including third-party vehicle provision); business travel by air and taxi; hotel stays; water supply; and waste recycling and disposal.
- Out of Scope – Indirect emissions from: biofuel usage from all divisions in line with DEFRA reporting guidelines.

Data in the table above has been independently assured by Carbon Intelligence.

Principal risks and uncertainties

Introduction

We followed our usual risk management process throughout the year (as explained on page 62) and the key principal risks and uncertainties (including how they have evolved since last year) are set out on pages 63 to 68.

Coronavirus pandemic

In the last three weeks of March, the Group witnessed unprecedented changes in all of the markets in which it operates caused by the onset of the coronavirus pandemic. As noted in the Chief Executive's report on page 9 there were rapid and substantial reductions in passenger demand in our businesses in North America and the UK. Government advice and policy in those markets changed rapidly, necessitating urgent discussions with many of our customers about future service levels.

On 23 March 2020, the Group updated the markets and announced that because of the changes taking place during a significant trading period for the Group, the Group was no longer able to provide guidance on the outturn for the remainder of the financial year to 31 March 2020.

The Group's resilience throughout the unprecedented pandemic reflects the fact that we provide essential services to the communities we serve, our diverse portfolio, and the benefits derived from contractual structures and protections already in place in some of our businesses. Nevertheless, the longer-term consequences of the coronavirus pandemic for our business remain very uncertain, both in terms of duration and impact. We have set out on pages 63 to 68, our assessment of how the nature and potential severity of our underlying principal risks and uncertainties have changed as a result of the pandemic, and how we managed the Group's emerging risk profile in a rapidly changing environment.

As the spread and impact of the pandemic became apparent, the Group's risk management processes and reporting focused on the immediate risks to the business and the mitigating actions that were needed in the days and weeks following the introduction of lockdown and 'shelter in place' orders put in place by governments in the UK and North America.

How we managed the emerging risks

The Group acted quickly and decisively to protect its ability to continue to deliver essential transport services. The mitigating actions taken as the pandemic evolved and governments introduced measures designed to curb the spread of the virus, including lockdown and restrictions on the use of public transport, are more fully described in the Strategic report which should be read in conjunction with the disclosures in this section.

The immediate impact was managed through our existing emergency response plans and was led by our top emergency response team, the Diamond Group, formed of members of the Executive Committee and core functional heads and facilitated by the Group Safety Director and Group Security Director. After immediate response plans were in place, the response was overseen by a sub-committee of the Executive Committee on twice daily scheduled calls during April and May, and daily thereafter.

The Board was kept informed throughout and received weekly reports from the Chief Executive as well as more detailed briefings at its scheduled meetings. The Board itself had five virtual meetings between 22 March and 2 July to be briefed on the business impact, government support measures and how they were being accessed and implemented, as well as the output of the financial modelling used to assess likely liquidity requirements and covenant headroom under various scenarios. See page 95 for how the Board adapted to working in lockdown.

Health and safety

The Group's first priority from the start of the coronavirus outbreak was the health and safety of the Group's passengers, employees and the communities in which it operates. The Group took rapid action to apply the advice of governments and health authorities throughout our businesses, including implementing additional cleaning regimes and the provision of advice to passengers. At the same time, steps were taken to ensure the Group could continue to provide essential transport services so that key workers and people who needed to travel could still do so safely.

We worked closely with our suppliers to ensure we had the appropriate equipment in place, in line with relevant public health authority guidance for our businesses. We followed, and in some cases developed, best practice in areas such as the cleaning and decontamination of vehicles, depots and terminals.

Cost and cash management

We took immediate and significant action to reduce costs and preserve cash. These included:

- reducing operating expenditure and instructing all our divisions and corporate functions to stop all material discretionary spend
- placing future capital expenditure orders on hold unless required to meet contractual commitments
- placing a substantial proportion of our total workforce in North America and in First Bus on furlough under the emergency job retention schemes
- implementing home working for our staff where possible
- introducing hiring freezes and halting consultant and contract labour where possible
- reducing headcount where that was necessary
- utilising the tax payment holidays and other emergency measures introduced by governments to assist companies in managing their costs and cash flows

Principal risks and uncertainties continued

Liquidity

The Group has a diversified funding structure with average debt duration at 31 March 2020 of 3.3 years (2019: 4.3 years) which is largely represented by medium-term unsecured committed bank facilities and long-term unsecured bond and private placement debt. It also includes a £250m undrawn bridging loan entered into in March 2020 for the redemption of the £350m bond that matures in April 2021.

As at 31 March 2020, the Group's undrawn committed headroom under the bank revolving credit facility and free cash (before Rail ringfenced cash) was £585.7m.

In April and May a number of actions were taken to improve the Group's liquidity, including participating in and drawing down £300m under the UK Government Covid Corporate Finance Facility (CCFF).

As at the end of June 2020, the Group's undrawn committed headroom under the bank revolving credit facility and free cash (before Rail ringfenced cash) was c£850m.

Overall, the Group currently has access to £2,707m of facilities as at 7 July 2020 of which £2,041m is fully committed during the going concern period and a further £666m is either currently available but not committed, or committed and currently available but not committed for the entirety of the going concern period.

On 1 April 2020 Fitch Ratings confirmed that it had maintained its long-term Issuer Default Rating (IDR) for the Group at BBB- while changing its outlook to negative from stable. On 4 May S&P Global Ratings also affirmed its long-term issuer credit rating on the Group at BBB- and also changed its outlook from stable to negative.

Further details of the steps taken since March to improve the Group's liquidity position as well as details of its existing bank facilities, including the CCFF, can be found in the Financial review on pages 28 to 37 and in note 21 on pages 172 and 173.

Government and contractual support

All of our businesses benefited, and continue to benefit, from contractual (First Student and First Transit), or direct fiscal support from governments. The form and quantum of these support measures varies across the Group. All of our businesses are in receipt of material levels of support to ensure the ongoing delivery of services through this crisis, or to enable them to be able to restart services quickly once needed.

In the UK, the government put in place comprehensive emergency measures, initially for six months, in order to maintain continuity of critical rail services and also introduced a package of funding to maintain bus industry capacity for key workers, which was subsequently extended to support higher capacities with social distancing.

In the US, a federal stimulus package signed into law on 27 March 2020 ('CARES Act') provided substantial funding to the states, municipal and local authorities (including school boards) to sustain critical transportation and educational services and support businesses and their employees.

Further details are set out in the Financial Review on pages 28 to 37 and on page 150.

How we assessed the financial impacts

As soon as the scale and potential impact of the coronavirus pandemic started to become apparent, a series of detailed management forecasts were produced to assess the potential impact of the pandemic for the remainder of the current year (and expanded later to include the year ending 31 March 2022) having regard to the emerging risks and uncertainties faced by the Group.

The modelling included a base case and a reasonable downside scenario. These forecasts were constantly updated as the crisis developed and were used to test the risk of covenant breaches and used by the Board in its going concern assessment. The key judgements and underlying assumptions in the base case and the downside scenario are set out in the Prospects and viability section on pages 69 to 71.

Covenant testing

The financial modelling and forecasts were used to assess the potential impact on the covenants in the Group's banking facilities. Those covenants are measured twice a year, at the full year and again at the half year and are measured under frozen GAAP and therefore exclude the effects of IFRS 16.

All banking covenant tests were met at the last testing point on 31 March 2020. The base case financial forecast used for going concern assessment indicates that banking covenants will be met throughout the going concern period albeit with limited headroom at the September 2020 and March 2021 test dates. Further details of the covenant tests and projected outcome of the testing based on the financial forecasts referred to above can be found on page 73.

Further details of how the ongoing impact of coronavirus might impact the future financial position of the Group and the risk that a covenant waiver may be required are set out in the Going concern statement on page 72.

There is also uncertainty in UK rail as to the balance of risks and rewards for franchising in the future with the existing Emergency Measures Agreements put in place with effect from 1 March 2020 and which are planned to expire on 20 September 2020. Future commercial arrangements will need to address the longer-term effects of the pandemic and the challenges of long-term demand forecasting for operators such that the risk and reward is balanced more appropriately between shareholders and government.

As noted above, the Group's risk management processes and reporting focused on the immediate risks to the business and the mitigating actions that were necessary to take in the days and weeks following the introduction of lockdown and 'shelter in place' orders. While it remains to be seen what the lasting impact of the coronavirus pandemic will be on the Group's future operating model and longer-term viability, the Board will be focussing increasingly on the emerging risk profile of the Group as the business begins to emerge from the current restrictions and there is more clarity on the future regulatory and operating environment for public transport.

Going concern

A number of risks and uncertainties give rise to material uncertainty in relation to the Directors' going concern assessment. Further details of the Directors' review and assessment of those risks and their determination regarding going concern are set out on pages 72 to 73.

How we managed the emerging risks

We have set out on pages 63 to 68, our assessment of how the nature, and potential severity, of the underlying principal risks and uncertainties have changed as a result of the coronavirus pandemic and how we managed the Group's emerging risk profile in a rapidly changing environment.

The outlook

The continuing impact of the coronavirus pandemic raises material uncertainties for the Group that could have a significant adverse impact on its future trading performance. These include:


- Significant uncertainty about near-term customer demand. With unprecedented levels of disruption due to coronavirus it remains unclear what longer-term impact travel restrictions and social distancing will have on passenger numbers.
- The longer-term effect on customer behaviour and home-office commuting is also unclear.
- There remains considerable uncertainty regarding the levels of financial and other fiscal support measures governments and key contracted customers will be willing or be able to provide should the coronavirus crisis continue beyond the period for which that funding and support is currently being provided.
- In Rail, there is uncertainty as to the balance of risks and rewards for franchising in the future with the existing Emergency Measures Agreements that were put in place effective 1 March 2020, where we take no revenue or cost risk, expire on 20 September 2020. Future commercial arrangements will need to address the longer-term effects of the pandemic and the challenges of long-term demand forecasting for operators such that the risk and reward is balanced appropriately between shareholders and government.

The uncertainties facing the Group regarding future levels of financial and other fiscal support measures, and how they potentially impact the future operational and financial performance of the Group are described in more detail in the Going concern statement on pages 72 to 73.

As noted above, the Group's risk management processes and reporting focused on the immediate risks to the business and the mitigating actions that were necessary to take in the days and weeks following the introduction of lockdown and 'shelter in place' orders. While it remains to be seen what the lasting impact of the coronavirus pandemic will be on the Group's future operating model and longer-term viability, the Board will be focusing increasingly on the emerging risk profile of the Group as the business begins to emerge from the current restrictions and there is more clarity on the future regulatory and operating environment.

Climate-related risk

Interest and focus on the global challenge of climate change continues to grow. During the year, the UK Government set a legally binding national target for net-zero greenhouse gas emissions by 2050. Coalitions of American states, cities and businesses in support of the Paris Agreement on climate change now represent almost 70% of US GDP.

The Board, Executive Committee and divisions assess climate-related risk in accordance with the Group's risk management framework as described on page 62, and consider broader ESG matters in line with duties including the Code and section 172 (as shown on page 92). Our key climate-related risks are highlighted within our principal risks in the table on page 63 with the following symbol: .

We recognise that investors and broader stakeholders are seeking consistent climate-related financial disclosures. Of particular relevance, the UK Government is exploring how to implement mandatory climate-related financial disclosures by 2022, based on recommendations from the Task Force on Climate-related Financial Disclosures (TCFD). The TCFD has developed a globally recognised framework through which exposure to climate-related financial risk and opportunities can be disclosed, built around four key themes; governance, strategy, risk management, and metrics and targets.

As outlined on page 40, as part of our Group-wide sustainability framework, Mobility Beyond Today, we have committed to implementing the TCFD's recommendations, stating that we will be transparent with our progress in helping to combat climate change and improve local air quality, and publicly disclose decision-useful climate-related financial information in alignment with TCFD recommendations. We will set out our progress against the four TCFD themes in our reporting in 2021. Further information on our sustainability commitments can be found on pages 38 to 41, and our latest carbon and energy performance can be found on pages 57 and 58.

Principal risks and uncertainties continued

Our risk management approach

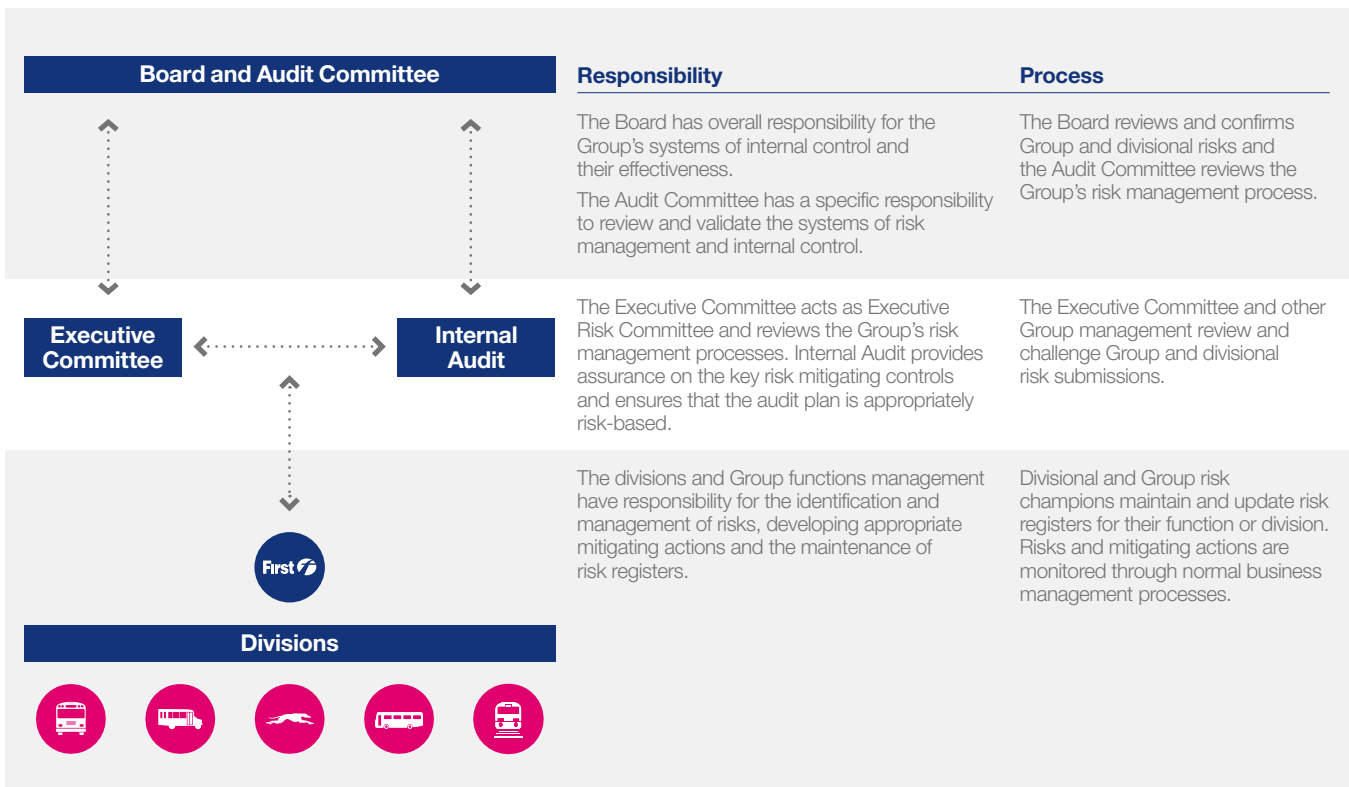
We take a holistic approach to risk management, first building a picture of the principal risks at divisional level, then consolidating those principal risks alongside Group risks into a Group view.

Our risk management structure

Whilst some risks such as treasury risk are managed at a Group level, all of our businesses are responsible for identifying, assessing and managing the risks they face with appropriate assistance, review and challenge from the Group functions.

We seek to continue to improve the quality of risk management information generated by our divisions. The Group has developed a risk appetite framework which informs the business on the Board's appetite for certain risks, and informs risk assessment.

Our current risk management structure is shown below:



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 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
- adversely impact the Group's reputation or stakeholder expectations

The Group's principal risks are set out in the table below and on page 64 onwards. These risks have been assessed taking into account their potential impact (both financial and reputational), the likelihood of occurrence, 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 Governance section on pages 76 to 134.

Areas of focus during the year

During the year our revised risk management system was rolled out to the business, designed to capture risks and opportunities for the Group. So our focus has been on ensuring the rollout proceeded smoothly and the system was well understood by the business units. We expect the system will be fully deployed and operating effectively during 2020/21.

Principal risks

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.

Risk	Severity (Probability x Impact) High ← → Low	Applicability to divisions and Group functions					
External Risks							
Economic environment including Brexit (V)		●	●	●	●	●	●
Political and regulatory (C)		●	●	●	●	●	
Strategic Risks							
Strategy execution (V) New							●
Contracted businesses including rail franchising		●	●	●	●	●	
Competition and emerging technologies (C)		●	●	●	●	●	
Operational Risks							
Information technology		●	●	●	●	●	●
Data security and protection including cyber security		●	●	●	●	●	●
Treasury and credit rating (V)							●
Pension scheme funding (V)				●	●	●	●
Compliance, litigation, claims, health and safety (V)		●	●	●	●	●	●
Labour costs, employee relations, recruitment and retention		●	●	●	●	●	
Disruption to infrastructure/operations (V) (C)		●	●	●	●	●	

- (V) Viability statement (see page 69) ◀ Risk increased
- (C) Climate change (see pages 38 to 41) ▶▶ Risk unchanged
- ▶ Risk decreased

Principal risks and uncertainties continued

Risk and potential impact	Mitigation	Comment and movement during the year
External Risks		
Economic conditions including Brexit		
<p>The less certain economic outlook, together with the on-going restrictions imposed as a result of the coronavirus, and a disruptive exit from the EU, could have a negative impact on our businesses in terms of reduced demand and reduced opportunities for growth. Our First Rail businesses are particularly sensitive to movements in key economic indicators. An uncertain economic climate, particularly when combined with lower fuel prices, may result in reduced demand for public transportation particularly in our Greyhound and First Bus businesses as alternative modes of transport become relatively more affordable, or preferred due to social distancing concerns.</p>	<p>To an extent our First Bus and Greyhound operating businesses are able to modify services to react to market changes. The geographic spread of our operations reduces the risk at a Group level. All of our businesses focus on controlling costs to ensure they remain competitive. The Group does not have any standalone operations entirely in the EU.</p>	<p>▲</p> <p>It is not yet clear how long the measures to contain coronavirus will last, the form they will take, or how it will impact the economy, customer behaviour and demand for our services in the long term. There remains a significant risk of reduced service demand as our local markets are closed or severely disrupted by further central government containment measures reducing demand and staffing levels.</p>
Political and regulatory		
<p>The political landscape within which the Group operates is constantly changing, particularly as a consequence of the coronavirus pandemic. Changes to government policy, funding regimes, infrastructure initiatives, 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.</p> <p>As the single biggest emitter of greenhouse gases in both the US and the UK, the transport sector will continue to be impacted by local and national decarbonisation policies. The UK Government has now set a legally binding national target for net-zero greenhouse gas emissions by 2050. Coalitions of American states, cities and businesses in support of the Paris Agreement on climate change now represent almost 70% of US GDP.</p> <p>The UK Government is exploring how to implement mandatory climate-related financial disclosures by 2022.</p>	<p>The Group actively engages with the relevant government and transport bodies and policymakers to help ensure that we are properly positioned to respond to any proposed changes.</p> <p>Our continued focus on service quality and delivery helps to mitigate calls for structural market change.</p> <p>As detailed on pages 38 to 40, the Group is developing long-term decarbonisation plans across our divisions, and is investing in low- and zero-emission mobility solutions for our customers. The Group has a formal, documented and externally-assured approach for reporting on carbon emissions and energy, and is committed to implementing the TCFD's recommendations on climate-related disclosures.</p>	<p>▲</p> <p>The political landscape in the US and the UK continues to present both risks and opportunities and is expected to remain fluid as governments seek to repair the economic damage of the pandemic. The Group is actively involved at local and national level to ensure our role in delivery of key transport infrastructure is maintained.</p>
Strategic Risks		
Strategy execution		
<p>In March, the Group announced that it had commenced the formal process for the sale of the North American contract businesses, with significant interest expressed by a range of potential buyers. The inability to execute the sale of the North American businesses in a timely manner, or to secure a sale at an acceptable price and on reasonable terms has increased due to the coronavirus pandemic. However, the Group's strategy remains unchanged and the Board remains committed to re-starting the sales process at the earliest opportunity.</p>	<p>First Transit and First Student have demonstrated their resilience during the pandemic and the long-term fundamentals remain unchanged.</p>	<p>New</p> <p>We anticipate strong interest when the formal sales process resumes. However, the pandemic could cause an extended delay to the formal sales process due to unfavourable market conditions. Further uncertainty exists around the value that can be achieved in a sale process due to the impact on profitability of the businesses and uncertainty around near-term trading prospects of the businesses and the terms and availability of financing for prospective buyers.</p>

Risk and potential impact	Mitigation	Comment and movement during the year
Strategic Risks continued		
<p>Contracted businesses including rail franchising</p> <p>The Group's contracted businesses are 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.</p> <p>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. This could also have a negative impact on delivering FirstGroup's strategy going forward.</p>	<p>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.</p> <p>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.</p>	<p>▲</p> <p>We continually review our contracts to take account of changing circumstances such as economic environment or infrastructure changes.</p> <p>There is considerably more uncertainty as to the future of Rail since the implementation of the EMAs. For further details see the Strategic report on page 6.</p> <p>Future commitments to UK rail will only be entered into if they have an appropriate balance of potential risks and rewards for shareholders.</p>
<p>Competition and emerging technologies</p> <p>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.</p> <p>Our main competitors include the private car and existing and new public and private transport operators across all our markets. Airline competition impacts demand for bus travel, especially in Greyhound's long haul business. Emerging services such as Uber, ride sharing apps and price comparison websites make access to alternative transport solutions easier. However, emerging technologies such as autonomous vehicles and on-demand schemes also provide opportunities to grow and develop our market segments.</p> <p>As the uptake of electric vehicle technology rapidly increases, the per passenger carbon footprint of all modes of transport can be reduced, providing competition for our services on environmental grounds and opportunities for us to reduce our emissions further.</p> <p>Increased competition could result in lost business, reduced revenue and reduced profitability, negatively impacting the effective execution of FirstGroup's strategy in line with its expectations.</p>	<p>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.</p> <p>We have a dedicated cross-divisional Consumer Experience Team 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.</p> <p>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.</p>	<p>▲</p> <p>Low fuel prices and changes in demand for public transportation in the wake of the coronavirus pandemic may lead to reduced passenger volumes in the medium term.</p> <p>The Group has continued to invest in emerging technologies this year, including autonomous and electric vehicles, and services to support connected and on-demand travel, including Mobility as a Service (MaaS).</p> <p>We continue to increase the number of low- and zero-emission vehicles operating in our fleets, and to focus on providing easy and convenient mobility, encouraging the switch from private car journeys to our services.</p>
Operational Risks		
<p>Information technology (IT)</p> <p>The Group relies on IT in all aspects of our business. 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. 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.</p> <p>Failure to properly manage the implementation of new IT systems may result in increased costs and/or lost revenue.</p>	<p>The Group has continued to focus on removal of legacy assets with a focus on modern cloud-based assets which are naturally more resilient to failure. In addition, the Group is fully focused on continuing to improve cyber security defences.</p>	<p>◀▶</p> <p>We successfully maintained business and IT continuity during the coronavirus pandemic as we flexed operating models to ensure the safety of our workforce and customers.</p> <p>Nevertheless, the risk of disruption or failure of critical IT infrastructure, as well as process failure remains a significant risk.</p>

Principal risks and uncertainties continued

Risk and potential impact	Mitigation	Comment and movement during the year
Operational Risks continued		
Data security and protection including cyber security		
<p>All business sectors are targeted by increasingly sophisticated cyber security attacks. Across our divisions we are seeing increased use of mobile and internet sales channels which gather large amounts of data and therefore the risk of unauthorised access to, or loss of, data in respect of employees or our customers is growing.</p> <p>A failure to comply with data privacy and protection regulations, such as the General Data Protection Regulation (GDPR) and California Consumer Privacy Act (CCPA), could result in significant penalties and could have an adverse impact on consumer confidence in the Group.</p>	<p>We have a number of threat detection tools and processes across all our businesses which remain under constant review against emerging threats.</p> <p>Prior to the GDPR coming into force, we appointed a Group Data Protection Officer, with a network of data compliance officers in place across all areas of the UK business.</p>	<p>▲</p> <p>In the past year we have improved our Information Security Incident Response process with regular desktop testing in each division / business.</p> <p>Our employee data risk awareness programmes have continued and also utilised new and multiple mechanisms to ensure messages are delivered to all staff.</p> <p>We have further matured our risk management process to provide graded identification, quantification and remediation of risk.</p> <p>Our data mapping processes have improved to include the mechanisms for capturing changes to systems and identifying new information assets.</p>
Treasury and credit rating		
<p>As set out in further detail in note 24 to the financial statements on pages 174 to 179, treasury risks include liquidity risks, risks arising from changes to foreign exchange and interest rates and fuel price risk.</p> <p>Liquidity risk includes the risk that the Company is unable to refinance debt as it becomes due.</p> <p>Foreign currency and interest rate movements may impact the profits, balance sheet and cash flows of the Group.</p> <p>Ineffective hedging arrangements may not fully mitigate losses or may increase them.</p> <p>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.</p> <p>The Group's banking arrangements contain financial and other covenants with financial covenants tested semi-annually on 30 September and 31 March. In the event a covenant test level is breached the Company may not be able to negotiate sufficient headroom to allow it to continue to trade.</p>	<p>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 Treasury Committee also reviews financial information periodically with the specific remit of managing credit ratios and covenant compliance.</p> <p>The risk of refinancing the £350m Bond due in April 2021 is mitigated by the £250m bridge facility which extends the maturity by a further 18 months from April 2021.</p> <p>The Group is continuously focused on improving operating and financial performance as part of our strategic drivers as outlined on pages 16 and 17.</p>	<p>▲</p> <p>The Group seeks to maintain minimum levels of cash and committed facility headroom.</p> <p>The potential impact the coronavirus could have on the Group and its ability to access banking and other credit facilities are highlighted in the Going concern statement on page 73 and the Viability statement on page 71.</p>
Pension scheme funding		
<p>The Group sponsors or participates in a number of significant defined benefit pension schemes, primarily in the UK.</p> <p>The Company's North American subsidiaries participate in a number of multi-employer pension schemes in which their contributions are pooled with the contributions of other contributing employers. The funding of these schemes is therefore reliant on the ongoing participation by third parties.</p> <p>Future cash contribution requirements may increase or decrease based on pension scheme investment performance, movements in discount rates and expectations of future inflation and life expectancy. Other factors, such as changes to the relevant regulatory environments, can affect the pace of cash funding requirements.</p>	<p>Closure to future accrual and replacement with defined contribution arrangements where possible.</p> <p>Diversification of asset classes and progressively reallocating from riskier investments to investments that better match the characteristics of the liabilities as funding levels improve. Interest rate and inflation hedging to reduce the sensitivity of funding levels to adverse movements in the value of liabilities.</p> <p>The Group also seeks to remove liabilities from the balance sheet where it can be achieved cost effectively.</p> <p>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 any particular franchise.</p>	<p>◀▶</p> <p>The Group has closed most of its defined benefit schemes in its Road divisions to future accrual. This will lead to the natural reduction of the size and volatility of the pension funding risk over time.</p> <p>Through our membership of the Rail Delivery Group we are engaged in an industry-wide project to consider the long-term funding model for The Railways Pension Scheme.</p> <p>The Group has completed its consolidation of Local Government Pension Scheme obligations in First Bus, and benefits from the de-risking that has taken place. We continue to pursue further de-risking opportunities with the relevant local authorities.</p>

Risk and potential impact	Mitigation	Comment and movement during the year
Operational Risks continued		
Compliance, litigation, claims, health and safety		
<p>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.</p>	<p>The Group has a very strong focus on safety and it is one of our five values. Compliance with mandatory Group and divisional policies and procedures also mitigates risk.</p>	<p>▲</p> <p>The legal climate in North America, particularly in the US, continues to deliver judgments which are disproportionately in favour of plaintiffs, and at times unpredictable. The extent to which the claims environment may be impacted by the effects of the coronavirus pandemic is not yet clear.</p>
<p>The Group has three main insurable risks: third-party injury and other claims arising from vehicle and general operations, employee injuries and property damage.</p>	<p>The Group self-insures third party and employee injury claims up to a certain level commensurate with the historical risk profile. The Group typically purchases 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.</p>	<p>Due to the scale and scope of our operations, risk mitigation in this area continues to be an area of key focus for the Group.</p>
<p>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.</p>	<p>The estimated costs of dealing with and settling uninsured claims are factored into our budgets. Determining the costs of settling legal claims requires a degree of estimation and subjective judgement, there is therefore a risk that the costs of settling claims may exceed the amount budgeted.</p>	
<p>A higher volume of litigation and claims can lead to increased costs, reduced availability of insurance cover, and/or reputational impact.</p>		
<p>Increased frequency of accidents, clusters of higher severity losses, a large single claim, or a large number of smaller claims may negatively affect profitability and cash flow.</p>		
Labour costs, employee relations, recruitment and retention		
<p>Employee costs represent the largest component of the Group's operating costs, and new regulation or 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.</p>	<p>The Group seeks to mitigate these risks via its recruitment and retention policies, training schemes and working practices.</p>	<p>▲</p> <p>Pre-coronavirus, strong economic conditions and low unemployment continued to impact retention and recruitment, with competition for commercially-licensed drivers increasing as more organisations offer delivery services.</p>
<p>The effect of the pandemic on employee engagement and retention is not yet known. A post-coronavirus recession may reduce labour turnover, but additional safeguards and protection for workers may increase costs and introduce additional operational complexity.</p>	<p>Our working practices include building communication and engagement with trade unions and the wider workforce. Examples of this engagement include regular employee communication, satisfaction surveys, and the presence of Employee Directors (who are voted for by the employees) on many of the Group's UK operating company boards and the FirstGroup plc Board.</p>	<p>During the year the divisions continued to take action to retain existing employees, such as employee welfare enhancements and the appointment of dedicated employee retention specialists in First Student and First Transit, and initiatives to improve work/life balance and communication with drivers in Greyhound, where driver turnover fell by 20.7% year-on-year.</p>
<p>Similarly, industrial action could adversely impact customer service and have a financial impact on the Group's operations.</p>	<p>Where increased wages and incentives are necessary to attract and retain employees, those extra costs are factored into our bid models, where possible, to ensure appropriate returns are achieved.</p>	<p>Divisions also made further progress on recruitment and development; for example First Bus increased the number and range of apprentice programmes, increased online learning facilities, and improved driver recruitment processes, with a 50% reduction in overall driver shortage compared with the previous year. First Student and First Transit utilised new measures such as full cycle and programmatic recruiting and dedicated field, military and campus recruiters.</p>
	<p>Cross-functional working groups including specialist support from occupational health and safety professionals are used to guide and develop our plans on how best to keep our employees safe and well during and post-pandemic.</p>	<p>During the coronavirus pandemic we utilised furlough schemes, backed by government support, to maintain employment wherever possible, and enable rapid ramp up of service once lockdown is eased. This included the use of rotational furlough in First Bus to reduce the financial impact on frontline workers.</p>

Principal risks and uncertainties continued

Risk and potential impact	Mitigation	Comment and movement during the year
Operational Risks continued		
Disruption to infrastructure/operations		
<p>There are material uncertainties as to the future impact of coronavirus on the Group's operations.</p> <p>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 climate change.</p> <p>Greater and more frequent adverse weather caused by climate change increases the risk of service disruption and reduced customer demand with consequent financial impact, potential increased costs and accident rates. International agreement to pursue efforts to limit global warming to 1.5 degrees above pre-industrial levels aims to reduce the risks and impacts of climate change, and calls for coordinated action to reduce carbon emissions and foster climate resilience.</p> <p>As national governments align policies and plans with targets for low-carbon and cleaner forms of energy, climate change also presents a business opportunity related to the falling cost of alternative energy sources and the development of new mobility technologies.</p> <p>Terrorism remains a threat across all of our operating environments. Public transport, which has been subject of several high-profile attacks in the past, continues to be assessed as a potentially attractive and viable target. We continue our programmes to brief our operational colleagues on the steps they should take to mitigate this risk, aligned with regulatory requirements where applicable, and we underpin this with strategic focus. 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.</p>	<p>We have set out elsewhere in the Strategic report the measures the Group has and is taking to mitigate the risks of coronavirus.</p> <p>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.</p> <p>We maintain close working relationships with specialist government agencies, in relation to terror threats, in both the UK and North America.</p> <p>We employ dedicated security specialists in the UK and North America.</p> <p>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.</p> <p>We have severe weather action plans and procedures to manage the impact on our operations.</p> <p>The Group continues to target reductions in our emissions, including through behaviour change initiatives, research and development and investment in new technology. We work closely with those responsible for planning and maintaining our network infrastructures and our asset plans for both our fleet and buildings consider potential climate change impacts.</p>	<p>▲</p> <p>The severity and duration of the impact of coronavirus on the Group's operations, and the longer term impact of implementing measures designed to prevent the spread of the virus (such as social distancing) are difficult to predict with any degree of certainty.</p> <p>Short-term respite from terrorism incidents can lead to a misplaced public perception (in Western societies) of a reduction in risk. This is not the true situation and, internally, we continue to focus staff on the actual, rather than perceived, situation and encourage their ongoing vigilance.</p> <p>Our internal processes in relation to business continuity and command and control are scalable dependent upon the situation. Our model is bespoke to our business structure and provides for oversight and guidance from the centre with divisions (whilst following a core agenda) being empowered to model their response to suit their own business requirements. This is the model being used in response to the coronavirus pandemic. Specialist support is provided where required.</p>
<p>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.</p>		

Prospects and viability

The UK Corporate Governance Code 2018

Taking account of the Company's current position and principal risks and uncertainties, the Directors are required to explain in the Annual Report how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate. The Directors are required to state whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary.

Prospects

Assessment of prospects

FirstGroup is a market leader in five segments of the passenger transport industry, operating primarily in North America and the UK. The Group's business model is set out on page 16, which explains how the Group is managed and its strategy is delivered.

Despite the near-term uncertainty caused by the coronavirus, which is described in more detail in the Going concern statement on pages 72 and 73, the Board continues to believe that the long-term fundamentals of our businesses remain sound. The Board will continue to take all necessary measures to ensure that the Group emerges from this unprecedented situation in the most robust position possible. The Board also remains committed to rationalising the Group's portfolio of businesses through the sale of the North American divisions at the earliest appropriate opportunity. The Board believes this remains feasible given the resilience of those divisions even with school closures during the coronavirus pandemic and ongoing contractual support.

Strategy implementation

A detailed assessment of the Group's prospects and viability has been undertaken to confirm that there is a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due. The Board remains focussed on delivering the portfolio rationalisation, announced on 11 March 2020, through the sale of First Student and First Transit. Those disposals will only be pursued if they are value-enhancing for the Group. Nevertheless, although the disposal of the North American divisions remains a fundamental part of the strategy, for the purpose of going concern and viability testing, the disposals are assumed not to complete in the period to 31 March 2023. For further details, see page 70.

Viability

In assessing the Group's viability, and the assessment of going concern noted on page 72, consideration is given to the Group's projected 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, and the ability of the Group to deploy capital. The key assumptions underpinning this assessment are that some of the fiscal and contractual support currently in place continues to be available at broadly the current levels beyond the date they are currently due to end; that the businesses start a gradual return to pre-crisis levels during the second half of the financial year, and that equity, debt and asset-backed finance markets will be accessible to the Group to enable the refinancing of existing loan facilities and to put in place, if required, additional finance facilities.

The viability review takes into account the Group's current position, its strategic ambitions and an assessment of the potential impact of the principal risks and uncertainties now faced by the Group as a result of the coronavirus pandemic, including material uncertainty in respect of going concern and how those risks and uncertainties may evolve over time. In assessing the future prospects of the Group in the current situation, the Board has relied on a base case financial forecast which has been stress tested by overlaying three distinct severe but plausible downside scenarios and contemplating the risks and giving consideration to the likely degree of effectiveness of current and available mitigating actions that could be taken to avoid or reduce the impact or occurrence of the risks in the base case and downside scenarios.

Viability has historically been assessed by overlaying a range of downside scenarios on to the Group's three-year financial plan, reflecting our normal financial planning horizon, to determine whether projected peak borrowing requirements would exceed committed facilities and whether the Group can continue in operation and to meet its liabilities as they fall due.

The Board has followed a consistent approach to prior years by extrapolating the two-year financial outlook prepared for business modelling and liquidity purposes, by one further year to create a three-year financial outlook. The two-year financial outlook was prepared using 'bottom up' divisional projections which were then subject to a series of executive management reviews and a Group risk overlay to produce a risked outlook. This risked outlook, which reflects the base case used for the going concern assessment referred to on page 72, has also been overlaid with a range of further downside scenarios in order to stress test the adequacy of facility headroom and provide assurance in relation to the risk of breaching financial covenants. The three severe but plausible downside scenarios used for viability testing purposes are set out on page 70. Because the potential impact of coronavirus on the markets in which the Group operates is so material, each of the downside scenarios are coronavirus-related and are therefore different to the downside scenarios used by the Board last year to assess viability.

The base case: The underlying assumptions in the base case used for viability and going concern testing were:

- **First Student:** All schools return in August 2020 at normal operational levels, but with charter recovering fully by April 2021.
- **First Transit:** All segments substantially back to normal operational levels by September 2020.
- **Greyhound:** Passenger volumes remain subdued until October 2020, improving gradually thereafter and to near pre-coronavirus levels by March 2022. Operated miles increase broadly in line with increased demand. Fiscal support until January 2021.
- **First Bus:** Operated miles increase significantly with CBSSG Restart support, but that support assumed to cease in March 2021 with network miles dropping back to c. 70-80% of pre-crisis levels in FY21/22.
- **First Rail:** All franchised TOCs continue under management contract for the life of the existing franchise agreements. Hull Trains recommences operations in September 2020.

Prospects and viability continued

■ **Brexit:** Projections assume UK operates in a post-Brexit coronavirus economy with consensus macro-economic outlook in accordance with HM Treasury Economic Forecast of April 2020.

■ **UK pensions:** The agreed deficit repair commitments relating to the 2019 triennial valuations continue to be made as planned.

■ **Continued availability of finance facilities:** Current bank finance facilities (both committed and uncommitted) will continue to be available to the Group for the duration of their current terms and the CCFF, bonds and other facilities will be renewed or refinanced at the expiry of their current terms and broadly consistent levels of facility will remain in place until at least March 2023.

The three severe but plausible downside scenarios, and the key underlying assumptions, were:

Scenario 1: Restrictions on ability to refinance debt

■ Bank of England CCFF is not extended beyond initial term (March 2021 maturity).

■ planned refinancing activities for FY21/22 assumed in the base case are delayed by twelve months.

■ planned USPP issue (£300m) in H1 of FY21/22 assumed to complete in line with base case scenario (but after the going concern period).

Scenario 2: Delayed operational restart in North America/part repayment of Rail ringfenced cash

■ **First Student** – significant proportion of schools do not restart until January 2021 (but capex kept at the same as base case levels).

■ **First Transit** – university start delayed to January and slower recovery in Paratransit.

■ **Greyhound** – slower passenger volume/yield recovery during FY22. Lower than anticipated 5311(f) CARES Act funding received.

■ **First Bus** – as base case.

■ **First Rail** – ringfenced cash reduced by £200m at September 2020 and continues at this lower level.

Scenario 3: Rail EMA arrangements do not continue

■ existing EMA arrangements are replaced with a longer-term management contract structure.

■ the Group continues to operate its existing TOC portfolio under the new management contract regime for the life of the existing franchise agreements with no re-tendering of any Rail franchise assumed.

■ ringfenced cash balances reduced by £200m from the base case level (consistent with Scenario 2).

■ no recovery of Parent Company Support, Additional Funding Commitment or performance bonds currently at risk under existing franchise agreements as part of the transition to a management contract basis.

■ additional cash capex actions are put in place across the Group in FY22/23 through a combination of reduced capital investment, increased use of lease finance, or extended draw on the Daimler creditor facility.

Liquidity and covenant headroom

The Group's overall cash flows and financing facilities are reviewed regularly to ensure that the Group has adequate liquidity to continue as a viable entity and to invest in each of its divisions. Details of the Group's existing bank and other borrowing facilities are set out in note 24 on pages 175 to 179.

As noted above, although it remains the Group's core strategic aim to complete the disposal of First Student and First Transit at the earliest appropriate opportunity, for the purpose of going concern and viability testing, the disposals are assumed not to complete in the period to 31 March 2023. The Board believes that completing the disposals during the next twelve months remains feasible. Should the disposals proceed, the likely sales proceeds would allow the full repayment of all debt drawn under the borrowing facilities.

Nevertheless, for the purpose of viability testing the base case includes a number of potential refinancing options which might be required if the disposals do not complete by March 2022, including £150m equity raise, £400m bond and £300m USPP and or bank debt, that might be required if the disposals do not complete by then.

The Group has assumed that it will continue to have access to debt markets and the Group may choose to refinance maturing facilities during this period through:

■ the issue of further long-term debt;

■ obtaining further short-term bank financing;

■ entering into a sale and lease back of property or First Student buses;

■ issue additional equity through a placing; or

■ a combination of these alternatives.

Based on the assumption that the Group continues to have access to the debt markets, the results of the scenario testing referred to above, including the stress testing, showed that the Group would be able to remain viable and maintain liquidity over the assessment period.

As noted on page 69, the base case forecast indicates that banking covenants will be met throughout the going concern period but with limited headroom at the September 2020 and March 2021 test dates. As further noted on page 70 in the downside scenario there is less headroom and there may be a requirement to approach lenders for a covenant waiver on or before 30 September 2020 or 31 March 2021 given the potential impact of the pandemic for fiscal year 2021.

Mitigating actions

If there are materially different outcomes to the base case and downside scenarios that have a materially adverse impact on the Group, the continued impact of these events could result in a reduction in liquidity and/or a longer period of lower EBITDA which in turn risks debt covenant breaches. If that were to happen, the Group may choose to implement further cost reduction measures, and/or further reductions or deferrals to capital investment plans in First Student, First Transit and First Bus, and/or seek a short-term covenant waiver from its banks.

Separately, the Group might also raise additional finance or refinance maturing facilities by undertaking one or more of the following:

- the sale or sale and leaseback of existing First Student buses (where the vast majority of these assets are unencumbered);
- the sale or sale and leaseback of part of Greyhound's remaining property portfolio;
- additional new PCV lease financing;
- raising equity through a placing; or
- the issuance of new longer-term debt.

While there are currently no detailed plans outlining how and when these actions would be put in place, the Board believes these could be actioned in the timescales required based on the speed with which cost reduction measures (for which there are similarly no detailed plans in place) were actioned at the outset of the pandemic.

Time horizon

The Directors have assessed the viability of the Group over a three-year period. The Directors continue to believe that a three-year period is appropriate notwithstanding that it has not been possible for management to produce a three-year financial plan. As noted above, the Board has followed a consistent approach to prior years by extrapolating the two-year financial outlook prepared for business modelling and liquidity purposes by one further year to reflect a three-year financial outlook. Assessing viability over a three-year period is therefore consistent with the Group's usual corporate planning processes. Furthermore, the Board believes that a three-year time horizon facilitates a more realistic assessment by allowing time for the effect of the corporate actions and refinancing activities modelled for FY21/22 to take effect.

Viability statement

Based on the results of the assessments outlined above, including the scenario testing, the Directors confirm that, having regard to the principal risks and uncertainties currently facing the Group, and the material uncertainty in relation to going concern noted on page 73, and that the base case includes up to £700m of debt and £150m of equity issuance in the event that the sale of First Student and First Transit does not complete by March 2022, 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 2023. The Board confirms that in making this statement it carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

Going concern

The UK Corporate Governance Code 2018

The Directors are required to state whether they consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements and identify any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

Background

The Group has a strong balanced portfolio of businesses that provide essential services to the communities we serve.

Continuity of transport is proving essential to governments, local communities and many of our customers throughout the coronavirus pandemic and it will also be critical to the restoration of normal life when the present uncertain and extremely difficult situation is overcome. The funding to sustain services that we have received from governments and our customers is testament to the importance of our offering to those we serve.

Both governments and our key contracted customers recognised the need to stop or significantly reduce services as passenger demand declined rapidly when the lockdowns and 'shelter in place' orders were made. They also recognised that it was critical to maintain essential services for key workers to get to their place of work, and to preserve the ability to restore services quickly when required. Throughout the crisis, all our businesses had productive engagement with major customers on revenue recovery, including school district boards throughout North America, and local, state and national governments in all of the markets served by the Group.

Details of the revenue protection measures and government funding and other support are set out in the Strategic report on pages 5 to 74. Details of the actions taken to reduce operating costs and non-contractual committed capital spend across the Group are set out on page 9.

The impact of the coronavirus on our business, and the support being provided by customers and governments, will continue to evolve throughout the coming months. Despite these support measures, it is uncertain how and when these support measures will be withdrawn and, if the crisis persists for a much longer period, the extent to which governments and customers will continue to have the ability to provide fiscal and contractual support.

It is difficult to assess with any degree of certainty what effect the continued impact of the coronavirus crisis might have on the wider economy and the transport sector in the markets in which the Group operates. It is therefore highly uncertain what impact there might be on the Group's future trading performance and financial position.

Going concern assessment

The Directors used the financial forecasts prepared for business modelling and liquidity purposes, referred to on page 70, as the basis for their assessment of the Group's ability to continue as a going concern for the twelve months from the date of the financial statements.

The major assumptions and key areas of judgement taken into account in the modelling included:

- the likelihood of coronavirus restrictions in the UK and North America remaining in place for the balance of the financial year;
- the possible continuation of the Rail industry EMAs beyond September 2020;
- a possible further extension of the CBSSG Restart regime in the Bus industry;
- the potential impacts on financial and trading performance without current levels of customer and government support currently being provided;
- whether covenant waivers will be required under the Group's banking facilities;
- the timing of working capital flows;
- the ongoing availability of bank finance facilities, including the Bank of England CCF; and
- the impact on the triennial valuations for UK pensions that were completed in 2019.

Those forecasts were modelled using the base case summarised on page 69 and Scenario 2 on page 70 was used as a reasonable downside scenario. These financial forecasts assume continued fiscal and contractual support broadly at the levels currently in place and the businesses starting a gradual return to pre-coronavirus levels during the second half of the financial year.

Given the extent to which current fiscal and contractual support underpins the businesses at present levels of passenger demand and restrictions on social distancing, and the fact that the support measures are being provided by governments and contract partners to allow the Group to continue to run essential services, it was not felt necessary to run alternative stress tests.

Liquidity

The Group has a diversified funding structure with average debt duration at 31 March 2020 of 3.3 years (2019: 4.3 years) and which is largely represented by medium-term unsecured committed bank facilities and long-term unsecured bond and private placement debt, and includes £250m undrawn committed bridging loan entered into in March 2020 for the redemption of the £350m bond that matures in April 2021.

As at 31 March 2020, the Group's undrawn committed headroom under the bank revolving credit facility and free cash (before Rail ringfenced cash) was £586m.

In April and May a number of actions were taken to improve the Group's liquidity, including participating in and drawing down £300m under the UK Government Covid Corporate Finance Facility (CCFF).

As at the end of June 2020, the Group's undrawn committed headroom under the bank revolving credit facility and free cash (before Rail ringfenced cash) was c.£850m.

Overall, the Group currently has access to in excess of £1.4bn of facilities as at the end of June 2020 of which £850m is fully committed during the entirety of the going concern period and a further c.£550m is either currently available but not committed or committed and currently available but not committed for the entirety of the going concern period.

On 1 April 2020 Fitch Ratings confirmed that it had maintained its long-term Issuer Default Rating (IDR) for the Group at BBB- while changing its outlook to negative from stable. On 4 May 2020 S&P Global Ratings also affirmed its long-term issuer credit rating on the Group at BBB- and also changed its outlook from stable to negative.

Further details of the steps taken since March to improve the Group's liquidity position as well as details of its existing bank facilities, including the CCFF, can be found in the Financial review on page 28 and in note 24 on pages 175 to 179.

Liquidity headroom

Subject to the continued availability of the Bank of England CCFF and uncommitted facilities, positive liquidity headroom remains throughout the going concern period under both the base case scenario and the reasonable downside scenario. Liquidity headroom in the base case includes £300m under the Bank of England CCFF committed to March 2021 but is assumed to be extended, £150m Accordion uncommitted facility to the RCF and £16m of other uncommitted overdraft facilities together with \$230m of the Daimler facility (current maturity in June 2021) and further leasing facilities.

While the Bank of England CCFF is uncommitted after March 2021, the Directors believe that the removal by the Bank of England of the ability to redraw in March 2021 for another 364 days is remote. In addition, the Directors believe that the Accordion and Daimler facilities are unlikely to be withdrawn in the short term given the commercial arrangements that are in place.

Covenant testing

As noted on page 70, certain of the Group's borrowing facilities are subject to ongoing covenant testing. Covenants are measured twice a year, at full year and half year and are measured under frozen accounting standards and therefore exclude the effects of IFRS 16.

All banking covenants tests were met at the last testing point on 31 March 2020. The base case forecast indicates that banking covenants will be met throughout going concern period but with limited headroom at the September 2020 and March 2021 test dates.

Under the reasonable downside scenario, covenant compliance is still projected to be achieved at 30 September 2020, although with much less certainty and more limited headroom. The modelling also suggests that there could be marginal fails on all covenants at 31 March 2021 under this downside scenario before implementing any of the mitigating actions. Accordingly, there may be a requirement to approach lenders for a covenant waiver should the outcome assumed in the September 2020 and March 2021 downside scenarios begin to look likely. The reasonable downside scenario does not take account of a number of potential mitigating actions which are set out on page 71.

Significant judgements

In using these financial forecasts for the going concern assessment, the Directors recognise that significant judgements had to be made in deciding what assumptions to make regarding how the impact of the coronavirus pandemic might evolve in the coming months and what impact that will have on the ability of each of the business divisions to resume near normal levels of service. Many of those judgements are, by their nature, highly subjective and the modelled outcomes depend to a significant degree on how the coronavirus pandemic evolves during the rest of the year. There is therefore a much higher degree of uncertainty than would usually be the case in making the key judgements and assumptions that underpin the financial forecasts.

The coronavirus pandemic is unprecedented, so there is no way of predicting with certainty how the crisis will continue to evolve, nor what the long-term effect the coronavirus pandemic will have on the wider economy or demand for our services.

Material uncertainty as to going concern

The Directors noted that the risks set out below indicate that a material uncertainty exists that may cast significant doubt on the Group's and the Company's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Material uncertainty relates to:

- the uncertainty regarding the levels of fiscal, financial and contractual support which may be provided beyond the period for which that funding and contractual support is currently being provided;
- whether passenger volumes recover to the levels necessary to sustain the business without the current fiscal, financial and contractual support;
- the ability of the Group to obtain covenant waivers from debt providers if required;
- the ability of the Group to draw down on c.£550m of the currently available but uncommitted facilities throughout the going concern period if required; and
- the timing of cash flows, including movements in working capital and the timing of receipts of contractual and fiscal support that may impact debt levels at covenant test dates.

Going concern statement

Based on their review of the financial forecasts and having regard to the risks and uncertainties to which the Group is exposed (including the material uncertainty referred to above) the Directors believe that the Company and the Group have adequate resources to continue in operational existence for the twelve-month period from the date on which the financial statements were approved. Accordingly, the financial statements have been prepared on a going concern basis.

Non-financial reporting statement

Introduction

The EU Non-Financial Reporting Directive applies to the Group, and the tables below summarise where further information on each of the key areas of disclosure required by the Directive can be found.

Further disclosures, including our Group policies and non-financial targets and performance data, can be found on our website, and in our Environmental Data Report 2020, at www.firstgroupplc.com.

Reporting requirement	Relevant section of this report
1. Description of our business model	<ul style="list-style-type: none"> Our strategy and business model – pages 16 and 17
2. The main trends and factors likely to affect the future development, performance and position of the Group's business	<ul style="list-style-type: none"> Our markets – pages 12 to 15 Business review – pages 18 to 27
3. Description of the principal risks and any adverse impacts of business activity	<ul style="list-style-type: none"> Principal risks and uncertainties – pages 59 to 68
4. Non-financial key performance indicators	<ul style="list-style-type: none"> Gender diversity – page 49 Punctuality – page 55 Safety – page 55 Customer and passenger satisfaction – page 56 Community investment – page 57 Greenhouse gas emissions and energy – pages 57 and 58

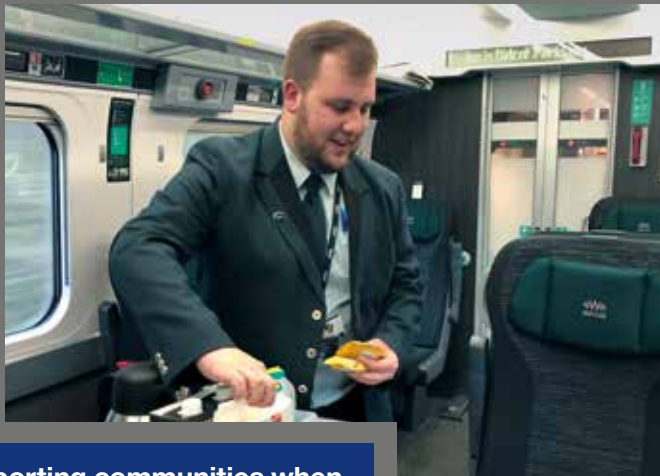
Reporting requirement	Policies, processes and standards which govern our approach*	Risk management	Embedding, due diligence, and outcomes of our approach, and additional information
5. Environmental matters	<ul style="list-style-type: none"> Group-wide strategic framework for sustainability – pages 38 to 41 Environmental Policy Environmental management systems around the Group, certified to ISO 14001 standard in much of our UK business Certified ISO 50001 systems in certain of our franchised TOCs 	<ul style="list-style-type: none"> Climate-related risk – page 61 Political and regulatory risk – page 64 Competition and emerging technologies risk – page 65 Disruption to infrastructure/operations risk – page 68 	<ul style="list-style-type: none"> Our markets – pages 12 to 15 Business review – pages 18 to 27 Group-wide strategic framework for sustainability – pages 38 to 41 Performing sustainably – page 47 Sustainability in our supply chain – page 53 Greenhouse gas emissions and energy data, trend analysis and assurance – pages 57 and 58
6. Employees	<ul style="list-style-type: none"> HR Policy framework across the Group Code of Ethics Gifts and Hospitality Policy Whistleblowing Policy and Procedure Health and Safety Policy Group-wide strategic framework for sustainability – page 41 	<ul style="list-style-type: none"> Labour costs, employee relations, recruitment and retention risk – page 67 Compliance, litigation, claims, health and safety – page 67 	<ul style="list-style-type: none"> Employee support during coronavirus – page 42, and pages 48 and 49 Safety – pages 42 and 43 Employee engagement and representation – page 49 Board-level and divisional Employee Directors – page 49 and pages 76 to 134 Diversity and inclusion – pages 49 and 50 Training and development – page 50 Health and wellbeing – pages 50 and 51
7. Social and community matters	<ul style="list-style-type: none"> Community engagement and community investment frameworks Code of Ethics Payroll Giving Matched Giving Guidelines and Exclusion Policy LBG impact measurement Health and Safety Policy Group-wide strategic framework for sustainability – pages 38 to 41 	<ul style="list-style-type: none"> Compliance, litigation, claims, health and safety – page 67 	<ul style="list-style-type: none"> Business review – pages 18 to 27 Supporting communities during coronavirus – pages 2 and 3, and page 51 Safety – pages 42 and 43 Accessible journeys – page 45 Government engagement – pages 47 and 48 Community engagement strategies – page 51 Working with charities – page 52 Our Community Rail Partnerships and local community investment – page 52
8. Human rights	<ul style="list-style-type: none"> Code of Ethics Supplier Code of Conduct Code of Conduct on Anti-Slavery and Human Trafficking Prevention Modern Slavery Statement 2019 Health and Safety Policy 	<ul style="list-style-type: none"> Compliance, litigation, claims, health and safety – page 67 	<ul style="list-style-type: none"> Safety – pages 42 and 43 Engaging ethically – page 44
9. Anti-corruption and anti-bribery	<ul style="list-style-type: none"> Anti-Bribery Policy and steering committee Conflicts of Interest Policy 	<ul style="list-style-type: none"> Compliance, litigation, claims, health and safety – page 67 	<ul style="list-style-type: none"> Engaging ethically – page 44

* Some policies, processes and standards shown here are not published externally

Improving quality of life

GOVERNANCE

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Supporting communities when things are tough

When travel company Thomas Cook collapsed in early 2020, GWR reached out to many of their cabin crew and ground staff. Harnessing their existing customer service experience, many were able to be fast-tracked to take up new jobs on board GWR services (including Jamie Iaquaniello, pictured here). When domestic air carrier Flybe entered administration, all our train operating companies stepped in to offer free emergency travel for those customers who had booked flights on routes that we also serve.

