Connecting people and communities

FirstGroup plc
Annual Report
and Accounts 2021

We provide easy and convenient mobility, improving quality of life by connecting people and communities. FirstGroup is a leading private sector provider of public transport.

Our services are a vital part of society – transporting customers for business, education, health, social or leisure purposes. We create solutions that reduce complexity, making travel smoother and life easier.

Our businesses are at the heart of our communities, and the essential services we provide are critical to delivering wider economic, social and environmental goals.

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.

We operate a fleet of almost
9,000
buses and rail vehicles across the UK

We had revenues of approximately
£4.3bn
in the UK last year

We carried almost
700,000
passengers per day in the UK, despite the pandemic

We are a major employer, with more than
30,000
people in the UK

Contents

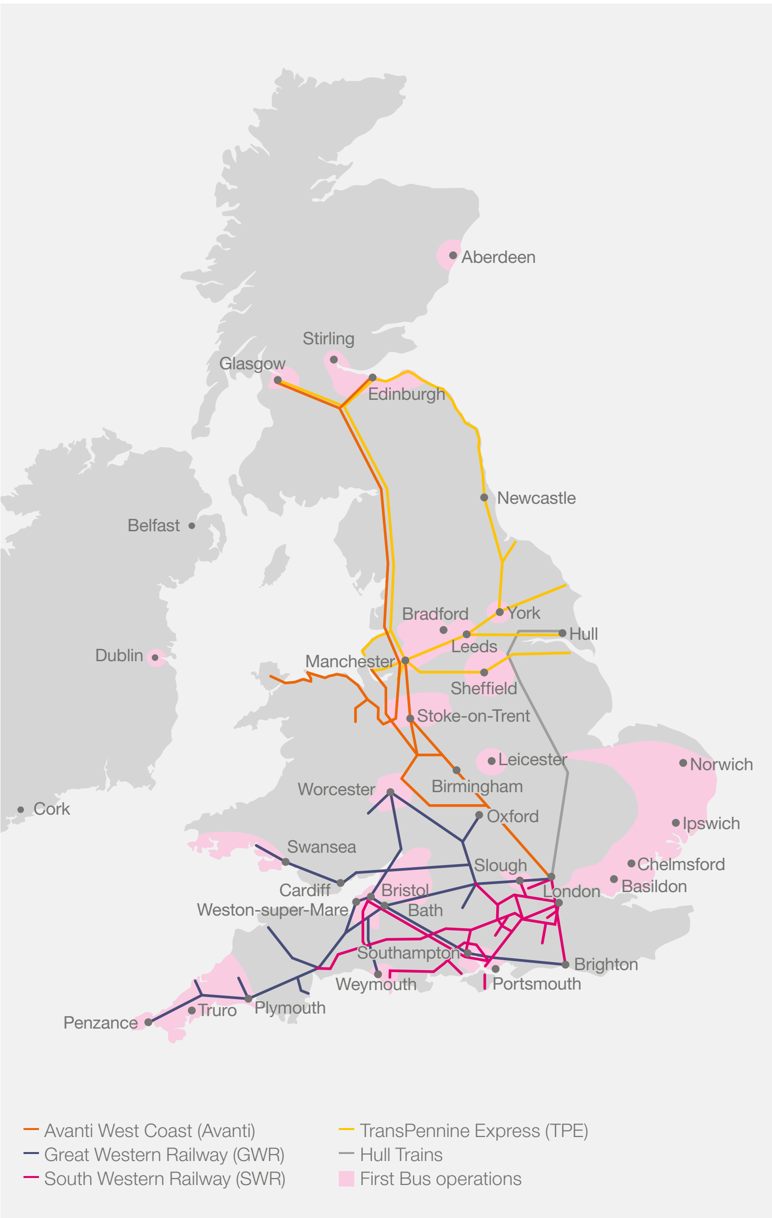
Strategic report

In this section, we explain who we are, our business model and strategic objectives, the markets in which we operate, key events in the year and how we performed against our KPIs. We also set out the principal risks that may affect our business and strategy.

Strategic report

A leading UK public transport operator

We are a market leader in public transport in the UK through our First Bus and First Rail divisions, which generated more than 60% of our revenue in 2020/21. Following the sale of our North American contract divisions (see right), the Group has a strong platform on which to create sustainable value, and is well-positioned to help deliver wider economic, social and environmental goals at a key inflection point for public transport in the UK. Going forward, the Group will be a sustainable and cash generative business with a well-capitalised balance sheet, a strategy focused on the future and an operating model that will support an attractive dividend for shareholders at the appropriate time. As part of our Mobility Beyond Today sustainability framework launched during the year, we are formally committed to operating a zero emission First Bus fleet by 2035 and not to purchase new diesel buses after 2022. Furthermore, First Rail will help deliver the UK Government's goal to remove all diesel-only trains from service by 2040.



Continuing operations: UK

First Bus

First Bus is the second largest regional bus operator in the UK, transporting hundreds of thousands of passengers a day. We serve two-thirds of the UK's 15 largest conurbations, with a fifth of the market outside London. We are a leading operator in the majority of our markets, including major urban areas such as Glasgow, Bristol and Leeds.

465,000
passenger journeys a day in 2020/21 (affected by pandemic 2019/20: 1.36m)

Fleet of 5,000
buses operated

14,500
employees

53
depots and outstations

See page 20

First Rail

First Rail is the UK's largest rail operator, with many years of experience running all types of passenger rail: long-distance, commuter, regional and sleeper services. We have four Department for Transport-contracted operations (Avanti, GWR, SWR, TPE) and two open access routes (Hull Trains and a new East Coast service launching in autumn 2021).

220,000
passenger journeys a day in 2020/21 (affected by pandemic 2019/20: 930,000)

Fleet of 3,750
rail vehicles operated

17,500
employees

420
stations operated

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North American operations

On 21 July 2021 we completed the sale of our North American contract divisions First Student and First Transit to EQT Infrastructure for $4.6bn. Through this transaction, which followed a strategic review by the Board of all options to unlock value and a comprehensive and competitive sale process, the Group will return value to shareholders, address its longstanding liabilities and make a substantial contribution to its pension schemes, while ensuring the ongoing business has the appropriate financial strength and flexibility to deliver on its goals. Greyhound remains non-core and we continue to pursue all exit options for it while de-risking its liabilities and actively managing its substantial property portfolio for value.

> "The sale of First Student and First Transit recognises the full strategic value for these long-term businesses."
>
> **David Martin, Chairman**

Continuing operations: non-core

Greyhound

The only national operator of scheduled intercity coaches in the US, with a unique nationwide network and iconic brand.

See page 25

10,000
passenger journeys a day in 2020/21 (affected by pandemic 2019/20: 40,000)

Fleet of
1,200
buses operated

2,500
employees

Discontinued operations

First Student

First Student is the largest provider of student transportation in North America – twice the size of the next largest competitor. Industry-leading safety programmes, strong customer relationships and service record are key differentiators.

See page 26

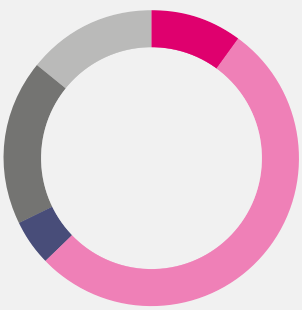
First Transit

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

See page 27

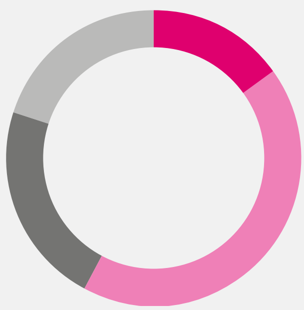
Key figures

Revenue
(as % of Group)



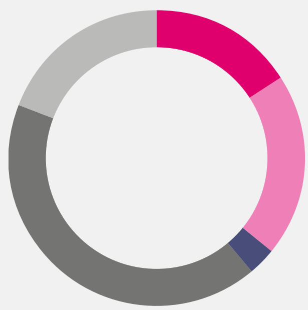
First Bus	10%
First Rail	53%
Greyhound	5%
First Student – discontinued	18%
First Transit – discontinued	14%

Adjusted operating profit[1]
(as % of Group)



First Bus	15%
First Rail	43%
Greyhound	0%
First Student – discontinued	22%
First Transit – discontinued	20%

Number of employees
(as % of Group)



First Bus	16%
First Rail	20%
Greyhound	3%
First Student – discontinued	42%
First Transit – discontinued	19%

1 Greyhound adjusted operating loss of £(10.3)m in FY21; Group items of £(32.5)m allocated to divisions.

Our markets

For more information on the market environment for each of our divisions, please go to the Business review section starting on page 20.

Public transport networks are the lifeblood of vibrant towns and cities, and they are essential to achieving global net-zero carbon ambitions.

Although the pandemic reduced demand in all our markets, and it is too early to predict how that demand will return, our services are essential to restoring economic growth, combating climate change, and improving quality of life. This was underlined throughout the last year by the support given to us by local and national governments to ensure we could continue to run vital routes and networks for key workers. The UK Department for Transport (DfT) has published major policy strategies for both bus and rail in spring 2021, demonstrating its commitment to public transport. Our services make a vital contribution to the economy (worth a direct Gross Value Added (GVA) contribution of £1.4bn in 2019/20) – for every £10 of GVA directly generated by FirstGroup in the UK, a further £18 of GVA is supported in the wider economy.[1] Our partners have increasingly clear sustainability ambitions. These, and our deep stakeholder engagement and local expertise, make us the partner of choice for innovative and sustainable transport, accelerating the transition to a zero carbon world. As society seeks to recover from the pandemic and 'Build Back Better', we will play a key role in providing more environmentally sustainable, value for money transport connections.

Liveable cities

Nearly 85% of the UK population live in towns and cities. This gives rise to a demand for easy-to-use public transport services in urban areas in response to congested roads, deteriorating air quality and higher costs of motoring. Many urban dwellers are choosing not to drive at all. As economies re-open, low-carbon public transport that reduces congestion and improves air quality will be crucial to sustaining healthy, connected communities. Poor air quality, made worse by congestion, has a particular impact on the health of our communities and many urban areas are starting to restrict the most polluting vehicles and prioritise public transport to address the problem. We will continue to innovate and invest in our fleets in order to help improve air quality in the areas where we operate.

75 cars

could be taken off the road by passengers using one First Bus double deck service

Making the shift – read about our sustainability aims for: More people using bus and rail services, increasing ridership and taking private car journeys off the road on page 36.

1 Data from CEBR study of FirstGroup social and economic value to the UK.

Green jobs

Public transport jobs are green jobs – for our own employees and those in the public transport industry supply chain – and they are becoming even greener as we invest in the latest zero emission technologies and innovation. The UK Government predicts that zero emission vehicles could support 40,000 jobs by 2030, with exports of new technologies having the potential to add £3.6bn GVA by 2030. For every ten jobs directly generated by FirstGroup in the UK, a further 11.5 jobs are supported in the economy. Also, we support a range of small and medium enterprises – around a tenth of the £1.86bn we spent on procurement from UK-based firms in 2019/20 was spent on small firms, supporting more than 1,500 full-time equivalent (FTE) jobs in these businesses.[1]

11.5 jobs

supported for every ten we directly employ

£1.9bn

FirstGroup spend on UK supply chain

Demographics

Many parts of the communities we serve – those in education, retired or those unable to drive themselves – have always been more reliant on public transport and these groups are growing, in part due to an aging population, increased urbanisation and a greater desire to make sustainable travel choices. While some may reassess the frequency and purpose of their travel habits as we emerge from the 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. Indeed, early indications are that there is an increased demand for rail and bus travel for leisure, even as commuting takes longer to recover. These emerging patterns can be turned to our advantage: a smoother spread of passenger demand through the day would enhance the efficiency of our fleet usage.

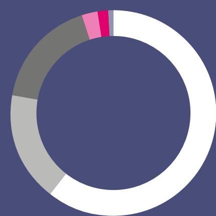
Smarter customer solutions

Our transport systems are mirroring the world at large in becoming smarter, more connected and increasingly demand responsive. The UK Government's recent National Bus Strategy (NBS) and Rail White Paper rightly focus on the importance of flexible, easy-to-understand and integrated fares to encourage the use of rail and bus services. We work with our industry and government partners to offer more convenient and innovative experiences for customers in the shape of flexible ticketing, real-time travel info, and mobile or contactless ticket options. We are leaders in the operation and maintenance of electric and autonomous vehicles, while continuing to invest in the technology and services to support connected and on-demand travel.

Climate change

The climate emergency is the greatest long-term challenge of our time, and requires co-operation and action on a local, national and international level. The vital role of public transport has never been clearer in helping to address the challenges of climate change, facilitating modal shift from private cars to buses and trains with lower per-passenger mile environmental impact. We are committed to help deliver a more sustainable future for the communities we serve and accelerate the transition to a zero carbon world. To that end, we are trialling, testing and investing in new technologies to transition our own vehicles to zero carbon – for instance, we estimate that by 2035, First Bus services will emit just 3% of their current carbon dioxide emissions.

Carbon emissions in UK transport sector, by type (%)



Cars	**60.6**
Vans	**17.4**
HGVs	**17**
Buses	**2.7**
Trains	**1.5**
Other	**0.8**

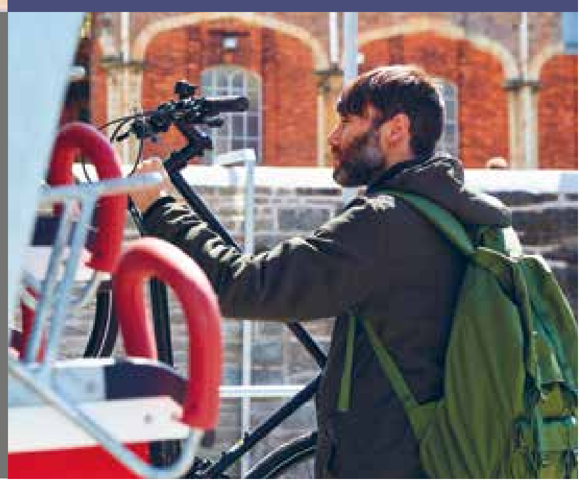
Source: CCC Sixth Carbon Budget 2019, Surface Transport: Emissions by transport type.

See pages 35 to 51 for more information on our Group-wide strategic framework for sustainability, and pages 57 to 60 for our latest carbon and energy performance.

Zero carbon – read about our sustainability aims for eliminating the emissions associated with our operations on pages 38 and 39.

Stronger economies

Thriving local economies rely on public transport. The UK Government has committed to 'levelling up' towns and cities which have been 'left behind', by increasing funding and other direct investment. Examples of this government funding include the £4.8bn Levelling Up Fund, which will invest in infrastructure such as town centres and local transport, and the £1bn Towns Fund. Our reach as a national operator means we play a direct role in supporting sustainable economic activity. FirstGroup directly provides employment to people living in 355 of the 374 local authority districts in the UK, including areas of high deprivation, or where other employment opportunities are more limited. For instance, in Scotland, Glasgow is the most deprived local authority as well as our most significant employee hub in the country, where we employ 800 workers from the city, supporting £33.2m in associated GVA for the city.[1]



Chairman's statement

David Martin
Chairman

"The ongoing Group has significant opportunities ahead of it as a focused UK public transport leader and I look forward to the future with confidence."

This has been a very active and significant year in FirstGroup's evolution. This time last year I said that concluding the process to sell First Student and First Transit was our core objective, as the best route to enhance the long-term value of our businesses, while respecting our commitments to all our stakeholders. I was very pleased we completed the sale of these businesses in July 2021 to EQT Infrastructure for a full strategic value, which looks beyond the pandemic and reflects the high quality and long-term nature of these attractive assets.

The sale process

The sale followed a comprehensive and competitive process overseen by the Board, in order to seek the best possible price for First Student and First Transit, which was well-publicised for more than a year. Through the sale process, the businesses were widely marketed, and the Group and our financial advisers actively engaged with more than 40 potential buyers.

In the context of a competitive process to seek the most attractive proposal, an earnout structure was agreed for First Transit which would benefit continuing shareholders in the Group. This reflects First Transit's strong prospects for future performance, not least in light of recent ambitious plans for investment in infrastructure and public transportation in the US. Under the earnout FirstGroup will receive up to a further $240m (c.£175m), payable on the third anniversary of the sale (following an independent valuation), or sooner if the business is sold by EQT Infrastructure to a third party. The earnout has been initially fair valued at $140m for accounting purposes, applying discounted cash flow methodology.

Shareholder approval

As a substantial transaction, the sale required approval of a majority of shareholders in general meeting, which was received in May. As noted at the time, I and the whole Board take very seriously our responsibility to understand the different views and perspectives of investors, and recognise that a number of shareholders did not vote in favour of the resolution. As FirstGroup enters a new and exciting phase in its development, the Board and I look forward to continuing an open and constructive dialogue with all shareholders as we look to the future.

Use of proceeds

As previously set out, the Group has a number of longstanding liabilities. In determining the use of proceeds of the sale the Board has sought to balance returning value to shareholders while also making a necessary and substantial contribution to the UK pension deficit, reducing its debt (including repayment of the Covid Corporate Financing Facility (CCFF) to the UK Government) and addressing other longstanding liabilities. In parallel, the Board carefully considered the appropriate capital structure and distribution policy for the ongoing Group, and it concluded that a well-capitalised, de-risked balance sheet will provide FirstGroup with flexibility to navigate end-market uncertainty at this point in the pandemic recovery, pursue its strategy going forward and support a progressive annual dividend commencing during the financial year ending March 2023, as described in more detail below.

The Board has announced its intention to increase the proposed return of value to shareholders from the initial £365m to £500m (equivalent to c.41p per share) in light of the higher cash proceeds received due to the final adjustments for working capital and debt and debt-like items in the First Student and First Transit sale, the greater clarity for First Rail resulting from agreement in May of the Group's final rail franchise termination sum and the signing of the National Rail Contracts for SWR and TPE, as well as improving cash flow expectations for the continuing Group as a result of further easing of pandemic restrictions in our core UK bus and rail markets. The estimated pro forma adjusted net debt of c.£100m for the ongoing Group following the sale and uses of proceeds is therefore unchanged.

The Board remains committed to keeping the balance sheet position of the ongoing Group under review and will consider the potential for further additional distributions to shareholders in due course, following crystallisation of the First Transit earnout, resolution of the legacy liabilities related to Greyhound and the potential release of monies from pension escrow (up to £117m). The Board also notes the capacity to increase gearing over time, as end market conditions and hence business performance improves.

The proposed return of value is expected to be undertaken in the autumn of 2021, with the distribution mechanism to be announced in due course in consultation with shareholders.

The future of the Group

FirstGroup has a clear purpose to provide vital transport services that connect communities – taking customers where they need to go for business, education, health, social or recreational purposes. FirstGroup's public transport services offer efficient, cost effective and convenient travel options for passengers, both within and between the UK's congested towns and cities.

Public transport services are also critical long-term green infrastructure, as demonstrated during the coronavirus pandemic, and are fundamental to achieving the goals of the communities they serve, the economy and wider society. The connections offered by the ongoing Group's services are a critical enabler of vibrant local economies and can play an important role in the UK's regional 'levelling up' agenda. Of course, Westminster and the devolved governments in other parts of the UK have also recognised that transitioning more travellers to low and then zero carbon transport services is also critical to meeting the challenge of climate change, and have put in place substantial funding and strategies which will enhance our investments in our business in the years to come.

In addition to the Group's services being a critical enabler for society meeting its broader environmental, social and governance (ESG) objectives, the Group's own Mobility Beyond Today sustainability framework commits to making progress across a number of key areas. As a transport operator, the most important element is the Group's commitments to a zero emission trajectory for its vehicle fleets (see the First Bus and First Rail business reviews for more detail), which will increase its EU Green Taxonomy eligibility year by year. Taken together, I believe that the increasingly supportive UK policy backdrop and the growing focus on innovating to enhance passenger convenience and the sustainability of our business points to a potential inflection point for the ongoing Group's growth potential.

The Board

As a natural consequence of the sale of First Student and First Transit and as the Group enters a new strategic phase, the composition and background of the Board will evolve.

Matthew Gregory has informed the Board of his intention to step down as Chief Executive and as an Executive Director at the conclusion of the AGM on 13 September 2021. Accordingly, Matthew will not be seeking re-election at the AGM. I will become interim Executive Chairman at the conclusion of the AGM until a permanent Chief Executive is appointed. A comprehensive search is underway to select a new Chief Executive for the Group. Matthew and I will work closely together to ensure a smooth handover process. Given his knowledge and experience of the Group, Matthew will also be available to support me over the coming months, including with certain matters associated with completing the transition to the ongoing UK-focused Group.

On behalf of the Board I would like to thank Matthew for his significant contribution to FirstGroup since joining in 2015, initially as CFO and then stepping forward to take up the post of Chief Executive in 2018. Matthew has been instrumental in delivering the Board's strategy to rationalise our portfolio of businesses, culminating in the transformational sale of First Student and First Transit. Matthew was also responsible for delivering margin improvements particularly in First Student and First Bus, as well as First Rail's successful Avanti West Coast bid, which restored FirstGroup to its leading position in UK passenger rail. Under his leadership, the Group adeptly responded to the unprecedented challenges created by the coronavirus pandemic. He leaves FirstGroup a more focused, resilient and flexible organisation, well positioned to benefit from the many opportunities ahead. On behalf of the Board, I would like to thank Matthew for all that he has achieved and wish him every success for the future.

Jane Lodge and Peter Lynas joined the Board as Non-Executive Directors on 30 June 2021, while David Robbie stood down from the Board on the same date. On behalf of the Board I would like to thank David for his significant contribution over the past three years, including acting as interim Chairman for a period in 2019. I would also like to welcome Jane and Peter to the Board. They join at a pivotal time and I am confident that their considerable experience and knowledge will enable them both to make a strong contribution to the Group.

I am also pleased to welcome Anthony Green, who was elected Group Employee Director and appointed to the Board on 15 September 2020. He has been a First Bus employee since 2009 and brings an important perspective to Board discussions.

We will continue to oversee an orderly and appropriate evolution of the Board in order to ensure it has the right balance of skills, experience and diversity for the Group's future needs.

Our people

The effects of the coronavirus pandemic will continue to be felt throughout our business and the communities we serve for some time to come. During the year the Group has continued to respond to the evolving situation swiftly and decisively. I am particularly proud of the dedication and fortitude shown by all our employees during this immensely challenging time. They have more than risen to the challenges presented and stepped up to support our customers and communities each and every day.

We are deeply saddened by the loss of employees in each of our divisions due to coronavirus. On behalf of the Board and everyone at FirstGroup, I offer our sincere condolences and ongoing support to their families, friends and colleagues.

Conclusion

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. The vital role of public transport in the UK has never been clearer and following the sale, FirstGroup is in prime position to deliver on its goals, with a well-capitalised balance sheet and an operating model that will support an attractive dividend for shareholders commencing during the financial year ending March 2023. The ongoing Group has significant opportunities ahead of it as a focused UK public transport leader and I look forward to the future with confidence.

David Martin
Chairman
27 July 2021

Year in review

Our businesses are at the heart of our communities, and constantly evolving for our customers. Some key moments from a landmark year are highlighted here.

March 2020

- Rapid escalation of the coronavirus outbreak in our key markets, leading to government-imposed lockdowns and a corresponding reduction in service volumes for our businesses
- Emergency Measures Agreements (EMAs) put in place by the UK Government for train operating companies
- New direct award agreement signed to ensure continuity of GWR services for at least three years

April 2020

- Announcement of UK Government funding for bus industry to operate crucial services for key workers through the pandemic
- Liquidity further enhanced through £300m issuance under the UK Government's CCFF scheme
- GWR names train after NHS fundraiser Captain Sir Tom Moore

May 2020

- New developments introduced to help First Bus passengers safely plan their journey including a live capacity tracking and passenger counting facility

June 2020

- Action for Children UK charity partnership wins at Business Charity Awards

July 2020

- Commitment announced to operate a wholly zero emission bus fleet across the UK by 2035 and not to purchase any new diesel buses after December 2022
- Further innovations added for First Bus passengers, including capacity tracking of wheelchair spaces and the ability for key workers to book seats on vital bus services
- UK's largest electric Park&Ride bus fleet launched in York

August 2020

- First Transit was selected as the autonomous vehicle provider for the Fort Carson Smart Transportation Testbed
- Avanti operated the UK's first fully wrapped Pride train staffed entirely by an LGBTQ+ crew
- Hull Trains resumed operations after suspension during the first UK-wide lockdown; the services would be suspended again during the subsequent two lockdowns

September 2020

- First Student expands Canadian operations by acquiring WUBS Transit in Ontario
- Janette Bell appointed as Managing Director of First Bus, succeeding Giles Fearnley
- New arrangements put in place for operation of rail companies, with Emergency Recovery Measures Agreements (ERMAs) succeeding EMAs for Avanti, SWR and TPE
- Anthony Green joined the Board as Group Employee Director

October 2020

- World's first hydrogen-powered double-decker bus launched in Aberdeen
- First electric bus since the 1950s introduced in Glasgow; first ever zero emission bus fleet for West Yorkshire launched in Leeds
- Three First Bus employees recognised in Queen's Birthday Honours for services to the community during the pandemic

November 2020

- First Transit partners with Moovit for Mobility as a Service (Maas) solutions

December 2020

- FirstGroup becomes the first UK-based transport operator to sign up to support the Task Force on Climate-related Financial Disclosures (TCFD)
- Claire Mann appointed as new Managing Director of SWR
- Agreement reached on termination sums allowing Avanti and SWR to transition from previous franchise model to new directly-awarded contracts
- Three major properties sold for gross proceeds of $137m as part of programme to rationalise Greyhound's property portfolio

January 2021

- First Student and First Transit partner with NextEra Energy to electrify school and municipal transit fleets in North America
- First Transit partners with Lyft on management of a bike share scheme in Portland, Oregon
- First Bus completes the retrofit of 1,000th mid-life bus to the Euro VI low emission standard

February 2021

- FirstGroup named in the Clean200 list of cleanest public companies worldwide
- Partnership announced with Arrival to become the first operator of their ground-breaking zero emission bus on existing routes
- Avanti launches a smartcard for West Coast customers

March 2021

- First Glasgow announce plans to introduce £9m fleet of 22 new electric vehicles to the city in time for the UN COP26 Climate Change Conference in November 2021
- First Rail launches evo-rail 5G Wi-Fi service providing a pioneering on-board bandwidth increase

April 2021

- Sale of First Student and First Transit announced, together with plans for using the proceeds to return value to shareholders; make a substantial contribution to the UK pension deficit; reduce debt (including repayment of the CCFF loan); and address other longstanding liabilities
- FirstGroup becomes first UK public transport operator to commit to an ambitious science-based target on net-zero

May 2021

- FirstGroup signs new National Rail Contracts (NRCs) for SWR and TPE

June 2021

- Flexible season tickets launched by our train companies
- Jane Lodge and Peter Lynas appointed to the Board; David Robbie stands down

July 2021

- Sale of First Student and First Transit to EQT Infrastructure completed
- Proposed return of value to shareholders increased to £500m
- Matthew Gregory informs Board of intention to step down as Chief Executive after AGM.

Our future strategic framework

A key milestone in our strategy to unlock value for shareholders was achieved this year with the sale of First Student and First Transit.

Going forward, the Group's services will have a fundamental role to play in delivering the UK's economic, social and environmental objectives, as well as providing a vital service that is an essential part of the daily lives of many people in communities across the UK. Following the sale of First Student and First Transit, the Board expects FirstGroup to be a strong platform for further value creation at a key inflection point for the public transport industry.

Going forward, our platform for future value creation will support our clear social purpose:

Investment case for the ongoing Group

1. Leading positions in bus and rail transport in the UK
2. Inflection point for growth, underpinned by supportive government and social policies
3. Digital innovation to attract more customers, enhance business efficiency and flexibility
4. First Bus: ready to complete trajectory to 10% margin post-pandemic
5. First Rail: well placed for lower risk, long-term and cash generative rail operations
6. Opportunities from adjacent markets in UK bus and rail and in new geographies over time
7. Critical enabler of society's ESG goals, accelerating the transition to a zero carbon world

Our clear social purpose

Public transport networks are the lifeblood of vibrant towns and cities; essential drivers of local economies and vital to achieving global net-zero carbon ambitions.

- Public transport has proved its essential role at the heart of communities – we are critical long-term green infrastructure, shown by both Government and stakeholder support throughout the pandemic
- By connecting people and communities we provide more equitable access to jobs, education, services and people, which is key to economic vitality, growth and quality of life in areas we serve
- The UK Government's commitment to becoming net-zero carbon by 2050 requires zero emission public transport solutions. We are vital to combatting climate change, reducing congestion, and helping to lower carbon and air emissions by taking private car journeys off the roads
- We are a major employer and part of the green jobs revolution – public transport jobs are green jobs, and increasing as we invest in the latest zero emission technologies and innovation
- Both customers and partners have increasingly clear sustainability ambitions. Our deep stakeholder engagement and local expertise mean we are the partner of choice for safe, innovative and sustainable transport, accelerating the transition to a zero carbon world.

Chief Executive's report

Matthew Gregory
Chief Executive

"In this landmark year, FirstGroup has more than risen to its challenges. We have delivered on our strategic objectives, protected our financial stability, and supported our communities with essential services while helping to shape the future of public transport in the UK."

The Group has faced a number of significant challenges in the past year and has responded quickly and robustly. As a transportation business, all of our operations were heavily affected by the actions taken by governments and society to respond to the coronavirus pandemic. We stayed close to our customers and stakeholders, adapted our services flexibly in accordance with their needs, and maintained our financial stability. Alongside this, we also progressed our strategic plans, culminating in the sale of First Student and First Transit which completed in July 2021. This transformational transaction refocuses the Group on our leading public transport operations in the UK and sets the scene for long-term sustainable value creation.

Protecting our passengers and employees

Our first priority remains the health and safety of the Group's passengers, employees and communities. We continue to follow all appropriate public health authority guidance and have adopted and also developed best practice in areas such as enhanced cleaning and decontamination of vehicles, depots and terminals. We take great pride in the way our colleagues and teams across the Group have provided direct assistance and support to those most in need, right at the heart of our communities. Very sadly, we have lost employees in the year as a result of the pandemic, and we offer our deepest condolences to their loved ones and colleagues.

Adapting services to support our customers and communities

By the start of this financial year, the Group had experienced an average passenger volume reduction of c.90%, with international lockdowns in place and all North American schools we served closed. However, many of our customers and government partners worked with us to adjust capacity to fit demand while preserving our ability to restore service quickly as required. Since then, passenger activity has increased in all divisions, albeit at differing rates, but remains substantially below pre-pandemic levels in many areas.

Across all divisions we adapted rapidly, both operationally and commercially, to support our customers and communities. We have reduced our fixed cost base wherever possible and rigorously focused on variable cost and capital expenditure control to mitigate the impact of lower revenues.

Operational highlights – continuing operations

Given the impact of social distancing rules and government travel guidance on passenger volumes, operating our UK bus and rail networks at scale during the year would have been commercially unviable and many could have ceased. However, recognising the essential nature of public transport connections to local economies, Westminster and the devolved governments put in place comprehensive emergency measures to procure continuity of critical rail services and to maintain industry-wide bus capacity at a time of significantly reduced demand and with social distancing restrictions in place.

First Bus and other regional bus operators have effectively provided their assets and expertise to operate a government-funded bus system over the last financial year on a broadly cash break-even basis. The Government has recently announced a recovery funding package of £226.5m which will reinforce delivery of local bus services across England as passenger numbers rebuild. The funding package will support the industry's transition away from the COVID-19 Bus Service Support Grant (CBSSG) programme which has been in place since May 2020 and will formally come to an end in England on 31 August 2021 with the introduction of the new package. We are encouraged that passenger volumes have recovered to c.60% of pre-pandemic levels in recent weeks, particularly since social distancing restrictions on public transport began to be eased from early April.

Meanwhile we have continued to enhance the ease, convenience and value for money of our services through further digitisation, and our increased capability to analyse our passenger numbers and routes in real-time will stand us in good stead as we realign our routes and networks to post-pandemic demand conditions.

We are also working hard with local transport authorities in our areas to implement the National Bus Strategy which was announced in March, and we continue to work towards our commitment of a zero-emission bus fleet by 2035. For example, we have started to transform our Glasgow Caledonia depot into the largest electric vehicle charging hub in the UK, with the first phase to complete ahead of the UN COP26 Climate Change Conference which takes place in Glasgow in November 2021.

Chief Executive's report continued

Throughout the year our **First Rail** contracts were operated under the terms of the emergency arrangements put in place by the UK Government in response to the pandemic. In May 2021 we agreed the final payment with the DfT to terminate our pre-existing franchise contracts by agreement, which then enabled TPE and SWR to agree National Rail Contracts later that month. These run to 2023 with potential extensions to 2025 and are the first contracts awarded under the Government's new model offering a more appropriate balance of risk and reward for rail operators, passengers and the taxpayer. Under the new agreements, operators no longer take passenger revenue risk, instead receiving a fixed fee for operating the service, with the opportunity to earn additional fees based on performance. We are now discussing similar contracts for Avanti (potentially extending to 2032) and for GWR.

The final agreement reached with the DfT for the TPE franchise termination was c.£50m better than the assumption made by the Group in setting aside cash for the discharge of the rail termination sums at the time of the announcement of the First Student and First Transit sale.

We welcomed the publication in May 2021 of the UK Government's longer-term ambitions for the future of the UK rail industry. As the largest UK passenger rail operator, we look forward to helping to bring to reality the Williams-Shapps Plan for Rail, which puts the expertise, innovation and experience of private sector rail operators at the heart of the new model for improving service delivery for passengers in the coming years.

We are proud that all our train operating companies delivered top marks on all the passenger service metrics assessed to-date under the emergency measures regime.

Greyhound volumes have improved modestly since the start of the calendar year and the business is now operating just over half of its pre-pandemic mileage. As the market leader, we responded to the very challenging conditions with capacity adjustments aligned to demand, yield management actions and $60m in fixed cost reductions to maintain a level of service for passengers, while our competitors withdrew from the market. Negotiations with state agencies to secure CARES Act emergency grants for vital intercity bus connections have been modestly ahead of our expectations and further funding is expected to come through under the Biden administration's recent legislative activities.

In May 2021 we announced the closure of Greyhound Canada after more than a year of services being suspended due to the pandemic. Greyhound Canada made significant outreach efforts to the provincial and federal government to request financial support for the industry, but operations could not continue in the absence of that financial support.

In December 2020 we announced the sale of three surplus Greyhound properties for gross proceeds of $137m and continue to actively monetise the remainder of the property portfolio.

Greyhound remains non-core and sale discussions are ongoing, but the process has been affected by the pandemic's impact on this passenger volume-based business. As clarity improves in its end-markets, we will look to exit the business.

Operational highlights – discontinued operations

The proportion of **First Student**'s bus fleet operating either full service or on a hybrid basis increased, to 87% of pre-pandemic levels in early June before schools in some regions began closing for the summer holidays. During the year most of our schools where we were not fully operational have been supporting us with agreements to make either full or partial payments to ensure that we are in a position to deliver increased services rapidly when needed. Between services in operation and these agreements with our customers, we secured c.71% of our pre-pandemic home-to-school revenue in the year.

Alongside this activity we also achieved a good outcome to the bid season, with retention rates in line with our expectations of 88% of 'at risk' contracts or 95% of the whole contract portfolio, and several important new business wins.

Most of **First Transit**'s contracts are to provide essential services, so provision during the year was not reduced as significantly as in some other parts of the Group. Where service levels did change we worked closely with clients to agree contractual amendments.

While the rate of recovery varies by sub-segment, overall First Transit operated c.70% of services and recovered c.86% of revenues in the year compared with pre-pandemic levels.

The division's 'at risk' contract retention rate was 89% in the year and it delivered a number of new business wins across both traditional markets and new mobility services.

Group financial performance was significantly ahead of our expectations at the pandemic's outset

Revenue from continuing operations was in line with the prior year at £4,641.8m (2020: £4,642.8m). Excluding the new Avanti contract, revenue decreased by £567.4m as a result of the pandemic.

Adjusted operating profit from continuing operations was £101.9m (2020: £69.7m), an increase of £16.9m excluding the incremental Avanti contribution of £15.3m. For First Bus and First Rail this largely reflects the terms of the UK Government-procured emergency arrangements to enable socially distanced travel, while in Greyhound it comprised the drop through of lower revenues offset by reduced variable costs, the substantial fixed cost actions and CARES Act grants for vital bus service connections.

Reduced activity levels due to the pandemic in the discontinued operations were mitigated by cost savings, better than expected revenue recoveries from customers and higher service levels in the final quarter, with the businesses contributing £2,203.2m (2020: £3,111.8m) in revenue and £107.5m (2020: £187.1m) in adjusted operating profit to the Group.

Statutory operating profit from continuing operations was £224.3m (2020: loss of £(215.2)m) reflecting £122.4m of net adjusting items compared with £(284.9)m in 2020, and statutory EPS was 6.5p (2020: (27.0)p).

The Group's new alternative performance measure of Rail-adjusted EBITDA (First Bus and non-contracted First Rail EBITDA, plus contracted Rail net attributable earnings, minus central costs) was £87.1m in the year.

Substantial cash flow in period, significantly ahead of expectations

The Group's adjusted cash flow of £284.0m (2020: £97.4m) was well ahead of initial expectations, reflecting our actions to maintain liquidity and financial strength despite the passenger volume reductions.

Some capital expenditure was deferred, which in the case of the discontinued operations was partially reflected in the terms of the sale. First Bus anticipates c.£90m in capital expenditure in FY22, some of which was deferred from the last financial year, with £30m spent in FY21.

The Group also secured £109.5m in cash proceeds from the sale of properties in the year, principally from Greyhound.

Stable liquidity and balance sheet reinforced

Adjusted net debt (bonds, bank debt and other debt net of cash (excluding First Rail ring-fenced cash) before IFRS 16 leases) reduced by £76.6m in the year to £1,414.3m (2020: £1,490.9m). IFRS 16 lease liabilities (which are predominantly First Rail rolling stock leases which expire when the relevant operations cease) decreased to £1,850.0m (2020: £2,381.9m), with the majority of the decrease relating to payments made under the rolling stock lease agreements. Taken together, reported net debt including IFRS 16 lease liabilities decreased to £2,625.8m (2020: £3,260.9m).

Net debt: EBITDA was 1.6x (2020: 1.3x) on the basis relevant to the Group's bank covenant tests, comfortably ahead of the enhanced headroom agreed with our lenders last November.

As at 27 March 2021 the Group's undrawn committed headroom and free cash (before First Rail ring-fenced cash) was £1,130.6m (March 2020: £585.7m), reflecting cash generation in FY21 and new facilities entered into during the year, notably a £300m bridge to the CCFF and new finance leases and supplier credit facilities.

Since the last liquidity update in December 2020, the Group has repaid the £350m April 2021 bond mainly funded from drawdown of the £250m bridge facility entered into in March 2020, secured £102m in cash proceeds from the sale of Greyhound properties announced at the end of December 2020, while operating cash flow in the second half of the financial year was positive and ahead of our expectations. In March the Group renewed the £300m in commercial paper issued through the UK Government's CCFF scheme for a further year and secured a £300m committed bridge facility from the CCFF maturity in March 2022, thereby providing adequate financial resources for the short to medium term.

Following receipt of the proceeds of sale of First Student and First Transit, the Group has begun the process of settling the majority of its outstanding financial indebtedness, including repaying the CCFF and cancelling the £300m committed bridge facility. Following all the funds flows previously outlined, the ongoing Group expects to have pro forma adjusted net debt of c.£100m.

Momentum to build during current financial year as sale completes and pandemic travel restrictions diminish

Overall, we expect our financial performance in the current financial year to provide a strong foundation for delivering the Group's previously announced financial policy framework (as set out in the Financial review on page 28) – including commencing regular dividend payments during FY23.

First Bus' contribution to adjusted operating profit in FY22 will be dependent on the pace at which passenger volumes build back. First Rail earnings in FY22 will be driven by the contractual arrangements now in place. Greyhound is expected to exceed its FY21 contribution in light of encouraging recent volume trajectory. Central costs are expected to be c.£5m lower in FY22, reflecting half a year of progress towards the £10m per annum reduction target following completion of the First Student and First Transit sale.

Further ahead, the Group has committed to commencing paying a regular dividend during FY23, supported by our expectations for a 10% margin in First Bus on increasing revenues, as passenger volumes return to between 80-90% of pre-pandemic levels over the first year after restrictions on public transport are lifted. First Rail's profitability will be driven by our delivery against performance targets under the new National Rail Contracts whilst we expect to add further earnings from opportunities adjacent to our core rail operations.

Portfolio rationalisation and the opportunities for the ongoing Group

Following completion of the sale of First Student and First Transit, FirstGroup is a leader in public transport in the UK, with a clear social purpose through its vision to provide easy and convenient mobility, improving quality of life by connecting people and communities. The core of the ongoing Group is our First Bus and First Rail divisions, which are both leaders in their respective sectors of the UK public transport industry, with substantial operational experience, strong stakeholder relationships, deep expertise and a growing track record of using technology to innovate for passengers.

As described in more detail in the divisional reviews, both divisions are experiencing substantial – and in many ways very positive – changes in their operating environment, with the National Bus Strategy and new developments in the rail contracting model in line with the recently announced Williams-Shapps Plan for Rail offering new opportunities.

Opportunities

Our goal is to continue to deliver for our passengers and wider society. We aim to make sure our services are attractive travel choices for customers, with increasingly sophisticated and easy-to-use journey planning tools, a range of ticket products catering to a wide range of needs, and reduced complexity and cost compared to other travel options (in particular owning, maintaining, insuring and parking a private car in the UK's increasingly crowded towns and cities). FirstGroup's transport services allow flexible and easy to access travel on Wi-Fi enabled vehicles to and from key destinations in towns and cities across the UK.

Travel connections are also fundamental to stronger local economies, expanding the scale and interconnectivity of neighbourhoods, cities and whole regions with each other. With the UK's increasingly crowded and congested cities, the most cost-effective way to enhance those connections – and level up regional opportunity – is through a dynamic public transport service sector. The ongoing Group's services are also a more efficient use of infrastructure space with lower emissions than other forms of travel in urban areas.

Responsible business

Governments worldwide are also increasingly focused on making it easier for public transport providers to support the response to the climate change challenge. FirstGroup expects its services to make an important contribution to achieving this goal in two ways. Firstly, by facilitating a modal shift of passengers out of their cars and into public transport, because the per passenger mile emissions of a typical train or double-decker bus today are significantly lower than the equivalent number of private vehicles.

Secondly, FirstGroup is committed to accelerating the transition of its own fleets to zero-emissions in the coming years (see the First Bus and First Rail business reviews), supporting a commensurate growth in green jobs, manufacturing and new business models such as vehicle-to-grid power, for example. Both divisions of the ongoing Group will therefore make a significant contribution to delivering the UK's climate change commitments.

Chief Executive's report continued

In addition, the Group has also committed to implementing the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations in this year's Annual Report, a year ahead of the regulatory mandate. FirstGroup was also the first UK road and rail operator to formally commit to setting a science-based target (SBT) for reaching net zero emissions by 2050 or earlier, in accordance with the SBT initiative.

We are also working to create a more diverse and inclusive business in what has been a 'traditional' sector. Our development programmes continue to increase the proportion of women in senior management roles, from 23% in 2019 to 28% in 2021, and following recent appointments, the female proportion of the Group's Board has increased to 36%. FirstGroup has also recently signed up to the 'Change the Race Ratio' programme, which commits the Group to taking action to increase our racial and ethnic diversity and create an inclusive culture. Detailed targets and action plans are in development, and the Group will publish its first ethnicity pay gap report in FY22.

Alongside top decile ratings in our sector globally from multiple ESG ratings providers, FirstGroup is a longstanding constituent in the FTSE4Good Index and was recognised with a place in the 2021 Clean200 report, which ranks the world's largest publicly-listed companies by their total clean energy revenues from products and services that provide solutions for the planet and define a clean energy future. We are the only passenger transport operator based in Europe to be listed in this year's report.

FirstGroup's investment case

Going forward, we expect FirstGroup to be a strong platform for further value creation based on the following:

- **Leading positions in bus and rail transport in the UK:** First Bus is a leader in regional bus operations outside London with a c.20% market share and strong positions in most of its local areas of operation. First Rail is the largest passenger rail operator in the UK by revenue with c.27% of the national passenger rail sector
- **Inflection point for growth, underpinned by supportive government and social policies:** Public transport operators play a vital role in meeting local and national objectives, including net zero carbon, green jobs, reduced congestion, improved air quality, and the 'levelling up' agenda, particularly in left behind towns and regions, as well as the recovery in economic and social activity following the pandemic
- **Digital innovation to attract more customers, enhance business efficiency and flexibility:** Enhancements to stimulate passenger growth, by delivering FirstGroup's vision to provide easy and convenient mobility, improving quality of life by connecting people and communities
- **First Bus: ready to complete trajectory to delivering a 10% margin in the first full financial year after pandemic-related social distancing restrictions on public transport end:** With network realignment, service delivery efficiencies, data-driven pricing and other actions to drive passenger revenue growth and margin improvement, as described further in the First Bus business review on page 20
- **First Rail: well placed for lower risk, long-term and cash generative rail operations:** As the largest incumbent operator with four UK passenger rail contracts expected to at least 2023, First Rail will benefit from the UK Government's transition of the passenger rail industry's commercial structure to a lower-risk and more predictable model, with a more appropriate balance of risk and reward, as described further in the First Rail business review on page 22
- **Opportunities from adjacent markets in UK bus and rail and in new geographies over time:** Leveraging the Group's considerable industry knowledge, skills and experience
- **Critical enabler of society's ESG goals, accelerating the transition to a zero carbon world:** Principally through facilitating modal shift from cars and through FirstGroup's commitments to transition to a zero-emission bus fleet by 2035, to cease purchasing further diesel buses after December 2022 and to support the UK Government's goal to remove all diesel-only trains from service by 2040.

Having delivered the substantial portfolio rationalisation strategy and with FirstGroup now positioned to emerge from the pandemic as a resilient and robust business, I have decided the time is right for me to move on to new opportunities. In this landmark year the Group has more than risen to its challenges. We have delivered on our strategic objectives, protected our financial stability, and supported our communities with essential services whilst helping to shape the future of public transport in the UK.

The ongoing Group will have a fundamental role to play in delivering the UK's economic, environmental and social objectives, as well as providing a vital service that is an essential part of the daily lives of many people in communities across the UK. With a well-capitalised balance sheet and an operating model that will support an attractive dividend for shareholders, FirstGroup is well placed to capitalise on the considerable opportunities ahead, helping communities and economies build back better and more sustainably.

Matthew Gregory
Chief Executive
27 July 2021

Financial summary

	Mar 2021 (£m) Continuing	Dis-continued	Total	Mar 2020 (£m) Continuing	Dis-continued	Total	Change (£m) Continuing	Dis-continued	Total
Revenue	**4,641.8**	**2,203.2**	**6,845.0**	4,642.8	3,111.8	7,754.6	(1.0)	(908.6)	(909.6)
Adjusted[1] operating profit	**101.9**	**107.5**	**209.4**	69.7	187.1	256.8	+32.2	(79.6)	(47.4)
Adjusted[1] operating profit margin	**2.2%**	**4.9%**	**3.1%**	1.5%	6.0%	3.3%	+70bps	(110)bps	(20)bps
Adjusted[1] profit before tax			**39.4**			109.9			(70.5)
Adjusted[1] EPS			**2.4p**			6.8p			(4.4)p
Adjusted cash flow[2]			**284.0**			97.4			+186.6
Adjusted net debt[3]			**1,414.3**			1,490.9			+76.6

Statutory	Mar 2021 (£m) Continuing	Dis-continued	Total	Mar 2020 (£m) Continuing	Dis-continued	Total
Revenue	**4,641.8**	**2,203.2**	**6,845.0**	4,642.8	3,111.8	7,754.6
Operating profit/(loss)	**224.3**	**61.5**	**285.8**	(215.2)	62.5	(152.7)
Profit/(loss) before tax			**115.8**			(299.6)
EPS			**6.5p**			(27.0)p
Net debt			**2,625.8**			3,260.9
– Bonds, bank and other debt net of cash			***775.8***			*879.0*
– IFRS 16 right of use lease liabilities			***1,850.0***			*2,381.9*

'Continuing' refers to the continuing operations comprising First Bus, First Rail, Greyhound and Group items. 'Discontinued' refers to discontinued operations, being First Student and First Transit.

1 'Adjusted' figures throughout this document are before rail termination sums net of impairment reversal, gain on disposal of properties, impairment of land and buildings, strategy costs and certain other items as set out in note 4 to the financial statements.

2 'Adjusted cash flow' is described in the table shown on page 31.

3 'Adjusted net debt' excludes First Rail ring-fenced cash and IFRS 16 lease liabilities from net debt.

Financial overview

- Resilient performance in light of travel restrictions and other pandemic effects – Group adjusted operating profit reduction held to £47.4m despite a Group revenue decline of £909.6m year-on-year:
  - £101.9m adjusted operating profit from continuing operations (comprising First Bus, First Rail, Greyhound and Group items) was in line with our expectations for these divisions (2020: £69.7m)
  - Reduced activity levels in the discontinued operations (First Student and First Transit) mitigated by cost savings, better than expected revenue recoveries from customers and higher service levels in Q4
- £224.3m statutory operating profit from continuing operations (2020: loss of £(215.2m) reflects £122.4m of net adjusting items compared with £(284.9m) in 2020:
  - Includes £71.1m profit on sale of Greyhound properties and £95.7m reversal of prior year impairments for SWR and TPE rail contracts net of rail termination sums
  - Partially offset principally by £16.6m in property impairments, £15.2m in costs associated with the rationalisation of the Group and £11.2m self-insurance provision increase in Greyhound due to further hardening of the insurance market in North America
- Net debt and cash flow stronger than initially expected, strong liquidity preserved: disciplined capital and operating expenditure control, supplemented by Greyhound property sales
- Expect to build momentum in the current financial year, providing a solid foundation for delivering financial framework objectives – including commencing regular dividend payments – in 2022.

Business model

As a transport operator our business model is designed to deliver value for a range of stakeholders by providing convenient, value for money transport services. Following the sale of the North American contract businesses, FirstGroup is focused on delivering its core transport services in the UK.

We are influenced by...

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

Our 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**

What we do

Our core UK businesses

First Bus

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

First Rail

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

See pages 20-24 for more information

Continuing operations: non-core

Greyhound

Nationwide operator of scheduled intercity coaches.

Discontinued operations

First Student

The largest provider of student transportation in North America.

First Transit

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

See pages 25-27 for more information

Underpinned by our Vision and Values

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

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

How we manage the business

Throughout the year the Group has been managed in accordance with the longstanding leadership and governance structures, KPIs, risk management framework and remuneration approach summarised elsewhere in this report. Following completion of the sale of the North American contract businesses, the remaining Group's approach and structures in each of these areas will be reviewed and reported on in the 2022 Annual Report.

For more information on the overall governance of the Group in 2021 see pages 74-149.

See pages 52-56 for more information on the Group's KPI performance in the year.

See pages 62-71 for more information on our principal risks and uncertainties.

See pages 108-141 for our Directors' remuneration report.

By following our five strategic drivers…

In the year our divisions continued to execute their individual commercial strategies, which they developed in accordance with the Group's 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**

… and acting in accordance with our sustainability framework…

…which is aligned to six core UN SDGs…

See page 35 for more information on our sustainability framework.

we create value for a range of stakeholders

Customers
Innovating to deliver safe, reliable and easy-to-use travel services for millions of passengers each year

Investors
Sustainable financial performance, cash generation and value creation

Government
Efficient and reliable transport services helping to meet wider policy objectives such as net-zero emissions and air quality

Our people
Boosting productivity and skills through training and apprentices, to nurture, develop and grow talent

Communities
Support stronger economies and local communities

Strategic partners and suppliers
Dynamic industry ecosystem with opportunities for productive long-term relationships

£3.9bn
aggregate economic footprint[2]

10%
of spend on suppliers on SMEs[2]

£2bn
of savings through reduced road congestion[1,2]

1.75m
tonnes of CO_2e avoided through our services[2]

1 Based on the value of travellers' time lost and increase in vehicle operating costs associated with delays to journeys caused by congestion.

2 Data from CEBR study of FirstGroup social and economic value to the UK.

Continuing operations: First Bus

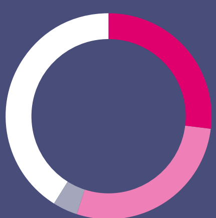
Janette Bell
Managing Director, First Bus

- **Support passengers' travel needs as pandemic restrictions ease**
- **Progress ambitious zero carbon fleet plans**
- **Further progress toward 10% margin objective**
- **Medium-term growth from adjacent opportunities and National Bus Strategy**

Approximate First Bus market share of UK market outside of London (%)

First Bus	20
Others	80

2021 approximate revenue by type (%)



Commercial passenger revenue	27
Concessions	28
Tenders	4
Other	41

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. In a typical year around 2.6bn passenger journeys are made on bus services outside London, generating approximately £4.3bn in revenue.

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. This was recently demonstrated by the National Bus Strategy announced in March 2021, which includes a multi-billion pound funding package to support simpler fares, improved services and thousands of new green buses via local authority-led enhanced partnerships or franchising.

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; consequently 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
- Opportunities in the youth demographic where car ownership is falling
- Bus travel diversified by journey purpose.

	2021	2020
Revenue	**£698.9m**	£835.9m
Adjusted operating profit	**£36.6m**	£46.1m
Adjusted operating margin	**5.2%**	5.5%
Average number of employees	**14,500**	16,500

First Bus reported revenue of £698.9m (2020: £835.9m), reflecting the effects of the coronavirus pandemic during the year. Government guidelines to avoid all but essential travel throughout the year meant like-for-like passenger revenue during the year as a whole was 49% lower, with commercial passenger volumes 66% lower, although volumes were higher at times during the various periods of lockdown easing. We are encouraged that passenger volumes have recovered to c.60% of pre-pandemic levels in recent weeks, particularly since certain social distancing restrictions on buses in England started to be eased in early April.

We worked very closely with local authorities and other partners throughout the year to ensure that key workers were able to rely on our services for their essential journeys during the pandemic. The UK Government and devolved administrations put in place a range of measures which were in place throughout the year to secure continuity of service on these crucial routes which would otherwise have had to cease. Measures included the rolling CBSSG and its successor programme in England, mirrored by similar arrangements in Scotland and Wales. Under these arrangements, First Bus is paid the costs of operation less revenue received from customers and other public sector monies. Recoverable costs include all reasonable operational costs including depreciation and allocated debt finance together with pension deficit funding. Fixed costs were also reduced by £3.0m in the year.

As a result of these agreements, the division reported adjusted operating profit of £36.6m (2020: £46.1m), which is calculated before debt finance costs and pension deficit contributions which pay down the balance sheet deficit. Reported statutory profit was £30.8m (2020: £32.4m), principally reflecting the adjusted operating profit partially offset by the impairment of land and buildings.

Digital transformation

In recent years our digital transformation has placed First Bus at the forefront of the industry, including for real-time passenger volume data capture, GPS functionality and ticketing. We now have an enhanced capability to assess passenger flows, and make subsequent commercial decisions, with greater speed and precision. Throughout the pandemic this allowed us to continuously adjust services in consultation with local stakeholders to ensure they met travel demands. Going forward, this data will be fundamental in enabling us to continue to shape our networks to align with evolving customer needs and trends while being commercially sustainable. This will be particularly relevant during the eight-week transitional period before the CBSSG scheme ends following the lifting of social distancing restrictions on public transport. In the year we also used our new digital platforms to develop a technical solution to mitigate bridge strike risks.

Customer experience

Our digital transformation has included enhancements to the customer experience. During the year, we were the first operator to introduce innovative functionality to our mobile app and websites, enabling customers to check the real-time available capacity on an approaching bus, including the wheelchair space. Furthermore, this technology allows customers to check how busy their bus is likely to be on any day of the week and time of day. Two-thirds of all ticket transactions now involve our mobile app or other contactless payment methods. Daily and weekly contactless 'tap and cap' fares are now being rolled out to multiple locations across the network, while in September 2020 we were the first national bus operator to introduce Express Mode for Apple Pay across all networks.

National Bus Strategy

Buses are vital to help deliver wider economic, social and environmental goals and we fully support the UK Government's National Bus Strategy (NBS), published in March, which provides a clear framework and £3bn in funding for bus operators and local government to promote bus use in England, including funding allocated for 4,000 new zero emission buses across the country. We are working with local transport authorities in our areas to develop the Bus Service Improvement Plans and Enhanced Partnerships as outlined in the NBS, which will align services to the needs of local bus customers and enable access to the funding available to help deliver them in the coming years. We already work closely and effectively with local authorities and the partnership approach will enable us to build on these strong local relationships as we move toward recovery and work to improve customer experience.

Fleet decarbonisation

During the year we announced our commitment to operate a wholly zero emission bus fleet across the UK by 2035 and will not purchase further diesel buses after December 2022. In January, we began operating the world's first fleet of hydrogen powered double-decker buses in Aberdeen, supported by funding from the city council, Scottish Government and the EU. In Yorkshire we introduced new electric double-decker buses to our all-electric York Park&Ride fleet as well as new electric buses for Leeds, in partnership with local and regional authorities.

In Glasgow a partnership between First Bus and Transport Scotland announced in March will replace 126 of the oldest buses in our fleet with electric vehicles for the city, in addition to the 24 buses already in operation or on order. Ahead of the UN COP26 Climate Change Conference which takes place in Glasgow in November 2021, this ambitious collaboration will also begin transforming our Caledonia bus depot, the UK's largest, into one of the country's biggest electric fleet charging stations, with the potential for 162 vehicles to be recharged at a time. In January we completed the retrofit of our 1,000th bus to the Euro VI low emission standard, and just under half of our fleet now meet this benchmark.

As zero emission bus technology is developing rapidly, we are working with a number of vehicle manufacturers to evaluate and shape the key attributes of these vehicles. In February 2021, for example, we announced that we will be the first operator in the UK to trial the unique vertically integrated electric bus technology from Arrival.

First Bus medium-term outlook

Passenger volume and revenue levels following the pandemic are difficult to forecast with any certainty. However, our current expectation is that volumes will recover to c.80-90% of pre-pandemic levels during the first year after social distancing restrictions on public transport end, with further growth thereafter.

We expect that the effect of any initial volume reductions due to post-pandemic changes in customer behaviour will be mitigated over time by targeted network changes, the profound support for modal shift and increasing bus patronage provided by the NBS, as well as our new data-driven pricing strategy and ticketing innovations. First Bus has a significant level of operational gearing and this, together with the operational and engineering efficiency programmes we have in place as well as cost improvements to the business already made, means that we expect to deliver 10% margins in the first full financial year after pandemic-related social distancing restrictions on public transport end, in a range of potential passenger volume scenarios.

We are also building on our existing platform of contracted fleet services for commercial customers in order to deliver further revenue growth and capital efficiency. We are also well positioned to develop solutions in the nascent UK market for Mobility as a Service (MaaS), thanks to collaboration with First Transit colleagues.

Looking ahead, we are already a leader in the industry for low emission vehicles and look forward to playing our part in decarbonising the UK economy. Bus networks are key to supporting modal shift particularly from cars to sustainable, zero carbon public transport, a key part of the UK's climate change goals.

As recognised in the NBS, there is also a significant, growing role for buses to help deliver on national and local government commitments to reduce congestion and air pollution, improve city connectivity and 'level up' parts of the country through improved economic infrastructure and opportunity. Buses are the most flexible, value for money solution for providing the critical public transport services which are so essential to local economies and communities. The fundamentals for a resurgent bus business are sound, and we look forward to playing an important role in a robust, and environmentally sustainable, recovery.

Our bus network and driver management system

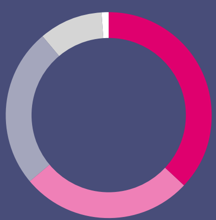
We were the first bus operator to introduce an advanced data analytics system from Optibus. This system reduces the time required to create and amend bus schedules, and uses machine learning to optimise both driver and vehicle hours. We are due to complete deployment of Optibus across First Bus in the current year.

Continuing operations: First Rail

Steve Montgomery
Managing Director, First Rail

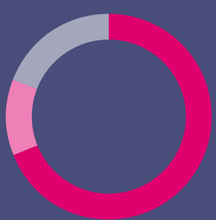
- **Manage service levels as the pandemic restrictions ease**
- **Complete transition to new National Rail Contracts**
- **Continue to develop ancillary revenue streams**
- **Support UK Government as industry completes evolution toward new long-term model**

Passenger revenue base by operating company (%)



GWR	37
SWR	27
Avanti	25
TPE	10
Hull Trains and other	1

Passenger revenue base of First Rail operations (%)



Leisure	69
Business	12
Commuter	19

Market review and trends

Passenger rail services are primarily provided by private train operating companies (TOCs) through contracts awarded by the relevant authority, but may also be provided on an open access basis.

The majority of the service elements provided to customers are mandated as part of the contract and others are left to commercial judgment. Rail track and infrastructure (signalling and major stations) are owned and managed by Network Rail, and TOCs typically lease rolling stock from leasing companies and most stations (which they manage) from Network Rail.

The UK's passenger rail contracting system is currently undergoing a transition to a new structure with operators more heavily incentivised to improve passenger service metrics and a lower risk/lower reward financial profile.

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 GWR fall into all four categories. SWR customers are largely commuters. TPE and Avanti 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 contracts against other current UK rail operators and public transport operators from other countries.

Market attractions

- More than £10bn of contract-backed passenger revenue in a typical year through 20 major contract opportunities
- New contracts have no revenue risk and clear performance-based fee opportunities, with low capital intensity
- Regulated environment, with limited cost risk protected by annual budgeting
- Historically high levels of passenger numbers across the UK pre-pandemic.

	2021	2020
Revenue	**£3,619.9m**	£3,203.7m
Adjusted operating profit	**£108.1m**	£70.4m
Adjusted operating margin	**3.0%**	2.2%
Average number of employees	**17,500**	14,000

First Rail revenue increased to £3,619.9m (2020: £3,203.7m) reflecting a full year of the Avanti contract, which commenced operations in December 2019. Tramlink is also reported within First Rail for the first time, with the comparative restated accordingly. Excluding Avanti and Tramlink, like-for-like passenger revenues decreased by 84%, with passenger volumes 79% lower due to the effects of the pandemic. Passenger volumes increased to some extent during periods of lockdown easing throughout the year, and stand at c.42% of pre-pandemic levels on average as of mid-July, although under the new contractual arrangements in place during the year and going forward in the industry, changes in revenue no longer affect our financial performance. We continue to work closely with the DfT on the level of service provision as government guidance changes, and in the summer of 2020, and again from May 2021, we increased services to c.90% of prior levels to support increased travel activity.

The UK Government acted quickly to ensure the country's vital rail networks could continue to operate during the pandemic by introducing Emergency Measures Agreements (EMAs) which were in place for much of the first half of the year.

Under these agreements, the DfT waived revenue, cost and contingent capital risk and our TOCs were paid a fixed management fee to operate at agreed service levels, as well as a performance-based fee. The EMAs were superseded in autumn 2020 by Emergency Recovery Measures Agreements (ERMAs) for Avanti, SWR and TPE which were similar in structure, the principal differences being that fees have a lower overall potential and were more heavily weighted to performance delivery. In the first phase, we were very pleased to have scored the highest performance marks across all categories for all four of our rail contracts.

Adjusted operating profit was £108.1m (2020: £70.4m), which reflects the fees paid, including a first-time contribution from Avanti, the settlement of historical claims mainly in GWR in H1 and a £(10.2)m loss from Hull Trains open access reflecting its suspension during parts of the year. The division reported a statutory operating profit of £203.8m (2020: £69.3m), including a partial reversal of prior year impairments for SWR and TPE following agreements reached on rail franchise termination sums and other amounts due to the DfT (see below).

Contracted Rail net attributable earnings in the year – being the Group's share of contracted rail fee income available for dividend distribution up to the parent company – was £42.3m.

Transition to National Rail Contracts

Each ERMA required us to agree with the DfT what, if any, remaining payments were required to conclude the pre-existing franchise agreements, a process which Avanti, SWR and TPE have now completed (there is no termination sum process for GWR given that this contract was entered into after the transition to the EMAs). These termination sums are paid at the end of the ERMA term, at which point the pre-existing franchises also end, and allowed us to move forward with discussions on new National Rail Contracts (NRCs).

The SWR and TPE ERMAs duly expired at the end of May 2021 and the two TOCs are now operating under the first two NRCs to be agreed. Both have been awarded for a two-year term to the end of May 2023 with an option to be extended by up to two further years at the DfT's discretion. Under the NRCs the DfT will retain all revenue risk and substantially all cost risk. There is a fixed management fee and the opportunity to earn an additional performance fee. For the Group's 70% share of the First MTR joint venture for SWR the fixed management fee is £3.3m p.a. and there is the opportunity to earn an additional fee of up to £9.9m p.a. which is the maximum attainable performance fee. For TPE the fixed management fee is £2.3m p.a. and there is the opportunity to earn an additional fee of up to £5.2m p.a. which is the maximum attainable performance fee. Punctuality and other operational targets required to achieve the maximum level of performance fee are designed to incentivise service delivery for customers.

The NRCs achieve a more appropriate balance of risk and reward between FirstGroup and the Government. They carry no significant contingent capital risk and there are limited scenarios in which this contingent capital can be called upon, primarily in the event of early termination of the contracts by the operator. SWR and TPE will continue to be fully consolidated in the Group accounts with the net cost of operations and capex to be funded in advance by the DfT. The Group will receive an annual dividend from the TOCs reflecting the post-tax net management and performance fees. These dividends are expected to be paid each September following the completion of the TOC audited accounts.

For Avanti, the ERMA is in place to the end of March 2022 and can be extended by a further six months. We are discussing an NRC which could last up to 31 March 2032, with the core and extension periods to be determined. Meanwhile the DfT recently exercised its option to extend the EMA for GWR until 12 December 2021, subsequent to which it is expected that GWR will move on to an NRC in due course.

Open access operations

Hull Trains was not eligible for the EMAs or ERMAs, and as a result the service was temporarily suspended on three occasions during the year when nationwide lockdowns took place, but has now been restored with encouraging passenger volumes returning. We are on course to launch a second open access service between London and Edinburgh in autumn 2021. This will provide a value for money and sustainable way to travel between the two capitals, where domestic air travel currently has a significant share of journeys. Reflecting start-up costs for East Coast and the uncertain demand environment, we expect our open access operations to record a c.£20m loss in the current financial year, before making a profit contribution from FY23.

Customer experience innovation

As travel restrictions ease, our TOCs are working collaboratively with industry partners and stakeholders to build back patronage, while delivering plans to upgrade our service offering. These plans include the introduction of flexible commuter tickets and continuing to facilitate a move towards electronic and mobile ticketing, smartcards and improved apps. New functionality includes the ability for Avanti passengers to have refreshments delivered to them without leaving their seat. Avanti has also become the first UK TOC to offer an additional class of travel as part of its services. Standard Premium will give customers greater choice of facilities, and is initially available to buy as an upgrade on the day of travel with advance tickets on sale later this year.

Innovation and adjacent rail opportunities

In the year we developed and deployed new technology such as next generation onboard 5G Wi-Fi from evo-rail, developed in-house by First Rail. This pioneering system was first trialled on the Isle of Wight, and later this year will be installed on a 70km section of the SWR mainline, followed in 2022 by a roll out on the London to Birmingham section of Avanti's network.

Our industry-leading cloud technology and analytics systems have allowed us to integrate real-time data from several systems on to a single platform branded Mistral Data that enables our teams to identify and resolve potential problems before they arise. The platform also provides information to our customers via website and mobile app channels on the formation and facilities available on each train, which gives customers the ability to plan their journey with confidence.

During the year we further integrated a variety of customer-facing and back office functions into our passenger service centre, which was built based on scalability and the latest technology. The shared service centre operates at a lower cost than our previous outsourcing arrangements and provides a single service for customer queries across several First Rail operations.

We continue to provide our consultancy experience as 'shadow operator' to the HS2 infrastructure project. During the last financial year we completed more than 40 deliverables, including technical and financial baseline reviews of operational plans for HS2, a fresh view of the travel market on the West Coast corridor and employee engagement planning.

First Rail continued

Fleet decarbonisation

First Rail has an important contribution to make in meeting the challenges of climate change and we are working with our partners to reduce carbon emissions, for example through the introduction of electric trains to replace diesel where possible. Our expertise and capability will help the Government deliver its ambition to remove all diesel-only trains from service in the UK by 2040.

GWR have recently taken delivery of the UK's first tri-mode train which can use overhead wires, third rail or diesel power. Plans to upgrade the SWR fleet continue with new suburban rolling stock starting to enter service this year and a new depot at Feltham was completed in order to stable this fleet. New all-electric and bi-mode trains will also be introduced by Avanti next year to replace diesel-only trains in the current fleet.

First Rail medium-term outlook

For some time we have advocated for a longer-term approach to the railway with passengers at the core, underpinned by a more sustainable balance of risk and reward for all parties, and welcomed the Williams-Shapps Plan for Rail published in May 2021. In it the UK Government outlined its ambitions for the future of the UK rail industry with the expertise, innovation and experience of private sector rail operators at the heart of the model. As the largest UK operator with four passenger rail contracts expected to run to at least 2023, we are well positioned to work closely with industry partners, including the DfT, to bring this to reality in the coming years.

First Rail has operated 20% of the UK passenger rail market by revenue since 2007 on average, and currently has a c.27% market share. As such, we can draw on a strong track record of delivery on major projects to enhance passenger experience, including fleet introductions, major timetable changes, capital projects on behalf of Network Rail, customer service innovations and managing the impact of significant infrastructure changes from network electrification through to route upgrades.

In addition, the rail division has potential for further growth through the skills and expertise developed in a range of related areas, such as designing and operating open access services, deploying new rail technology and customer-facing innovation and the division will also seek to build on its consultancy experience as 'shadow operator' to the HS2 infrastructure project.

In summary, First Rail's profitability will be driven by our delivery against performance targets under the new National Rail Contracts whilst we expect to add further earnings from opportunities adjacent to our core rail operations. Overall, as the UK passenger rail industry continues its evolution to a more successful railway system that works better for passengers and taxpayers, we believe that First Rail is well placed to generate more resilient and consistent returns for shareholders in tandem.

evo-rail 5G Wi-Fi gives improved connectivity and enhances customer experience

Our evo-rail next generation onboard 5G Wi-Fi technology has been developed in-house by First Rail. This pioneering system enables rapid and reliable internet connectivity on the railways. It was first trialled on the Isle of Wight, and will soon be installed on sections of both the SWR mainline and the Avanti network. It has a substantial addressable market in the UK and internationally.

Continuing operations: Greyhound (non-core)

	2021	2020
Revenue	**$422.6m**	$766.0m
Adjusted operating profit	**$(12.1)m**	$(15.3)m
Adjusted operating margin	**(2.9)%**	(2.0)%
Average number of employees	**2,500**	5,500

Market review and trends

The pandemic dramatically impacted demand for intercity bus service, with many carriers completely suspending service for several months. Greyhound continued to operate almost all of its national network at substantially reduced capacity, providing essential services to many rural areas with no other travel options. Demand is slowly returning, particularly for non-essential leisure travel. Greyhound's prior initiatives to improve onboard service and provide the only nationwide intercity bus network have positively positioned the the business to meet the growing demand, with focus on our mid- to long-distance network.

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 short-distance services attract a younger, urban demographic with less interest in maintaining a private car, while mid- to long-distance services meet the needs of a variety of customers where fewer options exist.

Competitors

Intercity coach services compete with many other modes of mid- to long-distance travel across North America, including 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 demographics are responsive to innovation through technology, value-for-money offering and the environmental impact of car ownership
- Underutilised services may be part-funded by transport authorities.

Greyhound's revenue was $422.6m or £323.0m (2020: $766.0m or £603.2m) in the year as a result of the effects of the pandemic on passenger demand. US passenger revenues were 59% lower year-on-year, while we suspended our remaining operations in eastern Canada in May 2020 due to limited demand and the closure of the US border, and permanently shut it down in May 2021. Total revenue for the whole division decreased by 45% year-on-year.

As previously noted, during the early part of the financial year, Greyhound's overall passenger revenues were c.20% of pre-pandemic levels and passenger volumes were c.15%. Greyhound led its industry as the only major coach operator that continued to provide any service for passengers. In the US during the first quarter, Greyhound operated c.45% of its pre-pandemic timetabled mileage, sufficient to maintain the integrity of its US network and provide ongoing service to hundreds of rural communities, many with no other form of intercity transportation. Greyhound was able to do so through rapid management action including commercial initiatives, optimising pricing, managing capacity and cost (principally through reduced variable costs, furlough as well as $60m in fixed cost reductions) to match lower demand levels, and utilising employee retention tax credits as appropriate. Greyhound also secured $130m of the US CARES Act funding made available to state agencies to maintain operation of intercity rural bus services in the year, modestly ahead of our expectations.

Over the course of the year, Greyhound flexed operating mileage in response to volatile passenger demand in different parts of the country as the impact of the pandemic continued to be felt. Historically low airline fares have also had an impact on coach passenger demand. Since the start of the calendar year, US passenger revenue has increased through improved volumes and higher yields, reaching c.60% of pre-pandemic levels in early July 2021. Passenger mileage travelled in early July is just over half of pre-pandemic levels. As a result of these actions, Greyhound was able to largely offset the substantial reduction in revenue, recording an adjusted operating loss of $(12.1)m or £(10.3)m (2020: $(15.3)m or £(11.6)m) in the year. Excluding the closure costs and other losses associated with Greyhound Canada, Greyhound in the US generated $1.8m in adjusted operating profit in the year (2020: loss of $(14.9)m). The division reported a statutory profit of £41.6m (2020: £(253.4)m loss) after £71.1m in profit on sales of property described below partly offset by a £11.2m charge for historic insurance claims.

Greyhound continues to rationalise its property portfolio by moving operations to intermodal transport hubs or new facilities better tailored to its needs when the opportunity arises. During the year 15 surplus locations were sold, resulting in profit on certain property sales (net of leaseback, property tax and selling costs) of $101.2m or £71.1m (2020: $1.7m or £1.3m). The largest was the sale of Greyhound's oversized legacy garage and customer terminal facility in the downtown Arts District of Los Angeles, California to a subsidiary of Prologis, Inc. Under the agreement Greyhound received net $88m in cash and will lease back the facility for two years, during which time Greyhound will complete the moves of its terminal and garage operations. The book value of the remaining properties in the portfolio is $78.6m. A number of other property sales processes are underway.

In the year, Greyhound has continued to upgrade its offering for passengers, offering industry-leading streaming entertainment on all buses and new web and mobile functionality to manage bookings. In light of the demand environment, new vehicle investment has been very substantially reduced. Together with disciplined fleet management, operational and maintenance changes have resulted in further improvements to punctuality, emissions and other non-financial metrics.

Greyhound outlook

Greyhound remains non-core and FirstGroup continues to pursue all exit options for the business in order to conclude the Group's portfolio rationalisation strategy. Greyhound's financial performance will continue to be supported by tight cost control and recoveries of federal grants for operating key coach services, and is expected to exceed its FY21 contribution in light of the recent passenger volume trajectory. As set out in the announcement of the sale of First Student and First Transit, a portion of the net disposal proceeds will be utilised to de-risk Greyhound's legacy pension and self-insurance liabilities. The Group will continue to actively manage the Greyhound property portfolio for value alongside Greyhound's reduced residual liabilities. Emerging from the pandemic, Greyhound is primarily focused on our mid- to long-distance services, utilising short-distance services to support the national network. Greyhound remains focused on actively managing operating mileage in response to changing demand as the pandemic's impact on our customers' travel plans recedes.

Discontinued operations: First Student

Market review and trends

North America's c.14,000 school districts deploy around 520,000 yellow school buses and tens of thousands of smaller 'vans' to provide home-to-school transportation for millions of students. The yellow school bus market is estimated to be worth around $26bn per annum with special education transport a further $4bn. More than a third of the yellow bus fleet is outsourced by 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 transport is a small part), tend to be linked to the economic 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; they account for c.40% of the outsourced market. Fifteen other operators have fleets of more than 1,000 buses, 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.

First Student revenue was $1,617.7m or £1,226.2m (2020: $2,474.9m or £1,940.4m), a decrease of $857.2m reflecting the near-total closure of schools due to the pandemic prior to the start of the financial year. The reduction was partially offset by recovery of a substantial proportion of our expected home-to-school revenues by agreement with our school board customers, such that by the end of the 2019/20 spring term, we were recovering c.55% of budgeted home-to-school revenues, or an effective recovery rate of 78% including labour and fuel savings.

Some schools restarted full in-person teaching at the start of the 2020/21 academic year in August/September 2020, but many continued to review and alter their back-to-school plans in light of dynamic local conditions throughout the second half of the financial year. Overall, the trend has been for increasing home-to-school services either full time or as a mixture of in-person and online teaching, although some of our school customers were able to operate all-online, principally in the larger urban districts which form a relatively significant part of our portfolio. The proportion of First Student's bus fleet operating either full service or on a hybrid basis was 87% in early June before schools in some regions began closing for the summer holidays, and between services in operation and agreements with our customers, we were securing c.95% of pre-pandemic home-to-school revenue.

At the adjusted operating level, profit decreased by only $127.8m to $78.1m or £55.8m (2020: $205.9m or £158.8m), reflecting our industry-leading levels of agreements with customers noted above and the extensive cost actions we have undertaken to mitigate the reduced activity levels. These include variable cost savings, temporary salary reductions, removing all non-essential contract employees, together with some more permanent reductions in back office headcount where unavoidable. Where appropriate, First Student has also made use of the employee retention tax credits in the US (and wage subsidies in Canada) available to all businesses whose operations were disrupted by government order. All non-contracted capital expenditure was reviewed early in the pandemic and deferred, reprofiled or converted to leasing where consistent with customers' requirements. As a result of the reduced level of operating activity throughout the year for many of our customers, the division's normal seasonal build-up of working capital took place later than normal, and has not fully normalised.

	2021	2020
Revenue	**$1,617.7m**	$2,474.9m
Adjusted operating profit	**$78.1m**	$205.9m
Adjusted operating margin	**4.8%**	8.3%
Average number of employees	**37,500**	48,000

In all, c.$110m of capital expenditure and payroll tax payments under the US Federal Insurance Contributions Act (FICA) have been deferred as a consequence of the pandemic, which will subsequently reverse under the buyers' ownership as operating conditions normalise. The division reported a statutory profit of £62.1m (2020: £89.4m) including a £10.2m benefit from an improved position on historical insurance claims.

In the bid season for the 2020/21 school year, First Student maintained its leading position in the market, supported by our excellent safety record and consistently high customer satisfaction scores, which resulted in a contract retention rate of 88% on contracts up for renewal, or 95% across the entire portfolio of multi-year contracts. Given the immense complexity of school start-up in the pandemic, our driver recruitment, retention and safety programmes have responded well to the challenges posed by the pandemic for the school bus industry and its employee dynamic, though we continue to track our employee levels closely as activity levels rebuild.

Despite the pandemic, First Student continued its bolt-on acquisition activities and driver technology innovation, as well as extending its leadership in zero emission school bus operations in North America. In January 2021, First Student announced a collaboration with NextEra Energy Resources, the world's largest generator of renewable energy from the wind and sun and a world leader in battery storage. The collaboration aims to jointly foster innovation, accelerate the mass adoption of zero emission school bus vehicles and also develop early mover capability in the nascent vehicle-to-grid power management, energy storage and ancillary grid services markets in North America.

Discontinued operations: First Transit

Market review and trends

In aggregate, transit markets are worth around $33bn 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.$19bn segment, of which around a fifth is outsourced), paratransit/non-emergency medical transportation (NEMT) and related services (c.$8bn segment, around three-quarters outsourced), shuttle services (c.$3bn segment, around two-thirds outsourced), and vehicle maintenance services (c.$4bn segment, more than a third outsourced).

Customers

Customers contracting out fixed route and paratransit services, are typically municipal transit authorities. 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.12% of the outsourced market in North America, which accounts for c.38% of the total market. The outsourced transit market is fragmented, though First Transit has two large competitors, MV Transportation, Inc. and Transdev North America.

First Transit continued to maintain a high level of service throughout the year, as its services provide essential transportation options for passengers needing to travel to work, university, for medical and other essential travel. While passenger ridership volumes were more than 50% lower year-on-year, our clients required us to continue to maintain significant levels of service for the communities we serve throughout the year. First Transit worked closely with many clients where service levels did change to make contractual amendments such as additional payments to cover fixed costs or altered productivity requirements. Overall, First Transit's revenue was $1,277.4m or £977.0m (2020: $1,488.4m or £1,171.4m), a decrease of 14.2%.

While the rates of recovery in activity levels have varied by sub-segment since March 2020 and we have been flexible in both increasing and decreasing activity levels in conjunction our clients to adapt to local developments, as of June, First Transit was operating c.87% of pre-pandemic services overall (compared with c.60% at the low point). Net revenue recovery was running at c.95% of pre-pandemic expectations in June, reflecting the service levels and customer arrangements in place.

Adjusted operating profit was $69.1m or £51.7m (2020: $36.2m or £28.3m), or an increase of $32.9m compared with the prior year. This equates to an adjusted operating margin of 5.4% (2020: 2.4%). This performance reflects a number of factors, including the contractual variations negotiated with customers noted above, substantial variable cost savings, including temporary furloughing of some employees and salary reductions in the year, and a reduction in fixed costs by $10m in the year. The division also made use of fiscal tax credit programmes available to all companies to protect jobs where appropriate, and also benefited from the non-recurrence of prior year legal judgment costs (2020: $3.5m). Statutory profit was £20.5m (2020: loss of £(21.9)m), reflecting a charge of £31.2m for the deterioration of historic insurance claims.

The division continued to drive further cost efficiencies from lean maintenance, predictive analytics, procurement, systematic employee engagement and retention programmes and further shared service efficiencies. First Transit is not as capital intensive as some of the Group's other businesses as for the most part it operates vehicles procured and owned by customers, but non-essential capital expenditure was deferred or halted in light of the pandemic.

	2021	2020
Revenue	**$1,277.4m**	$1,488.4m
Adjusted operating profit	**$69.1m**	$36.2m
Adjusted operating margin	**5.4%**	2.4%
Average number of employees	**17,000**	20,000

First Transit continues to build on its portfolio of both existing and emerging mobility services contracts, benefiting from its reputation for safe, innovative and best value solutions for clients and another improvement in its already strong customer service scores, which reached a five-year high in 2021. These included particularly strong responses from clients in the categories of working with them during the pandemic, technology adding value, safety and quality of service for passengers. The contract retention rate on 'at risk' business in the year was stable at 89% (2020: 89%), and included retention of five important multi-year contracts with long-term clients (Houston, Texas, Met Council, Minnesota, Hartford, Connecticut, New Jersey Transit and City of Pasadena, California).