Biogas buses lead the way on low-carbon transport

First West of England has demonstrated our commitment to decarbonising public transport and improving air quality by rolling out a new fleet of 77 biogas buses across Bristol, plus a new gas filling station at our Lawrence Hill Depot (pictured with Marvin Rees, Mayor of Bristol). Powered by biomethane, a renewable source of energy produced by breaking down organic materials such as food waste, the new fleet has 84% lower life cycle carbon emissions compared to conventional Euro V diesel buses. The first vehicles came into operation on the metrobus M3 route and routes in the east of the city.



Chairman’s report



David Martin
Chairman

I have been very impressed by the way our businesses responded to the unprecedented challenge created by the coronavirus pandemic. I am extremely proud of our people who have played such an important part in continuing to deliver much needed services throughout the crisis.

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Dear Shareholder

A lot has happened since last year’s report. When I joined FirstGroup in August 2019, I said I was pleased to be joining at a key point in its development, but I acknowledged that there were undoubtedly challenges ahead in unlocking the considerable value within the Group. I could not have anticipated then the additional challenges we would be facing as a result of coronavirus.

Impact of coronavirus

As the Chief Executive explains in his report on page 9, this year will, inevitably, come to be remembered for the events that began in the last three weeks of our financial year when the Company had to react to the rapid spread of the coronavirus in all our key markets.

As I note in my statement on page 6, I have been very impressed by the way our businesses responded to the unprecedented challenge created by the coronavirus pandemic. I am extremely proud of our people who have played such an important part in continuing to deliver much needed services throughout the crisis.

As well as the more immediate operational and financial measures that had to be put in place, our governance framework also had to adapt to working in lockdown, and I am pleased to say that our governance processes stood up well to operating in a very different working environment. We have explained in this report on page 95 how the Board and its Committees adapted to meet that challenge.

Engaging with stakeholders

Engaging with shareholders, and their representative bodies, and being fully aware of their views, is a cornerstone of good corporate governance. The Board and I have maintained an ongoing dialogue with shareholders throughout the year. Those discussions and exchanges are discussed at each of our Board meetings.

At last year’s AGM four of the resolutions put to shareholders received ‘significant votes against’ (where 20% or more of the votes cast were against the resolution). Details of how we responded to those matters are set out on page 91.

The UK Corporate Governance Code (the Code) rightly places great emphasis on the need for directors to build and maintain successful relationships with a wide range of stakeholders, not just shareholders. Those relationships should be based on respect, trust and mutual benefit. That in turn requires integrity and openness in those discussions and it is incumbent on boards to be responsive to the views of all stakeholders. That is very much the approach your Board endeavours to adopt.

The Board is also mindful of its obligations under section 172 of the Companies Act 2006 to have regard to the views and interests of wider stakeholders when taking decisions. Examples of how that has influenced our decisions and how we engaged with our stakeholders this year can be found on page 44 – Our stakeholders. Our approach to ESG is set out on page 38 – Sustainability.

Strategic priorities

Since joining the Board I have regularly engaged with our major shareholders in order to understand their views and perspectives on the Group’s strategic priorities. In December 2019 we announced that we would formally explore all options in respect of our North American contract businesses. Subsequently on 11 March 2020 we announced that a formal sale process for First Student and First Transit had commenced.

As I explain in my statement on page 6, the Board is confident that the execution of the portfolio rationalisation strategy at the right time remains the best way to realise the long-term value of our businesses for all of our shareholders. This remains the Board’s key focus.

Board composition

There has been a number of changes to our Board since last year’s AGM and these are summarised on the table on page 77 and further explained in the report of the Nomination Committee on page 96. Following these changes, I am satisfied that the Board is the right size and that we have an appropriate mix of skills, experience and knowledge to promote the long-term sustainable success of the Company and, in the shorter term, to provide effective oversight of our portfolio rationalisation plans. More details of Board members and their skills and experience are summarised on page 79 – Board of Directors.

Diversity and workforce engagement

The Board remains committed to equality of opportunity, diversity and inclusion at every level, both in the Board and across our wider business. We believe diverse experiences and attitudes help us better understand the needs of our customers and communities and deliver more creative and innovative solutions. More details of our approach to diversity can be found on page 49, and details of how the Nomination Committee provides oversight can be found in the Nomination Committee report on page 96.

In addition, since its founding the Company has had a Group Employee Director on the Board as a way of ensuring the views of our wider workforce are heard.

Safety

At the Board, safety is always front of mind. Like a lot of companies, our workforce and their families were directly impacted by the coronavirus and we were deeply saddened by the loss of employees at each of our five divisions due to the outbreak.

In terms of operational safety, our goal is for zero injuries and we continue to evolve and develop our safety programmes across the Group. More information on our safety activities can be found on page 42 – Safety and in the Board Safety Committee report on page 108.

Remuneration

There continues to be a great deal of focus on directors' and executive remuneration and the need to ensure policies are designed to support strategy and promote long-term sustainable success. The revised Code places renewed emphasis on the need to have regard to remuneration levels in the wider workforce when setting executive remuneration. The Remuneration Committee report on page 110 describes how the Committee applied the Remuneration Policy both during the year and also in the context of the Company's response to coronavirus which included voluntary reductions in salary taken by the senior executive team and members of the Board.

Board and Committee composition

When	What happened
2 May 2019	Julia Steyn appointed Non-Executive Director (NED)
31 May 2019	Ryan Mangold appointed Chief Financial Officer Drummond Hall stepped down as NED and Senior Independent Director (SID) David Robbie appointed SID
25 July 2019	Wolfhart Hauser stepped down as Chairman David Robbie appointed Interim Chairman
15 August 2019	David Martin appointed Chairman
30 September 2019	Jim Winestock stepped down as NED Martha Poulter joined Board Safety Committee (BSC) as Chair Warwick Brady joined Nomination Committee
5 November 2019	Julia Steyn joined Audit Committee David Robbie joined Nomination Committee
24 January 2020	Sally Cabrini appointed NED and Chair of the Remuneration Committee
14 February 2020	Imelda Walsh stepped down as NED Sally Cabrini joined BSC
29 June 2020	Jimmy Groombridge resigned as Group Employee Director

Chairman's report continued

Changes to the Code

A revised edition of the Code was published by the FRC in August 2018. The new provisions apply to FirstGroup for the first time this year.

Throughout the year, we believe we have complied with all of the relevant provisions of the Code and on page 94 we have explained how we applied the principles set out in the Code. One of the key changes to the new Code is a provision requiring Boards to monitor company culture. Page 93 describes how the Board has satisfied itself that our culture is aligned with our purpose, values and strategy.

Going concern

Like a lot of companies, we face an uncertain future as a result of coronavirus. It is difficult to assess with any degree of certainty what effect the continued impact of the coronavirus crisis might have on the wider economy and the transport sector in the markets in which the Group operates. It is therefore highly uncertain what impact there might be on the Group's future trading performance and financial position.

In the context of so much uncertainty, your Board had a duty to consider carefully whether it was appropriate to prepare the financial statements on a going concern basis. After careful reflection, the Directors believe that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and that despite the material uncertainties noted on page 73 it was appropriate that the financial statements be prepared on a going concern basis. Further details of the Board's considerations are set out on page 72 – Going concern statement, page 69 – Prospects and viability and in the Audit Committee report on page 98.

Outlook

As I note in my statement on page 6, the long-term fundamentals of our businesses remain sound. Despite near-term uncertainty in the wider markets, our businesses have demonstrated that they are resilient. The Board is resolutely focused on delivering our plans – including the portfolio rationalisation strategy – in the best interests of all shareholders.

Annual General Meeting

The AGM this year will be held later than usual on 15 September. Unfortunately, because of the ongoing difficulties of holding meetings during the current lockdown, we have decided to hold a closed form AGM this year. That has been a difficult decision, but we had to put the safety of our shareholders and employees first. More details of the arrangements, including voting arrangements and the processes we are putting in place to allow shareholders to raise questions in advance of the meeting, can be found on page 95 and in the notice of AGM.

Finally, and on behalf of the Board, I would like to thank and acknowledge the contribution and service to the Board of my predecessor Wolfhart Hauser, and Drummond Hall, Jim Winestock, Imelda Walsh and Jimmy Groombridge, each of whom stood down from the Board during the year.

David Martin
Chairman

Board of Directors



David Martin ^N
Non-Executive Chairman



Matthew Gregory ^{S F X}
Chief Executive



Ryan Mangold ^{F S X}
Chief Financial Officer

Key

- ^A Audit Committee
- ^R Remuneration Committee
- ^N Nomination Committee
- ^B Board Safety Committee
- ^S Executive Safety Committee
- ^X Executive Committee
- ^F Financial Expert
- Chair

Appointed: 15 August 2019

Key areas of expertise:

Transportation, Business Turnaround, Performance Improvement, Contracting, M&A

Skills and experience: David is the former Chief Executive of Arriva, which he joined in 1998 as board member responsible for international development before taking over the leadership of the company in 2006. During his tenure, Arriva was transformed into a multinational transport services group through a number of key strategic mergers and acquisitions. In September 2010 the company was purchased by Deutsche Bahn, one of the world's leading passenger transport and logistics companies. David remained as Chief Executive throughout this period, before stepping down in January 2016. He remained on the Arriva Board advising on a range of issues until May 2017. He was formerly a Non-Executive Director at Ladbrokes plc and previously held roles at British Bus plc, where he was responsible for development of strategy and M&A, at shipping company Holyhead Group and at business services group Initial Services PLC. David is a chartered management accountant.

Other appointments: Senior Independent Director at Biffa plc; member of the advisory board at Nottingham Business School; member of the steering committee at Nottingham Trent University.

Nationality: British

Appointed: 2015 and became Chief Executive in 2018

Key areas of expertise:

Transportation, Contracting, Corporate finance/M&A, Business Turnaround, Safety, Governance

Skills and experience:

Matthew has a deep understanding of FirstGroup, having joined the Company as Chief Financial Officer (CFO) in December 2015, before his appointment as Chief Executive in November 2018. Matthew has strong strategic and operational expertise, including delivering strategy and driving performance improvement. He has extensive international experience, including significant M&A and corporate finance activity. He was formerly Group Finance Director of Essentra plc, a component manufacturer and distributor, having previously been Director of Corporate Development, where he was responsible for multiple international acquisitions, as well as driving growth and margin improvement in the group's largest division. His early career was spent at the manufacturing and distribution division of Rank Group plc where he was responsible for managing multinational corporations, introducing new technologies and restructuring legacy businesses. Matthew qualified as a chartered accountant at EY and has recent and relevant financial experience.

Nationality: British

Appointed: 31 May 2019

Key areas of expertise:

Corporate finance/M&A, Business Turnaround, Pensions, Governance

Skills and experience: Ryan was appointed as CFO in May 2019, having previously been Group Finance Director of Taylor Wimpey Plc for eight years. Ryan has a strong track record of building financial discipline in the organisations he has worked at. During his time at Taylor Wimpey, Ryan played a leading and integral role in strengthening the balance sheet, driving operational improvements, rebuilding the business post the financial crisis (to become a constituent of the FTSE 100), the sale of the North American business and the improvement of its pensions position. Ryan was previously at Anglo American group of companies, where he was Group Financial Controller at Mondi and played a significant role in its demerger from Anglo American in 2007. Ryan is a chartered accountant and has recent and relevant financial experience.

Nationality: South African/
British

Governance

continued

Board of Directors continued



David Robbie ^A ^R ^F ^N
Senior Independent
Non-Executive Director
Chair of the Audit Committee

Appointed: 2018, became Senior Independent Director in May 2019 and served as Interim Chairman during July and August 2019

Key areas of expertise: Transportation, Contracting, Business Turnaround, Corporate finance/M&A, Pensions, Governance

Skills and experience: David brings valuable turnaround experience to the Board, with a lead role in the integration of P&O with Royal Nedlloyd, and operational efficiency, cash optimisation and improved ROCE programmes at Rexam following its strategic refocus from 2010. He has significant international corporate finance and M&A transaction experience. He was Finance Director of Rexam PLC from 2005 until its acquisition by Ball Corporation in 2016. Prior to his role at Rexam, David served in senior finance roles at BTR plc before becoming Group Finance Director at CMG plc in 2000 and then CFO at Royal P&O Nedlloyd N.V. in 2004. He served as a NED of the BBC between 2006 and 2010 and as Chairman of its Audit Committee. David originally qualified as a chartered accountant at KPMG and has recent and relevant financial experience.

Other appointments: NED, Chair of the Audit Committee and member of the Nomination and Remuneration Committees of DS Smith Plc.

Nationality: British



Sally Cabrini ^R ^B
Independent Non-Executive Director
Chair of the Remuneration Committee

Appointed: 24 January 2020

Key areas of expertise: HR, IT, Transformation

Skills and experience: Sally was NED and Chair of the Remuneration Committee of Lookers plc from January 2016 until June 2020. Prior to that she was a senior executive at FTSE 100 constituent United Utilities plc for nine years, including four years as Business Services Director with responsibility for information technology and human resources. Sally was Director of Transformation, IT and People at Interserve Group Limited until recently. Sally is a graduate of Anglia Ruskin University and a Fellow of the Chartered Institute of Personnel and Development.

Other appointments: NED and Chair of the Remuneration Committee of Appreciate Group plc.

Nationality: British



Martha Poulter ^B ^A
Independent Non-Executive Director;
Chair of the Board Safety Committee

Appointed: 2017

Key areas of expertise: Transportation, Corporate finance/M&A, Business Turnaround, IT/technology, Governance

Skills and experience: Martha has deep expertise in technology and cyber security, specialising in the integration of new technology systems to transform and enable business performance. Throughout her career she has led technology programmes across hospitality, finance and service industries, with a strong focus on customer service and driving operational improvements and efficiencies. Martha has led and executed technology strategies across Europe, America and Asia. Most recently Martha was the Executive Vice President and Chief Information Officer (CIO) of Starwood Hotels & Resorts Worldwide and, prior to that, she was Vice President of General Electric and CIO of GE Capital with global responsibility for IT strategy and operations.

Other appointments: Senior Vice President and CIO of Royal Caribbean Cruises Ltd.

Nationality: American



Warwick Brady ^N ^A
Independent Non-Executive Director

Appointed: 2014

Key areas of expertise: Transportation, Corporate finance/M&A, Business Turnaround, Safety, Governance

Skills and experience:

Warwick has a strong track record of delivering restructuring, cost reduction and modernisation programmes, particularly in the transportation sector. His previous roles include Chief Executive of Mandala Airlines in Asia, Deputy Operations Director at Ryanair plc, and Chief Operating Officer at Air Deccan/Kingfisher in India and easyJet plc, during its transformation to become a FTSE 100 business. Warwick also held board positions at Airline Group and NATS, the UK's airspace provider, and was Deputy CEO of Buzz.

Other appointments: CEO of Stobart Group Ltd, where he has delivered on M&A, turnarounds, complex financing and strategic re-focus to position the business for significant future shareholder value generation; and strategic Board Advisor at Vistair Systems Ltd.

Nationality: South African/
British



Steve Gunning ^(A) ^(F)
Independent Non-Executive Director

Appointed: 2019

Key areas of expertise:

Transportation, Corporate finance/M&A, Business Turnaround, Pensions, Safety, Governance

Skills and experience: Steve is CFO of International Airlines Group (IAG), the parent company of British Airways, having previously served as CFO of British Airways for three years. Prior to that he was CEO of IAG's Cargo Division for five years. During his career Steve has gained considerable experience leading operational turnarounds, overseeing major corporate integration processes, corporate governance and complex pension negotiations. Steve qualified as a chartered accountant at PwC and gained experience in both the UK and the US and worked in the rail, financial and manufacturing sectors. Steve has recent and relevant financial experience.

Other appointments: Director of IAG Global Business Services.

Nationality: British



Julia Steyn ^(A) ^(R) ^(F)
Independent Non-Executive Director

Appointed: 2 May 2019

Key areas of expertise:

Transportation, Contracting, Corporate finance/M&A, Governance

Skills and experience: Julia brings extensive knowledge of the US transport industry to the Board. Julia served as Vice President, Urban Mobility and Maven at General Motors (GM) until earlier this year. Maven combines all of GM's car- and ride-sharing offerings, including its strategic alliance with Lyft, under a single personal mobility brand. Julia first joined GM in 2012 as Vice President, Corporate Development and Global M&A, to manage GM's partnerships globally while also developing merger and acquisition opportunities. Prior to this, Julia was Vice President and Co-Managing Director for Alcoa's corporate development group, having previously worked in London, Moscow and New York for Goldman Sachs and A.T. Kearney.

Other appointments: Chief Executive Officer of BOLT Mobility.

Nationality: American

Former Director

Jimmy Groombridge ^(B)
Group Employee Director

Appointed: 2017

Resigned: 29 June 2020

Key areas of expertise:

Transportation, HR/employees, Safety

Skills and experience: Jimmy was a bus driver for almost 40 years and, having worked on projects for different departments within FirstGroup, he brings a unique experience of employee engagement at all levels to the Board. He is currently an employee of First Eastern Counties, where he served as Employee Director for more than a decade. He also served as the regional Employee Director for Norfolk and Essex. Safety is a passion for Jimmy and as such he is a champion of our Group safety programme 'Be Safe'.

Nationality: British

Executive Committee members

Matthew Gregory

Chief Executive

Rachael Borthwick

Group Corporate Services Director

Giles Fearnley

Managing Director, First Bus

Keith Hubber

General Counsel and Company Secretary

Dave Leach

President, Greyhound

Ryan Mangold

Chief Financial Officer

Steve Montgomery

Managing Director, First Rail

Paul Osland

President, First Student

Brad Thomas

President, First Transit

Former Directors who served for part of the year

Drummond Hall

Drummond stepped down from the Board on 31 May 2019.

Wolfhart Hauser

Wolfhart stepped down as Chairman on 25 July 2019.

Jim Winestock

Jim stepped down from the Board on 30 September 2019.

Imelda Walsh

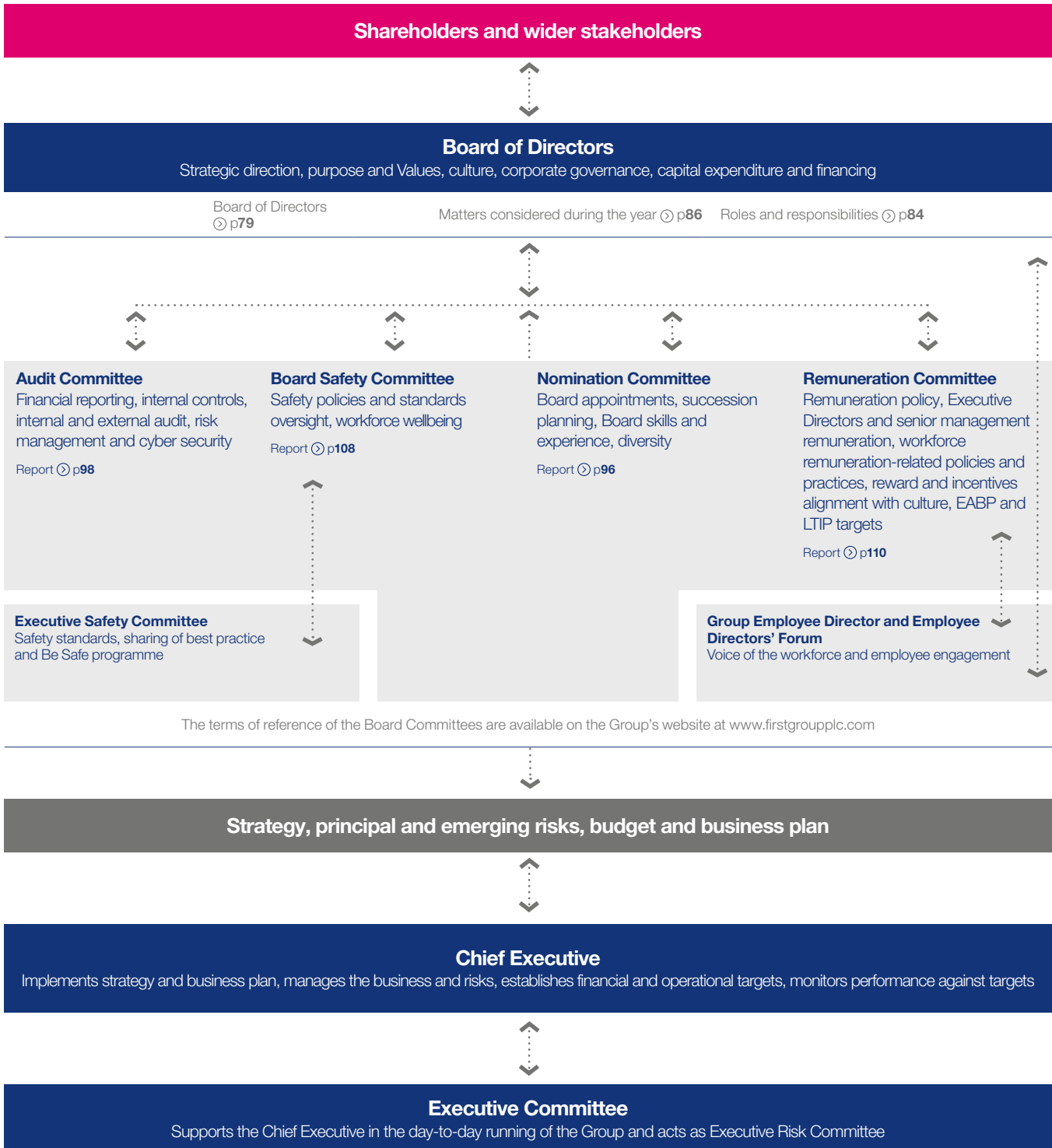
Imelda stepped down from the Board on 14 February 2020.

Governance

continued

Our governance framework

The Board operates within a defined governance framework in place throughout the Group. That framework incorporates a risk management and internal control framework which identifies, evaluates and manages the principal risks associated with the Group's achievement of its business objectives, with a view to safeguarding shareholders' investment and the Group's assets. The systems in place for managing and mitigating significant risks incorporate performance management systems and appropriate remuneration incentives.



Leadership and purpose

The role of the Board

The Board is accountable to shareholders for managing the Company in a way which promotes its long-term sustainable success, generating value for shareholders and contributing to wider society. The Board sets out the Group's strategic aims, monitors the Group's strategic objectives and oversees their implementation by the Chief Executive. There is a formal schedule of matters reserved to the Board. The schedule is reviewed annually and it was last amended in November 2019.

The Board is primarily responsible for:

- determining the Company's strategic direction
- setting the Company's purpose, Values and strategy and ensuring that these and the Company's culture are aligned
- establishing a framework of prudent and effective controls which enable risks to be assessed and managed
- determining the nature and extent of the principal risks the Group is willing to take to achieve its strategic objectives
- effective engagement with shareholders and stakeholders
- ensuring workforce policies and practices are consistent with the Company's values and support its long-term sustainable success
- ensuring there are mechanisms in place that allow the workforce to raise any matters of concern
- governance and stewardship of the Company's assets
- ensuring 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

Our purpose and Vision

We provide easy and convenient mobility, improving quality of life by connecting people and communities.

Our Values

- 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, suppliers, employees and stakeholders in general.

Matters reserved for the Board at a glance

- Vision, Values and overall governance framework
- strategy and long-term objectives
- 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
- financial results, viability statement and governance
- the appointment and removal of Directors and the Company Secretary

The Committees of the Board

The four principal Committees of the Board are:

- Audit Committee
- Board Safety Committee
- Nomination Committee
- Remuneration Committee

Each Committee has written terms of reference which were reviewed during the year and changed where appropriate. These are available to view on the Company's website at www.firstgroupplc.com. Committee composition is set out in the relevant Committee reports. The main role of each Committee and the interactions in the governance process are shown in the schematic on page 82 – Our governance framework

The Executive Committee

The Executive Committee supports the Chief Executive in the day-to-day running of the Group. It meets quarterly, the meetings are chaired by the Chief Executive and its main responsibilities are to:

- act as a communication forum for discussing Group-wide issues
- communicate, review and agree significant issues and actions
- help to develop, implement and monitor strategic and operational plans
- take active control of succession planning, talent management, areas of expertise, innovation and IT
- consider the continuing applicability, appropriateness and impact of risks, acting as Executive Risk Committee
- lead the Group's culture and safety programme, supported by the Executive Safety Committee

The Executive Committee also provides leadership and direction for the Group on our ESG matters, including climate change. Updates on material issues relating to corporate responsibility are reported to the Executive Committee, with ad hoc matters raised in between formal meetings. Related risks and opportunities are incorporated into our risk management framework.

The Chief Executive and the Group Corporate Services Director regularly update the Board on ESG matters so that the Board is able to identify and assess the significant ESG risks to the Company's short- and long-term value, as well as the opportunities to enhance value that may arise. Our approach to ESG is set out on page 38 – Sustainability.

The Executive Committee membership can be found on page 81.

Division of responsibilities

Roles and responsibilities

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

Our Chairman

- ensures effective communication with shareholders and other stakeholders, and that their views are understood by the Board
- provides support and challenge to the Chief Executive in order to maintain an effective working relationship
- ensures the Board operates 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
- chairs the Nomination Committee and ensures the Board has an appropriate balance of skills and experience and effective succession planning in place
- facilitates effective and constructive relationships and communications between Non-Executive Directors, Executive Directors and senior management

Our Chief Executive

- promotes the creation and maintenance of a safe working environment and a safety-focused culture across the Group; he does the latter by leading the Executive Safety Committee
- ensures the Group's Values are embedded and sets the tone from the top
- leads the Executive Committee in the day-to-day running of the Group's business
- develops the Group's business objectives and strategy, having regard to the interests of 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
- 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.
- promotes the interests of the Company with special regard to planning and development to secure the Group's future and sustainable success

Our Senior Independent Director

- acts as a point of contact for shareholders and other stakeholders to discuss matters of concern
- 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
- deputises for the Chairman, as necessary

Our Group Employee Director

- promotes employee involvement and participation in the affairs of the Group, through share ownership, employee surveys and other means
- identifies methods of achieving such employee involvement and participation and assists the FirstGroup Board to implement these
- encourages suggestions from employees for improvements in the business of the Group and identifies how such suggestions can be evaluated and implemented where appropriate
- considers the implications for employees of political developments and initiatives, particularly in relation to transport policy and safety
- considers issues of a strategic or commercial nature and their impact on employees
- promotes the Group's policies and procedures amongst employees, in particular those related to safety, diversity and inclusion, and business ethics
- demonstrates and promotes the Group's Vision and Values amongst employees

Our Non-Executive Directors

- provide a strong independent element to the Board and a solid foundation for good corporate governance, fulfilling a vital role in corporate accountability
- challenge constructively the strategies proposed by the Executive Directors
- scrutinise the performance of management in achieving agreed goals and objectives
- play a leading role in the functioning of the main Board Committees

Leadership and purpose

Board meetings

The Board typically meets six times a year, and usually has at least two meetings in the US. The Committees meet as necessary, and meetings are usually scheduled immediately before or after Board meetings. Additional ad hoc meetings and conference calls are arranged as and when required to consider matters which require decisions outside the scheduled meetings.

To assist the Board and its Committees in their work, Company Secretariat produces a twelve-month rolling programme of agenda items to ensure all necessary matters are covered and to allow sufficient time for debate and challenge. At Board meetings, the Directors receive and consider papers and presentations from management on relevant topics and senior executives are regularly invited to attend meetings for specific items.

Board meetings are typically structured around:

- strategy
- financial and operational updates
- divisional updates
- assessment of risks and how they should be managed and mitigated
- items for approval
- reports from the Chief Executive, the CFO, Committee Chairs, the Group Employee Director and the General Counsel & Company Secretary

Directors are also provided with training to ensure they are kept up to date on relevant legal, regulatory and financial developments, changes in best practice and ESG and corporate governance matters. During the year, the Audit Committee received training on corporate governance developments (facilitated by Deloitte) and rail accounting matters (facilitated internally). The training was open to all Board members.

In order to assist all Directors in the performance of their duties, they receive information between meetings regarding Group business developments, financial performance and shareholder sentiment.

The Chairman sets aside time after each scheduled Board meeting for the Non-Executive Directors to discuss matters addressed at the Board and to get their input on the agenda for the coming months.

Commitment

All Directors are expected to attend each Board meeting and each Committee meeting for which they are members, unless there are exceptional reasons preventing them from

Meeting attendance during the year

The attendance of Directors at Board meetings, scheduled and non-scheduled, in the year ended 31 March 2020 is shown on the table below. Committee meetings attendance is shown in the respective Committee reports. Attendance at meetings held between April and July 2020 is shown on the table on page 87.

Board Director	Scheduled meetings		Non-scheduled meetings	
	Eligible to attend	Attended	Eligible to attend	Attended
Chairman				
Wolfhart Hauser ¹	2	2	7	7
David Martin ²	4	4	4	4
Executive Directors				
Matthew Gregory	6	6	12	12
Ryan Mangold ³	5	5	9	9
Non-Executive Directors				
Warwick Brady	6	6	12	9
Sally Cabrini ⁴	1	1	3	3
Jimmy Groombridge ⁵	6	6	12	12
Steve Gunning	6	6	12	9
Drummond Hall ⁶	1	1	3	3
Martha Poulter	6	6	12	9
David Robbie	6	6	12	12
Julia Steyn ⁷	6	6	11	10
Imelda Walsh ⁸	5	5	9	9
Jim Winestock ⁹	3	3	8	6

1 Wolfhart Hauser stepped down on 25 July 2019.

2 David Martin was appointed on 15 August 2019.

3 Ryan Mangold was appointed on 31 May 2019.

4 Sally Cabrini was appointed on 24 January 2020.

5 Jimmy Groombridge resigned on 29 June 2020.

6 Drummond Hall retired on 31 May 2019.

7 Julia Steyn was appointed on 2 May 2019.

8 Imelda Walsh stepped down on 14 February 2020.

9 Jim Winestock retired on 30 September 2019.

participating. Only members of the Committees are entitled to attend their meetings, but others may attend at the Committee's discretion. Non-Executive Directors have an open invitation to attend any Committee meetings, even if they are not a member, and they do so regularly to gain further insight. Executive Directors attend Committee meetings by invitation only.

Directors unable to attend meetings for whatever reason receive the papers and other relevant information in advance of the meeting and have the opportunity to discuss with the relevant Chair or the Committee Secretary any matters they wish to raise and to follow up on after the meeting. The Chairman, Chief Executive and Company Secretary are always available to discuss issues relating to meetings or other matters with the Non-Executive Directors.

Reasons for non-attendance are generally prior business commitments or illness.

During the year, a number of corporate events, such as the period between April and June 2019 when the Board responded to the requisitioning of a General Meeting by Coast Capital, meant that meetings had to be called at short notice with some Directors unable to attend because of previously arranged commitments which they could not cancel.

This has been the case for Warwick Brady, Steve Gunning, Martha Poulter and Jim Winestock who missed non-scheduled meetings. Scheduled meetings were however fully attended by all Directors during the year. The table above provides further detail.

The Board is satisfied that each of the Non-Executive Directors is able to devote sufficient time to the Company's business.

Leadership and purpose

Principal matters considered by the Board during 2019/20 and at the beginning of 2020/2021

The principal matters considered by the Board are set out on the table below and on the next page. They all link to the Group's strategy and other priorities. This illustrates how our governance framework contributes to the delivery of our strategy, in line with provision 1 of the Code. As part of the business of each scheduled Board meeting, the Chief Executive submits a progress report, giving details of business performance and our progress against the goals the Board has approved, in particular our portfolio rationalisation strategy. Since March 2020, the Chief Executive has updated the Board on portfolio rationalisation and response to coronavirus weekly.

When	Board activity	
2019/2020	April	<ul style="list-style-type: none"> Internal Board and Committee evaluation
	May	<ul style="list-style-type: none"> Appointments of Julia Steyn and Ryan Mangold Work in preparation for requisitioned General Meeting Final results Strategy review and announcement of portfolio rationalisation Review of Board and Committee evaluation results
	June	<ul style="list-style-type: none"> General Meeting
	July	<ul style="list-style-type: none"> Annual General Meeting Conclusion of external audit tender and appointment of PwC
	August	<ul style="list-style-type: none"> West Coast Partnership award Appointment of David Martin
	September	<ul style="list-style-type: none"> Portfolio rationalisation discussions
	October	<ul style="list-style-type: none"> Employee Directors' Forum and subsequent report to the Board by the Group Employee Director David Martin induction and site visits
	November	<ul style="list-style-type: none"> Half yearly results Response to shareholder feedback following votes at General Meeting and AGM External Board and Committee evaluation Strategy discussions on portfolio rationalisation Progress update on Greyhound sale process
	December	<ul style="list-style-type: none"> Review of strategic options for North American contract businesses, First Student and First Transit Strategy update to the market on portfolio rationalisation
	January	<ul style="list-style-type: none"> Treasury and pensions update Viability statement -early review and input into scenario planning Rail strategy review IT strategy review Talent and succession planning Appointment of Sally Cabrini as Non-Executive Director and Chair of the Remuneration Committee Review of Board and Committee evaluation results Update on portfolio rationalisation planning
	February	<ul style="list-style-type: none"> Operational and financial review and full year profit outlook Sally Cabrini induction and safety visits
	March	<ul style="list-style-type: none"> Preliminary Group budget GWR direct award Trading update and update on portfolio rationalisation Assessment of initial impact of coronavirus and response to government actions Cost reduction and cash preservation actions in response to coronavirus Review of initial coronavirus financial stress testing results Review of Rail Emergency Measures Agreements

When	Board activity	
2020/2021	April	<ul style="list-style-type: none"> ■ Review of liquidity enhancements, including access to Covid Corporate Financing Facility ■ Divisional presentations on their response to coronavirus and preparations and review of impact on operations, health and safety considerations (including the provision of PPE), community engagement across the businesses ■ Review of government support measures ■ Update on shareholder engagement since the outbreak of coronavirus ■ Update on preparations for the sale of First Student and First Transit in light of coronavirus impact
	May	<ul style="list-style-type: none"> ■ Oversight of operations to ensure continuity of essential services ■ Update on ongoing preparatory work in support of the sale of the North American divisions
	June	<ul style="list-style-type: none"> ■ Review of latest modelling in support of going concern and viability statements, liquidity headroom and covenant testing ■ Further update on ongoing preparatory work in support of the sale of the North American divisions. ■ Further review of alternative strategic options in the event of prolonged market disruption ■ Review of debt and equity market pre-conditions for sale of North American divisions
	July	<ul style="list-style-type: none"> ■ North American insurance reserve – review ■ Further detailed review of financial impact assessments of coronavirus, liquidity forecasting, debt covenant testing. ■ Report from Audit Committee on work in support of the announcement of the final results for the year ended 31 March 2020, and ongoing work in support of the key disclosures in the latest draft of the Annual Report and Accounts. ■ Detailed review (post Audit Committee) of going concern and viability statements and disclosures ■ Approval of Final Results for the year-ended 31 March 2020 and Annual Report and Accounts

Meeting attendance between April and July 2020

	Scheduled meetings		Non-scheduled meetings	
	Eligible to attend	Attended	Eligible to attend	Attended
Board Director				
Chairman				
David Martin ¹	1	1	4	4
Executive Directors				
Matthew Gregory	1	1	4	4
Ryan Mangold ²	1	1	4	4
Non-Executive Directors				
Warwick Brady	1	1	4	3
Sally Cabrini ³	1	1	4	4
Jimmy Groombridge ⁴	0	0	4	4
Steve Gunning	1	1	4	4
Martha Poulter	1	1	4	4
David Robbie	1	1	4	4
Julia Steyn ⁵	1	1	4	4

1 David Martin was appointed on 15 August 2019.

2 Ryan Mangold was appointed on 31 May 2019.

3 Sally Cabrini was appointed on 24 January 2020.

4 Jimmy Groombridge resigned on 29 June 2020.

5 Julia Steyn was appointed on 2 May 2019.

Composition, succession and evaluation

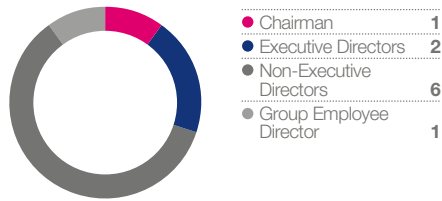
Board balance

As at 31 March 2020 the Board comprised the Chairman, two Executive Directors, the Group Employee Director 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.

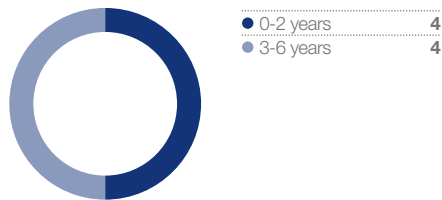
Board independence

It is the Company's policy that at least half of the Board should be independent Non-Executive Directors. The Board carries out a review of the independence of its Non-Executive Directors on an annual basis. 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 Director provides objective challenge to management, is willing to stand up and defend their own beliefs and viewpoints in order to support the ultimate aims of the Company and there are no business or other relationships likely to affect, or which could appear to affect, their judgment. Being an employee of the Group, the Group Employee Director is not considered by the Board to be independent.

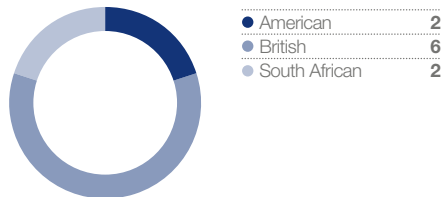
Board balance



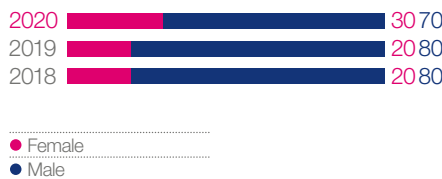
Non-Executive Directors' tenure



Board members by nationality



Board members by gender diversity (%)



Composition, succession and evaluation

Board evaluation

The Board evaluation this year was carried out by Duncan Reed of Condign Board Consulting at the request of the Chairman following his appointment. Condign Board Consulting are independent consultants and had no prior connection with the Company. This was in addition to the internal review carried out in early 2019. The formal part of the external review was conducted in November and December last year. Duncan Reed observed the Board and Committee meetings held in November 2019 and presented his report to the Board at its meeting in January 2020.

The external review took place after a period of reflection following the requisitioning of a General Meeting in June 2019 by a major shareholder calling for changes on the Board.

The purpose of the review was to examine Board relationships, dynamics and its 'operating rhythm'. With the appointment of the Chairman and changes to the Board following the AGM it was acknowledged that this was an appropriate time to review the way the Board had operated in the past as a way of informing how it wanted to operate in the future and to make any necessary adjustments to its ways of working.

The Directors were unanimous in their view that the principal task for the new Chairman and the Board as a whole was to reassess the strategic, business and Board priorities, to agree the strategy with the executive team and help them execute it through ensuring they were supported by the right people and resources, and to assess the remaining businesses and help develop and test future

growth plans. During the exercise the Board was also asked to provide feedback to the Chairman to help him shape the Board's agenda.

It was acknowledged that more focused and directed challenge in key areas would be productive in helping to unlock change while also allowing a 're-set' of some of the relationships between the executives and the Board and clarifying roles and expectations. In terms of Board composition, it was recognised there was scope for change as and when demanded by normal rotation or significant change to the shape of the Group following the sale of the US divisions.

As with most board reviews, a number of process improvements were also identified, and these are summarised in the table below:

Area of focus	Recommended actions	Progress
Improve the information flows and timely receipt of Board papers	Avoid information 'bottlenecks' and more use of management reports between Board meetings	The process for Board paper preparation and send out is being reviewed. Since March the Board's own ways of working have had, by necessity, to become more agile and somewhat less process driven with all Board and Committee meetings occurring via video-conferencing. New meeting 'protocols' for virtual meetings were introduced to facilitate this. The Board has also increased the frequency of its meetings in order to stay up to date with the impact coronavirus was having on the Group and the mitigating actions put in place by the management team.
Continuous improvement in Board papers	Improving (where necessary) the quality, 'level' and volume of Board papers to allow open and constructive challenge to be made 'in context' and at the right time in response to the executive team's analysis of performance.	As part of supporting 'remote' working and to enable the Board to be kept up to date on the Group's response to coronavirus, it now receives more regular updates. The Board receives a weekly report from the Chief Executive and regular financial updates from the Chief Financial Officer.
Agenda planning	The forward agenda planner should be discussed at the end of the Board meetings, as part of a Non-Executive Director 'wash-up' session, and any feedback reflected in the planner to make the Board as agile as possible and that the executive team can respond to requests from the Board.	This has now been formalised as part of the Board's new ways of working. The weekly report referred to above also frees up time on the Board agenda.
Succession planning	There is a need for the Board to engage with management beyond the Chief Executive and the Chief Financial Officer.	The Board receives updates from the divisional leadership teams and at its meeting on 30 April 2020 received extensive briefings from each of the divisional heads on how coronavirus had affected their divisions and the measures taken to protect their businesses, employees and customers as well as the risks and opportunities they foresee as and when their businesses can start to ramp up again.
	Board succession and rotation plan will need to be prepared in contemplation of executing the portfolio rationalisation.	The portfolio rationalisation was 'paused' in the immediate aftermath of the coronavirus outbreak. Board succession and rotation planning will be reviewed and progressed at the appropriate time.

Leadership and purpose

Induction and development

On appointment, all new Directors receive a comprehensive and structured induction, tailored to their individual requirements. The induction programme, which is arranged by Company Secretariat, typically includes visits to the Group's businesses both in the UK and in the US and meetings with senior managers and advisers. 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, and the Company's corporate governance practices and procedures as well as gaining an insight into operations within the business divisions. Company Secretariat also provide appropriate training materials and guidance as to their duties, responsibilities and liabilities as a director of a public limited company.

During the year, David Martin and Sally Cabrini participated in tailored induction programmes.

The pictures below show General Manager Luis Pacheco giving Chairman David Martin a tour of the Union New Jersey location and District Manager Steven Crossken showing Chairman David Martin On Time Performance tracking analytics at a First Transit location in New Jersey.



In February 2020 Sally Cabrini visited the old and new GWR depots in Exeter where she met the teams and experienced at first hand their commitment to safety. It was helpful for her to understand the operational challenges they faced on the old site.

Unfortunately planned visits to First Student and First Transit sites in New Jersey and Greyhound in Dallas in March 2020 were cancelled due to the outbreak of coronavirus.

Information and support

The Company Secretary and the Deputy Company Secretary are 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. Company Secretariat is also responsible for ensuring there are effective communication flows between the Board and its Committees, and between senior management and Non-Executive Directors.

All Directors receive papers and other relevant information on the business to be conducted at each Board or Committee meeting well in advance, usually a week before, 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 divisional performance and any current issues.

All Directors have access to the advice of the Company Secretary and, in appropriate circumstances, may obtain independent advice at the Company's expense.

The Company Secretary is Keith Hubber, who joined the Group in November 2019. Keith is secretary to the Nomination and Executive Committees, and his deputy, Silvana Glibota-Vigo, is secretary to the Audit, Remuneration, Board Safety and Executive Safety Committees.

Workforce engagement

One of the key requirements of the revised Code is for boards to have in place mechanisms to ensure that they understand the views of the workforce. Many companies will have been establishing and reporting on those mechanisms for the first time this year.

FirstGroup has had an Employee Director on its Board since 1996 (and on the majority of the UK operating companies' boards since the founding of the Company). The role and responsibilities of the Group Employee Director (GED) are described on page 84. The GED is a member of the Board Safety Committee, has an open invitation to attend all other Committee meetings, and regularly attends the meetings of the Remuneration Committee.

Jimmy Groombridge was the GED until his resignation on 29 June 2020 at the end of his three-year term. The election process for his successor will take place over the summer. The nominated candidate/s will be considered by the Nomination Committee and the successful candidate will be recommended to the Board for appointment in September. An announcement will be made in due course.

Responding to shareholder feedback

At last year's General Meeting and AGM a number of resolutions put to shareholders received 'significant votes against'. These are set out in the table below. On 25 June and 25 July 2019 respectively we announced the results of the General Meeting and the AGM and explained then the steps that would be taken to understand the reasons for shareholders' dissatisfaction. In November 2019 we wrote to the Investment Association (IA) and published the letter on our website. Our response is in the IA's public register.

The revised Code provides that when 20% or more of the votes cast against a Board recommendation for a resolution, the Company should explain, when announcing voting results, what actions it intends to take to consult shareholders in order to understand the reasons behind the result. The Code also states that companies should publish an update on the views received from shareholders and the actions taken, and that the Board should provide a final summary in the annual report and accounts.

Our response to shareholder feedback

When	What happened	How we responded
25 June 2019 General Meeting	Activist shareholder Coast Capital (a 10% shareholder at the time) requisitioned a General Meeting and put forward resolutions seeking to remove six Directors and appoint seven of their nominees. Our Board's recommendation to shareholders was that they should vote against Coast Capital's resolutions. On average, shareholders voted more than four to one against Coast Capital's resolutions but there were several resolutions which received more than 20% shareholders' support, against the Board's recommendation.	We continued to meet extensively with shareholders after the General meetings as part of our ongoing programme of investor engagement. Wolfhart Hauser decided to step down as Chairman and in August the Board appointed David Martin as his successor. For more information see Nomination Committee report on page 96.
25 July 2019 Annual General Meeting	Remuneration Report More than 20% of our shareholders voted against this resolution.	We continued to engage with our shareholders to understand the reasons for their voting decisions. We posted a clarification on our website to explain the rationale for our Chief Financial Officer's remuneration arrangements and highlighted the Remuneration Committee's track record of exercising discretion to reflect underlying performance. The Board and the Remuneration Committee are committed to keeping this issue under review and will take it into account in respect of future appointments. They will also continue their engagement and dialogue with shareholders and their representatives on this and other key remuneration matters. The Remuneration Committee welcomes shareholders' feedback, and this will help inform the work to develop a Remuneration Policy to be put to shareholders at the AGM in 2021. For more information see Directors' remuneration report on page 110.
	Directors' re-election More than 20% of our shareholders voted against the resolutions to re-appoint Imelda Walsh and Jim Winestock as Directors.	We continued to engage with our shareholders to understand the reasons for their voting decisions. We continue to assess and refresh our Board's composition. Since the AGM, two of our longest serving directors (Jim Winestock and Imelda Walsh) stepped down after having served on the Board for seven and five years respectively. We appointed Sally Cabrini to chair the Remuneration Committee in January 2020. In the last 18 months we have appointed four new Directors and a new Chairman. For more information see Nomination Committee report on page 96.
	Political donations More than 20% of our shareholders voted against this resolution.	We continued to engage with our shareholders to understand the reasons for their voting decisions. It is not the policy of the Company to make donations to political organisations or to incur other political expenditure and the Board has no intention of changing that policy. For more information see page 132.

Leadership and purpose continued

Compliance with the Code and section 172 duties

The Board's confirmation of compliance with the provisions of the Code, as well as other compliance statements, is set out below. Details of how we applied the principles can be found on page 94. Further detail of shareholder engagement can be found on page 91.

Code compliance, section 172 and other compliance statements

Requirement	Board statement	Further information
Compliance with the 2018 UK Corporate Governance Code	The Directors consider that the Company has been compliant with the Code provisions as applied during the year ended 31 March 2020.	See Chairman's report on p76 See Corporate governance report on p82
Section 172 (1) Companies Act 2006	The Board has always been focused on the duties owed by its Directors under this section of the Companies Act. This year has not been an exception and the Directors confirm that during the year they continued to promote the success of FirstGroup for the benefit of all stakeholders.	See Chairman's report on p76 See Our stakeholders on p44 See Corporate governance report on p82
Going concern	Based on their review of the financial forecasts and having regard to the risks and uncertainties to which the Group is exposed (including the material uncertainty referred to on page 72) the Directors believe that the Company and the Group have adequate resources to continue in operational existence for the twelve-month period from the date on which the financial statements were approved. Accordingly, the financial statements have been prepared on a going concern basis.	See Going concern statement p72 See Audit Committee report on p98
Viability	Based on the results of the assessments outlined on page 72, including the scenario testing, the Directors confirm that, having regard to the principal risks and uncertainties currently facing the Group, and the material uncertainty in relation to going concern noted on page 73, and that the base case includes up to £700m of debt and £150m of equity issuance in the event that the sale of First Student and First Transit does not complete by March 2022, 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 2023.	See Viability and prospects p69 See Audit Committee report on p99
Robust assessment of principal and emerging risks facing the business – Code provision 28	The Board confirms that in making this statement it carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.	See Principal risks and uncertainties on p59 See Audit Committee report on p98
Annual review of systems of risk management and internal control	The Directors monitor the Group's systems of risk management and internal controls.	See Audit Committee report on p98
Fair, balanced and understandable	The Directors have determined that this year's Annual Report, taken in its entirety, gives a fair, balanced and understandable view of the business's current position and provides stakeholders with the necessary information to fully assess the Group's current financial position and future prospects.	See Audit Committee report on p98
Directors' responsibility – DGTR4.1.12R	The Directors confirm that to the best of their knowledge the financial statements have been prepared in line with all regulations applicable to FirstGroup.	See Directors' responsibility statement p134
Audit information – section 418 (2) Companies Act 2006	The Directors confirm that the auditors have been provided with all relevant audit information.	See Directors' report and additional disclosures on p130
Non-financial reporting – section 414C (7) Companies Act 2006	Each of the key areas of disclosure required is summarised on the tables in the Strategic report, where we also described our business model, and on our website.	See Strategic report on p4-74 See website www.firstgroupplc.com
Payment Practices and Performance Reporting – 2017 regulations	The Directors confirm that they have complied with the legal requirement to report on supplier payment practices and policies for qualifying contracts.	See website www.firstgroupplc.com

Code compliance, section 172 and other compliance statements

Requirement	Board statement	Further information
Modern Slavery Statement – Modern Slavery Act 2015	In line with our Values and the expectations of our customers, FirstGroup is committed to conducting our relationships with integrity, high ethical and moral standards, and professionalism in all our activities. This includes the prevention of modern slavery and human trafficking in all its forms and extends to all business dealings and transactions in which we are involved, regardless of location or sector.	See website www.firstgroupplc.com
Gender Pay Gap Report	FirstGroup is committed to making our workplaces inclusive for all our employees, regardless of their gender, age, ethnic origin or any other characteristic.	See website www.firstgroupplc.com

Culture

Company culture is monitored and assessed by the Board through a range of inputs, which are reflected on the table below. The Board takes seriously its responsibility for shaping and monitoring the corporate culture of the Group and remains committed to applying the

highest standards of corporate governance, recognising that robust governance and culture underpin business success. Following the changes introduced in the Code, we took the opportunity to refine some of our governance procedures, with particular focus on how we assess the Group's culture and how we embed the practices which best promote the

long-term success of the Group. In particular, our Group culture programme Be First is a direction and way of working aimed at creating sustainable change and building a positive cycle of performance throughout our Company. It is led by our leadership team and it should be embraced and adopted by every single employee in the Company.

Reinforcing a healthy corporate culture

Risk management

- Delegated to the Audit Committee and the Executive Committee.
- Risk appetite reviewed annually by the Board.

Ethics and compliance

- Continued embedding of the Code of Ethics that was rolled out in 2018.
- Modern Slavery Statement reviewed and approved annually by the Board.
- Payment Practices Report.

Employee engagement

- Group Employee Director sits on the Board.
- Employee Directors' Forum (EDF) meets in person twice yearly and monthly by other means.
- Group Employee Director reports to the Board regularly and after each EDF meeting.
- Your Voice survey run regularly and results reported to the Board.

How the Board monitors culture

Measuring our culture

- Your Voice survey runs regularly and results reported to the Board.
- Annual report by the Group Corporate Services Director.

Remuneration and culture

- Delegated to the Remuneration Committee.
- Gender Pay Gap Report reviewed and approved annually by the Board.

Company success

- Continuity of transport is essential to governments, local communities and customers and that remains front of mind in our decisions.
- Regular reports from the Chief Executive on performance.
- Divisional presentations at various times during the year.

Leadership and purpose continued

Compliance with the UK Corporate Governance Code

The Annual Report and Accounts for the year ended 31 March 2020 have been prepared in accordance with the Code published by the Financial Reporting Council (FRC) in 2018. The Code is available on the website of the FRC at www.frc.org.uk

We explain throughout this report how we applied the principles and complied with the provisions of the Code. For ease of reference, the table below summarises where the relevant information can be found:

Principles	Page reference	Focus areas this year
<p>1 Board leadership and company purpose</p> <p>In the sections listed to the right we explain the processes we put in place to support the Board in exercising its leadership and oversight roles.</p>	<p>Board of Directors 79</p> <p>Our stakeholders 44</p> <p>Activities of the Board 86</p> <p>Responding to shareholder feedback 91</p>	<ul style="list-style-type: none"> ▪ Portfolio rationalisation strategy announcement ▪ Ongoing shareholder and stakeholder engagement ▪ Assessing and monitoring Company culture
<p>2 Division of responsibilities</p> <p>In the sections listed to the right we describe the process the Company conducts to evaluate the Board to ensure that it continues to operate effectively, that individual Directors' contributions are appropriate and that the oversight of the Chairman promotes a culture of openness and constructive yet challenging debate.</p>	<p>Our governance framework 82</p> <p>Roles and responsibilities 84</p> <p>Activities of the Board 86</p> <p>Nomination Committee report 96</p> <p>Audit Committee report 98</p> <p>Board Safety Committee report 108</p> <p>Remuneration Committee activities 110</p>	<ul style="list-style-type: none"> ▪ Changes to Board and Committee composition ▪ Board evaluation ▪ Review of matters reserved for the Board and Committees' terms of reference
<p>3 Composition, succession and evaluation</p> <p>In the sections listed to the right we detail the skills, experience and knowledge of the existing Board members, we give information on the Board's appointment process and approach to succession planning as well as Board evaluation.</p>	<p>Board evaluation 89</p> <p>Nomination Committee report 96</p> <p>Board of Directors 79</p>	<ul style="list-style-type: none"> ▪ Changes to Board and Committee composition ▪ External performance evaluation exercise
<p>4 Audit, risk and internal control</p> <p>In the sections listed to the right we provide information on the policies and procedures the Group has in place to monitor the effectiveness of the Group's internal and external audit functions, and the integrity of the Group's financial statements, along with an overview of the procedures in place to manage risk and oversee the internal control framework.</p>	<p>Audit Committee report 98</p> <p>Principal risks and uncertainties 59</p>	<ul style="list-style-type: none"> ▪ Oversight of emerging risks and mitigating actions in response to the coronavirus crisis ▪ Review of internal controls framework ▪ External audit tender and appointment of PwC
<p>5 Remuneration</p> <p>In the section listed to the right we describe the Group's approach to Directors' remuneration, including the procedures for developing policy and the Remuneration Committee's discretion for authorising remuneration outcomes.</p>	<p>Responding to shareholder feedback 91</p> <p>Directors' remuneration report 110</p>	<ul style="list-style-type: none"> ▪ Engagement with shareholders and leading up to and following the AGM ▪ Coronavirus response reflected in remuneration outcomes ▪ Increased focus on the use of discretion

Section 172 of the Companies Act 2006

The Directors are mindful of the duty they have under section 172 to promote the success of the Company over the long term for the benefit of shareholders as a whole, having regard to the interest of a range of other key stakeholders. In performance of its duties throughout the year, the Board has had regard to the interests of the Group's key stakeholders and taken account of the potential impact on these stakeholders of the decisions it has made. Details of the Board's engagement with stakeholders during the year, in compliance with section 172, can be found mainly in the Our stakeholders section on page 44. In addition, further information on how the Board had regard to the following matters in its decisions can be found here:

Likely long-term consequences	9
Interests of the Company's employees	48
Business relationships with suppliers and customers	52
Impact on the community and environment	51
Reputation for high standards of business conduct	52
Acting fairly between shareholders	46

How our governance arrangements adapted to working in lockdown

Since 18 March 2020 the Group introduced remote working wherever possible for all office-based employees. The UK government introduced lockdown measures on 23 March 2020. On 16 March 2020 the Board cancelled a scheduled visit to New York where it had planned to hold its March Board meeting, visit operational sites in New Jersey and meet with the senior leadership teams from its US divisions. Instead of the scheduled Board meeting, the Board had its first 'virtual' Board meeting which focused on understanding the potential impacts which the spread of the coronavirus might have on the Group should it reach pandemic levels. On 23 March the Group issued an update to the markets on the impact the virus was already having on the Group and the immediate actions the Group was taking to manage the risks to passengers, employees and its operations.

Since the introduction of the lockdown, the Board was kept informed throughout and received weekly reports from the Chief Executive as well as more detailed briefings at its scheduled meetings. The Board itself had five virtual meetings between 22 March and 2 July to be brought up to speed on the business impact throughout the crisis, the introduction and impact of government support measures that were introduced and the output of financial modelling for assessing liquidity and covenant headroom under various scenarios. Attendance at meetings held between April and July 2020 during lockdown is shown on the table on page 87.

The Committees also met virtually (the Audit Committee and the Remuneration Committee on two occasions each, and the Board Safety Committee on one occasion). In addition, there were two virtual meetings in May and June 2020 of a special sub-committee set up to oversee the implementation of the portfolio rationalisation. Further details of the oversight provided by the Audit Committee on the actions taken by management to ensure the Company maintained adequate liquidity headroom through access to additional financing facilities and cost control management are set out in the Audit Committee report on page 98.

Going Concern

In view of the uncertain outlook caused by the coronavirus, the Board gave careful and detailed consideration to whether it was appropriate to prepare the financial statements on a going concern basis. Further details of the Board's deliberations and the judgements and assumptions taken into account in reaching the conclusion that it was appropriate to do so are set out in full on page 72 – Going concern statement, page 69 – Prospects and viability and in the Audit Committee report on page 98.

Annual General Meeting

The AGM this year will be held on 15 September 2020. To comply with public health and safety legal requirements currently in force, and in line with the recently introduced Corporate Insolvency and Governance Act, the AGM will be run as a closed meeting and it will not be possible for shareholders to attend in person (other than those designated as attending for the purposes of the quorum).

The Notice of AGM and other documentation are enclosed with this Annual Report or available on the website at www.firstgroupplc.com for those shareholders who have chosen to communicate with the Company by electronic means.

Shareholders who wish to ask a question of the Board relating to the business of the AGM can do so by submitting questions in advance of the AGM by email to companysecretariat@firstgroup.com. We will consider all questions received and, to the extent practicable, publish answers on our website.

The results of the voting will be announced to the London Stock Exchange and made available on the Company's website as soon as practicable after the meeting.

Looking ahead to 2020/21

With the introduction of the revised Code, we have been able to reflect on our own governance framework and initiatives. Corporate culture, including safety and wellbeing, together with stakeholder engagement, will be areas of focus as we look forward to the year ahead.

The Board will also continue to focus on the Group's recovery from the coronavirus crisis and on the delivery of the portfolio rationalisation strategy.

Nomination Committee report



David Martin
Chair, Nomination Committee

The Committee's key role is to ensure that the Board has the appropriate skills, knowledge and experience to operate effectively and deliver our strategy.

The Committee is primarily responsible for leading the process for appointments to the Board and reviewing the composition of the Committees, ensuring that we have the right mix of skills and experience.

The Chief Executive attends meetings of the Committee upon invitation. Committee members take no part in any discussions concerning their own membership of the Board or appointment as a Chair of a Committee, but are involved in the recommendations on Committee membership changes. The General Counsel & Company Secretary acts as the Committee Secretary.

Activities during the year

During the year, the Committee kept 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 tried to ensure that the right people with the right range of skills and experience, specifically transportation and travel industry expertise, are on the Board and in senior management positions in the coming years.

Summary of Committee activities during the year

May 2019

- Appointment of Julia Steyn as Non-Executive Director
- Appointment of Ryan Mangold as Chief Financial Officer
- Internal performance evaluation exercise

August 2019

- Appointment of David Martin as Chairman

November 2019

- External performance evaluation exercise

January 2020

- Appointment of Sally Cabrini as Non-Executive Director

Appointment of Chairman

During the year we announced my appointment as Chairman of FirstGroup, succeeding Wolhart Hauser, who stepped down on 25 July 2019. Having followed a rigorous and formal process, and considered the views of our shareholders, the Committee, chaired at the time by David Robbie, recommended my appointment to the Board. Further detail on the process followed is shown on the following page.

Recruitment of Non-Executive Director

When considering the recruitment of a new Director, the Committee adopts a formal, rigorous and transparent procedure with

Membership and attendance as at 31 March 2020

Committee member	Meetings attended	Other Committees/Roles	Independent
Wolhart Hauser ¹ (Chair until 25 July 2019)	2/2	Chairman	Yes, on appointment as Chairman ¹
David Robbie ²	2/2	Senior Independent Director Chair of Audit Committee	Yes
David Martin ³ (Chair since 15 August 2019)	1/1	Chairman	Yes, on appointment as Chairman
Warwick Brady ⁴	1/1	Audit Committee	Yes
Drummond Hall ⁵	0/0	Senior Independent Director Remuneration Committee	Yes
Imelda Walsh ⁶	3/3	Chair of Remuneration Committee Board Safety Committee	Yes
Jim Winestock ⁷	2/2	Chair of Board Safety Committee Audit Committee	Yes

1 Wolhart Hauser stepped down on 25 July 2019.

2 David Robbie was Interim Chairman between 25 July and 15 August 2019. He joined the Committee as member on 5 November 2019.

3 David Martin was appointed on 15 August 2019.

4 Warwick Brady joined the Committee on 30 September 2019.

5 Drummond Hall stepped down on 31 May 2019.

6 Imelda Walsh stepped down on 14 February 2020.

7 Jim Winestock retired on 30 September 2019.

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Chairman appointment process

Candidate requirements

The Committee agreed a detailed candidate profile setting out the capabilities and experience required.

Process	Search	Interviews
The process to appoint a new Chairman, which started on 25 June 2019, was led by the Interim Chairman, with Russell Reynolds Associates (RRA) appointed to facilitate the process. The Committee as a whole was closely involved in identifying and agreeing a shortlist of candidates.	The Interim Chairman considered a full list of candidates with RRA. The full list was shared with the Committee, who also considered candidates put forward independently by Committee members. A shortlist of candidates to be invited for interview was agreed.	Following initial interviews with the Interim Chairman and a further review with Committee members, the number of candidates was reduced. The remaining Committee members met with the shortlisted candidates.

New Chairman announced

Following their interviews, each Committee member provided feedback on the candidates to the Interim Chairman. The Committee discussed the relative merits of each candidate and agreed that David Martin should be recommended to the Board for appointment. The announcement was made on 15 August 2019.

due regard to diversity. Prior to making an appointment, the Committee evaluates the balance of skills, sector knowledge, independence, experience and diversity on the Board and, in light of this evaluation, prepares 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 on merit and against objective criteria ensuring that appointees have sufficient time to devote to the position, in light of other potential significant positions
- considers candidates from different genders and a wide range of backgrounds

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.

Prior to the appointment of Sally Cabrini, the Committee ran a comprehensive and rigorous search, with a candidate profile and position specification drawn up. Global executive search SpencerStuart was engaged to assist with the selection process and conducted searches to identify suitable, qualified candidates. A number of interviews and meetings were held with shortlisted candidates. Sally's appointment was then recommended to the Board for approval as she fully met the criteria required. Sally joined the Board and the Remuneration Committee on 24 January 2020 and was appointed to the Board Safety Committee on 14 February 2020.

In line with provision 20 of the Code, the executive search firms engaged during the year (for the recruitment of David Martin and Sally Cabrini) had no other connection with the Company or the individual Directors.

Other appointments

During the year, the Committee also considered and recommended to the Board the appointments of Julia Steyn as Non-Executive Director and Ryan Mangold as Chief Financial Officer. Both joined the Board in May 2019. We reported on the process followed for those appointments in last year's Annual Report.

Board appointments during the year have taken into account the outcomes of the Board evaluation exercises, internal and external, carried out during the year.

Diversity

The Committee and the Board consider diversity as an important factor when reviewing the composition of the Board. The Committee views diversity in its wider sense, including gender, length of tenure, nationality and multiple-industry expertise.

The Board consists of Directors with a wide range of skills and experience drawn from a number of industries, including transportation, listed companies, accounting and employee representation, and which are 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 brings 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.

The Board at 31 March 2020 was above its target of 25% female representation and slightly below the Hampton-Alexander Review target of 33% female representation by 2020. However, as at the date of this report female representation on the Board is now at 33%.

For the second year in a row we contributed to the FTSE Women Leaders review, which was published in November 2019. The report, available at www.ftsewomenleaders.com, shows our data regarding women representation at Board level (30%) and at Executive Committee and its direct reports level (19.4%) at 30 June 2019. This is in compliance with provision 23 of the Code and we look forward to contributing again to the review later in 2020.

The Board remains of the opinion that appointments should be made on merit and relevant experience, against the criteria identified by the Committee. Future appointments to the Board must also complement the balance of skills the Board already possesses.

The Board recognises the need to create the conditions that foster talent and encourage more women and people from diverse backgrounds to achieve their full potential in their careers in the Group. The Committee is mindful of the Parker Review on ethnic diversity on the Board. In line with this, as part of an overall approach to HR management, there are policies and training programmes in place across the Group to promote and embed diversity and inclusion.

Committee evaluation

The performance of the Committee was considered through the annual Board evaluation process, in which members were requested to complete an online questionnaire developed internally and were also asked by Condign Board Consulting to provide specific feedback by way of individual interviews. From the responses provided, it was confirmed that the Committee continued to operate effectively and that progress had been made in the year. Further information on the wider evaluation exercise is available on page 89 which, in line with provision 23 of the Code, describes that the evaluation of the Board was externally facilitated by Condign Board Consulting, and the outcomes and actions taken.

Looking ahead to 2020/21

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.

Further engagement

In line with provision 3 of the Code, the Committee Chair welcomes questions from shareholders on the Committee's activities. Unfortunately it will not be possible this year to meet in person at the AGM but if you wish to discuss any aspect of this report, please contact the Committee Chair via the Committee Secretary by email at companysecretariat@firstgroup.com.

Audit Committee report



David Robbie
Chair, Audit Committee

The Committee assisted the Board and management in taking rapid action to manage costs, preserve cash and protect the Group's financial position in response to the coronavirus crisis.

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Key activities during the year

The Committee continued to play a key role within the FirstGroup governance framework in supporting the Board in matters relating to financial reporting, internal control and risk management. See page 82 for our governance framework.

Although the spread of the coronavirus only really started to have a material impact on the Group's activities in the last few weeks of the financial year, its impact was immediate and profound. The Committee's priority during that initial phase of the pandemic was to provide oversight of the Group's cash and liquidity position and the mitigating actions taken by management to stabilise the Group's financial position in the immediate aftermath of government actions in all our jurisdictions to implement lockdown arrangements and restrict the use of public transport.

Normal financial controls and governance processes had to adapt quickly to working in lockdown. Priorities shifted to refocus on cash preservation, cost saving measures and reducing non-essential capex and implementing and understanding the financial impact of various government financial support programmes made available to the Group, some of which were, as explained in the Financial review on page 28, agreed to have effect before the end of the Group's financial year. In addition, steps were taken to ensure that the Group could continue to operate an effective control environment despite the disruption to normal working practices.

The Group followed UK regulatory advice to extend the time available for full year reporting given widely publicised challenges facing all companies in completing their audits. As a result our year-end results were announced on 8 July, some six weeks later than originally anticipated.

During June and July, the Committee's priority was supporting the usual year-end processes, and overseeing the Group's liquidity needs and its longer term viability given the material uncertainties facing the Group at the time as governments in all jurisdictions started to ease lockdown arrangements and introduce measures designed to support the phased return of public transport services.

In order to provide shareholders with appropriate insight into the significant judgements and assumptions underlying the going concern and viability statements, this report covers the extended period from 1 April 2020 to 8 July 2020. It focuses primarily on the work the Committee has undertaken since March 2020 to support the Board in preparing the financial

statements on a going concern basis, recognising the material uncertainties faced.

Finally, as noted in last year's report, the Committee undertook a full audit tender process during the year to select a new audit firm to succeed Deloitte, who have been the Group's auditors since 1999. As a result, PwC was selected as the preferred firm and their appointment will be proposed at this year's AGM. The Committee is grateful to Deloitte for their work as External Auditor over a number of years and we look forward to working with PwC.

Response to coronavirus

Our operations were significantly affected towards the very end of the financial year. In order to ensure the provision of essential services continued during the pandemic, whilst maintaining the fundamentals of our business, the Committee supported the Board and management in taking rapid action in the form of:

- liquidity enhancement
- cash preservation actions
- cost control measures
- extending reporting timetable in recognition of challenges in completing audit work

Despite the near-term uncertainty, our long-term fundamentals remain sound and the Committee will continue to support the Board and management to ensure the Group emerges from this unprecedented situation in the most robust position possible.

Given the significant change to the operations and the majority of support staff working remotely and disruption to the wider workforce, the Committee has also ensured that a rigorous control environment was maintained and that expenditure controls in particular continued to operate robustly.

Meetings during the year

Following the decision to delay the announcement of the Group's results, the Committee met in June and July 2020 to oversee the year-end reporting and audit processes.

At its meetings between March and July 2020, the Committee, on behalf of the Board, provided oversight on the steps being taken by the management team to improve the Group's liquidity position in response to rapidly changing circumstances caused by the coronavirus pandemic. The steps taken by the management team included the decision to access the £300m under the CCFF, careful consideration of the liquidity headroom and scenario modelling, careful review of the status of the forecast debt financing covenants and

overall control of cost management and capex spend. The Committee was satisfied these steps appropriately mitigated the increased liquidity risk in the immediate aftermath of the coronavirus pandemic.

At its meetings in June and July 2020, the Committee reviewed and advised the Board on the Group's assessment of going concern and viability over a three-year period, and the current and potential future impact of the coronavirus pandemic. The Committee reviewed the scenario and liquidity models submitted to the Board in support of the viability and going concern statements and

reviewed these in light of the principal risks and material uncertainties facing the Group as a result of the coronavirus pandemic. The Committee was satisfied that the underlying assumptions and judgements and scenario planning used as the basis of preparation for the financial modelling to support the Board's assessments of the Group's longer-term viability were reasonable.

Significant issues

Prior to each meeting of the Committee at which it is to be considered, management produces a paper providing details of any significant accounting, tax, compliance and

legal matters. Members of management are also invited to attend these meetings where further guidance is required. The Group's critical accounting judgements in applying the Group's accounting policies and key sources of estimation uncertainty are included within note 2 to the financial statements. The matters the Committee considers to be significant for the 2020 Annual Report are disclosed below and on page 100, noting that a number of new or redefined significant issues were identified as a result of coronavirus.

Significant issues and judgements

How the Audit Committee addressed these issues

Coronavirus

Coronavirus had a material impact on the business from an operational level as well as how we execute our strategy. The Group acted swiftly to reduce costs, reduce uncommitted capital expenditure, restructure and reorganise the operating model including a vast majority of staff working from home, ensure the business had adequate liquidity for the short and medium term, ensure that all contractual and fiscal support measures and policies put in place by the respective governments have been applied, and ensure continuation of the essential services we operate were done in a safe manner in line with government policy.

The Committee received regular updates on progress throughout the coronavirus crisis and challenged and supported management to ensure all appropriate steps had been taken.

Revenue recognition

Estimates are made on an ongoing basis when determining the recoverability of amounts due and the carrying value of related assets and liabilities arising from franchises and long-term service contracts. In addition, revenue recorded may be subject to manual adjustment to reflect the timing and valuation of revenue recognised, e.g. due to timing of travel or where amounts are unbilled at a period end. The various fiscal support measures announced in the second half of March 2020, of which several were formalised post balance sheet date, have been appropriately reflected in the financial statements. Significant judgement had to be exercised by management in finalising the accounts while several of these fiscal support measures were still being agreed or negotiated; hence there has been an estimation in the revenue recognition for the last weeks in March 2020 in certain cases.

The Committee reviewed the revenue recognition policies and procedures for the coronavirus fiscal support and challenged the appropriateness of such policies and recognition criteria. Regular forecasts are compiled on the outcome of these types of franchises and contracts to assess the reasonableness of the assumptions applied. It was concluded at the Committee meeting held in July 2020 that these policies and approach and their application were appropriate. Further detail on revenue recognition is provided in note 2 in the consolidated financial statements.

Pensions assumptions and funding

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 particularly sensitive to changes in the underlying assumptions. The UK Bus Pension scheme and LGPS April 2019 triennial valuations were completed in the current year and consideration was given to the agreement of the deficit repair. The LGPS is now in surplus and hence no further repair payments are required and the Bus Pension scheme has a deficit of £271m.

Management engaged with external experts and the Committee considered and challenged the assumptions used for estimating the liabilities. Sensitivity analysis was performed on the key assumptions: inflation, discount rate and mortality. The overall liabilities were assessed for reasonableness. Further detail on pensions is provided in note 36 in the consolidated financial statements. The deficit repair amount for the Bus Pension scheme was considered and agreed, including continuation of the parent company guarantee up to completion of the next triennial valuation expected in 2023.

North America insurance

Provisions are measured using management's best estimate of the likely settlement of all known incidents based on actuarial valuations and due consideration of wider market conditions. A valuation of the expense required to settle these obligations and, where applicable, the discount rate used to calculate the expected settlement is also carried out. Following a rise in adverse settlements and developments on a number of aged insurance claims, against a backdrop of a harsher, plaintiff-friendly motor claims environment and adverse development factors, management decided to increase specific case reserves. The impact of these adverse developments was a charge of £141.3m.

The Committee reviewed the provision and challenged the assumptions used to calculate the liability. Independent actuarial expert advice on the adequacy of the provision against such liabilities is sought on a regular basis and benchmarked against alternative actuarial views, and the discount rate has been benchmarked against external data. The Committee agreed with management's view not to charge the items relating to the adverse developments in arriving at adjusted operating profit for the North American divisions because the adverse movement primarily related to the settlement of historic losses and in order to avoid distorting year-on-year comparisons for these businesses. The Committee considered this issue at its meetings in November 2019 and July 2020. Further detail on the assumptions used in determining the value is provided in note 4 in the consolidated financial statements.

Audit Committee report continued

Significant issues and judgements

How the Audit Committee addressed these issues

Going concern and viability

The Group regularly prepares an assessment detailing available resources to support the going concern assumption and the long-term viability statements. The Group has been impacted significantly by the onset and spread of the coronavirus pandemic in the markets we operate. The consequences of the pandemic have meant more regular updates of the business forecasts and liquidity modelling and these remain under regular review as the markets we operate in respond to the crisis and how this impacts our ability to provide the essential services we operate. The medium-term impact of the pandemic on our businesses is not yet known, however we provide essential services to our customers and the communities we serve and anticipate doing so for the foreseeable future.

The Committee reviewed and challenged management's funding forecasts and sensitivity analysis and the impact of various possible downside scenarios, which took account of the potential ongoing impact of the pandemic on passenger volumes, the availability and duration of fiscal support measures that might be made available beyond the period for which that support is currently being provided as well as the impact of Brexit and the Group's underlying principal risks and uncertainties. Following the review, which the Committee carried out at its meeting in July 2020, the Committee recommended to the Board the adoption of both the going concern and viability statements for inclusion in this report, notwithstanding that material uncertainty exists that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. The key risks giving rise to the material uncertainties in relation to going concern are set out on page 73.

Impairment testing

Management exercises a significant amount of judgement during the impairment testing process as it is based on an estimation of future growth rates, cash flows and a suitable discount rate. Careful consideration has been given to the pace of recovery from the pandemic by division as well as the long-term growth rates. An impairment charge of £186.9m on the Greyhound cash-generating unit (CGU) has been recorded, reflecting poor trading performance pre-coronavirus, the impact of coronavirus in the short term as well as the higher discount rate.

The Committee considered and challenged the inputs for the impairment test models. The cash flow forecasts were reviewed alongside past performance and operational impacts to the business as a consequence of coronavirus. The discount rates were benchmarked against externally available data and were increased as a result of the pandemic by 0.2-0.4ppts. The long-term growth rate assumptions of 2.5-2.8% in First Student, First Transit and First Bus are in line with independent GDP forecasts for North America and the United Kingdom. Sensitivities to the model inputs for these divisions were also tested for reasonableness. In Greyhound, where impairment has been assessed on both a fair value less costs to sell basis and a value in use basis, the discount rate has been increased to 9.7% (2019: 8.3%) and the long term growth rate has been reduced to 1.0%, which is below GDP forecasts for North America. The fair value less costs to sell of Greyhound was lower than the carrying amount of £277.8m at March 2020 (2019: £295.4m) by £62.5m (2019: £85.2m excess). Further detail on impairment testing is provided in note 11 in the consolidated financial statements.

Non-GAAP measures

The Committee regularly reviews items which management consider appropriate to adjust for in arriving at Group and divisional results in order to avoid distortions in year-on-year comparisons.

The Committee considered the treatment of the adjusting items as set out in note 4 to the consolidated financial statements and in July 2020 reached the conclusion that this treatment was appropriate. It was noted that the relationship with the organisation assisting with the cost saving programme had now ended. In addition, it was agreed that software amortisation costs should be charged to divisional results in arriving at adjusted operating profit with 2019 comparatives being restated for this change in treatment.

Rail accounting

Prior to the coronavirus crisis and the introduction in Rail of the Emergency Measures Agreements (EMAs) with effect from 1 March 2020, the Committee regularly reviewed the progress of SWR and TPE that were previously operated under onerous contract provisions under IAS 17. The EMAs mean that all revenue and cost risk for the franchises have been passed back to the DfT for the duration of the EMAs which are currently due to expire on 20 September 2020. The consequences of the EMAs have retrospective effect from 1 March resulting in further complexity of profit recognition for all the franchises.

The Committee considered the accounting for Rail as a consequence of the EMAs in June and July 2020 and agreed with the treatment that was applied.

Strategy execution

On 11 March 2020 the Group announced that the Board had commenced a formal process to sell the Group's North American contract businesses, First Student and First Transit. A process for the sale of the Greyhound business was already underway. These sale processes were at various stages of execution prior to the advent of the pandemic. Consideration was given to the classification of the net assets in the financial statements, and whilst the Board remains fully committed to the sales process, the transactions are not sufficiently advanced to treat these assets as discontinued operations.

The Committee considered the accounting for First Student, First Transit and Greyhound at its meetings in June and July 2020 and agreed with the treatment that was applied.

Summary of Committee activities during the year

The Committee has an extensive agenda of items of business focusing on financial reporting; internal control, risk management and internal audit; and external audit within the business, which it deals with in conjunction with senior management, the External Auditor, the internal audit function and the finance team. In doing so, it ensures that high standards of financial governance, in line with the regulatory framework as well as market practice for audit committees going forward, are maintained. There were four scheduled meetings of the Committee during the year of reporting, one additional meeting in May 2019 and another one in July 2019 when the Committee met the shortlisted audit firms and made a recommendation to the Board.

The Committee:	May 2019	Sep 2019	Nov 2019	Mar 2020	Jun 2020	Jul 2020
Financial reporting						
reviewed the Group's final and half-yearly results, considered the significant accounting policies, principal estimates and accounting judgements used in their preparation, 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 Deloitte on accounting, financial reporting regulation and taxation issues	●	●	●	●	●	●
reviewed reports from Deloitte on its final audit in respect of the year end and review of the half-yearly results prior to them being approved by the Board	●		●			●
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 and emerging risks and review the risk appetite statement, developed by management, for recommendation to the Board	●			●		●
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, monitored progress against the internal audit plan and any deviations to the plan were agreed	●	●	●	●		●
monitored and assessed the Group's insurance arrangements and material litigation matters (insured claims)		●		●		
considered reports from the General Counsel & Company Secretary on litigation matters		●		●		
External audit						
approved the terms of engagement of Deloitte, the fees paid to them and the scope of work they carried out	●		●			●
performed an annual review of the policies on the independence and objectivity of Deloitte, the use of Deloitte for non-audit services and the employment of former employees of Deloitte	●		●			●
reviewed the performance and effectiveness of Deloitte in respect of the previous financial year		●				
assessed the objectivity and independence of Deloitte	●					●
received reports on the findings of Deloitte during the half-yearly review and annual audit, and reviewed the recommendations made to management by Deloitte and management's responses		●		●		
reviewed the external audit plan				●	●	
reviewed letters of representation to Deloitte	●		●			●
recommended the re-appointment of Deloitte	●					
carried out the external audit tender and recommended the appointment of PwC	●	●				●
Other matters						
reviewed its terms of reference and the results of its performance evaluation, including effectiveness				●		
received reports from the Chief Executive and the CFO on the impact of the coronavirus crisis on the business				●	●	●
received reports from divisional and functional management on a range of financial, operational, risk management, legal and corporate governance matters	●	●	●	●		
received reports from the CIO on cyber security	●	●	●	●		●
received reports on matters raised on the confidential whistleblowing system and the process for the investigation of such matters, ensuring that the arrangements in place were appropriate for employees to confidentially raise concerns about possible legal, regulatory or other improprieties	●	●	●	●		●

Audit Committee report continued

Internal controls and risk management

During the year, the Committee carried out its duties in relation to the assessment and reporting of longer-term viability, risk management and internal control.

The Board is responsible for establishing a framework of prudent and effective controls, which enable risk to be assessed and managed. The Committee has established procedures to manage risk, oversee the internal control framework, and guides the Board on the nature and extent of the principal and emerging risks the Company should be willing to take in order to achieve its long-term strategic objectives.

Effective and ongoing monitoring and review of risk management and internal control frameworks are essential components of any sound system of risk management and internal control. On behalf of the Board, the Committee monitors the Company's risk management and internal control systems and carries out periodic reviews of their effectiveness, including the operation of financial, operational and compliance controls.

The process the Committee applied in reviewing the effectiveness of the system of risk management and internal control is set out below, together with a summary of the actions that have been or are being taken to improve the overall control environment.

Internal controls

In October 2019, the Committee asked the Internal Audit Group function to review the documentation supporting the disclosures made in the Annual Report relating to internal controls, including a description of the overall control environment, identification of material controls, financial risk assessment, and evidence of control testing, and prepare an action plan to address any identified gaps. This work was conducted with the assistance of an external advisor, and the team reported their findings in March 2020. The main findings were that:

- the Group has well-established processes and controls to help ensure the accuracy of the financial statements and financial disclosures made in the annual report. While a high level of documentation existed to substantiate the processes and controls performed, it could be more complete and could better articulate what were the key financial processes and key controls that addressed material financial risks.

- there was scope to improve the way certain activities related to the control environment, including financial risk assessment and control effectiveness testing, are evidenced and documented and the documentation could be expanded to include broader consideration of the entire population of key financial risks and related controls.

- other activities related to the control environment, including sign-off by management and details of the Board's delegated authorities, were adequately documented and evidenced.

A number of recommendations were made that would enhance the documentation of the Company's control environment and further demonstrate compliance with current requirements. These included financial risk assessment, better mapping of material controls, improving the documentation and evidencing of testing, and the assessments of effectiveness of controls. It was agreed that management would put in place steps to address the recommendations.

In the immediate aftermath of the coronavirus pandemic, the Internal Audit function maintained its focus on the evaluation of internal controls, including an audit of the Group's compliance with the period end financial controls. However, in light of the move to remote working, additional business critical support was provided to the business to ensure that internal controls could continue to operate effectively during lockdown. This support included:

- assisting the US division leadership teams to evaluate eligibility and accessibility of funding under the US Coronavirus Aid, Relief, and Economic Security (CARES) Act and the Canada Emergency Wage Subsidy (CEWS), and organising the data required so that claims were appropriately substantiated, and ensuring filing deadlines were met;
- providing North America payroll support to review payroll adjustments made in the payroll systems, including layoffs, furloughs and reduced pay, to help ensure accuracy and consistency was maintained;
- supplementing Group Finance in support of year-end and external audit requirements;
- supporting the development, refinement and completion of P&L and cash flow models utilised by the North American divisions, to reflect the impact of the pandemic on insurance assumptions; and

- carrying out regular analysis in critical areas such as discretionary spending, payment process controls, use of contractors and other expenditure reviews to provide fortnightly assurance updates to the CFO that key controls remained effective while usual working arrangements were suspended during the pandemic.

Work also began on producing risk and control matrices to document the key controls for First Bus as part of the work agreed in March 2020 to improve the internal control environment in the division. Additional work was also undertaken to support back office analysis of retail transactions and expenses and the effectiveness of payroll.

Overall, the Committee is satisfied that the Group's internal control framework was operating effectively as at the year end and that, with the additional resources made available through the Internal Audit Group function, it continued to operate effectively during lockdown. The Committee has noted the review's conclusions that there is scope to further improve the degree of documentation and evidencing of existing controls and that overall testing of controls could also be improved. The Committee also noted the considerable, whilst not material, level of misstatements identified by Deloitte. The Committee challenged management in this respect and will continue to oversee the improvement programme that has been put in place to address these control issues.

Risk management

The Board, through the Committee, 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 Committee oversees a Group-wide system of risk management and internal control that identifies and enables management and the Board to evaluate and manage the Group's principal and emerging 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 Committee assessed the Group's risk management methodology, which is used to identify and manage the principal and emerging risks, as well as the reporting and categorisation of Group risks, and made recommendations for improvement.

The Committee also reviewed the process for assessing the principal and emerging 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 69 and considered the appropriate period for which the Company was viable. Key external audit findings and management actions were discussed as well as reports on the outcomes of internal audit planned activities.

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.

To assist in the identification and management of the Group's principal and emerging risks, the Committee, on behalf of the Board, has:

- established a risk management framework
- developed a system of regular reports from management
- overseen the risk management framework and the effectiveness of the Group's financial reporting, internal control and assurance systems
- established a number of Group-wide procedures, policies and standards
- set up a framework for reporting matters of significance

Key elements of the Group's risk management framework that operated throughout the year are:

- 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 on a monthly basis

- 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 co-ordinated 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
- a remuneration policy for executives that motivates them, without delivering excessive benefits or encouraging excessive risk-taking

Twice a year the Board is presented with an update for its 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.

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 to determine who has authority to release information. A statement of the Directors' responsibilities for preparing the financial statements can be found on page 134.

The Group adopts a financial reporting and information system that complies with generally accepted accounting practice. The 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.

Reviews of internal controls within operating units by internal audit have sometimes highlighted control weaknesses, which are discussed with management and, where appropriate, the Committee, and remedial action plans are agreed. 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 Committee, 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 were identified, processes were put in place to address them and these are continually monitored. In addition, management intends to improve the standardisation and documentation of internal controls to give the Committee greater comfort around the effectiveness of the control environment.

The process is designed to provide assurance by way of cumulative assessment. It is a risk-based approach.

Audit Committee report continued

Committee membership and attendance as at 31 March 2020

Committee member	Meetings attended	Other Committees/Roles	Independent
David Robbie (Chair)	6/6	Senior Independent Director Remuneration Committee Nomination Committee Financial expert	Yes
Warwick Brady	6/6	Nomination Committee	Yes
Martha Poulter	6/6	Chair of Board Safety Committee	Yes
Jim Winestock ¹	4/4	Chair of Board Safety Committee Nomination Committee	Yes
Steve Gunning	6/6	Financial expert	Yes
Julia Steyn ²	1/1	Remuneration Committee Financial expert	Yes

¹ Jim Winestock stepped down on 30 September 2019.

² Julia Steyn was appointed to the Committee in November 2019.

Committee composition

The Committee is comprised only of independent Non-Executive Directors (NEDs). It is chaired by David Robbie, who has recent and relevant financial experience and the requisite competence in accounting. The Committee as a whole has competence relevant to the sector, as disclosed on page 79. All members contribute to the work of the Committee and have the skills and necessary degree of financial literacy. As independent NEDs, during the year they had no hesitation in seeking clarification and a full explanation from management, the External Audit and the Internal Audit teams on any matter they felt necessary.

The composition of the Committee changed during the year with the retirement of Jim Winestock and the appointment of Julia Steyn. The Deputy Company Secretary continued to act as Committee Secretary.

Additional meeting attendees

Committee meetings are routinely attended by the Chairman, the Chief Executive, the Chief Financial Officer (CFO), the General Counsel & Company Secretary, the Director of Finance, the Internal Audit team, the Group Financial Controller and the External Audit team. In addition, the Committee also invites other senior finance and business managers to attend certain meetings. This allows the Committee to be given a deeper level of insight on certain business matters.

Other members of the Board, including the Group Employee Director, have an open invitation to attend Committee meetings and they normally did so during the year to gain insight to support their role as NEDs and Chairs and members of other Committees.

Throughout the year the Committee periodically met without management being present and also held separate private sessions with the Internal Audit and External Audit teams, allowing the Committee to discuss any issues in more detail directly.

These discussions helped shape thought processes and decision-making, and promoted a more rounded view of the Group, allowing the Committee to make meaningful interventions to quality beyond simply seeking management feedback and to challenge key judgemental areas.

Internal audit

The internal audit function 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. It provides objective assurance on risk and controls to senior management, the Committee and the Board. Internal audit's work is focused on the Group's principal and emerging risks. The mandate and programme of work of the internal audit function is considered and approved by the Committee annually and includes a number of internal audits and health checks across the Group's divisions. Findings are reported to relevant operational management and to the Committee. The internal audit function follows up on the implementation of recommendations and reports on progress to senior management and to the Committee at each meeting.

The effectiveness of the internal audit function's work is continually monitored using a variety of inputs including the ongoing audit reports received, the Committee's interaction with the function's head, an annual review of the function's internal quality assurance report, a quarterly summary dashboard providing a snapshot of the progress against the internal audit plan tabled at each Committee meeting as well as any other periodic quality reporting requested.

Taking all these elements into account, the Committee concluded that the internal audit function was an effective provider of assurance over the Company's risks and controls and appropriate resources were available as required.

Auditor independence and objectivity

The independence of Deloitte, whose lead audit partner is Mark Mullins, is essential to the provision of an objective opinion on the true and fair view presented in the financial statements. Deloitte's independence and objectivity are safeguarded by a number of control measures which include:

- 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
- an annual review by the Committee of the policy in place to ensure the objectivity and independence of the external auditor is maintained
- the process for approving all non-audit work provided by Deloitte

A similar approach will be applied with regards to PricewaterhouseCoopers LLP (PwC), whose lead audit partner is Matt Mullins.

Assessing the effectiveness of the external audit process

During 2018/19, the effectiveness and quality of the external audit process were reviewed by the Committee and the findings reported to the Board in September 2019.

The review involved an initial assessment of the delivery and performance of Deloitte against the external audit plan for the year. 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 functions.

These questionnaires covered a variety of topics including the audit partners and team; the planning and execution of the audit approach; audit quality, and insights and added value provided by the audit process.

Feedback from the annual assessment was shared with Deloitte so that any areas for improvement could be followed up.

The Committee concluded that the external audit process carried out by Deloitte continued to be effective and satisfactory, and included the necessary degree of challenge to matters of significant audit risk and areas of management subjectivity.

The effectiveness of the external audit process for 2019/20 will be carried out in a similar way and reported in next year's Annual Report.

A similar approach will be applied with regards to PwC.

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 that may be provided and how, and those prohibited. 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. The Committee is satisfied that the Company was compliant during the year with both the Code and the FRC's Ethical and Auditing Standards in respect of the scope and maximum permitted level of fees incurred for non-audit services provided by Deloitte. Details of amounts paid to the external auditor for audit and non-audit services for the year ended 31 March 2020 are set out in note 6 to the consolidated financial statements. The policy is summarised on page 107.

External audit tendering

PwC was selected to succeed Deloitte as the new external auditor for the year ended 31 March 2021 following a robust external audit tender process. The process was based on a clear election and assessment criteria, in compliance with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Process and Audit Committee Responsibilities) Order 2014 (the Order). The appointment of PwC requires shareholder approval and will be proposed to shareholders at the 2020 AGM.

The diagram on the following page illustrates the process we followed and next steps.

Treasury operations

The Committee has reviewed and recommended to the Board for approval 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, the treasury committee approves decisions regarding fuel, foreign exchange and other matters reserved for its decision. Also, in response to the coronavirus crisis, short-term adjustments to hedging policy and credit risk management were recommended by the Committee and approved by the Board.

Tax strategy

We believe we have a responsibility to manage our tax affairs in a way that sustainably benefits the customers and communities that we serve. We also have a responsibility to shareholders to ensure we pay the right amount of tax and ensure compliance with the tax rules in each country in which we operate. Our tax strategy was reviewed by the Committee and approved by the Board in September 2019. It is available on our website. The tax strategy is reviewed annually by the Committee, who receives regular updates on taxation matters and reports to the Board accordingly.

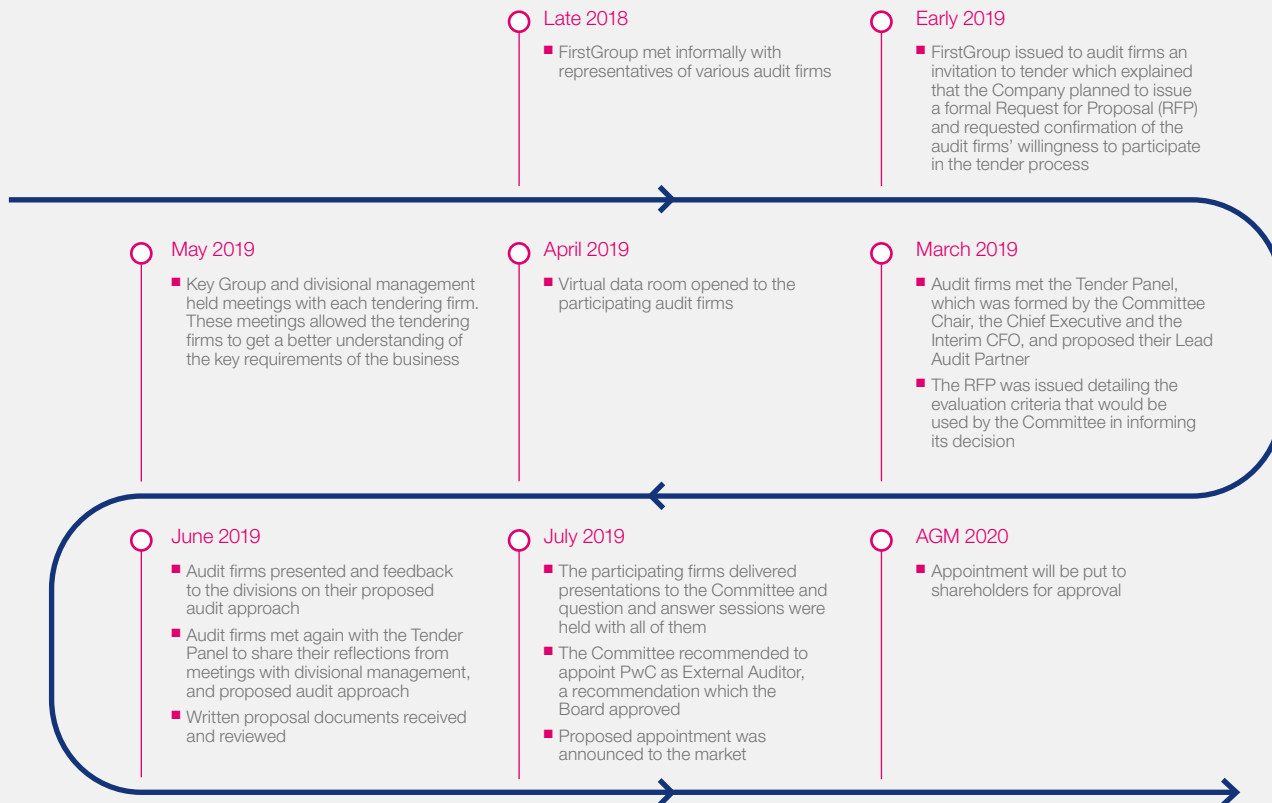
Audit Committee report continued

The external audit tender process

The external audit tender process was overseen by the Committee. A series of reports and updates were provided to the Committee in preparation and to monitor progress. The firms requested to tender were chosen having given proper regard to the complexity of the Group, with the tender completed by highly capable and experienced audit firms with strong track records and technical expertise.

The tender was open to audit firms outside the Big Four. Deloitte was not invited to tender having been the Group's auditors since 1999.

Key milestones of the external audit tender process



Audit transitional plans

The proposed External Auditor, PwC, is currently undertaking activity in preparation for the external audit of FirstGroup for the 2021 audit cycle. This will aid a smooth transition and allow PwC to embark on the 2021 audit as well prepared as possible.

This activity includes:

- A review of its non-audit services provided to FirstGroup and the necessary steps to ensure auditor independence
- Liaising with Deloitte during the 2020 audit cycle, including shadowing at key audit meetings
- Meetings with key members of the FirstGroup senior management team at Group and divisional level

PwC will complete the review of the half-year results and audit for the full year ending 31 March 2021.

The Committee will monitor the transition of the auditor throughout the year to ensure the effectiveness and independence of PwC.

The Board will seek approval for PwC to be appointed as External Auditor at the 2020 AGM for the year ending 31 March 2021.

Policy on the provision of non-audit services

The policy was reviewed and updated by the Committee in March 2020. Summary below:

Fee categories	Fees for other services			Audit fee
	Permitted services	Prohibited services	Statutory and audit-related services	n/a
Examples of other services	Projects or engagements where the external auditor is best placed to perform the work due to their network and knowledge of the business or experience and market leadership in a particular area	Projects that are not to be performed by the external auditor because they would represent a threat to the independence of the audit team	Projects or engagements where the external auditor is best placed to perform the work as it is clearly audit related	
	Subject to cap of 70% of the average total audit fee paid across the three prior consecutive financial periods	Not subject to 70% cap		
Roles and responsibilities	Formalities relating to shareholder circulars and other regulatory reports	Work required by law or regulation	Review of half-yearly and other interim financial information	
	Professional training	Reporting required by a competent authority or regulator	Advice on correct accounting treatment of proposed transactions	
CFO	Approval needed before work starts	Consultation and oversight	Pre-approved as part of the approval of the annual audit fee	Negotiation and recommendation
	Approval needed from the Committee Chair if services likely to cost more than £125,000			Review and approval, including annual review of external auditor independence
Audit Committee	Consider if tender should be conducted			

Committee effectiveness review

The Committee undertakes an annual evaluation of its performance and effectiveness.

For 2019/20, internal and external evaluation exercises were conducted.

More information on the external exercise can be found on page 89.

Both reviews concluded that the Committee had performed effectively.

In order for its members to continue to develop their technical knowledge, in January 2020 Deloitte facilitated a training session on corporate governance developments and the First Rail team presented on rail accounting.

Looking ahead to 2020/21

The Committee will remain focused on the audit and assurance processes within the business, and maintain its oversight of financial and other regulatory requirements.

As well as the regular cycle that the Committee schedules for consideration each year, it is planned over the next twelve months to:

- monitor the impact of the coronavirus crisis on the business
- oversee the transition from Deloitte to PwC
- support the strengthening of the Company's risk management and internal controls system
- commission an external review of the quality and effectiveness of the internal audit function

- consider the impact of proposed audit industry changes

Further engagement

In line with provision 3 of the Code, the Committee Chair welcomes questions from shareholders on the Committee's activities. Unfortunately it will not be possible this year to meet in person at the AGM but if you wish to discuss any aspect of this report, please contact the Committee Chair via the Committee Secretary by email at companysecretariat@firstgroup.com.

Board Safety Committee report



Martha Poulter
Chair, Board Safety Committee

The Group's commitment to safety is unwavering. As one of our Values, safety is always front of mind and we commend everybody across the organisation for their dedication and commitment throughout these most challenging times.

Coronavirus response

In line with the established role and responsibilities of the Committee, we have this year supported management with the Group's response to the coronavirus pandemic.

Public transport has played a critical role in keeping essential workers moving during the crisis, and the Group's well embedded safety culture and emergency response processes have been pivotal in ensuring the continued safe and effective delivery of services throughout this time.

Furthermore, the Group's Be Safe programme, which the Committee reviewed this year, has provided a strong and consistent foundation of behavioural safety management, with its continued emphasis on making safety a personal core value for every employee.

In addition to the Group's robust safety systems and behaviours, additional measures have been implemented to help limit, as far as we possibly can, the spread of coronavirus. Detailed information on these measures can be found in the Safety section on page 42.

Throughout the pandemic, the Group has continued to drive industry collaboration and innovation on safety technology, protocols and practices, for example bringing antiviral and disinfectant products to trial quickly and effectively. At UK level this sector-leading work has included collaboration with DfT, RDG and CPT, and in the US through APTA, NSTA, and the National Safety Council, of which Brad Thomas, President of First Transit, became a Board member this year.

The Group's commitment to safety is unwavering. As one of our Values, safety

is always front of mind, and we commend everybody across the organisation for their dedication and commitment to safety throughout these most challenging times.

Safety governance

The overall structure of FirstGroup's safety governance represents a balance between delegated decision-making to the five divisions, whilst retaining strategic direction, oversight and challenge from the Board.

It is the responsibility of the Committee to promote a positive safety culture throughout the Group and to report back to the Board on safety trends, actions and other deliberations.

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

- the Committee overseeing material safety matters and risks across the Group, as well as reviewing targets in respect of safety performance
- management of the operating companies having primary responsibility for the design and implementation of an effective safety management system and accountability for safety performance
- the Group's safety function providing advice to the divisions directly and through a series of networks across the Group

Committee operations

The Committee meets at least three times a year and the Deputy Company Secretary acts as Committee Secretary. It is supported by the Executive Safety Committee (ESC), which is chaired by the Chief Executive, and meets every two months.

Membership and attendance as at 31 March 2020

Committee member	Meetings attended	Other Committees/Roles	Independent
Martha Poulter (Chair from 1 October 2019)	1/1	Audit Committee	Yes
Jim Winestock ¹ (Chair until 30 September 2019)	2/2	Audit Committee Nomination Committee	Yes
Jimmy Groombridge ²	3/3	Group Employee Director	No
Imelda Walsh ³	3/3	Chair of Remuneration Committee (until 24 January 2020) Nomination Committee	Yes
Sally Cabrini ⁴	0/0	Chair of Remuneration Committee (from 24 January 2020)	Yes

1 Jim Winestock retired as a Non-Executive Director on 30 September 2019.

2 Jimmy Groombridge resigned on 29 June 2020.

3 Imelda Walsh stepped down from the Board on 14 February 2020.

4 Sally Cabrini was appointed as a Non-Executive Director on 24 January 2020 and joined the Committee on 14 February 2020. She attended her first meeting as a member in May 2020.

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Looking ahead	109

Summary of Committee activities during the year

At every meeting

- Safety performance at the Group and divisional level
- Key safety initiatives
- Legislation and best practice
- Management's report from the Executive Safety Committee and Business Review Meetings with each division
- Lessons learnt and steps taken following significant incidents
- Divisional presentations on a rotational basis, covering safety considerations, performance and plans

May 2019

- Divisional presentation – First Rail
- Review of divisional and Group safety targets and approval of performance objectives

September 2019

- Divisional presentation – First Transit
- Review of the results of the Committee evaluation process, which was carried out internally for the year 2019/20. This review confirmed that the Committee continued to operate effectively, as did the externally facilitated exercise commissioned by the Chairman upon appointment. Further information is available on page 89.

January 2020

- Divisional presentation – First Bus
- Be Safe programme review

The ESC oversees the Group's safety strategy and the performance, procedures and practices of the divisions and operating companies. The ESC takes a proactive approach to improving safety performance, and undertakes in-depth analysis and reviews of specific topics to understand root causes, share best practice and inform safety interventions, which it then reports to the Committee.

The Committee has an extensive annual agenda which includes detailed presentations by each division on a rotational basis. The divisions base their presentations on the wider operational landscape, and their safety performance and plans.

In January, reflecting the Group's open safety culture, the Committee conducted a full appraisal of the Be Safe programme, which had commenced in 2015. Following this work, the Committee believes that Be Safe should continue as the Group's strategic safety programme, building on rules and process compliance with behavioural safety to embed safety as a personal core value for every employee. Key successes of the Be Safe programme were highlighted within the review and will continue to be built upon, with other areas identified for reinforcement.

Across all five divisions, targeted biannual assurance reviews of safety management systems, improvements and performance take place. The Group uses data analysis and insights to prioritise efforts in improving safety through both technology and behaviour change.

The table to the left summarises the activities and themes during the year.

Safety performance

The Committee observed improvement in a number of key safety metrics this year across the Group.

Employee lost time injuries reduced by 12%, with employee major injuries down significantly at 18% lower than last year. Total employee injuries reduced by 4%.

Collisions with injury reduced by 5% and passenger injuries per million miles reduced by 3%, primarily driven by safety performance improvements in First Bus and First Rail.

Looking ahead to 2020/21

The Committee will continue to review the Group's response to coronavirus during the gradual lifting of lockdowns, including safety implications and mitigations, working practices and employee wellbeing.

The Committee will also keep under review the Group's safety strategy, procedures and systems in order to further enhance safety performance. In doing so, the Committee will focus on:

- The Group's safety approach to coronavirus
- Divisional reviews (following our rotational schedule)
- Wellbeing programmes
- Security, emergency response and business continuity
- Technology uses to improve safety.

Further engagement

In line with provision 3 of the Code, the Committee Chair welcomes questions from shareholders on the Committee's activities. Unfortunately it will not be possible this year to meet in person at the AGM but if you wish to discuss any aspect of this report, please contact the Committee Chair via the Committee Secretary by email at companysecretariat@firstgroup.com.

Role and responsibilities

- 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 internal or external reports on the Group's safety, 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

Statement by the Chair of the Remuneration Committee



Sally Cabrini
Chair, Remuneration Committee

The backdrop of this year’s results and the experience of the Company’s stakeholders have framed the Committee’s decisions and the reward outcomes for the Executive Directors.

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Dear Shareholder

I am pleased to present the Directors’ remuneration report for the financial year ended 31 March 2020, my first as the Remuneration Committee Chair of FirstGroup. I would like to thank Imelda Walsh for her hard work and dedication as Chair of the Remuneration Committee over the past five years.

This report is split into:

- i. This Annual Statement
- ii. An ‘at a glance’ summary of the remuneration decisions made during the year as well as a summary of the Remuneration Policy (“the Policy”) approved by our shareholders at the 2018 AGM
- iii. The Annual Remuneration Report on the implementation of the Policy in the year ended 31 March 2020 and proposed implementation for the next financial year.

Impact of Coronavirus

Firstly, I want to address the rapid escalation of the coronavirus outbreak and its impact on all of the Group’s stakeholders in the final weeks of the year. As noted in the Chief Executive’s report, our priority since the start of the outbreak has been the health and safety of our employees, passengers and communities while our operations, which are part of the critical infrastructure providing essential transportation services, have enabled key workers to travel to their destinations and perform their vitally important roles.

It is important to recognise our employees for their significant contribution. Their collective efforts have enabled us to deliver the continuity of transport that is so essential to governments, local communities and our customers. In addition, our local knowledge and platforms at the heart of our communities have allowed us to provide further support and assistance during this challenging time through delivering medical supplies, providing free transport for frontline workers and utilising space for community initiatives such as food banks.

Although we saw no significant effect on our businesses until the final three weeks of the 2019/20 financial year, the rapid and substantial fall in passenger numbers at that point meant that the Group had to quickly take decisive action to protect our ability to maintain critical services while travel restrictions were at their most comprehensive and while ensuring we would be in a position to rapidly increase capacity once appropriate. This has included steps to reduce costs and preserve cash, the utilisation of emergency measures announced by the Government as well as a number of difficult but necessary decisions to permanently reduce headcount in some areas.

Performance of FirstGroup in 2019/20

The coronavirus pandemic inevitably affected the Group’s financial results because March is traditionally a significant trading period, with all divisions normally operating at near-full capacity. Up to that point the Group had been making good progress in executing the clear commercial strategies in each division. This included good bid seasons in both First Student and First Transit. First Student delivered a new record customer satisfaction score in the year, reflecting the strength of their relationships with their stakeholders. As noted in the Chief Executive’s report on page 9, a number of important steps were taken in First Bus to move us to the forefront of the industry in terms of both technology and customer experience and we were awarded the West Coast Partnership rail franchise as well as a further three-year contract to operate Great Western Railway. The overall trading performance saw revenue increase by 7.2% in constant currency. On the same basis, adjusted operating profit decreased by 20.1% with adjusted EPS falling by 49.6% reflecting the negative impact to our operations in March.

Remuneration paid in respect of 2019/20

When considering payments to our Executive Directors for the 2019/20 financial year, the Committee took into account a number of reference points including performance against the pre-determined incentive targets, as well as underlying financial performance to ensure any payments would be appropriate in the context of the shareholder experience. In line with our usual approach, we also considered the overall experience of the Company's other stakeholders including customers, employees and the communities we operate in and sought to reflect these either in specific incentive measures (e.g. customer satisfaction and safety) or as part of the holistic assessment of overall Group performance to ensure the Company's environmental, societal and governance impact is taken into account when determining pay. The impact of coronavirus on all the Group's stakeholders has also informed the approach to executive pay.

- Salary and fee reductions – the Chief Executive, Chief Financial Officer, Chairman and Non-Executive Directors voluntarily reduced their salary / fees by 20% from 1 April 2020. A wider group of senior employees across the Group have also made voluntary salary reductions and deferrals. The 2020/21 salary review for the whole Company has been deferred until later in the year (from the usual date of 1 April).
- EABP in respect of 2019/20 – 75% of the 2019/20 annual bonus was based on financial performance (45% adjusted operating profit, 20% revenue and 10% cash flow) and the remaining 25% based on non-financial performance (15% personal performance, 5% safety and 5% customer satisfaction). Performance against the financial measures was mixed, with results exceeding the threshold target for revenue, and cash flow coming in above the maximum target for the 2019/20 year. This was set against a year-on-year fall in adjusted operating profit. There was strong performance in respect of the non-financial measures relating to safety and customer satisfaction. It was encouraging to be able to report that lost

time injuries across the Group reduced by 12%, with employee major injuries reducing by 18% this year. Collisions with injury were also down by 5% and passenger injuries reduced by 3%. The overall severity of injuries has also reduced, with major injuries significantly lower against the prior year. This reflects the ongoing efforts and focus of our employees at all levels of the organisation on everyday safety procedures, and commitment to the goal of zero harm. Similarly customer satisfaction measures saw improvement, particularly in First Student and Greyhound.

The Committee recognises the strong contribution of the Executive Directors during 2019/20, and also the swift and decisive actions taken to mitigate the impact of the global pandemic and protect the Group for the long term. Notwithstanding this, the Committee and the Executive Directors were in full agreement that – given the impact of coronavirus on the Group's wider stakeholders – it would not be appropriate to pay a bonus to the Executive Directors and Executive Committee at this time. Therefore no bonuses will be paid to the Chief Executive, Chief Financial Officer and the senior management team in respect of the 2019/20 financial year. Full details on the relevant targets and performance achieved are set out on pages 121 and 122 of the Annual Report on Remuneration.

- 2017 LTIP – The vesting of the 2017 LTIP award was subject to three performance measures: 40% EPS, 20% Road ROCE and 40% relative TSR. The Company's performance was above median for the TSR measure, resulting in 30% vesting under this element of the award, 12% of the maximum available. The Committee carefully reviewed this in the context of the underlying performance of the Group and were satisfied with this level of vesting. The shares will be held for an additional two years to provide alignment with our shareholders. Ryan Mangold participated in the LTIP from appointment in 2019/20 and therefore had no 2017 award.
- IFRS 16 – As explained in last year's report the performance targets for the 2019/20 EABP and the 2017, 2018 and 2019 LTIPs were set on a pre-IFRS 16 basis. A reconciliation between the performance outcomes on an IFRS 16 and an IAS 17 basis is included in the relevant sections of this report (and will continue to be provided in future reports).

Key activities during the year

2019 May

Assessed the level of achievement under the 2018/19 EABP

Determined the vesting outcome of the 2016 LTIP

Reviewed and approved the 2019 Directors' Remuneration Report

July

Approved the 2019 LTIP awards

November

Reviewed and approved changes to the remuneration structure for the North American contract businesses

2020

January

Considered the remuneration implications of the portfolio rationalisation strategy for the North American contract businesses

March

Reviewed the 2019 Gender Pay Gap reporting ahead of publication

Reviewed and amended the terms of reference

Statement by the Chair of the Remuneration Committee

continued

Remuneration for 2020/21

As we look ahead, there are many uncertainties which create a range of potential scenarios for our businesses to consider as our local markets in North America and the UK emerge from the lockdown. However there remains a fundamental need for our services, which help people to travel safely and conveniently for business, education, social or recreational reasons and will be essential to restoring sustainable and thriving economies and communities once the present crisis is overcome. The Group's intention to rationalise the Group's portfolio of businesses through the sale of the North American divisions at the earliest appropriate time is unchanged

In line with established best practice we were planning to provide prospective disclosure of our 2020 LTIP targets in this year's Report. Given the exceptional circumstances, the Committee has decided to delay 2020 LTIP grants and target setting to allow us adequate time to better understand the impact of coronavirus on the wider economy and our business. We expect to provide full details of the targets in the regulatory announcement when awards are made, as well as in next year's Remuneration Report. As usual, the annual bonus measures and targets will be disclosed in next year's Report with at least half being based on the financial performance of the Group in line with our Policy. We anticipate that maximum award levels will be in line with our shareholder approved Policy and implementation over recent years.

Payment to past Director

The Committee fully recognises the severity of the Croydon tram incident in November 2016 and our deepest condolences go to all those affected. No annual bonus payment was made for 2016/17 to Tim O'Toole, the then Chief Executive, with that element of his remuneration being replaced by a conditional deferred share award. Under the terms of that award, the Committee was obliged to consider the vesting of the 2016/17 deferred share award as soon as practicable after 31 March 2020. Based on the information available at that time, and having taken independent legal advice, the Committee concluded that there was no basis on which to withhold or reduce the award. Full details are provided on page 122.

Directorate changes

David Martin was appointed to the Board and became Chairman on 15 August 2019 on a fee of £310,000. This was an increase of 2.5% p.a. on his predecessor's fee, recognising that the Chairman's fee had not been reviewed since 2017.

Governance

The Committee actively monitors developments in corporate governance and the guidelines produced by shareholders and their representative bodies. While we had already made a number of early changes to move towards compliance with the 2018 Code and the new regulatory requirements, we have taken further steps for 2019/20 including disclosure of the CEO pay ratio. We will review the Policy over the course of 2020/21, prior to seeking shareholder approval at the 2021 AGM. This review will include the adoption of post-employment shareholding guidelines.

We welcome the changes made to broaden the Remuneration Committee's remit to ensure pay decisions for Directors are made in the context of wider pay decisions across the Group. Our Group Employee Director has an open invitation to attend all Committee meetings, and regularly attends, and we have provided further details on our approach to pay throughout the Group on pages 116 and 117.