Despite extended bidding cycles due to the pandemic, First Transit secured new business wins in its traditional sectors such as MARTA in Atlanta, Georgia in H1 and Pinellas Suncoast Transit Authority, Florida and Access Services in Los Angeles, California in H2. In emerging mobility services, First Transit has extended its partnership with Lyft to provide wheelchair accessible vehicles to several US cities in the year, as well as operation of bikeshare services in Portland, Oregon.

The business has also continued to build on its strong position in the maintenance and operation of autonomous vehicles (AV), electric vehicles (EV), and in January 2021 announced plans to collaborate with NextEra Energy Resources to target the rapid growth of EV capabilities in its markets.

Overall, First Transit is well placed for further growth, not least in light of the Biden administration's plans for further investment in infrastructure and public transportation.

Financial review

Ryan Mangold
Chief Financial Officer

"We now have substantially greater clarity about the resilience of our businesses and the changes to contractual arrangements in First Rail and, following the completion of the sale of First Student and First Transit, the Group has a well-capitalised balance sheet with upside potential providing greater business flexibility."

Financial policy framework

As part of the announcement of the sale of First Student and First Transit, a financial policy framework for the ongoing Group for the financial year ending in March 2023 (FY23) and beyond was set out as follows:

Metric	Objective
Revenue	■ First Bus: planning for a range of post-pandemic scenarios; central case envisages passenger volumes recover to c.80-90% of pre-pandemic levels during first 12 months after social distancing restrictions on public transport end, with further growth thereafter ■ First Rail: opportunities to build on the base business of four contracted operations with no revenue risk
Profitability	■ First Bus: targeting a 10% margin in the first full financial year after social distancing restrictions on public transport end (FY23 on UK Government's current plans) ■ First Rail: profitability driven by delivering against performance targets under the NRCs while adding earnings in adjacent rail opportunities ■ Other: central cost reduction of at least £10m p.a. from FY23; interest c.£50m p.a. (of which c.60% IFRS 16); UK corporation tax rate (currently 19% increasing to 25% for FY24)
Investment	■ First Bus: c.£90m p.a. from FY22, mainly driven by zero emission bus fleet commitments ■ First Rail: expected to continue to be cash capital-light under the NRCs
Leverage	■ Targeting leverage ratio of less than 2.0x adjusted net debt: Rail-adjusted EBITDA[1] in the medium term
Dividend	■ Intention to pay regular dividends to shareholders commencing during FY23 ■ Targeting annual dividend around 3x covered by Rail-adjusted Profit After Tax[2], assuming normalisation of trading conditions post-pandemic

1 First Bus and non-contracted First Rail EBITDA, plus contracted Rail net attributable earnings, minus central costs.

2 First Bus and non-contracted First Rail adjusted operating profit, plus contracted Rail net attributable earnings, minus central costs, minus treasury interest, minus tax.

In summary, the ongoing Group is expected to be a sustainable and cash generative business with a well-capitalised balance sheet, and an operating model that will support an attractive dividend for shareholders.

Group revenue

Revenue from continuing operations was in line with prior year at £4,641.8m (2020: £4,642.8m). Excluding the new Avanti contract which commenced in December 2019, revenue from continuing operations decreased by £567.4m as a result of the pandemic. Avanti revenue was £897.6m for the year (2020: £331.2m).

Revenue from discontinued operations was £2,203.2m (2020: £3,111.8m), reflecting the reduced activity levels due to the pandemic, partially offset by recoveries from some customers. Overall Group revenue in the full year decreased by 11.7% or £909.6m to £6,845.0m (2020: £7,754.6m).

Group adjusted operating performance

Adjusted operating profit from continuing operations was in line with expectations at £101.9m (2020: £69.7m), an increase of £16.9m excluding the Avanti contribution of £29.6m (2020: £14.3m). For First Bus and First Rail this largely reflects the terms of the UK Government-procured emergency arrangements to enable socially distanced travel, while in Greyhound it comprised the drop through of lower revenues offset by reduced variable costs, substantial fixed cost actions and CARES Act grants for vital bus service connections.

	52 weeks to 27 March 2021			52 weeks to 28 March 2020		
	Revenue £m	**Adjusted operating profit[1] £m**	**Adjusted operating margin[1] %**	Revenue £m	Adjusted operating profit[1] £m	Adjusted operating margin[1] %
First Bus	**698.9**	**36.6**	**5.2**	835.9	46.1	5.5
First Rail	**3,619.9**	**108.1**	**3.0**	3,203.7	70.4	2.2
Greyhound	**323.0**	**(10.3)**	**(3.2)**	603.2	(11.6)	(1.9)
Group items[2]	**–**	**(32.5)**		–	(35.2)	
Continuing operations	**4,641.8**	**101.9**	**2.2**	4,642.8	69.7	1.5
First Student	**1,226.2**	**55.8**	**4.6**	1,940.4	158.8	8.2
First Transit	**977.0**	**51.7**	**5.3**	1,171.4	28.3	2.4
Discontinued operations	**2,203.2**	**107.5**	**4.9**	3,111.8	187.1	6.0
Total	**6,845.0**	**209.4**	**3.1**	7,754.6	256.8	3.3

North America in USD	**$m**	**$m**	**%**	$m	$m	%
Greyhound (continuing)	**422.6**	**(12.1)**	**(2.9)**	766.0	(15.3)	(2.0)
First Student	**1,617.7**	**78.1**	**4.8**	2,474.9	205.9	8.3
First Transit	**1,277.4**	**69.1**	**5.4**	1,488.4	36.2	2.4
Discontinued operations	**2,895.1**	**147.2**	**5.1**	3,963.3	242.1	6.1
Total North America	**3,317.7**	**135.1**	**4.1**	4,729.3	226.8	4.8

1 'Adjusted' figures throughout this document are before rail termination sums net of impairment reversal, gain on disposal of properties, impairment of land and buildings, strategy costs and certain other items as set out in note 4 to the financial statements. The statutory operating profit including discontinued operations for the year was £285.8m (2020: loss of £(152.7)m) as set out in note 4.

2 Central management and other items. Tramlink is now reported in First Rail.

Adjusted operating profit from discontinued operations was £107.5m (2020: £187.1m) with the impact of reduced activity levels due to the pandemic mitigated by cost savings, better than expected revenue recoveries from customers and higher service levels in the final quarter. Overall Group adjusted operating profit decreased by £47.4m to £209.4m (2020: £256.8m).

The shareholder circular relating to the sale of First Student and First Transit published on 10 May 2021 stated that "adjusted operating profit for the year ended 31 March 2021 will be ahead of the top of the range of analyst consensus forecasts of approximately £171 million", subject to completion of the audit process. Subsequent to this profit forecast being made, the further increase in North American insurance provisions described below was reclassified as an adjusting item for the purposes of adjusted operating profit as well as further revenue recovery recognition agreed with customers.

Note that software amortisation of £11.3m (2020: £16.1m) is no longer classed as a separately disclosed item and has been charged to divisional and Group adjusted results and the prior periods are restated accordingly.

Group central costs for FY22 are anticipated to reduce by c.£5m from FY21 levels, reflecting the previously announced annual run rate reduction of c.£10m after completion of the First Student and First Transit sale.

Reconciliation to non-GAAP measures and performance

Note 4 to the financial statements sets out the reconciliations of operating profit/(loss) 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 £4.1m (2020: £4.9m).

Strategy costs

The charge of £37.2m (2020: £58.2m) comprises £22.0m costs incurred to date related to the sale of First Student and First Transit, £7.0m for the proposed sale of Greyhound, £6.9m of costs related to restructuring in Greyhound Canada, including the cost of severance, legal costs, lease termination costs and other costs of closure. £1.3m relates to other costs associated with the rationalisation of the Group.

North American 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 $657m. During this financial year we have continued to see a deteriorating claims environment with legal judgments 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. Partially offsetting this, there has been a significant change in the market-based discount rate used in the actuarial calculation from 0.8% to 1.65%.

Financial review continued

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 $44.8m or £32.2m (2020: $175.2m or £141.3m); of this charge, $15.6m or £11.2m relates to Greyhound and $29.2m or £21.0m relates to discontinued operations.

The charge comprises $57.0m or £41.0m relating to losses from historical claims (of this, $18.6m or £13.4m relates to Greyhound and $38.4m or £27.6m relates to discontinued operations) and a credit of $12.2m or £8.8m relating to the change in the discount rate (of this, $3.0m or £2.2m relates to Greyhound and $9.2m or £6.6m relates to discontinued operations). It is expected that the majority of these claims will be settled over the next five years. Following these charges, the provision at 27 March 2021 stands at $659m (2020: $657m) compared with the actuarial range of $554m to $723m (2020: $551m to $683m). Of the total provision at 27 March 2021, $156m relates to Greyhound and $503m relates to discontinued operations.

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 continues to make improvements to claims management processes. It has been agreed that the self-insurance provisions for First Student and First Transit will transfer under the sale of those businesses with no further purchase price adjustment and part of the proceeds from the sale will be used to de-risk the residual self-insurance provisions of Greyhound.

Gain on disposal of properties

Greyhound recognised a profit of £71.1m on sale of properties in the year (2020: £1.3m). A gain of £51.6m was recognised on the disposal of property in Los Angeles, California. A gain of £20.2m was recognised on the disposal of property in Denver, Colorado, while a loss of £0.7m was recognised on disposal of a number of other properties in Canada.

Impairment of land and buildings

An impairment charge of £10.0m has been booked in respect of the Aberdeen headquarters and £6.6m for First Bus premises in Southampton.

Rail termination sums net of impairment reversal

The Group has agreed franchise termination sums with the DfT in respect of all our obligations under the ERMAs. These are included in adjusting items, together with the agreed settlement and other adjustments under the net asset clauses of the ERMA and the release of the impairment provisions relating to SWR and TPE as at 28 March 2020.

Discontinued operations

With the announcement of the agreed sale of First Student and First Transit to EQT Infrastructure on 23 April 2021 and subsequent completion on 21 July, the financial results of the disposal group have been reclassified as discontinued operations on the face of the income statement and the balance sheet and cash flow statement adjusted accordingly.

The transaction has been structured on a 'locked box' basis as of 27 March 2021, with all economic benefits or costs for the buyer's account from that date onwards, albeit these will continue to be disclosed as discontinued operations up to the point of transaction completion.

Group statutory operating performance

Statutory operating profit from continuing operations was £224.3m (2020: loss of £(215.2)m) reflecting £122.4m of net adjusting items compared with £(284.9)m in 2020, as noted above.

Finance costs and investment income

Net finance costs were £170.0m (2020: £146.9m) with the increase principally due to the increase in lease interest from £42.6m in 2020 to £73.1m in 2021. This increase was mainly due to the new rolling stock leases in relation to the start of the Avanti operation from December 2019 and the GWR DA-3 rolling stock lease liabilities from March 2020. Net finance costs for FY22 are estimated to be c.£100m including IFRS16 lease interest but excluding anticipated debt make-whole costs of c.£65m.

Profit before tax

Adjusted profit before tax as set out in note 4 to the consolidated financial statements was £39.4m (2020: profit £109.9m) including discontinued operations. An overall credit of £76.4m (2020: £(409.5)m) for adjustments principally reflecting gains on property disposals of £71.1m (2020: £9.3m), Rail termination sums net of impairment reversal credit of £95.7m (2020: £nil), North America self-insurance reserve charge of £32.2m (2020: £141.3m), strategy costs of £37.2m (2020: £58.2m), impairment on land and buildings £16.6m (2020: £nil) and other intangible asset amortisation charges of £4.1m (2020: £4.9m), resulted in a profit before tax including discontinued operations of £115.8m (2020: loss before tax of £(299.6)m).

Tax

The tax charge, on adjusted profit before tax, for the year was £4.2m (2020: £24.6m), representing an effective tax rate of 10.7% (2020: 22.4%). The reduced effective rate is due to reduced deferred tax on US state taxes and the comparatively lower profits. There was a tax charge of £30.6m (2020: credit of £39.6m) relating to other intangible asset amortisation charges and other adjustments, partly offset by the write back of previously unrecognised deferred tax assets of £10.1m (2020: a charge of £40.0m). The total statutory tax charge was £24.7m (2020: £25.0m) representing an effective tax rate on the statutory loss before tax of 21.3% (2020: (8.3)%). This rate is different from the effective tax rate on adjusted profits primarily because the underlying profit is higher so the reduced deferred tax on US state taxes has less impact and certain adjustments are not tax deductible. The actual tax paid during the year was £4.5m (2020: £2.9m) and differs from the tax charge of £24.7m primarily due to refunds received during the year in respect of prior years and payments to be made post-year end. The ongoing Group's effective tax rate is expected to be broadly in line with UK corporation tax levels (currently 19% and increasing to 25% from 1 April 2023).

EPS

Adjusted EPS was 2.4p (2020: 6.8p).
Basic EPS was 6.5p (2020: (27.0)p).

Shares in issue

As at 27 March 2021 there were 1,206.4m shares in issue (2020: 1,210.8m), excluding treasury shares and own shares held in trust for employees of 15.4m (2020: 8.7m). 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 1,203.6m (2020: 1,210.9m).

Capital expenditure

Road cash capital expenditure was £112.2m (2020: £283.4m) and comprised First Student £50.6m (2020: £191.5m), First Transit £16.2m (2020: £18.8m), Greyhound £14.9m (2020: £38.8m), First Group America £nil (2020: £1.5m), First Bus £30.1m (2020: £30.1m) and Group items £0.2m (2020: £2.7m). First Rail capital expenditure was £116.5m (2020: £115.7m) and is typically matched by franchise receipts or other funding.

In addition, during the year we entered into leases in the Road divisions with capital values in First Student of £37.5m (2020: £75.1m), First Transit of £17.0m (2020: £13.8m), Greyhound of £9.0m (2020: £21.3m) and First Bus of £4.6m (2020: £6.3m) and Group items £0.3m (2020: £0.4m). During the year First Rail entered into leases with a capital value of £105.2m.

Gross capital investment (fixed asset and software additions plus the capital value of new leases) was £516.1m (2020: £2,326.5m) and comprised First Student £211.5m (2020: £331.9m), First Transit £37.2m (2020: £30.5m), Greyhound £14.7m (2020: £65.4m), First Bus £28.6m (2020: £52.6m), First Rail £223.8m (2020: £1,842.9m) and Group items £0.3m (2020: £3.2m). The balance between cash capital expenditure and gross capital investment represents new leases, creditor movements and the recognition of additional right of use assets in the year.

Adjusted cash flow

The Group's adjusted cash flow of £284.0m (2020: £97.4m) was well ahead of initial expectations, reflecting our actions to maintain liquidity and financial strength despite the passenger volume reductions. Some capital expenditure and working capital outflows were deferred, which in the case of the discontinued operations were reflected in the terms of the sale. First Bus cash flows were affected by the timing of a c.£70m CBSSG settlement from DfT, which is expected during FY22. The Group also secured £109.5m in cash proceeds from the sale of properties in the year, principally from Greyhound. The foreign exchange gain in the year in part reflects the hedging strategy put in place for the net proceeds of the First Student and First Transit sale.

The adjusted cash flow is set out below:

52 weeks to end March	2021 £m	2020 (restated) £m
EBITDA	**1,169.5**	1,108.9
Other non-cash income statement charges	**9.6**	8.8
Working capital	**166.1**	71.5
Movement in other provisions	**72.7**	(64.5)
Pension payments in excess of income statement charge	**(59.2)**	(38.8)
Cash generated by operations	**1,358.7**	1,085.9
Capital expenditure and acquisitions	**(391.0)**	(352.8)
Proceeds from disposal of property, plant and equipment	**119.0**	30.5
Proceeds from disposal of business	**–**	16.2
Interest and tax	**(152.1)**	(126.1)
Lease payments now in debt/other	**(650.6)**	(556.3)
Adjusted cash flow	**284.0**	97.4
Foreign exchange movements	**78.5**	(24.1)
Inception of new leases	**(210.2)**	(1,828.1)
Lease payments now in debt	**644.1**	549.2
Other non-cash movements	**(161.3)**	(2.0)
Adjustment on transition to IFRS 16	**–**	(1,168.2)
Movement in net debt in the period	**635.1**	(2,375.8)

Financial review continued

Net debt

The Group's adjusted net debt at 27 March 2021, which excludes the impact of IFRS 16 and the capitalisation of Right of Use Assets and First Rail ring-fenced cash was £1,414.3m (2020: £1,490.9m). Reported net debt was £2,625.8m (2020: £3,260.9m) after IFRS 16 and including First Rail ring-fenced cash, as follows:

	27 March 2021			28 March 2020 (restated)
Analysis of net debt	**Continuing £m**	**Discontinued £m**	**Total Group £m**	Total Group £m
Sterling bond (2021)	**349.9**	**–**	**349.9**	348.7
Sterling bond (2022)	**323.4**	**–**	**323.4**	322.7
Sterling bond (2024)	**199.8**	**–**	**199.8**	199.8
CCFF	**298.2**	**–**	**298.2**	–
Bank loans and overdrafts	**620.1**	**–**	**620.1**	656.3
Supplier financing	**–**	**159.2**	**159.2**	–
Lease liabilities	**1,784.4**	**188.5**	**1,972.9**	2,473.1
Senior unsecured loan notes	**198.8**	**–**	**198.8**	219.8
Loan notes	**0.7**	**–**	**0.7**	9.4
Gross debt excluding accrued interest	**3,775.3**	**347.7**	**4,123.0**	4,229.8
Cash	**(784.3)**	**(50.0)**	**(834.3)**	(319.5)
First Rail ring-fenced cash and deposits	**(638.5)**	**–**	**(638.5)**	(611.9)
Other ring-fenced cash and deposits	**(16.1)**	**(8.3)**	**(24.4)**	(37.5)
Net debt excluding accrued interest	**2,336.4**	**289.4**	**2,625.8**	3,260.9
IFRS 16 lease liabilities – Road	**66.8**	**127.4**	**194.2**	283.3
IFRS 16 lease liabilities – Rail	**1,655.8**	**–**	**1,655.8**	2,098.6
IFRS 16 lease liabilities – total	**1,722.6**	**127.4**	**1,850.0**	2,381.9
Net debt excluding accrued interest (pre-IFRS 16)	**613.8**	**162.0**	**775.8**	879.0
Adjusted net debt (pre-IFRS 16 and excluding First Rail ring-fenced cash)	**1,252.3**	**162.0**	**1,414.3**	1,490.9

Under the terms of the First Rail contractual agreements, cash can only be distributed by the TOCs up to the amount of their retained profits. The ring-fenced cash represents cash that is in the TOCs at the balance sheet date. First Rail ring-fenced cash increased by £26.6m to £638.5m in the year principally due to the pre-funding of working capital flows noted elsewhere.

Funding and risk management

Liquidity within the Group has remained strong. At 27 March 2021, there was £1,130.6m (2020: £585.7m) of undrawn committed headroom and free cash, being £346.1m (2020: £348.6m) of committed headroom and £784.5m (2020: £237.1m) of net free cash after offsetting overdraft positions. This reflects the previously disclosed issuance of £300m in commercial paper through the UK Government's CCFF scheme in April 2020 which was renewed for a further year in March 2021, cash flow in the period and the timing of working capital movements in First Student. Subsequent to the year end the Group completed the sale of First Student and First Transit for net cash proceeds of c.£2.3bn that is being applied to significantly deleverage the balance sheet with pro forma adjusted net debt of c.£100m after all funds flows relating to the transaction.

The Group expects to settle £1.8bn of outstanding debt including the CCFF commercial paper, the 2022 bond and other debt, incurring c.£65m in make-whole costs; to contribute £220m in cash and transfer £117m into escrow in respect of the UK Bus and Group pensions schemes; to apply a total of c.£260m for Greyhound legacy liability de-risking and other short-term capital requirements; and to make the proposed £500m return of value to shareholders in due course.

Following the transaction, the majority of our debt has either been repaid, or will be repaid after required notice periods have elapsed, including under the £800m Revolving Credit Facility. Once these repayments have taken place, the remaining drawn facilities will include the £200m 2024 bond and fleet finance leases in First Bus and Greyhound. The £800m revolving credit facilities remain in place for up to three months and the Group is in discussions with its banking group for a more suitable facility going forwards for a smaller remaining Group.

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

The covenant relief obtained in November 2020 will no longer be required once the USPP is repaid in August. All other debt on which relief had been obtained has either been repaid and cancelled, or, in the case of the Revolving Credit Facility, we have advised the agent that the relief no longer applies. For the March 2021 covenant test the net debt: EBITDA ratio was 1.6x and the fixed charge cover ratio was 1.6x, well within the original covenant ratios.

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.

Fuel price risk
We use a progressive forward hedging programme to manage commodity risk. As at 27 March 2021, 44% of our 'at risk' UK crude requirements for the current year in the UK (1.7m barrels) were hedged at an average rate of $61 per barrel, 17% of our requirements for the year to end March 2023 at $55 per barrel, and 1% of our requirements for the year to end March 2024 at $62 per barrel. Greyhound's fuel exposure is largely unhedged because its competitors – passenger cars and the airlines – do not hedge their fuel exposure, so Greyhound's pricing is responsive to fuel price changes.

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:

	52 weeks to 27 March 2021		52 weeks to 28 March 2020	
	Closing rate	**Effective rate**	Closing rate	Effective rate
US Dollar	**1.38**	**1.39**	1.25	1.29
Canadian Dollar	**1.74**	**1.75**	1.74	1.72

Pensions
We have updated our pension assumptions as at 27 March 2021 for the defined benefit schemes in the UK and North America. The net pension deficit (comprising continued and discontinued operations) of £313m at the beginning of the period was £296m at the end of the year, with UK Bus schemes increasing from £93m to £164m, and North America decreasing from £218m to £129m. The main factors that influence the balance sheet position for pensions and the principal sensitivities to their movement at 27 March 2021 are set out below:

	Movement	Impact
Discount rate	+0.1%	Reduce deficit by £32m
Inflation	+0.1%	Increase deficit by £27m
Life expectancy	+1 year	Increase deficit by £90m

Financial review continued

The Trustee and Company have finalised the 2019 funding valuation for the First UK Bus Pension Scheme. Taking into account the parent company guarantee provided by FirstGroup plc, the funding deficit of £271m at the valuation date is lower than that of the previous triennial valuation (£302m as at April 2016), but higher than the balance sheet position on an accounting basis at the relevant date. The funding shortfall on a targeted low dependency basis (with a discount rate of gilts +0.5% per annum) at the reporting date is estimated to be c.£170m higher than the deficit reported in these financial statements.

We are now actively engaging with the Trustee on strategic discussions in relation to a long-term funding target for the Scheme, including liability management options, covenant, de-risking the investment strategy and securing member benefits. Such a long-term funding target (often referred to as low dependency or self-sufficiency) is not defined precisely but may be achieved by setting a funding target in line with a discount rate for liabilities in the range of Gilts to Gilts +50bps. In our opinion, funding the Scheme to such a level within a reasonably short time horizon, while taking actions to reduce exposure to investment risk, is both realistic and achievable – especially given the rate at which the Scheme is now maturing following closure first to new entrants and then subsequently to ongoing accrual. Such a lower risk, low dependency funding target could be c.£100m higher than the value of liabilities in the funding valuation.

In November, an annuity buy-in was completed for all the current pensioners in the Aberdeen LGPS. The pensioners represent £230m, or 70%, of our Scotland LGPS pension liabilities, and removing our exposure to that risk represents a material reduction to the Group's overall ongoing pension risk.

As part of the sale of First Student and First Transit, memoranda of understanding have been agreed with the Group Pension Scheme and Bus Pension scheme whereby £220m of cash will be contributed to the Bus Scheme and £117m in total put into escrow that could be released back to the Group depending on future triennial valuation outcomes.

Balance sheet

Net assets have decreased by £22.6m since 28 March 2020. The principal reasons for the decrease are actuarial losses on defined benefit pension schemes (net of deferred tax) of £33.8m and unfavourable translation reserve movements of £110.9m partly offset by the profit for the year of £91.1m and favourable derivative hedging movements net of tax of £28.0m.

	As at 27 March 2021			As at 28 March 2020
Balance sheets – net assets/(liabilities)	**Continuing £m**	**Discontinued £m**	**Total Group £m**	Total Group £m
First Bus	**328.1**	**–**	**328.1**	379.5
First Rail	**925.6**	**–**	**925.6**	1,348.7
Greyhound	**(54.5)**	**–**	**(54.5)**	(130.8)
Discontinued operation – First Student	**–**	**2,381.1**	**2,381.1**	2,549.2
Discontinued operation – First Transit	**–**	**298.0**	**298.0**	372.0
Divisional net assets	**1,199.2**	**2,679.1**	**3,878.3**	4,518.6
Group items	**(38.1)**	**(10.0)**	**(48.1)**	(35.2)
Net debt	**(2,336.4)**	**(289.4)**	**(2,625.8)**	(3,260.9)
Taxation	**(13.5)**	**(36.8)**	**(50.3)**	(45.8)
Total	**(1,188.8)**	**2,342.9**	**1,154.1**	1,176.7

Post-balance sheet events

- On 23 April announced sale of First Student and First Transit (see discontinued operations note 21) and completed the sale on 21 July
- Cancelled the £300m bridge facility that matures in March 2022
- Repaid Sterling bond 2021 of £350m on 15 April
- Repaid a further £527m of indebtedness and contributed £220m to UK Bus Pension Scheme in applying some of the sale proceeds from the sale of First Student and First Transit
- Following the sale of First Student and First Transit, the letters of credit, surety bonds and parent company guarantees relating to those businesses have been cancelled or in the process of being released
- Agreed termination sum with the DfT relating to the TPE franchise
- Signed National Rail Contracts for SWR and TPE in May for initial two-year term with the DfT having an option to extend the respective contracts for a further two years to May 2025
- Agreed with the DfT the extension of the Emergency Measures Agreement for GWR to December 2021
- Announced the closure of Greyhound Canada on 15 May.

Ryan Mangold
Chief Financial Officer
27 July 2021

Responsible business

Our ambition is to be the partner of choice for innovative and sustainable transport, accelerating the transition to a zero carbon world.

We are committed to building a business for the long term, actively managing the most important issues we face from an ESG perspective. These issues go to the heart of what we do as an organisation. 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.

Mobility Beyond Today
Our strategic framework for sustainability

Climate leadership

This year, FirstGroup became the first public transport operator in the UK to formally commit to setting an ambitious, science-based target aligned with limiting global warming to 1.5°C and to reaching net-zero emissions by 2050 or earlier. Our interim targets to net-zero will be independently verified by the Science Based Targets initiative (SBTi) and will be published in early 2022 (see pages 38 and 60 for further details).

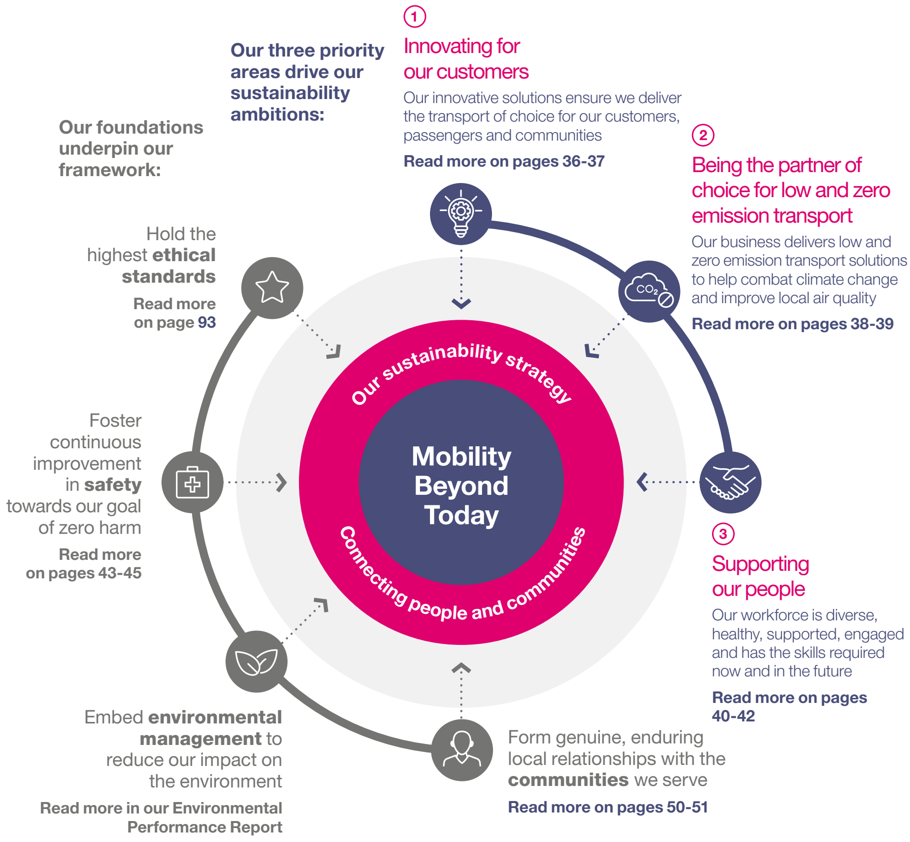
This builds on our previously announced commitments to transition to an entirely zero emission bus fleet by 2035 (and not to purchase new diesel buses after 2022) and we support the UK Government's proposal to take all diesel-only trains out of service by 2040.

ESG performance in 2020/21

We continue to be recognised as a leader in evaluations, ratings and rankings of our ESG performance. During the year we were included in the 2021 Clean200 report, which ranks the world's largest publicly-listed companies by their total clean energy revenues from products and services that provide solutions for the planet and define a clean energy future. We are the only passenger transport operator based in Europe to be included in this year's report.

We were also the only UK transport company recognised in the S&P Global Sustainability Yearbook 2021, ranked within the top 15% of the sector globally.

We scored in the 98th percentile in our sector in the FTSE4Good Index, and maintained our longstanding participation in the CDP global disclosure programme.



We identified our strategic priorities through robust materiality assessment and extensive dialogue and consultation with both internal and external stakeholders.

We recognise this is a process that will continually evolve and so too will our work, with the needs and perspectives of our stakeholders continuing to inform our plans. See pages 46-49 for more information on our stakeholder engagement through FY21.

Innovating for our customers

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.

Making the shift

We already play a critical role in reducing congestion on our roads, improving air quality and helping to lower carbon emissions. Independent analysis from CEBR of the positive impact of FirstGroup services in the UK shows that First Bus and First Rail deliver over £2bn in annual savings through reduced congestion and more than 1.75m tonnes of avoided carbon emissions per year thanks to customers choosing to travel on our services over alternative modes including private cars, taxis and planes.

In the UK, statistics show that bus and coach transport accounts for only 3% of greenhouse gas emissions produced by the transport sector, while rail accounts for just 1.4% of transport emissions despite carrying 10% of all journeys (pre-pandemic).

FirstGroup are already amongst the top 200 global public companies ranked by green revenues in 2020. We have firm commitments to drive down our emissions further, and strong governance and management processes in place to ensure progress.

But just as importantly, we are focused on helping more people make the shift to our bus and rail services, and getting more people back on to public transport following the pandemic. Clearly this is environmentally desirable, but public transport is also vitally important for social inclusion, acting as a leveller for access to education, jobs and health facilities, and driving social mobility and cohesion.

For example, a quarter of UK households do not have access to a car, rising to 45 per cent of low-income homes, while 40% of jobseekers say that a lack of personal transport or poor public transport is a key barrier to employment. FirstGroup provides services (and creates jobs) in many of the UK's most deprived areas – in fact FirstGroup directly provides employment in 355 of the 374 Local Authority Districts (94.9%) in the UK.

Public transport is vital to prosperity. In FY20, FirstGroup supported £1.46bn of business turnover in the UK economy, where firms relied on FirstGroup services in their production processes.

Simplifying end-to-end journeys and supporting active travel

To increase ridership and take more private journeys off the road, we strive to improve and simplify end-to-end passenger journeys, and to increase the integration of active travel, including cycling and walking, in our networks.

This year, GWR installed hundreds of secure bike spaces to allow even more people to choose a sustainable way of getting to and from the station, reducing road traffic congestion and improving access to the benefits of sustainable travel by rail.

In November 2020, we launched a new partnership between First Transit and urban mobility app providers, Moovit, enabling passengers to plan and pay for all stages of their journey. The app works across different modes of transport – including bus, train, subway, car-sharing, bikes and scooters – to provide comprehensive urban mobility information, such as multimodal trip planning, real-time arrival information, service alerts, booking, contactless payments, and e-tickets.

Accessible journeys

We are committed to making our services accessible and we make every effort to support customers with disabilities or restricted mobility.

We recognise that access to public transport services is often fundamental to such customers' independence. For example, user research has shown that individuals with a disability or mobility issue are more dependent on buses, using them approximately 20% more frequently than non-disabled people. We work with both national and local disability groups and continue to invest in making our services more accessible to those with disabilities. We accomplish this through both better employee training, more accessible vehicles, and technology enhancements. An example of the latter is the capacity tracking functionality of our First Bus app which now provides live tracking information and capacity including information on available wheelchair spaces onboard our bus services.

Across First Rail, our operating companies have been rolling out disability awareness training for all customer-facing employees as part of an industry-wide commitment. More than 8,200 employees have already been trained, equipping them to provide the best possible service to all our disabled passengers.

Combining excellent customer service with innovation

To encourage more people to use bus and rail services, we continue to invest in innovations to improve customer service, delivering more convenience, smarter, easier and more flexible ticketing, better real-time information and improved onboard amenities.

We completed the rollout of our smartcard schemes across our operating companies, with the launch of a new scheme in Avanti this year. This was alongside a new information service to give real-time journey updates for passengers through the on board service 'Track My Train'.

We also became the UK's first rail company to provide super-fast onboard 5G Wi-Fi through evo rail, created in-house by First Rail. Developed in partnership with Blu Wireless, Network Rail and the DfT, our innovative end-to-end 5G solution allows passengers to enjoy consistent, fast Wi-Fi connectivity on train journeys for streaming, rapid browsing, and connectivity to cloud-based applications.

Following a successful large-scale pilot on the Isle of Wight's Island Line in our SWR franchise, our 5G technology will be installed on a 70km section of the SWR mainline, followed by Avanti later in the year.

Using our influence

Public transport is public-facing, often the topic of political debate and subject to significant interaction with government at local, regional and national level. Our influencing goals are to advocate for innovation and investment in sustainable mobility, and to argue for sustainable transport infrastructure decisions that help reduce congestion, enhance customer experience and decrease journey times. We achieve this by engaging broadly and deeply with a wide range of stakeholders and policymakers.

At Group level, we have long-established and strong relationships with government officials and departments, as well as positive engagement with ministers. We work with both Government and opposition policy teams and advisers, as well as significant political influencers, including Parliamentary and Congressional committee members.

Our experience, expertise and market-leading positioning is recognised when we intervene in policy debate and allows us to engage meaningfully with decision-makers to 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 the membership of sector trade organisations in the UK and North America, who engage with national or federal government and regulators to promote a positive policy environment for private sector transport.

In First Bus we work closely with our local authority partners to pursue formal and informal partnerships which help us deliver better services through measures which cut road congestion and give priority to buses.

In First Rail, we deploy Regional Development Managers within our operating companies who liaise with local and regional government, local businesses, user groups and others.

This commitment to, and experience of, effective local and regional partnerships, underpins our approach to the partnership options set out in the Government's new National Bus Strategy, as well as our engagement with the devolved nations, to ensure that the experience and expertise of private operators remains central to the delivery of public transport services.

In the UK, we engage with, and support through formal membership, a number of business advocacy organisations, sustainability lobby groups and public transport campaigns. By working through these alliances, we amplify our influence on policy issues – this year particularly around post-pandemic recovery and transport decarbonisation in the context of the UK's journey to become net-zero by 2050. We continue to work with stakeholders and engage directly with Government ahead of the UN COP26 Climate Change Conference taking place in November. This is not only because the venue is Glasgow, where we are the leading bus operator and which is a major destination for two of our rail companies, but because of the importance of modal shift and fuel innovation to decarbonising transport and achieving net-zero emissions.

This year, First Rail Managing Director, Steve Montgomery, was appointed Chair of the Rail Delivery Group (RDG), providing leadership at a critical time to support engagement and support for rail industry reform. In rail, we are also represented on the Sustainable Rail Executive, convened by the Rail Safety and Standards Board (RSSB), alongside DfT and other key stakeholders, and chair RSSB's Sustainable Rail Leadership Group, helping to set air quality and climate change goals, tools and guidance for the rail industry to transition to a lower-carbon future.

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. More information on our stakeholder engagement strategies can be found on pages 46-49.

Responsible business continued

Being the partner of choice for low and zero emission transport

We are taking action to combat climate change and improve local air quality by delivering low and zero emission mobility solutions for our customers. One of our key aims is to eliminate the carbon emissions associated with our operations in line with the latest climate science.

Our aims

Zero carbon
Eliminating the carbon emissions associated with our operations.

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

Climate resilience
Incorporating climate adaptation measures to improve the resilience of our services.

The vital role of public transport has never been clearer in helping to address the challenges of climate change. We are therefore committed to delivering a more sustainable future for the communities we serve.

We actively manage our greenhouse gas emissions across our business and are working to eliminate the carbon emissions associated with our operations.

Zero carbon

Work and investment has continued to progress in both our UK and North American operations with the expansion of our battery, electric and hydrogen fuel cell vehicle fleets.

The coronavirus pandemic has significantly reduced our passenger and service volumes resulting in a 40% reduction in our carbon emissions from FY20. In prior years, FirstGroup had reduced its gross carbon emissions by an average of 3% per year since our 2016 base-year, a trajectory we expect will have continued despite difficult operating circumstances.

First Bus already plays a leading role in the operation of low and zero emission vehicles. In 2020 we announced our commitment to achieving a fully zero emission fleet by 2035. This year we have expanded our fleet of electric buses across our services including in Leeds, Glasgow and the country's biggest electric Park&Ride fleet in York. We have secured funding to introduce a further 148 buses to the existing electric bus fleet in Glasgow and announced our partnership with Arrival to become the first operator of their ground-breaking zero emission bus. We have a 99 strong fleet of biomethane buses in Bristol. We have also introduced the world's first hydrogen powered double-decker fleet in Aberdeen.

Similarly, our First Rail operations are also continuing efforts in this space. The electrification of our First Rail routes has contributed to a 33% reduction in carbon emissions per passenger kilometre since 2016, and progress is set to continue as the UK rail network is progressively electrified. Electrification has vastly reduced our carbon emissions both in real terms and per vehicle

Climate leadership through science-based targets

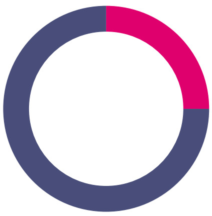
In April 2021, FirstGroup became the first bus and rail operator in the UK to formally commit to setting an ambitious, science-based target aligned with limiting global warming to 1.5°C and to reaching net-zero emissions by 2050 or earlier.

This provides us with a clearly defined path to reduce emissions across the Group in the UK that aligns with the Paris Agreement goals and the latest climate science. It will involve undertaking an evaluation of our carbon emissions across our value chain to publish a target in early 2022.

kilometre, with 73% of our kilometres now powered by electric traction (2020: 68%). However, to continue to reduce our carbon emissions further we need to maintain our work with Government, Network Rail and other key stakeholders in support of further electrification of the UK network and, where electrification is not going to be possible, to support the case for other low or zero carbon alternatives to running diesel trains. Sustainability is a key focus in all of our contracts with the DfT and we will continue to ensure carbon-related metrics are included in further contracts and negotiations in future.

This year First Student and First Transit announced the launch of a joint framework agreement with the world's largest generator of renewable energy from the wind and sun, NextEra Energy Resources, pursuing the electrification of tens of thousands of school and public transportation vehicles across the US and Canada.

73% of our rail kilometres are now powered by electric traction



● Electric	73%
● Diesel	27%

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.

Alongside our long-term commitment to transition our business to become net-zero, we also have programmes in place to reduce the emissions of air pollutants from our existing fleet. Through the process of contract renewal, new contracts and planned fleet replacement, we are replacing our older, higher emission fleet with new models.

This year in First Bus we also reached the milestone of installing more than 1,000 Exhaust After-treatment Systems (EATS) to older diesel vehicles to achieve the Euro VI low emissions standard and contribute to improving air quality in the communities and for the customers we serve. These systems are designed to remove air pollutants such as nitrous oxides (NOx) and particulate matter (PM) before they can be emitted. Using an 'air emissions inventory' approach, in alignment with UK Government methodologies, we have been able to demonstrate a reduction in NOx and PM emissions from our fleets thanks to investments in technologies like this.

As we transition our fleets to zero emissions, our air quality impacts will increasingly be associated with our vehicle brakes and tyres, i.e. non-exhaust emissions. In First Bus we have this year secured funding to work with industry partners to identify opportunities for reducing emissions from these sources and to inform future policy and regulation in this area.

We are 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.

Climate resilience

Greater and more frequent adverse weather caused by climate change increases the risk of service disruption, and of reduced customer demand, with consequent financial impact.

Understanding the physical risks of climate change on our business, including our operations, infrastructure, people and customers, means taking into account the likely increase in extreme weather events and the consequent impacts on our service reliability, energy supply and our supply chain.