In conclusion

We will continue to monitor governance developments and are committed to maintaining an open and transparent dialogue with our shareholders on executive remuneration. We consider ongoing engagement to be vital in ensuring that our approach to remuneration continues to be aligned with the long-term interests of the Group's shareholders and wider stakeholders. We welcome the feedback received during the year and hope to receive your support at our upcoming AGM.

Sally Cabrini

Chair, Remuneration Committee

Remuneration Policy at a glance

Key Remuneration Principles



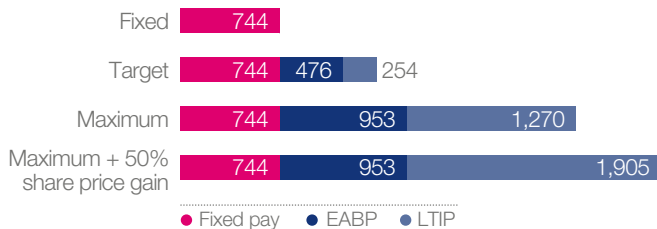
Total remuneration opportunity at various levels of performance

The charts below illustrate the total remuneration opportunity provided to each Executive Director at different levels of performance for the 2020/21 financial year.

The Committee believes it is important that the approach to remuneration supports successful delivery of the Company's strategy. As such, a significant proportion of pay is performance based with a range of financial and non-financial measures used, as well as overall Committee discretion to ensure pay is appropriate and fair in the context of Company performance and the shareholder experience.

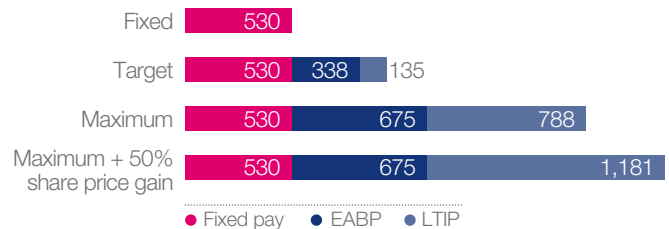
Chief Executive

Total Remuneration (£000s)



Chief Financial Officer

Total Remuneration (£000s)



Directors' remuneration report

Remuneration policy at a glance

Summary of policy and operation for year ending 31 March 2021

Purpose and link to strategy		2020/ 2021	2021/ 2022	2022/ 2023	2023/ 2024	2024/ 2025	2025/ 2026	Key Features of the policy	Implementation for 2020
Fixed Pay To attract and maintain high-calibre executives with the attributes, skills and experience required to deliver the Group's strategy	Salary and benefits							Salary increases (in percentage terms) will normally be within the range for those of Group employees. Pension allowances for Executive Directors are in line with the average company contribution to employee pensions in the UK.	<ul style="list-style-type: none"> Matthew Gregory's base salary from 1 April 2020 will remain at £635,000 Ryan Mangold's base salary from 1 April will remain at £450,000 Pension allowance for both Executive Directors of 15% of salary which is in line with the wider workforce.
		EABP – Cash Element							Maximum bonus opportunity is 150% of base salary for Executive Directors. At least half of the bonus award will be deferred into shares, normally for a period of three years.
The deferred share element of our EABP encourages retention and provides a link between the bonus and share price growth.	EABP – Deferred Share Element							Awards are subject to malus and clawback provisions to take account of exceptional and adverse circumstances.	
Long-Term Incentive Plan (LTIP) Incentivises the execution of strategy and drives long-term value creation and alignment with longer term returns to shareholders.	LTIP							Normal award policy is for a maximum award opportunity of 200% of base salary for the Chief Executive and 175% for other Executive Directors. Measured over three financial years from the year of award. Shares which vest under the LTIP are subject to an additional holding period of two years. Awards are subject to malus and clawback provisions to take account of exceptional and adverse circumstances.	<ul style="list-style-type: none"> Maximum LTIP opportunity unchanged at 200% and 175% of salary for the CEO and CFO respectively. We expect performance conditions for the three-year period from 1st April 2020 will be announced at the time of grant and fully disclosed in next year's Report. Malus and clawback apply to all incentive awards. More detail can be found on page 121.
Shareholding Guidelines To ensure that Executive Directors' interests are aligned with those of shareholders over a longer term time period	Shareholding Guidelines							The Chief Executive is expected to hold shares equivalent to 200% of base salary and other Executive Directors 150% of base salary, within a five year period from their date of appointment.	<ul style="list-style-type: none"> No change to the shareholding guidelines.

The Company's Remuneration Policy was approved by shareholders at the AGM on 17 July 2018 and will apply at the latest until the 2021 AGM.

🕒 The Remuneration Policy can be found on our website at www.firstgroupplc.com/investors/corporate-governance

Remuneration outturns for 2019/20 at a glance

Adjusted Revenue

£7,712.8m

2018/19: £7,126.9m

Adjusted Operating Profit (pre-IFRS 16)

£250.4m

2018/19: £332.9m

Adjusted Cash flow

£0.1m

2018/19: £75.9m

Adjusted EPS (pre-IFRS 16)

9.0p

2018/19: 14.4p

Fixed pay

Chief Executive – Matthew Gregory

Salary	Pension	Benefits	Total
£635,000	<ul style="list-style-type: none"> £94,000 15% of salary in line with the wider workforce 	<ul style="list-style-type: none"> £14,000 including car allowance, private medical insurance and life assurance 	£743,000

Chief Financial Officer – Ryan Mangold

Salary	Pension	Benefits	Total
<ul style="list-style-type: none"> £377,000 (appointed to the Board as CFO on 31 May 2019) 	<ul style="list-style-type: none"> £56,000 15% of salary in line with the wider workforce 	<ul style="list-style-type: none"> £12,000 including car allowance, private medical insurance and life assurance 	£445,000

Variable pay

More detail can be found on pages 118 to 121.

2019/20 EABP

- The performance of the Group was impacted by coronavirus for the final few weeks of the 2019/20 financial year, and a number of swift and decisive actions were taken to ensure vital services can continue to be provided both through, and after, the pandemic. The Committee recognised the strong contribution of the Executive Directors during 2019/20, and the actions taken to mitigate the impact of the global pandemic and protect the Group for the long term. Notwithstanding this, the Committee and the Executive Directors were in full agreement that it would not be appropriate to pay a bonus at this time, in recognition of the impact of coronavirus on the Group's wider stakeholders. As such no bonuses will be paid to the Executive Directors in respect of 2019/20.

2017 LTIP

Metrics	Threshold (0% payable)	Maximum (100% payable)	CEO actual (% of max / £)
EPS (40%)	13.9p Achieved: 9.0p	17p	0% / £0
Road ROCE (20%)	5.3% Achieved: 4.3%	6.7%	0% / £0
Relative TSR (40%)	Median Achieved: 53rd percentile	Upper quartile	30% / £45k
Total	0% Achieved: 12%	100%	12% / £45k

Note: the CFO was appointed on 31 May 2019 therefore did not participate in the 2017 LTIP.

Full details on performance measures and targets are disclosed in the Annual Report on Remuneration on page 121.

Total remuneration

Total single figure of remuneration for 2019/20

Matthew Gregory Chief Executive



Ryan Mangold Chief Financial Officer



● Salary and benefits ● Retirement benefits ● LTIP Vesting

Directors' remuneration report continued

Our remuneration in context

In setting the remuneration policy for Executive Directors, the Committee takes into account the overall approach to rewarding other 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 North America. Due to the varied nature of the operations of our divisions and the respective employment markets, we have a range of remuneration practices across the organisation. These are designed to be relevant to each individual market. Approximately 90% of our UK employees and 55% of our US employees are covered by collective bargaining arrangements.

As a Remuneration Committee we take our responsibility to consider the pay of the senior team in the context of wider workforce policies and practices seriously and a number of items are tabled at Committee meetings each year to ensure the approach throughout the organisation is fair:

- Report summarising wider workforce pay policies and practices with updates provided on a regular basis
- Gender Pay Gap report including statistics from each UK reporting entity
- Actions management are taking to improve diversity in the workforce and close gender gaps where they exist
- CEO pay ratio and underlying statistics

The diagram on page 117 ('Wider workforce remuneration') summarises the approach to pay across FirstGroup. The main difference between the remuneration of the most senior employees (including Executive Directors) and that of the wider workforce is that remuneration for senior employees is more heavily weighted towards variable pay, which is linked to business performance.

CEO pay ratio

In line with the new reporting requirements applying to the Group this year for the first time, the adjacent table sets out the ratio at the median, 25th and 75th percentiles of the total remuneration received by the Chief Executive compared to the total remuneration received by our UK employees. Option B under the regulations has been chosen to identify the colleagues at the median, 25th and 75th

percentiles, consistent with the methodology of reporting the gender pay gap. The UK employees at the lower quartile, median and upper quartiles were identified as at 5 April 2019 and their salary and total remuneration were calculated in respect of the twelve months ended 31 March 2020. The Committee is satisfied that these colleagues are representative of the relevant percentiles across the organisation, as they represent frontline workers in our UK Bus and Rail divisions (i.e. the large majority of our UK workforce) receiving basic pay, overtime, holiday pay and employers pension contributions. The figures also include sick pay (where relevant).

In line with the regulations, the below table sets out the total pay and benefits for the Chief Executive, and colleagues at each percentile.

	Salary	Total pay and benefits
Chief Executive	£635,000	£788,400
25th percentile colleague	£23,300	£24,600
50th percentile colleague	£29,700	£32,000
75th percentile colleague	£40,900	£45,400

It should be noted that the pay ratio may vary year-on-year and the incentive outcomes for the Chief Executive can impact the results significantly. We will provide an explanation in each year's Report around the change in the ratio as well as any additional context where helpful to understand variance.

The Committee is satisfied that the data included in the CEO Pay Ratio, and above total pay and benefits tables, reflect the goals of the Group's remuneration policy to support colleagues in the performance of their roles in collectively delivering the Group's strategy. In particular the Committee notes that factors such as the Company's philosophy to pay the going market rates of pay, to operate a performance based framework that rewards employees for their individual efforts and the performance of the Company, and to structure pay in a simple and transparent manner have been applied consistently.

CEO Pay Ratio				
Year	Method	25th percentile	Median	75th percentile
2019/20	Option B	32:1	25:1	17:1

Employee engagement

While the Committee does not formally consult with employees on Executive Director remuneration, a number of different mechanisms are in place to gather feedback from employees across a range of issues. More information on our 'Your Voice' survey is set out on page 49.

The Group engages with its UK workforce through our Employee Directors and the Group Employee Director is invited to attend all of the Committee's meetings. Our Committee Chair, Sally Cabrini, will also periodically attend meetings of the Employee Directors' Forum. More information on the role of our Group Employee Director is set out on page 84.

The Committee believes that it is important for our employees to understand how the remuneration of our Executive Directors is determined and will utilise the different communication channels operating across the Group to ensure our employees are aware of the information available in the Directors' remuneration report.

Performance-related pay

The table below sets out how each of the performance measures used in our incentive plans is aligned to the Company's strategy and business objectives, as outlined in the Strategic report:

FirstGroup's strategic drivers

	1	2	3	4	5
EABP					
Revenue		●			
Adjusted operating profit		●	●		
Adjusted Cash flow				●	
Safety			●	●	●
Customer satisfaction		●	●	●	●
Individual performance	●		●		●
LTIP					
Road ROCE				●	
Relative TSR	●	●			
EPS		●	●		

For further information on FirstGroup's strategic drivers, see page 17.

Wider workforce remuneration

Element	Eligibility
Fixed pay including salary and benefits	<p>All employees regardless of role</p> <ul style="list-style-type: none"> ▪ Base salaries are reviewed annually. When considering salary for Executive Directors and Executive Committee members, the Committee pays close attention to increases available to the wider workforce ▪ We are committed to helping our colleagues save for retirement through a variety of company pension arrangements, which are designed in line with local market practice. In the US the company contributes towards a number of defined contribution plans including 401(k) arrangements and various union multi-employer plans. We operate a number of different pension plans in the UK which reflect the history and requirements of these businesses ▪ Other benefits in the UK include discounted travel on our rail and bus services, discounts on shopping, entertainment and eating out. We also operate childcare voucher schemes across our UK businesses and our Employee Assistance programme offers all employees access to free, 24/7 confidential telephone, online and face to face advice for problems they may be experiencing at home or work ▪ Greyhound Canada and some of our larger UK businesses have dedicated in-house Occupational Health teams; our other businesses use external specialist advisers to support employees with health problems which may affect performance ▪ In the US we offer a broad spectrum of health and welfare benefits to our employees and their families, including life insurance, health, dental and vision benefits for employees and their dependants. We also provide disability plans for short- and long-term illness. Employees and family wellbeing is a focus through our 'Route to Rewards' wellness programme, and throughout the year we encourage participation in wellness activities. In Canada, our employee benefits include life insurance, health and dental benefits, and disability coverage for employees and their dependants ▪ All divisions run workplace health and wellbeing programmes to support employees to stay fit and healthy
Annual Bonus	Senior executives and management population – incentivises successful execution of our business strategy and operational goals with participants including both corporate centre and divisional roles.
Long-Term Incentive Plan (LTIP)	Senior executives with sufficient line of sight to drive long-term sustained value creation for our shareholders
Shareholding Guidelines	Senior executives – ensures alignment with the shareholder experience

Governance

continued

Directors' remuneration report continued

Annual report on remuneration

This part of the Directors' remuneration report has been prepared in accordance with Part 3 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2008 (as amended) 13 and Rule 9.8.6 of the Listing Rules. The Annual report on remuneration and the Statement by the Chair will be put to an advisory shareholder vote at the 2020 AGM.

Executive Directors' total remuneration (audited)

	Role	Year	Salary £000s	Benefits £000s	Pension £000s	Annual bonus			Total £000s
						Cash £000s	Value of deferred shares £000s	Long-Term Incentive Plan £000s	
Matthew Gregory ¹	CEO	2020	635	14	94	–	–	45 ³	788
	COO/CEO	2019	542	14	97	136	–	93 ⁴	882
Ryan Mangold ²	CFO	2020	377	12	56	–	–	–	445
		2019	–	–	–	–	–	–	–

1 On his appointment as Interim COO on 31 May 2018, Matthew received an increase in his annual salary to £500,000. When he was appointed as Chief Executive on 13 November 2018, his salary was increased to £635,000.

2 Ryan Mangold was appointed to the Board as CFO on 31 May 2019.

3 The value of the 2017 LTIP at vesting has been calculated based on the closing share price on the 24 June 2020 (51.5p). In line with the requirements under the UK Companies (Miscellaneous Reporting) Regulations 2018, none of the total value of £45,140 at vesting can be attributed to share price growth as the share price at award was 104.7p in 2017.

4 The value of the 2016 LTIP reported in last year's report (£87,000) was an estimate based on the average share price over the last three months of 2018/19 (91.2p). The actual value of the 2016 LTIP, on the 28 June 2019 vesting date was £93,378 (based on a closing share price of 97.75p).

More detail can be found on pages 118 to 122.

Benefits (audited)

Benefits for Executive Directors include the provision of a company car allowance, private medical cover, life assurance and advisory fees. Matthew Gregory's benefits for the year comprised: £12,000 car allowance and £2,000 for UK private medical insurance. Ryan Mangold's benefits for the year comprised: £10,000 car allowance and £1,600 for UK private medical insurance.

Pension (audited)

Matthew Gregory received a pension allowance of £94,000 including a defined contribution pension input amount of £10,000. Ryan Mangold received a pension allowance of £56,000. For both this comprised of 15% of their base salary which is in line with the average company contribution for the wider workforce.

2019/20 performance and reward decisions

When assessing the performance of the Executive Directors, the Remuneration Committee takes a broad view of financial performance delivered, the shareholder experience and the outcome for the Company's stakeholders – including customers, employees and the communities in which we operate. When considering remuneration outcomes, the Committee takes into account performance against specific metrics on safety, including workplace fatalities and injuries, and customer satisfaction, as well as environmental, social, and governance (ESG) matters such as significant environmental incidents, large or serial fines or sanctions from regulatory bodies, and significant adverse legal judgments or settlements. The Committee has broad discretion to ensure incentive outcomes are appropriate.

2019/20 Executive Directors' annual bonus (audited)

For 2019/20, the annual bonus maximum opportunity was 150% of salary for both Executive Directors and payouts were subject to the assessment of performance against financial (75%) and non-financial measures (25%). The approach to performance measurement for 2019/20 was largely the same as 2018/19 with the exception of a re-weighting of the non-financial measures to ensure sufficient weighting on portfolio rationalisation objectives aligned with the strategy announcement on 30 May 2019. The focus on safety and customer service continued with each individually measured in the annual bonus. The Committee retains overriding discretion to adjust the overall bonus outturn (including to nil) if a serious safety failing or deterioration is identified.

As noted in the Chair's statement, the performance of the Group was impacted by coronavirus for the final few weeks of the 2019/20 financial year, and a number of swift and decisive actions were taken to ensure vital services can continue to be provided both through, and after, the pandemic. The Committee recognises the strong contribution of the Executive Directors during 2019/20, and the actions taken to mitigate the impact of the global pandemic and protect the Group for the long term. Notwithstanding this, the Committee and the Executive Directors were in full agreement that it would not be appropriate to pay a bonus at this time, in recognition of the impact of coronavirus on the Group's wider stakeholders. As such no bonuses will be paid to the Executive Directors in respect of 2019/20.

For completeness, the chart below sets out the targets, performance achieved and corresponding bonus outturns on a formulaic basis against the financial, customer and safety targets.

As explained in last year's report the performance targets for the 2019/20 EABP were set on a pre-IFRS 16 basis.

Metrics	Threshold (0% payable)	Maximum (100% payable)	CEO actual (% of max)	CFO actual (% of max)
Adjusted operating profit (45%) <i>Key measure of performance used when managing the business.</i>	£328.4m Achieved: £250.4m ³	£355.5m	0%	0%
Adjusted Revenue (20%) <i>Encourages management to deliver sustainable growth through volume and pricing.</i>	£7,529.2m Achieved: £7,712.8m	£7,978.6m	6.6%	6.6%
Adjusted Cash flow (10%) <i>Encourages management to devise operational plans focused on cash generation to create options including investment in key assets of fleet, systems, people and debt reduction.</i>	Less than £(52.4m) Achieved: £0.1m	£(52.4m) or greater	10%	10%
Safety (5%) <i>Ensures that risk controls, safety procedures and behaviours are constantly enhanced.</i>	Balanced scorecard of indicators Achieved: Partially		4.2%	4.2%
Customer satisfaction (5%) <i>One of our key objectives is to provide easy and convenient mobility for our customers and putting them at the heart of everything we do.</i>	Balanced scorecard of indicators Achieved: Partially		2.4%	2.4%

- Adjusted operating profit 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.
- In keeping with the practice applied in previous years, the original target ranges for the revenue and operating profit elements have been adjusted to reflect the actual reported foreign exchange rates changes experienced in the year under review.
- Adjusted operating profit is stated on a pre-IFRS 16 basis. On a post-IFRS 16 basis the figure would be £256.8m.

As noted in the Chair's statement, performance on the financial measures was mixed, with results exceeding the threshold target for revenue and adjusted cash flow coming in above the maximum target for the 2019/20 year. This was set against a year-on-year fall in adjusted operating profit, which was impacted by the coronavirus outbreak in March (traditionally a significant trading period, with all divisions normally operating at near-full capacity).

There was strong performance in respect of the non-financial measures relating to customer satisfaction and safety. Lost time injuries across the Group reduced by 12%, with employee major injuries reducing by 18% this year. Collisions with injury were also down by 5% and passenger injuries reduced by 3%. The overall severity of injuries has also reduced, with major injuries significantly lower against the prior year. This reflects the ongoing efforts and focus of our employees at all levels of the organisation on everyday safety procedures, and commitment to the goal of zero harm. First Bus and First Rail's safety performances were particularly strong. There was improvement in our customer satisfaction measures, particularly in our contract based businesses First Student and First Transit, as well as in Greyhound.

Governance

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Directors' remuneration report continued

The table below sets out details on targets and performance for the Group customer and safety elements of the annual bonus which account for 10% for each Executive Director:

- Indicates that the objective was achieved
- Indicates that the objective was partially achieved
- Indicates that the objective was not achieved

Group customer and safety targets (10% of each Director's bonus)

Objective	Achievement	Outcome
<i>Customer satisfaction (5% of bonus) – balanced scorecard of measures across all five divisions</i>		
Improvement in customer satisfaction surveys including assessment against key competitors where data available	Significant improvement in customer satisfaction scores in First Student and Greyhound, modest improvement in First Bus and maintained performance in First Transit	●
Improvement in Net Promoter Score ('NPS')	Significant improvement in NPS scores, particularly in Greyhound as a result of improvement in 'On Time Performance' and fleet investment.	●
Improvement in Rail punctuality (Public Performance Measure 'PPM')	Target not achieved. PPM was seriously affected by Network Rail and other Operator issues with an average of 60% of delays caused by Network Rail and 17% caused by other Operators	●
Reduction in Rail cancellations	Target not achieved	●
<i>Safety (5% of bonus) – balanced scorecard of measures as agreed by the Board Safety Committee</i>		
Overall reduction in lost time injuries across the Group	12% reduction in lost time injuries across the Group	●
Reduction in passenger injuries	3% reduction in passenger injuries across the Group	●
Reduction in collisions with injury	5% reduction in collisions with injury across the Group	●
Overall assessment against safety and customer targets (maximum of 10%)		6.6%

Long-Term Incentive Plan

Vesting of 2017 Long-Term Incentive Awards (audited)

The vesting of the 2017 LTIP awards was subject to the achievement of Adjusted EPS (40%), Road ROCE (20%) and TSR (40%) performance conditions over a three-year performance period from 1 April 2017

Road ROCE for LTIP purposes has been calculated by dividing adjusted operating profit after tax by relevant Capital Employed re-translated at constant currency where:

- Operating profit is the reported adjusted operating profit of the Group, as published in the Annual Report, excluding earnings derived from the Rail division
- Capital Employed is net assets, excluding net debt, derivatives and pension balances and also excluding items relating to the Rail division. The exclusion of the pension deficit is considered appropriate as the Committee believes management should not be rewarded for movements in this element
- To ensure consistency with the assessment of EPS targets, when assessing performance, the base year Road ROCE (5.2%) will be restated on a constant currency basis. The 2016/17 adjusted operating profit will be re-stated at the effective foreign exchange rate for 2019/20 and the March 2017 Capital Employed will be restated at closing balance sheet rates as at March 2020.

TSR performance was measured against a comparator group of 31 companies in the travel, business services and industrial sectors, which are of comparable scale, complexity and activity to FirstGroup.

As explained in last year's report the performance targets for 2017 LTIPs were set on a pre-IFRS 16 basis. A reconciliation between the performance outcomes on an IFRS 16 and an IAS 17 basis is included in the table below which summarises performance in respect of each of the LTIP metrics.

Metrics	Actual (post IFRS 16)	Actual restated to remove IFRS 16 impact	Entry level (0%)	Threshold (20%)	Maximum (100%)	% of award which vested
Adjusted EPS (40% weighting)	6.8p	9.0p	<13.9p	13.9p	17p	0%
Road ROCE (20% weighting)	4.2%	4.3%	<5.3%	5.3%	6.7%	0%
Relative TSR (40% weighting)	n/a	53rd percentile	Below median	Median	Upper quartile	30%
Total						12%

Long-Term Incentive Awards made during the year (audited)

As reported last year, the Committee took time to review the calibration of the targets for the 2019 award in view of the prevailing uncertainty at the time about the award of the West Coast Partnership franchise and the outcome of the DA3 process for the GWR franchise, both of which would have a material impact on the Company's earnings profile. As reported last year, no changes were made to the measures or weighting with each measure assessed over a three-year performance period (which commenced on 1 April 2019). When setting targets, the Committee took into account the three-year business plan as well as analyst forecasts. In light of the expectations for growth in our major markets and materially lower analyst forecasts, the maximum EPS target has been lowered slightly, however the Committee is comfortable that this continues to represent considerable stretch.

The awards are subject to a two-year holding period following the three-year performance period as well as malus and clawback. Before an award vests the Committee must be satisfied that the underlying performance of the Group is satisfactory and has the ability to amend the formulaic vesting outcome if they believe this is appropriate. 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 2019 LTIP awards are set out below.

	Adjusted EPS CAGR (40%) ²	Road ROCE ³ (20%)	Relative TSR ⁴ (40%)
Threshold (20% vesting)	4%	30 basis points	Median
Maximum (100% vesting)	10%	150 basis points	Upper quartile

1 Vesting will be on a straight-line basis between threshold and maximum.

2 EPS growth will be determined using Adjusted EPS. The Committee considers Adjusted EPS to be an appropriate reflection of trading performance as it eliminates factors which distort year-on-year comparisons and so should be used to incentivise the achievement of underlying growth. EPS growth will be assessed at constant currency. The use of constant currency is established practice at the Company to eliminate foreign exchange translation effects only and ensures that management are rewarded for improving the underlying performance of the business.

3 Road divisions will be key to drive improved ROCE performance as the rail businesses are not heavy users of the Company's capital. All awards since 2017 have been on this basis. The Road ROCE metric will be calculated by dividing operating profit less tax by relevant Capital Employed re-translated at constant currency. To ensure consistency with the assessment of EPS targets, when assessing ROCE performance, the base year Road ROCE (5.9%) will be restated on a constant currency basis. The 2018/19 adjusted operating profit will be restated at the effective foreign exchange rate for 2021/22 and the March 2019 Capital Employed will be restated at closing balance sheet rates as at March 2022.

4 Relative TSR will be assessed against a comparator group of 28 companies comprised of companies within travel, business services and industrial sectors, with a three-month average used at the beginning and end of the performance period.

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Directors' remuneration report continued

TSR comparator group			
Aggreko	easyJet	Hays	SIG
Babcock International Group	Electrocomponents	IWG	Smith (DS)
Balfour Beatty	Ferguson	Kier Group	Stagecoach Group
Bunzl	G4S	Mitie Group	Thomas Cook Group
Capita	Galliford Try	National Express	Travis Perkins
Carnival	Go-Ahead Group	Rentokil Initial	Wizz Air Holdings
DCC	Grafton Group	Serco Group	Wood Group (John)

The comparator group is unchanged from that used in 2018, other than the removal of Interserve following their delisting.

LTIP awards of 200% of salary were granted to Matthew Gregory and Ryan Mangold on 19 August 2019. While the Chief Financial Officer's usual maximum will be 175% of salary, as disclosed last year, an award of 200% of salary was made on recruitment for 2019 only to ensure strong and immediate alignment to delivery of the Company's new strategy.

Details of both awards (granted in the form of nil-cost options) are set out below:

Executive Director	Share price at date of grant ¹	Face value (% of base salary)	Number of shares awarded	Face value of award	% of award which vests at threshold	Performance Period
Matthew Gregory	117.62 pence	200%	1,079,748	£1,270,000	20%	1.4.19 – 31.3.22
Ryan Mangold	117.62 pence	200%	765,175	£900,000	20%	1.4.19 – 31.3.22

¹ The share price at grant for the LTIP awards is the average closing mid-market share price for the five days preceding the grant date.

Directorate changes

All Executive Directors are on a rolling contract terminable by either party on twelve months' notice. As reported in last year's Remuneration Report, Ryan Mangold was appointed as Chief Financial Officer on 31 May 2019. The Committee considered it necessary to attract and recruit a high calibre, highly experienced Chief Financial Officer to support the delivery of the strategy, which will require the execution of a complex portfolio rationalisation with discipline and pace. Ryan's recruitment package was structured to support this objective.

His ongoing remuneration package as Chief Financial Officer is as follows:

- base salary of £450,000
- benefits in line with the Remuneration policy, including a company car, private medical cover and life assurance
- a pension allowance of 15% of salary
- an EABP opportunity of 150% of salary
- a normal maximum LTIP opportunity of 175% salary
- a shareholding requirement of 150% of salary

The Committee is pleased to report that during 2019/20 Ryan and a Person Closely Associated with him (within the meaning of the EU Market Abuse Regulation) purchased a total of 97,500 shares in the Company using their own funds.

David Martin was appointed to the Board and became Chairman on 15 August 2019. David's fee was set at £310,000 which was a broadly similar fee to that of his predecessor (the fee of the previous Chairman was £295,000). The amount offered to David is the previous Chairman's fee (set in 2017) increased by circa 2.5% p.a.

Payments to past Directors and payments for loss of office (audited)

As noted in last year's report, following the Croydon tram derailment in November 2016, the former Chief Executive, Tim O'Toole, was not awarded a bonus for the financial year 2016/17 but was granted an award of 516,356 deferred shares under the EABP, subject to an additional condition relating to the status and outcome of the investigations. The amount of the deferred share award was equivalent in value (based on the Company's share price at the time) to the bonus that Mr O'Toole would have received based on achievement against the performance measures and targets agreed at the start of the 2016/17 financial year. In setting the amount of the deferred award, the element relating to safety was set to zero.

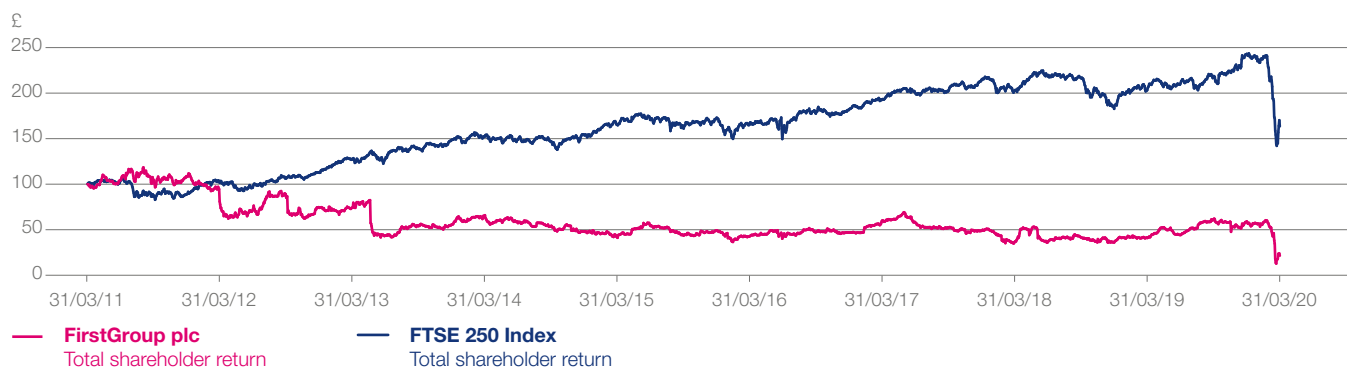
Mr O'Toole stepped down from the Board on 31 May 2018.

The Committee was obliged by the terms of the award to consider the vesting outcome as soon as practicable after 31 March 2020 and, in doing so, take into account only the information then known about the outcome and status of the investigations. In May, the Committee considered the matter and decided that, having taken legal advice and having regard to the information then available to it, there was no basis on which to reduce the award. Accordingly, the 516,356 deferred shares were transferred to Mr O'Toole on 16 June 2020. In line with the reporting regulations, none of the value of £297,163 at vesting can be attributed to share price growth as the share price at award was 141.6p.

Further details of the status of the investigations into the Croydon tram incident can be found in note 33 (Contingent Liabilities) on page 185.

Performance graphs

The graph below shows the TSR performance of £100 invested in FirstGroup plc shares over the past ten 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.



Source: Thomson Reuters Datastream

TSR is measured according to a return index calculated by Datastream 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 ten-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 past ten 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 payout for each year as a percentage of the maximum.

	2011	2012	2013	2014	2015	2016	2017	2018	2019 (Tim O'Toole)	2019 (Wolfhart Hauser)	2019 (Matthew Gregory)	2020
Total remuneration (£000s)	857 ¹	1,055	1,068	1,986	1,647	1,243	1,267	1,100	175 ⁵	266 ⁶	422 ⁷	788
Annual bonus (% of maximum potential)	43.6	— ²	— ²	59.1	57	15.9	— ³	— ⁴	—	n/a	33.4	—
LTIP vesting (% of maximum potential)	—	—	—	—	—	—	16.3	—	—	n/a	12.5	12

1 £503,000 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 Tim O'Toole waived his bonus in 2012 and 2013.

3 A bonus was not paid to Tim O'Toole in 2017 and instead he received a conditional deferred share award.

4 No bonus was paid to Tim O'Toole in 2018.

5 Relates to the remuneration of Tim O'Toole to 31 May 2018. Tim O'Toole was not eligible for an annual bonus or LTIP awards.

6 Relates to the remuneration of Wolfhart Hauser for his period as Executive Chairman, 1 June to 12 November 2018. Wolfhart Hauser was not eligible for an annual bonus or LTIP awards.

7 Relates to the remuneration of Matthew Gregory as Chief Executive from 13 November 2018 to 31 March 2019.

Non-Executive Directors' (NED) and Chairman's fees (audited)

Wolfhart Hauser stepped down as Chairman at the AGM on 25 July 2019 and David Robbie served as Interim Chairman for the period 25 July 2019 to 14 August 2019. David Martin was appointed as Chairman on 15 August 2019. David Robbie was paid a fee for the additional responsibilities equivalent to the fee that would have been paid to Mr Hauser had he continued to serve as Chairman for this period. The additional fee paid to Mr Robbie included the transitional period whilst the new Chairman assumed his duties. This period included the Board meetings in early September.

Governance

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Directors' remuneration report continued

No changes were made to Non-Executive Directors' fees in 2020. These remained at £58,000 p.a. with additional fees of £12,000 payable to the Senior Independent Director and the Chairs of the Audit, Board Safety and Remuneration Committees. In light of the actions taken by the Group in response to coronavirus and the impact on the Group's wider stakeholders, the Chairman and NEDs voluntarily reduced their fees by 20% from 1 April 2020 for an initial period of three months.

Non-Executive Director	Fees		Benefits ¹		Total	
	2020 £000s	2019 £000s	2020 £000s	2019 £000s	2020 £000s	2019 £000s
David Martin ²	195	–	27	–	222	–
Warwick Brady	58	58	–	–	58	58
Sally Cabrini ³	13	–	–	–	13	n/a
Jimmy Groombridge ⁴	58	58	–	–	58	58
Steve Gunning	58	15	–	–	58	15
Martha Poulter ⁵	64	58	4	2	68	61
David Robbie ⁶	111	70	–	–	111	70
Julia Steyn ⁷	53	–	8	–	61	70
Wolfhart Hauser ⁸	95	429	–	1	95	430
Drummond Hall ⁹	12	70	–	–	12	70
Imelda Walsh ¹⁰	61	70	–	–	61	70
Jim Winestock ¹¹	35	70	8	8	43	78

1 The Company meets all reasonable travel, subsistence, accommodation and other expenses, including any tax where such expenses are deemed taxable, incurred by the NEDs and the Chairman in the course of performing their duties.

2 David Martin was appointed as Chairman on 15 August 2019.

3 Sally Cabrini was appointed on 24 January 2020 as NED and Chair of the Remuneration Committee.

4 In addition to his fee as Group Employee Director, Jimmy Groombridge received earnings from the Group as an employee amounting to £21,193 (2018/19: £21,193). As a participant in the Company's Share Incentive Plan (BAYE) he received 201 Matching Shares during the financial year. Based on the middle market closing price of a share on 31 March 2020 of 50.45 pence, the value of these were £101.40.

5 Martha Poulter was appointed as Chair of the Board Safety Committee on 30 September 2019.

6 David Robbie was appointed as Senior Independent Director on 31 May 2019 in addition to his role as NED and Chair of the Audit Committee.

7 Julia Steyn was appointed on 2 May 2019.

8 Wolfhart Hauser stepped down as Chairman on 25 July 2019

9 Drummond Hall stepped down on 31 May 2019

10 Imelda Walsh stepped down on 14 February 2020

11 Jim Winestock stepped down on 30 September 2019

Implementation of remuneration policy for 2020/21

Annual base salary

On his appointment as Chief Executive, it was agreed that Matthew Gregory's salary would not be reviewed before 1 April 2020. Ryan Mangold's salary on appointment as Chief Financial Officer was £450,000 and would likewise have been reviewed with effect from 1 April 2020.

However, in light of the unprecedented trading disruption caused by coronavirus, the 2020/21 salary review for the whole Company has been deferred until later in the year (including for the Executive Directors). In addition the Executive Directors decided to take a 20% reduction in their base salaries for at least the first three months of the 2020/21 financial year.

2020/21 Executive Directors' annual bonus

For 2020/21 the EABP will continue to incentivise improved performance against a range of financial and non-financial metrics. The financial targets are set by the Committee based on a number of factors such as the Group's business plan, individual business unit level performance, consensus and expectations for 2020/21. The performance measures and targets for 2020/21 will be disclosed in next year's report when they are no longer commercially sensitive, however at least 50% of the bonus will be based on financial measures in line with the approved shareholder Remuneration Policy.

The 2020/21 annual bonus maximum and threshold levels of bonus as a percentage of base salary will be as follows:

Executive Director	Maximum	Threshold
Matthew Gregory	150%	0%
Ryan Mangold	150%	0%

All payouts will be subject to the Committee's discretion as well as malus and clawback provisions. 50% of any bonus earned will be deferred into the Company's shares for three years, conditional upon continued employment.

The Committee has demonstrated in assessing bonus outcomes, including in respect of the most recent financial year, that it is prepared to set aside the formulaic outcome and reduce awards or introduce a further condition, to ensure that business performance or the impact of a significant event is properly reflected.

2020 Long-Term Incentive Awards

It is anticipated that 2020 LTIP awards of 200% and 175% of salary will be made to the Chief Executive and Chief Financial Officer respectively in line with our shareholder approved Policy. In light of the significant amount of uncertainty due to coronavirus and, as noted in the Chair's statement, the grant and target setting of 2020 LTIP awards is being delayed to allow the Group adequate time to better understand the impact of coronavirus on the wider economy and our business. The targets will be fully disclosed in the regulatory announcement at the time awards are made as well as in next year's Remuneration Report.

We had taken on board feedback from our shareholders and were planning to provide prospective disclosure of 2020 LTIP targets; however the Committee is of the view that delaying grants is the best course of action to ensure that targets can be set when there is more certainty.

When assessing performance at the end of the performance period, the Committee recognises that the impact of coronavirus will need to be taken into account and judgement or discretion may need to be applied when determining remuneration outcomes, to ensure they are fully reflective of performance delivered and Executive Directors do not receive windfall gains.

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.

Director	Plan	Date of grant	Number of awards held as at 1.4.19	Awards granted	Face value of awards (£) ¹	Awards vested	Awards lapsed during the year	Number ³ of awards held as at 31.3.20	Exercise price (p)	Date on which award vests/ becomes exercisable	Expiry date
Matthew Gregory ⁴	Deferred bonus shares	28.6.16	81,399	–	75,375	81,399	–	–	nil	27.6.19	27.6.26
		16.6.17	162,187	–	227,225	–	–	162,187	nil	16.6.20	15.6.27
		19.6.18	86,958	–	73,219	–	–	86,958	nil	19.6.21	19.6.22
		2.7.19		138,406	135,708	–	–	138,406	nil	2.7.22	2.7.23
	LTIP	28.6.16	764,231	–	707,678	95,528	668,703	–	nil	1.4.19	1.4.20
		24.11.17	730,420	–	764,750	–	–	730,420	nil	1.4.20	1.4.21
		5.7.18	909,550	–	764,750	–	–	909,550	nil	1.4.21	1.4.22
		14.11.18	232,998	–	192,410	–	–	232,998	nil	1.4.21	1.4.22
	19.8.19	–	1,079,748	1,270,000	–	–	1,079,748	nil	1.4.22	1.4.23	
Ryan Mangold ⁴	LTIP	19.8.19	–	765,175	900,000	–	–	765,175	nil	1.4.22	1.4.23
Group Employee Director											
Jimmy Groombridge	SAYE	12.12.16	5,436	–	5,566	5,436	–	–	86	1.2.20	31.7.20
		12.12.17	3,469	–	3,747	–	–	3,469	83	1.2.21	31.7.21
		6.12.18	4,114	–	3,567	–	–	4,114	70	1.2.22	31.7.22

1 The face value of LTIP and deferred bonus awards in the table above has been calculated by multiplying the maximum number of shares that could vest by the average closing mid-market share price for the five days preceding the grant date. For SAYE options the face value is calculated by multiplying the number of options by the closing share price on the date of grant.

2 LTIP awards vest 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.

3 The table above shows the maximum number of shares that could be released if awards were to vest in full. In respect of LTIP and deferred bonus awards, participants are entitled to receive dividends or dividend equivalent amounts once the share awards have vested.

4 Awards made to Matthew Gregory and Ryan Mangold under the EABP and LTIP respectively are subject to clawback and malus provisions, in line with best practice and investors' expectations.

Directors' remuneration report continued

Shareholding guidelines (audited)

Under the terms of the Policy approved by shareholders at the 2018 AGM, Executive Directors are expected to build up a specified shareholding in the Company 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 any Group share incentive plan or otherwise acquire shares in the Company within a five-year period from their date of appointment, 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 shareholdings of the Executive Directors and their connected persons' shareholdings (including beneficial interests) and a summary of outstanding and unvested share awards as at 31 March 2020. It shows that Matthew Gregory's current shareholding is 44% of base salary. If the net value of the 87,650 shares due to vest under his 2017 LTIP award in June 2020 are included, this would increase to circa 48% of base salary. Ryan Mangold's current shareholding is 21% of his base salary. The table below uses the closing price of an ordinary share of the Company of 50.45 pence per share on 31 March 2020. As such the value of the Executive Directors' shareholdings has been heavily impacted by the coronavirus related fall in the Company's share price. Based on the pre-coronavirus share price, both Executive Directors were making good progress toward meeting their shareholding guidelines. The Committee will continue to monitor the progress of the Executive Directors in this regard, but are cognisant that the figure expressed as a multiple of salary may remain depressed whilst the coronavirus pandemic persists

Executive Director	Ordinary shares beneficially owned at 1.4.19	Ordinary shares beneficially owned at 31.3.20	Unvested deferred bonus share awards subject to continued employment ³	Unvested share awards subject to performance conditions	Vested but not exercised share awards	Shareholding requirement (% of basic salary)	Current shareholding (% of basic salary) ⁴
Matthew Gregory ¹	308,399	425,063	249,145	2,011,374	–	200%	44%
Ryan Mangold ²	–	187,007	–	765,175	–	150%	21%

1 Matthew Gregory has until 13 November 2023 to meet the CEO guideline of 200% of base salary.

2 Ryan Mangold has until 31 May 2024 to meet his shareholding guideline.

3 Based on the middle market closing price of an ordinary share of the Company of 50.45 pence per share on 29 March 2020. The range of the Company's share price for the year was 28.3 pence to 137.5 pence.

4 The percentage of basic salary shown in the table includes the after-tax value of vested but unexercised awards and the after-tax value of unvested deferred bonus share awards which are subject to continued employment.

Non-Executive Directors' interest in ordinary shares (audited)

The beneficial interests of the Non-Executive Directors who held office at 31 March 2020 and their connected persons in the shares of the Company as at that date and 1 April 2019 are shown below. Shares are held outright with no attaching performance conditions. Jimmy Groombridge holds his shares in the FirstGroup Share Incentive Plan ("SIP") trust.

	Ordinary shares beneficially owned at 1.4.19 or date of appointment, if later	Ordinary shares beneficially owned at 31.3.20
David Martin ¹	–	100,000
Warwick Brady	108,701	108,701
Sally Cabrini ²	–	–
Jimmy Groombridge ³	7,926	18,741
Steve Gunning	–	–
Martha Poulter	60,000	60,000
David Robbie	60,000	60,000
Julia Steyn ⁴	–	–

1 David Martin was appointed to the Board on 15 August 2019.

2 Sally Cabrini was appointed to the Board on 24 January 2020.

3 Jimmy Groombridge participates in the Company's Share Incentive Plan. His shares are held in the SIP trust. If the Partnership Shares were removed from the SIP trust within three years, the corresponding Matching Shares would be forfeited. Jimmy Groombridge acquired 315 shares between 1 April 2020 and the date of approval of this report.

4 Julia Steyn was appointed to the Board on 2 May 2019.

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 2020, less than 1% of the Company's issued share capital had been issued for the purpose of its share incentive plans over a ten-year period.

Employee Benefit Trust (EBT)

The FirstGroup EBT 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 EBT has informed the Company that its intention is to abstain from voting in respect of the FirstGroup shares held in the trust, which are unallocated. As at 31 March 2020, 8,460,505 shares were held by the EBT to hedge outstanding awards of 20,391,740. This means that the EBT holds sufficient shares to satisfy approximately 41% of outstanding awards.

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 Code, all Non-Executive Directors, including the Chairman, are subject to annual re-election by shareholders at each AGM. The table below sets out the appointment dates for those Non-Executive Directors who served during the year ending 31 March 2020. All but Jimmy Groombridge will put themselves for election or re-election at the 2020 AGM. Jimmy Groombridge resigned on 29 June 2020.

Non-Executive Director	Date of appointment
David Martin	15 Aug 2019
Warwick Brady	24 June 2014
Sally Cabrini	24 January 2020
Jimmy Groombridge	26 May 2017
Steve Gunning	1 January 2019
Martha Poulter	26 May 2017
David Robbie	2 February 2018
Julia Steyn	2 May 2019

External board appointments

Where Board approval is given for an Executive Director to accept an outside non-executive directorship, the Director is entitled to retain any fees received, unless the appointment is in connection with the business of the Group. None of the Executive Directors currently sit on any other external boards.

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 UK employees as the comparator as it feels that this 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. 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	(3%) ¹	24% ²	n/a ³
UK employees ⁴	8.6%	(2.6)% ⁵	25.7%

1 The prior year Chief Executive figure (for 2018/19) was a composite figure for the three individuals who served in the role over the year (Tim O'Toole, Wolfhart Hauser as Executive Chairman and Matthew Gregory). This explains the apparent 3% year-on-year fall. Matthew Gregory's salary has remained unchanged since his appointment as Chief Executive.

2 The prior year figure was a composite figure for the three individuals. Wolfhart Hauser received no taxable benefits during his time as Executive Chairman. The year-on-year increase therefore reflects a full year of Matthew Gregory's car allowance and medical insurance. The value of the benefits themselves did not increase between 2018/19 and 2019/20.

3 No annual bonus will be paid to the Chief Executive in respect of 2019/20.

4 Pay increases for the majority of UK employees in First Bus and First Rail are collectively bargained with trade unions in individual operating companies in First Bus and First Rail. Some of these agreements are multi-year deals. The increase in base salary, reflects the inclusion of Avanti West Coast employees this year. On a like for like basis the figure would be a 3.3% increase.

5 The fall in the value of benefits is as a result of lower private medical insurance costs for the Company. This reflects the claims experience and funding model and has not been achieved by reducing the level of cover provided to employees.

Governance

continued

Directors' remuneration report continued

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.

	2020 £m	2019 £m	% change
Adjusted operating profit ¹	258	333	(23)%
Distributions to shareholders	–	–	–
Total employee pay ²	3,613	3,355	8%

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 2019/20 was 103,464 (2018/19: 102,061).

Role of the Remuneration Committee

The Committee is primarily responsible for determining the policy for executive director remuneration and setting the remuneration for the Chairman, the Executive Directors and senior management. The Committee also reviews workforce remuneration and related policies and the alignment of incentives and rewards with culture, taking these into account when setting the policy for executive director remuneration.

The Committee's full terms of reference, which were reviewed and amended this year, 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 members of senior management 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. Senior managers are defined as the Executive Committee and other employees agreed between the Chair of the Committee, the Chairman and the Chief Executive.
- 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
- determining the terms of employment and remuneration of each Executive Director and senior executive, including recruitment and termination arrangements.

Membership

The current members of the Committee, who are all independent Non-Executive Directors, are: Sally Cabrini, Chair; David Robbie, the Senior Independent Director who also chairs the Audit Committee and Julia Steyn, who joined the Committee upon Drummond Hall's retirement on 31 May 2019. Sally Cabrini has chaired a number of remuneration committees and has served on a remuneration committee for at least twelve months and therefore meets the requirements of the Code in terms of her experience. Imelda Walsh served as Chair of the Committee until 24 January 2019.

Other attendees are by invitation of the Committee, however the Chairman, the Chief Executive, the Group Employee Director and the General Counsel and Company Secretary will normally attend meetings. Other attendees may include the Chief Financial Officer, the Group Corporate Services Director, the Group HR Director, the Group Head of Reward and the Committee's external remuneration advisor. The Deputy Company Secretary is secretary to the Committee. Attendees are not involved in any decisions and are not present for any discussions regarding their own remuneration.

After each meeting, the Chair of the Committee presents a report on its activities to the Board.

Committee activities and attendance

The Committee met on eight occasions (four scheduled meetings and four non-scheduled meetings) during the year with all of its members in attendance at all times except for Julia Steyn who missed one scheduled meeting due to prior unavoidable commitments. In line with its remit, amongst other matters, the Committee took the following actions during the year:

- Reviewed and approved 2020/21 salaries for the Executive Directors, Executive Committee and other individuals within the Committee's remit
- Assessed the level of achievement against objectives under the 2018/19 EABP and 2016 LTIP
- Approved the metrics, definitions, weightings and targets for the 2019/20 EABP and 2019 LTIP awards
- Approved the remuneration package for Ryan Mangold on his appointment as Chief Financial Officer
- Reviewed and approved the 2019 Directors' Remuneration Report
- Reviewed the 2019 Gender Pay Gap report ahead of publication
- Reviewed its terms of reference

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 PwC until 31 October 2019. Following the announcement in July 2019 of PwC's appointment as Auditors to the Company with effect from 1 April 2020, PwC provided support until an alternative provider was appointed. Willis Towers Watson (WTW) were then appointed as interim advisors to the Remuneration Committee from 1 November 2019 for an initial period of 12 months and this has been extended to ensure consistency of advice through the 2020/21 policy review. The Chair of the Committee agrees the protocols under which PwC and WTW provide advice.

PwC and WTW are both members of the Remuneration Consultants' Group and, as such, voluntarily operate under the code of conduct in relation to executive remuneration consulting in the UK.

During the year, PwC and WTW provided independent advice and commentary on a range of topics including Directors' remuneration reporting, discretionary share plans, corporate governance and executive remuneration trends and shareholder consultation. PwC fees for advice provided to the Committee were £111,050 (2018: £97,050), charged on a time-and-materials basis. WTW fees for advice provided to the Committee were £62,450, charged on a time-and-materials basis.

PwC also provided general consultancy services to FirstGroup during the year; however, the Committee was satisfied that this did not compromise the independence and objectivity of the advice it had received from PwC, which had no other connection with the Company.

Shareholder votes on remuneration matters

	2019 AGM Annual Report on Remuneration	2018 AGM Annual Remuneration Policy	2018 AGM Annual Report on Remuneration	2017 AGM Annual Report on Remuneration
Votes for	651,870,362 (76.32%)	787,510,512 (84.52%)	870,429,586 (96.37%)	902,019,470 (91.32%)
Votes against	202,287,050 (23.68%)	144,272,299 (15.48%)	32,771,050 (3.63%)	85,771,076 (8.68%)
Total votes cast	854,157,412	931,782,811	903,200,636	987,790,546
Votes withheld*	131,689,340	5,492,503	34,074,629	222,240

* Note: A 'Vote withheld' is not a vote in law and is not counted in the calculation of the votes 'For' and 'Against' a resolution.

Further engagement

In line with provision 3 of the Code, the Committee Chair welcomes questions from shareholders on the Committee's activities. Unfortunately it will not be possible this year to meet in person at the AGM but if you wish to discuss any aspect of this report, please contact the Committee Chair via the Committee Secretary by email at companysecretariat@firstgroup.com.

Sally Cabrini

Chair, Remuneration Committee

Directors' report and additional disclosures

The Directors present their report on the affairs of the Group, together with the audited financial statements and the report of the auditor for the year ended 31 March 2020. Information required to be disclosed in the Directors' report may be found below and in the following sections of the Annual Report and Accounts, in accordance with the Companies Act 2006 (the 2006 Act) and Listing Rule 9.8.4R of the Financial Conduct Authority (FCA):

Information	Section	Page
Sustainability governance	Sustainability	38
Greenhouse gas emissions	Key performance indicators	57
Likely future developments in the business	Chief Executive's report	9
Risk factors and principal risks; going concern and viability statements	Principal risks and uncertainties	59
Governance arrangements; human rights and anti-corruption and bribery matters	Our stakeholders	44
Long-term incentive schemes	Directors' remuneration report	110
Financial instruments and related market transactions	Financial statements	175

Directors

The Directors of the Company who served during the year, and those appointed after the end of the financial year, and their biographical details are shown on page 79. Drummond Hall, Wolfhart Hauser, Jim Winestock, Imelda Walsh and Jimmy Groombridge stepped down on 31 May 2019, 25 July 2019, 30 September 2019, 14 February 2020 and 29 June 2020 respectively. Julia Steyn, Ryan Mangold, David Martin and Sally Cabrini were appointed on 2 May 2019, 31 May 2019, 15 August 2019 and 24 January 2020 respectively.

Details of the Directors' interests in shares can be found in the Directors' remuneration report on page 126.

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.

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.

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 General Counsel & Company Secretary, the Director of Finance, the Group Financial Controller, the Group Treasury & Tax Director, the Chief Information Officer, the Head of Tax & Assistant Treasurer, the Greyhound President and an Officer of FGI Canada Holdings Ltd 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 Director of Finance, the Group Financial Controller, the Head of Tax & Assistant Treasurer, the Greyhound President and an Officer of FGI Canada Holdings Ltd 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 2006 Act and will continue in force for the benefit of Directors (or Officers or Company Secretary as the case may be) on an ongoing basis.

Conflicts of interest

The Directors have a statutory duty under the 2006 Act 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. In line with the 2006 Act, the Articles 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 their duty to promote the success of the Company.

Furthermore, the Articles include provisions relating to confidential information, attendance at Board meetings and availability of Board papers to protect a Director from breaching their 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. The Board considers that the formal procedures for managing conflicts of interest currently in place have operated effectively during the year under review.

Election and re-election of Directors

Directors are required under the Articles to submit themselves for election by shareholders at the AGM following their appointment by the Board. Also, in accordance with best practice and the Code, all of our Directors put themselves forward for re-election by shareholders annually.

David Martin and Sally Cabrini, who were appointed with effect from 15 August 2019 and 24 January 2020 respectively, will therefore retire and submit themselves for election and all other Directors, except for Jimmy Groombridge who resigned on 29 June 2020, will submit themselves for re-election at the forthcoming AGM.

Audit information

The Directors who held office at 8 July 2020 confirm that, so far as they 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 they ought reasonably to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the 2006 Act.

Share capital

As at 31 March 2020, the Company's issued share capital was 1,219,535,001 ordinary shares of 5 pence, each credited as fully paid. 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 1,219,377,772 ordinary shares.

Further details of the Company's issued share capital are shown in note 27 to the Company's financial statements.

The Company's shares are listed on the London Stock Exchange.

Substantial shareholdings

As at 31 March 2020, the Company had been notified under the FCA's Disclosure, Guidance and Transparency Rule (DGTR) 5 of the following interests in its total voting rights of 3% or more:

Name of holder	Number of ordinary shares	% of total voting rights
Coast Capital Management LP	168,200,445	13.79%
Ameriprise Financial, Inc.	136,006,326	11.15%
Vicados Nominees Ltd – HSBC Custody Nominees (Australia) Ltd	71,695,290	5.88%
Schroders plc	64,283,712	5.27%
Jupiter Asset Management Limited	60,568,279	4.97%
West Face Capital, Inc.	60,455,000	4.96%
Vicados Nominees Ltd	59,397,756	4.87%

Between 31 March 2020 and the date of this report, Lombard Odier Asset Management (Europe) Ltd notified the Company that they had increased their holding to 59,605,267 ordinary shares which represent 5.01% of total voting rights. They subsequently notified the Company of a decrease to 4.99% of total voting rights and finally an increase to 5.03% of total voting rights. No further notifications were received.

Articles of Association

The description in this section summarises certain provisions of the Company's Articles and applicable Scottish law concerning companies. This summary is qualified in its entirety by reference to this Company's Articles and the 2006 Act. The Company's Articles may be amended by a special resolution of the Company's shareholders.

Shares

The rights attached to the ordinary shares of the Company are defined in the Company's Articles. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

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.

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 the 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 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 35 to the consolidated financial statements and on the Annual report on remuneration on page 118.

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.

Directors' report and additional disclosures continued

Employee involvement and policies concerning disabled employees

For how we comply with Schedule 7 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (No. 410) in this respect, please see Our people section on page 48.

Purchase of own shares

At the AGM of the Company in 2019 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 121,466,191 ordinary shares. This authority remains in place until the 2020 AGM, when the Company intends to seek a renewal.

Political donations

At the 2019 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 2006 Act), in each case in amounts not exceeding £100,000 in aggregate. As the authority granted at the 2019 AGM will expire, renewal of this authority will be sought at this year's AGM. Further details are available in the Notice of AGM.

As a result of the broad definition used in the 2006 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 covered. Accordingly, authority is being sought as a precaution to ensure that the Company's normal business activities do not infringe the 2006 Act, but it is not the policy of the Company to make donations to EU political organisations nor to incur other political expenditure in the EU.

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 \$19,024 (2019/20: \$14,000) in support of their business goals.

Other than as explained above for our US businesses, no other political donations nor expenditure was incurred by the Company and its subsidiaries during 2019/20.

See Our stakeholders – Government on pages 47 and 48 for our approach to political donations in the US and page 91 of the Corporate governance report for how we responded to shareholder feedback on this matter this year.