The likely impacts, and the opportunities to mitigate these risks, will vary depending on the geographic location of our individual businesses.

We already have severe weather action plans and procedures in place across the Group. This year, as part of our work to address the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD), we have begun to review and identify areas of the business that will require further and more detailed analysis of the longer-term physical climate-related risks.

Arrival partnership

A key part of our transition to a zero emission bus fleet will be achieved through working with vehicle manufacturers.

This year we were excited to announce that we are partnering with electric vehicle manufacturer, Arrival, to begin trials of its zero emission bus. This will be the first time the buses are tested on public roads and will be used on existing First Bus routes, helping us bring some of the most innovative zero emission vehicles on the market onto the UK's streets for our customers and partners.

The single-decker Arrival bus is designed to be up to 40% lighter than other battery-electric buses on the market. It features a passenger seating capacity of 36 across the entire flat floor, allowing greater accessibility, as well as more usable standing space and ability for passengers to travel more comfortably.

In addition to this, while we take steps to ensure that climate impacts are taken into account for our own assets, we also need to work with wider stakeholders to understand the risks and mitigations that are required for the infrastructure we rely on to deliver our services.

In our TCFD section on pages 57-60 we go into more detail about how we are exploring these risks and opportunities.

Responsible business continued

Supporting our people

We employ many thousands of people in depots, stations and offices, providing vital services which connect people and communities. Our people are at the heart of our business, and we are extremely proud of the way they have kept customers moving during the pandemic.

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.

Throughout the last 12 months, while our primary concern has been the protection of customers and colleagues and adapting to new ways of working, we have continued to invest in attracting, developing and retaining customer-oriented and skilled people.

Diversity and Inclusion

To better understand and meet the needs of the diverse customers and communities we serve, we are committed to increasing the diversity of our workforce. We recognise that attracting and retaining people with different backgrounds and experience requires an inclusive culture where everyone feels valued and respected. While we are proud of the progress being made in many areas, we acknowledge there is still more to do to in order to create an inclusive workplace for everyone.

The public transport industry remains male-dominated, so increasing gender diversity has been a key area of focus. Despite the impact of the pandemic on our businesses during the year, we have made further progress on the four commitments we set out in 2017, namely 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 aware of the role they play in creating an inclusive workplace that is welcoming to women.

More information can be found in our 2020 Gender Pay Gap Report.

Overall, this year the proportion of female colleagues in the Group was broadly unchanged at 40.1% (2020: 40.5%).

The proportion of women in senior management positions has continued to increase. In previous years, we have used the Companies Act definition of ‘senior manager’ and under this measure, female senior managers have risen again from 26.3% to 28.1% since last year’s report. Using the Hampton-Alexander definition (women on the company’s Executive Committee and direct reports to the Executive Committee) we stood at 21.7%, at October 2020. As a result of more recent appointments up to 31 March 2021, this has improved further to 22.7%.

At Board level, at 31 March 2021, 30% of our Non-Executive Directors were women. With the appointment of Jane Lodge on 30 June 2021, female representation on the Board increased further to 36.4%.

Our women’s development programmes continue to increase the number of women in management roles. ‘Step Up’ encourages women in frontline jobs to prepare for and attain their first supervisory or line management role; of the 120 women who have attended since 2019, 28% have already been promoted.

In 2020, we piloted a new programme, ‘Step Forward’, supporting women in junior managerial roles to move into middle management jobs. This programme has been similarly successful, with 35% of participants being promoted since attending.

Gender diversity

As at 27 March 2021

Total employees[1]

Year	Total	Female %	Female	Male	Male %
2021	100,807	40.1%	40,463	60,344	59.9%
2020	112,394	40.5%	45,557	66,837	59.5%
2019	108,722	40.0%	43,438	65,284	60.0%

Senior managers Companies Act definition[2]

Year	Total	Female %	Female	Male	Male %
2021	392	28.1%	110	282	71.9%
2020	384	26.3%	101	283	73.7%
2019	370	23.2%	86	284	76.8%

Senior managers Hampton-Alexander definition[3] as at 30 October 2020

Year	Total	Female %	Female	Male	Male %
2020	69	21.7%	15	54	78.3%
2019	62	19.4%	12	50	80.6%
2018	60	21.7%	13	47	78.3%

Board directors

Year	Total	Female %	Female	Male	Male %
2021	10	30.0%	3	7	70.0%
2020	10	30.0%	3	7	70.0%
2019	10	20.0%	2	8	80.0%

● Female
● Male

1 In 2021, the gender of 69 of our employees was unknown (2020: 54; 2019: 0).

2 Companies Act definition: 'any employee who has responsibility for planning, directing or controlling the activities of the company or a strategically significant part of the company'. Includes directors of subsidiaries.

3 Hampton-Alexander definition: 'Executive Committee and direct reports'.

We are also committed to improving the ethnic diversity of our workforce. As recent signatories to 'Change the Race Ratio', we have committed to taking action which will increase the racial and ethnic diversity of our Board and senior leadership, be transparent on targets and actions, and create an inclusive culture where talent from all diversities can thrive. We look forward to publishing our targets and action plans later this year.

Work is underway to create our first UK ethnicity pay gap report, as we recognise the power of this data to drive progress on diversity and fairness issues. As part of our preparatory work, we have engaged our Employee Directors and will be running a series of campaigns with the aim of helping employees to overcome any reluctance or concerns about disclosing their ethnicity.

A key area of focus this year has been increasing the ethnic diversity in our UK management teams. To support the career progression of employees from Black, Asian and minority ethnic (BAME) backgrounds, our rail division has created two new development programmes: 'Reach Up' and 'Reach Forward', which have both been designed to increase the number of BAME employees progressing into managerial roles. Eighty colleagues are now participating in these programmes, with further events planned in FY22.

This year, our divisions have strengthened their governance and leadership focus on how we can improve workforce diversity.

In First Bus we have conducted a benchmarking exercise of relevant diversity policies, practices and culture to inform a divisional diversity and inclusion strategy. We welcome the insight this has given us and have established an Equality, Diversity and Inclusion Governance Board to provide regular review, support and challenge to our work in this area. We will report fully on our progress next year.

In our North American businesses, we established a Diversity & Inclusion Council, formed jointly by First Student and First Transit, and including colleagues from different departments and locations across the US and Canada. The Council meets monthly to advise senior leadership on how to promote and advance an inclusive work environment. The learning from this model is being shared across the Group. Forbes has recently named FirstGroup as one of the most diverse employers in the US.

We are committed to supporting disabled employees, with regard to training, career development and promotion. Across the Group, full and fair consideration is given to applications for employment from people with disabilities.

Increasing workforce diversity

As part of our commitment to increase the number of female employees at FirstGroup, we have continued to expand the ways in which we promote available job opportunities. Examples include partnering with job platforms like WORK180 and VERCIDA, which are aimed at jobseekers who wish to work for employers with a clear commitment to diversity, inclusion and wellbeing. GWR has used these platforms to promote career opportunities in traditionally male-dominated roles, such as train drivers, to a more diverse audience.

These and other efforts are continuing to make a difference, with the percentage of women hired up from 21.4% to 22.8% compared with the previous year, despite the number of vacancies being substantially reduced as a result of the pandemic.

As part of our plan to support more people with disabilities to enter the workforce, GWR has been working with the charity Whizz-Kidz, providing online mentoring and training support for young people in the local community who have mobility impairments, and encouraging them to consider careers in the rail industry.

Throughout our UK businesses we operate a wide variety of employee networks covering different strands of diversity, providing support to underrepresented groups and advising senior management on ways to improve workforce diversity and foster an inclusive culture.

During the year, Avanti launched an internal mentoring scheme, with more than 30 trained mentors providing development support to

Responsible business continued

over 60 colleagues from underrepresented groups including disabled people, colleagues from the LGBTQ+ community, women and people from ethnic minority backgrounds. As a consequence of positive feedback, the programme is now being expanded.

Skills for the future

Each of our divisions provides training to enable our employees to deliver great service for our customers, and invests in the skills we need for the future. The changing nature of transport and mobility, particularly new vehicle technologies and energy transition, requires us to adapt the way we develop, operate and maintain our services. To deliver that change, we need a healthy, engaged, agile and diverse workforce with the skills and expertise for a zero carbon economy, ready to innovate and deliver mobility for the future.

We are proud to support green job creation in the UK and North America as we deliver the transition to zero emission public transport. The UK Government predicts that zero emission vehicles could support around 40,000 jobs through the supply chain by 2030, which we see reflected in our investment in new vehicles, cleaner energy and in training and development for drivers and engineers for our zero emission fleets.

Our apprenticeship programmes are an important way of growing the engineering and operational skills which are vital to our business, and we currently have 273 apprentices in training across First Bus and First Rail. Independent analysis of the value of our apprenticeship programmes shows over £4.25m in net output added to the economy thanks to our apprentices over the past year.

As part of the continuous improvement of our programmes, during the year 60 of our managers in First Bus received training to help them provide the best possible development support to the apprentices in their teams.

First Bus and First Rail are signatories to Tomorrow's Engineers Code, a campaign which brings together employers, education, and professional bodies to increase the number and diversity of young people choosing careers in engineering. It aims to do this in a variety of ways, showcasing the wide variety of job opportunities available, and how engineers use their skills to build a better world. By targeting inspiring activities at under-served and underrepresented groups, the Code seeks to ensure all young people have the opportunity to consider a career in engineering, regardless of their background.

To attract and retain the skills we need, we offer a competitive wage reflecting local market demands and conditions. In First Rail, both TPE and Tram Operations Ltd. are accredited Living Wage Employers and pay the Real Living Wage (RLW) to employees and to third-party contractors working directly for the Company in accordance with the Living Wage Foundation rates of pay. GWR, SWR and Avanti also pay the RLW to directly employed colleagues. 97.4% of employees in First Bus, are paid at or over the RLW.

Wellbeing

Recognising the pandemic has been a very difficult and uncertain time, we have continued to provide support to employees on all aspects of their welfare. This has included taking steps to protect our most vulnerable employees and providing technology and associated systems support to enable colleagues to work effectively at home wherever the nature of their role made this possible. Pages 43-45 detail how the comprehensive safety measures we put in place at the start of the pandemic have been maintained and enhanced during the year.

We have also increased our focus on mental health, expanding the number of trained mental health first aiders, and adding digital tools to provide relevant resources and support materials. For example, in First Bus we launched a wellbeing hub on our Employee Portal and colleague app, with guidance on mental and physical health, nutrition and financial advice.

In North America, in First Student and First Transit we launched the 'You First' wellness campaign, encouraging the use of our emergency assistance programme and support on a wide range of matters from stress and financial concerns to alcohol and substance abuse. We have also implemented Headversity, a set of easily accessible resources giving employees and their families tools to assist mental wellbeing and resilience.

To maintain engagement and reduce social isolation, we have used multiple channels to keep in touch with our employees and share important information. The Chief Executive and divisional leaders have continued to film regular updates for employees throughout the year, alongside business-specific communications issued via the intranet, email, newsletters, management briefings and our employee apps.

Employee Engagement

"The 'From Platform to Boardroom' scheme has been amazing to me. The advice, guidance and knowledge amassed has helped me decide my career path.

I have pursued a Diploma with the Institution of Railway Operators, and now I have been accepted for a Quest Operations Manager Level 5 Apprenticeship."

Mau Nteteka, GWR

The knowledge and insight of our frontline colleagues is key to helping us improve the customer experience. Through GWR's reverse mentoring scheme 'From Platform to Boardroom' customer-facing employees and senior managers work together to share ideas on improving our service. The scheme has also provided development opportunities for the frontline employees involved.

All our businesses carry out regular 'Your Voice' surveys giving employees the opportunity to share their views on the way they are managed, and how likely they are to recommend FirstGroup as an employer. These surveys are anonymous, and managed by an external specialist company to encourage candid feedback.

Three of our UK rail operating companies, GWR, TPE and Avanti had surveys scheduled before the start of the pandemic. Their engagement results had all increased since their previous surveys, with scores ranging from 71% to 87%, well ahead of the UK transport sector norm (67%). As large numbers of employees were on furlough during the year, some of our businesses deferred the surveys they had planned for 2020. These will now take place in FY22.

Dedicated to safety, always front of mind – safety is our way of life

Dedication to safety is one of our five values, and our commitment to the safety of our customers, our employees and all third parties interacting with our business remains unwavering.

By its nature, the transport industry involves safety risk, with many millions of customers travelling on our services every year.

This is why we take seriously our duty of care to ensure that our customers and other stakeholders can use our services safely and that our employees have a safe place to work. While the industry we operate in has significant inherent safety risk, we are determined to achieve our long-term goal of zero harm.

We maintain robust safety management systems throughout the Group, with 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.

Alongside this, we continue to invest in sophisticated technology solutions to assist our teams in delivering first class safety, reducing incidents and monitoring and managing performance. We are proud of the safety culture we have worked hard over many years to establish.

Coronavirus

Since the start of the coronavirus pandemic, our priority above all else has been to safeguard the health and wellbeing of our customers and colleagues as we continue to run vital services. We have followed all appropriate public health authority guidance, and ensured we have adequate safety and protective equipment in place. We have pioneered best practice in areas such as enhanced cleaning and decontamination of vehicles, depots and terminals.

As a transport provider, our frontline teams are themselves key workers, providing transportation to 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.

There have been countless examples of our people from across the Group providing direct assistance and support to those most in need, right at the heart of the communities we serve. More information on our community engagement this year can be found on pages 50-51 of this report.

The wellbeing of our colleagues will always be of paramount importance and we are grateful for the efforts of everyone in the steps they have taken to manage our response to the pandemic.

Our response

Our approach to the pandemic evolved quickly from its onset and matured with a robust management framework established within each division, overseen at Group level. This included divisionally-led working groups that fed up through the management structure, which then in turn informed a regular review process with each business.

A similar process was established for the corporate centre, and a cross-functional team considered all relevant matters such as guidance in public health, safety or employment law. The situation remains highly dynamic and is kept under close and constant review.

Measures have been in place throughout the year covering:

- **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.
- **Cleaning protocols for our vehicles and buildings:** We enhanced our already stringent vehicle cleaning protocols across all divisions, using antiviral products and disinfectants to sanitise high touchpoint areas at increased frequencies. We have been at the forefront of trialling and deploying new products developed to address the coronavirus pandemic and give extended periods of protection against the virus.
- **Social Distancing:** We enabled social distancing on all our vehicles where this was possible 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. 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

Responsible business continued

location of their next bus but also its available capacity. Wherever possible employees have been working from home throughout lockdown periods.

- **Covid Marshals:** As the pandemic continued, and lockdowns and other restrictions were loosened and then tightened again, it became evident that one of our biggest challenges would be to ensure that individuals did not become weary of the guidance, either forgetting to follow it or no longer applying as much diligence to the measures in place; so called 'behavioural fatigue', which has been a challenge to many organisations and communities throughout the pandemic. To combat this we introduced Covid Marshals across our locations, initially in First Bus and First Rail. These Marshals were empowered to ensure compliance with all measures initially through encouragement and support, but with firmer measures if required. Covid Marshals have been welcomed across the business, and by trade unions, being seen as further evidence of the ongoing support we are giving to our frontline colleagues.
- **Open and regular communication:** Each business has kept a regular pace of information flow and engagement with colleagues, supplemented by updates from the Group.
- **Site inspections and audits:** We have instituted virtual safety tours and the usual checks and audit regimes have been enhanced and increased in frequency across all divisions. This has ensured the required measures are in place in each location and provided assurance that they remain at the standard required.
- **Wellbeing:** We have continued to provide support to frontline employees on wellbeing, particularly mental health. Divisions have built on the extensive existing wellbeing programmes, tailored to their business attributes and needs. For example, in First Bus, our new three-year strategy considers the whole person approach – physical health and safety, mental health, wellbeing, and financial health.
- **Support for community vaccination programmes:** Our vital role at the heart of our communities has been shown throughout the pandemic, helping customers to safely make essential journeys. This has included First Cymru working in partnership with Swansea City Council to operate a free shuttle service to and from a hospital vaccination centre; supporting Network Rail's volunteering efforts in the set-up of a mass vaccination facility centre in Exeter, and putting in place additional station stops to help those travelling to the vaccination centre at Newbury Racecourse.
- **Industry collaboration and best practice:** As a leader in all our markets we have been at the centre of industry efforts to tackle the unique challenges posed by the pandemic. This has included taking the lead on preparing a driver risk assessment alongside the Confederation of Passenger Transport UK (CPT) for the UK bus industry, as well as working with the Rail Delivery Group (RDG) and other rail operators in the UK, and the National School Transportation Association (NSTA) and the American Public Transportation Association (APTA) in North America.

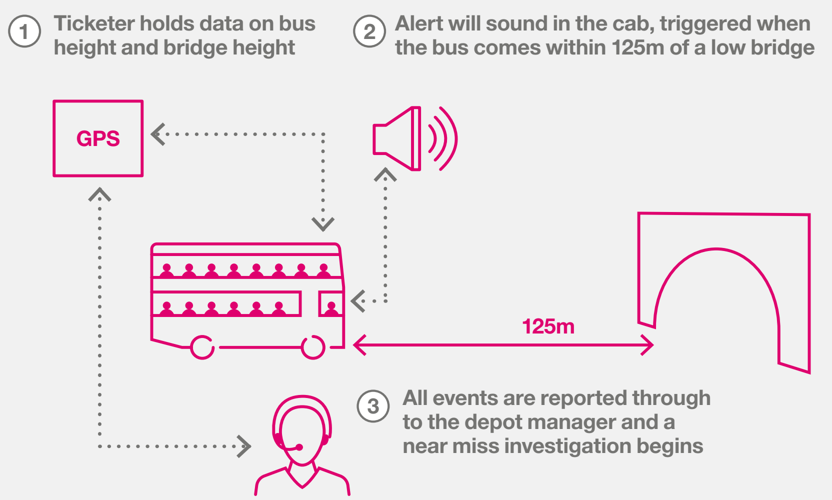
Whilst coronavirus restrictions are beginning to lift in many of our key markets, we have not slowed our pandemic response efforts. We continue to prioritise and manage the measures in place to limit the spread of the virus, and its impact on our people and our business.

First Bus – enhanced risk management against bridge strikes

Thankfully bridge strike incidents, where a bus collides with a bridge, are infrequent, but when they do occur they can have serious consequences. Thanks to a new technical solution in First Bus, we are reducing the risk of these incidents.

Using the GPS capability of our Ticketer ticket machines onboard our buses, we can now provide an in-cab audio warning to the driver when they are in close proximity of a bridge that is lower than the height of the vehicle. This also triggers an alert to the depot to provide an immediate response and to commence an investigation into the near miss. In addition to this, in partnership with the Institute of Transport Studies at Leeds University we are working to better understand the psychology and behavioural drivers behind why these incidents occur, to help us further design out risk.

How it works



Be Safe

Be Safe is our Group-wide approach to embed safety as a personal core value for all colleagues through behaviour change.

The central elements of our Be Safe programme, including daily conversations (touchpoints) to reinforce good safety behaviours, have proved 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.

Safety leadership and governance

Strong leadership from the top is a key feature of 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.

Other key activities for the ESC this year include:

- updating the Group Health & Safety Policy
- reviewing the coronavirus response, in particular reviewing lessons learned during the pandemic and how these will be factored into future safety plans
- setting of appropriate safety targets
- reporting on the wide-ranging wellbeing activities in place and planned across the Group
- sharing best practice across the divisions.

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.

Information on our approach to safety governance can be found in the Governance section of this report, which starts on page 74, and in our Board Safety Committee Report on pages 106-107. Information on employee health and wellbeing can be found on page 42.

Despite the year being dominated by activities in response to the pandemic, other safety initiatives and measures have continued to be developed and implemented around the Group, including:

- **First Bus:** This year we undertook an in-depth review into incidents of collisions with low bridges in First Bus, resulting in industry-leading new preventative measures and campaigns (see page 44 for more information on our work to reduce the risk of bridge strikes).
- **First Rail:** As well as being at the forefront of developing and testing new cleaning technologies to protect customers and colleagues from coronavirus, we also maintained our robust safety management systems and approach through multiple changes to network frequencies and operations this year. Tram Operations Ltd. in Croydon were highly commended at the Rail Business Awards and won the UK Tram category for the introduction of Physical Prevention of Over Speed (PPOS), which is an on-tram automatic braking system, using Radio Frequency Identification beacons, the first of its kind.
- **Greyhound:** During the year we increased our focus on 'BackSafe' training to help reduce the risk of strain injuries caused by material handling and push/pull/twist injuries. Vehicle safety software DriveCam continued to be used to improve safety behaviours behind the wheel.
- **First Student:** A new tool called 'Mobile Manager' was developed this year in First Student. This tablet-based mobile application draws information from various systems and identifies driver performance, including on safety, each day.
- **First Transit:** This year we delivered Be Safe refresher training to 500 managers and supervisors in First Transit, fitted an enhanced version of DriveCam that allows live streaming to 45% of our fleet and introduced a Professional Operator Development Programme training across our fixed route fleets.

Our response to the 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.

Stakeholder engagement

We interact with a huge range of stakeholders every single day. Building strong relationships with them involves listening and working in collaboration.

Here is a summary of how we engage with some of our largest stakeholder groups.

Please see page 96 of the Governance Report for our Section 172 statement and page 86 for the decisions taken by the Board during the year

Stakeholder group

Customers

The needs of our customers are unique to each journey and requirements constantly evolve. Listening, identifying future needs and being able to respond quickly is critical. Our teams use a variety of channels and approaches to engage with customers, assessing satisfaction and gathering feedback.

See pages 36-37

Investors

The Group welcomes open, meaningful discussion with shareholders on all matters. We have proactively engaged throughout the year with institutional, private and employee shareholders on a range of matters. Being fully aware of the range of views of our shareholders is a key aspect of good corporate governance and supports our commitment to ensuring that we promote the success of the Company for the long-term benefit of our members as a whole.

See page 91

Government

Strong engagement with Government at all levels is essential to our businesses in both the UK and North America. At Group level, we have long-established relationships with Government officials.

See page 37

Why we engage them	How we engage with them	Key activities from the year
▪ Improve customer experience and satisfaction ▪ Respond to customer feedback ▪ Adapt to changing customer needs ▪ Build long-lasting and trusted relationships with our 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 ▪ Monthly customer updates by the Chief Executive to the Board	▪ Modified and Covid-secure services ▪ Expanded paperless ticketing in First Rail services ▪ Capacity information and wheelchair access information for First Bus customers ▪ Developed and deployed next generation onboard 5G Wi-Fi from evo rail, developed in-house by First Rail, to improve on-board information services for our rail customers ▪ Introduction of Express Mode for Apple Pay across all First Bus networks ▪ Daily and weekly contactless 'tap and cap' fares are now being rolled out to multiple locations across First Bus
▪ Keep investors informed of key business activities and decisions ▪ Listen and respond to shareholders' concerns and interests ▪ Strengthen the long-term success of the Company	▪ Presentations from Executive Directors ▪ Annual report, website and regulatory statements ▪ Ongoing dialogue and individual engagement with shareholders by many Board members, including Chairman, Executive Directors, Senior Independent Director and the Chair of the Remuneration Committee ▪ Engagement via the Investor Relations function with potential and existing investors and other market participants	▪ We increased the tempo of trading and other market updates in light of the pandemic's impact on travel ▪ Significant engagement with shareholders in relation to the First Student and First Transit transaction, as well as on the mechanism for the proposed return of value ▪ Engaged with major shareholders to discuss the proposed remuneration policy (see page 91) ▪ Increasing engagement with shareholders and other market participants on the Company's ESG activities
▪ To advocate for policy solutions which ensure optimal operation of public transport by private operators, thus supporting sustainable economic growth and social mobility ▪ To ensure clear communication and understanding of the consequences of policy decisions at different levels of Government ▪ To aid effective delivery of public transport at the operational level	▪ Engagement with industry forums ▪ Direct engagement with policymakers ▪ Strong links with devolved national, regional, state and local Governments ▪ Regular surveys of political stakeholders ▪ Joining the Confederation of British Industry (CBI) and the Scottish Council for Development and Industry (SCDI) to better influence wider Government policy development.	▪ Post-pandemic economic recovery ▪ Played a leading role in the Rail Delivery Group (RDG) and the Confederation of Passenger Transport (CPT) discussion on rail and bus sector reform respectively ▪ Collaborated with advocacy groups, such as the Scottish Business Climate Collaboration (SBCC), to share our views on the UN COP26 Climate Change Conference

Stakeholder engagement continued

Performing sustainably

We participate in evaluations, ratings and rankings of our ESG performance.

These provide insights to investors on our non-financial performance and demonstrate how we manage our 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.

FTSE4Good

CDP

CLEAN200™

Stakeholder group

Our employees

Many thousands of FirstGroup employees work in depots, stations and offices to deliver great service to our millions of passengers. We have a broad range of mechanisms through which our employees have the opportunity to make their voices heard and inform the direction and governance of our business.

See pages 40-42

Communities

We have well-developed mechanisms in place to help us listen to and understand the needs of our communities, and we incorporate their feedback into our decision-making processes.

See page 50-51

Strategic partners and suppliers

We work with more than 22,000 suppliers globally on goods and services that help us deliver value to our customers and shareholders. Our suppliers range from global companies to small, independent businesses and we have dedicated teams of procurement specialists within our divisions to build and maintain our relationships with them, making sure they understand our needs.

Why we engage them	How we engage with them	Key activities from the year
▪ Ensure our people have the skills and knowledge needed to deliver our services now and in the future ▪ Maximise the benefits of the expertise and experience of our employees in delivering our services ▪ To create a safe and inclusive working environment for all of our employees ▪ Increase effective participation and equal opportunities ▪ Improve customer experience and satisfaction	▪ 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	▪ Strengthened our governance and leadership focus on how we can improve workforce diversity ▪ Expanded the number of trained mental health first aiders in the business to support employee mental health through the pandemic ▪ Improving diversity and inclusion, including through strengthened governance and leadership engagement on diversity and inclusion ▪ Creation of two new development programmes designed to increase the number of BAME employees progressing into managerial roles
▪ Maintain our position at the heart of our communities ▪ To understand the needs of our communities to enhance our engagement activities and improve our services ▪ Support social inclusion and respond to the needs of our communities	▪ We conduct regular surveys to help us understand a diversity of views and enhance our engagement activities ▪ We also commit our time, skills and resources to help those charitable causes important to our communities, both locally and nationally	▪ Despite our normal fundraising efforts being hampered by coronavirus restrictions, in total, FirstGroup and our employees donated £1.6m during FY21, as measured by the London Benchmarking Group model for community impact. See page 54 for a more detailed breakdown of our contribution
▪ Strengthen understanding and optimise value ▪ Build long-term relationships ▪ Monitor, manage and mitigate risks in our supply chain ▪ Increase sustainability and ethical standards in our supply chain	▪ We use a collaborative relationship management system to provide us with clear, consistently applied processes to track performance ▪ Regular supplier relationship meetings to strengthen collaboration and identify and manage risks	▪ Our business continues to be certified to ISO 44001:2017 standards and we have expanded the number of programmes we operate of this nature ▪ Implement more than 30 separate value improvement projects which focus on delivering value across areas such as availability, capacity, customer satisfaction, technology and innovation ▪ Developed an internal environmental management system for suppliers where ISO 44001 may not be appropriate

Stakeholder engagement continued

Enduring relationships with local communities

We are proud to support the communities in which we operate and provide services. We use our skills, reach and influence to make a positive impact, helping those causes that can make a difference, both locally and nationally.

Strong community engagement is at the heart of what we do. This year we supported hundreds of community causes and charitable organisations through volunteering, corporate donations and gifts in kind. These included donating advertising space and vehicle hires, event sponsorships and travel tickets.

These initiatives have been more important than ever, as the impact of the coronavirus pandemic means communities face ever greater challenges with a disproportionate impact on the most vulnerable. Our emphasis throughout the year has been on providing direct support to our communities with our employees devoting their time to a wide range of projects.

In particular, we used our vehicles to help provide transport for those people and goods most needed during the pandemic.

Very early in the pandemic Greyhound launched 'Rides for Responders', a programme that provides free travel for medical personnel and first responders volunteering to travel across the country to help communities. As of mid-March 2021, more than 660 tickets were issued to first responders, the majority being nurses and medical technicians, firefighters and pharmacists.

Elsewhere, 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.

In addition, First Student provided further support for our customers, with more than 150 locations actively supporting school districts with a variety of services at the start of the global pandemic. Drivers have delivered more than one million meals to students in the US and Canada, as well as transporting instructional materials, including books and laptops, to homes while schools were closed.

In First Rail, our swift identification of how we could help those fleeing domestic abuse during the pandemic led to an industry-wide initiative to provide free train travel for women or men and their families who need to get to a place of safety. GWR joined forces with the domestic abuse charity Women's Aid to launch the 'Rail to Refuge' scheme, offering free train travel across the GWR network for those in need. The scheme was adopted nationally through the RDG in April 2020 and has since helped more than 1,300 adults and children across the UK.

Changing travel patterns and lockdowns due to the pandemic left Avanti with excess food and drink from onboard catering this year. Through our strong community links along the Avanti route, we were able to give away the food responsibly and make a difference in the communities we serve. We distributed nearly £93,000 of surplus food to help local people in need. Over the past year we have donated nearly 40 tonnes of food from onboard our trains and first-class lounges that would have otherwise gone to waste.

The exceptional community support provided by three of our colleagues in First Bus was recognised in the Queen's Birthday Honours in 2020 for their services to the community during the early months of lockdown. All three employees, a bus driver, scheduler and supervisor, were awarded a British Empire Medal (BEM) for providing selfless services to others. Their achievements included cooking hundreds of meals for key worker colleagues, doing more than 80 shopping trips for vulnerable people and ensuring reliable lockdown transport services continued for local NHS workers.

As the pandemic evolved through the year we adapted our support to our communities accordingly. Our First Transit and First Student teams have been busy providing free transport for communities across the US, including senior citizens, to get the coronavirus vaccine.

In the UK we set up the 'York Restart Fund', with the backing of the Federation of Small Businesses in North Yorkshire. The £20,000 fund has supported plans by independent business owners and small firms in consumer sectors to grow their customer base as non-essential retail and hospitality reopens.

Our support has also recognised community needs outside those created by the pandemic. In September 2020, when the US state of Oregon was hit by wildfires, our teams spent three days evacuating more than 1,500 local residents, driving more than 3,000 miles to take them to safety. Our teams in Greyhound also worked with the American Red Cross to create a free ticket system for people in Oregan needing to relocate due to the destruction caused by the wildfires.

On top of our pandemic support and despite our normal fundraising activities being hampered by coronavirus restrictions, our teams continued to raise donations for charities. In total, FirstGroup and our employees donated £1.65m during FY21, as measured by the London Benchmarking Group model for community impact. See page 54 for a more detailed breakdown of our contribution.

For information on how we engage with our communities to improve our services and incorporate their feedback into our decision-making processes, see pages 48-49, and our Section 172 statement on page 96.

Our partnership with Action for Children – our UK employee charity of choice 2018-22

We are incredibly proud to continue working with UK children's charity Action for Children. Our award-winning partnership is helping to transform the mental health and wellbeing of children and young people across the UK and raising awareness among our employees and customers.

Since the launch of our partnership in 2018, FirstGroup and our employees across the UK have supported Action for Children through fundraising, donations, volunteering, and pro bono support. Our partnership is valued at £2.8m and in FY21 we were able to continue to raise funds and provide support to Action for Children worth more than £700,000.

We use our unique resources as a transport provider, volunteering drivers and vehicles to support our partnership, including donating advertising space across our bus and rail network to help Action for Children share their message with millions of people. Our employees provide further support, giving their time and effort to fundraise and support Action for Children.

During an unprecedented year, FirstGroup colleagues have continued to find innovative ways to raise funds and awareness for the charity despite coronavirus restriction. Examples include spending a night sleeping somewhere unusual in their homes for Action for Children's 'Boycott Your Bed' event in September 2020; putting on charity Santa buses for customers over Christmas; and running, walking and cycling thousands of socially-distanced kilometres as part of team challenges.

This year our support has enabled Action for Children to put in place comprehensive, specialist mental health training provision across the UK. Frontline employees and Parenting Coaches have been able to support some of the most vulnerable children across the country with their emotional wellbeing. More than 450 training opportunities have already been taken up by Action for Chidren employees on topics such as self-harm mitigation, suicide prevention and building emotional resilience.

Thanks to FirstGroup donations, Action for Children was also able to train 23 staff across seven Exeter primary schools in FY21 to deliver the 'Friends Resilience Programme', an early intervention programme building positive mental health resilience in children.

We also supported Action for Children's Emergency Coronavirus Children's Appeal which has now provided over 20,000 vulnerable children and young people across the UK with essentials such as food, nappies and cleaning products since the outbreak of the pandemic.

Key performance indicators

Over the past year the Group has focused on a selection of financial and non-financial KPIs, aligned to our strategic drivers (see pages 18-19). These KPIs are used to measure progress and evaluate our performance over time.

Our financial KPIs are like-for-like revenue growth, total revenue, adjusted operating profit, adjusted Earnings Per Share (EPS), and Return on Capital Employed (ROCE), which together drive our cash flow and value creation.

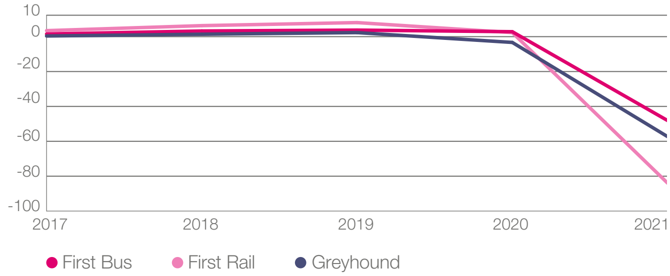
Non-financial KPIs include punctuality, average fleet age, safety, community investment and greenhouse gas (GHG) emissions.

During FY21, a number of our KPIs were affected by the consequences of the coronavirus pandemic and these are clearly highlighted below. Some were unable to be assessed at all, including the in-person surveys usually conducted by the independent body Transport Focus measuring customer satisfaction in the UK bus and rail sectors. As there has been no updated measurement of these KPIs in the year they are not shown here. Customer satisfaction continues to be measured by our businesses using a variety of techniques and the results acted on as appropriate.

Following the sale of First Student and First Transit, see their business reviews for a summary of their performance in the year.

Financial KPIs

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



Our LFL revenue measures normally adjust for changes in the composition of the divisional portfolios, holiday timing, severe weather and other factors that distort the year-on-year trends in our passenger revenue businesses.

As a result of the pandemic, all of our passenger revenue businesses saw a substantial reduction in passenger revenue, with the profit impact partially offset by government grants and contractual arrangements to procure services to enable socially-distanced travel in First Bus, First Rail and Greyhound. The First Rail revenue reduction was also mitigated by the first full year of the Avanti contract.

Total revenue
(£m)

Total revenue including discontinued operations decreased by 11.7% as a result of the pandemic. Revenue from continuing operations was in line with prior year at £4,641.8m (2020: £4,642.8m), and decreased by £567.4m compared to the prior year excluding the full year contribution of the new Avanti contract.

Revenue from discontinued operations was £2,203.2m (2020: £3,111.8m), reflecting the reduced activity levels due to the pandemic, partially offset by revenue recoveries from some customers.

Financial performance

Adjusted operating profit (£m)

Year	£m
2021	209.4
2020	256.8
2019	314.8
2018	317.0
2017	339.0

Adjusted EPS (pence)

Year	pence
2021	2.4
2020	6.8
2019	13.3
2018	12.3
2017	12.4

Total adjusted operating profit including discontinued operations decreased due to the pandemic. The contribution from continuing operations was £101.9m (2020: £69.7m). For the UK divisions this largely reflects the UK Government-procured emergency arrangements to enable socially-distanced travel, while in Greyhound it comprised the drop through of lower revenues offset by reduced variable costs, fixed cost actions and CARES Act grants for vital bus connections. Adjusted operating profit from discontinued operations decreased, with the impact of reduced activity levels mitigated by cost savings, recoveries from customers and higher service levels in Q4.

Adjusted EPS decreased by 4.4p to 2.4p (2020: 6.8p), reflecting the lower adjusted operating profit and higher rolling stock lease costs.

ROCE (%)

Year	%
2021	6.4
2020	8.2
2019	10.5
2018	9.5
2017	7.3

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.

Total ROCE pre-IFRS 16 was 6.4%. In the prior year on a comparable basis it was 9.1% at constant exchange rates and 8.2% as reported.

Non-financial KPIs

Punctuality

First Bus punctuality (%)

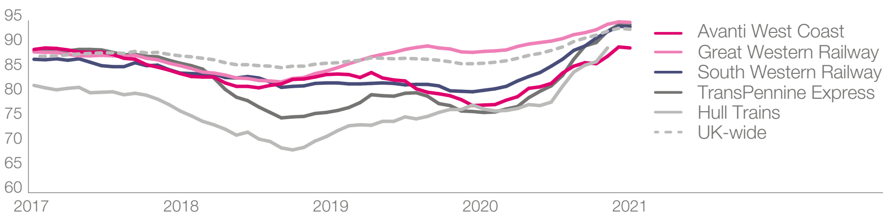
Year	%
2021	94.4
2020	91.7
2019	91.0
2018	90.9
2017	91.1

Greyhound on-time performance[1] (%)

Year	%
2021	90.1
2020	78.4
2019	72.8
2018	76.2

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

First Rail Public Performance Measure (PPM)



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, largely as a result of reduced on-road congestion during the pandemic. Further work will take place with local authorities and through insights gained from GPS data systems on board our buses to build on this improvement going forward.

Greyhound's on-time performance improved to 90% for the FY21 year, which continued the positive trend seen last year. Focused efforts to improve operational efficiency and reduced amounts of congestion due to the pandemic all contributed to the further improvement.

Nationally, the average score of rail punctuality and reliability (PPM) saw an increase during the year with more trains arriving on time across the country than any time since the 1990s. Changing travel patterns during the pandemic was a major contributory factor, with fewer services running across the network enabling more flexible recovery from disruption. We are committed to building on these gains and maintaining a high level of performance in the long term.

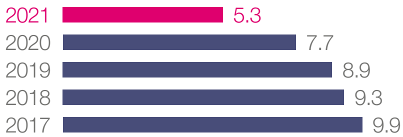
Key performance indicators continued

Non-financial KPIs continued

Average fleet age

First Bus[1]
(years)

Greyhound
(years)



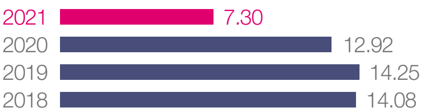
[1] First Bus 2018 data onwards calculated on basis of vehicles in service. 2017 data also restated on that basis.

In First Bus, the pandemic led to temporary deferrals in our fleet investment for FY21; our future plans are focused on our environmental and partnership commitments, including the introduction of low emission buses as we work towards a zero emission fleet by 2035. We also increased our programme of retrofits of mid-life diesel vehicles to the Euro VI emissions with just under half of the fleet now meeting this benchmark. As such, the average age of our fleet increased slightly to 9.9 years (2020: 9.5 years).

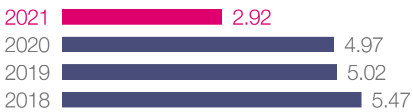
As a consequence of the pandemic, around 600 Greyhound buses were withdrawn from the active fleet, with the newest buses remaining in operation. This has resulted in a further drop in Greyhound's average fleet age to 5.6 years (2020: 8.3 years) and effective fleet age to 5.3 years (2020: 7.7 years).

Safety

Employee lost time injury (LTI) 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.

We achieved a 44% reduction in our employee LTI rate with reductions across all divisions. Total employee injuries were also reduced by 43%.

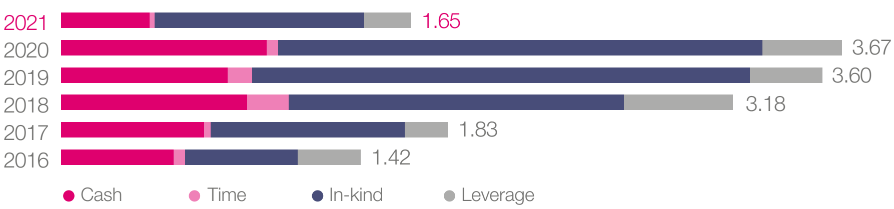
Whilst our rates were already trending favourably, the pandemic and changed operating environment have accelerated these reductions. We have been agile throughout the pandemic implementing safety strategies to mitigate this new risk within our business as normal.

Passenger Injuries per million miles are down by 41%, with these significant reductions primarily influenced by changes in operating environments and reduced footfall across our operations. We have implemented numerous strategies to help our customers travel safely, such as enhanced cleaning regimes and social distancing, managed through both our employee training and technology.

This safety focus remains at the forefront of all our businesses' operational strategies as we return to normal operations. More information on our approach to safety can be found on pages 43-45.

Community investment

(£m measured using LBG model)



This year we contributed £1.6m 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 (GHG) emissions

(Tonnes of carbon dioxide equivalent – tCO_2e)

Tonnes of carbon dioxide equivalent (tCO_2e): Total by emission scope	2021	2020	2019
Scope 1: Direct emissions: From road and rail vehicle fuel, heating fuel, fleet fuel and fugitive refrigerant gas emissions	**1,214,769**	2,111,199	2,344,768
Scope 2: Indirect emissions: From the generation of electricity purchased for buildings and to power electric road or rail vehicles (location-based)	**275,097**	262,070	265,924
Scope 3: Other indirect emissions: Inclusive of business travel, water use and waste treatment and disposal	**16,905**	19,670	18,179
Out of Scope: Indirect emissions: From biogenic content of our liquid and gas fuels	**25,551**	27,532	14,654
Total All scopes	**1,532,323**	**2,420,471**	**2,643,525**
% change year-on-year	**-37%**	-8%	0%
% change (2016 baseline)	**-38%**	-2%	7%
Adjusted[1] Total All scopes	**1,532,323**	**2,552,004**	**2,845,284**
% change year-on-year	**-40%**	-10%	-3%
% change (2016 baseline)	**-47%**	-12%	-2%
Per £m revenue (gCO_2e/£m)	**224**	**312**	**371**
Sub-total UK (tCO_2e)	**808,624**	958,779	1,044,855
Per £m revenue (gCO_2e/£m) UK only	**187**	**237**	**293**

1 Adjusted total provides like-for-like comparison of our carbon emissions by adjusting for major changes in rail (inclusion of Avanti and SWR). Please see more detail in our methodologies section below.

The significant majority (91%) of our carbon emissions is from the fuel and electricity used to power our road and rail fleet. The pandemic has significantly reduced our passenger and service volumes resulting in a 40% reduction in our carbon emissions from FY20.

Prior to this year, FirstGroup had reduced its gross carbon emissions an average of 3% per year since our 2015/16 base-year (-12% change from base-year in FY20), a trajectory we expect would have continued had we not had extreme operating circumstances.

The primary drivers for our continued performance, aside from the pandemic, are:

- increased use of electric traction in First Rail from the incorporation of Avanti and new hybrid trains in TPE and Hull Trains
- a 9% annual reduction in the UK average grid electricity emissions
- fleet rationalisation programme in First Bus which has seen the disposal of over 500 of its older vehicles from service

For a more detailed analysis and an understanding of our Group carbon performance please see FirstGroup's Environmental Performance Report 2021.

First Bus entered 15 hydrogen and 29 electric buses into service, increasing their zero-emission vehicles proportion to 1.1% (0.3% in FY20). A further 148 electric buses have been purchased this financial year for delivery in 2021-2023.

Total energy use (kWh)

Kilowatt hours of energy (kWh HHV): Total by energy source and renewable content	2021	2020	2019
Non-renewable sources	4,870,969,433	7,914,133,419	8,811,120,650
Renewable energy sources	1,359,365,847	1,693,850,784	1,095,128,835
Total All	**6,230,335,280**	**9,607,984,203**	**9,906,249,485**
% change (year-on-year)	**-35%**	-3%	0%
% change (2016 baseline)	**-31%**	6%	9%
Per £m revenue (MWh/£m)	**910**	**1,240**	**1,390**
Sub-total UK (kWh)	**3,407,627,844**	**4,126,363,602**	**3,843,883,667**
Per £m revenue (MWh/£m) UK only	**789**	**1,022**	**1,080**

First Bus

Percentage of low and zero emission passenger fleet	2021	2020
Low emission bus Diesel or biomethane powered bus with a 30% or greater carbon saving from a standard alternative	**21.6%**	20.2%
Zero emission bus electric or hydrogen powered	**1.1%**	0.3%
Total passenger fleet	**5,189**	**5,619**

Key performance indicators continued

Monitoring our underlying energy use ensures we are focusing on energy efficiency as well as switching to low and zero carbon energy choices. The underlying energy use which comprises our carbon footprint has reduced 35% since last year, resulting from a significant reduction in service volumes from the pandemic.

This year we increased the proportion of renewable energy we used by 5%. Overall, our total electricity use decreased due to coronavirus so the proportion of energy from renewables increased significantly from 17% in FY20 to 22% in FY21.

For a more detailed analysis and understanding of our Group energy performance please see FirstGroup's Environmental Performance Report 2021.

Group revenues, despite difficult operating circumstances, have remained strong. This, coupled with our overall reduction in gross emissions and energy use, has resulted in a 28% and 27% reduction in carbon and energy, respectively, per £m of revenue.

Prior to this year, FirstGroup had reduced its carbon emissions and energy use per £m revenue, by an average of 8% per year since our 2016 base-year.

Energy efficiency initiatives

FirstGroup tracks and monitors energy-saving initiatives to ensure we continue to focus on energy efficiency alongside switching to low- and zero-carbon energy choices. The following examples are significant, approved initiatives in the short to medium term which will be driving our continued energy and carbon performance:

- 148 EV buses entering service in Glasgow are expected to reduce overall energy intensity per vehicle kilometres and significantly reduce carbon emissions in First Glasgow between 2021-2023;
- new 'Voyager' trains for Avanti will replace 80% of their gas oil consumption for renewable electric traction; and
- TPEs network is undergoing a significant programme of electrification on the line between Manchester and York which will enable increased running of our trains under electric traction.

Methodologies and calculations

Our carbon and energy reporting approach is prepared in accordance with the following standards and guidelines:

- Greenhouse Gas Protocol (GHG Protocol) for Corporate Accounting and Reporting Standard; and
- UK Government Streamlined Energy and Reporting (SECR) Guidelines.

FirstGroup has an operational control boundary covering 100% of its business activities with a materiality reporting threshold of 5%.

The term 'carbon emissions' in this report refers to GHG emissions as required for a GHG inventory. This includes carbon dioxide alongside six other GHGs calculated in mass of carbon equivalent (CO_2e).

Our GHG inventory is reported in four categories or 'scopes', listing our direct and indirect emissions in accordance with the GHG Protocol:

Scope 1: Direct emissions from road and rail vehicle fuel, heating fuel and fugitive refrigerant gas emissions

Scope 2: Indirect emissions from the generation of electricity purchased for buildings and to power electric road or rail vehicles (location-based)

Scope 3: Other indirect emissions inclusive of business travel, waste disposal, water supply and water treatment

Out of Scope: relating to the combustion of biofuels

Our reported total carbon figure is inclusive of our reported 'Scope 3' and 'Out-of-scope' emissions.

Our gross carbon emissions are also provided with an 'adjusted total' to account for the incorporation of SWR and Avanti after our base-year of 2016. It applies the 'equivalent emissions' of these businesses to prior reported years to better compare our performance free from the impacts of major business change. This is calculated in accordance with Appendix E of the GHG Protocol.

Our UK carbon and energy emissions are calculated using Government-issued emission factors:

- UK Government GHG conversion factors for company reporting: BEIS,2020 and
- emission factors for GHG Inventories: US EPA Centre for Corporate Leadership, 2020

There are limited examples where emission factors have been developed as 'bespoke'.

To calculate underlying energy use, liquid and gaseous fuels have been converted from a volume, e.g. litres, US gallons or weight, e.g. kilos or pounds to kWh (Gross Calorific Value). The following sources have been used to derive fuel energy properties for these calculations:

- UK Government GHG conversion factors for company reporting: BEIS,2020
- Fuel Properties Comparison: US Department of Energy 2021

A detailed understanding of our calculation methodologies is available within FirstGroup's Environmental Performance Report 2021 which can be found on our website at www.firstgroupplc.com.

Climate-related financial disclosures

The Task Force on Climate-related Financial Disclosures (TCFD)

Our ambition is to be the partner of choice for innovative and sustainable transport, accelerating the transition to a zero carbon world. We recognise the vital importance of eliminating the carbon emissions associated with our operations, encouraging modal shift to public transport, and to mitigating the impacts of climate change on our business and wider society.

In recognition of this, we have already made the commitment to operate a zero emission fleet in First Bus by 2035, and earlier this year signed up to the Science Based Targets initiative (see 'Metrics and targets' section on page 60).

Climate change poses both challenges and opportunities for our business and climate-related risk has been an integral part of our risk management framework for many years.

Earlier this year we were the first public transport operator to sign up to become an official supporter of the TCFD, the first step towards meeting the public commitment we made last year to implement the TCFD's recommendations and to being transparent with our progress towards that goal.

This report marks our first response to the TCFD's guidelines and is made on a voluntary basis, with alignment becoming mandatory for the Group from FY22 onwards.

In the following pages we provide details of the progress we have made in strengthening our climate change governance, risk management and strategy processes, as well as our plans to add to our TCFD-relevant metrics in the next financial year.

For this preliminary year we have focused on formalising and strengthening the foundations of our climate governance procedures, including the establishment of a TCFD Working Group, as well as a deeper dive into our risk analysis and strategy on climate change.

In next year's report we will outline a more quantitative approach to climate strategy and risk with the overall aim of improving our metrics and targets related to climate risks. Our focus for the coming year will be to further analyse and prioritise the strategic and financial impacts of our most material climate-related issues to inform our strategy and manage these risks and opportunities across our businesses.

Governance

TCFD recommendation: Disclose the organisation's governance around climate-related issues and opportunities

Management and oversight of climate-related risk is aligned with the robust corporate governance frameworks and processes in place throughout the Group. The plc Board, Executive Committee (ExCo) and individual divisions assess climate-related risk in accordance with the Group's risk management framework as described on pages 62-63 and consider broader ESG matters in line with duties included in the Corporate Governance Code and Section 172, as shown on page 96.

This year we identified climate risk as a standalone principal risk for the Group. More detail on the management of our principal risks can be found on page 62 onwards and more detail on our governance framework can be found on page 82.

Board consideration of climate risk

The Board is accountable to shareholders for managing the Company in a way that promotes its long-term sustainable success, generating value for shareholders and contributing to wider society. This aim also extends to the setting of our strategy and approach to climate-related risks and opportunities.

The Board is updated on our sustainability and climate-related performance at least twice a year. In addition, the Audit Committee supports the Board in the management of risk and is responsible for reviewing the effectiveness of risk management and internal control processes during the year – including for climate-related risk.

The Board has overall responsibility for the Group's systems of internal control and their effectiveness. The Board reviews and confirms Group and divisional risks and the Audit Committee reviews the Group's risk management process. See pages 82 and 62-63 for more on how our Board operates and how risks are reviewed and taken into account for strategic business decisions.

The Board's support for the Group's sustainability framework, Mobility Beyond Today, and the climate-related aims and commitments within it, provides a strong foundation for the management of climate transition risk across the Group.

The Remuneration Committee this year reviewed the role of ESG and climate-related measures within the Group's remuneration approach. Such measures are likely to be included in the 2021 Long-Term Incentive Plan (LTIP), reflecting the importance we give to the role we have as a public transport operator in supporting the transition to a zero carbon world.

ExCo and divisional oversight of climate-related risks and opportunities

ExCo provides leadership and direction for the Group on our ESG impacts, including climate change. Updates on material issues relating to ESG and corporate responsibility matters are reported to ExCo monthly, with ad hoc matters raised in between formal reports.

Executive responsibility for climate-related financial risks and opportunities is held by the Chief Financial Officer, who represents these matters at Board level. It is held by the Group Director of Corporate Services for ESG matters, and the Group General Counsel and Company Secretary for compliance with climate-related disclosure and governance requirements.

Each division has a named executive management individual responsible for climate-related risks who embeds accountability within business strategy, plans and reporting.

Related risks and opportunities at Group and divisional level are incorporated into our risk management framework. See pages 62 to 71 for more details on how we manage risk.

TCFD Working Group

Convened in 2020, the TCFD Working Group is co-chaired by the Group Director of Corporate Responsibility and the Group Financial Planning Director. It includes representatives from key management and functional roles with expertise in risk, finance, strategic planning and sustainability.

This group is responsible for driving forward the technical work required of TCFD (including climate-related scenario analysis) and provides the relevant updates to ensure that the Board, ExCo and management are informed about climate-related issues, reporting to the Board and Audit Committee at least twice per year.

Climate-related financial disclosures continued

Strategy

TCFD recommendation: Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.

Climate change has been identified as a principal risk to the business. Our management of climate-related risks is met, in large part, through our Group-wide strategic framework for sustainability, Mobility Beyond Today, which outlines our ambition to be the partner of choice for innovative and sustainable transport, accelerating the transition to a zero carbon world. For more information on how, as an organisation, we identify and manage our risks please see pages 62-63. For more on our progress in delivering our Mobility Beyond Today strategy see page 35 onwards.

Understanding financial impact: scenario analysis

This year we undertook qualitative analysis of our climate risks using two scenarios – one where globally we transition quickly to a low carbon economy and temperatures are limited to 1.5°C and one where runaway climate change occurs and we see global temperature rises of 4°C. Further explanations of these scenarios and some of the assumptions used to build them are outlined in the boxes on this page.

Given the sale of First Student and First Transit, we selected the Group's UK divisions for this initial phase of scenario analysis, with a commitment to expand the process as required next year.

We looked at the two scenarios over the time frames to 2024, 2035 and 2050. These time frames are relevant to our three-year business planning cycle, First Bus's zero emission by 2035 target and the UK's net-zero by 2050 target respectively.

Strategy and financial planning

Our strategy to address climate-related risks and opportunities spans all areas of our business including vehicle and infrastructure investment, operations, and business development. Through extensive discussions of these qualitative scenarios and time frames we have been able to stress test and inform our business strategy to build long-term resilience in our business.

1.5°C scenario

A scenario of 1.5°C would necessitate countries across the world coming together to ensure that a global temperature rise is minimised as much as possible through immediate transition to net-zero carbon emissions. This is in line with the UN's Paris Agreement and in line with what the majority of the major global economies have agreed they want to achieve. As the majority of transport around the world currently runs on fossil fuels the 1.5°C scenario will have a profound impact on the transport sector. This scenario allowed us to focus on the transitional risks posed by climate change.

Key assumptions 1.5°C scenario

- By 2035 all UK bus operators are running a fully zero-emission fleet.
- Hydrogen vehicles are focused by geography around industrial clusters
- By 2040 all diesel trains are out of service
- By 2050, 55% of the UK's rail network is electrified – up from 38% in 2020
- By 2035 all urban centres are zero-emission zones
- By 2035 a carbon price of minimum £85 per tonne ($120/ per tonne) is in place
- 100% of UK local authorities declare a climate emergency by 2023
- Road pricing is being used to reduce overall travel demand from private vehicles, and Government policy favours public transport and active travel.

4°C scenario

A scenario of 4°C would result when countries around the world choose not to transition to low or zero carbon and so runaway climate change becomes a reality, with global temperatures rising significantly.

Significant physical climate impacts will result from this temperature increase – from changes in weather patterns and extreme weather events to mass migration as certain geographies become uninhabitable. This scenario allowed us to focus on the physical impacts of climate change on our business.

Key assumptions 4°C scenario

- In the UK, sea level rise of up to 76cm by 2100, with between 11-16cm by 2030
- Total annual rainfall remains stable but comprises fewer, but more intense, events with overall drier summers
- Increased rainfall events plus a sea level rise means the number of assets located within a high risk flooding zone (known as 'level 3') will increase by 1% a year
- Temperature increases continue – more so in summer than winter, with hot summer extremes becoming more likely
- By 2050, a summer as hot as 2018 (37.8 degrees in Cambridge) is 50% more likely.

Our analysis thus far gives us confidence in the resilience of our strategy, as we are supporting the transition to a zero carbon world while managing the physical impact of climate-related risks to our business.

For First Bus, key to managing our climate transition risks is the zero emission fleet target that we have set – to have a 100% zero emission fleet by 2035, and not to purchase new diesel buses after 2022.

For First Rail, our individual train operating companies each have targets relating to climate change. At Avanti we have committed to be net-zero carbon by 2031. SWR, TPE and GWR are in the process of mapping out net-zero strategies and will incorporate these roadmaps into their sustainable development plans.

Regarding the physical impacts of climate change, we have already begun to address this within our property strategy, with severe weather action plans and procedures in place across the Group. As part of our more in-depth climate risk modelling and quantitative analysis this year we will carry out more detailed analysis of the longer-term physical climate-related risks to more effectively assess the magnitude of risk and mitigations to reduce this.

We will continue to be open and transparent with our progress on climate change issues and to publicly disclose decision-useful climate-related financial information.

Through this communication, we aim to keep stakeholders informed on the likely speed, scale and cost of our net-zero transition. However, we also view changing customer behaviour, including a shift in consumer preferences towards lower carbon alternatives, and strong governmental and regulatory support for transport decarbonisation, as key opportunities for our business. The quantitative analysis we will carry out this year will look at this aspect as well as applying a carbon price to our modelling approaches.

Partnership and advocacy

In order to accelerate the decarbonisation of public transport, we work in partnership with government, industry and stakeholder bodies to enable the right conditions to drive the net-zero transition. We actively engaged with the DfT in 2020 to help inform its Transport Decarbonisation Plan, advocating for measures to enable more people to make the shift from private car journeys to active travel and public transport. We also highlighted key financial and policy constraints to the rapid decarbonisation of our fleets and infrastructure.

We work closely with industry groups such as CPT, RDG and the Zemo Partnership to promote the transition to zero-carbon public transport. In addition, we are working with business groups to ensure transport decarbonisation is part of the wider conversation, including the SBCC and the CBI. In particular, FirstGroup was represented at the CBI's headline 'Road to Net-Zero 2021' conference and has contributed to much of its policy output, including CBI's 'Greener Miles' report, which suggests ways Government and businesses can encourage people to decarbonise their commute. We have also engaged directly with Government and its COP26 team ahead of the UN climate change conference in November 2021.

We also recognise the need to work closely with other transport operators and partners to achieve shared aims, for example working with Network Rail and others in the rail sector on the climate change adaptation and resilience measures that need to be taken by the industry as a whole.

Risks

TCFD recommendation: Disclose how the organisation identifies, assesses and manages climate-related risks.

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

The Board assesses the effectiveness of the Group's risk management system and receives reports on principal risks and uncertainties. It also reviews the external risk environment, scrutinises assessment of key risks and determines strategic action points.

The Group's sustainability and public affairs teams provide regular ESG updates and insights on market developments to relevant colleagues across the Group, including our TCFD Working Group, senior management, ExCo and the plc Board.

We identified the following material risks that could potentially impact on FirstGroup arising from the transitional and physical risks of climate change:

Transitional risks and opportunities

Policy and legal

The climate transition risk of mass transformation of vehicle technology could lead to potential write-offs, asset impairments and/or early retirement of existing fossil fuel-related infrastructure and vehicle assets. This would be exacerbated by increasing mandates on the carbon intensity of our fleet and a diminishing secondary market for legacy diesel vehicles.

Further climate policy developments could also result in increased costs, e.g. carbon taxes, road pricing in low-emission zones, policy-driven compliance costs and enhanced emissions reporting requirements such as increased focus on companies to reduce Scope 3 emissions. As a leader in our sector we have foreseen these changes and are well placed, particularly in relation to our competitors, to excel under these conditions.

Both our First Bus and First Rail divisions have strong and well developed engagement with local and central Government departments regarding transport decarbonisation and encouraging a modal shift away from more carbon-intensive travel modes. For example, in First Rail we are represented on the Sustainable Rail Executive, convened by RSSB, alongside DfT and other key stakeholders, and also chair RSSB's Sustainable Rail Leadership Group.

We have engaged with a wide variety of stakeholders on UN COP26 Climate Change Conference, playing our part in making it as successful as possible and demonstrating the important role that public transport can make, including how collaboration among a wide range of stakeholders can aid this.

Technology

Careful planning is taking place to ensure that the conversion of our existing infrastructure to one powered by electricity and hydrogen is carried out to minimise capital investments and operating costs. We anticipate that green hydrogen and battery pack prices will fall significantly as economies of scale are reached and with increasing innovation in technology. New battery technology will give greater range and longer life spans with repair and reconditioning suppliers also emerging.

We recognise that there is competition for Government funding, and emerging competition from disruptors around decarbonisation in the sector. However, our experience as a transport operator is unparalleled in the UK, across both the bus and rail sector and we are confident that we can deliver a cost competitive transition to net zero-carbon.

Our property strategy incorporates plans for access to energy supplies for electric vehicles. Examples include securing the connection to and building of substations and future proofing of the connection to support maximum fleet size. Similarly, it incorporates support for hydrogen vehicles, in particular looking at the potential for expansion for fuel cell vehicles around industrial clusters where hydrogen is prominent, as outlined in the UK Government's 2021 'Build Back Better' strategy.

New skills and knowledge will be necessary for our workforce. In recognition of this, we are incorporating these requirements into our people strategy. Examples include, not only recognising the need for electrical engineering skills for depots and vehicles, but also specific knowledge and skills for a zero carbon world for finance, procurement and business development teams.

Market risks

Market risks include potential for shifts in supply and demand for certain commodities, products and services as climate-related risks and opportunities are increasingly taken into account.

Climate-related financial disclosures continued

In March 2021, HM Treasury confirmed that the UK Government intends to fully implement a 'Green Taxonomy' to provide a common standard for measuring the environmental impact of organisations – sending a strong signal that capital could become cheaper for those companies able to demonstrate clear pathways to net-zero carbon.

We anticipate that our First Rail operations running under electric traction (73% in FY21) will be considered 'green' under any future taxonomy, and have given our public support to the UK Government's commitment to remove diesel-only trains from the network by 2040. In First Bus, our fleet target of zero-emissions by 2035, along with our Group-wide science-based decarbonisation target, will ensure that we are well aligned with taxonomy and other market-based regulations in the future.

Reputation

Pivotal to our transition is maintaining our excellent relationships with key stakeholders – including local and central Governments and our customers. Climate change is already recognised as a critical issue by the majority of people in the UK. As we transition to a zero carbon world, public opinion of carbon-intensive products will become less favourable and is likely to influence the decisions of a wide range of stakeholders from consumers to regulators and the wider capital markets.

As described in the following section, effective decarbonisation is key to ensure our reputation as a climate leader and help our divisions plan accordingly.

Physical risks and opportunities

Both acute and chronic changes in weather will impact on our infrastructure and operations. We have business continuity plans already in place, but with the results of our more in-depth work on physical impacts this year we will be able to refine them further.

(1) Acute weather events

More frequent extreme weather events could increase disruption to our services thus impacting on customer satisfaction and potentially customer inclination to use bus or rail services. There is a potential loss of revenue and compensation for disrupted services as well as potentially increased insurance premiums for infrastructure and vehicle assets.

There would also be the potential for associated health, safety and wellbeing issues for employees and customers due to extreme temperatures, requiring mitigation.

(2) Chronic changes in weather patterns

Impact on infrastructure

Chronic changes in weather patterns that will affect the UK include higher annual temperatures, more intense precipitation events and rising sea levels. All these impacts could lead to an increased risk of connective infrastructure damage, e.g. to electricity supply and digital connectivity.

Flooding

The increased likelihood and severity of flooding could lead to loss and damage to our assets, depreciation and stranded assets, health and safety risk to employees, passenger safety and driving safety risk for heavy rainfall events. It could also lead to vehicle accident increases and operational route closures, increased insurance costs and uninsurable assets.

Heatwaves

Chronic changes in weather patterns such as heatwaves could impact on passengers, employees and driver wellbeing and an increased need for cooling. Other impacts could include vehicle overheating, service disruption or increased vehicle damage from heat damaged roads and railway networks.

We will continue to review the above acute and chronic physical risks of climate change as part of our more in-depth climate risk modelling and quantitative analysis this year. This work will also consider opportunities, such as the potential for more people to take public transport in fairer weather and for a higher inclination for leisure travel in the UK.

Metrics and targets

TCFD recommendation: Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

We have been measuring and reporting our energy and carbon performance over many years as we recognise it is our most significant ESG impact. We have included relevant carbon metrics in the KPI section of this report on page 55 including:

- Our carbon footprint and carbon intensity (per £m revenue)
- Our energy consumption (in kWh) and the proportion of renewables in our energy mix
- Progress against our target of operating a zero emission fleet in First Bus by 2035

In addition, we disclose our progress in more detail in our Environmental Performance Report which is available on our website.

Our absolute carbon footprint has reduced by 12% between 2016 and 2020, and our emissions per £m revenue have reduced by 34% over the same period.

We report on our Scope 1, Scope 2 and Scope 3 greenhouse gas emissions in line with the GHG Protocol methodology. Our Scope 3 emissions currently include business travel, waste disposal, water supply and water treatment. Through further analysis this year we will review other potentially significant areas of Scope 3 emissions.

We report in line with Sustainability Accounting Standards Board (SASB) GHG reporting recommendations for road and rail transport – noting that we report 'total fuel consumed' as MWh rather that Gigajoules, as UK SECR reporting guidelines require us to report our total underlying energy use in kWh in our Directors report.

With carbon under increasing focus from investors, policymakers and consumers, and in line with best practice, we will also consider how a carbon price could be incorporated to future financial modelling processes this year.

Science-based targets (SBTs)

This year, FirstGroup became the first public transport operator in the UK to formally commit to setting an ambitious, science-based target aligned with limiting global warming to 1.5°C and to reaching net-zero emissions by 2050 or earlier.

Our final and interim targets will be independently verified by the Science Based Targets initiative (SBTi) and will be published alongside our first-year progress report in early 2022. SBTs are increasingly being requested of companies by investors as well as public and private sector procurers and we aim to publish our SBT for our UK operations in 2022.

Our ability to meet our net-zero commitment is partly dependent on changes in Government policies and regulations which support decarbonisation of the bus and rail sectors. We will continue working with Government, elected officials and policymakers, and our professional associations to advocate for innovation and further investment in sustainable mobility. In the next 12 months we will further develop our climate change targets in line with TCFD recommendations and our SBT commitment.

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 Performance Report 2021, at www.firstgroupplc.com.

Reporting requirement	Relevant section of this report
1. Description of our business model	▪ Our strategy and business model – pages 18-19
2. The main trends and factors likely to affect the future development, performance and position of the Group's business	▪ Our markets – pages 6-7 ▪ Business review – pages 20-27
3. Description of the principal risks and any adverse impacts of business activity	▪ Principal risks and uncertainties – pages 62-71
4. Non-financial key performance indicators	▪ Gender diversity – page 41 ▪ Punctuality – page 53 ▪ Safety – page 54 ▪ Community investment – page 54 ▪ Greenhouse gas emissions and energy – pages 55-56

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	▪ Group-wide strategic framework for sustainability – pages 35-45 ▪ 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	▪ Climate-related risk – pages 64-65 and 57-60 ▪ Task Force on Climate-related Financial Disclosures (TCFD) – pages 57-60 ▪ Competition and emerging technologies – pages 66-67 ▪ Regulatory compliance – pages 70-71	▪ Our markets – pages 6-7 ▪ Business review – pages 20-27 ▪ Group-wide strategic framework for sustainability – pages 35-45 ▪ Performing sustainably – page 48 ▪ Suppliers – page 48-49 ▪ Greenhouse gas emissions and energy data, trend analysis and assurance – pages 55-56
6. Employees	▪ 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 – pages 35-45	▪ Human resources risk – pages 70-71 ▪ Safety risk – pages 68-69 ▪ Task Force on Climate-related Financial Disclosures (TCFD) – pages 57-60	▪ Safety – pages 43-45 ▪ Diversity and inclusion – pages 40-42 ▪ Employee engagement and representation – pages 42 and 90 ▪ Board-level and divisional Employee Directors – page 82, 84 and 90 ▪ Skills for the future – page 42 ▪ Health and wellbeing – page 42
7. Social and community matters	▪ 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 35-45	▪ Safety risk – pages 68-69	▪ Business review – pages 20-27 ▪ Supporting communities – pages 48-49 ▪ Safety – pages 43-45 ▪ Accessible journeys – pages 36-37 ▪ Government engagement – pages 46-47 ▪ Working with charities – pages 50-51 ▪ Community investment – page 54
8. Human rights	▪ Code of Ethics ▪ Supplier Code of Conduct ▪ Code of Conduct on Anti-Slavery and Human Trafficking Prevention ▪ Modern Slavery Statement 2020 ▪ Health and Safety Policy	▪ Safety risk – pages 68-69	▪ Safety – pages 43-45 ▪ Ethics – page 93
9. Anti-corruption and anti-bribery	▪ Anti-Bribery Policy and steering committee ▪ Conflicts of Interest Policy	▪ Safety risk – pages 68-69	▪ Ethics – page 93

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

Principal risks and uncertainties

With renewed focus on our UK operations, FirstGroup is dedicated to building on our strong position at a key inflection point for UK public transport.

To support the strategic goals and obligations of the Group, we adapted our risk management framework to holistically consider the impacts of both the changing transportation market and our re-focused operations. As a result, our principal risks and uncertainties, detailed on the pages 64 to 71, include how the sale of First Transit and First Student changed our risk profile.

From 2021 onwards, our risk management framework will continue to adapt to underpin our vision and values and to support our strengthened operations and strategic focus.

Our risk management approach

We take a holistic approach to risk management, first building a picture of the principal risks at the divisional level, then consolidating those principal risks alongside Group risks into a Group view. In addition, we continue to identify and analyse emerging risks, which are considered and approved in Business Review and Executive Committee meetings before being presented to the Audit Committee and Board for consideration and approval, The objective of this process is to ensure all key risks to the Group are known and are being actively monitored and mitigating controls are put in place to ensure risk falls within the risk appetite set by the Board.

Our risk management structure

Whilst some risks such as financial resource risk are managed at a Group level, all 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 risk management framework is shown in the diagram above.

Our risk management framework

Top down Strategic risk management		Bottom up Operational risk management
Review external environment Robust assessment of principal and emerging risks Set risk appetite and parameters Determine strategic action points	**Board/Audit Committee**	Assess effectiveness of risk management system Report on principal and emerging risks and uncertainties
Identify principal and emerging risks Direct delivery of strategic actions in line with risk appetite Monitor key risk indicators	**Executive Committee**	Consider completeness of identified risks and adequacy of mitigating actions Consider aggregation of risk exposure across the business
Execute strategic actions Report on key risk indicators	**Divisions**	Report current and emerging risks Identify, evaluate and mitigate operational risks recorded in risk register

Principal risks and uncertainties and risk reporting changes

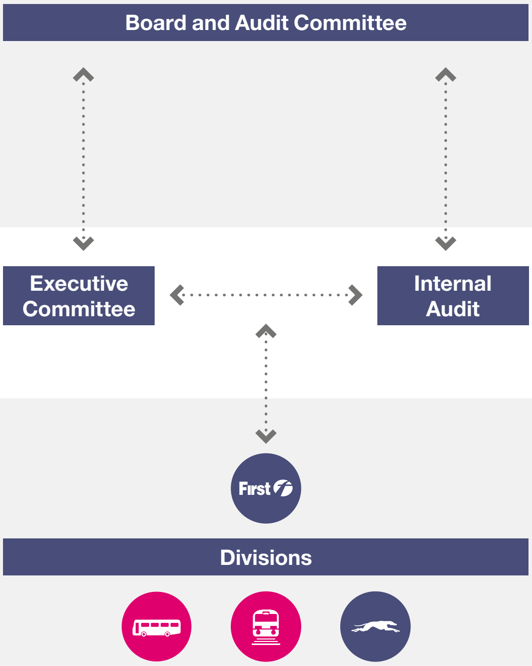
During the year we rolled out a series of changes to our risk assessment process. These changes refocused and further detailed a number of the previously reported principal risks and added speed of onset as an additional measure of a risk's severity. As a result of these changes, the table on page 63 is not directly comparable with 2020 reporting.

Discussion of our principal risks on page 64 onwards provides the current description of the principal risks, the existing mitigation activities, and corresponding movement of the risk.

Our risk management methodology continues to aim at identifying the principal and emerging 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.

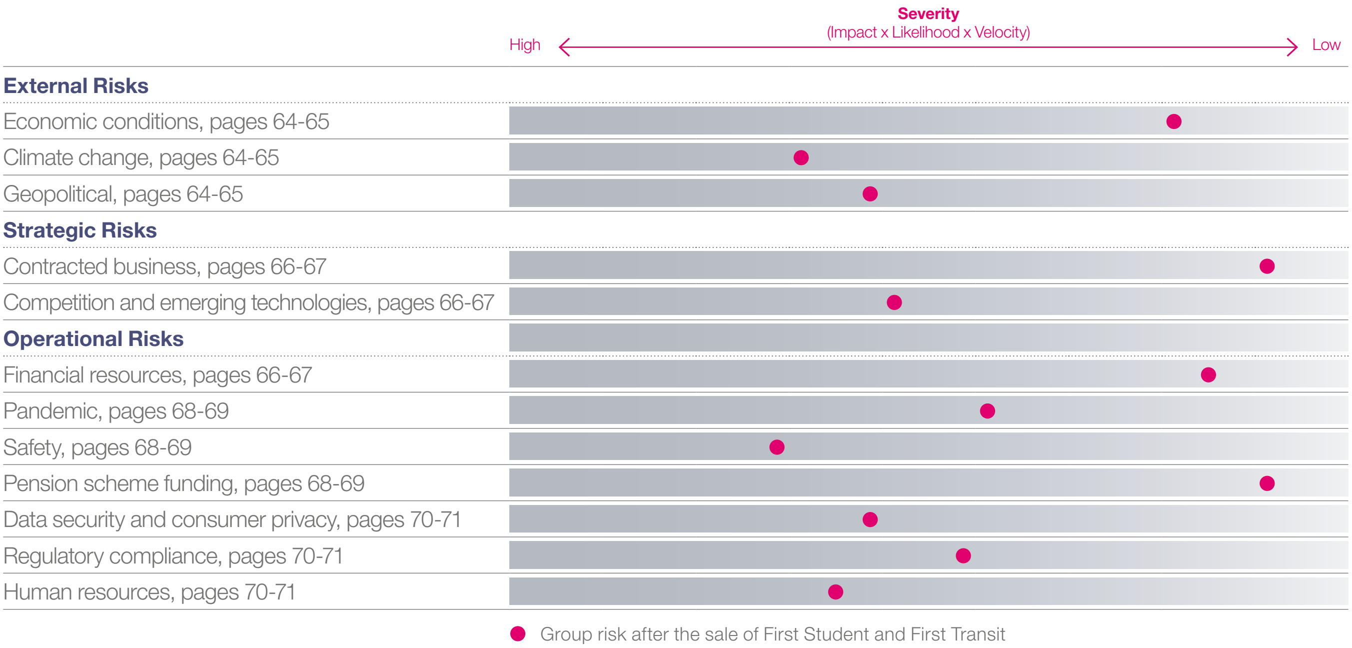
Further information on our risk management processes is contained in the Governance section on pages 99 to 105.



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

Principal risks

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:



Principal risks and uncertainties continued

Risk description, full Group	Impact of sale of First Student and First Transit to risk description
External Risks	
Economic conditions	
The Group's success depends on adapting to economic fluctuations which may negatively impact performance through increased costs, changing customer needs, reduced demand and/or reduced opportunities for growth. Globally, the economic outlook is less certain, and the Group specifically has experienced a change in travel behaviour and new policies and procedures related to the pandemic. All these market changes have the potential to decrease the Group's available financial resources to invest capital in innovative solutions that drive demand. Additionally, when these economic uncertainties are combined with lower fuel prices, they may further reduce demand for public transportation particularly in our Greyhound and First Bus divisions.	With the sale of First Student and First Transit, the ongoing Group is less susceptible to changes in economic conditions. The new concession-based National Rail Contracts have low revenue and contingent capital risk. Additionally, the Group has capacity and demand planning processes in place to efficiently adapt to changing economic and demand conditions. As a result, the Group's performance is less impacted by economic volatility.
Climate change	
Businesses globally continue to come under increasing pressure from all stakeholders, particularly investors, to demonstrate strong progress on their climate-related performance. Inadequate attention to our climate-related programmes and emerging technologies could negatively impact the Group's performance, reputation and/or result in decreased demand. Within the UK, the government has set a legally binding target for net-zero greenhouse gas emissions by 2050. All companies that operate in the UK or are owned by UK-based companies will be substantially impacted by decarbonisation policies introduced to meet this target. As a result, the Group is under increased pressure and scrutiny from both investors and government bodies to provide evidence of our strategic plans in place to mitigate climate change risks. There are also physical risks resulting from climate change (e.g. extreme weather events) which could impact our customers, service reliability, and disrupt our energy supply and/or supply chain. Delays in implementing our strategic plans to mitigate climate-related risks, including transitioning our fleets to zero emissions, could result in lost business, reduced revenue and reduced profitability.	The Group is committed to accelerating the transition to a zero-carbon world, which includes responding to the clear mandate and binding net-zero targets currently set within the UK for greenhouse gas emissions. Although the US government has not yet announced the same binding targets, the current administration's position is clear and we expect these to result in coming years. However, we do not anticipate adverse impacts and/or changes to these risks and/or operations with the sale of First Student and First Transit.
Geopolitical	
The political landscape within which the Group operates is constantly changing. The Group's operations depend on government policy, funding regimes and infrastructure initiatives continuing to support private company operators in public transportation. Inability to maintain rail contracts and/or leverage national funding and develop government partnerships may result in the reduction and/or an elimination of rail contracts and/or an inability to sustain and develop new bus routes resulting in adverse financial impacts. Group operations are also dependent on obtaining the necessary mechanical pieces to maintain our fleets. Changes in the political landscape may have supply chain implications and decrease the number of vehicles available to support demand.	The sale of First Student and First Transit constitutes the majority of the Group's North American business, as a result of which there is a reduction in the operational and geographical diversity of the ongoing Group. The ongoing Group is therefore more dependent on the performance of, and revenue from, its UK divisions (i.e. First Bus and First Rail). As a result, changes in government policies, funding regimes and infrastructure initiatives in the UK have a greater overall impact on the ongoing Group.

Mitigation	Comment on risk change during the year	Impact of sale of First Student and First Transit, if any, to the risk change during the year
In order to adapt to market uncertainties and continue to drive demand, the Group continues to be customer-focused and strives to provide innovative transport solutions. Whilst the Group has temporarily reduced certain capital investments, we continue to focus on strategic ventures to develop new innovative service offerings (e.g. electric fleet and autonomous vehicles, ticket initiatives) in order to provide our customers with transport solutions that reduce complexity and retain customer demand through unstable economic conditions. In 2020 the Group accelerated implementation of real-time seating capacity on our First Bus app to support social distancing requirements as well as a number of further customer engagement actions through technology to provide greater insight to manage operations. Through this tracking the Group is able to adapt bus schedules to real-time demand to better manage operational costs.	Although it is not yet clear the lasting impacts the pandemic will have on commuting behaviours, lock down orders have begun to lift, resulting in increased travel demands within the UK; First Bus saw volumes increase to c.60% of pre-pandemic levels during the most recent lockdown easement. We expect increased demand over the summer holidays as we anticipate travellers largely taking domestic trips instead of travelling internationally.	The Group's First Rail division has entered into no risk and low cost risk contracts to protect the remaining business from economic fluctuations. Further, if lockdown procedures or shelter in place orders are extended the ongoing Group will be able to right-size bus schedules based on real-time demand monitoring and government support arrangements in First Bus are expected to be extended to allow for social distanced public transport to continue.
The Group's strategic framework for sustainability, Mobility Beyond Today, sets out the company's ambition to be the partner of choice for innovative and sustainable transport. In 2021, FirstGroup became the first bus and rail operator in the UK to formally commit to setting an ambitious science-based target aligned with limiting global warming to 1.5°C and reaching net-zero emissions by 2050 or earlier. Within First Bus we have committed to investing in only zero-emission vehicles from December 2022, and to have a 100% zero-emission fleet by 2035. The National Bus Strategy, announced on 15 March 2021, pledged £3bn for buses in England outside London, including a commitment to support the purchase of at least 4,000 new zero emission buses for the UK, from which the Group is well positioned to benefit. We also publicly support the UK Government's ambition to remove diesel-only trains from the network by 2040. As outlined in the Government's rail White Paper, published in May 2021, electrification of Britain's rail network will be expanded, and alternative technologies such as hydrogen and battery power will help to achieve zero emissions from trains. We look forward to working with the government and industry partners in support of the government's investment plans to decarbonise Britain's rail network. Our externally assured carbon and energy performance can be found in the KPI section on pages 55-56 and in our TCFD reporting on pages 57-60, with a more detailed breakdown in our 2021 Environmental Performance Report, available on our website. Business continuity plans are in place for all areas of our businesses in case of extreme weather or other physical events.	The Group recognises the continued pressure and opportunity to create a more sustainable world and maintains our commitment to invest in new technologies and collaborate with partners to create a cleaner future. The commitments we have made this year – particularly our science-based target and zero emission fleet target for First Bus – and the strategies we are developing to meet them will ensure we are managing our climate transition risks effectively.	With the sale of the US businesses, the regulatory environment on climate change simplifies for us as we will deal predominantly with UK policy which is well defined and which we are on track to meet with our current commitments. The physical risks of climate change are also less variable and with less extreme weather events in the UK than North America.
While the Group collaborates with industry bodies to help anticipate government policy or funding regime changes in order to adjust operations, the Group is an apolitical organization and does not have the ability to control or substantially influence government policy. The Group has been able to mitigate supply chain disruptions by utilising mechanical parts from vehicles not in use due to decreased demand levels as a result of the pandemic.	The UK government announced its intention to bring the UK's current rail franchising system to an end and replace it with a new rail contract model for delivery of rail passenger service by private operators. See pages 22-24 for additional information on the termination sum agreements of the pre-existing franchising contracts and details of the newly negotiated National Rail Contracts (NRC). Additionally, the UK government also announced new infrastructure investments, including c. £3bn to transform bus services across the country providing the Group with new opportunities to grow the First Bus division.	Although the new contracts are expected to be based on a more appropriate balance of risk and reward, First Rail is a proportionately larger part of the Retained Group and therefore the future performance of the ongoing Group will be intrinsically aligned with successful negotiations of new rail contracts and continued government support.