Change of control – significant agreements

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 7 November 2018, maturing in November 2023, which refinanced the Group's existing revolving credit and guarantee facilities. In addition the Group has arranged a £60m, three-year term loan facility with CaixaBank dated 19 June 2019 and a three-year term £60m revolving credit facility with China Construction Bank dated 11 October 2019. On 19 March 2020, the Group arranged a £250m bridge term facility for the purpose of refinancing the £350m bond due in April 2021. Under the terms of the bridge term facility, initial drawing may only be in April 2021 and the maximum maturity is in October 2022. 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\$100m 4.17% notes due 2025, US\$175m 4.29% notes due 2028, the £350m 8.75% bonds due 2021, the £200m 6.875% bonds due 2024 and the £325m 5.25% bonds due 2022 issued by the Company may also be affected by a change of control of the Company. In respect of 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\$100m 4.17% notes due 2025, US\$175m 4.29% notes due 2028, 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.

First Rail

The Group's franchised passenger rail operators, First TransPennine Express Limited, First Greater Western Limited, First MTR South Western Trains Limited (jointly owned with MTR Corporation) and First Trenitalia West Coast Rail Limited (jointly owned with Trenitalia) are each party to a franchise agreement with the Secretary of State for Transport. These franchise agreements (as amended by the emergency measures agreements) are subject to termination clauses which may apply on a change of control. First MTR South Western Trains Limited, First TransPennine Express Limited, First Greater Western Limited, First Trenitalia West Coast Rail Limited 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, Rock Rail Limited, Beacon Rail Limited, 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.

Significant shareholders' agreements

The Group, through First Rail Holdings Limited, has shareholders' agreements governing its relationship with MTR Corporation in relation to the SWR franchise and with Trenitalia in relation to the West Coast Partnership rail franchise. As is customary, these agreements include provisions addressing change of control.

Post balance sheet events

The impact of the coronavirus pandemic on the Group's operations is discussed in the Chief Executive's report on page 9, the Financial review on page 28, note 2 on pages 150 and 151 and the basis of preparation on page 141 which summarises the coronavirus scenarios modelled by the Group.

Subsequent to the balance sheet date, the Group has monitored the business performance, internal actions, as well as other relevant external factors (such as changes in any of the government restrictions and policy guidance). No adjustments to the key estimates and judgements that impact the balance sheet as at 31 March 2020 have been identified.

Further information is available in note 38 on page 190.

Branch disclosure

The Group has a branch in France (First Travel Solutions Ltd), which was established on 28 March 2019.

Streamlined Energy and Carbon Reporting (SECR) compliance

In compliance with the SECR requirements, our GHG emissions are reported on page 57 and our energy consumption and energy and emissions reduction initiatives on page 58.

Management report

The Strategic and Directors' reports together are the management report for the purposes of the FCA's DGTR 4.1.5R.

The Strategic report was approved on behalf of the Board on 8 July 2020.

Keith Hubber

General Counsel & Company Secretary

8 July 2020

395 King Street, Aberdeen AB24 5RP

Directors' responsibility statement

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
- 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
- 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 2006 Act. 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 their 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
- 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 4 to 74, and the Governance section comprising pages 76 to 134, 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:

Ryan Mangold

Chief Financial Officer

8 July 2020

395 King Street, Aberdeen AB24 5RP

Connecting people and communities



Supporting mental health conversations amongst customers and colleagues

First Rail operating companies GWR, SWR and TPE teamed up with leading UK charity Samaritans to hold events across our networks highlighting important mental health issues such as stress, depression and anxiety. On what is known as 'Blue Monday' in January, employees who are trained as Mental Health First Aiders, in conjunction with volunteers from Samaritans, attended stations to talk to customers and fellow employees – offering support as well as helping overcome the stigma associated with discussing mental health.

Promoting travel for customers with disabilities

Bus minister Baroness Vere visited First Bus in Bristol to launch the DfT's 'It's Everyone's Journey' campaign to promote inclusivity on public transport. One in four disabled people say that negative attitudes from other passengers prevent them from travelling. First Bus pioneered the use of disability awareness cards for customers who need additional support, and is proud to partner in this drive to encourage the small changes in everyone's behaviour to create a more supportive and inclusive travel environment for disabled passengers.

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Financial statements

Consolidated income statement

For the year ended 31 March

	Notes	2020 £m	2019 £m
Continuing Operations			
Revenue	3,5	7,754.6	7,126.9
Operating costs	6	(7,907.3)	(7,117.1)
Operating (loss)/profit	5,6	(152.7)	9.8
Investment income	8	2.7	2.7
Finance costs	8	(149.6)	(110.4)
Loss before tax		(299.6)	(97.9)
Tax	9	(25.0)	(10.1)
Loss for the year		(324.6)	(108.0)
Attributable to:			
Equity holders of the parent		(327.2)	(66.9)
Non-controlling interests		2.6	(41.1)
		(324.6)	(108.0)
Earnings per share			
Basic	10	(27.0)p	(5.5)p
Diluted	10	(27.0)p	(5.5)p
Adjusted results¹			
Adjusted operating profit	4	256.8	Restated ² 314.8
Adjusted profit before tax	4	109.9	208.2
Adjusted EPS	10	6.8p	13.3p
Adjusted diluted EPS	10	6.7p	13.2p

1 Adjusted for certain items as set out in note 4.

2 Restated to charge £18.1m of software amortisation to divisional results in arriving at adjusted operating profit.

The accompanying notes form an integral part of this consolidated income statement.

Consolidated statement of comprehensive income

Year ended 31 March

	Note	2020 £m	2019 £m
Loss for the year		(324.6)	(108.0)
Items that will not be reclassified subsequently to profit or loss			
Actuarial losses on defined benefit pension schemes	36	(29.0)	(38.7)
Deferred tax on actuarial losses on defined benefit pension schemes		1.1	7.1
Writing down previously recognised deferred tax assets on actuarial losses on defined benefit schemes		(25.7)	–
		(53.6)	(31.6)
Items that may be reclassified subsequently to profit or loss			
Derivative hedging instrument movements	28	(29.3)	23.5
Deferred tax on derivative hedging instrument movements		5.9	(4.1)
Exchange differences on translation of foreign operations		91.3	160.8
		67.9	180.2
Other comprehensive income for the year		14.3	148.6
Total comprehensive (loss)/income for the year		(310.3)	40.6
Attributable to:			
Equity holders of the parent		(312.9)	81.7
Non-controlling interests		2.6	(41.1)
		(310.3)	40.6

The accompanying notes form an integral part of this consolidated statement of comprehensive income.

Financial statements

continued

Consolidated balance sheet

As at 31 March

	Note	2020 £m	2019 £m
Non-current assets			
Goodwill	11	1,663.2	1,598.1
Other intangible assets	12	51.9	75.1
Property, plant and equipment	13	4,374.5	2,165.9
Deferred tax assets	25	33.6	40.6
Retirement benefit assets	36	53.2	69.2
Derivative financial instruments	24	15.8	20.5
Investments	14	32.9	34.1
		6,225.1	4,003.5
Current assets			
Inventories	16	63.3	60.2
Trade and other receivables	17	1,170.6	1,141.4
Current tax assets		9.8	3.4
Cash and cash equivalents	20	869.3	692.9
Assets held for sale	18	1.0	31.7
Derivative financial instruments	24	4.8	15.5
		2,118.8	1,945.1
Total assets		8,343.9	5,948.6
Current liabilities			
Trade and other payables	19	1,799.7	1,547.3
Tax liabilities – Current tax liabilities		7.5	3.9
– Other tax and social security		42.9	29.0
Borrowings	21	694.3	84.9
Derivative financial instruments	24	44.2	3.4
Provisions	26	232.1	265.9
		2,820.7	1,934.4
Net current (liabilities)/assets		(701.9)	10.7
Non-current liabilities			
Borrowings	21	3,502.9	1,564.1
Derivative financial instruments	24	19.2	1.9
Retirement benefit liabilities	36	366.6	376.4
Deferred tax liabilities	25	38.8	16.5
Provisions	26	419.0	532.0
		4,346.5	2,490.9
Total liabilities		7,167.2	4,425.3
Net assets		1,176.7	1,523.3
Equity			
Share capital	27	61.0	60.7
Share premium		688.6	684.0
Hedging reserve	28	(28.3)	17.5
Other reserves	28	4.6	4.6
Own shares	28	(10.2)	(4.7)
Translation reserve	29	635.6	544.3
Retained earnings		(141.5)	248.1
Equity attributable to equity holders of the parent		1,209.8	1,554.5
Non-controlling interests		(33.1)	(31.2)
Total equity		1,176.7	1,523.3

The accompanying notes form an integral part of this consolidated balance sheet.

Ryan Mangold

8 July 2020

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 2018	60.5	681.4	16.5	4.6	(6.3)	383.5	340.6	1,480.8	9.8	1,490.6
Loss for the year	-	-	-	-	-	-	(66.9)	(66.9)	(41.1)	(108.0)
Other comprehensive income/(loss) for the year	-	-	19.4	-	-	160.8	(31.6)	148.6	-	148.6
Total comprehensive (loss)/income for the year	-	-	19.4	-	-	160.8	(98.5)	81.7	(41.1)	40.6
Shares issued	0.2	2.6	-	-	-	-	-	2.8	-	2.8
Derivative hedging instrument movements transferred to balance sheet (net of tax)	-	-	(18.4)	-	-	-	-	(18.4)	-	(18.4)
Dividends paid/other	-	-	-	-	-	-	-	-	0.1	0.1
Movement in EBT and treasury shares	-	-	-	-	1.6	-	(3.1)	(1.5)	-	(1.5)
Share-based payments	-	-	-	-	-	-	9.1	9.1	-	9.1
Balance at 31 March 2019	60.7	684.0	17.5	4.6	(4.7)	544.3	248.1	1,554.5	(31.2)	1,523.3
Balance at 31 March 2019	60.7	684.0	17.5	4.6	(4.7)	544.3	248.1	1,554.5	(31.2)	1,523.3
Adjustment on transition to IFRS 16	-	-	-	-	-	-	(15.6)	(15.6)	-	(15.6)
Balance at 1 April 2019	60.7	684.0	17.5	4.6	(4.7)	544.3	232.5	1,538.9	(31.2)	1,507.7
Loss for the year	-	-	-	-	-	-	(327.2)	(327.2)	2.6	(324.6)
Other comprehensive income/(loss) for the year	-	-	(23.4)	-	-	91.3	(53.6)	14.3	-	14.3
Total comprehensive (loss)/income for the year	-	-	(23.4)	-	-	91.3	(380.8)	(312.9)	2.6	(310.3)
Shares issued	0.3	4.6	-	-	-	-	-	4.9	-	4.9
Derivative hedging instrument movements transferred to balance sheet (net of tax)	-	-	(22.4)	-	-	-	-	(22.4)	-	(22.4)
Dividends paid/other	-	-	-	-	-	-	0.7	0.7	(4.5)	(3.8)
Movement in EBT and treasury shares	-	-	-	-	(5.5)	-	(4.2)	(9.7)	-	(9.7)
Share-based payments	-	-	-	-	-	-	10.3	10.3	-	10.3
Balance at 31 March 2020	61.0	688.6	(28.3)	4.6	(10.2)	635.6	(141.5)	1,209.8	(33.1)	1,176.7

The accompanying notes form an integral part of this consolidated statement of changes in equity.

Financial statements

continued

Consolidated cash flow statement

Year ended 31 March

	Note	2020 £m	2019 £m
Net cash from operating activities	31	958.2	563.7
Investing activities			
Interest received		2.7	2.7
Proceeds from disposal of property, plant and equipment		30.5	63.5
Purchases of property, plant and equipment		(321.8)	(421.3)
Purchases of software		(9.2)	(8.9)
Disposal of businesses	4	16.2	–
Acquisition of businesses	30	(21.8)	(2.3)
Net cash used in investing activities		(303.4)	(366.3)
Financing activities			
Shares purchased by Employee Benefit Trust		(9.8)	–
Shares issued		4.5	2.1
Repayment of bond		–	(250.0)
Drawdowns from bank facilities		122.9	255.0
Repayment of loan notes		–	(0.1)
Repayments of lease liabilities		(596.5)	(53.1)
Fees for finance facilities		(2.1)	(2.2)
Net cash flow used in financing activities		(481.0)	(48.3)
Net increase in cash and cash equivalents before foreign exchange movements		173.8	149.1
Cash and cash equivalents at beginning of year		692.9	555.7
Foreign exchange movements		2.6	(11.9)
Cash and cash equivalents at end of year per consolidated balance sheet	20	869.3	692.9

Cash and cash equivalents are included within current assets on the consolidated balance sheet. Cash and cash equivalents includes ring-fenced cash of £632.2m at 31 March 2020 (31 March 2019: £525.6m).

Note to the consolidated cash flow statement – reconciliation of net cash flow to movement in net debt

	Note	2020 £m	2019 £m
Net increase in cash and cash equivalents in year		173.8	149.1
(Increase)/decrease in debt and leases excluding leases formerly classified as operating leases		(75.3)	48.2
Adjusted cash flow		98.5	197.3
Payment of lease liabilities		549.2	–
Inception of new leases		(1,828.3)	–
Fees capitalised against bank facilities and bond issues		0.7	–
Foreign exchange movements		(24.1)	(28.3)
Other non-cash movements		(2.5)	(2.1)
Movement in net debt in year		(1,206.5)	166.9
Adjustment for transition to IFRS 16		(1,168.2)	–
Net debt at beginning of year		(903.4)	(1,070.3)
Net debt at end of year	32	(3,278.1)	(903.4)

Adjusted cash flow is stated prior to cash flows in relation to debt and finance leases.

Net debt Includes the value of derivatives in connection with the bond maturing 2021 and excludes all accrued interest. These bonds are included in current and non-current liabilities in the consolidated balance sheet.

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 5 to 74.

These financial statements are presented in pounds Sterling. 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 the Strategic Report on pages 72 to 73.

For the reasons set out in the going concern statement on pages 72 to 73 the Directors noted that the risks set out there indicate that a material uncertainty exists that may cast significant doubt on the Group's and the Company's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Material uncertainty relates to:

- the uncertainty regarding the levels of fiscal financial and contractual support which may be provided beyond the period for which that funding and contractual support is currently being provided;
- whether passenger volumes recover to the levels necessary to sustain the business without the current fiscal financial and contractual support;
- the ability of the Group to obtain covenant waivers from debt providers if required;
- the ability of the Group to draw down on c.£550m of the currently available but uncommitted facilities throughout the going concern period if required; and
- the timing of cash flows, including movements in working capital and the timing of receipts of contractual and fiscal support that may impact debt levels at covenant test dates.

As set out on pages 69 to 73, the Group has undertaken detailed reviews of the potential impact of coronavirus using financial outlook modelling. Based on their review of the financial forecasts and having regard to the risks and uncertainties to which the Group is exposed (including the material uncertainty referred to above), the Directors believe that the Company and the Group have adequate resources to continue in operational existence for the twelve-month period from the date on which the financial statements were approved. Accordingly, the financial statements have been prepared on a going concern basis.

The financial statements for the year ended 31 March 2020 include the results and financial position of the First Rail business for the year ended 31 March 2020 and the results and financial position of all the other businesses for the 52 weeks ended 28 March 2020. The financial statements for the year ended 31 March 2019 include the results and financial position of the First Rail businesses for the year ended 31 March 2019 and the results and financial position of all the other businesses for the 52 weeks ended 30 March 2019.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control exists when the Company has power over an investee entity, exposure to variable returns from its involvement with the entity and the ability to use its power over the entity to affect its returns.

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.

Notes to the consolidated financial statements

continued

2 Significant accounting policies continued

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 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.

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.

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, website development, costs attributable to the development, design and implementation of the computer software and internal costs directly attributable to the software.

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 – over the estimated life of the software (3 to 5 years)

Revenue recognition

Under FRS 15 revenue is recognised when control of a good or service transfers to the customer. The point at which goods and services are transferred to the customer is based on the fulfilment of performance obligations.

As the Group has the right to consideration corresponding directly with the value of performance completed to date, customer contract revenue is recognised consistent with the amount that the Group has a right to invoice. The Group is therefore exercising the practical expedient not to explain transaction prices allocated to unsatisfied performance obligations at the end of the reporting period.

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. An explanation of the types of revenue are set out below:

Passenger revenues

Passenger revenues primarily relate to ticket sales through Greyhound, First Bus and First Rail. Passenger revenue is recognised at both a point in time and over time. Ticket sales for journeys of less than one week's duration are recognised on the first date of travel. Ticket sales for season tickets, travel cards and open-return tickets are initially deferred then recognised over the period covered by the relevant ticket. Concessionary amounts are recognised in the period in which the service is provided.

Contract revenues

Contract revenues mainly relate to First Student school bus contracts and First Transit contracts in North America. Revenues are recognised as the services are provided over the length of the contract and based on a transactional price which is defined in the terms of the contract.

2 Significant accounting policies continued

Charter/private hire

Charter and private hire predominantly relate to charter work in First Student for both school districts with extracurricular activities and third parties with general transportation needs. Revenue is recognised over the period in which the charter/private hire is provided to the customer.

Rail franchise subsidy receipts

Revenue in First Rail includes franchise subsidy receipts from the Department for Transport (DfT) and amounts receivable under franchise arrangements including certain funded operational projects. Amounts receivable are set out in the franchise agreement for each year of the franchise. The franchise agreement includes a minimum specification of passenger services to be provided, which is the key performance obligation. 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. Revenue is recognised over time as the performance obligations are met.

Other revenues

Other revenues mainly relate to Greyhound Package Express, non-rail subsidies, revenue arising from ancillary services to other rail and road passenger service providers for maintenance, refuelling and other associated services and to sundry third parties for the use of space at terminals and on-board vehicles for other business activities, e.g. retail outlets, taxi ranks, catering and advertising. Other revenues are recognised at both a point in time and over time.

Interest income is recognised on an accruals basis.

As the Group has the right to consideration corresponding directly with the value of performance completed to date, customer contract revenue is recognised consistent with the amount that the Group has the right to invoice. The Group is therefore exercising the practical expedient not to explain transaction prices allocated to unsatisfied performance obligations at the end of the reporting period.

Leasing

The accounting policy for leasing for the year ended 31 March 2020 was as follows:

Lease identification

At inception of a contract, the Group shall assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Right of use asset (ROUA)

At the commencement date, the right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, less any incentives received, plus any initial direct costs incurred and an estimate of costs to be incurred by the Group to dismantle and remove the underlying asset or restore the underlying asset or the site on which it is located.

The right of use asset is depreciated on a straight-line basis over the shorter of the estimated useful life of the asset or the lease term. In addition, the right of use asset is periodically reduced by impairment losses, if applicable, and adjusted for certain remeasurements of the lease liability.

Lease liability

At the commencement date of the lease, the lease liability is initially measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid by the Group under residual value guarantees. The lease payments also include the exercise price of a purchase option if the Group is reasonably certain to exercise that option. Payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate the lease, are also included. The payments are discounted at the incremental borrowing rate since the rates implicit in the leases are not readily available.

The lease liability is measured by increasing the carrying amount to reflect the interest on the lease liability and reducing the carrying amount to reflect the lease payments made. The carrying value is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

In accordance with IAS 36 *Impairment of assets* the opening onerous contract provision for SWR of £145.9m was reclassified as an impairment on ROUA on adoption of IFRS 16. Similarly, £62.7m of the opening TPE onerous contract provision was reclassified as an opening impairment on ROUA with the remaining balance of £44.2m being reclassified as impairment on ROUA additions in the period.

Notes to the consolidated financial statements

continued

2 Significant accounting policies continued

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to selected leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option and where it is not reasonably certain that the lease term will be extended. It also applies the low-value assets recognition exemption to leases of assets of low value based on the value of the asset when it is new, regardless of the age of the asset being leased. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

On the balance sheet, right of use assets have been included in property, plant and equipment and lease liabilities have been included in borrowings.

The accounting policy for leasing for the year ended 31 March 2019 was as follows:

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.

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 within other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised within other comprehensive income.

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 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 and divisional adjusted operating performance, additional financial measures derived from the reported results have been used by management 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 restructuring and reorganisation costs, material property gains or losses, aged legal and self-insurance claims, significant adverse loss development factors on insurance provisions, significant movements on insurance discount rates, onerous contract provisions, impairment charges and pension settlement gains or losses including GMP equalisation. In addition, management assess divisional performance before other intangible asset amortisation charges, as these are typically a result of Group decisions and therefore the divisions have little or no control over these charges. Management consider that this overall basis more appropriately reflects operating performance and provides a better understanding of the key performance indicators of the business. See note 4 for the reconciliation to non-GAAP measures and performance.

2 Significant accounting policies continued

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 (excluding software amortisation), Greyhound impairment charges, First Student onerous contract provision, aged self-insurance claims, significant adverse loss development factors on insurance provisions, significant movements in the insurance discount rate, restructuring and reorganisation costs, gain on disposal of property, fuel over hedge and writing down of previously recognised deferred tax assets. In the prior year the non-GAAP adjusting items principally related to other intangible asset amortisation charges (excluding software amortisation), onerous contract provision, impairment charges, aged self-insurance claims, restructuring and reorganisation costs, pension settlement losses including GMP equalisation.

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 plans are charged as an expense as they fall due. There is no further obligation to pay contributions into a defined contribution plan once the contributions specified in the plan rules have been paid.

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 other comprehensive income.

All past service costs are recognised immediately in the consolidated income statement.

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 reduced by the fair value of scheme assets. Any residual asset resulting from this calculation is limited to refunds economically available to the Company, in the form of either a public sector payment or the present value of future service costs recognised via suspension of cash contributions.

Various TOCs in the First Rail business participate in the Railways Pension Scheme (RPS), 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, subject to any changes in the schedule of contributions following a statutory valuation.

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 and includes an estimate of the tax which could be payable as a result of differing interpretation of tax laws.

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 and is based on the estimated tax consequences of items that are subject to differing interpretations of tax laws. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income or directly to equity, in which case the deferred tax is also dealt with within other comprehensive income or directly in equity respectively.

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.

The Group has adopted IFRIC 23 Uncertainty over Income Tax Treatments for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the Group to determine whether uncertain tax positions are assessed separately or as a Group: and

- Assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
 - If yes, the Group should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
 - If no, the Group should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

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Notes to the consolidated financial statements continued

2 Significant accounting policies continued

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
Passenger carrying vehicles	7 to 17 years straight-line
Other plant and equipment	3 to 25 years straight-line

Right-of-use assets are depreciated over the shorter period of the lease and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset.

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 held in other payables 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.

For the year ended 31 March 2020 we have assessed the value of the Greyhound CGU on a fair value less costs to sell basis for the purposes of the impairment review. The adoption of this approach in preference to a value in use basis, reflects the ongoing intention of the Group to divest of the Greyhound business. The CGU valuation has been assessed under a Level 3 fair value hierarchy as defined by IFRS 13, assessing the value of a stand-alone Greyhound business on a discounted cash flow approach.

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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Where the purchase of inventory was the hedged item in a cash flow hedge relationship, the initial carrying amount of the recognised inventory is adjusted by the associated hedging gain or loss transferred from the hedging reserve (a basis adjustment).

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

Financial assets can be measured at amortised cost, fair value through profit or loss or fair value through other comprehensive income. The measurement basis is determined by reference to both the business model for managing the financial asset and the contractual cash flow characteristics of the financial asset.

Financial assets are classified into one of three primary categories:

2 Significant accounting policies continued

Financial assets at amortised cost

Financial assets at amortised costs are non-derivative financial assets held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Fair value through profit and loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the income statement within finance costs. Transaction costs arising on initial recognition are expensed in the income statement.

Fair value through other comprehensive income

The Group does not have any financial assets held at fair value through other comprehensive income.

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 measured on an amortised cost basis.

Bonds and loan notes

These are measured either on an amortised cost basis or at fair value, if designated.

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 its exposure to foreign exchange, interest rate and commodity risks. Use of such financial instruments is governed by policies and delegated authorities approved by the Board. The Group does not hold or issue derivative financial instruments for trading purposes. 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. Where derivatives do not qualify for hedge accounting, any gains or losses on re-measurement are immediately recognised in the Group income statement. Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge relationship and the item being hedged. At inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge, the nature of the risks being hedged and the economic relationship between the item being hedged and the hedging instrument.

Fair value hedging: The fair value change on qualifying hedging instruments is recognised in profit or loss. The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in profit or loss.

Cash flow hedging: The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial item such as inventory, the gains and losses previously recognised in other comprehensive income and accumulated in equity are removed from equity and included as a basis adjustment in the initial measurement of the cost of that item. This transfer does not affect other comprehensive income, however the hedging gains and losses that will subsequently be transferred as basis adjustments are categorised as amounts that may be reclassified subsequently to profit or loss, as such a reclassification may occur in the event that the hedged transaction is no longer expected to occur. Furthermore, if the Group expects that some or all of the loss accumulated in the cash flow hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

Net investment hedging: Derivative financial instruments are classified as net investment hedges when they hedge the Group's net investment in an overseas operation. The effective element of any foreign exchange gain or loss from remeasuring the derivative instrument is recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Any ineffective element is recognised immediately in the Group income statement. Gains and losses accumulated in the foreign currency translation reserve are included in the Group income statement on the disposal or partial disposal of the foreign operation.

Financial statements

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Notes to the consolidated financial statements

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2 Significant accounting policies continued

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.

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. The provision is discounted to appropriately reflect the timing of future cash claims settlements.

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.

Adoption of new and revised standards

The accounting policies adopted are consistent with those of the previous financial year except for the changes arising from new standards and amendments to existing Standards which have been adopted in the current year.

The Group has applied for the first time IFRS 16 Leases. The nature and effect of these changes are disclosed below.

IFRS 16 Leases replaces IAS 17 Leases and three interpretations (IFRIC 4 Determining whether an Arrangement contains a lease, SIC 15 Operating Leases – Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). On transition the Group has applied IFRS 16 using the modified retrospective approach, with the cumulative effect on adoption being recognised as an adjustment to opening retained earnings. Prior periods have not been restated.

Prior to the adoption of IFRS 16, leases were either classified as operating or finance leases. Payments made in respect of operating leases were charged to the income statement on a straight-line basis over the duration of the lease. Finance leases were recognised on the balance sheet with depreciation and interest being charged to the income statement.

For leases previously classified as finance leases, the Group has recognised the carrying amount of the finance lease asset and liability under IAS 17 as at 31 March 2020 as the carrying amount of the right of use asset and the lease liability under IFRS 16 at 1 April 2019.

The Group has elected not to include initial direct costs in the measurement of the right of use asset for operating leases in existence at the date of transition. At this date, the Group has also elected to measure the right of use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low value assets the Group has applied the available practical expedients, therefore these have not been recognised as right of use assets but have been accounted for as a lease expense on a straight-line basis over the remaining lease term.

In September 2019, the IASB issued Interest Rate Benchmark Reform – Amendment to IFRS 9, IAS 39 and IFRS 7. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedges items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms.

2 Significant accounting policies continued

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 3.21%.

	As previously reported at 31 March 2019 £m	Impact of IFRS 16 £m	Restated at 1 April 2019 £m
Assets			
Property, plant and equipment cost	2,165.9	1,140.4	3,306.3
Property, plant and equipment impairment	–	(208.6)	(208.6)
Trade and other receivables	1,141.4	(3.8)	1,137.6
Deferred tax assets	40.6	1.4	42.0
Other assets not impacted by IFRS 16	2,600.7	–	2,600.7
Total assets/impact on assets	5,948.6	929.4	6,878.0
Liabilities			
Trade and other payables	1,547.3	(11.3)	1,536.0
Borrowings	1,649.0	(59.9)	1,589.1
Lease liabilities ^{1, 2}	–	1,228.1	1,228.1
Deferred tax liabilities	16.5	(3.3)	13.2
Provisions	797.9	(208.6)	589.3
Other liabilities not impacted by IFRS 16	414.6	–	414.6
Total liabilities/impact on liabilities	4,425.3	945.0	5,370.3
Net assets/impact on net assets	1,523.3	(15.6)	1,507.7
Equity			
Retained earnings	248.1	(15.6)	232.5
Other equity not impacted by IFRS 16	1,275.2	–	1,275.2
Total equity/impact on equity	1,523.3	(15.6)	1,507.7

1 Lease liabilities are included within borrowings on the consolidated balance sheet.

2 As at 1 April 2019, lease liabilities due within one year were £549.7m. Lease liabilities due after one year were £678.4m.

Right of use assets of £1,140.4m were recognised at 1 April 2019, £829.4m related to rolling stock, £217.2m related to leases of land and property, £89.5m related to PCV's and £4.3m related to the lease of other assets.

The lease liabilities as at 1 April 2019 can be reconciled to the opening lease commitments as at 31 March 2019 as follows:

	£m
Operating lease commitments at 31 March 2019	2,952.8
Short-term and low value lease commitments straight-line expensed under IFRS 16	(36.5)
First Rail charges for track, station and depot access ³ ,	(997.0)
Leases entered into where the commencement date falls after 31 March 2019	(496.6)
IAS 17 lease commitments which do not meet the definition of a lease under IFRS 16 ⁴	(183.1)
Other	30.0
Effect of discounting using incremental borrowing rates	(101.4)
Finance lease liabilities recognised under IAS 17 at 31 March 2019	59.9
Lease liabilities recognised at 1 April 2019	1,228.1

3 Within First Rail, £1.0bn relates to track, station and depot access charges which do not meet the definition of a lease under IFRS 16. This reflects the fact that either no identified asset exists or that the Group does not have the right to obtain substantially all of the economic benefits from the use of the assets throughout the period of use, or that Network Rail, not the Group, directs how and for what purpose the assets are used.

4 IAS 17 lease commitments for ongoing rolling stock maintenance costs which comprise of non-lease components and do not meet the definition of a lease under IFRS 16.

In respect of the income statement impact, the application of IFRS 16 resulted in a decrease in other operating expenses and an increase in depreciation and interest expense compared to IAS 17. During the year ended 31 March 2020 the adoption of IFRS 16 resulted in the Group recognising following amounts in the consolidated income statement:

	£m
Depreciation	483.2
Interest expense	40.2
Short-term and low value lease expense	35.1

Notes to the consolidated financial statements

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2 Significant accounting policies continued

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge, actual results may ultimately differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

No areas of critical accounting judgements or key sources of estimation uncertainty have been identified in relation to Brexit.

i) Critical accounting judgements

The following are the critical judgements, apart from those involving estimations (which are presented separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Contractual and direct fiscal support as a result of coronavirus

The Group has received contractual and direct fiscal support as a result of coronavirus. The key fundamental principle to the basis of preparation of the financial statements is that this support will continue to be provided to the Group until passenger volumes and operated service activities return towards pre-coronavirus levels, as outlined in the Going Concern statement on page 72 & 73.

During the year the principal contractual and direct fiscal support recognised comprised £131.8m of EMA funding in First Rail, £48.2m of coronavirus recoveries and £10.4m of CARES Act employee retention credits in First Student, £6.6m of CARES Act 5311(f) funding in Greyhound, £7.4m of CBSSG and other funding in First Bus and £1.6m of coronavirus recoveries in First Transit.

The main contractual and direct fiscal support received for each division has been as follows:

First Student

The US CARES Act was passed into law on 27 March 2020 and stipulates that School Boards should to the greatest extent practicable pay all of their contractors in full. The amounts receivable from customers are recognised as contract revenue in the period in which the service is provided.

First Transit

Any additional amounts contractually agreed with customers are recognised as contract revenue in the period in which the service is provided.

Greyhound

Subsidy funding was made available under section 5311(f) of the terms of the US CARES Act. The Act allows Greyhound to claim for losses made from operating intercity bus services in the US after 20 January 2020. The subsidy funding receivable is recognised as other revenue in the period in which the service is provided.

First Bus

A new COVID-19 Bus Service Support Grant (CBSSG) was in place from 17 March 2020 for English bus operators. It is a grant payable to bus operators in respect of commercial services in return for making available sufficient capacity to run an agreed level of commercial miles.

First Rail

The Emergency Measures Agreements (EMAs) transferred all revenue and cost risk to the government for an initial period to 20 September 2020. Franchised TOCs are paid a small management fee to continue running a revised National Rail timetable across the UK. The EMAs signed are effective from 1 March 2020.

Net EMA funding including the management fee is recognised as revenue in Rail franchise subsidy receipts, in line with the revenue recognition policy for franchise subsidy receipts from the DfT. The accounts for the year ended 31 March 2020 have been prepared on the basis that there will be a continuation of EMA or similar for all Franchised TOCs for the duration of the franchise period and that these arrangements will allow FirstGroup to recover the remaining value of the right of use assets as reflected in the balance sheet.

Going Concern Statement and Viability

The year has been materially impacted by the onset of the coronavirus pandemic. The Group has a strong balanced portfolio of businesses that provide essential services to the communities we serve.

Continuity of transport proved essential to governments, local communities and many of our customers throughout the coronavirus pandemic and it will also be critical to the restoration of normal life when the present uncertain and extremely difficult situation is overcome. The funding to sustain services that we have received from governments and our customers is testament to the importance of our offering to those we serve.

Both governments and our key contracted customers recognised the need to stop or significantly reduce services as passenger demand declined rapidly when the lockdowns and 'shelter in place' orders were made. They also recognised that it was critical to maintain essential services for key workers to get to their place of work, and to preserve the ability to restore services quickly when required. Throughout the crisis, all our businesses had productive engagement with major customers on revenue recovery, including school district boards throughout North America, and local, state and national governments in all of the markets served by the Group.

Details of the revenue protection measures and government funding and other support are set out in the Operating and Financial Review on page 60. Details of the actions taken to reduce operating costs and non-contractual committed capital spend across the Group are also set out on page 59.

The impact of coronavirus on our business, and the support being provided by customers and government, will continue to evolve throughout the coming months. Despite these support measures, it is uncertain how and when these support measures will be withdrawn and, if the crisis persists for a much longer period, the extent to which governments and customers will continue to have the ability to provide fiscal and contractual support.

2 Significant accounting policies continued

It is difficult to assess with any degree of certainty what effect the continued impact of the coronavirus crisis might have on the wider economy and the transport sector in the markets in which the Group operates. It is therefore highly uncertain what impact there might be on the Group's future trading performance and financial position.

The Going Concern Statement at pages 72 to 73 sets out the following material uncertainties as to going concern which are facing the Group:

Material uncertainty relates to:

- The uncertainty regarding the levels of fiscal and contractual support which may be provided beyond the period for which that funding and contractual support is currently being provided;
- Whether passenger volumes recover to the levels necessary to sustain the business without the current fiscal financial and contractual support;
- The timing of cash flows, including movements in working capital and the timing of receipts of contractual and fiscal support that may impact debt levels at covenant test dates;
- The ability of the Group to draw down on c.£550m of the currently available but uncommitted facilities throughout the going concern period if required; and
- The ability of the Group to obtain covenant waivers from debt providers if required.

The Prospects and Viability section at pages 69 to 71 details the mitigating actions which the Group could take if materially different outcomes to the base case and downside scenarios have a materially adverse impact on the Group.

Defined benefit pension arrangements

The Group currently sponsors six sections of the Railways Pension Scheme (RPS), relating to its franchising obligations for its TOCs, and a further section for Hull Trains, its Open Access operator. RPS is a defined benefit pension scheme which covers the whole of the UK rail industry. In contrast to the pension schemes operated by most businesses the RPS is a shared cost scheme which means that costs are formally shared 60% employer 40% employee. The Group only recognises amounts in relation to its share of costs in the income statement. The RPS is partitioned into sections and the Group is responsible for the funding of these sections whilst it operates the relevant franchise.

At the end of the franchise term, responsibility for funding the relevant section of the scheme, and consequentially any deficit or surplus existing at that date, is passed to the next franchisee. At each balance sheet date a franchise adjustment is recognised against the IAS 19 net pension asset or liability to reflect that portion expected to pass to the next franchisee.

The Directors view this arrangement as analogous to the circumstances described in paragraphs 92-94 of IAS 19 (Revised) with a third party taking on the obligation for future contributions. As there is no requirement to make contributions to fund the current deficit, it is assumed that all of the current deficit will be funded by another party and hence none of that deficit is attributable to the current franchisee. In respect of the future service costs, there is currently no pension obligation in respect of those costs. When the costs are recognised in the income statement, the extent to which the committed contributions fall short determines the amount that is to be covered by contributions of another party in future, which is recognised as an adjustment to service cost in the income statement. Under circumstances where contributions are renegotiated, such as following a statutory valuation, an adjustment will be recognised in the income statement, whilst changes in actuarial assumptions continue to be recognised through other comprehensive income.

The Directors consider this to be the most appropriate interpretation of IAS 19 to reflect the specific circumstances of the RPS where the franchise commitment is only to pay contributions during the period in which we run the franchise. An alternative approach would involve not limiting the measurement of the service cost through the recognition of an income statement franchise adjustment, but recognising all changes in the franchise adjustment as a reimbursement right in OCI. For the year ended 31 March 2020 the impact of this alternative approach would be an increase in costs of £63.3m (2019: £49.6m) in the income statement and a credit to OCI of £169.9m (2019: £65.9m). In addition, the balance sheet would reflect a surplus of £155.3m (2019: £48.7m). Since the franchise contract only refers to the contribution requirements during the franchise term, and not any reimbursement rights, in the Directors' view contributions are shared with the next franchisee and therefore the treatment of the arrangement as contribution-sharing is considered the most appropriate.

The UK schemes retirement benefit obligations are discounted at a rate set by reference to market yields at the end of the reporting period on high-quality corporate bonds. Significant judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded. Management follows actuarial advice from a third party when determining these judgements. Another key judgement is the longevity of members. We take specialist advice on this from our actuarial advisors which aims to consider the likely experience taking into account each scheme's characteristics. Our approach is to review these assumptions for each scheme following completion of their funding valuations, and more frequently only if appropriate to do so.

The current market volatility and fundamental economic uncertainties have resulted in difficulties in valuing certain assets of the pension schemes that are not listed on public markets (e.g. property, infrastructure, private debt). Where asset valuations were not provided prior to the production of this report, we have consulted with investment managers and actuarial advisers in estimating adjustments to asset values where appropriate. Further details are set out in note 36.

The Pension Regulator (TPR) has been in discussions with the Railways Pension Scheme (the Scheme) regarding the long-term funding strategy of the Scheme. Whilst TPR believes that a higher level funding is required in the long term, it is not possible at this stage to determine the impact to ongoing contribution requirements.

The carrying amount of the Group's retirement benefit obligations at 31 March 2020 was a liability of £313.4m (2019: £307.2m). Further details and sensitivities are set out in note 36.

Determining the incremental borrowing rate used to measure lease liabilities

The Group is required to determine its incremental borrowing rate (IBR) to measure its lease liabilities. Judgement is required to determine the components of the IBR used for each lease, including risk-free rates, credit risk and any lease specific adjustments.

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2 Significant accounting policies continued

IBRs are determined quarterly or at the time of a new franchise. They depend on the term, country and start and end date of the lease. They are estimated based on several factors which include the risk-free rate based on government bond rates, a country-specific adjustment and a credit risk adjustment based on the average credit spread of entities with similar ratings to the Group.

ii) Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below.

Impairment of assets in CGUs

The key sources of estimation uncertainty in relation to impairment of assets in CGUs relate to the cash flow forecasts including significant judgements in deciding what assumption to make regarding how the impact of the coronavirus pandemic might evolve over the coming months in our CGUs. This is covered in more detail in note 11.

Contract and franchise accounting

Estimates 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 estimates relating to the expected levels of profitability 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.

Under emergency measures announced by the Secretary of State and the DfT at the end of March 2020, the government has suspended all rail franchise agreements due to the exceptional circumstances presented by coronavirus. These measures which have been formalised in EMAs effectively transfer all revenue and cost risks to the government for an initial period to 20 September 2020 with franchised TOCs being paid a management fee to continue running a revised national rail timetable across the UK. As noted earlier in this note on page 141, the accounts for the year ended 31 March 2020 have been prepared on the basis that there will be a continuation of EMA or similar for all Franchised TOCs for the remainder of the franchise terms.

If the DfT were to return all TOCs to the original franchise terms following the EMA expiry on 20 September 2020 without any rebasing, the maximum unavoidable loss remaining after existing impairments is £232m. The remaining cash exposure is £294m.

First Rail has a number of contractual relationships including those with the DfT and Network Rail which, given their complexity and duration, can be sensitive to changes in future assumptions. Due to the regulated nature of the rail industry, disputes and claims (including franchise change amounts) typically arise with such bodies as well as other TOCs where one or more TOCs have access to common infrastructure such as railway lines. Management is required to estimate the amounts receivable and also payable taking account of the information available at the time. Due to the complex nature of these matters there is a significant risk that a material change could be required to the carrying value of receivables and payables in respect of these items in the next financial year. For the duration of the EMAs, all Franchise Changes are suspended except for Franchise Change events triggered before the EMA.

Amounts recoverable for subsidy franchises are in line with IAS 37 for premium franchises. Under IFRS 15 the estimated amounts have been included in revenue if it is highly probable that a significant reversal of cumulative revenue for the contracts will not occur when the uncertainty is resolved. Under IAS 37, the Group considers the recognition and measurement criteria in forming our best estimate of amounts to offset against the franchise premium cost. The amounts recoverable under subsidy franchises in the balance sheet at 31 March 2020 total £60.2m.

Hull Trains is not subject to an EMA. It has non-current assets of £32.5m as at 31 March 2020. The impairment assessment of Hull Trains is covered in note 11.

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 (including IBNR) is adjusted as required. Given the diversity of claim types, their size, the range of possible outcomes and the time involved in settling these claims, a material change could be required to the carrying value of claims provisions in the next financial year. These factors also make it impractical to provide sensitivity analysis on one single measure and its potential impact on overall insurance provisions. The Group's total self-insurance provisions as at the balance sheet date were £588.9m (2019: £471.8m) as set out in note 26. Of this £527.3m relates to North America where the actuarial range is £442.2m to £548.2m (2019: £408.9m and actuarial range £342.9m to £438.8m). In addition, North America has an additional provision of £22.1m and a receivable of equal amount from third party insurers for indemnified claims.

Uncertain tax positions

Uncertainties exist in relation to differing interpretations of complex tax law in the jurisdictions in which the Group operates. It may take several years to determine the final tax consequences of certain transactions in some jurisdictions. The tax liabilities and assets recognised by the Group are based on estimates made by management on the application of tax laws and management's estimate of the future amounts that will be agreed with tax authorities. Further details on the tax on profit on ordinary activities are set out in note 9.

There is a risk that the amounts eventually agreed with tax authorities may differ from the amounts recognised by the Group and could lead to future adjustments to tax assets and liabilities that are currently not recognised and therefore the range of potential outcomes would have a minimal impact on the tax charge.

Deferred tax asset recognition

Deferred tax assets are recognised to the extent that it is probable that the Group has sufficient taxable profits to offset these assets and the financial forecasts used to assess the impairment of assets in CGUs are used to demonstrate the future taxable profits. There is a deferred tax asset recognised in the UK and should the assumption that all franchised TOCs continue under EMA or similar arrangements for the life of the existing franchise agreement prove incorrect then there would be a risk that the deferred tax assets should not be recognised and there would be a charge to Other Comprehensive Income of up to £26.5m with minimal impact on the income statement.

3 Revenue

	2020 £m	2019 £m
Services rendered	7,380.2	6,933.1
First Rail franchise subsidy receipts	369.1	193.8
Other income	5.3	–
Revenue	7,754.6	7,126.9

Disaggregated revenue by operating segment is set out in note 5.

Services rendered includes £60.2m of recoveries in relation to coronavirus in relation to First Bus, First Student, First Transit and Greyhound.

4 Reconciliation to non-GAAP measures and performance

In measuring the Group and divisional adjusted operating 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 restructuring and reorganisation costs, material property gains or losses, aged legal and self-insurance claims, significant adverse development factors on insurance provisions, significant movements on discount rates used to discount the insurance reserve onerous contract provisions, impairment charges and pension settlement gains or losses including GMP equalisation. In addition, management assess divisional performance before other intangible asset amortisation charges as these are typically a result of Group decisions and therefore the divisions have little or no control over these charges. Management consider that this overall basis more appropriately reflects operating performance and provides a better understanding of the key performance indicators of the business.

During the year to 31 March 2020 software amortisation charges of £16.1m (2019: £18.1m) have been charged to divisional results in arriving at adjusted operating profit and prior year adjusted Group and divisional results have been restated accordingly. In prior years this was separately disclosed as an adjusting item.

	Year to 31 March 2020 £m	Year to 31 March 2019 (restated) £m
Reconciliation of operating (loss)/profit to adjusted operating profit		
Operating (loss)/profit	(152.7)	9.8
Adjustments for:		
Greyhound impairment charges	186.9	–
North America insurance provisions	141.3	94.8
Restructuring and reorganisation costs	58.2	24.1
Other intangible asset amortisation charges	4.9	11.8
Gain on disposal of properties	(9.3)	(9.3)
Fuel over hedge	7.4	–
Legacy pension settlement	4.9	–
First Student onerous contract provision	14.1	–
Increase in SWR performance bond	1.1	–
SWR onerous contract provision	–	145.9
Guaranteed minimum pensions charge	–	21.5
Loss on disposal/impairment charges	–	16.2
Total operating profit adjustments	409.5	305.0
Adjusted operating profit (note 5)	256.8	314.8

	Year to 31 March 2020 £m	Year to 31 March 2019 (restated) £m
Reconciliation of loss before tax to adjusted profit before tax and adjusted earnings		
Loss before tax	(299.6)	(97.9)
Operating profit adjustments (see table above)	409.5	305.0
Notional interest on TPE onerous contract provision	–	1.1
Adjusted profit before tax	109.9	208.2
Adjusted tax charge (see below)	(24.6)	(46.6)
Adjusted non-controlling interests ¹	(2.6)	(1.8)
Adjusted earnings	82.7	159.8

1 Statutory non-controlling interests of £2.5m comprise a charge in respect of the results for Avanti West Coast.

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Notes to the consolidated financial statements continued

4 Reconciliation to non-GAAP measures and performance continued

	Year to 31 March 2020 £m	Year to 31 March 2019 £m
Reconciliation of tax charge to adjusted tax charge		
Tax charge (note 9)	25.0	10.1
Tax effect of adjusting items (note 10)	39.6	36.5
Write down of previously recognised deferred tax assets (note 10)	(40.0)	–
Adjusted tax charge	24.6	46.6

The adjusting items are as follows:

Greyhound impairment charges

We have assessed the recoverable value of Greyhound under a Fair Value Less Costs To Sell approach, rather than the IAS 36 Value-in-Use method applied to our other trading Divisions and in the prior year. This approach considers the value that a potential Market Participant may ascribe to Greyhound, including recognition of significant unrealised property values in the Greyhound portfolio.

An impairment charge of £124.4m was recorded in the first half of the year on our Greyhound business largely as a result of a decline in immigration flows on the Southern US border and increased competition on some routes leading the Group to lower its short to medium term financial projections for this business.

In the second half we have recorded a further impairment charge of £62.5m to reflect poor business performance and an increase in the rate used to discount the future cash flows. As a result the total impairment charge for Greyhound for the year was £186.9m (2019: £nil).

Both impairments have been recognised in the results on a pro-rata basis against the assets of the division excluding property. Valuations in excess of book value suggest no impairment to the carrying value of property.

North America Insurance provisions

FirstGroup North American insurance arrangements involve retaining the working loss layers in a captive and insuring against the higher losses. Based on our actuaries' recommendation and a second additional, independent actuarial review, last year we increased our reserve to \$533m. During this financial year we have continued to see a deteriorating claims environment with legal judgements increasingly in favour of plaintiffs and punitive in certain regions. In this hardening motor claims environment, we have seen further significant new adverse settlements and developments on a number of aged insurance claims, and as a result our actuaries have increased their expectation of the reserve required on historical claims.

In addition, there has been a significant change in the market-based discount rate used in the actuarial calculation from 2.7% to 0.8%, creating the requirement to increase the provision. This is the first time that a movement in the discount rate has been treated as an adjusting item. Management consider that this treatment is appropriate due to the size of the financial impact. In recent years movements in discount rates have not been significant and the financial impact has been included in operating results.

In light of the continued change in claims environment we have increased the provision to provide more protection for historical claims, and the resulting self-insurance reserve level is above the midpoint of the actuarial range. These changes in accounting estimates combined with the discount rate movement has resulted in the Group recording an additional charge of \$175.2m or £141.3m (2019: \$125.0m or £94.8m); \$149.5m or £120.6m relating to losses from historical claims and \$25.7m or £20.7m relating to the change in the discount rate. It is expected that the majority of these claims will be settled over the next five years. Following these charges, the provision at 31 March 2020 stands at \$657m (2019: \$533m) compared with the actuarial range of \$551m to \$683m (2019: \$447m to \$572m).

The charge to the adjusted operating profit for the current year reflects this revised environment and the businesses continue to build the higher insurance costs into their bidding processes and hurdle rates for investment. The Group also actively evaluates alternatives to reduce insurance risk and ongoing expense, and has made improvements to claims management processes during the second half. It is anticipated that the Group would extinguish the relevant self-insurance provisions as part of the sale processes for the North American divisions.

The Group has a strong focus on safety and risk management. In First Student for example, the culture of safety we have built and continue to foster has resulted in four consecutive years of reduced injuries, down 34% over that period. We continue to maintain high standards and levels of investment in safety and this will continue to be a key area of focus for the Group.

4 Reconciliation to non-GAAP measures and performance continued

Restructuring and reorganisation costs

There was a charge of £58.2m (2019: £24.1m) for restructuring and reorganisation costs of which a large part relates to a Group-wide initiative to achieve systematic and structured cost savings across the businesses with the assistance of a market leading organisation in this field. Although this assistance has now ended, the programme has shown some benefits in the year just ended prior to the coronavirus pandemic and is anticipated to have further benefits in future years. Restructuring costs also include legal, professional and other costs associated with the proposed rationalisation of the Group. In addition, trading losses in the two Manchester depots to the date of disposal have been included.

The two Manchester depots were disposed of in the financial year for £16.2m. The net book value of the assets sold totalled £15.1m, resulting in a gain on sale of £1.1m which is included in the operating loss.

Other intangible asset amortisation charges

The amortisation charge for the year was £4.9m (2019: £11.8m) with the reduction due to a number of customer contract intangibles which have now been fully amortised with the remainder mainly relating to brand amortisation in Greyhound.

Gain on disposal of properties

First Student recognised a profit of £8.0m on sale of a property in the year. Greyhound recognised a profit of £1.3m on sales of property, principally relating to the withdrawal from Western Canada (2019: £9.3m).

Fuel over hedge

There was a charge of £7.4m (2019: £nil) relating to ineffectiveness on fuel hedges as a result of dramatically lower than forecast volumes due to the short-term reduction in services levels as a result of the coronavirus pandemic, particularly in First Bus and First Student.

Legacy pension settlement

This relates to a legacy pension liability from a business disposal which First Transit made in 2013.

First Student onerous contract provision

As a result of coronavirus, a number of school bus contracts which have either been lost or were up for bid at the balance sheet date, will incur unavoidable losses from the start of the new financial year until the end of the school year. The total charge for unavoidable losses on these contracts was £14.1m (2019: £nil).

Increase in SWR performance bond

The SWR Performance bond renewed in October 2019, six months before expiry. On renewal the cost of the bond took into account increases in RPI and increased from £15.0m to £16.1m.

	Year to 31 March 2020			Year to 31 March 2019 (restated)			
	Reported £m	Avanti franchise £m	Avanti adjusted £m	Reported £m	Effect of foreign exchange £m	Adjusted constant currency £m	% change
Reconciliation of underlying ¹ adjusted ²							
Revenue	7,754.6	(331.2)	7,423.4	7,126.9	107.7	7,234.6	+2.6%
Operating profit	256.8	(14.3)	242.5	314.8	6.5	321.3	(24.5)%

	Year to 31 March 2020 £m	Year to 31 March 2019 (restated)			
		Reported £m	Effect of foreign exchange £m	Constant Currency £m	% change
Reconciliation of constant currency ³					
Revenue	7,754.6	7,126.9	107.7	7,234.6	+7.2%
Adjusted operating profit	256.8	314.8	6.5	321.3	(20.1)%
Adjusted profit before tax	109.9	208.2	4.0	212.2	(48.2)%
Adjusted EPS	6.8p	13.3p	0.2p	13.5p	(49.6)%
Net debt	3,278.1	903.4	23.3	926.7	+253.7%

1 Growth excluding Avanti franchise (which became part of First Rail in December 2019 in constant currency).

2 'Adjusted' figures throughout this document are before self-insurance reserve charge, the SWR onerous contract provision, restructuring and reorganisation costs, other intangible asset amortisation charges and certain other items as set out in note 4 to the financial statements.

3 Changes 'in constant currency' throughout this document are based on retranslating 2019 foreign currency amounts at 2020 rates.

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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 2020 are as follows:

	First Student £m	First Transit £m	Greyhound ¹ £m	First Bus £m	First Rail £m	Group items ² £m	Total £m
Passenger revenue	–	–	532.7	758.2	2,584.1	–	3,875.0
Contract revenue	1,764.9	1,031.9	–	63.5	–	17.8	2,878.1
Charter/private hire	159.4	5.0	3.5	–	–	–	167.9
Rail franchise subsidy receipts	–	–	–	–	369.1	–	369.1
Other	16.1	134.5	67.0	14.2	232.7	–	464.5
Revenue	1,940.4	1,171.4	603.2	835.9	3,185.9	17.8	7,754.6
EBITDA³	387.6	62.9	35.3	113.2	538.6	(28.7)	1,108.9
Depreciation	(225.8)	(32.2)	(39.7)	(69.2)	(518.2)	(4.3)	(889.4)
Software amortisation	(3.0)	(2.4)	(8.1)	(0.9)	(1.0)	(0.7)	(16.1)
Capital grant amortisation	–	–	0.9	3.0	49.5	–	53.4
Segment results	158.8	28.3	(11.6)	46.1	68.9	(33.7)	256.8
Other intangible asset amortisation charges	(2.4)	–	(2.5)	–	–	–	(4.9)
Other adjustments (note 4)	(67.0)	(50.2)	(239.3)	(13.7)	(1.1)	(33.3)	(404.6)
Operating (loss)/profit⁴	89.4	(21.9)	(253.4)	32.4	67.8	(67.0)	(152.7)
Investment income							2.7
Finance costs							(149.6)
Loss before tax							(299.6)
Tax							(25.0)
Loss after tax							(324.6)
Other information	First Student £m	First Transit £m	Greyhound £m	First Bus £m	First Rail £m	Group items² £m	Total £m
Capital additions	297.7	21.2	59.5	58.9	123.1	2.7	563.1

Balance sheet⁵	Total assets £m	Total liabilities £m	Net assets/ (liabilities) £m
First Student	3,157.7	(608.5)	2,549.2
First Transit	663.2	(274.0)	389.2
Greyhound	261.4	(392.2)	(130.8)
First Bus	722.8	(343.3)	379.5
First Rail	2,513.6	(1,164.9)	1,348.7
	7,318.7	(2,782.9)	4,535.8
Group items ²	112.5	(147.7)	(35.2)
Net debt	869.3	(4,147.4)	(3,278.1)
Taxation	43.4	(89.2)	(45.8)
Total	8,343.9	(7,167.2)	1,176.7

1 Greyhound segment results contains £8.3m of property gains mainly from the disposal of properties.

2 Group items comprise Tram operations, central management and other items.

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

4 Although the segment results are used by management to measure performance, statutory operating profit by operating division is also disclosed for completeness.

5 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 2019 are as follows:

	First Student £m	First Transit £m	Greyhound ¹ £m	First Bus £m	First Rail £m	Group items ² £m	Total £m
Passenger revenue	–	–	571.3	796.3	2,300.0	–	3,667.6
Contract revenue	1,680.0	947.7	–	68.3	–	17.1	2,713.1
Charter/private hire	153.2	4.9	3.3	–	–	–	161.4
Rail franchise subsidy receipts	–	–	–	–	193.8	–	193.8
Other	12.7	123.2	70.5	11.5	172.9	0.2	391.0
Revenue	1,845.9	1,075.8	645.1	876.1	2,666.7	17.3	7,126.9
EBITDA³	352.3	71.4	38.6	119.7	127.4	(39.1)	670.3
Depreciation	(178.8)	(19.9)	(27.7)	(56.1)	(81.0)	(2.5)	(366.0)
Software amortisation ⁶	(2.3)	(2.2)	(8.8)	(0.7)	(3.5)	(0.6)	(18.1)
Capital grant amortisation	–	–	0.5	2.2	25.9	–	28.6
Segment results (note 6)	171.2	49.3	2.6	65.1	68.8	(42.2)	314.8
Other intangible asset amortisation charges	(8.6)	–	(3.2)	–	–	–	(11.8)
Other adjustments (note 4)	(47.3)	(26.2)	(33.2)	(37.7)	(145.9)	(2.9)	(293.2)
Operating profit/(loss)⁴	115.3	23.1	(33.8)	27.4	(77.1)	(45.1)	9.8
Investment income							2.7
Finance costs							(110.4)
Loss before tax							(97.9)
Tax							(10.1)
Loss after tax							(108.0)

Other information	First Student £m	First Transit £m	Greyhound £m	First Bus £m	First Rail £m	Group items ¹ £m	Total £m
Capital additions	257.8	27.3	28.0	17.9	112.0	1.0	444.0

Balance sheet⁵	Total assets £m	Total liabilities £m	Net assets/ (liabilities) £m
First Student	2,837.7	(461.5)	2,376.2
First Transit	596.8	(192.7)	404.1
Greyhound	337.1	(319.3)	17.8
First Bus	678.0	(354.6)	323.4
First Rail	625.4	(1,331.4)	(706.0)
Group items ¹	5,075.0	(2,659.5)	2,415.5
Net debt	136.7	(120.1)	16.6
Taxation	692.9	(1,596.3)	(903.4)
	44.0	(49.4)	(5.4)
Total	5,948.6	(4,425.3)	1,523.3

1 Greyhound segment results contain £8.4m of property gains on the disposal of properties.

2 Group Items comprise Tram operations, central management and other Items.

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

4 Although the segment results are used by management to measure performance, statutory operating (loss)/profit by operating division is also disclosed for completeness.