Principal risks and uncertainties continued

Risk description, full Group	Impact of sale of First Student and First Transit to risk description
Strategic Risks	
Contracted business	
The Group's contracted businesses are dependent on the ability to secure and renew contracts on profitable terms, comply with contract terms and avoid termination. Additionally, the ability of the Group to achieve performance targets is dependent on our ability to exceed passenger performance metrics laid out in rail contracts. Failure to do so would result in reduced revenue and profitability and / or negative impact on delivering the Group's strategic objectives.	With the sale of First Student and First Transit, the ongoing Group has less geographic diversity and therefore is more dependent on the performance of the UK divisions; however, the new National Rail Contracts will provide the ongoing Group with a consistent single-digit margin, more cash generation, and overall greater resilience. These contracts have low cost, contingent capital and revenue risk.
Competition and emerging technologies	
The Group's market share and competitiveness is dependent on effectively competing in areas of pricing and service options. Our success is also dependent on identifying and developing innovative offerings in line with the Group's goal to be the partner of choice for our customers' transport solutions, accelerating the transition to a zero carbon world. Our main competitors include the private car and other transportation service providers (e.g. ride share, price comparison websites, etc.). Airline competition also impacts demand for bus and rail travel, especially in Greyhound's long-haul business. Zero emission and emerging technologies such as autonomous vehicles and on-demand schemes provide opportunities to grow and develop our market segments. The Group may also begin to experience more competitors for rail contracts as a result of the decreased contingent capital requirements of the National Rail Contract structure. Failure to effectively compete in the market and/or develop new and innovative options could result in decreased customer retention, decreased demand and/or adverse financial and reputational impacts.	The sale of First Student and First Transit allows the ongoing Group to further focus on our digital innovation, enhance business efficiency and flexibility, and target opportunities in adjacent markets and geographies.
Operational Risks	
Financial resources	
As set out in further detail in note 25 to the financial statements on pages 192-197, treasury risks include liquidity risks, risks arising from changes to foreign exchange and interest rates and fuel price risk. Liquidity risk includes the risk that the Company is unable to refinance debt as it becomes due. Foreign currency and interest rate movements may impact the profits, balance sheet and cash flows of the Group. Ineffective hedging arrangements may not fully mitigate losses or may increase them. The Group is credit rated by S&P Global Ratings and Fitch. A downgrade in the Group's credit ratings to below current investment grade may lead to increased financing costs and other consequences and affect the Group's ability to invest in its operations.	The sale of First Student and First Transit allows us to significantly reduce the level of debt for the ongoing Group and also includes a cash reserve to provide adequate financial resources until end markets begin to emerge from the pandemic. While the sale provides significant debt decreases and working capital reserves, it also decreases the Group's revenue streams and may impact the ongoing Group's ability to obtain credit when the ongoing Group targets new debt facilities.

Mitigation	Comment on risk change during the year	Impact of sale of First Student and First Transit, if any, to the risk change during the year
The new contract structure will be concession-based with performance incentives resulting in a far better balance of risk and reward. As the largest incumbent with four UK rail operations expected to be in place until at least 2023, we have the extensive operational expertise needed to meet new contract performance incentives. We have dedicated departments that focus on DfT negotiations and ensure that future commitments to UK rail will have an appropriate balance of potential risks and rewards for shareholders.	The transition from franchising to contracts will lead to a better balance of risk and reward via reduced revenue risk, minimal cost and contingent capital risk, and will provide more consistent cash generation each year. As the largest incumbent the Group has the operational structure and expertise to exceed passenger performance targets and to build on our base business with no revenue risk.	With the sale of First Student and First Transit, First Rail is a proportionally greater part of the ongoing Group. Although this results in a less diverse portfolio, the new National Rail Contract structure provides a strong base business for the ongoing Group and provides opportunities to build on that foundation with no revenue risk and limited cost risk.
To meet our goal to be the partner of choice for our customers' transport solutions, we continue to focus on service quality and delivery in order to attract passengers and other customers to our portfolio of businesses. 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). The Group also continues to have a dedicated cross-divisional consumer experience team who help implement innovative customer convenience solutions (e.g. real-time seat capacity, contactless and capped ticketing, smart tickets, 5G/Wi-Fi, data driven pricing) which focus on improving access to our services and our overall service to customers. The Group has also identified expansion opportunities in adjacent markets and new geographies to support the expansion of public transport throughout the UK. 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.	Low fuel prices and changes in demand for public transportation due to the pandemic have led to reduced passenger volumes. Although the lasting impact to commuting behaviours and consumer travel demand continues to be unknown, the Group saw passenger volumes reach c60% of pre-pandemic levels in some areas during the most recent lockdown easement. 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). We continue to increase the number of low and zero emission vehicles operating in our road and rail fleets, and to focus on providing easy and convenient mobility, encouraging the switch from private car journeys to our services.	Due to the sale of First Student and First Transit the ongoing Group has increased capacity to strategically focus innovation efforts on markets within the UK, particularly in left behind towns and cities where public transportation, specifically buses, are integral to meeting the UK Government's economic growth agenda.
The Group monitors our leverage ratios and overall liquidity consistently to ensure we remain within our target range and have adequate financial resources on a two to three year look forward. Although the completion of the sale of First Student and First Transit decreases the ongoing Group's revenue stream, S&P Global Ratings and Fitch currently rate us as investment grade and we do not anticipate a reduction in our ability to secure credit, including the targeted debt facilities. In the event the ongoing Group did not obtain the targeted debt facilities we have additional capacity within our current financial structures to continue our strong financial positions, such as extending our 2022 bonds.	As a result of varying passenger demand throughout the fiscal year, the Group secured additional funding to support liquidity during the pandemic. Additionally, we secured covenant amendments for both our March and September 2021 testing dates. The Group has continued with our strategy to sell First Student and First Transit in order to invest and focus on our UK divisions which are less susceptible to impacts from passenger demand and will provide us strong cash generation and liquidity in future.	The Group will apply the net proceeds from the sale to discharge certain long-term liabilities, including the £300m CCFF loan. Additionally, c£100m pro forma net debt position to be retained to ensure the ongoing Group has adequate financial resources available while UK end markets begin to emerge from the pandemic over and above the estimated short-term capital needs. As a result, the ongoing Group has a significantly de-risked balance sheet and strong financial position to unlock growth in our target markets.

Principal risks and uncertainties continued

Risk description, full Group	Impact of sale of First Student and First Transit to risk description
Operational Risks continued	
Pandemic	
The pandemic has altered the way in which the Group operates and how we serve our communities. Our success depends on continuing to anticipate and adapt to changes in consumer commuting and travel behaviours, implementing safeguards to prevent spread and complying with new laws and regulations relating to the pandemic. Failure to balance operational changes whilst also implementing appropriate safeguards and procedures to prevent additional spread of the pandemic and promote containment may result in adverse reputational or financial impacts.	The Group is committed to the health and safety of our employees, customers and others with which we do business. With the sale of First Student and First Transit, the ongoing Group is less susceptible to changes in consumer community behaviour and demand. The new National Rail Contracts include a management fee that is not dependent on demand and within First Bus we have the ability to adjust and change schedules in order to adapt to changing demand patterns
Safety	
The Group is committed to fostering and maintaining a culture of safety. However, public transport inherently includes safety related risks, many of which are out of our control. These risks include terrorism, adverse weather, human error and increased traffic / congestion on public roadways. A safety incident, or a threat of an incident, could lead to reduced public confidence in public transportation overall and potentially reduce demand for our services.	Safety is one of the Group's core values and the sale of First Student and First Transit has no impact on our unwavering commitment to safety. Despite our commitment to safety, we recognise that, regretably, incidents and legal claims do occur. As North America has a higher degree of litigious activity, the sale of First Student and First Transit reduces the Group's liability insurance risk and associated costs. Although the ongoing Group will continue to operate in North America via the Greyhound division, a portion of the sale proceeds has been retained to de-risk any remaining self-insurance requirements. Whilst the sale of First Student and First Transit reduces the ongoing Group's insurance risk, it also reduces our geographical diversity. In the event of a terrorist attack and / or safety incident within the UK, the Group may experience a decrease in demand which will not be offset by stable demand within the US.
Pension scheme funding	
The Group sponsors or participates in several significant defined benefit pension schemes, primarily in the UK. Within our North American subsidiaries, we participate in several multi-employer pension schemes in which our contributions are pooled with the contributions of other contributing employers. In both schemes the Group's future cash contributions and funding requirements are dependent on investment performance, movements in discounts rates, expectations of future inflation and life expectancy. Within North America, funding of the schemes is also reliant on the ongoing participation by the other contributing employers. In order to maintain adequate cash funding and prevent adverse financial impacts or reputational damage, the Group must monitor the performance of our fund investments and movements in other contributing factors (e.g. discount rates, life expectancy, etc.).	Following the sale of First Student and First Transit, the ongoing Group continues to be responsible for all pension plans other than those relating to the sold divisions for which the liability has transferred as part of the sale. Although the Group used some of the net disposal proceeds to improve pension scheme funding, the ongoing Group's ability to contribute to the Pension Schemes on an ongoing basis will be dependent on the profits of a less diversified business with a reduced operating cash flow, in particular, in relation to the First UK Bus Pension Scheme.

Mitigation	Comment on risk change during the year	Impact of sale of First Student and First Transit, if any, to the risk change during the year
To adapt our operations to impacts resulting from the pandemic the Group has implemented new policies and procedures across all vehicle fleets. These policies and procedures include providing personal protective equipment to drivers and technicians, increased sanitation and appropriate social distancing requirements. The Group complies with all applicable public health authority guidance, include the use of face coverings where mandated. Additionally, during 2020 the Group fast-tracked implementation of real-time seating capacity on our Bus app to support social distancing requirements. Under the new National Rail Contracts First Rail will not experience revenue risk as a result of decreased demand, except for in our Hull Trains open access service. Our other divisions, have a greater risk of loss caused by decreased demand. While First Bus saw passenger volumes increase to c.60% of pre-pandemic levels during the most recent lockdown easement, to adapt our operations to potential changes in commuting and travel behaviour, the division has dedicated teams to assess and monitor workforce and route planning. The dedicated teams use advanced data analytics that provide an efficient way to adjust schedules. Once end markets have emerged from the pandemic, the Group also has plans ready to reshape routes and timelines to align with observed demand. The actions taken via these plans will be based on real-time passenger flow data now available following digital transformation initiatives.	While the Group has implemented safeguards across our fleet to prevent further spread of the pandemic, guidance regarding the methods of spread and effective containment procedures continue to develop. These methods and procedures are further impacted by the new variants of the coronavirus developing throughout the world, including in the UK. This changing knowledge could continue to affect the ways in which we must adjust our operations to protect the safety of our customers, employees and third parties who interact with our business.	With the sale of First Student and First Transit, the ongoing Group is less susceptible to changes in consumer commuting behaviour and demand.
In order to promote and maintain our culture of safety, all divisions have extensive safety plans and safety training for our drivers and employees. Points of access to vehicles are secured to prevent against malicious access. Mechanical safety controls (speed monitoring, cameras, etc.) are implemented across our fleet of vehicles. While the Group has implemented preventative safety measures and procedures, we recognise that incidents may be caused by factors that are ultimately out of our control and do at times result in legal claims. As a result, the Group has dedicated departments, utilising third party experts when needed, to analyse and maintain effective insurance structures and levels.	Although the Group continues to assess, update and implement safety procedures across our businesses, risk mitigation in this area continues to be a focus. Even with this attention, the legal climate in North America, particularly in the US, continues to deliver judgements which are disproportionately in favour of plaintiffs, and at times unpredictable. Additionally, the extent to which the claims environment may be impacted by the effects of the pandemic is not yet clear.	In relation to the sale of First Student and First Transit, as previously stated the legal climate in North America continues to deliver judgements disproportionately in favour of plaintiffs. While the Group has legal claim risk in the UK, the ongoing Group's overall insurance risk has decreased. Although the ongoing Group's insurance risk has decreased, the ongoing Group also has less geographical diversity to offset any decrease in demand following a terrorist attack and / or safety incident within the UK.
In order to effectively monitor our funding requirements, all our cash models/forecasts include significant pension deficit funding. The Group also utilises third party experts to monitor movements in discount rates and inflation expectations. We continue to replace our defined benefit schemes with defined contribution arrangements where possible. We are also focusing on diversifying asset classes and reallocating riskier investments to investments that better match the characteristics of the liabilities as funding levels improve. 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. The Group intends to use £337m of the net disposal proceeds to contribute to the Bus and Group pension schemes. Additionally, the increase in funding levels allows for greater flexibility for the management of the pension liabilities including buy-ins and further liability hedging.	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. 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.	Following the sale of First Student and First Transit, a portion of the net disposal proceeds was used to materially improve pension scheme funding and thereby decrease our overall funding risk.

Principal risks and uncertainties continued

Risk description, full Group / Impact of sale of First Student and First Transit to risk description

Operational Risks continued

Data security and consumer privacy, including cyber-security

Risk description, full Group

The Group continues to see an increase of mobile and internet sales across all divisions. These mobile and internet channels gather large amounts of data which require safeguards in order to protect our customers' data and to comply with the General Data Protection Regulation (GDPR) and California Consumer Privacy Act (CCPA). Whilst this data requires compliance with consumer privacy regulations, it also makes us a target of data security attacks by third parties.

In addition to maintaining infrastructures that protect our consumers' data, our operations rely on information technology systems. Cyber-attacks, computer malware, viruses, spamming and phishing attacks have become more prevalent and may result in a breach of our systems. A breach of our facilities and / or network could disrupt our operations and impair our ability to protect consumer data, and / or compromise our confidential business information.

A failure to prevent, mitigate or detect security breaches and / or improper access to our business and / or customer's information and / or comply with consumer privacy regulations could result in disruption to our operations, significant penalties and have an adverse impact on consumer confidence in the Group.

Impact of sale of First Student and First Transit to risk description

The Group is committed to protecting the privacy and personal data of our customers, employees and others with which we do business. The sale of First Student and First Transit has no impact on our commitment to protect our consumers' data and our business systems against security breaches and / or comply with all GDPR and CCPA regulations.

Regulatory compliance

Risk description, full Group

The Group's operations are subject to a wide range of legislation and regulation. Complying with such legislation and regulations may increase the Group's operating costs, and non-compliance could lead to financial penalties, investigation expenses, legal costs or reputational damage. The Group's corporate governance, which is recognised by external ESG ratings as strong and well aligned with stakeholder interests, supports our ability to respond to, and prepare for, financial and ESG laws and regulations.

The main regulatory compliance risks specific to the Group that are not covered in other principal risks include workplace compliance (employee wage and hour, meal and break matters, etc.), workplace health and safety and anti-trust/anti-bribery regulations.

Impact of sale of First Student and First Transit to risk description

The Group is dedicated to maintaining compliance with the regulatory environment within which it works and the sale of First Student and First Transit has no impact on our commitment to comply with our regulatory requirements.

Human resources

Risk description, full Group

Employee costs represent the largest component of the Group's operating costs. These costs include expenses related to recruitment, retention and talent development. The costs are impacted by changes in employment markets, new regulatory requirements from Brexit and diversity and inclusion programmes. A failure to effectively recruit and retain a diverse and talented workforce could have adverse financial, reputational and operational impacts.

Our driver and technician employment market has been affected by the pandemic which has increased our recruitment and retention costs and may impact operations as consumer travel demand increases. Our employee turnover rate may also be impacted by Brexit employment regulations and the announcement of the intent to sell the North American businesses.

Impact of sale of First Student and First Transit to risk description

The attraction, development, retention, reputation and succession of senior management and individuals with key skills are critical factors in the successful execution of the Group's strategy, and operation of the Group's divisions.

The reduction in size and diversification of the ongoing Group following the sale of First Student and First Transit may make it more difficult for the Group to attract and retain employees.

Mitigation	Comment on risk change during the year	Impact of sale of First Student and First Transit, if any, to the risk change during the year
To protect our customers' data and comply with all data privacy regulations, IT infrastructure controls have been implemented Group-wide. We also have dedicated compliance officers in each division. The Group also administers a training programme to all employees, communicating their role in protecting and preventing the unauthorised access to sensitive data. Additionally, in order to comply with user preferences, the Group is implementing a software solution that makes it easier to record and update customer preferences.	Despite the Group's continued mitigation efforts, the risk of a cyber security attack for all companies continues to increase. This risk has been additionally impacted by the increase of a remote workforce during the pandemic.	The sale of First Student and First Transit has no impact to the risk change during the year.
To help the Group comply with all legislation and regulations, we have dedicated compliance professionals who ensure applicable laws by locality and state are followed. We also engage with third party legal experts when necessary to advise on policies and procedures and other related compliance matters. We also provide a hotline for employees and third parties to report concerns. Whilst we strive to maintain compliance within the regulatory environment, we also maintain insurance for third party injury claims arising from vehicle and general operations, employee injuries and property damage. To help mitigate non-compliance risk with anti-bribery and anti-trust regulations we maintain robust policies and procedures and our employees receive regular training on the policies. We also complete periodic audits of our training programmes to ensure consistent training and participation.	Although our legislative and regulatory environment continues to change, the Group maintains our commitment to assess and adapt not only our insurance structure but also our policies and procedures to prevent non-compliance.	The sale of First Student and First Transit has no impact to the risk change during the year.
In order to increase retention and decrease employee costs, the Group has enhanced recruitment practices, including leveraging online channels for all roles. The Group also has implemented all necessary coronavirus-related safety protocols to support the health and safety of our drivers and technicians. In response to Brexit employment regulations, we have secured Sponsorship Status and are in the process of implementing new employment record requirements to comply with regulations. To help prevent overall employee turnover, we continue to focus on improving communication with employees, investing in employee development and diversity and inclusion, and providing market competitive wages and benefits.	The lasting impact the pandemic will have on the labour market and employee work conditions continues to develop and will require the Group to assess and adapt our operations in the future. Additionally, employee and community expectations continue to impact our recruitment, retention, diversity and development strategies.	With the sale of First Student and First Transit, the ongoing Group has reduced in size and includes a less diverse portfolio which, if combined with any negative publicity associated with the sale, may impact the ongoing Group's ability to attract and retain employees.

Viability and going concern

Viability

Time horizon

The Directors have assessed the viability of the Group over a three-year period. This period reflects the Group's corporate planning processes and is considered appropriate for a fast-moving competitive environment such as passenger transport.

Scenario testing

In making their assessment, the Directors have taken into account the potential financial and operational impacts, in severe but plausible scenarios, of the principal and emerging risks which might threaten the Group's viability during the three-year period to 31 March 2024 and the likely degree of effectiveness of current and available mitigating actions that could be taken to avoid or reduce the impact or occurrence of such risks (details of the risks and mitigating actions are set out on pages 62-71). The assessment of the available mitigating actions included the Group's ability to manage its cost base and capital expenditure.

In making their assessment, the Directors have made the assumption that the Group will retain £200m Bond expiring in September 2024 and all currently committed First Bus finance leases post-completion, and will have access to debt markets to negotiate additional new credit facilities, if required. All other currently committed debt facilities are assumed to be redeemed on, or shortly after, completion of the sale of First Student and First Transit.

The broad details of the scenarios that were considered in the assessment are: 1) a protracted period of coronavirus disruption and continuation of social distancing measures during the second half of FY22 with a gradual recovery in passenger volumes through FY23; 2) heightened operational and environmental pressures including increased labour market competition, accelerated First Bus fleet investment and the loss of a key First Rail contract; 3) disposal of Greyhound; and 4) inability of the Group to negotiate additional new credit facilities on acceptable terms.

The results of this scenario testing showed that the Group would be able to remain viable and maintain liquidity over the assessment period.

Corporate planning processes

The Group's corporate planning processes include completion of a strategic review for the Rail and Bus divisions, preparation of a medium-term business plan and a quarterly re-forecast of current year business performance. The plans and projections prepared as part of these corporate planning processes consider the Group's cash flows, committed funding and liquidity positions, forecast future funding requirements, banking covenants and other key financial ratios, including those relevant to maintaining the Group's existing investment grade status. It also considers the ability of the Group to deploy capital. A key assumption underpinning these corporate planning processes is that credit and asset-backed financing markets will be sufficiently available to the Group to put additional new facilities in place, if required.

Viability statement

Based on the results of the analysis explained above, including scenario testing, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 March 2024.

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 and/or liquidity.

Going concern

The Board reviewed an updated base case and a severe but plausible downside scenario, considering the progress made since the Group's announcement of its full year results for the 52 weeks ended 28 March 2020 (FY20) and the potential mitigating actions.

Based on their review of the financial forecasts for the period to September 2022 and having regard to the risks and uncertainties to which the Group is exposed, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the 12 month period from the date on which the financial statements were approved. Accordingly, they continue to adopt a going concern basis of accounting in preparing the consolidated financial statements in this full year report.

In the FY20 results the Group disclosed that the risks and uncertainties facing the Group at that stage of the pandemic indicated that material uncertainty existed that could cast doubt on the Group's and the Company's ability to continue as a going concern. The material uncertainty related 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
- 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.

Update since the FY20 results

As noted in the Chief Executive's review and business reviews, compared with the position in July 2020 we now have substantially greater clarity about the resilience of our businesses, the contractual arrangements in First Rail through the ERMA in Avanti, NRC's in SWR and TPE and the EMA in GWR, the fiscal arrangements in place in the UK and North America:

- Continued support from governments, school boards and other contract customers throughout the FY21 pandemic period have demonstrated a commitment to maintaining the essential public transport services the Group operates. In the US, further fiscal support bills are being legislated through Congress in FY22 including significant provision for further support to the public transport sector
- Passenger volume levels have outperformed our prior forecast assumptions in year-to-date trading. It is anticipated that governments will continue to support minimum operating service levels through the emergence from the pandemic until social distancing is removed and these services can be run commercially
- Management has demonstrated the flexibility of our businesses to generate cash flows well within required debt facility and covenant levels since the pandemic struck
- On 21 July 2021 the Group completed the sale of First Student and First Transit to EQT Infrastructure for net proceeds of c.£2.3bn. The transaction has resulted in a material deleveraging and de-risking of the business.

Evaluation of going concern

The Board evaluated whether it was appropriate to prepare the company and consolidated financial statements in this report on a going concern basis and in doing so considered whether any material uncertainties exist that cast doubt on the Group's and the Company's ability to continue as a going concern over the going concern period, and in particular whether any of the circumstances giving rise to the material uncertainties at the 2020 year-end still existed.

Consistent with prior years, the Board's going concern assessment is based on a review of future trading projections, including whether the amended banking covenants are likely to be met and whether there is sufficient committed facility headroom to accommodate future cash flows for the going concern period. Divisional management teams prepared detailed, bottom-up projections for their businesses reflecting the impact of the coronavirus pandemic operating environment, including customer revenue recovery where services had been disrupted and what government or contractual support arrangements were in place.

Base case scenario

These projections were the subject of a series of executive management reviews and were used to update the base case scenario that was used for the purposes of the going concern assessment at the 2021 year end. The base case assumes a gradual recovery in passenger volumes as a result of an anticipated lifting of social distancing and travel restrictions in FY22, but that passenger volumes remain below pre-pandemic levels in the going concern assessment period. The macro projections in the updated base case assume that the UK operates in a post-Brexit coronavirus economy. We have not assumed any further North American fiscal support beyond what has already been committed by the federal governments.

Severe, plausible downside scenario

In addition, a severe but plausible downside case was also modelled which assumes a more protracted post-pandemic recovery profile. In Greyhound and First Bus the severe but plausible downside case assumes slower recovery with passenger revenues in the second half of FY22 at an average rate of 57% and 75% pf pre-pandemic levels respectively. In First Rail, the downside case assumes reduced TOC performance fee awards and operating losses in Hull Trains and East Coast Open Access.

Mitigating actions

If the impact on the Group of the pandemic were to be more protracted than assumed in the base case scenario, the Group would reduce and defer planned growth capex spend and further reduce costs in line with a lower volume operating environment to the extent that the essential services we operate are not required to be run for the governments and communities we support.

Going concern statement

Based on the scenario modelling undertaken, and the potential mitigating actions referred to above, the Board is satisfied that the Group's liquidity over the going concern period is sufficient for the business needs.

Governance report

In this section, we introduce our Board, explain our approach to corporate governance and activities in the year, and give details of the Company's remuneration principles and policies to support our objectives.

Governance report

Board of Directors

David Martin N M
Non-Executive Chairman

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.

External 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

Matthew Gregory X S M
Chief Executive

Appointed: 1 December 2015 Chief Financial Officer and appointed Chief Executive 13 November 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 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

Ryan Mangold X S M
Chief Financial Officer

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 the 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

Key

A Audit Committee	S Executive Safety Committee
R Remuneration Committee	X Executive Committee
N Nomination Committee	M M&A Subcommittee
B Board Safety Committee	● Chair

Sally Cabrini R B
Independent Non-Executive Director

Appointed: 24 January 2020

Key areas of expertise: HR, IT, Transformation

Skills and experience: Sally brings valuable experience of a number of sectors including UK regulated utilities, services and manufacturing. She has expertise in delivering significant business transformation programmes often including internal restructuring or divestment, pension changes and both cultural and significant technological changes. As Transformation, IT and People Director at Interserve Group Limited she had a strong focus on effective operational delivery and led a major transformation programme which had significant financial and strategic challenges and prior to that she was a senior executive at FTSE 100 constituent United Utilities for nine years, including four years as Business Services Director with responsibility for information technology, cyber security and human resources in a regulated CNI environment. Sally was also a Non Executive Director of Lookers plc from January 2016 to 2020.

Sally is a fellow of the Chartered Institute of Personnel and Development.

External appointments: NED and Chair of the Remuneration Committee of Appreciate Group plc.

Nationality: British

Martha Poulter B A
Independent Non-Executive Director

Appointed: 26 May 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.

External appointments: Senior Vice President and CIO of Royal Caribbean Cruises Ltd.

Nationality: American

Warwick Brady A N
Independent Non-Executive Director

Appointed: 24 June 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, Deputy CEO of Buzz and was CEO of Esken plc (formerly Stobart Group Ltd) until April 2021.

External appointments: President and CEO of Swissport International AG.

Nationality: South African/British

Board of Directors continued

Steve Gunning Ⓐ
Independent Non-Executive Director

Appointed: 1 January 2019

Key areas of expertise: Transportation, Corporate finance/M&A, Business Turnaround, Pensions, Safety, Governance

Skills and experience: Steve is the Chief Financial Officer 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.

External appointments: Director of IAG Global Business Services.

Nationality: British

Julia Steyn Ⓐ Ⓡ Ⓜ
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). 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.

External appointments: Chief Executive Officer of BOLT Mobility and independent director of Garrett Motion Inc.

Nationality: American

Anthony Green Ⓑ
Group Employee Director

Appointed: 15 September 2020

Key areas of expertise: Transportation, Employee Engagement, Safety, Learning and Development

Skills and experience: Ant is a bus driver and a trainer for First Bus. He has been the Employee Director of First Essex Buses Ltd since 2014, a company he joined in 2009. In 2015, he was seconded to roll out Be Safe the Group's safety behavioural change programme. Since then Ant has trained more than 1,900 colleagues and coached leaders on the implementation of successful safety techniques. Prior to joining First Essex, he worked at retailer Homebase for 16 years including in several managerial positions, and also volunteered at St John Ambulance.

Nationality: British

Key

Ⓐ Audit Committee	Ⓢ Executive Safety Committee
Ⓡ Remuneration Committee	Ⓧ Executive Committee
Ⓝ Nomination Committee	Ⓜ M&A Subcommittee
Ⓑ Board Safety Committee	● Chair

Former Director who served for part of the year:

Jimmy Groombridge
Group Employee Director

Jimmy stepped down from the Board on 29 June 2020.

Peter Lynas Ⓐ Ⓡ Ⓝ
Senior Independent Non-Executive Director

Appointed: 30 June 2021

Key areas of expertise: Defence and aerospace, Government contracting, Turnaround, Corporate finance/M&A, Pensions, Governance

Skills and experience: Peter was group finance director of BAE Systems plc (and a director of BAE Systems, Inc.) from 2011 until his retirement in 2020, having previously served in increasingly senior financial and M&A roles since joining the company in 1999. Peter's early career was spent at De La Rue Systems, which he joined as a trainee accountant, and then GEC Marconi from 1985 to 1999, where he became finance director of Marconi Electric Systems. In addition to his strong strategic and financial background Peter brings to the Board extensive experience in heavily regulated industries with significant contractual relationships with government.

External appointments: Non-executive director and audit committee chair of SSE plc since 2014.

Nationality: British

Jane Lodge Ⓐ Ⓡ
Independent Non-Executive Director

Appointed: 30 June 2021

Key areas of expertise: Transportation/engineering and infrastructure, Corporate finance/M&A, Governance

Skills and experience: Jane spent her executive career with Deloitte, where she spent more than 25 years advising multinational companies including businesses in transport, leisure, consumer and technology sectors. Since 2012 she has served as a non-executive director and audit committee chair at several UK public companies in a range of sectors. Previous roles include non-executive director of Sirius Minerals plc (2015-2020, when the company was acquired by Anglo American plc), Costain Group plc and of Devro plc (2012-2020). In addition to broad international experience in a range of sectors, Jane brings substantial audit, risk and audit committee expertise to the Board.

External appointments: Non-executive director and audit committee chair of DCC plc and Bakkavor Group plc, and a non-executive director and remuneration committee chair of Glanbia plc.

Nationality: British

David Robbie Ⓐ Ⓡ Ⓝ Ⓜ
Former Independent Non-Executive Director

Appointed: 2 February 2018

Resigned: 30 June 2021

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.

External appointments: NED, Chair of the Audit Committee and member of the Nomination and Remuneration Committees of DS Smith Plc. and NED and SID of Easyjet plc.

Nationality: British

Executive Committee members

Matthew Gregory
Chief Executive

Ryan Mangold
Chief Financial Officer

Janette Bell
Managing Director, First Bus

Rachael Borthwick
Group Corporate Services Director

David Isenegger
General Counsel and Company Secretary

Dave Leach
President, Greyhound

Steve Montgomery
Managing Director, First Rail

Paul Osland[1]
President, First Student

Brad Thomas[1]
President, First Transit

1 Stepped down from Executive Committee on completion of sale of First Student and First Transit on 21 July 2021.

Chairman's report

David Martin
Chairman

"Strong governance is essential for the creation of value for all our stakeholders."

Dear Shareholder

On behalf of the Board, I am pleased to introduce the corporate governance report for 2021. This continues to be the Board's principal method of reporting to shareholders on our application of the principles of good corporate governance.

Governance

Strong governance is essential for the effective delivery of our strategy, the creation of value for all our stakeholders and the ongoing development and sustainability of our business. Our governance framework has served the Group well in a year of challenge and change with the ongoing impact of the pandemic on our operations, both in the UK and North America and the sale of First Student and First Transit. The Board's priority has always been and remains the health and safety of our passengers and employees. It is in this context the Board met twelve times this year with seven ad hoc meetings in addition to the Board's five scheduled meetings (see page 83). The M&A Subcommittee, established in January 2020 to oversee the sale of the Group's North American divisions, met seven times in the year and the Audit Committee also held two ad hoc meetings. I would like to thank the Board for their time and dedication over the course of the year. I would also like to acknowledge the 20% reduction in salary and base fees volunteered by our Chief Executive, Chief Financial Officer and Non-Executive Directors for four months earlier this year and similarly the voluntary salary reductions and deferrals made by some of our senior employees across the Group.

The Board and its Committees conducted all their meetings remotely through audio and video calls and, whilst not as satisfactory as face to face meetings, the Board and Committees continue to function effectively. The activities of the Board and its principal Committees together with how we have applied the principles of the 2018 UK Corporate Governance Code ('Code') are set out in the following pages.

Board evaluation

This year's evaluation was undertaken internally involving a detailed and thorough review of the Board and its principal Committees which covered a wide range of topics. Further information on the process, progress against actions resulting from last year's externally facilitated review and actions identified in this year's internal review can be found on page 88. It is my view that the Board has discharged its duties effectively in the year under review. I am not, however, complacent and neither are my fellow Directors. The evaluation identified areas which can benefit from increased oversight and these topics will be amongst the key priorities for the Board in addition to the strategic and operational priorities already discussed in other sections of this Annual Report.

Changes to the Board

We have seen several changes to our Board since last year.

I am pleased to note that Anthony Green was elected Group Employee Director and was appointed to the Board on 15 September 2020. Ant has been an employee of FirstGroup since 2009 and he brings an important and unique perspective to our Board discusisons.

David Robbie, Senior Independent Director and Chairman of the Audit Committee, decided to not seek re-election at this year's AGM. On behalf of the Board, I would like to thank David for his valuable and considerable contribution over the years.

We also welcomed two new Non-Executive Directors to the Board, Peter Lynas and Jane Lodge, both of whom joined at the end of June 2021. Peter has been appointed Senior Independent Director and Jane has been appointed Chairman of the Audit Committee. In making appointments to the Board, our objective is to bring a range of expertise, experience and diverse perspectives. In view of their substantial and varied experience, I have no doubt Peter and Jane will make a significant contribution to the Board in the future.

As I mentioned earlier in this Annual Report, Matthew Gregory has decided to step down at the conclusion of the AGM in September this year at which time I will become interim Executive Chairman. I want to acknowledge and thank Matthew for his considerable contribution to FirstGroup since he joined the Board in 2015.

In this section

In addition to the search for a new Chief Executive, one of my priorities and that of the Nomination Committee in the coming months will be to keep succession planning under constant review with the intention of keeping the Board and Committee composition strong and diverse as the Group continues to evolve following the sale of First Student and First Transit.

Compliance with the Code

FirstGroup complied in all respects with the provisions of the Code in FY21 with the exception of provision 36 which requires companies to implement a policy on post-employment shareholdings. The current Directors' Remuneration Policy, approved by shareholders at the Company's AGM in July 2018, expires this year. This non-compliance will be remedied with the new Policy being put to shareholders at the Company's 2021 AGM.

Provision 9 of the Code states the role of the chair and chief executive should not be exercised by the same individual. FirstGroup will not therefore be compliant with provision 9 from the conclusion of the 2021 AGM and for the duration of my appointment as interim Executive Chairman. This will of course be addressed in due course with the appointment of a new Chief Executive. The Board comprises a majority of independent Non-Executive Directors, including the recently appointed Senior Independent Director, Peter Lynas. There continues therefore to be a strong and independent dimension to the Board's deliberations.

It remains only for me to thank again my fellow Directors, our colleagues and our employees both in the UK and North America for their ongoing commitment and considerable efforts this past year.

David Martin
Chairman
27 July 2021

Snapshot of Code compliance

Independence

Over half of the Board (excluding the Chairman) comprises independent Non-Executive Directors and the composition of the Audit, Nomination and Remuneration Committees comply with the Code (pages 87, 97, 100 and 130).

Senior Independent Director

The Senior Independent Director was David Robbie until he stepped down effective 30 June 2021. Peter Lynas joined the Board 30 June 2021 and was appointed Senior Independent Director (page 83).

Accountability and election

There has been a clear separation of duties between the Chairman and CEO. This will change when Matthew Gregory steps down as Chief Executive at the conclusion of the 2021 AGM and David Martin is appointed interim Executive Chairman until a new Chief Executive is appointed (page 84).

Attendance

There has been full attendance at all Board meetings and there has been full attendance by Committee members at Committee meetings (pages 83, 97, 100, 106 and 130).

External auditor tenure

We changed our auditor in 2020 following an extensive tender process (page 99).

Non-audit policy

Details of non-audit policy and fees for non-audit services are provided in this report (page 105).

Workforce engagement

The Group Employee Director is a member of the Board and the Group Safety Committee. He also attends the Remuneration and Audit Committees (pages 48 and 90).

Stakeholder engagement

There has been strong engagement with all our stakeholders, which has been especially critical during the pandemic (pages 48 and 143).

Performance-related pay

A significant part of performance related pay is delivered through shares (page 134).

Remuneration Policy

A new Policy is being put to shareholders at the 2021 AGM that is compliant with the Code (page 132).

Diversity

Information about the diversity of the Board is provided as well as more generally within the Group (pages 87, 98 and 40).

Culture

Information about how the Board assesses and monitors culture is provided (page 92).

Corporate governance report

Corporate governance framework

The corporate governance framework, comprising clearly defined responsibilities and accountabilities, is set out below:

Board

Responsible for the stewardship of the Group, oversees its conduct to deliver on strategy and create sustainable value for the benefit of shareholders and stakeholders

Audit Committee

Provides independent assessment and oversight of financial reporting, internal controls, risk management and internal and external audit (pages 99-105)

Nomination Committee

Reviews the size, composition and skills of the Board and its Committees, monitors Board and senior management succession planning, considers diversity and inclusion matters (pages 97-98)

Remuneration Committee

Determines the remuneration framework and policy for Executive Directors and senior management, considers alignment of reward and incentives with regulation, market practice and culture and monitors workforce remuneration-related policies and practices (pages 108-131)

Board Safety Committee

Oversees and monitors safety performance and safety standards for managing safety risks and promotes a safety first culture (pages 106-107)

Disclosure Committee

Oversees the implementation of procedures related to the identification, control and disclosure of inside information (page 83)

M&A Sub-Committee

Oversees the implementation of the sale of First Student and First Transit, other strategic portfolio actions and related financings (page 83)

via the GED

Chief Executive

Provides leadership to the executive team in running the business and implements strategy (page 84)

Executive Committee

Supports the Chief Executive in the day-to-day running of the Group and acts as Executive Risk Committee (page 83)

Executive Safety Committee

Monitors safety performance, reviews and updates safety standards, shares best practice and promotes a safety first culture (page 106)

Employee Directors' Forum

To represent the voice of the workforce and promote employee engagement (page 90)

The role of the Board

The Board is responsible for promoting the Company's long-term sustainable success for the benefit of its shareholders and stakeholders and for establishing the Company's Vision, Values, culture and strategy. The Board discharges some of these responsibilities directly and others through Committees which it has established to provide dedicated focus on particular areas. Execution of the strategy and management of the Company's business is delegated to the Chief Executive, with the Board retaining responsibility for overseeing, guiding and holding management to account. The Board is also responsible for:

- establishing the Group's long-term objectives, strategy and risk appetite
- ensuring the necessary resources are in place for the business to meets its strategic objectives
- establishing policies and business practices that support the strategy and align with the Company's Values and culture
- overseeing the implementation of a robust governance and internal controls framework to allow for effective management of risk
- overseeing Board and Committee composition, Directors' independence and conflicts of interest and effective succession planning for senior management
- maintaining effective engagement with the Company's shareholders and stakeholders.

Further information on the role of the Board and the roles of individual Board members is provided in the following pages. Biographies of the Directors can be found on pages 76-79. The Schedule of Matters Reserved to the Board is available on the Company's website at www.firstgroupplc.com

The Committees of the Board

The four principal Committees of the Board are:

- Audit Committee
- Nomination Committee
- Remuneration Committee
- Board Safety Committee

The Board has also established a Disclosure Committee and a M&A Subcommittee.

The Terms of Reference for the four principal Committees are available on the Company's website at www.firstgroupplc.com

M&A Subcommittee

The M&A Subcommittee was established in January 2020 and was mandated to oversee the implementation of the sale of the North American contract divisions, other strategic portfolio actions and any related financings. The membership of this Subcommittee comprises the Chairman of the Board, two independent Non-Executive Directors and the Executive Directors. The Subcommittee is chaired by the Chairman of the Board. The Subcommittee met seven times in the year under review.

Disclosure Committee

The Board has delegated authority to the Disclosure Committee to oversee the timely and accurate disclosure of sensitive information. Meetings of the Disclosure Committee are convened as and when the need arises. Membership of the Committee comprises the Executive Directors together with the General Counsel & Company Secretary and the Corporate Services Director.

Executive Commitee

The Executive Committee, chaired by the Chief Executive, supports the Chief Executive in the day-to-day running of the Group. It meets quarterly and its main responsibilities include:

- developing, implementing and monitoring operational plans
- reviewing financial performance, forecasts and targets
- prioritising initiatives and allocating resources
- developing strategy for submission to the Board
- overseeing risk management including identifying risks and developing and implementing risk mitigation plans
- developing and monitoring the internal control environment
- leading the Group's culture and safety programme, supported by the Executive Safety Committee.

Refer to page 79 for the members of the Executive Committee.

Board meetings

There were five scheduled Board meetings in the year ended 27 March 2021 and an additional seven meetings were convened at short notice to consider the Board's response to developments related to the pandemic, both within the business and globally and other commercial, financial and strategic matters, including the sale of First Student and First Transit. In ordinary circumstances, the Board would expect to hold at least two meetings in the US and would regularly undertake site visits across its operations in the UK and the US, however, this has not been possible this past year due to pandemic-related restrictions.
As a consequence, all meetings during the year were held by audio and video conference.

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 participating. Only members of the Committees are entitled to attend their meetings, but others may attend at the Committee Chair's discretion. Non-Executive Directors have an open invitation to attend all 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.

Position	Member	Appointment date	Scheduled meetings	Ad hoc meetings
Chairman	David Martin	15 August 2019	5/5	7/7
Non-Executive Directors[1]	Warwick Brady	24 June 2014	5/5	7/7
	Sally Cabrini	24 January 2020	5/5	7/7
	Steve Gunning	1 January 2019	5/5	7/7
	Martha Poulter	26 May 2017	5/5	7/7
	David Robbie[2]	2 February 2018	5/5	7/7
	Julia Steyn	2 May 2019	5/5	7/7
Group Employee Director	Anthony Green	15 September 2020	3/3	2/2
Executive Directors	Matthew Gregory	1 December 2015	5/5	7/7
	Ryan Mangold	31 May 2019	5/5	7/7

1 Peter Lynas and Jane Lodge appointed to the Board 30 June 2021.

2 David Robbie stepped down from the Board 30 June 2021.

Corporate governance report continued

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.

Chairman David Martin	▪ Leads and manages the business of the Board ▪ Provides advice, support and constructive challenge to the Chief Executive ▪ Provides direction and focus and ensures sufficient time is allocated to promote effective debate and sound decision making ▪ Promotes the highest standards of integrity and probity and ensures effective governance	▪ Manages Board composition, performance and succession planning ▪ Maintains effective communication with shareholders and ensures their views are understood by the Board ▪ Facilitates effective and constructive relationships and communications between Non-Executive Directors and Executive Directors
Chief Executive Matthew Gregory	▪ Provides leadership to the executive and senior management team in the day-to-day running of the Group's businesses ▪ Develops the Group's objectives and strategy for consideration and approval by the Board, taking in to account the interests of shareholders and stakeholders	▪ Implements the agreed strategy ▪ Promotes a safe working environment and a safety-focused culture across the Group ▪ Maintains an active dialogue with shareholders in respect of the Company's performance ▪ Responsible for implementing effective internal controls and risk management systems are in place
Chief Financial Officer Ryan Mangold	▪ Responsible for the financial stewardship of the Group's resources ▪ Responsible for the Group's finance, tax, treasury, IT, insurance, risk management and internal control functions	▪ Supports the Chief Executive in providing executive leadership and developing strategy ▪ Supports the Chief Executive to implement the agreed strategy ▪ Reports to the Board on operational and financial performance of the businesses
Senior Independent Director David Robbie	▪ Acts as an additional point of contact for shareholders to discuss matters of concern ▪ Provides a sounding board for the Chairman and serves as an intermediary for the other Directors	▪ Leads the annual review of the Chairman's performance taking in to account the views of the Non-Executive Directors and Executive Directors
Group Employee Director (GED) Anthony Green	▪ Brings insight into employee engagement and perspectives from the front line to Board deliberations ▪ Chairs the Employee Directors' Forum ('EDF')	▪ Promotes employee involvement and participation in the affairs of the Group through share ownership, employee surveys and other means of employee involvement ▪ Promotes the Group's policies and procedures amongst employees, in particular those related to safety, diversity and inclusion, and business ethics
Non-Executive Directors (NEDs) Warwick Brady Sally Cabrini Steve Gunning Martha Poulter Julia Steyn	▪ Provide a strong independent element to the Board and collectively provide a broad range of experience, knowledge and individual expertise ▪ Constructively support and challenge management	▪ Review management's performance in meeting agreed objectives and deliverables ▪ Review the integrity of financial information and determine whether internal controls and systems of risk management are robust
General Counsel and Company Secretary David Isenegger	▪ Provides advice and support to the Board, its Committees, the Chairman and other Directors individually as required, primarily in relation to legal and corporate governance matters	▪ Responsible, with the Chairman, for setting the agenda for Board and Committee meetings and for high quality and timely information and communication between the Board and its Committees and the Executive Directors and senior management

Board focus through the year

The following table provides an overview of the key business and activities of the Board during the year.

Strategy

- Reviewed progress and provided guidance on the sale of First Student and First Transit
- Considered the future strategy for the Group and the strategy and business case for the ongoing Group
- Received a report from the newly appointed MD of the Bus Division on performance and strategic direction
- Received updates on the Electrification strategy and other technological innovations
- Considered and approved entry in to EMAs and ERMAs for TPE, SWR and West Coast Partnership and an EMA for GWR
- Considered and approved termination sums as negotiated with the DfT in respect of operating for rail companies
- Reviewed and approved amendments to certain covenant tests as negotiated with the Group's lending banks and USPP investors

Performance

- Provided a heightened level of oversight and scrutiny during the pandemic and supported measures taken by management to deal with the impact
- Reviewed operational and financial performance relative to the business plan, budget and forecast at divisional and Group level
- Reviewed the Group's funding and liquidity position
- Reviewed and approved the Group's annual business plan and budget
- Reviewed and approved various capital expenditure requests

Stakeholders

- Reviewed feedback from institutional shareholders and analysts
- Received reports from the Group Employee Director

Governance and risk management

- Received reports from the Board Committees
- Received reports on corporate governance and legal and regulatory updates from the Company Secretary and the Group's external legal advisers
- Approved the FY20 Annual Report, the 2020 AGM Notice and the FY21 half year results announcement
- Carried out a robust assessment of the Group's principal and emerging risks, their potential impact and the effectiveness of the mitigating controls in place
- Debated the Group's risk appetite and agreed the revised placement of certain risks
- Received an update on the TCFD
- Approved the appointment of the General Counsel & Company Secretary
- Approved a new all employee share incentive plan
- Reviewed and approved the Modern Slavery Statement
- Reviewed and approved the Gender Pay Gap disclosure
- Considered feedback from the evaluation of the Board's and Committees' performance and agreed actions

Corporate governance report continued

Decisions taken by the Board during the year

The table below summarises some of the most significant decisions taken by the Board during the year and how stakeholder interests were taken into account.

Board decision / action	Stakeholders affected	Strategic, operational, financial and Section 172 considerations
Response to the pandemic	Employees Customers Shareholders Government Creditors	▪ Health, wellbeing and safety of employees and customers ▪ Entry in to EMAs and ERMAs to ensure continued delivery of essential services ▪ Helping vulnerable employees and customers in the communities within which we operate ▪ Maintaining a sound funding and liquidity position
Entry in to and drawdown of £300m CCFF	Employees Customers Shareholders Government Creditors	▪ Maintaining a sound funding and liquidity position ▪ Continued delivery of essential services ▪ Financial security for employees
Agreement reached with the DfT regarding termination sums for SWR, West Coast Partnership and entry in to new rail contracts for SWR and TPE	Shareholders Employees Customers Government	▪ Reduction in the financial risk profile of the First Rail franchise portfolio ▪ Transition to a lower risk and more predictable National Rail Contract model beneficial for passengers by providing clearer focus on performance and expected to generate more resilient and consistent returns for shareholders
Sale of First Student and First Transit for net cash proceeds of c.£2.3bn	Shareholders Employees Customers	▪ Enables longstanding liabilities to be addressed ▪ Ensures the Group has sufficient means for future development of retained businesses ▪ Provides for a return of value for shareholders
Sale of Greyhound properties for £102m	Shareholders Employees Customers	▪ Realisation of value for shareholders ▪ Contribution to the Group's funding and liquidity position ▪ Rationalisation of Greyhound's property portfolio ▪ Reorganisation of Greyhound operations to intermodal transport hubs and new facilities to better suit our customers' needs
Approved TCFD governance framework, phased implementation plan and certain TCFD related disclosures to be made on a voluntary basis in FY21	Shareholders Employees Customers Government and regulators NGOs	▪ Drives the Group towards its ambition to achieve net zero emissions by 2050 or earlier ▪ Communicate to our investors how we manage the financial impacts of climate change ▪ Regulatory and environmental compliance

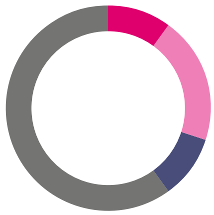
Board balance and independence

As at 27 March 2021 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.

The biographies on pages 76-79 demonstrate a broad range of skills, sector experience and knowledge. The Board carries out an annual review of the independence of its Non-Executive Directors. All the Non-Executive Directors are considered to have the appropriate skills, knowledge, experience and character to bring independent and objective judgement and valuable insights to the Board's deliberations. Being an employee of the Group, the Group Employee Director is not considered by the Board to be independent. The Chairman was considered to be independent on appointment and is committed to ensuring that the Board comprises a majority of independent Non-Executive Directors.

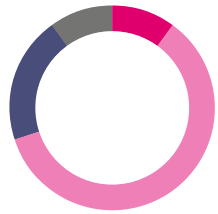
Composition of the Board (as at 27 March 2021)

Board balance



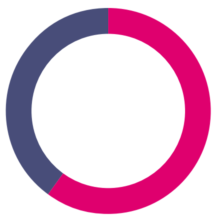
Chairman	1
Executive Directors	2
Group Employee Director	1
Non-Executive Directors	6

Sector experience



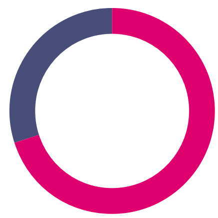
Hospitality	1
Transport	6
Manufacturing	2
Construction	1

Independence



Independent	6
Non-independent	4

Gender

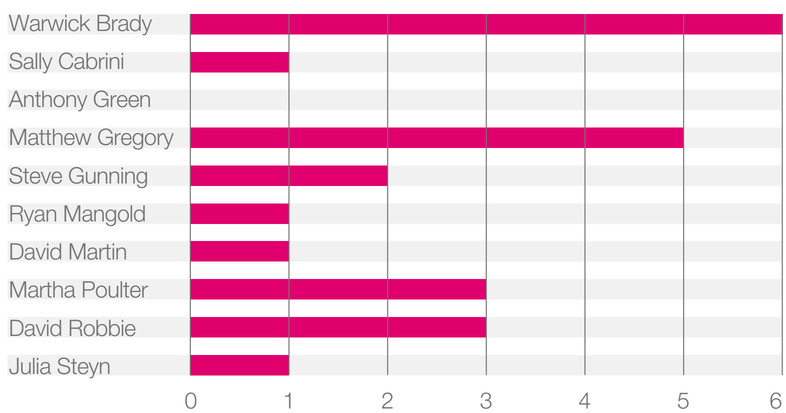


Male	7
Female	3

With the appointment of Jane Lodge, effective 30 June 2021, the gender split changes to 7 male/4 female

Tenure

(Years from appointment to 27 March 2021)



Corporate governance report continued

Board evaluation

The Board undertakes a formal and rigorous review of its performance and that of its Committees and Directors each year, with an externally facilitated evaluation at least once every three years. The last such externally facilitated evaluation was undertaken in 2020 by Condign Board Consulting, a governance consultancy firm that has no other relationship with the Company. In 2021, an internal evaluation was carried out, overseen by the General Counsel & Company Secretary, which involved completion of a questionnaire for the Board and each of its Committees. The views of the Directors were consolidated into a formal report which was discussed by the Board. The review of the Chairman was facilitated by confidential one-to-one discussions between the Senior Independent Director and each Director.

The Board evaluation process identified some areas of strength, including notably the Company's response to the pandemic with the Executive Directors prioritising management's focus to ensure the health and wellbeing of employees and customers and resuming essential services as quickly and efficiently as possible. Members of the Board reported that regular updates and additional non-scheduled Board meetings to consider key matters such as the pandemic had been particularly helpful. The Board felt that while it had adapted well to the challenges of working remotely by way of virtual meetings, the benefits of face-to-face meetings, site visits and informal meetings such as Board dinners could not be understated and so these would resume as soon as possible. The Directors were generally satisfied with the reporting of Committee activities to the Board and agreed that the areas and activities currently delegated by the Board to its Committees were appropriate.

Progress against the conclusions of the 2020 Board/Committee evaluation, together with actions from the 2021 Board/Committee evaluation are set out in the table below.

Actions from 2020 Board evaluation

Area of focus	Progress
Improve information flows and quality and timely receipt of Board papers	Weekly reports were provided by the Chief Executive during the height of the pandemic and additional ad hoc Board meetings were convened by the Chairman to improve information flows and aid decision making, which was particularly critical when dealing with fast moving developments in the pandemic.
Agenda planning	An annual workplan for the Board and each Committee assists the Chairman and Company Secretary to ensure focus is given by the Board to key 'business as usual' matters in the corporate cycle whilst not detracting from more immediate strategic and operational priorities, such as the pandemic and the sale of First Student and First Transit.
Succession planning	Progress against this action was paused due to the Board's and management's ongoing focus on the pandemic.

Actions from 2021 Board evaluation

Area of focus	Action
Relationships and level of engagement at Board level	Relationships between Board members and between the Board and management were generally rated positively, however, engagement has been limited to virtual meetings for more than one year due to pandemic related restrictions and the impact of this was felt more keenly given there had been several newly appointed Directors in the past two years. Face to face meetings, deep dives, site visits and informal gatherings are to be resumed as soon as possible.
Quality of Board papers	Management to enhance Board papers to aid decision making with the consistent use of KPIs, use of agreed templates, identify issues and complexities of the Group more clearly, make content more concise and point more clearly to the expected decision/risk/input.
Stakeholders	The oversight of stakeholder views was mixed, although understanding the views of shareholders, customers, employees and government were identified as relative strengths. Increasing exposure to the views of suppliers and communities was highlighted.
Culture	The Board currently considers a range of information in relation to culture. It intends to enhance this by more frequently monitoring and assessing culture for alignment with our strategy, purpose and values following completion of the sale of First Student and First Transit.
Risk assessment	Assessment of the Group risk profile and risk appetite will be a key area of focus following execution of the sale of First Student and First Transit.
Succession planning	Board succession and retention of skilled, high potential individuals across the Group remain key areas of focus, as does the development of the management pipeline.

Induction and development

On appointment, all new Directors receive a comprehensive and structured induction, tailored to each Director's individual experience, background and areas of focus. The induction programme typically includes visits to the Group's businesses both in the UK and in the US and meetings with Board Directors, senior managers, advisers and the external auditors. This is supplemented with a wide range of information, including historical Board and Committee papers, internal and external reports and presentations covering the key commercial, operational, financial and functional areas of the Group and relevant policies and governance procedures. The programme is designed to facilitate a new Director's understanding of the Group's businesses, the key drivers of operational and financial performance, the role of the Board and its Committees, the Company's corporate governance practices and procedures and the duties, responsibilities and liabilities of being a director of a public limited company.

During the year, Anthony Green participated in a tailored induction programme, details of which are set out below. Site visits to any of the Group's businesses in the UK and US were curtailed due to the pandemic.

Induction pack	Meetings with Directors/senior management and areas of focus	Meetings with advisers
▪ Access to papers and minutes of the last 12 months' Board meetings and meetings of the Board Safety Committee, Remuneration Committee and Nomination Committee ▪ Board Evaluation Report for 2019/2020 ▪ Briefing paper on the duties of directors ▪ Group policies and governance procedures such as the Share Dealing Policy, Whistleblowing Policy, Gifts and Hospitality Policy, Anti-Bribery Policy, Code of Ethics and the Safety Management Framework ▪ Directors' & Officers' liability insurance ▪ Schedule of Matters Reserved to the Board ▪ Schedules of Delegated Authority for Corporate, Rail, Bus, Student, Transit and Greyhound ▪ Terms of Reference for Committees ▪ Last Annual Report	▪ Chairman – long term strategy, overview of the Board/Committees ▪ CEO – business model, operational performance, current strategic priorities, current issues ▪ CFO – financial performance, funding & liquidity, accounting issues, risk ▪ General Counsel & Company Secretary and the Deputy Company Secretary – overview of Board/Committees, legal and regulatory briefing, Board arrangements and meeting dates ▪ Chair of the Board Safety Committee – overview of role of Committee and current focus areas ▪ Chair of the Remuneration Committee – overview of role of Committee, current focus areas and overview of remuneration structure ▪ Group Head of Reward – overview of remuneration incentive arrangements at executive and senior levels, current issues, best practice ▪ Group Legal Director – corporate history, business model, briefing on modern slavery and ethics programme	▪ Corporate lawyers, Slaughter & May LLP ▪ Corporate brokers, JP Morgan Cazenove Limited ▪ Corporate brokers, Goldman Sachs
Ongoing programme of meetings, deep dives, training and refresher sessions		

The Chairman, with support from the General Counsel & Company Secretary, has overall responsibility for ensuring that the Directors receive suitable training to enable them to discharge their duties. Training opportunities are provided through internal meetings, presentations and briefings by internal subject matter experts as well as external advisers. During the year, the Directors attended briefing sessions on TCFD, Remuneration, Listing Rules and Companies Act requirements in relation to Class 1 transactions and corporate governance, legal and regulatory developments.

Corporate governance report continued

Information and support

The General Counsel & Company Secretary is responsible for advising the Board on all governance matters and for ensuring that Board procedures are followed, applicable rules and regulations are complied with and that due account is taken of relevant codes of best practice. The General Counsel & Company Secretary 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 General Counsel & Company Secretary and, in appropriate circumstances, may obtain independent advice at the Company's expense.

Workforce engagement

One of the key requirements of the Code is for boards to have in place mechanisms to ensure that they understand the views of the workforce. Many companies will have only recently established and started reporting on those mechanisms. FirstGroup has had an Employee Director on its Board since 1996 and on the majority of its UK operating companies' boards since the founding of the Company. The GED is also a member of the Board Safety Committee and regularly attends the meetings of the Remuneration Committee and the Audit Committee. The role and responsibilities of the Group Employee Director are described on page 84.

The GED chairs the EDF which currently comprises 14 Employee Directors, all of whom have been nominated through employee elections in their respective operating companies. See the adjacent case study on the Role of an Employee Director.

The Board also engages with the workforce through employee perception surveys (Your Voice), wellbeing surveys, internal communications such as newsletters and the intranet and deep dives and site visits where the Board members have an opportunity to meet with a range of employees at all levels of the organisation. Regrettably site visits have been curtailed this past year, however, they will be resumed as soon as restrictions are eased.

Q&A

The role of an employee director at Avanti West Coast by Lizzie Power

Q

As an Employee Director, how do you make sure employees' views and ideas are represented in the Boardroom?

A

I have a duty to my colleagues and the business to share their thoughts and views. I do this via reports to my MD, Phil Whittingham, and I attend board meetings where I can give my feedback directly, enabling me to share the experience of our people, and my own experience and advice. I also work as a Train Manager each week, alongside calls with colleagues and visits to stations and depots – all this provides me with an opportunity to talk to our people and find out what matters to them.

Q

What kind of issues have you raised and what difference do you feel you have made?

A

People raise a wide range of topics with me such as long-term plans for our future, rosters, working conditions, technology problems or ideas and sometimes personal issues. It's my job to ensure they feel their voice is closer to the boardroom than it would be otherwise. And given I have a role like them, it is a voice that shares their experience each day. I've been able to get rapid answers from our senior leaders to people's questions, so they know why decisions are made, and to help clear up any confusion. My MD and I recorded a short video entitled 'Myth busting' a while ago, which was particularly well-received. It was basically about dispelling unhelpful rumours, like depot closures, which had no substance to them and just caused unnecessary anxiety amongst colleagues.

Q

During the pandemic, how has the Employee Director role helped Avanti keep services running and customers and colleagues safe?

A

Throughout the pandemic, I've been pleased to work alongside colleagues, transporting key workers at a crucial time for our communities, and using COVID-secure measures to maintain safety for both colleagues and customers. I've also continued to attend virtual meetings on a range of matters. Doing both means I've been able to help the business enhance processes and procedures if required.

Shareholder engagement in FY21

The Board is committed to engaging effectively with our shareholders. The Board uses formal and informal communication channels to understand and take into account the views of shareholders, some of which are set out in the table below.

Topic	Participants	FY21 activity
Strategy, governance and remuneration	Chairman Group Corporate Services Director	Telephone/video conference meetings with institutional shareholders to discuss strategy and seek shareholder feedback.
Remuneration	Chair of the Remuneration Committee Group Head of Reward	Invitations were extended to 20 institutional shareholders to discuss the proposed Remuneration Policy. The Chair engaged with several shareholders.
Strategy, finance and operational performance	Chief Executive Chief Financial Officer Group Corporate Services Director	Live webcasts of key announcements and individual calls with institutional shareholders on results and other key announcements.
ESG	Chief Executive Group Corporate Services Director Group Director of Corporate Responsibility	Telephone/video conference meetings with institutional shareholders, often as part of wider strategic/operational discussions Interaction with ESG rating agencies

In addition to the above, the Board is provided with insight into the views of shareholders and their representative bodies on a more generalised basis. Copies of key sell-side analysts' notes on the Company are circulated to the all Directors, as are summaries of their views collected anonymously by the Company's advisers. An independent review of the perceptions of the Company's major institutional shareholders is conducted every six months, which is presented to the Board.

Responding to shareholder feedback

The Code provides that when 20% or more of votes have been cast against a board recommendation for a resolution, the company should explain, when announcing voting results, what actions it intends to take to consult with 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.

2020 AGM

The total votes for Resolution 7 at last year's AGM, to re-elect Matthew Gregory as a Director, were below 80%. In March 2021, we published a statement on our website, which is also available to view on the Investment Association's website in the public register.

The Chairman engaged with the Company's major shareholders prior to the AGM. He offered meetings to 29 institutional shareholders, representing approximately 83% of the Company's issued share capital, and the Chairman subsequently met with 17 shareholders, representing 66% of the issued share capital. A small subset of shareholders voted against the Board's recommendation on Resolution 7. Most discussed the background to and their reasons for doing so with the Chairman, and their reasons broadly related to the execution of strategy. Their views were subsequently relayed and explained to the Board before the AGM.

The Board considered the feedback from all shareholders and remains confident that it has the necessary mix of skills, experience and knowledge to deliver the Group's strategy, including realising shareholder value through the sale of First Student and First Transit.

2020 General Meeting

The total votes for the Resolution proposed at the General Meeting on 27 May 2021 relating to the sale of First Student and First Transit were below 80%. The Company continues to openly and constructively engage with shareholders, including those who were not in favour of the sale. See page 8 for further information.

2021 AGM

The AGM this year will be held on 13 September 2021 at The Brewery, 52 Chiswell Street, London, EC1Y 4SD. The meeting is intended to be a physical meeting, however, we will be closely monitoring restrictions over public gatherings and the UK Government's safety guidance in light of the pandemic. Any changes to the arrangements will be communicated to shareholders before the meeting through our website and, where appropriate, by RIS announcement. We will also be making arrangements for shareholders to follow the meeting remotely via an audiocast.

The Notice of AGM and other documentation are enclosed with this Annual Report or are available on the Company's website at www.firstgroupplc.com for those shareholders who have chosen to communicate with the Company by electronic means. Shareholders are strongly encouraged to return their Form of Proxy completed in favour of the Chairman of the meeting or vote online in advance of the meeting.

Corporate governance report continued

Culture

Company culture is monitored and assessed by the Board through a range of inputs, which are reflected in 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. A key component of FirstGroup's culture is its strong safety focus which is predicated on Zero Harm. Be Safe is a Group wide programme that embeds safety as a core Value and this Value has underpinned the Company's response to the pandemic. Further information can be found on pages 43 to 45.

Operating companies regularly undertake employee perceptions surveys, Your Voice, the results of which are reported to the Executive Committee and the Board. Further information on the Your Voice surveys can be found on pages 42 and 49.

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
- GED member of the Board
- EDF meets in person twice yearly and monthly by other means
- GED 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

Ethics

In line with our Values and the expectations of our customers and partners, we are committed to conducting our business in an open and ethical manner, including in all of our interactions with our customers, employees and other stakeholders. 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.

Adhering to an ethical framework is a vital part of our commitment to our customers and stakeholders and helps to ensure that our Vision and Values are at the heart of everything we do at FirstGroup. Our Code of Ethics makes sure that all of our businesses are performing to the highest ethical standards and are accountable for their performance. The Code of Ethics applies to everybody working for, or on behalf of, FirstGroup. It 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-Fraud and Anti-Bribery policies, as well as local policies on data privacy and other areas of legal and ethical compliance.

We are committed to recognising human rights on a global basis and recognise that we have a responsibility to ensure that FirstGroup operates in a way that respects, protects and champions the human rights of all those who come into contact with our operations. This includes a commitment to the prevention of modern slavery and human trafficking in all its forms both within our own businesses and in our supply chains. This commitment 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. In line with our commitment to improving our performance by sharing best practice across the Group, our statement applies to all of our businesses, including those which are not legally required to make a statement under the Modern Slavery Act or equivalent legislation, regardless of their location, size or turnover.

We have a zero-tolerance approach to fraud in any form, including the facilitation of tax evasion and bribery. We 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. 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 internal control systems and procedures in place to counter bribery and corruption, and to ensure that we comply with data privacy, competition and trade laws. These systems and procedures are kept under regular review, to ensure that we continue to adopt appropriate defences and mitigations to ethical and legal risks that are faced by our businesses, both at a central level and within each division.

We have also mandated centrally a set of minimum standards for training and policy attestation across a range of ethical and compliance topics, including those referred to above. These standards are reviewed regularly at Executive Committee and Board level, and updated as appropriate to address new or evolving risks. Divisional management teams are responsible for ensuring that these core requirements are implemented and adhered to within their respective businesses. They are also responsible for assessing whether stricter or additional requirements are appropriate to the particular ethical and legal compliance risks faced by their respective businesses, and implementing such further measures as are deemed necessary to mitigate those risks.

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.

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** – we keep our customers at the heart of everything we do
- **Dedicated to safety** – always front of mind, safety is our way of life
- **Supportive of each other** – we trust each other to deliver and work to help one another succeed
- **Accountable for performance** – every decision matters, we do the right thing to achieve our goals
- **Setting the highest standards** – we want to be the best, continually seeking a better way to do things.

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.

Corporate governance report continued

Compliance with the UK Corporate Governance Code

The Annual Report and Accounts for the year ended 27 March 2021 have been prepared in accordance with the Code published by the Financial Reporting Council (FRC) in 2018. The Code is available on the FRC's website at www.frc.org.uk.

The Board considers that it and the Company have, throughout the period to 27 March 2021, complied in all respects with the provisions of the Code with the exception of provision 36 in relation to post employment shareholding requirements in the Directors' Remuneration Policy. See pages 110, 132 and 135 for further information. In addition, the Company will not be compliant with provision 9 of the Code upon the appointment of David Martin as in interim Executive Charman with effect from the conclusion of the Company's AGM on 13 September 2021 and for the duration until a new Chief Executive is appointed. See pages 9, 80 and 81 for further information.

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. The Company's auditors, PwC LLP, are required to review whether this statement reflects the Company's compliance with those provisions of the Code specified for their review by the FCA's Listing Rules.

Section	Code principles	Page
Board leadership and company purpose	A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.	8-9, 13 to 17 and 82 to 84
	The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.	12, 18-19, 92-93
	The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.	62 to 71, 103
	In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.	46 to 49, 90 and 92
	The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.	82 to 90
Division of responsibilities	The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.	82 to 90
	The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision-making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.	84 and 87
	Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.	82 to 90
	The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.	82 to 90

Section	Code principles	Page
Composition, succession and evaluation	Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.	98
	The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.	78 to 81, 87
	Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.	88
Audit, risk and internal control	The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.	103-104
	The board should present a fair, balanced and understandable assessment of the company's position and prospects.	103-104
	The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.	62 to 71 and 103
Remuneration	Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values and be clearly linked to the successful delivery of the company's long-term strategy.	110, 116 to 121, 132 to 141
	A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.	130-131
	Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.	108 to 111, 118 to 125

Corporate governance report continued

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 during its deliberations. Details of the Board's engagement with stakeholders during the year, in compliance with Section 172, can be found on pages 46-49 and the table on page 86 sets out the stakeholders and factors that were considered by the Board when making its most significant decisions during the year. In addition, further information on how the Board had regard to the following matters can be found as follows:

Section 172	Page
Likely consequences of any decision in the long term	8-9, 12-16
The interests of the Company's employees	40-49
The need to build and sustain the Company's business relationships with suppliers, customers and others	46 to 51
The impact of the Company's operations on the community and the environment	35, 38-39
The desirability of the Company maintaining a reputation for high standards of business conduct	93
The need to act fairly between shareholders of the Company	46-47, 93

Nomination Committee report

David Martin
Chair, Nomination Committee

"The Committee's primary role is to ensure the Board has an appropriate blend of skills, knowledge, experience and diversity to operate effectively and deliver our strategy"

Role and responsibilities

The primary role of the Nomination Committee is to ensure that the Board has the appropriate skills, knowledge, experience and diversity to operate effectively and deliver our strategy. The key responsibilities of the Committee are set out below and the Committee's Terms of Reference are available on the Company's website.

- Evaluate the balance of skills, knowledge, experience and diversity on the Board, and, in the light of this, prepare a description of the role and capabilities required for a particular appointment and lead the process for making any such appointment
- Give full consideration to succession planning for Directors and other senior executives and make recommendations to the Board
- Oversee compliance with the Code and other applicable corporate governance regulations

The Committee Chair provides feedback and recommendations to the Board and copies of the minutes of its meetings are made available, where appropriate, to all Directors. The Committee is empowered to appoint search consultants and other external advisors as it sees fit to assist with its work.

Composition of the Nomination Committee and attendance

The Chairman of the Board, David Martin, chairs the Committee and independent Non-Executive Directors, David Robbie and Warwick Brady, are members. The General Counsel and Company Secretary attends all meetings. The Chief Executive attends meetings of the Committee upon invitation. No individual participates in discussion or decision-making when the matter under consideration relates to him or her.

Member[1,2]	Appointment date	Scheduled meetings
David Martin (Chair)	15 August 2019	2/2
David Robbie	5 November 2019	2/2
Warwick Brady	30 September 2019	2/2

1 David Robbie stepped down 30 June 2021

2 Peter Lynas appointed 30 June as member

Committee focus through the year

The following table provides an overview of the key business and activities of the Committee during the year:

Board and Committee composition

- Considered the election process for the appointment of Anthony Green as Group Employee Director and recommended the same to the Board
- Recommended changes to the membership of the Board Safety Committee with the appointment of Anthony Green
- Considered the outcome of the Board and Committee evaluation and individual assessments in respect of the Non-Executive Directors seeking re-election / election at the 2021 AGM

Governance, regulatory and reporting

- Considered feedback from the evaluation of the Committee's performance and agreed actions
- Reviewed and approved the Committee report in the FY20 Annual Report

Diversity and Inclusion

The Board believes a diverse workforce is vital to the Group's success and values the differences each colleague brings to their role, making the Group stronger and better able to meet the needs of our customers and the communities within which we operate. Since 2017, FirstGroup has more than doubled the number of UK female employees (from 2,937 to 5,904) representing an increase from approximately 13% to nearly 20% of the total UK workforce. As a result of our continued focus at recruitment, we have seen a 29% increase in the number of women hired compared with 2020, and our women's development programmes have been successful in identifying female talent and speeding up readiness for promotion into higher paying roles, with 33% of participants already achieving their first supervisory role, and 40% of junior managers being promoted to more senior roles after attending these programmes. This improvement is similarly reflected at more senior levels in the Group with two recent appointments, Janette Bell, MD of First Bus and Claire Mann, MD of SWR. Janette Bell and Rachael Borthwick, Corporate Services Director, are members of the Executive Committee, representing 22% of the Committee membership. At 30%, the Board at 27 March 2021 was above its target of 25% female representation and slightly below the Hampton-Alexander Review target of 33%. With the appointment of Jane Lodge on 30 June 2021, female representation on the Board has increased to 36.4% and three out of the Board's four principal Committees are chaired by female Non-Executive Directors of the Board.

Nomination Committee report continued

Group Employee Director election process

Nominee criteria to stand for election as Group Employee Director

Has to be an Employee Director of a FirstGroup subsidiary

Be in post for no less than twelve months

Election

Employee Director required to submit a written election statement (no more than 250 words) 14 days prior to the date fixed for the election	Election supervised by Company Secretariat and Electoral Reform Services or such other independent agency approved by the EDF	Members of the EDF cast their votes. The candidate with the highest number of votes will be put forward for consideration by the Nomination Committee

Nomination/appointment

Nomination Committee considers the nomination, meets with the candidate and makes a recommendation to the Board	Board considers the recommendation and, if thought fit, approves the appointment	Appointment is announced to the market	Director is subject to election by shareholders at the next AGM

Further information on our most recent gender pay report is available on the Company's website.

The Board recognises that there is still much to do to improve our overall workforce diversity.

FirstGroup is a signatory to the 'Change the Race Ratio' reflecting the commitment of the Chairman, the Chief Executive and the Board to increase the racial and ethnic diversity of the Board, senior leadership and our workforce. Work is underway to develop detailed plans, including diversity targets that can be measured and tracked and which we expect to publish later this year (see page 40 for further information).

Policy on appointments to the Board

The Committee recognises the value that individuals from diverse backgrounds can bring to Board deliberations. The Committee considers diversity in its wider sense, including gender, length of tenure and nationalities. In line with the Committee's diversity policy, when considering the recruitment of a new Director, the Committee adopts a formal, rigorous and transparent procedure and due regard is given to ensuring fairness and diversity through the consideration of skills, experience, competencies, sector knowledge, independence and individual characteristics. Prior to making an appointment, the Committee evaluates the composition of 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 fulfill their Board and, where relevant, Committee responsibilities in light of other potential significant positions. As part of this process, candidates disclose all other time commitments and, on appointment, undertake to inform the Board of any changes
- considers candidates from a wide range of backgrounds.

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

Changes to the Board

In the year under review, Jimmy Groombridge, Group Employee Director, stepped down with effect from 29 June 2020. Jimmy was replaced by Anthony Green effective 15 September 2020. The process to nominate the GED, as shown above, is set out in the Memorandum of Understanding between the Company and the EDF.

Peter Lynas and Jane Lodge were appointed to the Board as Non-Executive Directors after the year under review (30 June 2021). Prior to their appointment, the Committee ran a comprehensive and rigorous search. A candidate profile and posiiton specification was drawn up and Sam Allen Associates Limited, an executive search firm with no other connection with the Company, was engaged to identify suitable candidates. Several qualified and experienced candidates were shortlisted and interviewed by the Chairman and the Senior Independent Director. Following a further round of interviews with other members of the Board, the Committee recommended the appointment of Peter and Jane to the Board.

In addition, David Robbie stepped down from the Board with effect from 30 June 2021.

Matthew Gregory has informed the Board that he intends to step down from the Board with effect from the conclusion of the Company's AGM on 13 September, at which time I will be appointed interim Executive Chairman. Sam Allen Associates have been engaged to identify suitable candidates for the position of Chief Executive.

Committee evaluation

The performance of the Committee was considered through the annual Board evaluation process, in which members were requested to complete a questionnaire. The feedback from this process indicated that notwithstanding the limited progress made in certain areas of the Committee's responsibilities due to more immediate strategic and operational priorities, the Committee members were satisfied that the Committee was effective.

Core areas of focus for FY22 will continue to be succession planning at both Board and executive/senior management level, managing Board and Committee composition and skills and driving diversity and inclusion both at Board level and in the business.

Audit Committee report

Jane Lodge
Chairman, Audit Committee

"The Committee is responsible for supporting the Board to assess the integrity of the Company's financial reporting, the adequacy and effectiveness of the Company's management of risk and internal controls and for overseeing the operation of the Group's internal audit function."

Dear Shareholder

I joined the FirstGroup Board in June 2021 as a Non-Executive Director and Chairman of the Audit Committee. Whilst I did not serve on the Board during the year under review, I have had the benefit of a comprehensive induction and handover which included meetings with the Chairman of the Board, CEO, CFO and senior members of the finance function, Head of Internal Audit & Risk, General Counsel & Company Secretary, Deputy Company Secretary and the external auditors. Having succeeded David Robbie as Chairman of the Committee, who stepped down from the Board in June 2021, I am pleased to introduce the Audit Committee's report for the financial year ended 27 March 2021.

Focus during the year

This report provides an overview of the Committe's principal activities and key areas of focus during the year as well as the Committee's priorities for the year ahead. As part of the half year and full year reporting review process, the Committee tested management's judgment relating to going concern, impairment, revenue recognition and the level of provisioning. In addition, the Committee challenged the classification of certain adjusted items which led to a new Adjusted Items policy.

It has been a challenging year for FirstGroup in many respects, with the ongoing demands associated with the pandemic, progressing the sale of First Student and First Transit and entering into new National Rail Contracts.

Against this backdrop, in line with the mandatory rotation rules, FirstGroup changed its external auditor, with the appointment of PwC at the 2020 AGM. To change auditors in any large organisation is a significant undertaking and particularly so in a multi-divisional and multi-jurisdictional organisation such as FirstGroup and, of course, the transition was made more difficult due to the pandemic. Notwithstanding this, PwC shadowed Deloitte through the 2020 full year audit and engaged with management to build their knowledge of the Group. Following a detailed planning process, PWC conducted a largely remote audit. FirstGroup is already seeing the benefits of rotating the external auditor with the new perspective that can be brought with a 'fresh set of eyes.'

Coronavirus pandemic

Whilst recognising the additional pressure on management and employees of the Group's businesses as a result of the pandemic, throughout the year the Committee continued to engage with Group management and the Group internal audit function, the latter operating in an almost entirely virtual environment to ensure that robust controls and risk management systems were well maintained.

Priorities for the year ahead

The Committee's key priorities for the year ahead will include, amongst other things, a continued focus on the impact of the pandemic on the financial performance of the ongoing Group and an in-depth review of processes and internal controls to assess areas for continued improvement of risk and financial management across the ongoing Group. See pages 88 and 105 for further information.

Jane Lodge
Chairman, Audit Committee

Audit Committee report continued

Role of the Audit Committee

The primary role of the Audit Committee is to review and monitor the integrity of the financial reporting by the Company, to review the Group's internal control and risk management systems, to oversee the Group's internal audit function, to oversee the relationship with the Group's external auditor and to report to shareholders on its activities. The Committee's Terms of Reference are available on the Company's website.

Composition of the Audit Committee and attendance

The Committee was chaired by David Robbie until 30 June 2021 and subsequently by Jane Lodge who joined the Board effective 30 June 2021. Both David and Jane have recent and relevant financial experience and the requisite competence in accounting. Committee members include independent Non-Executive Directors, Warwick Brady, Steve Gunning, Martha Poulter and Julia Steyn all of whom have the necessary skills and financial literacy to effectively discharge their duties, as does Peter Lynas who was appointed a member of the Committee on 30 June 2021. The Committee also has sector relevant competence, as disclosed in the biographies on page 76-79 and the charts on page 87.

The Chairman of the Board, the Chief Executive, the Chief Financial Officer, the General Counsel & Company Secretary, the Director of Finance, the Head of Internal Audit, the Group Financial Controller and the External Audit Partner routinely attend meetings of the Committee. In addition, other senior finance and business managers are invited to attend meetings as required to provide the Committee with a deeper level of insight on relevant business matters. Other members of the Board have an open invitation to attend Committee meetings and they frequently did so during the year under review to facilitate a deeper understanding of the business and support their role as Directors of the Company. The Deputy Company Secretary acts as Secretary to the Committee. The Committee meets periodically without management present and private meetings are held with the Internal Audit and External Audit teams without management present.

Member[1,2,3]	Appointment date	Scheduled meetings
David Robbie (Chairman)	2 February 2018	7/7
Warwick Brady	24 June 2014	7/7
Steve Gunning	24 January 2019	7/7
Martha Poulter	26 January 2018	7/7
Julia Steyn	5 November 2019	7/7

1 David Robbie stepped down 30 June 2021

2 Jane Lodge appointed 30 June 2021 as Chairman and member

3 Peter Lynas appointed 30 June 2021 as member

Summary of Committee activities through the year

The Committee has an extensive agenda of items of business focusing on financial reporting, internal control, risk management, internal audit and external audit in addition to certain standing matters that the Committee considers at each meeting as well as any specific topical items which have arisen during the course of the year. The work of the Committee in FY21 broadly fell under four main areas and is summarised below:

Accounting, tax and financial reporting

- Reviewed and approved the Group's half-yearly and annual results and 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. Given the extreme impact of the pandemic on the business, a greater amount of time was spent on reviewing the committed level of financial resource and liquidity as the business navigated through the impact of the pandemic and this included the review of the basis for preparing the Group half-yearly and full year accounts on a going concern basis with input from the external auditors. The related disclosures in the half-yearly results and in the Annual Report and Financial Statements were also reviewed
- Reviewed and approved management's assessment of the Group's prospects and longer-term viability contained in the Annual Report and Financial Statements
- Received reports from management and the external auditors on accounting, financial reporting regulation and taxation issues
- Reviewed and assessed whether the Annual Report and Financial Statements, taken as a whole, were fair, balanced and understandable
- Reviewed and approved the Tax Strategy, Treasury Policy and Adjusted Items Policy
- Reviewed the assumptions such as future growth rates, cash flows and discount rate used in the impairment models and the output from the impairment review
- Reviewed the non-GAAP measures used in the Company's reporting
- Reviewed the accounting treatment for the EMA and ERMA arrangements
- Reviewed the accounting treatment of First Student and First Transit following the sale agreement entered in to with EQT and in relation to Greyhound for which exit options were being explored.

Internal control, risk management and internal audit

- Reviewed the structure (Group Risk Management Framework and Group Risk Assessment Approach) and effectiveness of the Group's system of risk management and internal control and the related disclosures in the Annual Report and Financial Statements
- 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
- 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, insured and uninsured claims and material litigation
- Reviewed matters reported to the external whistleblowing hotline and considered the process for the investigation of the same and the outcome of those investigations.

External audit

- Considered and approved the scope, audit plan, terms of engagement and fees for the external audit work to be undertaken in respect of FY21
- Received reports from the external auditor on their findings during the half-yearly review and full year audit
- Considered a schedule of non-audit services provided by the external auditor in the year under review
- Considered the objectivity and independence of the external auditor and the effectiveness of the external audit process, taking in to account their policies to safeguard independence, non-audit work undertaken by the external auditor and compliance with the Company's Policy on the provision on non-audit services and applicable regulations
- Considered and recommended to the Board the re-appointment of the external auditor
- Considered and approved letters of representation to the external auditor.

Other matters

- Reviewed and challenged the approach and methodology for addressing the North American insurance exposure
- Received reports from the Chief Information Officer on IT governance and cyber security.