5 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.

6 Restated to charge £18.1m of software amortisation to divisional results in arriving at adjusted operating profit.

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5 Business segments and geographical information continued

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	2020 £m	2019 £m
United Kingdom	4,039.6	3,560.1
United States of America	3,380.7	3,226.4
Canada	334.3	340.4
	7,754.6	7,126.9

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	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
United Kingdom	2,884.1	741.1	184.7	130.9	4,328.4	2,113.1
United States of America	2,879.8	2,813.1	328.5	262.3	3,568.4	3,410.2
Canada	336.0	319.0	49.9	50.8	403.7	381.3
Unallocated corporate items	–	–	–	–	43.4	44.0
	6,099.9	3,873.2	563.1	444.0	8,343.9	5,948.6

6 Operating (loss)/profit

Operating (loss)/profit has been arrived at after charging/(crediting):

	2020 £m	2019 £m
Depreciation – owned assets (note 13)	393.0	366.0
– leased assets (note 13)	496.4	–
Operating lease charges (note 34)	421.4	971.9
Other intangible asset amortisation charges (note 12)	21.0	29.9
Capital grant amortisation	(53.4)	(28.6)
Cost of inventories recognised as an expense	539.4	575.0
Employee costs (note 7)	3,612.8	3,355.2
Gain on disposal of property, plant and equipment	(12.9)	(23.5)
Impairment charges	189.0	13.0
SWR onerous contract provision	–	145.9
TPE onerous contract provision	–	(0.5)
North America insurance provisions (note 4)	141.3	94.8
Auditor's remuneration (see below)	4.1	2.9
Rail franchise payments	317.2	293.3
Other operating costs ¹	1,838.0	1,321.8
	7,907.3	7,117.1

¹ Other operating costs includes £58.6m (2019: £63.6m) received or receivable from government bodies in respect of bus service operator grants and fuel duty rebates.

6 Operating profit/(loss) continued

Amounts payable to Deloitte LLP and its associates by the Company and its subsidiary undertakings in respect of audit and non-audit services are shown below:

	2020 £m	2019 £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 its associates for the audit of the Company's subsidiaries pursuant to legislation	3.7	2.5
Total audit fees	3.8	2.6
Audit-related assurance services	0.2	0.2
Other non-audit services	0.1	0.1
Total non-audit fees	0.3	0.3

Fees payable to Deloitte LLP and its 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 were safeguarded are set out in the Corporate Governance report on pages 105. No services were provided pursuant to contingent fee arrangements.

Non-audit services principally reflect the review of the half yearly financial information, non-statutory audits and agreed upon assurance procedures.

7 Employee costs

The average monthly number of employees (including Executive Directors) was:

	2020 Number	2019 Number
Operational	97,324	96,182
Administration	6,170	5,879
	103,494	102,061

The aggregate remuneration (including Executive Directors) comprised:

	2020 £m	2019 £m
Wages and salaries	3,162.7	2,935.6
Social security costs	350.8	323.1
Pension costs (note 36)	99.3	96.5
	3,612.8	3,355.2

Wages and salaries include a charge in respect of share-based payments of £10.3m (2019: £9.1m).

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 110 to 129. Directors' emoluments in aggregate were £2.9m (2019: £2.0m).

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8 Investment income and finance costs

	2020 £m	2019 £m
Investment income		
Bank interest receivable	(2.7)	(2.7)
Finance costs		
Bonds	56.5	59.9
Bank borrowings	19.7	14.0
Senior unsecured loan notes	9.2	8.9
Loan notes	1.2	1.1
Finance charges payable in respect of leases	2.4	2.7
Interest cost on right of use assets	40.2	–
Notional interest on long-term provisions	11.8	14.6
Notional interest on pensions	8.6	8.1
Finance costs before adjustments	149.6	109.3
Notional interest on TPE onerous contract provision	–	1.1
Total finance costs	149.6	110.4
Finance costs before adjustments	149.6	109.3
Investment income	(2.7)	(2.7)
Net finance cost before adjustments	146.9	106.6

Finance costs are stated after charging fee expenses of £0.7m (2019: £2.1m). There was no interest capitalised into qualifying assets in either the year ended 31 March 2020 or 31 March 2019.

9 Tax on loss on ordinary activities

	2020 £m	2019 £m
Current tax	(0.7)	8.1
Adjustments with respect to prior years	1.2	0.1
Total current tax charge	0.5	8.2
Origination and reversal of temporary differences	(14.1)	4.8
Adjustment in respect of prior years	1.4	(2.9)
Adjustments attributable to changes in tax rates and laws	(2.8)	–
Writing down of previously recognised deferred tax assets	40.0	–
Total deferred tax charge (note 25)	24.5	1.9
Total tax charge	25.0	10.1

The adjustments with respect to prior years includes the release of tax provisions.

UK corporation tax is calculated at 19% (2019: 19%) of the estimated assessable profit for the year. Tax for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

9 Tax on loss on ordinary activities continued

As the Group's parent company is domiciled and listed in the UK, the Group uses the UK corporation tax rate to reconcile its effective tax rate. The tax charge/(credit) for the year can be reconciled to the UK corporation tax rate as follows:

	2020 £m	2020 %	2019 £m	2019 %
Loss before tax	(299.6)	100.0	(97.9)	100.0
Tax at the UK corporation tax rate of 19% (2019: 19%)	(56.9)	19.0	(18.6)	19.0
Non deductible expenditure	5.2	(1.7)	1.7	(1.7)
Non taxable income	(1.5)	0.5	(1.4)	1.4
Tax rates outside of the UK	(5.2)	1.7	(0.5)	0.5
Unrecognised losses	3.1	(1.0)	8.1	(8.3)
Reduction in tax provisions for uncertain tax positions relating to prior years ¹	(1.0)	0.4	(2.5)	2.6
Other adjustments in relation to prior years	3.6	(1.2)	(0.3)	0.3
Unrecognised losses on SWR onerous contract provisions ²	0.8	(0.3)	24.3	(24.8)
Non-recognition of deferred tax asset on Greyhound impairment ²	39.7	(13.2)	–	–
Write down of previously recognised deferred tax assets ³	40.0	(13.4)	–	–
Reduced deferred tax rates on current year temporary differences	–	–	(0.7)	0.7
Adjustments attributable to changes in tax rates and laws	(2.8)	0.9	–	–
Tax charge and effective tax rate for the year	25.0	(8.3)	10.1	(10.3)

- 1 The Group recognises provisions for transactions and events in its open tax returns and its ongoing tax audits whose treatment for tax purposes is uncertain, in respect of multiple years. These uncertainties exist due to differing interpretations of local tax laws and decisions by tax authorities. When calculating the carrying amounts management make assumptions relating to the estimated tax which could be payable. The Group maintains engagement with tax authorities. We engage advisers to obtain opinion on tax legislation and we monitor proposed changes in legislation. No adjustment was required to these provisions on the adoption of IFRIC 23. The reduction in tax provisions for uncertain tax positions relating to prior years arises from the closure of earlier tax years due to the passage of time and from the closure of tax audits.
- 2 The impairment of Greyhound has resulted in deferred tax assets that have not been recognised and the SWR onerous contract provision in 2019 has resulted in losses carried forward that have not been recognised because it is not probable that there will be sufficient profits available in the future that can be offset by these additional losses.
- 3 Certain deferred tax assets which had previously been recognised have now been written down as it is now not probable that there will be sufficient future profits before these assets expire as a result of the impact of the coronavirus pandemic on the near-term forecasts and the North American sales processes; both arising in the current year.

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 including differing foreign exchange rates that apply to those profits. Changes to the prevailing tax rates and tax rules in any of the countries in which we operate may also impact future tax charges. At the balance sheet date a change to maintain the UK corporation tax rate at 19%, which was to reduce to 17% from 1 April 2020, had been substantively enacted.

In addition to the amount charged/(credited) to the income statement, deferred tax relating to actuarial losses on defined benefit pension schemes £24.6m (2019: £(7.1)m) and cash flow hedges £(5.9)m (2019: £4.1m) have been charged/(credited) to comprehensive income together with a further £(5.9)m (2018: £(4.7)m) taken directly to equity on cash flow hedges. These amount to a total charge/(credit) of £12.8m (2019: £(7.7)m) recognised in other comprehensive income and equity.

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10 Earnings per share (EPS)

EPS is calculated by dividing the loss attributable to equity shareholders of £327.2m (2019: loss £66.9m) by the weighted average number of ordinary shares of 1,210.9m (2019: 1,205.9m). 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.

	2020 Number m	2019 Number m
Weighted average number of shares used in basic calculation	1,210.9	1,205.9
Executive share options	14.8	8.1
Weighted average number of shares used in the diluted calculation	1,225.7	1,214.0

The adjusted EPS is intended to highlight the recurring operating results of the Group before amortisation charges and certain other adjustments as set out in note 4. A reconciliation is set out below:

	2020		2019	
	£m	EPS (pence)	£m	EPS (pence)
Basic loss/EPS	(327.2)	(27.0)	(66.9)	(5.5)
Amortisation charges (note 4)	4.9	0.4	11.8	1.0
Notional interest on TPE onerous contract provision	–	–	1.1	0.1
Other adjustments (note 4)	404.6	33.4	293.2	24.3
Non-controlling interest share of the SWR onerous contract provision	–	–	(42.9)	(3.6)
Tax effect of above adjustments	(39.6)	(3.3)	(36.5)	(3.0)
Write down of previously recognised deferred tax assets	40.0	3.3	–	–
Adjusted profit/EPS	82.7	6.8	159.8	13.3

	2020 pence	2019 pence
Diluted EPS		
Diluted EPS	(27.0)	(5.5)
Adjusted diluted EPS	6.7	13.2

11 Goodwill

	2020 £m	2019 £m
Cost		
At 1 April	1,862.7	1,761.4
Additions (note 30)	1.7	0.6
Foreign exchange movements	90.9	100.7
At 31 March	1,955.3	1,862.7
Accumulated impairment losses		
At 1 April	264.6	264.6
Foreign exchange movements	27.5	–
At 31 March	292.1	264.6
Carrying amount		
At 31 March	1,663.2	1,598.1

11 Goodwill continued

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:

Carrying amount	2020 £m	2019 £m
First Student	1,269.4	1,218.5
First Transit	309.8	296.1
First Bus	78.4	77.9
First Rail	5.6	5.6
	1,663.2	1,598.1

Impairment testing – First Student, First Transit, First Bus and First Rail

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 in First Student, First Transit, First Bus and First Rail has been tested for impairment on a value in use basis assessed on the discounted future cash flows expected to be generated by each relevant CGU.

The Group prepares cash flow forecasts derived from the Three Year Plan for 2020/21 to 2022/23 which takes account of both past performance and expectations for future developments. Cash flows beyond the plan period are extrapolated using estimated long term growth rates which do not exceed the long term average growth rate for the market. Cash flows are discounted using a pre-tax discount rate derived from a market participant's weighted average cost of capital, benchmarked to externally available data.

The long term average growth rate and pre-tax discount rate assumption applied to each CGU are as follows:

	Pre-tax discount rate applied to cash flow projections		Growth rate used to extrapolate cash flows beyond three-year period of management plan	
	2020	2019	2020	2019
First Student	8.7%	8.3%	2.8%	2.8%
First Transit	8.7%	8.3%	2.6%	2.8%
First Bus	8.0%	7.8%	2.3%	2.5%
First Rail	3.2%	7.8%	2.5%	2.5%

The discount rate applied in First Rail reflects the significant level of IFRS 16 Right of Use asset funding within the First Rail CGU, principally in respect of franchise rolling stock agreements.

Financial modelling adopting the assumptions outlined above confirms that the carrying amount of the CGUs does not exceed their recoverable amount in respect of the First Transit, First Student and First Bus divisions, and accordingly no impairment charge is required for these CGUs. The assessment of the value in use of First Rail is dependent on judgements surrounding EMA emergency measures as detailed in Note 2 under key sources of estimation uncertainty.

As detailed in note 2 under key sources of estimation uncertainty, the cash flow forecasts include significant judgement in deciding what assumption to make regarding how the impact of the coronavirus pandemic might evolve over the coming months in our First Student, First Transit and First Bus divisions. This is covered in further detail in the Going Concern Statement at pages 72 and 73 including the key assumptions and judgements made in the base case forecasts for each CGU.

The calculation of value in use for each CGU is most sensitive to the principal assumptions of discount rate, growth rates and margins achievable. The table below summarises the % change in the principal assumptions which would erode the headroom to zero:

	First Bus	First Student	First Transit
Discount Rate	12.0%	10.0%	13.8%
Terminal Growth Rate	-2.4%	1.4%	-3.5%
Terminal Margin	5.0%	7.8%	2.5%

Management have performed sensitivity analysis to assess the impact that a combination of reasonably possible changes in the principal assumptions would have on the recoverable amount in respect of the First Student, First Transit and First Bus divisions.

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11 Goodwill continued

The scenarios modelled include:

First Student: Reducing the long term growth rate to 2.0% (in line with independent GDP forecasts for North America), maintaining an 8.7% discount rate and adopting a terminal margin at 8.9% in perpetuity (2019/20 reported margin: 8.2%) would lead to an £8.4m impairment on a total carrying value of assets in use of £2,582.3m.

First Transit: Reducing the long term growth rate to 2.0% (in line with independent GDP forecasts for North America), maintaining an 8.7% discount rate and adopting a terminal margin at 2.8% in perpetuity (2019/20 reported margin: 2.4%) would lead to a £14.8m impairment on a total carrying value of assets in use of £423.3m.

First Bus: Reducing the long term growth rate to 1.7% (in line with independent GDP forecasts for the UK), maintaining an 8.0% discount rate and adopting a terminal margin at 5.6% in perpetuity (2019/20 reported margin: 5.5%) would lead to a £16.5m impairment on a total carrying value of assets in use of £577.6m.

Impairment testing – Hull Trains

The carrying value of non-current assets of the Group includes £32.5m in respect of our Hull Trains operation which does not benefit from the EMA mechanism that supports our Franchised TOC portfolio. The impact of coronavirus represents an indication of potential impairment on Hull Trains and we have separately tested this CGU for impairment at 31 March 2020.

The Group prepares cash flow forecasts for Hull Trains through to the end of the current open access agreement in December 2029. These forecasts take into account past performance and expectations for future developments. In order to test for impairment, the cash flows are discounted using a pre-tax discount rate derived from the IFRS 16 Right of Use leases agreements, which are the principle non-current assets of the business.

Cash flows have been projected forward beyond 2021/22 using an average annual revenue growth rate of 7.0%, an operating cost growth rate of 2.9% and is discounted using a 3.4% pre-tax discount rate assumption. On this basis the value in use of Hull Trains exceeds its carrying value by £18.4m

The calculation of value in use for Hull Trains is most sensitive to the principal revenue and operating cost growth rate assumptions. A reduction in the average annual revenue growth rate to 5.7% from 2021/22 or an increase in the annual operating cost growth rate to 4.6% would reduce the value in use headroom to nil.

Management have performed sensitivity analysis to assess the impact that a reasonably possible change to these principal assumptions would have on the recoverable amount. This analysis highlights that under a scenario where annual revenues are assumed to recover to pre-coronavirus levels of £30.9m in 2021/22 (2019/20: £30.9m) followed by average annual revenue and operating cost growth of 1.7% thereafter (in line with independent GDP forecasts for the UK) the CGU assets would be impaired by £20.6m

Impairment testing – Greyhound

At 31 March 2019 the carrying value of the Greyhound CGU was reviewed for impairment in accordance with IAS 36 Impairment of Assets. For the purposes of this impairment the carrying value was tested for impairment on the basis of discounted future cash flows arising. As at 31 March 2019 the calculated value in use of the Greyhound division exceeded its carrying amount of £295.4m by £85.2m. Following their review at 31 March 2019, the Directors concluded that there should be no impairment in Greyhound.

An impairment charge of £124.4m was recorded in the first half of the year on our Greyhound business largely as a result of a decline in immigration flows on the Southern US border and increased competition on some routes leading the Group to lower its short to medium term financial projections for this business. This impairment has been recognised in the results and apportioned on a pro-rata basis against the tangible and intangible assets of the division excluding owned property. Market valuations in excess of book value suggest no impairment to the carrying value of property. Note that the carrying value of Goodwill is zero, having been fully impaired in previous years.

For the year ended 31 March 2020 we have assessed the value of the Greyhound CGU on a fair value less costs to sell basis for the purposes of the impairment review. Fair value has also been assessed on a value in use basis, but recent activity in line with the intention to divest of the business indicated that using a fair value less costs to sell basis would be a more appropriate approach. The CGU valuation on a fair value less costs to sell basis has been assessed as a Level 3 fair value in the hierarchy as defined by IFRS 13, assessing the value of a stand-alone Greyhound business using a discounted cash flow approach. A risk adjusted view of the discounted future cash flows for the next three years, including £136.0m of net property disposal proceeds, was prepared to determine the potential value that a market participant may ascribe to the Greyhound CGU. A long-term revenue growth rate of 1.0% (March 2019: 2.8%) and terminal margin of 5.4% on a stand-alone CGU basis (2019/20: -2.0% reported margin) has been assumed. Cash flows are discounted using a pre-tax discount rate of 9.7% (March 2019: 8.3% on a value in use basis). The pre-tax discount rates applied are derived from a risk view of a potential market participant's weighted average cost of capital at 1.0% above the discount rate applied to our other North American CGUs.

This indicated an impairment of £62.5m in addition to the £124.4m impairment recorded in the first half of the year. The full year impairment is therefore £186.9m and has been applied on a pro-rata basis against the assets of the division excluding owned property. Market valuations in excess of book value suggest no impairment to the carrying value of property. The carrying value of the CGU after recognising the impairment is £188.7m (\$235.2m).

The Greyhound impairment is sensitive to a change in the assumptions used, most notably to changes in the discount rate, terminal growth rate or terminal margin. Applying a 15.7% discount rate, a -6.0% terminal growth rate or a 3.3% terminal margin would reduce the fair value less costs to sell to £110.7m (\$137.9m), being the carrying value of Greyhound owned property at 31 March 2020.

12 Other intangible assets

	Customer contracts £m	Greyhound brand and trade name £m	Software £m	Total £m
Cost				
At 1 April 2018	439.7	66.9	63.1	569.7
Acquisitions (note 30)	0.7	–	–	0.7
Additions	–	–	8.9	8.9
Transfers	–	–	1.9	1.9
Disposals	–	–	(1.6)	(1.6)
Foreign exchange movements	31.0	4.6	3.9	39.5
At 31 March 2019	471.4	71.5	76.2	619.1
Acquisitions (note 30)	11.1	–	–	11.1
Additions	–	–	9.2	9.2
Transfers	–	–	(0.2)	(0.2)
Foreign exchange movements	19.3	2.7	2.7	24.7
At 31 March 2020	501.8	74.2	87.9	663.9
Accumulated amortisation and impairment				
At 1 April 2018	421.7	37.8	20.4	479.9
Charge for year	8.6	3.2	18.1	29.9
Transfers	–	–	0.1	0.1
Foreign exchange movements	30.0	2.7	1.4	34.1
At 31 March 2019	460.3	43.7	40.0	544.0
Charge for year	2.4	2.5	16.1	21.0
Transfers	–	–	0.9	0.9
Impairment ¹	–	16.7	6.3	23.0
Foreign exchange movements	18.6	1.8	2.7	23.1
At 31 March 2020	481.3	64.7	66.0	612.0
Carrying amount				
At 31 March 2020	20.5	9.5	21.9	51.9
At 31 March 2019	11.1	27.8	36.2	75.1

1 The impairment charge of £23.0m (2019: £nil) relates to Greyhound as detailed in note 11.

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.

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13 Property, plant and equipment

Owned assets

	Land and buildings £m	Passenger carrying vehicle fleet £m	Other plant and equipment £m	Total £m
Cost				
At 1 April 2018	492.8	3,224.6	778.5	4,495.9
Acquisitions (note 30)	–	1.5	–	1.5
Additions in the year	13.8	283.2	136.0	433.0
Transfers	–	–	(1.9)	(1.9)
Disposals	(39.8)	(87.9)	(58.9)	(186.6)
Reclassified as held for sale	(22.4)	(202.1)	(8.8)	(233.3)
Foreign exchange movements	19.5	165.3	22.0	206.8
At 31 March 2019	463.9	3,384.6	866.9	4,715.4
Adjustments on transition to IFRS 16	–	(167.6)	–	(167.6)
At 1 April 2019	463.9	3,217.0	866.9	4,547.8
Acquisitions (note 30)	–	16.2	–	16.2
Additions in the year	10.1	294.0	149.1	453.2
Transfers from right of use assets/assets held for sale	34.9	22.3	–	57.2
Disposals	(15.6)	(90.4)	(161.4)	(267.4)
Reclassified as held for sale	(24.4)	(122.9)	7.1	(140.2)
Foreign exchange movements	11.3	103.9	14.3	129.5
At 31 March 2020	480.2	3,440.1	876.0	4,796.3
Accumulated depreciation and impairment				
At 1 April 2018	102.5	1,704.3	599.0	2,405.8
Charge for year	15.4	235.8	114.8	366.0
Transfers	–	–	(0.1)	(0.1)
Disposals	(12.8)	(82.5)	(57.8)	(153.1)
Impairment ¹	–	10.7	2.3	13.0
Reclassified as held for sale	(8.8)	(176.0)	(7.9)	(192.7)
Foreign exchange movements	4.7	87.7	18.2	110.6
At 31 March 2019	101.0	1,780.0	668.5	2,549.5
Adjustments on transition to IFRS 16	–	(93.2)	–	(93.2)
At 1 April 2019	101.0	1,686.8	668.5	2,456.3
Charge for year	15.0	234.7	143.3	393.0
Transfers from right of use assets/assets held for sale	8.4	7.7	–	16.1
Disposals	(4.9)	(93.4)	(160.5)	(258.8)
Impairment ²	–	108.4	8.4	116.8
Reclassified as held for sale	(2.8)	(121.5)	6.4	(117.9)
Foreign exchange movements	3.2	55.9	12.3	71.4
At 31 March 2020	119.9	1,878.6	678.4	2,676.9
Carrying amount				
At 31 March 2020	360.3	1,561.5	197.6	2,119.4
At 31 March 2019	362.9	1,604.6	198.4	2,165.9

1 The impairment charge of £13.0m in 2019 relates to assets associated with First Bus (£10.3m) and Greyhound (£2.7m).

2 The impairment charge of £116.8m in 2020 relates to assets associated with Greyhound, as detailed in note 11.

An amount of £0.8m (2019: £0.1m) in respect of assets under construction is included in the carrying amount of land and buildings, plant and equipment.

At 31 March 2020 the Group had entered into contractual capital commitments amounting to £193.2m (2019: £196.7m), principally representing buses ordered in the United Kingdom and North America and commitments under the Great Western Railway.

13 Property, plant and equipment continued

Right of use assets

	Rolling stock £m	Land and buildings £m	Passenger carrying vehicle fleet £m	Other plant and equipment £m	Total £m
Cost					
At 31 March 2019	–	–	–	–	–
Adjustment on transition to IFRS 16	829.4	217.2	257.1	4.3	1,308.0
At 1 April 2019	829.4	217.2	257.1	4.3	1,308.0
Additions	1,712.0	36.8 ¹	85.6	2.3	1,836.7
Transfer from owned assets	–	–	(22.3)	–	(22.3)
Foreign exchange movements	–	7.3	12.4	0.2	19.9
At 31 March 2020	2,541.4	261.3	332.8	6.8	3,142.3
Accumulated depreciation and impairment					
At 31 March 2019	–	–	–	–	–
Adjustment on transition to IFRS 16	208.6	–	93.2	–	301.8
At 1 April 2019	208.6	–	93.2	–	301.8
Transfer from onerous contract provision	44.2	–	–	–	44.2
Transfer from owned assets	–	–	(7.7)	–	(7.7)
Charge for period	399.5	59.4	35.0	2.5	496.4
Impairment	–	33.8	13.0	–	46.8
Foreign exchange movements	–	0.8	4.9	–	5.7
At 31 March 2020	652.3	94.0	138.4	2.5	887.2
Carrying amount					
At 31 March 2020	1,889.1	167.3	194.4	4.3	2,255.1
At 31 March 2019	–	–	–	–	–

1 Includes an impairment charge of £2.1m relating to First Student.

The impairment charge of £46.8m relates to Greyhound.

The discounted lease liability relating to the right of use assets included above are shown in note 21.

Owned assets and right of use assets

	Rolling stock £m	Land and buildings £m	Passenger carrying vehicle fleet £m	Other plant and equipment £m	Total £m
Carrying amount					
At 31 March 2020	1,889.1	527.6	1,755.9	201.9	4,374.5
At 31 March 2019	–	362.9	1,604.6	198.4	2,165.9

The maturity analysis of lease liabilities is presented in note 22.

Amounts recognised in income statement

	2020 £m	2019 £m
Depreciation expense on right of use assets	496.4	–
Interest expense on lease liabilities	42.6	2.7
Expense relating to short-term liabilities	31.7	–
Expense relating to leases of low value assets	3.4	–
	574.1	2.7

The total cash outflow for leases amounted to £646.6m (2019: £53.1m).

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14 Investments

	2020 £m	2019 £m
US deferred compensation plan assets	30.3	31.7
Other investments	2.6	2.4
	32.9	34.1

15 Subsidiaries and non-controlling interests

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 39.

The non-controlling interests of the Group are First West Coast Limited (70% ownership and voting rights), First MTR South Western Trains Limited (70% ownership and voting rights) and Leicester CityBus Limited (94% ownership and voting rights). The registered addresses are disclosed in note 39. The non-controlling interest share of loss for the financial year is a profit of £2.6m which all relates to First West Coast Limited.

UK local bus and coach operators	Rail companies	North American school bus operators
First Aberdeen Limited ¹	First Greater Western Limited	First Canada ULC ²
First Beeline Buses Limited	First TransPennine Express Limited	First Student, Inc ³
First Cymru Buses Limited	Hull Trains Company Limited	
First Eastern Counties Buses Limited	First West Coast Limited (70%)	
First Essex Buses Limited	First MTR South Western Trains Limited (70%)	Transit contracting and fleet maintenance
First Glasgow (No. 1) Limited ¹		First Transit, Inc ³
First Glasgow (No. 2) Limited ¹		First Vehicle Services, Inc ³
First Hampshire and Dorset Limited		
First Manchester Limited		
First Midland Red Buses Limited		
First Potteries Limited		
First Scotland East Limited ¹		North American coach operators
First West of England Limited		Americanos USA, LLC ³
First South West Limited		Greyhound Lines, Inc ³
First South Yorkshire Limited		Greyhound Canada Transportation ULC ²
First West Yorkshire Limited		
First York Limited		
Leicester CityBus Limited (94%)		
Midland Bluebird Limited ¹		

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

	2020 £m	2019 £m
Spare parts and consumables	63.3	60.2

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.

17 Trade and other receivables

	2020 £m	2019 £m
Amounts due within one year		
Trade receivables	652.2	617.9
Loss allowance	(4.9)	(3.6)
Trade receivables net	647.3	614.3
Other receivables	90.2	84.9
Amounts recoverable on contracts	91.2	43.3
Prepayments	90.3	164.0
Accrued income	251.6	234.9
	1,170.6	1,141.4

Loss allowance relates solely to credit loss allowances arising from contracts with customers.

Other receivables includes £54.2m (2019: £46.3m) of VAT receivables, £11.1m (2019: £15.5m) of receivables from government bodies for fuel duty rebates and £22.1m (2019: £21.5m) of insurance recoveries.

Amounts recoverable on contracts relates to amounts due from governmental and similar bodies for agreed contractual changes.

Accrued income principally comprises amounts relating to contracts with customers billed each month. Any amount previously recognised as accrued income is reclassified to trade receivables at the point at which is it invoiced to the customer.

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 £995.0m (2019: £894.1m), cash and cash equivalents of £869.3m (2019: £692.9m) and derivative financial instruments of £20.6m (2019: £36.0m).

The Group's maximum exposure to credit risk for all financial assets at the balance sheet date was £1,907.5m (2019: £1,623.0m). The exposure is spread over a large number of unconnected counterparties and the maximum single concentration with any one counterparty was £175.0m (2019: £120.0m) 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 £4.9m (2019: £3.6m).

Most trade receivables are with public or quasi public bodies, principally the DfT, Network Rail 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 £175.0m, and limits the maximum term to three months.

Impairment of trade receivables

The Group applies the IFRS 9 simplified approach to measuring expected credit losses for all trade receivables at each reporting date.

Provision matrices are used to measure expected losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns, such as geographical region, service type, and customer type and rating. The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Trade receivables are written-off when there is no reasonable expectation of recovery.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written-off are credited against the same line item.

The coronavirus situation has not given rise to an increase in the impairment of trade receivables. The majority of the Group's customers are governmental or similar bodies and hence there is not considered to be any issues with the recoverability of these receivables. Further there has not been any significant issues with the recoverability of non-governmental receivables.

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17 Trade and other receivables continued

The gross carrying amount of trade receivables, for which the loss allowance is measured at an amount equal to the lifetime expected credit losses under the simplified method, is analysed below:

	Carrying amount £m	Current £m	Days past due			
			Less than 30 days £m	30-90 days £m	90-180 days £m	Over 180 days £m
Expected credit loss rate	0.8%	0.1%	0.2%	0.6%	2.0%	12.5%
Gross carrying amount of trade receivables	652.2	437.3	130.8	32.1	24.8	27.2
Loss allowance	4.9	0.5	0.3	0.2	0.5	3.4

The table above is an aggregation of different provision matrices for each of the customer segment groupings, as outlined above. The expected loss rate for each aging bucket is the weighted average loss rate across these groupings. The 'Current' and 'Less than 30 days' buckets consist primarily of receivables from groupings for which, based on historical losses and both the current and forecast economic conditions, the expected credit losses are negligible, resulting in the application of a close to 0% loss rate.

Movement in the loss allowance for trade receivables	2020 £m	2019 £m
At 1 April	3.6	4.3
Amounts written off during the year	(0.6)	(4.4)
Amounts recovered during the year	–	(0.4)
Increase in allowance recognised in the income statement	1.8	3.8
Foreign exchange movements	0.1	0.3
At 31 March	4.9	3.6

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

18 Assets held for sale

	2020 £m	2019 £m
Assets held for sale	1.0	31.7

2019 included £26.2m of assets associated with the First Bus Queens Road depot disposal and the remaining Manchester depots.

The balance primarily relates to 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 2019	31.7
Net book value of additions	22.3
Net book value of disposals	(53.1)
Foreign exchange movements	0.1
At 31 March 2020	1.0

19 Trade and other payables

	2020 £m	2019 £m
Amounts falling due within one year		
Trade payables	336.9	278.7
Other payables	385.7	299.8
Accruals	838.5	710.3
Deferred income	152.3	167.8
Season ticket deferred income	86.3	90.7
	1,799.7	1,547.3

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. Deferred income and season ticket deferred income principally comprises amounts relating to contracts with customers.

Included within trade payables are amounts of £120.4m (2019: £56.5m) due to our principle supplier of school buses in US and Canada for deliveries principally within the prior 6 months. Under the terms of our supply arrangement, we may choose to finance these amounts when due under arrangements with the supplier and its parent company.

Other payables includes £188.4m (2019: £81.5m) for the purchase of property, plant and equipment where increased payment terms have been agreed with the supplier due to the nature of the payable. Other payables also includes deferred capital grants from government or other public bodies of £99.0m (2019: £116.4m).

The average credit period taken for trade purchases is 28 days (2019: 31 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

	2020 £m	2019 £m
Cash and cash equivalents	869.3	692.9

The fair value of cash and cash equivalents approximates to the carrying value. Cash and cash equivalents includes ring-fenced cash of £632.2m (2019: £525.6m). The most significant ring-fenced cash balances are held by the Group's First Rail subsidiaries. All cash in franchised Rail subsidiaries is considered ringfenced under the terms of the Emergency Measures Agreement. Ring-fenced cash balances of £20.3m (2019: £0.9m) are held outside the First Rail subsidiaries.

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21 Borrowings

	2020 £m	2019 £m
On demand or within 1 year		
Leases (note 22) ²	642.2	41.5
Loan notes (note 23)	8.7	–
Bond 8.75% (repayable 2021) ¹	30.4	30.4
Bond 5.25% (repayable 2022) ¹	5.8	5.8
Bond 6.875% (repayable 2024) ¹	7.2	7.2
Total current liabilities	694.3	84.9
Within 1-2 years		
Leases (note 22) ²	587.4	18.1
Loan notes (note 23)	0.7	9.4
Bond 8.75% (repayable 2021)	355.1	–
	943.2	27.5
Within 2-5 years		
Syndicated loan facilities	573.9	446.7
Leases (note 22) ²	1,030.3	0.2
Bond 8.75% (repayable 2021)	–	357.7
Bond 5.25% (repayable 2022)	322.6	322.1
Bond 6.875% (repayable 2024)	199.8	–
Senior unsecured loan notes	80.3	–
	2,206.9	1,126.7
Over 5 years		
Leases (note 22) ²	213.3	0.1
Senior unsecured loan notes	139.5	210.0
Bond 6.875% (repayable 2024)	–	199.8
	352.8	409.9
Total non-current liabilities at amortised cost	3,502.9	1,564.1

1 Relates to accrued interest.

2 The right of use assets relating to lease liabilities are shown in note 13. The maturity analysis of lease liabilities is presented in note 22.

Fair value of bonds and senior unsecured loan notes issued

	Par value £m	Interest payable	Month	2020 Fair value £m	2019 Fair value £m
Bond 8.75% (repayable 2021)	350.0	Annually	April	395.1	423.0
Bond 5.25% (repayable 2022)	325.0	Annually	November	336.4	355.0
Bond 6.875% (repayable 2024)	200.0	Annually	September	223.2	240.1
	\$m			£m	£m
Senior unsecured loan notes	275.0	Semi-annually	March & September	231.3	208.3

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.

There is no material difference between the fair value of the syndicated loan facilities and their carrying value due to their short-term and floating rate nature.

21 Borrowings continued

Effective interest rates

The effective interest rates at the balance sheet dates were as follows:

	2020	Maturity	2019	Maturity
Bank overdraft	LIBOR + 1%	–	LIBOR + 1%	–
Syndicated loan facilities	LIBOR + 0.5%	November 2023	LIBOR + 0.5%	November 2023
Bond 2021 ¹	8.87%	April 2021	8.87%	April 2021
Bond 2022	5.49%	November 2022	5.49%	November 2022
Bond 2024	6.95%	September 2024	6.95%	September 2024
Senior unsecured loan notes	4.37%	March 2025/ March 2028	4.37%	March 2025/ March 2028
HP contracts and finance leases	Average fixed rate of 2.7%	Various	Average fixed rate of 4.2%	Various
Loan notes	LIBOR + 1.0% up to total fixed rate of 11.0%	Various	LIBOR + 1.0% up to total fixed rate of 11.0%	Various

1 The 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	2020 £m	2019 £m
Pounds Sterling	3,279.1	1,078.1
US Dollar	823.5	516.4
Canadian Dollar	94.6	54.5
	4,197.2	1,649.0

Borrowing facilities

The Group had £348.6m (2019: £353.3m) of undrawn committed borrowing facilities as at year end. Total bank borrowing facilities at year end stood at £936.4m (2019: £816.1m) of which £920.0m (2019: £800.0m) was committed and £16.4m (2019: £16.1m) was uncommitted.

Capital management

We aim to maintain an investment grade credit rating and appropriate balance sheet liquidity headroom. The Group has a net debt to EBITDA ratio of 2.9 times as at March 2020 (2019: 1.3 times).

Liquidity within the Group has remained strong. At year end there was £585.7m (2019: £520.6m) 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 2020, was £3,278.1m (2019: £903.4m) as set out on page 35 of the Financial review.

22 Lease liabilities

The Group had the following lease liabilities at the balance sheet dates:

Maturity analysis:	2020 £m	2019 £m
Due in less than one year	702.4	42.7
Due in more than one year but not more than two years	632.8	19.0
Due in more than two years but not more than five years	1,089.3	0.3
Due in more than five years	240.6	0.1
	2,665.1	62.1
Less future financing charges	(191.9)	(2.2)
	2,473.2	59.9

The Group considers there to be no material difference between the fair values of the Pounds Sterling and Canadian Dollar finance leases and the carrying amount in the balance sheet. The US Dollar finance leases have a fair value of £90.1m (2019: £55.3m). The fair value is calculated by discounting future cash flows that will arise under the lease agreements.

The right of use assets related to the lease liabilities is presented in note 13.

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23 Loan notes

The Group had the following loan notes issued as at the balance sheet dates:

	2020 £m	2019 £m
Due in less than one year	8.7	–
Due in more than one year but not more than two years	0.7	9.4
	9.4	9.4

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 (2019: £8.7m) are supported by unsecured bank guarantees.

The loan notes have an average effective borrowing rate of 10.3% (2019: 10.2%) and an average remaining term of one year (2019: one year) assuming that the holders do not request redemption. The fair value of the loan notes has been determined to be £9.4m (2019: £10.4m). This has been calculated by discounting future cash flows that will arise under the loan notes.

24 Financial instruments

Derivative financial instruments

	2020 £m	2019 £m
Total derivatives		
Total non-current assets	15.8	20.5
Total current assets	4.8	15.5
Total assets	20.6	36.0
Total current liabilities	44.2	3.4
Total non-current liabilities	19.2	1.9
Total liabilities	63.4	5.3

Derivatives designated and effective as hedging instruments carried at fair value

Non-current assets

Coupon swaps (fair value hedge)	13.3	16.2
Fuel derivatives (cash flow hedge)	–	2.7
Currency forwards (cash flow hedge)	2.5	1.6
	15.8	20.5

Current assets

Fuel derivatives (cash flow hedge)	–	11.3
Currency forwards (cash flow hedge)	4.8	4.2
	4.8	15.5

Current liabilities

Fuel derivatives (cash flow hedge)	32.4	3.4
Currency forwards (net investment hedge)	4.4	–
	36.8	3.4

Non-current liabilities

Fuel derivatives (cash flow hedge)	19.2	1.9
	19.2	1.9

Derivatives designated classified as held for trading

Current liability

Fuel derivatives	7.4	–
	7.4	–

The Group enters into derivative transactions under International Swaps and Derivatives Association Master Agreements that allow for the related amounts to be set-off in certain circumstances. The amounts set out as Fuel Derivatives and Currency forwards in the table above represent the derivative financial assets and liabilities of the Group that may be subject to the above arrangements and are presented on a gross basis. Derivative liabilities of £63.4m (2019: £5.3m) were subject to netting arrangements.

Total cash flow hedges are a liability of £44.3m (2019: £14.5m asset). Total fair value hedges are an asset of £13.3m (2019: £16.2m).

During the year £29.3m was debited to the hedging reserve in respect of cash flow and net investment hedges (2019: £23.5m credited).

24 Financial instruments continued

The following losses were transferred from equity into inventory as basis adjustments during the year:

	2020 £m	2019 £m
Operating losses	28.3	23.1

Fair value of the Group's financial assets and financial liabilities (including cash, trade and other receivables, trade and other payables):

	Fair value				2020
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Carrying value Total £m
Financial assets and derivatives					
Cash and cash equivalents	869.3	–	–	869.3	869.3
Trade and other receivables	–	995.0	–	995.0	995.0
Derivative financial instruments	–	20.6	–	20.6	20.6
Financial liabilities and derivatives					
Borrowings ¹	573.9	3,672.9	–	4,246.8	4,197.2
Trade and other payables	–	1,700.7	–	1,700.7	1,700.7
Derivative financial instruments	–	63.4	–	63.4	63.4

1 Includes lease liabilities as set out in note 22.

	Fair value				2019
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Carrying value Total £m
Financial assets and derivatives					
Cash and cash equivalents	692.9	–	–	692.9	692.9
Trade and other receivables	–	894.1	–	894.1	894.1
Derivative financial instruments	–	36.0	–	36.0	36.0
Financial liabilities and derivatives					
Borrowings	446.7	1,294.9	–	1,741.6	1,649.0
Trade and other payables	–	1,430.9	–	1,430.9	1,430.9
Derivative financial instruments	–	5.3	–	5.3	5.3

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.

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24 Financial instruments continued

Financial assets/(liabilities)	Fair values at 31 March 2020 £m	Fair values at 31 March 2019 £m	Fair value hierarchy	Valuation technique(s) and key inputs
Derivative contracts				
1) Coupon swaps	13.3	16.2	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	(59.0)	8.7	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.
3) Currency forwards	2.9	5.8	Level 2	Discounted cash flow; future cash flows are estimated based on forward foreign exchange rates and contract rates and then discounted at a rate that reflects the credit risk of the various counterparties.

The following table illustrates the carrying value of all financial assets and liabilities held by the Group.

Classification of financial instruments	2020			Total £m
	Assets and liabilities at amortised costs £m	At fair value through profit and loss £m	Derivatives used for cash flow hedging £m	
Financial assets and derivatives				
Cash and cash equivalents	869.3	–	–	869.3
Trade and other receivables	995.0	–	–	995.0
Derivative financial instruments	–	13.3	7.3	20.6
	1,864.3	13.3	7.3	1,884.9
Financial liabilities and derivatives				
Interest bearing loans and borrowings ¹	4,197.2	–	–	4,197.2
Trade and other payables	1,700.7	–	–	1,700.7
Derivative financial instruments	–	7.4	56.0	63.4
	5,897.9	7.4	56.0	5,961.3

¹ Includes lease liabilities as set out in note 22.

Classification of financial instruments	2019			Total £m
	Assets and liabilities at amortised costs £m	At fair value through profit and loss £m	Derivatives used for cash flow hedging £m	
Financial assets and derivatives				
Cash and cash equivalents	692.9	–	–	692.9
Trade and other receivables	894.1	–	–	894.1
Derivative financial instruments	–	16.2	19.8	36.0
	1,587.0	16.2	19.8	1,623.0
Financial liabilities and derivatives				
Interest bearing loans and borrowings	1,649.0	–	–	1,649.0
Trade and other payables	1,430.9	–	–	1,430.9
Derivative financial instruments	–	–	5.3	5.3
	3,079.9	–	5.3	3,085.2

24 Financial instruments continued

	Cash flow hedges		Fair value hedges	Net investment hedges
	Commodity price risk	Foreign exchange price risk	Interest rate risk (2021 Bond)	Foreign exchange risk
As at 31 March 2020				
Nominal amount of hedging	2.3m bbls	\$120.9m	£350m	\$952.9m
< 1 year	1.3m bbls	\$75.0m	–	\$30.0m
1 – 2 years	0.8m bbls	\$36.9m	–	\$155.0m
2 – 5 years	0.2m bbls	\$9.0m	£350m	\$492.9m
> 5 years	–	–	–	\$275.0m
Average hedged rate	\$78.05/bbl	\$1.3442	3m LIBOR +2.21%	\$1.2933
Maturity	April 20 to March 23	April 20 to Dec 22	April 21	N/A
Carrying amount of hedging instruments				
Assets – Derivatives (£m)	–	7.3	13.3	–
Liabilities – Derivatives (£m)	(59.1)	–	–	(4.4)
Liabilities – Borrowings (£m)	–	–	–	(616.3)
Carrying amount of hedged item				
Liabilities – Borrowings (£m)	N/A	N/A	(348.7)	N/A
Accumulated amount of fair value hedging adjustments included in carrying amount of hedged item				
Liabilities – Borrowings (£m)	N/A	N/A	(6.4)	N/A
Changes in fair value of hedged item used for calculating hedge effectiveness	33.5	(8.6)	3.0	(13.1)
Changes in fair value of hedging instrument used in calculating hedge effectiveness	(33.5)	8.6	(3.0)	13.1
Changes in fair value of hedging instrument accumulated in cash flow hedge reserve	(43.0)	0.9	N/A	N/A

The following gains and losses on derivatives designated for hedge accounting have been charged through the consolidated income statement in the year:

	2020 £m	2019 £m
Losses on hedging instruments in fair value hedges	(3.0)	(9.6)
Gains on hedged item attributable to hedged risk fair value hedges	3.0	9.6
Hedge ineffectiveness in cash flow hedges	(7.4)	–
	(7.4)	–

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.

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 year end, the total amount of these facilities stood at £920.0m (2019: £800.0m), and committed headroom was £348.6m (2019: £353.3m), in addition to free cash balances of £237.1m (2019: £167.3m). The next material contractual expiry of revolver bank facilities is in November 2023. 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 2020 was 3.3 years (2019: 4.3 years).

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24 Financial instruments continued

The following tables detail the Group's expected maturity of payables for its borrowings, derivative financial instruments and trade and other payables. The amounts shown in these tables are prepared on an undiscounted cash flow basis and include future interest payments in the years in which they fall due for payment.

	2020				
	< 1 year £m	1-2 years £m	2-5 years £m	> 5 years £m	Total £m
Borrowings ¹	1,229.5	1,054.6	1,700.7	479.4	4,464.2
Fuel derivatives	39.8	17.3	1.9	–	59.0
Currency forwards	4.4	–	–	–	4.4
Trade and other payables	1,700.7	–	–	–	1,700.7
	2,974.4	1,071.9	1,702.6	479.4	6,228.3

1 Includes lease liabilities as set out in note 22.

	2019				
	< 1 year £m	1-2 years £m	2-5 years £m	> 5 years £m	Total £m
Borrowings	565.6	97.4	808.4	451.7	1,923.1
Fuel derivatives	3.4	1.1	0.8	–	5.3
Trade and other payables	1,430.9	–	–	–	1,430.9
	1,999.9	98.5	809.2	451.7	3,359.3

No derivative financial instruments had collateral requirements or were due on demand in any of the years. Derivative financial instruments are net settled.

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 is also exposed to currency risk relating to its UK fuel costs which are denominated in USD. This is hedged through entering a series of average rate forward contracts on a similar profile to our fuel hedging programme. The currency derivatives are utilised as cash flow hedging instruments in aggregate exposure hedges under IFRS 9, with the combination fuel purchase and associated fuel derivative representing the aggregate-exposure hedged item. Forward currency risk is designated in the cash flow hedges, however valuation movements arising from changes in currency-basis spreads are excluded from the relationships as costs of hedging. These costs of hedging are recorded in a separate component of equity until the hedged fuel inventory is recognised, at which time they are removed from that separate component of equity and included as part of the basis adjustment to the initial cost of the inventory. At both transition date and the balance sheet date the value to be recorded in a separate component of equity was immaterial, and as such no separate reserve has been shown within the primary financial statements. 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. US dollar debt balances are designated as a net investment hedge of US investments.

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 pounds 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 pounds Sterling strengthens against the US Dollar.

	2020 £m	2019 £m
Impact on profit after tax	0.3	0.5
Impact on hedging reserve	(1.0)	(1.0)

24 Financial instruments continued

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 2020, 94% (2019: 89%) of net debt was fixed. This fixed rate protection had an average duration of 4.2 years (2019: 5.0 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 £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.

	2020 £m	2019 £m
Impact on profit after tax	(0.6)	(1.4)

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 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	
	2020 %	2019 %	2020 £m	2019 £m	2020 £m	2019 £m
Fair value hedges						
Less than one year	–	–	–	–	–	–
One to two years	2.21	–	350	–	6.4	–
Two to five years	–	2.21	–	350	–	9.4

Fuel price risk

The Group purchases its fuel on a floating price basis in its First Bus, First Rail, US and Canadian bus operations and is therefore exposed to changes in diesel prices. The Group's policy objective is to maintain a significant degree of fixed price protection in the short term with lower levels of protection in 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. To achieve this the Group operates a progressive hedging policy. The policy hedge target levels differ by division but are monitored monthly and appropriate actions taken to maintain satisfactory hedge levels. Gasoil derivatives are used to hedge UK exposure and Nymex Heating Oil derivatives used to hedge North American exposure. Risk component hedging has been adopted under IFRS 9, meaning that the hedged price risk component of the purchased diesel matches that of the underlying derivative commodity. The hedged risk component is considered to be separately identifiable and reliably measurable. Gasoil and Nymex Heating Oil are considered to be risk components of the fuel grade ultimately purchased and there is a very strong correlation between the movements in the prices of the derivative underlying and the purchased fuel. Variances in pricing of the derivative commodities and the purchased fuel are primarily driven by further refinement of the fuel or the associated transportation costs which were excluded from the hedge relationship. Currently the Group is hedged 65% to March 2021 and 39% to March 2022 for UK diesel price risk exposure and 58% to March 2021 and 20% to March 2022 for US diesel price risk exposure.

The Group has entered into swaps for periods from April 2020 to March 2023 with the majority of these swaps relating to the year to 31 March 2020. 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 into inventory 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 diesel fuel had been \$10 per barrel higher at the year end:

	2020 £m	2019 £m
Impact on profit after tax	(2.7)	(3.8)
Impact on hedging reserve	11.9	18.2

Volume at risk for the year to 31 March 2021 is 2.1m (year to 31 March 2020: 2.9m) barrels for which 62% is hedged to diesel price risk.

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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 2018	174.4	(53.8)	85.9	(222.0)	(15.5)
Charge/(credit) to income statement	2.8	3.5	10.3	(14.7)	1.9
Credit to other comprehensive income	–	(7.1)	(0.6)	–	(7.7)
Foreign exchange and other movements	11.7	(2.6)	7.1	(19.0)	(2.8)
At 31 March 2019	188.9	(60.0)	102.7	(255.7)	(24.1)
Impact of adoption of IFRS 16	–	–	(4.7)	–	(4.7)
At 1 April 2019	188.9	(60.0)	98.0	(255.7)	(28.8)
Charge to income statement	10.5	6.4	0.5	7.1	24.5
Charge/(credit) to other comprehensive income and equity	–	24.6	(11.8)	–	12.8
Foreign exchange and other movements	7.9	(1.6)	5.0	(14.6)	(3.3)
At 31 March 2020	207.3	(30.6)	91.7	(263.2)	5.2

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2020 £m	2019 £m
Deferred tax assets	(33.6)	(40.6)
Deferred tax liabilities	38.8	16.5
	5.2	(24.1)

The deferred tax asset relates to the UK and is recognised as the Group forecasts sufficient taxable profits in future periods.

No deferred tax has been recognised on deductible temporary differences of £220.6m (2019: £46.7m) and tax losses of £478.7m (2019: £299.3m) and US tax credits of £10.7m have not been recognised. The earliest period in which some of the unrecognised assets will expire is year ended 31 March 2024.

No deferred tax asset has been recognised in respect of £2.9m (2019: £2.9m) of capital losses.

26 Provisions

	2020	2019
	£m	£m
Insurance claims	382.8	292.7
Legal and other	34.6	35.5
TPE onerous contract	–	76.6
SWR onerous contract	–	125.5
Pensions	1.6	1.7
Non-current liabilities	419.0	532.0

	Insurance claims £m	Legal and other £m	TPE onerous contract £m	SWR onerous contract £m	Pensions £m	Total £m
At 1 April 2019	471.8	71.6	106.9	145.9	1.7	797.9
Adjustment on transition to IFRS 16	–	–	(62.7)	(145.9)	–	(208.6)
Charged to the income statement	309.5	15.1	–	–	–	324.6
Impairment of right of use asset additions	–	–	(44.2)	–	–	(44.2)
Utilised in the year	(219.4)	(28.0)	–	–	(0.1)	(247.5)
Notional interest	11.8	–	–	–	–	11.8
Foreign exchange movements	15.2	1.9	–	–	–	17.1
At 31 March 2020	588.9	60.6	–	–	1.6	651.1
Current liabilities	206.1	26.0	–	–	–	232.1
Non-current liabilities	382.8	34.6	–	–	1.6	419.0
At 31 March 2020	588.9	60.6	–	–	1.6	651.1
Current liabilities	179.1	36.1	30.3	20.4	–	265.9
Non-current liabilities	292.7	35.5	76.6	125.5	1.7	532.0
At 31 March 2019	471.8	71.6	106.9	145.9	1.7	797.9

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 five years although certain liabilities in respect of lifetime obligations of £35.4m (2019: £27.9m) can extend for up to 30 years. The utilisation of £219.4m (2019: £210.0m) represents payments made against the current liability of the preceding year as well as the settlement of certain large aged claims.

The insurance claims provisions contains £22.1m (2019: £21.5m) 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 ten 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, other provisions in respect of contractual obligations under rail franchises and restructuring costs. The dilapidation provisions are expected to be settled at the end of the respective franchise.

In accordance with IAS 36 Impairment of assets the opening onerous contract provision for SWR of £145.9m was reclassified as an impairment on ROUA on adoption of IFRS 16. Similarly, £62.7m of the opening TPE onerous contract provision was reclassified as an opening impairment on ROUA with the remaining balance of £44.2m being reclassified as impairment on ROUA additions in the year.

The pensions provision relates to unfunded obligations that arose on the acquisition of certain First Bus companies. It is anticipated that this will be utilised over approximately five years.

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27 Called up share capital

	2020 £m	2019 £m
Allotted, called up and fully paid		
1,219.5m (2019: 1,213.9m) ordinary shares of 5p each	61.0	60.7

The Company has one class of ordinary shares which carries no right to fixed income.

During the year 5.6m shares were issued to satisfy principally SAYE exercises.

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:

	2020 £m	2019 £m
Balance at 1 April	17.5	16.5
Transfer to hedging reserve through consolidated statement of comprehensive income		
Fuel derivatives	(33.5)	7.5
Currency forwards	4.2	16.0
	(29.3)	23.5
Transfer from hedging reserve through consolidated statement of comprehensive income:		
Fuel derivatives	-	-
Currency forwards	-	-
	-	-
Tax on derivative hedging instrument movements through statement of comprehensive income	5.9	(4.1)
Transfer from hedging reserve to the balance sheet:		
Fuel derivatives	(20.8)	(20.8)
Currency forwards	(7.5)	(2.3)
	(28.3)	(23.1)
Tax on derivative hedging instrument movements to the balance sheet	5.9	4.7
Balance at 31 March	(28.3)	17.5

Own shares

The number of own shares held by the Group at the end of the year was 8,650,254 (2019: 5,310,593) FirstGroup plc ordinary shares of 5p each. Of these, 8,460,505 (2019: 5,120,844) were held by the FirstGroup plc Employee Benefit Trust, 32,520 (2019: 32,520) by the FirstGroup plc Qualifying Employee Share Ownership Trust and 157,229 (2019: 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 2020 was £4.4m (2019: £4.8m).

Other reserves	Capital redemption reserve £m	Capital reserve £m	Total other reserves £m
At 31 March 2020 and 31 March 2019	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 2020. 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

	2020 £m	2019 £m
At 1 April	544.3	383.5
Movement for the financial year	91.3	160.8
At 31 March	635.6	544.3

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. The movement in the year includes £(13.1)m (2019: £(10.7)m) in relation to movements on loans used to hedge the net investment in foreign subsidiaries. The cumulative movement on loans used to hedge the net investment in foreign subsidiaries is £(484.5)m (2019: £(471.4)m).

30 Acquisition of businesses and subsidiary undertakings

	2020 £m	2019 £m
Provisional fair value of net assets acquired:		
Property, plant and equipment	16.2	1.5
Other intangible assets	11.1	0.7
Other liabilities	(3.2)	(0.2)
	24.1	2.0
Goodwill	1.7	0.6
Satisfied by cash paid and payable	25.8	2.6

On 19 August 2019 the Group completed the acquisition of Longwood School District from East End Bus Lines, Inc. a provider of school and charter transportation services. On 31 October 2019 the Group completed the acquisition of Hopewell Services Inc, a Chicago based provider of specialist school transportation services, and on 20 December 2019 the Group completed the acquisition of Campeau Bus Lines Limited, an Ontario based provider of school and charter transportation services.

The total consideration of £25.8m represents the £21.8m cash paid during the year and £4.0m deferred to be paid in future periods.

The businesses acquired during the year contributed £7.9m (2019: £1.6m) to Group revenue and £2.4m profit (2019: £0.5m profit) to Group operating loss from date of acquisition to 31 March 2020.

If the acquisitions 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 £27.5m (2019: £2.2m) and the Group operating profit from this acquisition attributable to equity holders of the parent would have been £5.5m (2019: £0.7m).

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31 Net cash from operating activities

	2020 £m	2019 £m
Operating (loss)/profit	(152.7)	9.8
Adjustments for:		
Depreciation charges	889.4	366.0
Capital grant amortisation	(53.4)	(28.6)
Software amortisation charges	16.1	18.1
Other intangible asset amortisation charges	4.9	11.8
Impairment charges	189.0	13.0
Share-based payments	10.3	9.1
Profit on disposal of property, plant and equipment	(12.9)	(23.5)
Operating cash flows before working capital and pensions	890.7	375.7
Increase in inventories	(1.7)	(2.0)
Increase in receivables	(9.0)	(209.4)
Increase in payables due within one year	169.0	279.4
Increase in provisions due within one year	9.7	53.1
Increase in provisions due over one year	67.1	37.3
SWR onerous contract provision	–	145.9
TPE onerous contract provision	–	(0.5)
Defined benefit pension payments in excess of income statement charge	(38.8)	(24.3)
Cash generated by operations	1,087.0	655.2
Tax paid	(2.9)	(7.5)
Interest paid	(83.3)	(81.3)
Interest element of leases	(42.6)	(2.7)
Net cash from operating activities¹	958.2	563.7

¹ Net cash from operating activities is stated after an inflow of £13.2m (2019: inflow of £40.0m) in relation to financial derivative settlements.

32 Analysis of changes in net debt

	At 1 April 2019 £m	IFRS 16 transitional adjustment £m	Cash flow £m	Foreign exchange movements £m	Other £m	At 31 March 2020 £m
Components of financing activities:						
Bank loans	(446.7)	–	(122.9)	(4.1)	(0.2)	(573.9)
Bonds	(879.7)	–	–	–	2.2	(877.5)
Fair value of interest rate coupon swaps	9.4	–	–	–	(3.0)	6.4
Senior unsecured loan notes	(210.0)	–	–	(9.8)	–	(219.8)
Lease liabilities ¹	(59.9)	(1,168.2)	596.9	(12.8)	(1,829.2)	(2,473.2)
Other debt	(9.4)	–	–	–	–	(9.4)
Total components of financing activities	(1,596.3)	(1,168.2)	474.0	(26.7)	(1,830.2)	(4,147.4)
Cash	167.3	–	67.2	2.6	–	237.1
Ring-fenced cash	525.6	–	106.6	–	–	632.2
Cash and cash equivalents	692.9	–	173.8	2.6	–	869.3
Net debt	(903.4)	(1,168.2)	647.8	(24.1)	(1,830.2)	(3,278.1)

¹ Lease liabilities 'other' includes an increase of £820.9m on commencement of Avanti West Coast, £729.7m on commencement of GWR DA-3, £114.4m in relation to new rolling stock leases in TPE and £32.7m in Hull Trains. The remaining amount is due to modifications to existing leases and new PCV and property leases entered into in UK Bus and North American divisions

32 Analysis of changes in net debt continued

	At 1 April 2018 £m	Cash flow £m	Foreign exchange movements £m	Other £m	At 31 March 2019 £m
Components of financing activities:					
Bank loans	(197.0)	(255.0)	5.4	(0.1)	(446.7)
Bonds	(1,138.6)	250.0	–	8.9	(879.7)
Fair value of interest rate coupon swaps	19.0	–	–	(9.6)	9.4
Senior unsecured loan notes	(195.2)	–	(14.8)	–	(210.0)
Finance lease obligations	(104.7)	53.1	(7.0)	(1.3)	(59.9)
Other debt	(9.5)	0.1	–	–	(9.4)
Total components of financing activities	(1,626.0)	48.2	(16.4)	(2.1)	(1,596.3)
Cash	163.4	15.8	(11.9)	–	167.3
Ring-fenced cash	392.3	133.3	–	–	525.6
Cash and cash equivalents	555.7	149.1	(11.9)	–	692.9
Net debt	(1,070.3)	197.3	(28.3)	(2.1)	(903.4)

All values above exclude accrued interest and derivative valuations are presented as the clean values.

33 Contingent liabilities

To support subsidiary undertakings in their normal course of business, the FirstGroup plc and certain subsidiaries have indemnified certain banks and insurance companies who have issued performance bonds for £990.0m (2019: £806.5m) and letters of credit for £393.8m (2019: £369.2m). The performance bonds relate to the North American and First Bus businesses of £686.5m (2019: £570.8m) and the First Rail franchise operations of £303.5m (2019: £235.7m). The letters of credit relate substantially to insurance arrangements in the UK and North America. The parent company has committed further support facilities of up to £120.2m to First Rail Train Operating Companies of which £49.7m remains undrawn.

The Group 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 Company's North American subsidiaries participate in a number of multi-employer pension schemes in which their contributions are pooled with the contributions of other contributing employers. The funding of these schemes is therefore reliant on the ongoing participation by third parties.

In its normal course of business First Rail has ongoing contractual negotiations with government and other organisations. 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.

The Group's operations are required to comply with a wide range of regulations, including environmental and emissions regulations. Failure to comply with a particular regulation could result in a fine or penalty being imposed on that business, as well as potential ancillary claims rooted in non-compliance.

While the British Transport Police have now concluded their investigations into the Croydon tram incident in November 2016 without bringing any charges, the Office of Rail & Road (ORR) investigations are ongoing and it is uncertain when they will be concluded. The tram was operated by Tram Operations Limited (TOL), a subsidiary of the Group, under a contract with a TfL subsidiary. TOL provides the drivers and management to operate the tram services, whereas the infrastructure and trams are owned and maintained by a TfL subsidiary. Management continue to monitor developments. To date, no ORR proceedings have been commenced and, as such, it is not possible to assess whether any financial penalties or related costs could be incurred.

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33 Contingent liabilities continued

On 14 November 2017, Reading Borough Council served First Greater Western Limited (GWR), a subsidiary of the Group, and Network Rail Infrastructure Limited (a third party) with noise abatement notices in respect of the operations at the Reading railway depot. The serving of the notices has been appealed and the parties agreed in principle in June 2020 that the related court hearing should be put on hold until 31 May 2021 to allow the Council further time to monitor GWR's operations at the depot. The parties further agreed that in May 2021 the Council will be obliged to consider whether the 2017 abatement notices should be withdrawn and if the notices are not withdrawn the appeal proceedings will restart. The precise wording and mechanism to achieve this in principle agreement are currently being negotiated by the by the parties. If it is not possible to agree this, a further court hearing has been listed for 4 September 2020 at which the court will decide how the appeal proceedings should be taken forward. As a result it is not possible at this stage to quantify the implications for the GWR operations, if any, if the notices are not withdrawn by the Council or if GWR are not ultimately successful with respect to any appeal.

On 26 February 2019, collective proceedings were commenced in the UK Competition Appeal Tribunal (CAT) against First MTR South Western Trains Limited (SWR). Equivalent claims have been brought against Stagecoach South Western Trains Limited and London & South Eastern Railway. It is alleged that SWR and the other defendants breached their obligations under competition law, by (i) failing to make available, or (ii) restricting the practical availability of, boundary fares for TfL Travelcard holders wishing to travel outside TfL fare zones. The first substantive hearing, at which the CAT will decide whether or not to certify the collective proceedings, has been postponed pending the outcome of an appeal to the Supreme Court in a different collective proceedings and is therefore unlikely to occur until late 2020 at the earliest. It is not possible at this stage to determine accurately the likelihood or quantum of any damages and costs, or the timing of any such damages or costs, which may arise from the proceedings.

The Pensions Regulator (TPR) has been in discussion with the Railways Pension Scheme (the Scheme) regarding the long-term funding strategy of the Scheme. The Scheme is an industry-wide arrangement, and the Group, together with other owning groups, has been participating in a review of scheme funding led by the Rail Delivery Group. Whilst the review is still ongoing, changes to the current funding strategy are not expected in the short term. Whilst TPR believes that a higher level of funding is required in the long term, it is not possible at this stage to determine the impact to ongoing contribution requirements.

34 Operating lease arrangements

	2020 £m	2019 £m
Minimum lease payments made under operating leases recognised in the income statement for the year:		
Plant and machinery	4.0	24.5
Track and station access	384.9	269.6
Hire of rolling stock	25.1	591.1
Other assets	7.4	86.7
	421.4	971.9

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:

	2020 £m	2019 £m
Within one year	413.7	1,054.4
In the second to fifth years inclusive	1,067.5	1,690.7
After five years	3.3	207.7
	1,484.5	2,952.8

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 £1,472.5m (2019: £997.0m).

35 Share-based payments

Equity-settled share option plans

The Group recognised total expenses of £10.3m (2019: £9.1m) 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 2015 Options Number	SAYE Dec 2016 Options Number	SAYE Dec 2017 Options Number	SAYE Dec 2018 Options Number
Outstanding at the beginning of the year	3,300,863	5,748,843	8,601,817	9,843,523
Exercised during the year	(1,219,425)	(3,921,581)	(72,802)	(26,764)
Lapsed during the year	(2,081,438)	(463,891)	(934,528)	(1,241,993)
Outstanding at the end of the year	–	1,363,371	7,594,487	8,574,766
Exercisable at the end of the year	–	–	–	–
Weighted average exercise price (pence)	85.0	86.0	83.0	70.0
Weighted average share price at date of exercise (pence)	106.7	121.0	112.0	N/A

(b) Deferred bonus shares (DBS)

DBS awards vest over a three-year period following the financial year that they relate to and are typically settled by equity.

	DBS 2009 Options Number	DBS 2010 Options Number	DBS 2011 Options Number	DBS 2012 Options Number	DBS 2013 Options Number
Outstanding at the beginning of the year	24,219	49,904	76,894	93,845	280,686
Exercised during the year	(16,017)	(10,704)	(22,613)	(41,199)	(151,764)
Lapsed during the year	(8,202)	–	–	–	–
Outstanding at the end of the year	–	39,200	54,281	52,646	128,922
Exercisable at the end of the year	–	39,200	54,281	52,646	128,922
Weighted average exercise price (pence)	Nil	Nil	Nil	Nil	Nil
Weighted average share price at date of exercise (pence)	110.01	113.12	113.23	110.74	109.25

	DBS 2014 Options Number	DBS 2015 Options Number	DBS 2016 Options Number	DBS 2017 Options Number	DBS 2018 Options Number	DBS 2019 Options Number
Outstanding at the beginning of the year	223,865	636,064	1,325,701	1,772,505	804,693	–
Granted during the year	–	–	14,502	–	–	2,175,103
Forfeited during the year	–	–	(347,055)	(81,279)	(23,927)	–
Lapsed during the year	–	–	(5,356)	(118,786)	(36,203)	(33,727)
Exercised during the year	(67,459)	(334,852)	(462,243)	(111,528)	(57,898)	–
Outstanding at the end of the year	156,406	301,212	525,549	1,460,912	686,665	2,141,376
Exercisable at the end of the year	156,406	301,212	525,549	85,085	59,967	–
Weighted average exercise price (pence)	Nil	Nil	Nil	Nil	Nil	Nil
Weighted average share price at date of exercise (pence)	111.79	115.10	117.89	106.51	105.29	N/A

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35 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 2020 there were 5,439 (2019: 5,871) participants in the BAYE scheme who have cumulatively purchased 23,832,265 (2019: 21,698,965) shares with the Company contributing 7,755,927 (2019: 7,125,644) matching shares on a cumulative basis.

(d) Long-Term Incentive Plan (LTIP)

LTIP awards have TSR, ROCE and EPS targets and vest over a three-year period following the financial year that they relate to and, where an award exceeds a performance target, are typically settled by equity.

	LTIP 2016 Options Number	LTIP 2017 Options Number	LTIP 2018 Options Number	LTIP 2019 Options Number
Outstanding at the beginning of the year	2,397,356	5,696,696	7,850,345	–
Granted during the year	–	–	–	4,807,448
Forfeited during the year	(71,185)	–	–	–
Lapsed during the year	(2,097,696)	(452,813)	(580,158)	(547,019)
Exercised during the year	(180,660)	–	–	–
Outstanding at the end of the year	47,815	5,243,883	7,270,187	4,260,429
Exercisable at the end of the year	47,815	–	–	–
Weighted average share price at date of exercise (pence)	122.05	Nil	Nil	Nil

(e) Divisional Incentive Plan (DIP)

The DIP were one-off awards which vested over the period 16 December 2015 to 16 June 2019 and are typically settled by equity.

	DIP Options Number
Outstanding at the beginning of the year	592,504
Lapsed during the year	(379,379)
Exercised during the year	(140,829)
Outstanding at the end of the year	72,296
Exercisable at the end of the year	72,296
Weighted average exercise price (pence)	Nil
Weighted average share price at date of exercise (pence)	113.69

(f) Executive Share Plan (ESP)

ESP awards vest over a three-year period following the financial year that they relate to and are typically settled by equity.

	ESP 2015 Options Number	ESP 2016 Options Number	ESP 2017 Options Number	ESP 2018 Options Number	ESP 2019 Options Number
Outstanding at the beginning of the year	350,723	665,804	2,462,129	4,634,159	–
Granted during the year	–	–	42,323	–	10,135,057
Forfeited during the year	–	(75,914)	(400,147)	(577,176)	–
Lapsed during the year	–	(31,285)	(97,786)	(316,263)	(175,644)
Exercised during the year	(147,165)	(313,047)	(466,070)	(489,467)	–
Outstanding at the end of the year	203,558	245,558	1,540,449	3,251,253	9,959,413
Exercisable at the end of the year	203,558	245,558	360,770	403,253	–
Weighted average exercise price (pence)	Nil	Nil	Nil	Nil	Nil
Weighted average share price at date of exercise (pence)	119.1	114.7	112.6	109.7	N/A

35 Share-based payments continued

The fair values of the options granted during the last two years were measured using a Black-Scholes model except for the TSR element of the LTIPs which were measured using a Monte Carlo model. The inputs into the models were as follows:

	2020	2019
Weighted average share price at grant date (pence)		
– DBS	98.1	84.2
– SAYE December 2018	–	86.4
– LTIP	122.1	84.1
– ESP	111.3	84.2
Weighted average exercise price at grant date (pence)		
– DBS	–	–
– SAYE December 2018	–	70.0
– LTIP	–	–
– ESP	–	–
Expected volatility (%)		
– DBS	N/A	N/A
– SAYE December 2018	–	31
– LTIP	33	31
– ESP	N/A	N/A
Expected life (years)		
– DBS	3.0	3.0
– SAYE schemes	3.0	3.0
– LTIP	2.58	2.75
– ESP	3.0	3.0
Rate of interest (%)		
– DBS	N/A	N/A
– SAYE December 2018	–	0.75
– LTIP	–	–
– ESP	–	–
Expected dividend yield (%)		
– DBS	–	–
– SAYE December 2018	–	–
– LTIP	–	–
– ESP	–	–

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.

	2020 pence	2019 pence
Weighted average fair value of options at grant date		
– DBS	98.1	84.2
– SAYE December 2018	–	27.0
– LTIP	122.2	84.1
– ESP	111.3	84.2

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36 Retirement benefit schemes

Non-Rail

Defined contribution plans

Payments to defined contribution plans are charged as an expense as they fall due. There is no further obligation to pay contributions into a defined contribution plan once the contributions specified in the plan rules have been paid. The main defined contribution arrangements are summarised below. The total expense recognised in the consolidated income statement of £34.2m (2019: £38.0m) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

UK

The Group operates defined contribution plans for all Group and First Bus employees who have joined a pension arrangement since April 2013. They receive a company match to their contributions, which varies by salary and/or service.

North America

Employees in the US have been able to join a defined contribution arrangement for many years. They receive a company match which varies by employment status.

All new employees in Canada join a defined contribution arrangement. Union employees join the Eastern plan, whilst managers and supervisors join the Supervisory plan. They receive a company contribution dependent on their personal contribution and the plan they are in.

Defined benefit plans

The Group sponsors 11 funded defined benefit plans across its non-rail operations, covering approximately 50,000 former and current employees. All of the Group's defined benefit arrangements are closed to new entrants. The main defined benefit plans are summarised below. Overall, the duration of the company's obligations is approximately 19 years although the durations of the individual schemes tends to vary with the UK exposures tending to be of longer duration and the North American exposures tending to be of shorter durations.

UK

The majority of defined benefit provision is through trust-based schemes. The assets of the trust-based schemes are invested separately from those of the Group, and the schemes are run independently of the Group by trustee boards. There is a requirement for the trustee boards to have some member representation, with the other trustee directors being company appointed. The trustee boards are responsible for the investment policy in respect of the assets of the fund, although the employer must be consulted on this, and typically has some input into the investment decisions.

Triennial valuations assess the cost of future service and the funding position. The employer and Trustee are required to agree on assumptions for the valuations and to agree the contributions that result from these. Deficit recovery contributions may be required in addition to future service contributions. In agreeing contribution rates, reference must be made to the affordability of contributions by the employer.

Surplus after benefits have been paid/secured, can be repaid to the employer, in line with the rules of the schemes.

The First UK Bus Pension Scheme

This provides pension benefits to employees in First Bus. Historically it provided salary related benefits on a shared cost basis, but from April 2013, all new members have been enrolled in the defined contribution section. The scheme closed to defined benefit accrual on 5 April 2018.

A smaller Group scheme provides defined benefit pensions to Group employees. This scheme closed to defined benefit accrual on 5 April 2018.

The rules governing both these schemes grant the employer influence over the allocation of any residual surplus once the beneficiaries' rights have been secured. Accordingly, the net surplus/deficit is recognised in full for these schemes.

Local Government Pension Schemes

The Group participates in two Local Government Pension Schemes (LGPS), one in England and one in Scotland (following the merger of two funds during the year), which provide salary related benefits. These differ from trust-based schemes in that their benefits and governance are prescribed by specific legislation, and they are administered by local authorities. New members have not been admitted to the LGPS for several years, although benefit accrual continues for existing members.

Contribution rates are agreed for the three-year period until the next valuation. The balance sheet position in respect of the LGPS funds is restricted per the requirements of IFRIC14.

36 Retirement benefit schemes continued

North America

US

The Group operates two defined benefit arrangements in the US although benefit accrual ceased some years ago. The plans are valued annually, when the funding position and minimum and maximum contributions are established. Deficits are paid off as required by legislation.

Greyhound Canada

There are three plans, relating to Eastern, Western and Supervisory employees. All the plans are closed to new members, although benefit accrual continues for existing members.

The plans are valued annually, when the cost of future service and the funding position are identified. Future service costs are shared between the members and the Company, with deficit contributions being met entirely by the Company.

Valuations

At their last valuations, the defined benefit schemes had funding levels between 71% and 114% (2019: 71% and 114%). The market value of the assets at 31 March 2020 for all non-rail operation defined benefit schemes totalled £2,994m (2019: £3,161m) (see disclosure 36(e) for information about the impact of current market conditions on the valuations of some of these assets).

Rail

The Railways Pension Scheme (RPS)

The Group currently sponsors six sections of the RPS, relating to its franchising obligations for its TOCs, and a further section for Hull Trains, its Open Access operator.

The RPS is managed by the Railways Pension Trustee Company Limited, and is subject to regulation from the Pensions Regulator and relevant UK legislation.

The RPS is a shared cost arrangement. All costs, and any deficit or surplus, are shared 60% by the employer and 40% by the members.

For the TOC sections, under the franchising obligations, the employer's responsibility is to pay the contributions following triennial funding valuations whilst it operates the franchise. These contributions are subject to change on consideration of future statutory valuations. In addition, at the end of the franchise, any deficit or surplus in the scheme section passes to the subsequent franchisee with no compensating payments from or to the outgoing franchise holder.

The latest triennial statutory valuation of the various Rail Pension Scheme sections in which the Group is involved, carried out with an effective date of 31 December 2013 (31 December 2016 for Hull Trains) and the IAS 19 actuarial valuations are carried out for different purposes and may result in materially different outcomes. The IAS 19 valuation is set out in the disclosures below.

The accounting treatment for the time-based risk-sharing feature of the Group's participation in the RPS is not explicitly considered by IAS 19 'Employee Benefits (Revised)'. The contributions currently committed to being paid to each TOC section are lower than the share of the service cost (for current and future service) that would normally be calculated under IAS 19 (Revised) and the Group does not account for uncommitted contributions towards the sections' current or expected future deficits. Therefore, the Group does not need to reflect any deficit on its balance sheet. A franchise adjustment (asset) exists that exactly offsets any section deficit that would otherwise remain after reflecting the cost sharing with the members. This reflects the legal position that some of the existing deficit and some of the service costs in the current year will be funded in future years beyond the term of the current franchise and committed contributions. The franchise adjustment on the balance sheet date reflects the extent to which the Group is not currently committed to fund the deficit.

Movements in the franchise adjustment in a period arise from and are accounted for as follows:

Any service cost for the period for which the contribution schedule requires no contributions from the entity are reflected as a franchise adjustment to the service cost in the income statement, which is considered to be in line with paragraphs 92-94 of IAS 19 (Revised).

Under circumstances where contributions are renegotiated, such as following a statutory valuation, any adjustment necessary to reflect an obligation to fund past service cost will be recognised in the income statement.

At the previous year end, we noted that The Pensions Regulator (TPR) had been in discussion with the Railways Pension Scheme (the Scheme) regarding the assumptions used to determine the Scheme's funding requirements. Discussions are ongoing, and the possibility remains of changes to contributions that could impact all rail operators sponsoring this industry-wide scheme.

TPR and the Department for Transport (DfT) had requested that the Rail Delivery Group (RDG) co-ordinate the Train Operators' involvement in an industry-wide review of Scheme funding. The RDG, comprising participants from each of the large owning groups, has been seeking to develop a framework which meets TPR, DfT, RPS and RDG objectives. There has been continuing engagement between the key parties during the year, and efforts to develop a framework to take forward to a formal consultation are ongoing.

Management continues to believe that the protections contained within current franchise agreements will allow the Scheme to continue with its current funding strategy in the short-term. Nevertheless, TPR believes that a higher level of funding is required in the longer-term, and the Group has been engaged with the industry-wide project to consider the funding of the Scheme.

Management continues to believe that an approach that meets TPR's key objectives whilst maintaining stability and fairness, and retaining protection against unacceptable risk, for both operators and scheme members, is achievable.

Management do not believe that the current Emergency Measures Agreements have impacted the position in relation to the Group's funding obligations towards the Railways Pension Schemes, and no allowance has therefore been made within the disclosures for these Agreements.

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36 Retirement benefit schemes continued

Valuation assumptions

The valuation assumptions used for accounting purposes have been made uniform to Group standards, as appropriate, when each scheme is actuarially valued.

	First Bus 2020 %	First Rail 2020 %	North America 2020 %	First Bus 2019 %	First Rail 2019 %	North America 2019 %
Key assumptions used:						
Discount rate	2.40	2.40	3.30	2.40	2.40	3.50
Expected rate of salary increases	1.80	2.75	2.50	2.15	3.40	2.50
Inflation – CPI	1.80	1.80	2.00	2.15	2.15	2.00
Future pension increases	1.80	1.80	–	2.15	2.15	–
Post retirement mortality (life expectancy in years) ¹						
Current pensioners at 65:	19.1	21.1	20.1	19.1	22.1	19.2
Future pensioners at 65 aged 45 now:	20.6	22.3	21.3	20.6	22.3	20.4

¹ Life expectancies reflect the largest underlying plans in each region.

The Group reviews its longevity assumptions for each scheme following completion of funding valuations. The assumptions adopted reflect recent scheme experience and views on future longevity which may include industry specific adjustment where appropriate. The Group obtains specialist actuarial advice before agreeing longevity assumptions.

Sensitivity of retirement benefit obligations to changes in assumptions

The method used to derive the sensitivities is the same as that used to calculate the main disclosures. The exception is longevity where we have instead applied a general rule that one year's extra life expectancy adds c.4% to the defined benefit obligation (with resultant impacts on rail and irrecoverable surplus adjustments). This is consistent with the method applied to deriving last year's sensitivities.

A 0.1% movement in the discount rate would impact the 2019/20 balance sheet position by approximately £28m. A 0.1% movement in the inflation rate would impact the 2019/20 balance sheet position by approximately £23m. A one-year movement in life expectancy would impact the balance sheet position by approximately £63m.

Management considers that, while greater variation might also be reasonably possible, the figures provide a suitable indication of the potential impact of each 0.1% change in the financial assumptions and one-year change in the mortality assumption.

Management notes that, since the calculation date, the spread on corporate bond yields has reduced materially; in isolation this change would have had the impact of reducing the discount rate, and therefore increasing the present value of the disclosed defined benefit obligations. Market conditions have generally been volatile and it's currently unclear for how long these levels of volatility will persist. Sensitivity estimates are shown in this section to illustrate how the position would change in response to changes in key assumptions. The Company will also be monitoring the IAS19 position over the course of the year.

(a) Income statement

Amounts (charged)/credited to the income statement in respect of these defined benefit schemes are as follows:

	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
Year to 31 March 2020					
Current service cost	(10.7)	(8.7)	(19.4)	(114.1)	(133.5)
Impact of franchise adjustment on operating cost	–	–	–	68.3	68.3
Net interest cost	(2.9)	(5.7)	(8.6)	(19.4)	(28.0)
Impact of franchise adjustment on net interest cost	–	–	–	19.4	19.4
	(13.6)	(14.4)	(28.0)	(45.8)	(73.8)

	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
Year to 31 March 2019					
Current service cost	(12.5)	(9.1)	(21.6)	(87.7)	(109.3)
Impact of franchise adjustment on operating cost	–	–	–	50.8	50.8
Past service loss including curtailments and settlements	(22.3)	(2.0)	(24.3)	(1.8)	(26.1)
Net interest cost	(2.4)	(5.6)	(8.0)	(16.8)	(24.8)
Impact of franchise adjustment on net interest cost	–	–	–	16.7	16.7
	(37.2)	(16.7)	(53.9)	(38.8)	(92.7)

36 Retirement benefit schemes continued

Net interest comprises:

	2020 £m	2019 £m
Interest cost (table (c))	(136.0)	(137.6)
Interest income on assets (table (d))	112.5	117.1
Interest on irrecoverable surplus (table (h))	(4.5)	(4.3)
	(28.0)	(24.8)

During the year £22.4m (2019: £24.6m) of gross administrative expenses were incurred. Net administration expenses were £18.3m (2019: £20.1m).

(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:

	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
At 31 March 2020					
Fair value of schemes' assets	2,576.2	417.6	2,993.8	2,796.2	5,790.0
Present value of defined benefit obligations	(2,452.2)	(636.1)	(3,088.3)	(4,245.5)	(7,333.8)
(Deficit)/surplus before adjustments	124.0	(218.5)	(94.5)	(1,449.3)	(1,543.8)
Adjustment for irrecoverable surplus ¹ (table (h))	(216.6)	–	(216.6)	–	(216.6)
First Rail franchise adjustment (table (f)) (60%)	–	–	–	867.3	867.3
Adjustment for employee share of RPS deficits (40%)	–	–	–	579.7	579.7
Deficit in schemes	(92.6)	(218.5)	(311.1)	(2.3)	(313.4)
Liability recognised in the balance sheet	(92.6)	(218.5)	(311.1)	(2.3)	(313.4)
The amount is presented in the consolidated balance sheet as follows:					
Non-current assets	53.2	–	53.2	–	53.2
Non-current liabilities	(145.8)	(218.5)	(364.3)	(2.3)	(366.6)
	(92.6)	(218.5)	(311.1)	(2.3)	(313.4)

1 The irrecoverable surplus represents the amount of the surplus that the Group could not recover through reducing future Company contributions to LGPS.

	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
At 31 March 2019					
Fair value of schemes' assets	2,693.4	468.0	3,161.4	2,077.9	5,239.3
Present value of defined benefit obligations	(2,644.9)	(632.4)	(3,277.3)	(3,451.2)	(6,728.5)
(Deficit)/surplus before adjustments	48.5	(164.4)	(115.9)	(1,373.3)	(1,489.2)
Adjustment for irrecoverable surplus ¹ (table (h))	(188.2)	–	(188.2)	–	(188.2)
First Rail franchise adjustment (table (f)) (60%)	–	–	–	820.9	820.9
Adjustment for employee share of RPS deficits (40%)	–	–	–	549.3	549.3
Deficit in schemes	(139.7)	(164.4)	(304.1)	(3.1)	(307.2)
Liability recognised in the balance sheet	(139.7)	(164.4)	(304.1)	(3.1)	(307.2)
The amount is presented in the consolidated balance sheet as follows:					
Non-current assets	69.2	–	69.2	–	69.2
Non-current liabilities	(208.9)	(164.4)	(373.3)	(3.1)	(376.4)
	(139.7)	(164.4)	(304.1)	(3.1)	(307.2)

1 The irrecoverable surplus represents the amount of the surplus that the Group could not recover through reducing future Company contributions to LGPS.

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36 Retirement benefit schemes continued

(c) Defined benefit obligations (DBO)

Movements in the present value of DBO were as follows:

	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
At 1 April 2019	2,644.9	632.4	3,277.3	3,451.2	6,728.5
Business acquisition	–	–	–	1,153.5	1,153.5
Current service cost	10.7	8.7	19.4	114.1	133.5
Interest cost	62.1	21.6	83.7	52.3	136.0
Employee share of change in DBO (not attributable to franchise adjustment)	0.9	0.5	1.4	110.9	112.3
Experience loss on DBO	(8.9)	(13.3)	(22.2)	(11.9)	(34.1)
Loss on change of assumptions (demographic)	–	21.5	21.5	–	21.5
(Loss)/gain on change of assumptions (financial)	(129.9)	7.7	(122.2)	(535.9)	(658.1)
Benefit payments	(127.6)	(61.3)	(188.9)	(88.7)	(277.6)
Currency loss	–	18.3	18.3	–	18.3
At 31 March 2020	2,452.2	636.1	3,088.3	4,245.5	7,333.8

	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
At 1 April 2018	2,570.6	617.5	3,188.1	2,951.1	6,139.2
Current service cost	12.5	9.1	21.6	87.7	109.3
Past service costs and curtailments	22.3	(1.3)	21.0	1.8	22.8
Effect of settlements	–	(22.5)	(22.5)	–	(22.5)
Interest cost	68.0	22.7	90.7	46.9	137.6
Employee share of change in DBO (not attributable to franchise adjustment)	1.0	1.0	2.0	91.0	93.0
Experience loss/(gain) on DBO	(19.6)	21.5	1.9	10.7	12.6
Loss/(gain) on change of assumptions (demographic)	(33.7)	(0.7)	(34.4)	58.1	23.7
Loss on change of assumptions (financial)	147.2	12.2	159.4	286.9	446.3
Benefit payments	(123.4)	(64.2)	(187.6)	(83.0)	(270.6)
Currency loss	–	37.1	37.1	–	37.1
At 31 March 2019	2,644.9	632.4	3,277.3	3,451.2	6,728.5

36 Retirement benefit schemes continued

(d) Fair value of schemes' assets

Movements in the fair value of schemes' assets were as follows:

	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
At 1 April 2019	2,693.4	468.0	3,161.4	2,077.9	5,239.3
Business acquisition	–	–	–	785.0	785.0
Interest income on assets	63.7	15.9	79.6	32.9	112.5
Company contributions	37.8	20.6	58.4	45.6	104.0
Employee contributions	0.9	0.5	1.4	30.4	31.8
Employee share of interest on assets	–	–	–	21.9	21.9
Actuarial loss on assets	(92.1)	(37.1)	(129.2)	(108.6)	(237.8)
Benefit paid from schemes	(121.6)	(55.0)	(176.6)	(78.7)	(255.3)
Employer administration expenses	(5.9)	(6.3)	(12.2)	(10.2)	(22.4)
Currency gain	–	11.0	11.0	–	11.0
At 31 March 2020	2,576.2	417.6	2,993.8	2,796.2	5,790.0
	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
At 1 April 2018	2,622.6	454.8	3,077.4	1,866.0	4,943.4
Settlement impact on assets	–	(25.9)	(25.9)	–	(25.9)
Interest income on assets	69.9	17.1	87.0	30.1	117.1
Company contributions	43.1	27.2	70.3	38.6	108.9
Employee contributions	1.0	1.0	2.0	25.2	27.2
Employee share of interest on assets	–	–	–	20.1	20.1
Actuarial gain on assets	80.3	31.7	112.0	181.0	293.0
Benefit paid from schemes	(116.3)	(57.9)	(174.2)	(72.0)	(246.2)
Employer administration expenses	(7.2)	(6.3)	(13.5)	(11.1)	(24.6)
Currency gain	–	26.3	26.3	–	26.3
At 31 March 2019	2,693.4	468.0	3,161.4	2,077.9	5,239.3

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36 Retirement benefit schemes continued

(e) 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 2020	First Bus	North America	Total non-rail	First Rail	Total
Global equity	12%	29%	15%	0%	7%
Private equity	3%	0%	2%	9%	6%
Fixed income/liability driven	69%	48%	66%	0%	34%
Other return seeking assets	12%	1%	10%	89%	48%
Real estate	2%	20%	5%	1%	3%
Cash and cash equivalents	2%	2%	2%	1%	2%
	100%	100%	100%	100%	100%

The scheme achieves equity exposure both directly and synthetically. The table above includes the market value of instruments designed to give synthetic exposure to equities, within the "global equity" category. As at 31 March 2020 these had a market value of £10m. The table above includes a cash holding of £140m that is a component of an investment designed to provide exposure to the equity market. The portfolio will therefore benefit from equity market investment that is £140m higher than shown under equities above.

There have been significant movements in the financial markets over the month of March as a result of coronavirus, and this has had an impact on the value of pension scheme assets at 31 March 2020. Global equity markets have experienced reductions in value by up to 20% over the month, although a number of the Company's pension schemes have protections in place to reduce exposure to changes in equity markets. The current market volatility and fundamental economic uncertainties have also resulted in difficulties in valuing certain assets of the pension schemes that are not listed on public markets (e.g. property, infrastructure, private debt). Where the investment manager has provided a valuation of those private/illiquid assets as at 31 March 2020 we have relied on that valuation, as the managers will have a better understanding of the movements in that asset over the period than we would otherwise be able to estimate. However, there are a number of assets where valuations were not provided prior to the production of this report.

There are c.£47m of assets in the non-rail arrangements for which an updated valuation was not available as at 31 March 2020 and therefore stale asset prices were provided. Management have applied estimated adjustments to these assets which served to reduce their value by c.£2m prior to inclusion in the above figures.

The value of private/illiquid assets held by the Railways Pension Scheme and included in these statements include 31 December 2019 assets totalling c.£576m, which have been adjusted for cash inflows and outflows to 31 March 2020. Applying any form of adjustment to these assets is highly subjective and in any case would have a negligible impact on the deficit due to the shared cost and franchise adjustments applied. As such we have retained the valuations provided directly by the investment manager. As a result, the actual assessed value of those assets as at 31 March 2020 may differ from the figure reported in these accounts.

At 31 March 2019	First Bus	North America	Total non-rail	First Rail	Total
Global equity	21%	34%	23%	0%	14%
Private equity	2%	0%	2%	9%	5%
Fixed income/liability driven	61%	38%	58%	0%	35%
Other return seeking assets	11%	8%	10%	90%	41%
Real estate	2%	17%	4%	1%	3%
Cash and cash equivalents	3%	3%	3%	0%	2%
	100%	100%	100%	100%	100%

The table above includes a cash holding of £80m that is a component of an investment designed to provide exposure to the equity market. The portfolio will therefore benefit from equity market investment that is £80m higher than shown under equities above.

The assets held by the pension scheme are not used by the Group and as such are transferable without detriment to the Group's ongoing business operations.

(f) Accounting for First Rail pension arrangements

In relation to the defined benefit pension arrangements it sponsors for employees of the rail franchises it operates, FirstGroup's obligations differ from its obligations to its other pension schemes. These are shared cost arrangements. All the costs, and any deficit or surplus, are shared 60% by the employer and 40% by the members. In addition, at the end of the franchise, any deficit or surplus in the scheme passes to the subsequent franchisee with no compensating payments from or to the outgoing franchise holder. FirstGroup's obligations are thus limited to its contributions payable to the schemes during the period over which it operates the franchise.

The disclosed information has been set out to illustrate the effect of this on the costs borne by FirstGroup. In particular, 40% of the costs, gains or losses and any deficit are attributed to the members. In addition, the total surplus or deficit is adjusted by way of a 'franchise adjustment' which includes an assessment of the changes that will arise from contracted future contributions and which is the portion of the deficit or surplus projected to exist at the end of the franchise which the Group will not be required to fund or benefit from. The remaining balance sheet items and gains or losses relate to Hull Trains which is operated under direct access, rather than franchise.

36 Retirement benefit schemes continued

Reconciliation of Rail franchises:

	Assets £m	Liabilities £m	Adjustment for employee share of RPS deficits (40%) £m	Franchise adjustment £m	Net £m
At 1 April 2019	2,077.9	(3,451.2)	549.3	820.9	(3.1)
Business acquisition	785.0	(1,153.7)	147.4	221.3	–
Income statement					
Operating					
– Service cost	–	(180.0)	72.0	68.3	(39.7)
– Admin cost	–	(10.2)	4.1	–	(6.1)
Total operating	–	(190.2)	76.1	68.3	(45.8)
Financing	54.8	(87.2)	13.0	19.4	–
Total income statement	54.8	(277.4)	89.1	87.7	(45.8)
Amounts paid to/(from) scheme					
Employer contributions	45.6	–	(18.2)	18.0	45.4
Employee contributions	30.4	–	(12.3)	(18.0)	0.1
Benefit paid	(88.9)	88.9	–	–	–
Total	(12.9)	88.9	(30.5)	–	45.5
Expected closing position	2,904.8	(4,793.4)	755.4	1,129.9	(3.3)
Change in financial assumptions	–	536.0	(214.3)	(320.6)	1.1
Return on assets in excess of discount rate	(108.6)	–	43.4	65.1	(0.1)
Experience	–	11.9	(4.8)	(7.1)	–
Total	(108.6)	547.9	(175.7)	(262.6)	1.0
At 31 March 2020	2,796.2	(4,245.5)	579.7	867.3	(2.3)

	Assets £m	Liabilities £m	Adjustment for employee share of RPS deficits (40%) £m	Franchise adjustment £m	Net £m
At 1 April 2018	1,866.0	(2,951.1)	434.1	648.4	(2.6)
Income statement					
Operating					
– Service cost	–	(135.1)	54.0	49.0	(32.1)
– Admin cost	–	(11.0)	4.4	–	(6.6)
– Past service costs and curtailments	–	(3.1)	1.3	1.8	–
Total operating	–	(149.2)	59.7	50.8	(38.7)
Financing	50.1	(78.2)	11.2	16.8	(0.1)
Total income statement	50.1	(227.4)	70.9	67.6	(38.8)
Amounts paid to/(from) scheme					
Employer contributions	38.6	–	(15.4)	15.3	38.5
Employee contributions	25.2	–	(10.1)	(15.0)	0.1
Benefit paid	(83.0)	83.0	–	–	–
Total	(19.2)	83.0	(25.5)	0.3	38.6
Expected closing position	1,896.9	(3,095.5)	479.5	716.3	(2.8)
Change in financial assumptions	–	(286.9)	114.7	171.7	(0.5)
Change in demographic assumptions	–	(58.1)	23.3	34.8	–
Return on assets in excess of discount rate	181.0	–	(72.5)	(108.3)	0.2
Experience	–	(10.7)	4.3	6.4	–
Total	181.0	(355.7)	69.8	104.6	(0.3)
At 31 March 2019	2,077.9	(3,451.2)	549.3	820.9	(3.1)

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36 Retirement benefit schemes continued

(g) Consolidated statement of comprehensive income

Amounts presented in the consolidated statement of comprehensive income comprise:

	2020 £m	2019 £m
Actuarial loss on DBO	670.8	(482.6)
Actuarial (loss)/gain on assets	(237.7)	293.0
Actuarial (loss)/gain on franchise adjustments	(438.3)	174.4
Adjustment for irrecoverable surplus	(23.8)	(23.5)
Actuarial losses on defined benefit schemes	(29.0)	(38.7)

(h) Adjustment for First Bus irrecoverable surplus

Movements in the adjustment for the First Bus irrecoverable surplus were as follows:

	2020 £m	2019 £m
At 1 April	(188.2)	(160.4)
Interest on irrecoverable surplus	(4.5)	(4.3)
Actuarial loss on irrecoverable surplus	(23.9)	(23.5)
At 31 March	(216.6)	(188.2)

Cash contributions

The Group is finalising an updated schedule of contributions with the Trustees of the First UK Bus Scheme. In broad terms, it is expected that cash contributions will double from current levels and should serve to reduce the scheme's reliance on the Group over time. The IAS 19 deficit of the scheme at 31 March 2020 is £145.8m (2019: £208.4m). 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 2021 is £132m based on current contributions schedules in force (year to 31 March 2020: £104m).

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 most cases to future accrual. Consequently, the number of defined contribution members is increasing.

The First Bus Pension Scheme and the FirstGroup Pension Scheme both closed to future accrual on 5 April 2018. 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.

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 and, in relation to the Company's largest pension exposures, further work is being undertaken to ensure that the investment strategy remains the most appropriate.
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 that 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 Bus Pension Scheme and LGPS) has mitigated this risk to some extent.
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.

37 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 110 to 130.

	Year to 31 March 2020 £m	Year to 31 March 2019 £m
Basic salaries ¹	1.2	0.8
Performance-related bonuses	–	0.1
Benefits in kind	0.1	0.0
Fees	0.8	0.9
Share-based payment	0.8	0.2
	2.9	2.0

¹ Basic salaries include cash emoluments in lieu of retirement benefits and car allowances.

38 Post balance sheet events

The impact of the coronavirus pandemic on the Group's operations is discussed within the principal risks and uncertainties on pages 59 to 68 as well as set out within note 1 and the basis of preparation on page 141 which summarises the coronavirus scenario modelled by the Group.

Subsequent to the balance sheet date, the Group has monitored the business performance, internal actions, as well as other relevant external factors (such as changes in any of the government restrictions and policy guidance). No adjustments to the key estimates and judgements that impact the balance sheet as at 31 March 2020 have been identified.

The following non-adjusting events have occurred since 31 March 2020:

- Use of the UK government's Coronavirus Job Retention Scheme for furloughed staff as required under the Covid-19 Bus Service Support Grant in England and support in Scotland and Wales
- Use of the CARES Act support for our North American businesses for the Employee Retention Credits. The CARES Act was signed pre year end and the appropriate amounts receivable were recognised in 2019/20 and subsequently contractualised in 2020/21
- Contracted with six states with 5311 (f) subsidy funding in Greyhound with appropriate recognition of revenue taken in 2019/20. We continue to progress agreements with other states we operate in
- Signed a DA3 award for GWR for a further three years plus one at the DfT's option
- The Group received confirmation from the Bank of England that it was an eligible issuer under the UK government's Covid Corporate Financing Facility (CCFF) and allocated an issuer limit of £300m and issued £300m in commercial paper on 27 April
- Continued to progress contractual support arrangements in First Student and First Transit
- Agreed CBSSG Restart in England and agreed fiscal support in Scotland for increased bus service levels

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39 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 2020 is disclosed below:

Subsidiaries – wholly owned and incorporated in the United Kingdom

A E & F R Brewer Limited, Heol Gwyrosydd, Penlan, Swansea, SA5 7BN

Airport Buses Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Airport Coaches Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Bolton Coachways & Travel Limited, Wallshaw Street, Oldham, OL1 3TR

Bristol Bus Station Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Butler Woodhouse Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Cawlett Limited, Enterprise House, Easton Road, Bristol, BS5 0DZ

CCB Holdings Limited (03128545)⁴, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

CCB TV Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

CentreWest Limited (02844270)⁴, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

CentreWest London Buses Limited⁴, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

CentreWest ESOP Trustee (UK) Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Chester City Transport Limited⁴, Bus Depot, Wallshaw Street, Oldham, OL1 3TR

Crosville Limited, Bus Depot, Wallshaw Street, Oldham, OL1 3TR

Don Valley Buses Limited, Olive Grove, Sheffield, South Yorkshire, S2 3GA

East Coast Trains Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

East West Rail Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

Eastern Scottish Omnibuses Limited, Carmuir's House, 300 Stirling Road, Larbert, Stirlingshire, FK5 3NJ

ECOC (Holdings) Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

FB Canada Holdings Limited (SC356482)⁴, 395 King Street, Aberdeen, AB24 5RP

FG Canada Investments Limited (SC356484)⁴, 395 King Street, Aberdeen, AB24 5RP

FG Properties Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

FGI Canada Holdings Limited (SC356485)⁴, 395 King Street, Aberdeen, AB24 5RP

First Aberdeen Limited, 395 King Street, Aberdeen, AB24 5RP

First Ashton Limited, Wallshaw Street, Oldham, OL1 3TR

First Beeline Buses Limited, Bus Depot, Empress Road, Southampton, Hampshire, SO14 0JW

First Bus Central Services Limited⁴, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

First Caledonian Sleeper Limited, 395 King Street, Aberdeen, AB24 5RP

First Capital Connect Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Capital East Limited⁴, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

First Capital North Limited⁴, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

First CentreWest Buses Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

First City Line Limited⁴, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

First Coaches Limited, Enterprise House, Easton Road, Bristol, BS5 0DZ

First Customer Contact Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Cymru Buses Limited, Heol Gwyrosydd, Penlan, Swansea, West Glamorgan, SA5 7BN

First Dublin Metro Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First East Anglia Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Eastern Counties Buses Limited, Davey House, 7b Castle Meadow, Norwich, NR1 3DE

First Essex Buses Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

First European Holdings Limited (05113697)^{1&4}, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

First Games Transport Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

First Glasgow Limited¹, 100 Cathcart Road, Glasgow, G42 7BH

First Glasgow (No.1) Limited, 100 Cathcart Road, Glasgow, G42 7BH

First Glasgow (No.2) Limited, 100 Cathcart Road, Glasgow, G42 7BH

First Great Western Link Limited³, 15 Canada Square, Canary Wharf, London, E14 5GL

First Great Western Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Great Western Trains Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Greater Western Limited, Milford House 1 Milford Street, Swindon, Wiltshire, SN1 1HL

First Hampshire & Dorset Limited, Bus Depot, Empress Road, Southampton, Hampshire, SO14 0JW

First Information Services Limited (SC288178)^{1&4}, 395 King Street, Aberdeen, AB24 5RP

First International (Holdings) Limited (08743641)^{1&4}, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

First International No.1 Limited (08746564)⁴, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

First Manchester Limited, Wallshaw Street, Oldham, OL1 3TR

First Merging Pension Schemes Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

First Metro Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Midland Red Buses Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

First North West Limited (02862042)⁴, Wallshaw Street, Oldham, OL1 3TR

First Northern Ireland Limited, 21 Arthur Street, Belfast, BT1 4GA

First Pioneer Bus Limited, Wallshaw Street, Oldham, OL1 3TR

First Potteries Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

First Provincial Buses Limited, Empress Road, Southampton, Hampshire, SO14 0JW

First Rail Holdings Limited¹, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Rail Support Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

First Scotland East Limited, Carmuir's House, 300 Stirling Road, Larbert, Stirlingshire, FK5 3NJ

39 Information about related undertakings continued

First ScotRail Limited, 395 King Street, Aberdeen, AB24 5RP

First ScotRail Railways Limited, 395 King Street, Aberdeen, AB24 5RP

First Shared Services Limited, 395 King Street, Aberdeen, AB24 5RP

First South West Limited, Union Street, Camborne, Cornwall, TR14 8HF

First South Yorkshire Limited, Olive Grove, Sheffield, South Yorkshire, S2 3GA

First Student UK Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

First Thameslink Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Trains Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First TransPennine Express Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Travel Solutions Limited, Unit 20 Time Technology Park, Blackburn Road, Burnley, BB12 7TG

First Wessex National Limited, Enterprise House, Easton Road, Bristol, BS5 0DZ

First West of England Limited, Enterprise House, Easton Road, Bristol, BS5 0DZ

First West Coast Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First West Yorkshire Limited, Hunslet Park Depot, Donisthorpe Street, Leeds, Yorkshire, LS10 1PL

First York Limited, Hunslet Park Depot, Donisthorpe Street, Leeds, Yorkshire, LS10 1PL

FirstBus (North) Limited¹, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

FirstBus (South) Limited¹, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

FirstBus Group Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

FirstBus Investments Limited (02205797)^{1&4}, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

FirstGroup American Investments (SC330038)⁴, 395 King Street, Aberdeen, AB24 5RP

FirstGroup Canadian Finance Limited (03486937)^{1&4}, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

FirstGroup Construction Limited (07124679)⁴, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

FirstGroup Holdings Limited¹, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

FirstGroup (QUEST) Trustees Limited¹, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

FirstGroup US Finance Limited (SC330060)^{1&4}, 395 King Street, Aberdeen, AB24 5RP

FirstGroup US Holdings (SC330054)⁴, 395 King Street, Aberdeen, AB24 5RP

Fleetrisk Management Limited, Olive Grove, Sheffield, South Yorkshire, S2 3GA

G.E. Mair Hire Services Limited, 395 King Street, Aberdeen, AB24 5RP

G.A.G. Limited¹, Enterprise House, Easton Road, Bristol, BS5 0DZ

GB Railways Group Limited¹, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

GMBN Employees' Share Scheme Trustee Limited, Bus Depot, Wallshaw Street, Oldham, Lancashire, OL1 3TR

Great Western Holdings Limited¹, Milford House, 1 Milford Street, Swindon, SN1 1HL

Great Western Trains Company Limited³, 15 Canada Square, Canary Wharf, London, E14 5GL

Great Western Trustees Limited, Milford House, 1 Milford Street, Swindon, SN1 1HL

Grenville Motors Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Greyhound Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

GRT Bus Group Limited (SC114203)^{1&4}, 395 King Street, Aberdeen, AB24 5RP

Gurna Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Halesworth Transit Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Hampshire Books Limited, Empress Road, Southampton, Hampshire, SO14 0JW

Hull Trains Company Limited, 4th Floor Europa House, 184 Ferensway, Hull, HU1 3UT

Indexbegin Limited, Hunslet Park Depot, Donisthorpe Street, Leeds, Yorkshire, LS10 1PL

KCB Limited, 100 Cathcart Road, Glasgow, G42 7BH

Kelvin Central Buses Limited, 100 Cathcart Road, Glasgow, G42 7BH

Kelvin Scottish Omnibuses Limited, 100 Cathcart Road, Glasgow, G42 7BH

Kirkpatrick of Deeside Limited, 395 King Street, Aberdeen, AB24 5RP

Lynton Bus and Coach Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Lynton Company Services Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Mainline ESOP Trustees (No 1) Limited, Olive Grove, Sheffield, South Yorkshire, S2 3GA

Mainline ESOP Trustees (No 2) Limited, Olive Grove, Sheffield, South Yorkshire, S2 3GA

Mainline Partnership Limited¹, Olive Grove, Sheffield, South Yorkshire, S2 3GA

Mainline Employees' Shareholding Trustees Limited, Olive Grove, Sheffield, South Yorkshire, S2 3GA

Midland Bluebird Limited, Carmuir House, 300 Stirling Road Larbert, Stirlingshire, FK5 3NJ

Midland Travellers Limited, Hunslet Park Depot, Donisthorpe Street, Leeds, Yorkshire, LS10 1PL

North Devon Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Northampton Transport Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Quickstep Travel Limited (02643677), Hunslet Park Depot, Donisthorpe Street, Leeds, Yorkshire, LS10 1PL

Reiver Ventures Properties Limited, Carmuir House, 300 Stirling Road, Larbert, Stirlingshire, FK5 3NJ

Reiver Ventures Limited, Carmuir House, 300 Stirling Road, Larbert, Stirlingshire, FK5 3NJ

Reynard Buses Limited, Hunslet Park Depot, Donisthorpe Street, Leeds, Yorkshire, LS10 1PL

Rider Holdings Limited (02272577)⁴, Hunslet Park Depot, Donisthorpe Street, Leeds, Yorkshire, LS10 1PL

Rider Travel Limited, Hunslet Park Depot, Donisthorpe Street, Leeds, Yorkshire, LS10 1PL

S Turner & Sons Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Scott's Hospitality Limited (02468610)⁴, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Sheafline (S.U.T.) Limited, Olive Grove, Sheffield, South Yorkshire, S2 3GA

Sheffield & District Traction Company Limited, Olive Grove, Sheffield, South Yorkshire, S2 3GA

Sheffield United Transport Limited, Olive Grove, Sheffield, South Yorkshire, S2 3GA

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39 Information about related undertakings continued

Skillplace Training Limited, Heol Gwyrosydd, Penlan, Swansea, West Glamorgan, SA5 7BN

Smiths of Portland Limited, Enterprise House, Easton Road, Bristol, BS5 0DZ

SMT Omnibuses Limited, Carmuir House, 300 Stirling Road, Larbert, Stirlingshire, FK5 3NJ

Southampton CityBus Limited, Empress Road, Southampton, Hampshire, SO14 0JW

Southampton City Transport Company Limited, Empress Road, Southampton, Hampshire, SO14 0JW

Sovereign Quay Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Strathclyde Buses Limited, 100 Cathcart Road, Glasgow, G42 7BH

Streamline Buses (Bath) Limited¹, Enterprise House, Easton Road, Bristol, BS5 0DZ

Taylor's Coaches Limited, Enterprise House, Easton Road, Bristol, BS5 0DZ

The FirstGroup Pension Scheme Trustee Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

The First UK Bus Pension Scheme Trustee Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Totaljourney Limited¹, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

Tram Operations Limited, Tramlink Depot, Coomber Way, Croydon, CR0 4TQ

Transportation Claims Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Truronian Limited⁴, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Wessex of Bristol Limited, Enterprise House, Easton Road, Bristol, BS5 0DZ

West Dorset Coaches Limited, Enterprise House, Easton Road, Bristol, BS5 0DZ

Western National Holdings Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Subsidiaries – wholly owned and incorporated in the United States of America

Americanos USA, LLC, 350 N. St. Paul Street, Dallas, Texas 75201

ATE Management of Duluth, 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Berkshire Transit Management, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Central Mass Transit Management Co, Inc. 287 Grove St, Worcester, Massachusetts 01606

Central Virginia Transit Management, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Champion City Transit Management, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Durham City Transit Company, 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

First DG, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

FirstGroup Investment Corporation, 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

First Management Services LLC, 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

First Mile Square Transportation LLC, 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

First Student Management Services LLC, 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

First Student, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

First Transit, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

First Transit Rail Services of TX, LLC 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

First Vehicle Services, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

FirstGroup America Holdings, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

FirstGroup America, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

FirstGroup International, Inc. 2221 E Lamar Blvd, Suite 500, Arlington, Texas 76007

Franklin Transit Management, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

GLI Corporate Risk Solutions, Inc. 350 N. St. Paul Street, Dallas, Texas 75201

Greyhound Lines, Inc. 350 N. St. Paul Street, Dallas, Texas 75201

H.N.S. Management Company, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Laidlaw International Finance, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Laidlaw Medical Holdings, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Laidlaw Transportation Holdings, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Laidlaw Transportation Management, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Laidlaw Transportation, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Laidlaw Two, Inc. Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801

Laredo Transit Management, Inc. 2221 E Lamar Blvd, Suite 500, Arlington, Texas 76007

LSX Delivery, LLC, 350 N. St. Paul Street, Dallas, Texas 75201

Merrimack Valley Area Transportation, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

MidSouth Transportation Management, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

National Insurance and Indemnity Corporation, 30 Main Street, Suite 330, Burlington, Vermont 05401

On Time Delivery Service, Inc. 350 N. St. Paul Street, Dallas, Texas 75201

Paratransit Brokerage Services TM, Inc. 287 Grove Street, Worcester, Massachusetts 01606

Paratransit Management of Berkshire, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Paratransit Management of Brockton, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Safe Ride Services, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Safe Transport LLC 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Shuttle Services M.I.A., Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

South Coast Transit Management, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Southwestern Virginia Transit Management, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Special Transportation Services, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Springfield Area Transit Company, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

39 Information about related undertakings continued

SuTran, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Abilene, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Ada County, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Alexandria, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Ashville, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Canyon County, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Central Maryland, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Clinton County, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Denton, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Dutchess County, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Mobile, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Montgomery, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Racine, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Richland, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Rocky Mount, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Sherman, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Spartanburg, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of St Joseph, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Wilmington, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Valley Area Transit Company, Inc. 350 N. St. Paul Street, Dallas, Texas 75201

Valley Garage Co. 350 N. St. Paul Street, Dallas, Texas 75201

Valley Transit Co, Inc. 350 N. St. Paul Street, Dallas, Texas 75201

Subsidiaries – not wholly owned but incorporated in the United States of America

DG 21 LLC (51%), 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

SYPS LLC (87.5%), 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transportation Realty Income Partners Limited Partnership (50%), 600 Vine Street Suite 1400, Cincinnati, Ohio 45202

Subsidiaries – wholly owned and incorporated in US Virgin Islands

Primaisla, Inc. 1 Estate Hope, St. Croix

Subsidiaries – wholly owned and incorporated in Ireland

Aeroporto Limited, 25-28 North Wall Quay, Dublin

Last Passive Limited, 25–28 North Wall Quay, Dublin

Subsidiaries – wholly owned and incorporated in India

Transit Operations India Private Limited, Lentin Chambers, 2nd Floor, Dalal Street, Fort Mumbai 400023

Subsidiaries – wholly owned and incorporated in Panama

First Transit de Panama, Inc. Morgan & Morgan, Costa del Este, MMG Tower, 23rd Floor, Panama City

Subsidiaries – wholly owned and incorporated in Canada

Autobus Transco (1988) Limited, Blake, Cassels & Graydon LLP, 1 Place Ville Marie, Suite 3000, Montreal, Quebec

FC Investment Limited, Blake, Cassels & Graydon LLP, 3500, 855 – 2 Street SW, Calgary, Alberta, T2P 4J8

FirstCanada ULC, Blake, Cassels & Graydon LLP, 3500, 855 – 2 Street SW, Calgary, Alberta, T2P 4J8

GCT Holdings Limited, Blake, Cassels & Graydon LLP, 3500, 855 – 2 Street SW, Calgary, Alberta, T2P 4J8

GCT Investment Limited Partnership, Blake, Cassels & Graydon LLP, 3500, 855 – 2 Street SW, Calgary, Alberta, T2P 4J8

Greyhound Canada Transportation ULC, Blake, Cassels & Graydon LLP, 595 Burrard Street, P.O. Box 49314, Suite 2600, Three Bentall Centre, Vancouver, British Columbia V7X 1L3

Manhattan Equipment Supply Company Limited, 1111 International Blvd, Suite 700, Burlington, Ontario L7L 6W1

Subsidiaries – not wholly owned but incorporated in Canada

FirstCanada Transportation BC Limited (49%), Blake, Cassels & Graydon LLP, 595 Burrard Street, P.O. Box 49314, Suite 2600, Three Bentall Centre, Vancouver, British Columbia V7X 1L3

GACCTO Limited (50%), 130 King Street West, #1600, Toronto, Ontario M5X 1J5

Subsidiaries – wholly owned and incorporated in Puerto Rico

First Transit of Puerto Rico, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

First Transit Rail of Puerto Rico, Inc. 361 San Francisco Street, San Juan

Subsidiaries – wholly owned and incorporated in Mexico

Greyhound Lines Mexico, S.A. de R.L. de C.V. 350 N. St. Paul Street, Dallas, Texas 75201

Financial statements

continued

Notes to the consolidated financial statements continued

39 Information about related undertakings continued

Subsidiaries – not wholly owned but incorporated in the United Kingdom

Careroute Limited (80%), Empress Road, Southampton, Hampshire, SO14 0JW

First/Keolis Holdings Limited (55%)¹, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First/Keolis TransPennine Holdings Limited (55%), 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First/Keolis TransPennine Limited (55%), 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First MTR South Western Trains Limited (70%), 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Trenitalia East Midlands Rail Limited (70%), 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Trenitalia West Coast Rail Limited (70%), 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

PTI Website Limited (20%)¹, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Leicester CityBus Benefits Limited (94%), Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Leicester CityBus Limited (94%)², Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

LCB Engineering Limited (94%), Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Nicecon Limited (50%), 395 King Street, Aberdeen, AB24 5RP

Somerset Passenger Solutions Limited (50%), J24 Hinkley Point C, Park and Ride, Huntworth Business Park, Bridgwater, TA6 6TS

- 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 In liquidation.
- 4 For the year ending 31 March 2020 these subsidiaries are exempt from audit of individual accounts under S479A of the UK Companies Act 2006.

Independent auditor's report to the members of FirstGroup plc

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of FirstGroup plc (the 'Parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2020 and of the Group's loss 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 Financial Reporting Standard 101 "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.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and Parent Company balance sheets;
- the consolidated and Parent Company statements of changes in equity;
- the consolidated cash flow statement;
- the statement of accounting policies; and
- the related notes 1 to 39 of the consolidated financial statements and 1 to 10 of the Parent Company financial statements.

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, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the group and parent company for the year are disclosed in note 6 to the financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Material uncertainty relating to going concern

We draw attention to note 2 in the financial statements and the detailed information on page 73 which indicates that a material uncertainty exists that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern.

The following areas were those which were considered to be the key risks giving rise to a material uncertainty in relation to the directors' going concern assessment and the procedures we have performed on those risks:

Continuation of fiscal and contractual support

The Group has been the recipient of significant fiscal support during the coronavirus pandemic, primarily:

- Emergency Measures Agreements ('EMAs') in First Rail
- COVID-19 Bus Service Support Grant and other schemes in First Bus
- Federal subsidy funding under the US CARES Act in Greyhound
- Employee Retention Credit for Employers subject to closure due to coronavirus in North American divisions
- Commercial paper borrowing under the Covid Corporate Financing Facility ('CCFF')

In addition to fiscal support, the Group has received significant financial support from customers in First Student and First Transit. In the case of First Student, the US CARES Act stipulated that school boards should, to the greatest extent practicable, pay contractors such as First Student.

For the purposes of preparing its forecasts to assess going concern, the Directors made assumptions regarding the continuation of the above fiscal and other financial support mechanisms over the going concern period. There is significant uncertainty regarding the levels and duration of fiscal and contractual support which will be provided throughout the entire going concern period.

Independent auditor's report to the members of FirstGroup plc

continued

3. Material uncertainty relating to going concern continued

Forecast recovery of passenger volumes

There is significant interaction between the passenger volumes assumed by the Directors in their forecasts over the going concern period and the level of available fiscal and other financial support. If actual passenger volumes do not return to the levels included in the forecasts, the Directors assume that additional fiscal and other financial support would be received to help ensure the continuation of services.

There is significant uncertainty regarding the forecast recovery of passenger volumes and the impact of travel restrictions and social distancing requirements on passenger numbers during the going concern period.

Ability to obtain covenant waivers

Due to continuing uncertainties in the transportation industry as a result of the impact of the coronavirus pandemic and related social distancing measures, there is a risk that the Group's financial performance falls below the level the Directors have forecast.

The base case forecasts do not indicate a breach of financial covenants, however, there is limited headroom. On a reasonable downside scenario, the Directors forecast a breach of a financial covenant in March 2021 and very limited headroom at September 2020. The ability to obtain covenant waivers from lenders to cure any breach in financial covenant represents a significant uncertainty.

Availability of uncommitted facilities

A number of the Group's debt facilities are uncommitted or not committed for the duration of the going concern period. The Group's base case forecasts assume that the Bank of England CCFF of £300m, which is committed to March 2021, will be extended and an uncommitted Revolving Credit Facility ("RCF") Accordion of £150m will be available for the duration of the going concern period. In addition, the Group has £16m of other uncommitted overdraft facilities and a \$230m committed supplier financing facility which matures in June 2021. As these facilities are not contractually committed throughout the going concern period there is significant uncertainty whether the facilities will be available when the Directors have forecasted to utilise them.

Timing of cash flows

There is significant uncertainty regarding the timing of cash flows, including the receipt of fiscal and other financial support as well as working capital movements. If actual cash flows are not as forecast, additional debt may be required to be drawn down to satisfy the operational needs of the Group. As there is limited headroom on the Group's financial covenants, drawdowns of available facilities could result in a breach at the September 2020 or March 2021 test dates.

We note that the Directors consider that there are mitigating actions available to them which could be taken in the event that one of more of the material uncertainties above crystallise. These include raising additional debt financing, property disposals, sale and leaseback of buses and the capital expenditures. A number of these actions are not completely within the Group's control.

In response to the material uncertainty noted above, we obtained, challenged and assessed the Directors' going concern forecasts through performing a number of procedures, including:

- testing the clerical accuracy of the model used to prepare the going concern forecasts;
- inspecting key debt documentation to understand the principal terms and related financial covenants;
- reviewing the Group's covenant compliance in the period and assessing forecast compliance for the going concern period;
- with assistance from internal financial advisory specialists, challenging the reasonableness of the key assumptions applied in the underlying cash flows:
 - reading industry data and other external information and comparing these with estimates to determine if they provided corroborative or contradictory evidence in relation to the Directors' assumptions;
 - testing the underlying assumptions used to prepare the forecast scenarios and determined whether there was adequate support;
 - reviewing correspondence relating to the availability of the Group's financing arrangements, including the availability of CCFF funding; and
 - enquiring of the Directors regarding the available mitigating actions and challenging the quantum of those actions with reference to supporting evidence and assessing whether the mitigating actions were within the Company's control.
- performing sensitivity analysis on forecasts, including applying alternative reasonable downside scenarios, and considering the mitigating actions highlighted by the Directors in the event that they were required;
- considering the Group's liquidity requirements alongside its available financing, including the availability of ongoing fiscal and other financial support including committed and uncommitted facilities; and
- challenging the appropriateness of the disclosure made in the Annual Report and financial statements.

As stated in note 2, the events or conditions described above indicate that a material uncertainty exists that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

4. Summary of our audit approach

Key audit matters	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> ■ Going concern, including covenant compliance and the related disclosures (see material uncertainty relating to going concern section above); ■ Valuation of the recoverable amount of the Greyhound, First Student, First Transit and First Bus cash generating units ("CGUs"); ■ Contract profitability assessments of the TransPennine Express ("TPE"), SouthWestern Railway ("SWR") and Avanti West Coast ("Avanti") franchises, and the assumptions relating to Emergency Measures Agreements in future forecasts; ■ Actuarial methods and assumptions used to estimate the North American self-insurance provision; ■ Adjusting items included in the determination of adjusted earnings; ■ Accuracy of material manual adjustments to revenue recognition processes at First Student and First Transit, including judgements arising from the coronavirus pandemic; ■ Inflation, discount rate and mortality assumptions used in the valuation of pension scheme liabilities; ■ Valuation of certain unquoted investments in pension scheme assets; and ■ Recognition of deferred tax assets in the UK.
Materiality	<p>We have considered a number of benchmarks and determined that a materiality of £10.0m is appropriate. The materiality has been determined with reference to a range of benchmarks including average statutory loss before tax, average adjusted operating profit and net assets.</p>
Scoping	<p>We performed full scope audit procedures at each of the five operating divisions as well as certain Group central functions. The scope of our work was extended to include Avanti West Coast, a new Rail Franchise which commenced during the year. Together these components account for over 97% of the Group's net assets, revenue, and operating profit.</p>
Significant changes in our approach	<p>Our audit approach for the current year included the following changes, as compared to our audit of the prior year:</p> <p>In the current year, we have identified four new key audit matters related to:</p> <ul style="list-style-type: none"> ■ Going concern including covenant compliance and the related disclosures (see material uncertainty relating to going concern section above); ■ Adjusting items included in the determination of adjusted earnings; ■ Valuation of certain unquoted investments in pension scheme assets; and ■ Valuation of intercompany investments and receivables recorded by the Parent Company. <p>We have also updated three key audit matters:</p> <ul style="list-style-type: none"> ■ the key audit matter related to impairment to the carrying value of Greyhound CGU has been expanded to include First Student, First Transit and First Bus; ■ accounting for rail franchise contracts, including the forecast profitability assessments of TPE and SWR franchises has been expanded to include the Avanti franchise and the assumptions relating to Emergency Measures Agreements in future forecasts; and ■ the accuracy of material manual adjustments to revenue recognition has been expanded to include any revenue recognised for judgements as a result of the coronavirus pandemic.

These changes and the reasons for identification of these areas as key audit matters are discussed further on the next pages.

Independent auditor's report to the members of FirstGroup plc continued

5. Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Group's and the Parent Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 59-68 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the directors' confirmation on page 134 that they have carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 69-73 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 are also required to report whether the directors' statement relating to going concern and the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

Viability means the ability of the Group to continue over the time horizon considered appropriate by the directors.

In addition to the impact of the matters disclosed in the material uncertainty relating to going concern section and the other matters disclosed by the director's, we draw attention to the disclosures on pages 69 to 71 regarding the longer-term viability of the Group and highlight that the Directors' base case forecasts for assessing Group's viability includes £850m of debt and equity issuances which are not within the going concern period. These are fundamental assumptions upon which the viability assessment has been prepared.

We confirm that we have nothing to report on the matters required by LR 9.8.6R(3).

6. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

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. In addition to the matter described in the material uncertainty relating to going concern in section 3, we have determined the matters described below to be the key audit matters to be communicated in our report:

6.1 Valuation of the recoverable amount of the Greyhound, First Student, First Transit and First Bus cash generating units

Key audit matter description

The assessment of impairment of the Group's cash generating units ("CGUs"), as described in note 2, involves judgement in relation to forecasting future cash flows for First Student, First Transit and First Bus and in assessing the fair value less costs to sell of Greyhound. This judgement includes consideration of the key assumptions regarding forecast margin and long term growth rate.

As a result of the impact of the coronavirus pandemic on the Group and as explained in the material uncertainty relating to going concern, there is significant uncertainty relating to the assumptions made in forecasting the future cash flows of Greyhound, First Student, First Transit and First Bus.

First Student, First Transit and First Bus require an annual impairment test due to the goodwill allocated to the CGUs. The carrying value of these CGUs are £2,582.3m, £423.3m and £577.6m, respectively. Management has also identified an impairment indicator in relation to the carrying value of the assets in the Greyhound CGU due to underperformance compared with budget.

Management assesses recoverable amount by reference to a value in use ("VIU") model, unless the VIU model indicates impairment, in which case a fair value less costs to sell ("FVLCTS") model is also prepared and the recoverable amount is the higher of the VIU and FVLCTS. During the year Management assessed the recoverable amount of Greyhound by reference to a FVLCTS model given that Management recognised an impairment of £186.9m on the Greyhound CGU during the year.

The impairment forecasts used to determine the recoverable amount of the Group CGUs also provide the basis of assessing the carrying amount of Parent Company investments in subsidiary undertakings for impairment. Management has recognised an impairment of £434.1m on the investments in subsidiary undertakings during the year.

On the basis that the cash flow forecasts used for assessing impairment are consistent with those used for assessing going concern, there exists significant estimation uncertainty as disclosed in note 11. This key audit matter is also considered a fraud risk as discussed in Section 12.2.

The Audit Committee report on page 100 refers to the valuation of the carrying value of CGUs as one of the significant issues and judgements considered by the Audit Committee.

6. Key audit matters continued

How the scope of our audit responded to the key audit matter	<p>The audit procedures we performed in respect of this key audit matter included:</p> <ul style="list-style-type: none"> ■ gaining an understanding of Group and divisional Managements' process for developing their impairment assessment through obtaining an understanding of controls related to the forecasting of results; ■ assessing the historical trading performance and forecasting accuracy; ■ considering the reasonableness of, and recalculating, the sensitivity assessment applied by Management; ■ considering and assessing the impact of contradictory evidence, including historical forecasting accuracy and independent GDP forecasts, through performing further independent sensitivity analysis on the impairment model; ■ agreeing the underlying cash flow forecasts to the Board approved adjusted plans; ■ meeting with Divisional Management teams to understand and challenge the forecasts; ■ challenging the underlying assumptions within the cash flow forecasts impacting the forecast margin and long term growth rates; ■ inspecting property valuations to support the property disposal proceeds included within the Greyhound FVLCTS model; ■ understanding and challenging the impact of the coronavirus pandemic, including the significant uncertainty relating to the assumptions relating to the period of lockdown, the timing of recovery and the post lockdown recovery environment; and ■ considering the appropriateness of the related disclosures.
Key observations	<p>While we note the significant uncertainty relating to the assumptions made in forecasting future cash flows, we make the following key observations:</p> <ul style="list-style-type: none"> ■ we concur with Management's conclusion that no impairment is required on the First Student, First Transit and First Bus CGUs. ■ we concur with the recognition of an impairment charge of £186.9m in respect to the Greyhound CGU and £434.1m in respect to the investments in subsidiary undertakings. ■ we consider the disclosure in the judgments and estimates section of note 2 relating to the impairment of assets in the Greyhound CGU together with the reasonable possible change sensitivity noted in respect of First Student, First Transit and First Bus and detailed in note 11 to be proportionate to the estimate of the recoverable amounts.

6.2 Contract profitability assessments of TPE, SWR and Avanti rail franchises, including the assumptions relating to Emergency Measures Agreements in future forecasts

Key audit matter description	<p>The Group operates a number of complex rail franchise contracts in the United Kingdom that were significantly impacted by the coronavirus pandemic. As a result of actual and expected future losses and liquidity constraints brought about by a significant fall in passenger volumes, the Department for Transport ("DfT") placed all of the UK rail franchises under Emergency Measures Agreements ("EMAs"), which cover the period from 1 March 2020 to 20 September 2020. The EMAs provide the Group with cost and revenue protection while operating under the EMAs. In addition, the Train Operating Companies are entitled to a management fee and a contingent performance fee.</p> <p>Management have made a critical judgement as part of the basis of preparation of this Annual Report that the DfT will, as a result of an expected long term and adverse impact on passenger demand for rail travel, extend the current term of the Emergency Measures Agreements, or replace them with similar management contracts, until the end of the term of each franchise, or, rebase the existing franchise agreements based on lower passenger demand levels. If the DfT were to return all TOCs to the original franchise terms following the EMA expiry on 20 September 2020 without any rebasing, the maximum unavoidable loss remaining after existing impairments is £232m. This represents the full undrawn value of the funding deeds provided in support of the franchises.</p> <p>In Management's judgement no further impairment is required to the carrying value of the Rail division right of use assets due to the assumption that the Group will either receive an extension to the EMAs, negotiate a similar management contract, or the existing franchise agreements will be rebased. This is a critical management judgement. Management has highlighted contract and franchise accounting as a key source of estimation uncertainty in note 2 to the consolidated financial statements. This key audit matter is also considered a fraud risk as discussed in Section 12.2.</p> <p>The Audit Committee report on page 100 refers to this as a one of the significant issues and judgements considered by the Audit Committee.</p>
How the scope of our audit responded to the key audit matter	<p>The audit procedures we performed in respect of this key audit matter included:</p> <ul style="list-style-type: none"> ■ gaining an understanding of Management's process for assessing the contract profitability and obtaining an understanding of key controls; ■ challenging Management's judgement relating to the continuation of EMAs, or similar arrangements, for the remaining term of the franchise agreements based upon available audit evidence including government announcements; ■ assessing and challenging Management's range of possible outcomes; and ■ assessing the appropriateness of the related financial statement disclosures surrounding this matter.

Independent auditor's report to the members of FirstGroup plc

continued

6. Key audit matters continued

Key observations	<p>We note the significant estimation uncertainty in relation to the assumptions relating to Emergency Measures Agreements and the impact on rail contract profitability.</p> <p>Notwithstanding the significant estimation uncertainty, we consider Management's judgement and the related disclosures to be reasonable.</p>
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6.3 Actuarial methods and assumptions used to estimate the North American self-insurance provision

Key audit matter description	<p>The underlying calculation of the North American self-insurance reserves is subject to judgement based on the volume and severity of claims. We have identified a key audit matter, and a fraud risk, in relation to the actuarial methods and assumptions used to estimate the unpaid claims reserve for provision.</p>
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Management has highlighted North American self-insurance provisioning as a key source of estimation uncertainty in the notes to the consolidated financial statements and note that the provision of £527.3 million (2019: £408.9 million) is within the range calculated by their actuaries of £442.2 million to £548.2 million (2019: £342.9 million to £438.8 million). The provision has primarily increased due to adverse market developments and settlements across the claim portfolio, and deterioration of loss development factors.

The Audit Committee report on page 99 refers to North America self-insurance provisions as one of the significant issues and judgements considered by the Audit Committee. The provision is disclosed in note 26 to the consolidated financial statements.

How the scope of our audit responded to the key audit matter	<p>The audit procedures we performed in respect of this key audit matter included:</p>
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- gaining an understanding of Management's process for developing the North American self-insurance reserves, and obtaining an understanding of key controls;
- meeting with Management and their actuary to challenge key assumptions;
- working with our actuarial specialists in North America to develop independently an actuarial calculation and comparing the provision recorded to the actuarial range calculated by Management and their external actuary, considering the methodologies employed and comparing assumptions used to the Group's historical experience;
- assessing the deterioration of loss development factors during the year;
- engaging a specialist Insurance partner on the Group Audit Team in order to review and assess the procedures performed by the component auditor and our oversight of those procedures; and
- assessing the related financial statement disclosures.

Key observations	<p>We are satisfied that the assumptions used in the valuation of the North American self-insurance reserve are within our range of estimate and the related disclosures are reasonable.</p>
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6.4 Adjusting items included in the determination of adjusted earnings

Key audit matter description	<p>Management adjust for certain items in order to eliminate factors which they consider to distort year-on-year comparisons. Adjusting items are not defined by IFRS and therefore significant judgement is required in determining the appropriate classification.</p>
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Adjusted earnings is a key focus of Management as well as external users of the accounts and creates an incentive to use the adjusting items to manipulate adjusted earnings.

The use of non-GAAP or Adjusted Performance Measures ("APMs") within financial statements continues to be an area of increased focus by the regulators, in particular the Financial Reporting Council ("FRC") and the European Securities and Markets Authority ("ESMA").

The Group has reported an adjusted profit before tax of £109.9 million (2019: £208.2 million), which is derived from statutory loss before tax of £299.6 million (2019: £97.9 million) adjusted for a number of items totalling £409.5 million (2019: £306.1 million) which the Group considers meet their definition of an 'adjusting item'. The most significant adjusting items in the year include impairment charges, significant adverse development factors on insurance provisions, significant movements on insurance discount rates, and restructuring and reorganisation costs.

The Audit Committee report on page 100 refers to adjusting items as one of the significant issues and judgements considered by the Audit Committee. The adjusting items policy is disclosed in note 2 to the financial statements and explanations of each adjusting item, are set out in note 4 to the financial statements.

6. Key audit matters continued

How the scope of our audit responded to the key audit matter	<p>The audit procedures we performed in respect of this key audit matter included:</p> <ul style="list-style-type: none"> ■ gaining an understanding of Management’s process for determining the adjusting items and of key controls; ■ challenging the adjustments between statutory and adjusted profit to understand the rationale for the separate classification and the appropriateness by confirming alignment with the Group’s adjusting item accounting policy; ■ assessing the consistency of items adjusted for in the reconciliation of operating profit to adjusted operating profit between periods; ■ challenging the consistency of the treatment of similar gains and losses as adjusting items; ■ assessing the narrative and determining whether the disclosures are fair, balanced, and understandable; and ■ benchmarking the Group’s alternative performance measures reporting against emerging practice and the guidance from the FRC and ESMA.
Key observations	<p>We are satisfied that the overall classification of adjusting items is reasonable with reference to the Group adjusting item policy.</p> <p>We highlight that during the year the Group’s adjusting item policy changed to include significant movements on insurance discount rates and exclude software amortisation. The prior year comparatives have been restated, where material.</p>

6.5 Valuation of deferred tax assets in the UK

Key audit matter description	<p>The recognition and measurement of Deferred Tax Assets (“DTAs”) is an area of judgement as a result of the significant uncertainty regarding the future profitability of the Group as a result of the impact of the coronavirus pandemic. Management have recognised deferred tax assets of £33.6m (2019: £40.6m). The only jurisdiction where net deferred tax assets have been recognised is in respect of the UK.</p> <p>The recognition of the net DTA has been supported by reference to the underlying divisions which forecast profits as a result of the assumption that the Rail TOCs will continue to operate with EMAs or a similar arrangement. No DTA has been recognised in the UK in respect of trading losses.</p> <p>Management have adopted a three year forecast period in assessing the recoverability of DTAs, which is shorter than the forecast period in earlier years (five years), reflecting the continuing uncertainty arising as a result of the coronavirus pandemic, in particular the susceptibility of future cash flows to be materially reduced as a result of matters outside the control of management.</p> <p>Management has highlighted contract profitability as a key source of estimation uncertainty in note 2 to the consolidated financial statements. Should the assumption that all franchised TOCs continue under management contract for the life of the existing franchise agreement not occur then there would be a risk that the deferred tax assets should not be recognised and there would be a charge to Other Comprehensive Income of up to £26.5m with minimal impact on the income statement.</p> <p>The Audit Committee report on page 99 refers to deferred tax asset recognition as one of the significant issues and judgements considered by the Audit Committee.</p>
How the scope of our audit responded to the key audit matter	<p>The audit procedures we performed in respect of this key audit matter included:</p> <ul style="list-style-type: none"> ■ gaining an understanding of Management’s process for recognising deferred tax assets and of key controls; ■ involving our tax specialists to assess and challenge the judgements taken by Management in determining the deferred tax assets to recognise, including the period over which to consider future taxable profits; ■ recalculating the mechanical accuracy of amounts recognised and alignment with relevant tax legislation; ■ considering the consistency of the forecasts with other audit areas including going concern and impairment; and ■ assessing the related financial statement disclosures.
Key observations	<p>The results of our audit procedures were satisfactory and we conclude the DTAs recognised are reasonable, however we highlight the significant estimation uncertainty as described in note 2.</p>

Independent auditor's report to the members of FirstGroup plc continued

6. Key audit matters continued

6.6 Accuracy of material manual adjustments to revenue recognition processes at First Student and First Transit, including judgements arising from coronavirus

Key audit matter description	<p>As described in the Significant accounting policies in note 2 revenue transactions across the Group are predominantly high volume and low value. In some instances, revenue recorded may be subject to manual adjustments to reflect the timing and valuation of revenue recognised, for example where amounts are unbilled at the year end. This includes judgements arising from the coronavirus pandemic where standby services were provided and customers agreed to provide a level of financial compensation.</p> <p>The accuracy of recording any such material manual adjustments to revenue represents a key risk of material misstatement to revenue due to the potential for fraud. This includes manual adjustments to accrued or deferred income balance sheet items that impact revenue in the income statement.</p> <p>The key audit matter applies to the First Student and First Transit divisions, due to the judgement required in assessing the level of accrued revenue on contracts at year end.</p> <p>The Audit Committee report on page 99 refers to Revenue recognition as one of the significant issues and judgements considered by the Audit Committee.</p>
How the scope of our audit responded to the key audit matter	<p>The audit procedures we performed in respect of this key audit matter included:</p> <ul style="list-style-type: none"> ■ gaining an understanding of Management's process for ensuring the accuracy of manual adjustments to revenue and of key controls; ■ assessing and challenging the judgements taken by Management in determining material manual adjustments at First Student and First Transit, including judgements arising from the coronavirus pandemic by reference to contracts with customers at year end; ■ considering whether financial support received from customers due to the impact of the coronavirus pandemic meets the revenue recognition criteria under IFRS 15; ■ recalculating the accuracy of material accrued income balances and reviewing supporting documentation on a sample basis; and ■ verifying revenue related manual journal entries by agreeing them to supporting documentation to determine the rationale for the entries.
Key observations	<p>The results of our procedures were satisfactory and we did not identify inappropriate manual adjustments to revenue.</p>

6.7 Inflation, discount rate and mortality assumptions used in the valuation of pension scheme liabilities

Key audit matter description	<p>The Group has a large membership within a number of defined benefit pension schemes. The valuation of gross pension liabilities, as disclosed in note 36 is materially sensitive to changes in the underlying assumptions adopted in respect of the discount, inflation, and mortality rates. The gross pension liabilities at 31 March 2020 were £7,333.8m (2019: £6,728.5).</p> <p>The Audit Committee report on page 99 refers to pension liability assumptions as one of the significant issues and judgements considered by the Audit Committee. Management has historically highlighted defined benefit pension arrangements as a key source of estimation uncertainty in the note 2 to the consolidated financial statements.</p>
How the scope of our audit responded to the key audit matter	<p>The audit procedures we performed in respect of this key audit matter included:</p> <ul style="list-style-type: none"> ■ gaining an understanding of Management's process for determining the underlying assumptions and obtaining an understanding of key controls; ■ working with our actuarial specialists to audit the estimates determined by Management and its external actuary considering the methodologies employed and comparing assumptions used to the Group's historical experience and to listed and industry benchmarks; ■ assessing the pension cost, the Statement of Other Comprehensive Income and movement in balance sheet over the year; and ■ assessing the related financial statement disclosures.
Key observations	<p>We are satisfied that the assumptions applied in respect of the valuation of the pension liabilities are within our range of estimates and that the valuation of the pension scheme liabilities is reasonable. We consider the disclosure around the sensitivity of the liabilities to reasonably possible change to be proportionate to the level of judgement.</p>

6. Key audit matters continued

6.8 Valuation of certain unquoted investments in the pension scheme assets

Key audit matter description	<p>The pension schemes in which the Group participates hold unquoted plan assets in private equity, infrastructure and property funds. Significant judgment is required in determining the valuation of the investments which are based on inputs that are not directly observable. There is increased estimation uncertainty in relation to the private equity infrastructure and property valuation as a result of coronavirus.</p> <p>The funds involving significant judgement includes private equity or illiquid funds held by the Railways Pension Scheme (RPS) sections relating to the Group's rail franchises. At 31 December 2019 these assets totalled £576m and as a result of the difficulty in obtaining a valuation as at 31 March 2020, the valuation of these assets at 31 December 2019 has been used and adjusted for cash inflows and outflows from 1 January 2020 to 31 March 2020.</p> <p>Similarly, there was £243m within the Manchester Local Government Pension Scheme fund containing private equity and other illiquid assets.</p> <p>The effect of these matters is a potential range of reasonable outcomes to the valuations of these assets disclosed in note 2 greater than our materiality for the financial statements as a whole.</p> <p>We highlight that changes in the valuations of these assets do not impact the net pensions deficit disclosed by the Group owing to the fact that a franchise adjustment is applied to the RPS scheme as the Group only have an obligation to fund contributions during the franchise period and the Manchester pension scheme has a surplus which cannot be fully recognised in the financial statements of the Group under IFRS. The LGPS private equity and illiquid asset valuation would have to fall by £119m before the LGPS scheme surplus valuation is affected.</p> <p>Note 36 to the financial statements disclose the sensitivity of key assumptions for the uncertainties associated with the valuation of plan assets with unobservable inputs.</p>
How the scope of our audit responded to the key audit matter	<p>The audit procedures we performed in respect of this key audit matter included:</p> <ul style="list-style-type: none"> ■ making enquiries of management and their actuary; ■ obtaining confirmation of the existence of pension assets from the scheme administrator and of their valuation from the investment manager; ■ challenging, with the involvement of our own pension asset experts, the key unobservable inputs, including benchmarking assumptions against externally derived indices, comparable assets and market practice; ■ challenging third party valuation experts through enquires on the valuation methodology and considering the appropriateness of key assumptions applied in light of the uncertainty caused by the coronavirus pandemic, including the roll forward approach adopted by management and their actuary; ■ obtaining and reviewing the reports regarding the internal controls of the scheme administrators and investment managers; and ■ assessing the historical accuracy of previous private equity fund valuations with reference to the latest audited financial statements.
Key observations	<p>While we note the significant estimation uncertainty in relation to the private equity and infrastructure and property valuation as a result of the coronavirus pandemic, in our testing all funds except one fell within the reasonable range established by our pension asset experts. This resulted in only a potential reclassification misstatement which management and we did not consider material. We consider the valuation of the unquoted investments to be acceptable.</p>

Financial statements

continued

Independent auditor's report to the members of FirstGroup plc continued

7. Our application of materiality

7.1. 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.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent Company financial statements
Materiality	£10.0m (2019: £7.5m)	£8.0m (2019: £6.0m)
Basis for determining materiality	<p>We determined materiality of the Group with reference to a range of benchmarks, which included statutory loss before tax, adjusted operating profit and net assets.</p> <p>The materiality determined represents 3.3% of statutory loss before tax (2019: 7.7%), 3.9% of adjusted operating profit (2019: 2.3%) and 0.8% of net assets (2019: 0.5%).</p>	Parent Company materiality represents less than 1% of net assets (2019: less than 1%) and is capped at 80% of Group Materiality.
Rationale for the benchmark applied	<p>In the current year, we considered the use of a number of benchmarks in determining materiality to be appropriate since a number of measures are relevant to the user of the financial statements, including statutory loss before tax, adjusted operating profit and net assets.</p> <p>In 2019, we determined materiality with reference to profit before tax adjusted for certain adjusting items.</p> <p>The increase in materiality compared to the year ended 31 March 2019 was due to the addition of Avanti West Coast in December 2019, and the increase in size and scope of the Group.</p>	The Parent Company is a holding company which does not generate revenue and therefore a revenue or profit benchmark would not be relevant. Net assets was considered the most relevant benchmark given the nature of the Parent Company.

7.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. The Group performance materiality was set at 60% of Group materiality for the 2020 audit (2019: 70%). In determining performance materiality, we considered the following factors:

- there was no history of significant uncorrected misstatements in the previous audit; and
- the impact of the coronavirus pandemic on the operations of the Group, including the potential impact on the control environment, given the move to remote working in a short space of time, and the risk that key individuals could be absent during the year end close process.

Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £500,000 (2019: £375,000), 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.

8. 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 over key audit areas, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our Group audit scope primarily on the FirstGroup America component (First Student, First Transit, Greyhound and the North American self-insurance captive entity), the four significant Train Operating Companies which includes the new Avanti West Coasts Franchise (Avanti, GWR, SWR and TPE), the First Bus Division as well as certain Group central functions. Avanti was a new Rail Franchise which commenced during the year and was included in the scope of our audit as a significant component.

The locations subject to full audit procedures represent the principal business units and account for over 97% of the Group's net assets, revenue and operating profit. 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 component performance materiality of between £3.0 million and £5.1 million (2019: £2.1 million and £4.5 million) applicable to each individual location with the exception of the Parent Company, for which a materiality of £8.0 million and a performance materiality of £4.8 million was used.

At the Parent Company 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.

The Group audit team have directed and supervised the work of the component audit teams during the course of the year. We issued detailed instructions to our component audit teams and included all component teams in our team briefing, discussed their risk assessment and remained in contact throughout the audit process. The Senior Statutory Auditor met all component teams and held meetings with Management at all significant components to discuss the work performed. The audits of Avanti, GWR and TPE are led by members of the Group audit team. For all UK components, the Senior Statutory Auditor has access to the audit files and directly reviews the work performed in key risk areas relevant to the Group, including significant risk areas.

8. An overview of the scope of our audit continued

In relation to the current year, the Senior Statutory Auditor of the Group audit team visited the FirstGroup America (“FGA”) component team in October 2019 and January 2020. In addition site visits of the FGA component, the most significant component, were initially scheduled for March 2020 and May 2020. Due to travel restrictions resulting from the coronavirus pandemic, these visits could not take place and therefore we have implemented alternative procedures to ensure appropriate oversight of the FGA component. These included the use of share-screen technology and regular video calls to discuss the status of the work of our FGA component team and to perform file review and close meetings with divisional management. The Group audit team have reviewed documentation of the findings from the component audit teams’ work.

9. Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor’s report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **Fair, balanced and understandable** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group’s position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors’ statement of compliance with the UK Corporate Governance Code** – the parts of the directors’ statement required under the Listing Rules relating to the company’s compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

10. Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group’s and the Parent Company’s ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

11. Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC’s website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

Independent auditor's report to the members of FirstGroup plc

continued

12. Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

12.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of Management, internal audit, internal legal counsel and the Audit Committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations; and
- discussing among the engagement team including significant component audit teams and involving relevant internal specialists, including tax, valuations, pensions and IT regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act 2006, the UK Corporate Governance Code and the Listing Rules of the UK Listing Authority and the relevant tax compliance regulations in the jurisdictions in which FirstGroup operates.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty, including compliance with terms of the Group's Rail franchise agreements, Affordable Care Act, and banking covenants.

12.2. Audit response to risks identified

As a result of performing the above, we identified the following key audit matters related to potential risks of fraud:

- Going concern, including covenant compliance and the related disclosures;
- valuation of the recoverable amount of the Greyhound, First Student, First Transit and First Bus CGUs;
- future contract profitability assessments of Avanti, SWR and TPE including the assumptions relating to Emergency Measures Agreements in future forecasts;
- actuarial methods and assumptions used to estimate the North American self-insurance provision;
- adjusting items included in the determination of adjusted earnings; and
- accuracy of material manual adjustments to revenue recognition processes at First Student and First Transit, including judgements arising from the coronavirus pandemic.

The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above as having a direct effect on the financial statements;
- enquiring of Management, the audit committee and in-house and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with relevant regulatory authorities; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

13. Opinions 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.

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

14. Matters on which we are required to report by exception

14.1. 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.

14.2. 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 in respect of these matters.

15. Other matters

15.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by on 2 March 1999 to audit the financial statements for the year ending 31 March 1999 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 22 years, covering the years ending 31 March 1999 to 31 March 2020. The year ended 31 March 2020 is the final year of our audit appointment.

15.2. Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

16. Use of our report

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.

Mark Mullins, FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
London, UK
8 July 2020

Financial statements

continued

Group financial summary

Unaudited

	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Consolidated income statement					
Group revenue	7,754.6	7,126.9	6,398.4	5,653.3	5,218.1
Operating profit before amortisation charges and other adjustments	256.8	314.8	317.0	339.0	300.7
Amortisation charges	(4.9)	(11.8)	(70.9)	(60.2)	(51.9)
Other adjustments	(404.6)	(293.2)	(442.3)	4.8	(2.5)
Operating (loss)/profit	(152.7)	9.8	(196.2)	283.6	246.3
Net finance cost	(146.9)	(107.7)	(130.7)	(132.0)	(132.4)
Ineffectiveness on financial derivatives	-	-	-	1.0	(0.4)
(Loss)/profit before tax	(299.6)	(97.9)	(326.9)	152.6	113.5
Tax	(25.0)	(10.1)	36.0	(36.5)	(17.1)
(Loss)/profit for the year	(324.6)	(108.0)	(290.9)	116.1	96.4
EBITDA	1,108.9	670.3	690.6	686.6	615.9
Earnings per share					
	pence	pence	pence	pence	pence
Adjusted	6.8	13.3	12.3	12.4	10.3
Basic	(27.0)	(5.5)	(24.6)	9.3	7.5
Consolidated balance sheet					
	£m	£m	£m	£m	£m
Non-current assets	6,225.1	4,003.5	3,802.9	4,524.9	4,201.3
Net current (liabilities)/assets	(701.9)	10.7	(300.3)	(153.0)	(239.3)
Non-current liabilities	(3,927.5)	(1,958.9)	(1,671.0)	(2,011.8)	(2,066.5)
Provisions	(419.0)	(532.0)	(341.0)	(284.2)	(262.3)
Net assets	1,176.7	1,523.3	1,490.6	2,075.9	1,633.2
Share data					
Number of shares in issue (excluding treasury shares and shares in trusts)	millions	millions	millions	millions	millions
At year end	1,219.5	1,213.9	1,210.8	1,207.7	1,204.3
Average	1,210.9	1,205.9	1,205.1	1,204.8	1,204.0
Share price					
	pence	pence	pence	pence	pence
At year end	50	91	82	132	97
High	138	117	153	133	128
Low	28	79	77	89	81
Market capitalisation					
	£m	£m	£m	£m	£m
At year end	610	1,105	993	1,594	1,168

Company balance sheet

As at 31 March

	Note	2020 £m	2019 £m
Non-current assets			
Trade and other receivables	3	2,210.8	0.8
Derivative financial instruments	4	15.8	18.6
Investments	5	1,530.9	1,954.7
		3,757.5	1,974.1
Current assets			
Cash and cash equivalents		137.4	32.6
Trade and other receivables	3	–	2,043.7
Derivative financial Instruments	4	4.8	7.9
		142.2	2,084.2
Total assets		3,899.7	4,058.3
Current liabilities			
Trade and other payables	7	389.1	336.0
Derivative financial instruments	4	9.5	1.4
		398.6	337.4
Net current (liabilities)/assets		(256.4)	1,746.8
Non-current liabilities			
Trade and other payables	7	1,780.0	1,619.8
Derivative financial instruments	4	1.0	0.7
		1,781.0	1,620.5
Total liabilities		2,179.6	1,957.9
Net assets		1,720.1	2,100.4
Equity			
Share capital	8	61.0	60.7
Share premium		688.6	684.0
Other reserves		258.6	262.1
Own shares	9	(10.2)	(4.7)
Retained earnings		722.1	1,098.3
Total equity		1,720.1	2,100.4

The company reported a loss for the financial year ended 31 March 2020 of £382.3m (2019: loss of £165.5m).

Ryan Mangold

8 July 2020

Company number SC157176

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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 2018 (restated)	60.5	681.4	(6.3)	–	166.4	93.8	1.9	1,261.2	2,258.9
Change in accounting policies ¹	–	–	–	–	–	–	–	(3.6)	(3.6)
Balance at 31 March 2018	60.5	681.4	(6.3)	–	166.4	93.8	1.9	1,257.6	2,255.3
Loss for the year	–	–	–	–	–	–	–	(165.5)	(165.5)
Total comprehensive loss for the year	–	–	–	–	–	–	–	(165.5)	(165.5)
Shares issued	0.2	2.6	–	–	–	–	–	–	2.8
Movement in EBT and treasury shares	–	–	1.6	–	–	–	–	(2.9)	(1.3)
Share-based payments	–	–	–	–	–	–	–	9.1	9.1
Balance at 31 March 2019	60.7	684.0	(4.7)	–	166.4	93.8	1.9	1,098.3	2,100.4
Balance at 31 March 2019	60.7	684.0	(4.7)	–	166.4	93.8	1.9	1,098.3	2,100.4
Loss for the year	–	–	–	–	–	–	–	(382.3)	(382.3)
Other comprehensive loss for the year	–	–	–	(3.5)	–	–	–	–	(3.5)
Total comprehensive loss for the year	–	–	–	(3.5)	–	–	–	(382.3)	(385.8)
Shares issued	0.3	4.6	–	–	–	–	–	–	4.9
Movement in EBT and treasury shares	–	–	(5.5)	–	–	–	–	(4.2)	(9.7)
Share-based payments	–	–	–	–	–	–	–	10.3	10.3
Balance at 31 March 2020	61.0	688.6	(10.2)	(3.5)	166.4	93.8	1.9	722.1	1,720.1

1 Prior year opening balances have been restated for the adoption of IFRS 9 'Financial Instruments'.

Notes to the Company financial statements

1 Significant accounting policies

Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006. 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 the Strategic report on page 73.

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, these financial statements have been prepared in accordance with 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 for the year ended 31 March 2020, include the results and financial position of the Company for the year ended 31 March 2020. The financial statements for the year ended 31 March 2019 include the results and financial position of the Company for the year ended 31 March 2019.

Where relevant, equivalent disclosures have been given in the consolidated financial statements. 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

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.

Dividends receivable from the Company's subsidiaries are recognised only when they are approved by shareholders.

Key sources of estimation uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge, actual results may ultimately differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Investment in subsidiaries

Estimation is required in relation to the recoverability of the investments and are sensitive to changes in cash flow forecasts supporting the recoverable amount. There is a significant risk that material adjustment to the carrying amounts of the investments and receivables could be required within the next financial year. The carrying value of investments at 31 March 2020 is £1,530.9m (2019: £1,954.7m).

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. The Company reported a loss for the financial year ended 31 March 2020 of £382.3m (2019: loss of £165.5m).

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 Trade and other receivables

	2020 £m	2019 £m
Amounts due within one year		
Amounts due from subsidiary undertakings	–	2,047.3
Loss allowance	–	(3.6)
Net amounts due from subsidiary undertakings	–	2,043.7
Amounts due after more than one year		
Amounts due from subsidiary undertakings	2,212.4	–
Loss allowance	(3.6)	–
Net amounts due from subsidiary undertakings	2,208.8	–
Deferred tax asset (note 6)	2.0	0.8
	2,210.8	0.8

Financial statements

continued

Notes to the Company financial statements continued

4 Derivative financial instruments

	2020 £m	2019 £m
Total derivatives		
Total assets – due after more than one year	15.8	18.6
Total assets – due within one year	4.8	7.9
Total assets	20.6	26.5
Total creditors – amounts falling due within one year	9.5	1.4
Total creditors – amounts falling due after more than one year	1.0	0.7
Total creditors	10.5	2.1
Derivatives designated and effective as hedging instruments carried at fair value		
Non-current assets		
Coupon swaps (fair value hedge)	13.3	16.2
Total assets	13.3	16.2
Current liabilities		
Currency forwards (net investment hedge)	4.4	–
Total liabilities	4.4	–
Derivatives classified as held for trading		
Non-current assets		
Currency forwards	2.5	1.6
Fuel derivatives	–	0.8
	2.5	2.4
Current assets		
Currency forwards	4.8	4.2
Fuel derivatives	–	3.7
	4.8	7.9
Total assets	7.3	10.3
Current liabilities		
Fuel derivatives	5.1	1.4
	5.1	1.4
Non-current liabilities		
Fuel derivatives	1.0	0.7
	1.0	0.7
Total liabilities	6.1	2.1

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 Investments in subsidiary undertakings

	Unlisted subsidiary undertakings £m
Cost	
At 1 April 2019	2,176.6
Additions	10.3
At 31 March 2020	2,186.9
Provision for impairment	
At 1 April 2019	221.9
Impairment	434.1
At 31 March 2020	656.0
Carrying amount	
At 31 March 2020	1,530.9
At 31 March 2019	1,954.7

The additions in the year relate to IFRS 2 share based charges.

A full list of subsidiaries and investments can be found in note 39 to the Group accounts.

6 Deferred tax

The major deferred tax asset 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 2019	(0.8)
Credit to income statement	(0.4)
Credit to hedging reserve	(0.8)
At 31 March 2020	(2.0)

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2020 £m	2019 £m
Deferred tax asset due after more than one year	(2.0)	(0.8)

Financial statements

continued

Notes to the Company financial statements continued

7 Creditors

	2020 £m	2019 £m
Amounts falling due within one year		
£350.0m Sterling bond – 8.750% 2021	30.4	30.4
£325.0m Sterling bond – 5.250% 2022	5.8	5.8
£200.0m Sterling bond – 6.875% 2024	7.2	7.2
Amounts due to subsidiary undertakings	342.9	283.9
Accruals and deferred income	2.8	8.7
	389.1	336.0
Amounts falling due after more than one year		
Syndicated loan facilities	574.0	446.7
£350.0m Sterling bond – 8.750% 2021	355.1	357.7
£325.0m Sterling bond – 5.250% 2022	322.6	322.1
£200.0m Sterling bond – 6.875% 2024	199.8	199.8
Senior unsecured loan notes	219.7	210.0
Amounts due to subsidiary undertakings	108.8	83.5
	1,780.0	1,619.8

Borrowing facilities

The maturity profile of the Company's undrawn committed borrowing facilities is as follows:

	2020 £m	2019 £m
Facilities maturing:		
Due in more than two years	348.6	353.3

Details of the Company's borrowing facilities are given in note 21 to the Group accounts.

Included within amounts due to subsidiary undertakings are liabilities for onerous contracts in respect of TPE £64.4m (2019: £84.4m) and SWR £44.4m (2019: £43.7m). This liability is required to reflect the undrawn portion of PCS and the performance bonds. In the case of TPE, this is restricted to the value of the onerous contract provision (less amounts already drawn under PCS).

8 Called up share capital

	2020 £m	2019 £m
Allotted, called up and fully paid		
1,219.5m (2019: 1,213.9m) ordinary shares of 5p each	61.0	60.7

The number of ordinary shares of 5p in issue, excluding treasury shares held in trust for employees, at the end of the period was 1,210.8m (2019: 1,208.6m). At the end of the period 8.7m shares (2019: 5.3m shares) were being held as treasury shares and own shares held in trust for employees.

9 Own shares

	Own shares £m
At 1 April 2019	(4.7)
Movement in EBT, QUEST and treasury shares during the year	(5.5)
At 31 March 2020	(10.2)

The number of own shares held by the Group at the end of the year was 8,650,254 (2019: 5,310,593) FirstGroup plc ordinary shares of 5p each. Of these, 8,460,505 (2019: 5,120,844) were held by the FirstGroup plc Employee Benefit Trust, 32,520 (2019: 32,520) by the FirstGroup plc Qualifying Employee Share Ownership Trust and 157,229 (2019: 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 2020 was £4.4m (2019: £4.8m).

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 £990.0m (2019: £806.5m) and letters of credit for £393.8m (2019: £369.2m). The performance bonds relate to the North American and First Bus businesses of £686.5m (2019: £570.8m) and the First Rail franchise operations of £303.5m (2019: £235.7m). The letters of credit relate substantially to insurance arrangements in the UK and North America. The parent company has committed further support facilities of up to £120.2m to First Rail Train Operating Companies of which £49.7m remains undrawn.

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 Company's North American subsidiaries participate in a number of multi-employer pension schemes in which their contributions are pooled with the contributions of other contributing employers. The funding of these schemes are therefore reliant on the ongoing participation by third parties.

In its normal course of business First Rail has ongoing contractual negotiations with government and other organisations.

While the British Transport Police have now concluded their investigations into the Croydon tram incident in November 2016 without bringing any charges, the Office of Rail & Road (ORR) investigations are ongoing and it is uncertain when they will be concluded. The tram was operated by Tram Operations Limited (TOL), a subsidiary of the Group, under a contract with a TfL subsidiary. TOL provides the drivers and management to operate the tram services, whereas the infrastructure and trams are owned and maintained by a TfL subsidiary. Management continue to monitor developments. To date, no ORR proceedings have been commenced and, as such, it is not possible to assess whether any financial penalties or related costs could be incurred.

On 14 November 2017, Reading Borough Council served First Greater Western Limited (GWR), a subsidiary of the Group, and Network Rail Infrastructure Limited (a third party) with noise abatement notices in respect of the operations at the Reading railway depot. The serving of the notices has been appealed and the parties agreed in principle in June 2020 that the related court hearing should be put on hold until 31 May 2021 to allow the Council further time to monitor GWR's operations at the depot. The parties further agreed that in May 2021 the Council will be obliged to consider whether the 2017 abatement notices should be withdrawn and, if the notices are not withdrawn, the appeal proceedings will restart. The precise wording and mechanisms to achieve this in principle agreement are currently being negotiated by the parties – if it is not possible to agree this, a further court hearing has been listed for 4 September 2020 at which the court will decide how the appeal proceedings should be taken forward. As a result it is not possible at this stage to quantify the implications for the GWR operations, if any, if the notices are not withdrawn by the Council or if GWR are not ultimately successful with respect to any appeal.

On 26 February 2019, collective proceedings were commenced in the UK Competition Appeal Tribunal (CAT) against First MTR South Western Trains Limited (SWR). Equivalent claims have been brought against Stagecoach South Western Trains Limited and London & South Eastern Railway. It is alleged that SWR and the other defendants breached their obligations under competition law, by (i) failing to make available, or (ii) restricting the practical availability of, boundary fares for TfL Travelcard holders wishing to travel outside TfL fare zones. The first substantive hearing, at which the CAT will decide whether or not to certify the collective proceedings, has been postponed pending the outcome of an appeal to the Supreme Court in a different collective proceedings action and is therefore unlikely to occur until late 2020 at the earliest. It is not possible at this stage to determine accurately the likelihood or quantum of any damages and costs, or the timing of any such damages or costs, which may arise from the proceedings.

The Pensions Regulator (TPR) has been in discussion with the Railways Pension Scheme (the Scheme) regarding the long term funding strategy of the Scheme. The Scheme is an industry-wide arrangement, and the Group, together with other owning groups, has been participating in a review of scheme funding led by the Rail Delivery Group. Whilst the review is still ongoing, changes to the current funding strategy are not expected in the short term. Whilst TPR believes that a higher level of funding is required in the long term, it is not possible at this stage to determine the impact to ongoing contribution requirements.

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Shareholder information

Annual General Meeting (AGM), electronic voting and questions

The AGM of the Company will be held on 15 September 2020 at 8th Floor, The Point, 37 North Wharf Road, London W2 1AF.

The Notice of AGM (Notice) and Form of Proxy are enclosed with this Annual Report and Accounts, if you have chosen to receive hard copy communications from the Company. The Notice can also be found on the Company's website.

Shareholders are encouraged to submit proxies for the 2020 AGM electronically by logging on to www.sharevote.co.uk. Electronic proxy appointments must be received by the Company's Registrar, Equiniti, no later than 48 hours, excluding non-business days, before the time fixed for the AGM.

The safety of our shareholders, colleagues and customers is always of the utmost importance to us, and so we want to strongly encourage you to use the electronic facilities to vote this year, rather than attending in person. To comply with public health and safety legal requirements currently in force, shareholders will not be permitted to attend the AGM this year.

Questions from shareholders can be sent by email to companysecretariat@firstgroup.com, or by post for the attention of the Company Secretary (see addresses on the next page). Answers will not be provided at the AGM, but as soon as possible thereafter. For all other queries regarding the AGM, please contact the General Counsel & Company Secretary.

Website and shareholder communications

A wide range of information on FirstGroup is available at the Company's website including:

- financial information – annual and half-yearly reports as well as trading updates
- share price information – current trading details and historical charts
- shareholder information – AGM results, details of the Company's advisers and frequently asked questions
- news releases – current and historical

FirstGroup uses its website 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 to 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 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
- vote in advance of Company general meetings

To find out more information about the services offered by Shareview, please visit www.shareview.co.uk.

Shareholder enquiries

The Company's share register is maintained by 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 email Equiniti securely with your enquiry).

* Telephone lines are open from 8.30am to 5.30pm, Monday to Friday.

If you receive more than one copy of the Company's 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, please contact Equiniti to request that the accounts are combined. There is no charge for this service.

Equiniti also offers a postal dealing facility for buying and selling FirstGroup plc ordinary shares; please write to them at the address shown above or telephone 0371 384 2248. They also offer a telephone and internet

dealing service which provides a simple and convenient way of dealing in FirstGroup shares. For telephone dealing call 0345 603 7037 between 8.30am and 4.30pm, Monday to Friday, and for internet dealing log on to www.shareview.co.uk/dealing.

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, which provides 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. A ShareGift transfer form can also be obtained from Equiniti.

FirstGroup's policy on discounts for shareholders

Shareholders are reminded that it is not the Group's policy to offer travel or other discounts to shareholders. FirstGroup is focused on overall returns which are of benefit to all shareholders.

Unsolicited advice on the Company's shares

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 turn 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, normally announced to the market in November, 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.

Analysis of shareholders at 31 March 2020

	Number of accounts	% of total accounts	Number of ordinary shares	% of ordinary share capital
By category of shareholders				
Individual	827	2.78	1,174,354,973	96.30
Institutional	28,877	97.22	45,180,028	3.70
Total	29,704	100.00	1,219,535,001	100.00
By size of holding				
1-1,000	21,593	72.69	5,134,531	0.42
1,001-5,000	5,777	19.45	13,841,706	1.13
5,001-10,000	1,290	4.34	9,048,300	0.74
10,001-100,000	774	2.61	17,893,046	1.47
Over 100,000	270	0.91	1,173,617,418	96.24
Total	29,704	100.00	1,219,535,001	100.00

Financial calendar

AGM	15 September 2020
Half-yearly results	November 2020

Contact information

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Outgoing auditor

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Incoming auditor

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7 More London Riverside
London SE1 2RT

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continued

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	Defra Department for Environment, Food and Rural Affairs (UK Government)	LBG London Benchmarking Group, an organisation that has created a framework for measuring community impact
APTA American Public Transportation Association	DfT Department for Transport	LGPS Local Government Pension Scheme
ASE National Institute for Automotive Service Excellence, a US non-profit organisation promoting excellence in vehicle repair	Dividend Amount payable per ordinary share on an interim and final basis	Like-for-like revenue Revenue adjusted for changes in the composition of a divisional portfolio, holiday timing, severe weather and other factors, for example engineering possessions in First Rail, that distort the period-on-period trends in our passenger revenue businesses
BAYE Buy As You Earn	EABP Executive Annual Bonus Plan	Local authority Local government organisations in the UK, including unitary, metropolitan, district and county councils
The Board The Board of Directors of the Company	EBITDA Earnings before interest, tax, depreciation and amortisation, calculated as adjusted operating profit less capital grant amortisation plus depreciation	LTIP Long-Term Incentive Plan
CAF Construcciones y Auxiliar de Ferrocarriles, a Spanish train manufacturer	EBT Employee benefit trust	NSC National Safety Council
CARES Act Coronavirus Aid, Relief, and Economic Security Act; the US economic relief package signed into law on 27 March 2020	EPS Earnings per share	Net cash flow Net cash inflow is described in the table shown on page 184 of the Financial review
CGU Cash Generating Unit	GHG Greenhouse gas emissions	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
CO₂(e) Carbon dioxide equivalent, allowing other greenhouse gas emissions to be expressed in terms of carbon dioxide based on their relative global warming potential. Usually expressed as per kilometre or per passenger kilometre	GPS Global positioning system	Network Rail Owner and operator of Britain's rail infrastructure
Company FirstGroup plc, a company registered in Scotland with number SC157176 whose registered office is at 395 King Street, Aberdeen AB24 5RP	Group FirstGroup plc and its subsidiaries	NO_x A generic term for the nitrogen oxides that are most relevant for air pollution
Coronavirus Coronavirus disease (COVID-19) is an infectious disease caused by a newly discovered coronavirus	GWR Great Western Railway franchise	NSTA National School Transportation Association
CPI Consumer price index, an inflation measure that excludes certain housing-related costs	IAS International Accounting Standards	
CPT Confederation of Passenger Transport UK	IFRS International Financial Reporting Standards	
	KPIs Key performance indicators, financial and non financial metrics used to define and measure progress towards our strategic objectives	

Ordinary shares

FirstGroup plc ordinary shares of 5p each

PLC

Public limited company

PMs

Particulate matter, which is emitted during the combustion of fuel; a source of air pollution

PPE

Personal Protective Equipment

PPM

The UK rail industry's Public Performance Measure (punctuality and reliability). Trains are 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

RCF

Revolving credit facility

RDG

Rail Delivery Group

Road divisions

Combines First Student, First Transit, Greyhound, First Bus and Group items

ROCE

Return on capital employed is a measure of capital efficiency and is calculated by dividing adjusted operating profit after tax by all year end assets and liabilities excluding debt items

SAV

Shared Automated Vehicles are low-speed driverless vehicles that are shared between multiple users

SAYE

Save As You Earn

SECR

Streamlined Energy and Carbon Reporting regulations, which took effect on 1 April 2019

SWR

South Western Railway franchise

TfL

Transport for London, the local government organisation responsible for most aspects of London's transport system

TNC

Transportation Network Companies provide users with transportation through online or digital platforms that connect them with drivers

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



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