Audit Committee report continued

Significant issues

The matters the Committee considers to be significant for the FY21 Annual Report and Financial Statements are as follows:

Significant issues and judgments	How the Audit Committee addressed these issues
Coronavirus The pandemic had a material impact on the business from an operational level as well as how we executed our strategy. The Group acted swiftly to reduce costs, reduce uncommitted capital expenditure, restructure and reorganise the operating model including a significant number of employees 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 had been applied, and ensure continuation of the essential services we operated were done in a safe manner in line with government policy.	The Committee received regular updates on progress on the impact of the pandemic throughout the crisis and challenged and supported management to ensure all appropriate steps had been taken to ensure the business had adequate financial resources and processes to navigate through the crisis and emerge stronger.
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 measures implemented in our markets by governments in response to the pandemic in several cases have been classified as revenue.	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 June 2021 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.
Pension 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.	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 37 in the consolidated financial statements.
North American 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 £32.2m.	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 2020 and June 2021. Further detail on the assumptions used in determining the value is provided in note 4 in the consolidated financial statements.
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 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 becoming clearer. We continue to 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 Group's underlying principal risks and uncertainties. Following the review, which the Committee carried out at its meeting in June 2021, the Committee recommended to the Board the adoption of both the going concern and viability assessment, and the related statements for inclusion in this report.

Internal controls and risk management

The Board is responsible for establishing a framework of prudent and effective controls, which enable risk to be assessed and managed. Periodic review and ongoing monitoring of risk management and internal control frameworks are essential components of any sound system of risk management and internal control.

The Committee monitors the Company's risk management and internal control systems and, in addition to periodic reviews by the Committee, the Board undertakes an annual in-depth review of the effectiveness of internal controls, including the operation of financial, operational and compliance controls.

The Committee also guides the Board on the nature and extent of the principal and emerging risks the Company may be willing to take in order to achieve its long-term strategic objectives. The output from this system is the Company's risk appetite policy, which is subsequently reviewed by the Board.

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

The Committee receives regular updates on the Group's system of internal control including progress made to the overall programme and conclusions on the design and effectiveness of key controls mitigating financial, operational and compliance risk. Management intends to continue to improve the standardisation and documentation of internal controls to give the Committee greater comfort around the effectiveness of the control environment.

Overall, the Committee is satisfied that the Group's internal control framework was operating effectively as at the year end. The Committee will continue to oversee the improvement programme that has been put in place to enhance the internal control framework.

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. 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. 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. Changes were implemented with the Committee's oversight. See page 62 for further information on the Group's risk management system.

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 72 and considered the appropriate period for which the Company was viable.

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 on page 32 and in note 25 to the consolidated financial statements.

Key elements of the Group's risk management framework that operated throughout the year are:

- divisions identifying and reviewing their principal and emerging 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 regular basis
- an agreed methodology for ranking the level of risk in each of its business operations and the principal and emerging risks
- implementation of appropriate strategies to mitigate principal and emerging 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 of the principal and emerging 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

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

Audit Committee report continued

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 145.

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, regularly reviews and develops the internal control environment to make continual improvements. 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 monitored. In addition, as stated above, management intends to continue 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.

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 internal audit function is primarily outsourced. The Head of Internal Audit & Risk reports functionally to the Chairman of the Committee and administratively to the CFO.

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.

External audit

External auditor independence and objectivity

PwC were appointed the Company's external auditor following a competetive tender process in 2020, details of which are included in last year's Annual Report and Financial Statements. Matthew Mullins is the Senior Statutory Auditor.

The independence of the external auditor is essential to the provision of an objective opinion on the true and fair view presented in the financial statements. PwC's independence and objectivity are safeguarded by a number of control measures including:

- limiting the nature of non-audit services performed by the external auditor
- the external auditor's own internal processes to vet and approve any requests for any non-audit work to be performed by the external auditor
- monitoring changes in legislation related to auditor independence and objectivity to assist the Company to remain compliant
- the rotation of the lead auditor partner after five years
- independent reporting lines from the external auditor to the Committee and ensuring the external auditor is afforded the opportunity for in camera sessions with the Committee
- placing restrictions on the employment by the Group of certain employees of the external auditor
- 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
- an annual review by the Committee of the policy in place to ensure the objectivity and independence of the external auditor is maintained.

Assessing the effectiveness of the external audit process

The Committee, other Board members, senior management in both the corporate functions and within the operations and the internal audit team evaluated PwC's performance and the effectiveness of the external audit process during FY21. The Committee also considered the independence and objectivity of PwC. The following factors were considered:

- the quality of the interactions between the audit team and the Committee, other Board members, management and those involved in the preparation of the accounts
- whether the scope of the audit and the planning process were appropriate for the delivery of an effective audit
- the external auditor's progress achieved against the agreed audit plan and communication of any changes to the plan, including changes in perceived audit risks
- the competence with which the external auditor handled the key accounting and audit judgements and communication of the same with management and the Committee
- the external auditor's compliance with relevant regulatory, ethical and professional guidance on the rotation of partners
- the expertise and resources of the external audit team conducting the audit
- whether the statutory audit contributed to the integrity of the Group's financial reporting.

Taking into account the above factors and feedback from management, members of the Committee and the Board, the Committee concluded that the external audit process and services provided by PwC were satisfactory, particularly in the context of a first year audit, which was largely undertaken remotely. The feedback will be shared with PwC and any opportunities for improvement will be considered and agreed.

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 those that are prohibited. The policy requires that the external auditor will only be used for non-audit services where regulation permits, the Group benefits in a cost-effective manner and the external auditor maintains the necessary degree of independence and objectivity. The policy provides for a cap on fees for non-audit work of 70% of the average of fees paid to the audit firm over the previous three years for audit services.

The Committee receives regular reports 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 Standard in respect of the scope and maximum permitted level of fees incurred for non-audit services provided by PwC. Details of amounts paid to the external auditor for audit and non-audit services for the year ended 27 March 2021 are set out in note 6 to the consolidated financial statements.

Tax strategy

We believe we have a responsibility to manage our tax affairs in a way that sustainably benefits the customers and communities 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. Further information on our tax strategy, which was reviewed by the Committee and subsequently approved by the Board in September 2020, is available on our website. The tax strategy is reviewed annually by the Committee.

Compliance with the Competition and Markets Authority

Purusant to Article 7.1 of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014, the Company confirms that it has complied with the provisions of the CMA Order during FY21, including Part 5 in relation to the role of the Committee.

Financial Reporting Council (FRC)

The Company was notified by the FRC that the Company's FY20 Annual Report and Financial Statements had been included in a sample for the thematic review of companies' disclosures following the first full year of adoption of IFRS 16: Leases. A limited scope review had been performed in accordance with the Conduct Committee's Operating Procedures. A full review of the FY20 Annual Report and Financial Statements was not undertaken. Findings from the review indicated that there was an opportunity for all companies to improve their disclosures, including FirstGroup. No specific questions or queries were raised with regard to FirstGroup.

Committee evaluation

The Committee's performance was considered through the annual Board evaluation process, in which members were requested to complete a questionnaire. Feedback from Committee members and other Board members was generally positive and it was concluded that the Committee was effective in discharging its responsibilities. An in-depth review of the Group's processes and internal controls to assess areas for continued improvement of risk and financial management, ESG considerations and the impact of the pandemic were highlighted as priorities for FY22. Further training on rail accounting and one-to-one sessions between individual Committee members and the external auditor were also highlighted as priorities for FY22.

Board Safety Committee report

Martha Poulter
Chair, Board Safety Committee

"FirstGroup's commitment to safety is unwavering. As one of our core Values, safety is always front of mind."

Role and responsibilities

FirstGroup is committed to the safety and wellbeing of our employees, customers, the communities within which we operate and all stakeholders that interact with our businesses. Our approach to safety is reflected in our core Values and our long term goal is to achieve Zero Harm. For more information, refer to page 43.

The primary role of the Board Safety Committee is to assist the Board in obtaining assurance that appropriate systems are in place to deal with the management of safety risks. The key responsibilities of the Committee are set out below and the Committee's terms of reference are available on the Company's website:

- review safety performance and significant safety incidents, considering the key causes and ensuring actions are taken and communications made by management to prevent similar incidents occurring in the future
- 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 and promote a positive safety culture throughout the Group
- make recommendations to the Remuneration Committee in relation to the use of appropriate safety performance metrics and targets for incentive plans for the Executive Directors and certain senior managers, and assess the annual performance against those metrics
- review the findings of any internal or external reports on the efficiency and effectiveness of the Group's safety systems and culture, assess any strategies and action plans developed by management in response to issues raised and, where appropriate, make recommendations to the Board on such matters.

The Committee is supported by the Executive Safety Committee (ESC), which meets every two months and is chaired by the Chief Executive. The ESC oversees the Group's safety strategy and the performance, procedures and practices of the divisions and operating companies. The ESC 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 Chair provides feedback and recommendations to the Board and copies of the minutes of its meetings are made available to all Directors.

Composition of the Board Safety Committee and attendance

The Committee comprises Martha Poulter (Chair) and Sally Cabrini, both of whom are Non-Executive Directors, and Anthony Green, Group Employee Director. The members collectively bring a wide range of sector experience and insights to Committee deliberations, including the employee perspective through the involvement of Anthony Green.

The General Counsel & Company Secretary attends all meetings and, at the request of the Committee Chair, the Chief Executive, the Corporate Services Director, the Group Safety Director and the Deputy Company Secretary attend all meetings of the Committee. Other senior managers attend as required for deep dives, when incidents have occurred in operations under their control or when their specialist expertise is required.

Member	Appointment date	Scheduled meetings
Martha Poulter (Chair)	30 September 2019	3/3
Sally Cabrini	14 February 2020	3/3
Anthony Green	15 September 2020	1/1

Committee focus through the year

The following table provides an overview of the key business and activities of the Committee during the year:

Operational	Governance, regulatory and reporting
▪ Received comprehensive updates on the impact of the coronavirus pandemic and the measures taken by management ▪ Reviewed safety performance reports at Group and divisional level, including trend data ▪ Reviewed actual and potential serious and fatal incidents, including the circumstances leading to and key learnings from the incidents ▪ Reviewed the impact of safety initiatives ▪ Received a deep dive presentation on the Greyhound division, encompassing safety related strategy, technological innovations to enhance safety and communication and training and development of drivers ▪ Reviewed current and planned health and wellbeing programmes across the Group, including initiatives focused on mental wellbeing ▪ Received an update on the Group's emergency planning and business continuity plans	▪ Considered feedback from the evaluation of the Committee's performance and agreed actions ▪ Reviewed and approved the Committee report and other safety related disclosures in the FY20 Annual Report ▪ Reviewed the FY20 performance outcome under the Group's incentive plans in relation to safety and the design for the FY21 safety metrics/targets ▪ Received an update on current and emerging safety legislation and regulations, both in the UK and North America ▪ Considered and approved the revised Health & Safety Policy

Committee evaluation

The Committee's performance was considered through the annual Board evaluation process, in which members of the Committee and the Board were asked to complete a questionnaire. The feedback from this process was positive and it was concluded that the Committee was effective.

Remuneration Committee report

Sally Cabrini
Chair, Remuneration Committee

"While we are extremely pleased with the successful sale of our North American contract businesses, for a full strategic value and the work to ensure the ongoing Group has the financial strength and flexibility to pursue its strategy going forward, the current external context and the impact on all of our stakeholders has framed the Committee's decisions this year."

In this section

Dear Shareholder

I am pleased to present the Directors' Remuneration Report for the financial year ended 27 March 2021, my second as the Remuneration Committee Chair of FirstGroup.

The Remuneration Report covers the required regulatory information and provides further context and insight into our pay arrangements for Directors and other employees of the Group. We set out our key decisions since last year, including proposed changes to our Directors' Remuneration Policy, the assessment of FY21 performance and determination of pay, and our approach to ensuring executive pay outcomes are fair in the context of wider employee pay.

Impact of coronavirus

Firstly, I want to address the impact of the coronavirus pandemic on all of the Group's stakeholders during this year. As noted in the Chief Executive's report, our first priority was the health and safety of the Group's passengers, employees and communities. We followed public health authority guidance and have adopted and also developed best practice in areas such as enhanced cleaning and decontamination of vehicles, depots and terminals. We also take great pride in the way our colleagues and teams across the Group have provided direct assistance and support to those most in need, right at the heart of our communities. While our operations, which are part of the critical infrastructure providing essential transportation services, enabled key workers to travel to their destinations and perform their vitally important roles. In addition, our local knowledge, and position at the heart of our communities have allowed us to provide further support and assistance during this challenging time through delivering food and medical supplies and providing free transport for medical personnel and first responders.

The pandemic has had a significant effect on our businesses across the FY21 financial year and the Group has had to take decisive action to protect our ability to maintain critical services while travel restrictions were at their most comprehensive and ensure that we are in a position to rapidly increase capacity once appropriate. This has included steps to reduce costs and preserve cash and the utilisation of emergency measures announced by the Government.

Our people have embodied the Vision and Values of the Group, particularly during the challenging backdrop of the pandemic.

The Board is very proud of their commitment and accomplishments in continuing to provide vital mobility services, while ensuring the safety of customers and employees and working in partnership with governments and the communities we serve. Our people and management teams have also provided an unprecedented level of community support over the past 12 months.

Some of the highlights have been:

- sourcing and distributing personal protective equipment (PPE) to keep our employees safe, including over 650,000 masks
- modifying all operational vehicles to ensure social distancing and that our customers and employees were kept safe, including measures such as installing barriers and protective screens, revised seating layouts, enhanced signage and floor markings
- delivering more than 1.75 million meals to disadvantaged school pupils, and tens of thousands of meals to vulnerable households and the elderly
- transporting tens of thousands of educational materials, including books, laptops and curriculum packets to allow children to continue their studies
- during the Oregon wildfires in September 2020, our teams spent three days evacuating more than 1,500 local residents, driving more than 3,000 miles to take them to safety. Our teams in Greyhound worked with the American Red Cross to create a free ticket system for people needing to relocate due to the wildfires

- trained and deployed nearly 700 Covid Marshalls to safely direct and reassure customers using our rail and bus services and ensure compliance with social distancing measures
- pioneered best practice in areas such as enhanced cleaning and decontamination of vehicles, depots, and terminals
- deployed technology to provide advice and communicate with customers on the live location of their buses and whether seats are available.

These actions and initiatives (set out in greater detail in our Responsible Business Report on pages 35-45) involved the coming together of our wider stakeholders, and saw our employees working in partnership with our customers, governments and the communities we support to provide vital mobility services.

Leadership Transition

As announced in the Chairman's statement, Matthew Gregory will step down from his role as Chief Executive Officer and from the Board at the AGM, at which point David Martin will become interim Executive Chairman until a new Chief Executive is appointed.

Matthew will provide assistance in relation to ongoing projects and work closely with David to ensure a smooth transition, as required, to the end of his 12 month notice period. Remuneration arrangements relating to Matthew's cessation will be in line with his service contract and the shareholder approved remuneration policy and reflect his period of employment.

Full details of Matthew's termination arrangements will be included in next year's report and will also be fully disclosed, in the normal way, when confirmed.

Overview of financial performance, operating achievements, and strategic progress.

In April 2020, the devastating impact that the coronavirus pandemic would have globally was starting to become clear with the UK and much of North America placed in full lockdowns. While the level of restrictions varied throughout the year, our key priority has always been the health and safety of our passengers, employees and communities. We have been operating at all times throughout the pandemic; our services are part of the critical infrastructure that have enabled people to move safely, including key workers providing essential services.

As a Committee we believe it is imperative to strike the right balance between incentivising the management team, rewarding strong performance and being equitable in the broader context. While the experience of our wider stakeholders, including our employees and shareholders, has always been a key input, the past year has brought this into even sharper focus demonstrated through a number of actions we have taken:

- no EABP payment for FY20 – despite partial achievement of the performance targets, no bonus for FY20 was paid to our Executive Directors given the uncertain operating environment
- salary reductions – the Chief Executive, Chief Financial Officer, Chairman and Non-Executive Directors voluntarily reduced their salary/fees by 20% from 1 April 2020 to 31 July 2020. A wider group of senior employees across the Group have also made voluntary salary reductions and deferrals.

Turning to the FY21 Bonus, it was clear that it would not be possible to set full-year targets at the usual time in May 2020, given the prevailing uncertainty at the time, and a different approach would need to be taken to assess performance. The performance year was therefore split as follows:

- Half 1 – short term crisis management and response, i.e. the actions taken to protect the business and ensure the safety of our customers and employees, our ability to operate within our committed debt facilities and also stay within financial covenants
- Half 2 – ensuring the business is best placed to emerge from the pandemic in as robust a position as possible and pursuing our strategic goal of portfolio rationalisation. This meant prioritising cash generation and operating profit, rather than revenue, as well as delivering against operational measures, including safety initiatives, meeting the needs of our customers and supporting the communities we serve.

The decisive actions and leadership of the management team during a time of unprecedented challenges resulted in strong performance with our early forecasts for H1 exceeded and H2 operating profit and cashflow targets achieved. Full details of targets and performance achieved are set out on page 118.

The Committee recognises the strong contribution of the Executive Directors during FY21, in particular the swift and decisive actions taken to mitigate the impact of coronavirus and protect the Group for the long-term, and their leadership in ensuring we deployed our people, assets and expertise to support the communities we serve. Despite the challenges of coronavirus, they also successfully negotiated the sale of our North American contract businesses for a full strategic value.

However, we are operating in unusual and unprecedented circumstances and therefore, notwithstanding these achievements, and the fact that the operating profit and cash flow targets had been exceeded, we as a Committee reached the conclusion that awarding a bonus to the Executive Directors would ultimately not be appropriate this year. As such, no bonus will be paid in respect of FY21 which is the second year in succession.

2018 LTIP – the vesting of the LTIP granted in 2018 was subject to three performance measures: 40% EPS, 20% Road ROCE and 40% relative Total Shareholder Return (TSR).

The Company's performance was just above median for the TSR measure, resulting in 36.6% vesting under this element of the award and 14.6% of the overall award. Due to the impact of the ongoing pandemic, the threshold targets for the EPS and Road ROCE measures were not met. The Committee carefully reviewed the overall vesting outcome in the context of the Group's underlying performance and were satisfied with this level of vesting. The shares will be held for an additional two years to provide alignment with our shareholders.

Remuneration Committee report continued

Remuneration fairness

As a Remuneration Committee we take our responsibility to consider the pay of the senior team in the context of wider workforce pay 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. In particular we felt it was important to fully understand the impact of the coronavirus pandemic on pay and benefits and how employee welfare initiatives had been implemented or extended to support our people.

This year we have expanded the 'Remuneration in Context' section of the report on pages 113-116 to include a summary of these items and give greater insight into the factors the Committee considers when making executive reward decisions.

Remuneration for FY22

As we look ahead, there remain some uncertainties which create a range of potential scenarios for our businesses to consider as our local markets emerge from the coronavirus pandemic. In addition, the sale of our North American contract businesses in H2 2021, will result in FirstGroup becoming a leader in public transportation focused on the UK.

As such the Committee intends to make awards under the LTIP this year, but will delay setting the performance conditions for these awards until the business implications of the above factors is clearer. These will be set no later than six months following the date of grant and the targets for these awards will be published in the FY22 Directors' 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. The maximum award levels will be in line with our shareholder-approved Policy and implementation over recent years.

In light of the unprecedented trading disruption caused by coronavirus, there will be no increase in base salaries for the Executive Directors in 2021 (the second year in succession).

Review of our Remuneration Policy

The forthcoming 2021 AGM marks the third anniversary of the approval of our Remuneration Policy and as such, we are required to put a new policy to a binding shareholder vote and we look forward to the continuing high levels of shareholder support we have secured in the past. The policy will be the framework for setting the pay of the Executive Directors and Non-Executive Directors.

While the shareholder-approved Policy applies to the most senior executives in the business, the Committee has also reviewed remuneration and incentives more widely, taking these into account when setting this Policy. The review focused on ensuring that the Remuneration Policy remains fit for purpose, is aligned to the business strategy and complies with the Companies Act, relevant regulatory requirements (including the UK Corporate Governance Code) and latest investor guidelines. A key component of the Committee's review included a consultation exercise with our largest shareholders.

In conducting the review, the Committee were cognisant of the plans to divest of our North American businesses and the significant impact this would have on the Group's future size, shape, and strategy. Therefore, the proposed changes are deliberately minimal and focused on further alignment of FirstGroup with current market and governance best practice. Once these strategic objectives are achieved the Group will be a UK-based transportation provider with bus and rail operations at its core. With that greater clarity on the future shape of the Group, the Committee may take the opportunity to put a new Policy to a shareholder vote ahead of the typical three-year anniversary.

No changes are proposed to the structure or quantum of the annual bonus or LTIP. The review, has also provided an opportunity to formalise some of the best practice that we have already adopted, for example Executive Directors' pension contribution levels (15% of salary) are already aligned with the average pensions benefit for the wider workforce, and the Policy will be formally updated to reflect this. This level would also apply to any new appointments. The main changes proposed are as follows:

1. Increase to shareholding guidelines – an increase in the shareholding guideline to 200% of base salary for all Executive Directors to be built up within five years (the Chief Executive's current shareholding requirement is 200% of base salary and it is 150% for other Executive Directors).
2. Introduction of post-employment shareholding guideline – a post-employment shareholding of 100% of the in-employment guideline for the first year post-cessation, dropping to 50% of the in-employment guideline for the second year (or the full actual holding if lower).
3. Increase flexibility to allow LTIP awards to be based on one performance measure – the current Policy is unusually prescriptive therefore we are making a minor amendment to ensure the LTIP can be based on one performance measure if appropriate. The approach to performance measurement, including the rationale for any change, will be fully disclosed in the relevant Directors' Remuneration Report. in-flght LTIP awards will continue to pay-out. Changes, where made, will not be applied to in-flight LTIP awards.
4. ESG measures are likely to be included in the 2021 LTIP, reflecting the important role that we as a public transportation company have in supporting the UK Government's commitment to a 'green transport revolution'.

The Committee considers that the new Directors' Remuneration Policy is clear and as simple as possible, while incorporating the necessary safeguards to ensure a strong link between performance and reward and, further, ensuring that failure cannot be rewarded. The incentive plans align to the business strategy and culture and provide for a rounded assessment of performance.

The overall structure of the package provides a market-competitive remuneration opportunity with proportionate levels of pay that vary with performance. Furthermore, the Committee has demonstrated in recent years that it is prepared to use discretion to reduce a formula driven outcome when this does not reflect broader Company performance or the shareholder experience.

A full summary of the proposed Remuneration Policy is set out on pages 132–141.

Governance

The Committee actively monitors developments in corporate governance and the guidelines produced by shareholders and their representative bodies.

Our Group Employee Director is encouraged to attend all Committee meetings, and regularly does so, and I also periodically attend meetings of the Employee Directors' Forum to hear from our network of Employee Directors directly.

We have provided further details on our approach to pay throughout the Group on pages 113-116.

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

Key activities during the year

May 2020

- Reviewed remuneration arrangements in light of coronavirus

July 2020

- Confirmed decision not to award any bonus to Executive Directors for FY20, in light of the pandemic
- Approved 2019/20 EABP pay-out below Executive Committee level
- Determined the vesting of the 2017 LTIP
- Reviewed and approved the 2020 Directors' Remuneration Report

September 2021

- Approved the 2020 LTIP awards
- Agreed Remuneration Policy Review approach

October 2021

- Agreed FY21 EABP approach

March 2021

- Reviewed the 2019 Gender Pay Gap (GPG) reporting ahead of publication
- Review wider workforce remuneration and related policies
- Reviewed and amended Terms of Reference

Remuneration at a glance

Adjusted Operating Profit (pre-IFRS16)	Adjusted Cash generation	Adjusted EPS (pre-IFRS16)	Relative TSR	Road ROCE (pre-IFRS 16)
£156.3m	£176.5m	3.3p	55th percentile	2.4%
FY20: £250.4m	FY20: £0.1m	FY20: 9.0p	FY20: 53rd percentile	FY20: 4.3%

This section summarises the pay that our Directors received in respect of their FY21 performance, and the proposed rates for FY22. Further details are set out on pages 117-125.

FY21

Fixed pay and shareholding

Base Salary

£592,667
Matthew Gregory (CEO)
(includes voluntary reduction of 20% from 1 April to 31 July)

£420,000
Ryan Mangold (CFO)
(includes voluntary reduction of 20% from 1 April to 31 July)

Pension
Executive Directors receive a pension allowance of 15% of base salary

Benefits
Include car allowance, medical and life insurance

Shareholding
Guideline levels, % of base salary as at 27 March 2021

200% CEO

150% CFO

Actual levels, % of base salary as at 27 March 2021

99% CEO

49% CFO

Malus and clawback apply to all incentive awards. More detail can be found on page 136.

Executive Annual Bonus Plan

FY21 EABP

£0 CEO

£0 CFO

FY21 bonus targets outcome

As a result of Committee downwards discretion the outcome was reduced to:
0%

Long Term Incentive Plan

2018-2020 LTIP Vesting Outcome

£137,883
CEO

n/a
CFO
(participated in the LTIP from appointment in 2019 and therefore had no 2018 award)

Vesting outcome

Measures	Outcome	Vesting
EPS	(34.8%)	0.0%
TSR	55th percentile	36.6%
Road ROCE	2.4%	0.0%
		14.6% (out of a 200% maximum)

Shares are subject to a two-year holding period that extends beyond the Executive Director's tenure.

FY22

Fixed pay and shareholding

Base Salary

£635,000
Matthew Gregory (CEO)
No change

£450,000
Ryan Mangold (CFO)
No change

Pension
No change from FY21

Benefits
No change from FY21

Shareholding
Target levels, % of base salary 2022

200% CEO

200% CFO

Executive Annual Bonus Plan

Maximum opportunity % of salary

150% CEO

150% CFO

Long Term Incentive Plan

Awards will be made in line with the Remuneration Policy.

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 70% 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
- GPG 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 116 (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 reporting requirements the table below 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. The Company has calculated the ratios in accordance with the Option B methodology laid out in the pay gap regulations which were deemed the most reasonable and practical approach given the collation of data exercise required for GPG reporting. There has been no departure from this methodology and no pay has been omitted. 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 UK employees at the lower quartile, median and upper quartiles were identified as at 5 April 2020 and their salary and total remuneration were calculated in respect of the 12 months ended 31 March 2020. The Committee is satisfied that these pay ratios are consistent with our pay, reward and progression policies and 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).

There has been little change in the CEO pay ratio between FY20 and FY21 reflecting the lack of bonus in both FY20 and FY21 in response to the impact of coronavirus on the Group's wider stakeholders.

The Committee is satisfied that the data included in the CEO Pay Ratio table 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.

Year	Method	CEO Total Remuneration	Population	25th percentile	Median	75th percentile
FY21	Option B	£839,822	Employee total remuneration	£27,560	£34,002	£53,437
			CEO to employee ratio	30:1	25:1	16:1
FY20	Option B	£788,400	Employee total remuneration	£24,600	£32,000	£45,400
			CEO to employee ratio	32:1	25:1	17:1

Remuneration in context continued

Impact of coronavirus – treating our people fairly

As a result of the coronavirus pandemic, governments on both sides of the Atlantic introduced a number of employment support schemes that FirstGroup was either mandated to use or chose to use in order to protect jobs. The use of these schemes has fluctuated throughout the year in response to changing operational circumstances.

Management applied the various government support schemes flexibly to minimise the financial impact on individual employees, ensure equity of approach and deliver vital mobility services for key workers (and others) who needed to travel during the height of the pandemic. The impacts differed for each of our operating businesses.

In the UK, First Rail was largely able to avoid furloughing employees with less than 2% of employees being furloughed during the year. First Bus operated service levels in accordance with requests from the DfT and this meant the mileage operated has also fluctuated over the year as UK Government guidance on social distancing restrictions varied. Under the terms of the CBSSG, i.e. the mechanism through which the Government contracted with First Bus to provide services, it was a requirement that employees not required to run the requested levels of service, be placed on furlough.

Where this was necessary, this was done on a rotational basis in order to minimise the financial impact on any individual employee. This approach was discussed and agreed with our trade union partners prior to being implemented.

In North America, First Transit routes largely remained in operation through the pandemic, albeit with reduced demand, but the approach to school openings varied greatly in the US resulting in an uneven impact on First Student's operations. It was necessary to furlough employees at certain points, particularly in the early stages of the pandemic when the majority of schools were closed. Throughout the year First Student management have worked closely with customers to ensure that many of them provided support to the Company, allowing us to retain our employees and be well placed for the resumption of services. This also enabled employees to be deployed in other ways to support our communities.

Greyhound's approach has been heavily influenced by the commercial pressures already being faced by the business. As part of the continuing focus on implementing tighter cost control it was unfortunately necessary to make a number of redundancies, the majority of which were Greyhound corporate employees (67% of the total).

Senior management were not insulated from the financial impact of the pandemic when it came to their own pay, in particular:

- the Chief Executive, Chief Financial Officer and the Board voluntarily reduced their salaries/fees by 20% from 1 April 2020 to 31 July 2020 (with a wider group of senior employees across the Group making voluntary salary reductions and deferrals)
- for all management grade employees (including the Executive Directors) there has been no annual base salary review for two years
- at the outset of the pandemic, the Executive Directors had agreed with the Committee that no FY20 EABP payment should be made to the Executive Directors, despite partial achievement of the targets
- the Committee has again decided that, despite strong performance against the targets, no payment should be made to the Executive Directors, in respect of the FY21 EABP.

In summary, the Company has managed to avoid making large-scale redundancies, with the exception of Greyhound, where restructuring was already underway prior to the onset of the pandemic in response to the already challenging operating environment. Where furlough has been utilised, the management teams have managed to minimise the impact on individual earnings as far as possible.

Supporting Health & Wellbeing

The Company adopts an integrated approach to Wellbeing programmes, coordinated with dedicated Health & Safety specialists. Each Division considers the key health and wellbeing programmes for their teams, depending on their specific needs and priorities. The impact of coronavirus served to reinforce the importance of such activities and, across the entire Group, management continued to make the health and wellbeing of colleagues a priority, increasing the Company's wellbeing focus accordingly.

In light of the restrictions caused by the pandemic, an agile approach has been adopted wherever possible (for example by switching to virtual/on-line support and delivery) and we maintain an ongoing review of programmes to target appropriate measures, coupled with actions to address identified issues. Some examples of initiatives are shown below, although this is far from an exhaustive list of the myriad activities being conducted across the Group:

- Employee Assistance Programmes (EAPs) are offered across the Group providing advice and support on a wide range of issues for example bereavement, divorce, legal and financial advice, and guidance on nutrition and physical fitness
- wellbeing programmes were adapted to address the mental and physical wellbeing of all colleagues during the pandemic. Our existing EAPs were repromoted, tips for remote working circulated, and home office ergonomic advice communicated

- First Student and First Transit have developed an online portal ‘You First’ that assists teams with mental wellness, finance, and stress management and introduced ‘Wellness Wednesdays’ a weekly occurrence during which articles and resources are promoted and hosted on the employee portal and Company apps to ensure a constant drumbeat of information and resources is available. Wellness checks and guidance take place through the use of on-line confidential health assessment tools, screening programmes or health kiosks giving ‘health MOTs’ across the businesses
- our larger UK businesses have dedicated in-house Occupational Health Teams and others use external specialist advisers to support employees with health problems that may affect performance
- Greyhound have developed a ‘BackSafe’ programme to address manual handling injuries, either from handling luggage on/off coaches (especially after a period of driving), or in freight delivery activities
- Within First Rail, each operating company has implemented and managed health and wellbeing campaigns/initiatives in their franchise period. Areas included: embedding the provision of Mental Health First Aiders and providing resources for use on employee comms channels; musculoskeletal support (working with in-house physiotherapists to provide roadshows in workplaces and providing personal advice to those who request it); and the provision of ‘Health Kiosks’ to give a ‘health MOT’ to colleagues
- across all Divisions, there are mental health awareness tools and support available and these have been enhanced during the pandemic. For example, in First Bus there was already a network of trained Mental Health First Aid Champions and existing Mental Health awareness courses have been further supplemented with a version on the ‘First Bus University’ online learning platform. First Rail also have a network of Mental Health First Aid Champions with a host of resources and links available to support them on the employee portal.
  In North America, Greyhound have arranged for every employee to have a ‘check-in’ meeting with their manager regarding any mental health or personal concerns they may have.

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 and insights from employees across a range of issues. More information on our ‘Your Voice’ survey is set out on page 42.

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 the meetings of the EDF. 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.

Remuneration in context continued

Wider workforce remuneration

Element	Eligibility
Fixed pay including salary and benefits	▪ all employees regardless of role ▪ 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. We operate a number of different pension plans in the UK which reflect the history and requirements of these businesses. In the US the company contributes towards a number of defined contribution plans including 401(k) arrangements and various union multi-employer plans ▪ 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 ▪ other benefits in the UK include discounted travel on our rail and bus services, discounts on shopping, entertainment and eating out ▪ 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

Strategic alignment of remuneration

The table below sets out how each of the performance measures used in our incentive plans are aligned to the Company's strategy and business objectives, as outlined in the Strategic report:

		FirstGroup's Strategic Drivers				
	Measure	Focused and disciplined bidding in our contract businesses	Driving growth through attractive commercial propositions in passenger revenue businesses	Continuous improvement in operating and financial performance	Prudent investment in our fleets, systems, and people	Maintain responsible partnerships with our customers and communities
EABP	EBIT		●	●		
	Cash		●	●	●	
	Operational Measures				●	
	Safety			●	●	●
	Customer Satisfaction		●	●	●	●
	Individual Performance	●		●		●
LTIP	Relative TSR	●	●			

Annual report on remuneration

The Annual Report on Remuneration sets out:

- Directors' Remuneration for FY21, pages 117-124
- the statement of the planned implementation of policy in FY22, page 125
- the Committee's responsibilities and activities, page 130

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 2021 AGM.

Single total figure of remuneration for Executive Directors (audited)

	Matthew Gregory		Ryan Mangold	
	CEO	CEO	**CFO**	CFO
£'000s	**FY21**	FY20	**FY21**	FY20[2]
Salaries[1]	**593**	635	**420**	377
Taxable Benefits	**14**	14	**14**	12
Pension	**95**	94	**68**	56
Total fixed remuneration	**702**	743	**502**	445
Annual Bonus cash	**0**	0	**0**	0
Annual Bonus value of deferred shares	**0**	0	**0**	0
LTIP[3]	**138**	45	**–**	–
Total variable remuneration	**138**	45	**0**	0
Total remuneration	**840**	788	**502**	445

1 Matthew Gregory and Ryan Mangold agreed a 20% base salary cut from April to July as part of coronavirus cost reduction measures across the Group, amounting to reductions of £42,333 and £30,000 respectively. Their car allowance and pension allowance remained at the 100% level.

2 Ryan Mangold was appointed to the Board as Chief Financial Officer on 31 May 2019.

3 The value of the 2018 LTIP at vesting was calculated using the average share price for the period 1 January to 31 March 2020 (82.66p). In line with the requirements under the UK Companies (Miscellaneous Reporting) Regulations 2018, none of the total value of £137,883 at vesting can be attributed to share price growth as the share price at award was 84.08p in 2018.

More detail can be found on pages 117 to 123.

Benefits (audited)

Benefits for Executive Directors include the provision of a company car allowance, family private medical cover, life assurance and advisory fees. Benefits for the year comprised a £12,000 car allowance and £2,000 for UK private medical insurance. for both Executive Directors.

Pension (audited)

Matthew Gregory received a pension allowance of £95,250 including a defined contribution pension input amount of £4,000. Ryan Mangold received a pension allowance of £67,500. For both this comprised of 15% of their contractual base salary which is in line with the average pension benefit for the wider workforce.[1]

FY21 performance and reward decisions

As a Committee we believe it is imperative to strike the right balance between incentivising the management team, rewarding strong performance, and being equitable in the broader context.

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.

The impact of the coronavirus pandemic on all the Group's stakeholders has brought this into even sharper focus, and the Committee carefully considered the implications for executive pay outturns in respect of FY21.

1 We operate a number of different pension arrangements across the Group including defined benefit pensions in our rail operating companies. The value of the average pension benefit across the UK workforce exceeds 15%.

Annual report on remuneration continued

FY21 Executive Directors' annual bonus (audited)

For FY21, the annual bonus maximum opportunity was 150% of salary for both Executive Directors. Given the prevailing uncertainty at the time targets are usually set in May, it became clear that a different approach needed to be taken for FY21. The Committee agreed that the EABP assessment should be divided into two periods. At a high level these can be characterised as follows:

- Half 1 – short-term crisis management and response, i.e. the actions taken to protect the business and ensure the safety of our customers and employees, our ability to operate within our committed debt facilities and also stay within financial covenants
- Half 2 – ensuring the business is best placed to emerge from the pandemic in as robust a position as possible and pursuing portfolio rationalisation. This meant prioritising cash generation and operating profit, rather than revenue, as well as delivering against operational measures, including safety initiatives, meeting the needs of our customers and supporting the communities we serve.

The focus on safety and customer service continued with each 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.

For completeness, the chart below sets out the targets, performance achieved and corresponding bonus outturns on a formulaic basis against the financial and qualitative targets.

Measure	Weighting	Actual Result	Bonus achievement
Half 1			
The effectiveness of the actions taken to protect the business and ensure the safety of our customers and employees; and Our ability to operate within our committed debt facilities and financial covenants.	100%	The Committee concluded that the Half 1 EBIT and cash generation performance was significantly better than the April 2020 Board forecast, i.e. at the outset of the pandemic, and the June 2020 Board update, and determined that a number of swift and decisive management actions and initiatives had been critical in delivering this.	50%

Measure	Weighting	Threshold	Maximum	Actual Result	Bonus achievement
Half 2					
Adjusted Group Operating Profit in H2	50%	£85.0m	£140.0m	£164.6m	100%
Adjusted Group Cash flow (Full Year)	20%	(£145.0m)	(£65.0m)	£176.5m	100%

Measure	Weighting	Actual Result	Bonus achievement
1. Customer service – Supporting Customers and Other Stakeholders The safe and effective scaling up and down of services in accordance with the needs of our customers and other stakeholders and supporting the communities we serve through the pandemic.	7.5%	Qualitative Assessment – the Committee considered a comprehensive report of management actions and initiatives and concluded that this objective had been fully met, noting achievements which included the following: **Supporting the communities that we serve** ▪ our First Student drivers delivered more than 1.75 million meals to disadvantaged school pupils, and tens of thousands of meals to vulnerable households and the elderly ▪ when Avanti was left with excess food and drink from our onboard catering this year through strong community links they were able to give away the food responsibly and make a difference in the communities served, distributing nearly £93,000 of surplus food to help local people in need ▪ SWR donated spare PPE to the emergency services, NHS, and care providers on the frontline in the fight against coronavirus ▪ First Student drivers in more than 175 locations transported tens of thousands of educational materials, including books, laptops and curriculum packets to enable children to continue their studies during the pandemic ▪ Greyhound launched 'Rides for Responders', to provide free travel for medical personnel and first responders volunteering across the country ▪ when winter storms left 1.5 million people without power and water on some of the coldest days on record in Houston, Texas, our drivers stepped in to shuttle people to and from warming shelters and to transport patients to their hospital appointments.	7.5%

Measure	Weighting	Actual Result	Bonus achievement
1. Customer service – Supporting Customers and Other Stakeholders continued		**Responding to the needs of our customers** By the start of this financial year, following the lockdowns and other restrictions, the Group had experienced an average passenger volume reduction of c.90%, we worked with our customers and government partners to adjust services to fit demand while preserving our ability to restore service quickly as required. Some of these actions included: ■ First Bus developed and deployed new technological solutions, including enabling customers to view the live location of buses and see real time seat capacity information. Timetables were adjusted dynamically throughout the year adding more journeys/capacity to allow customers to get to hospitals and essential services more easily ■ our First Rail train operating companies were all awarded the highest score by the DfT in the EMA 'customer experience' category. The DfT scorecard noted the impressive performance in dynamically redeploying employees across the Rail network to maintain the highest levels of customer service and cover any pandemic-related staff shortages and the 'excellent' provision of information to customers through multiple channels ■ in North America, our contract-based businesses worked closely with their customers and operated service dynamically throughout the entire year to match the cost base to service level as efficiently as possible.	
2. Operational and safety measures ■ operating services safely in accordance with social distancing and public health guidelines, taking all reasonable precautions to ensure the safety and wellbeing of passengers and employees ■ continue to promote safety culture, strategy and governance, encouraging consistently high standards of safety behaviour and foresight of potential hazards, including cyber security	7.5%	Qualitative Assessment – The Committee considered a comprehensive report of management actions and initiatives and concluded that this objective had been fully achieved, noting the following achievements: **Group aggregate performance against lagging safety Indicators** FY21 safety results improved significantly versus prior year ■ collision Accident Frequency Rate has improved (an 11% decrease) ■ passenger Injury Accident Frequency Rate has improved (41% decrease) ■ all employee Injury Accident Frequency Rates have improved (43% decrease) ■ lost time Injury Accident Frequency Rate has improved (44% decrease). **Keeping customers and employees safe during the pandemic** ■ sourced and distributed employee PPE including over 650,000 masks ■ implemented new Standard Operating Procedures covering employee health screening (including temperature screening protocols), physical/social distancing (including reconfiguring work areas and staggering start-times) and bus-installed hand sanitiser stations ■ successfully transitioned all office-based employees to home working and deployed operational employees in an agile way to cover potential employee shortages ■ modified all buses to ensure social distancing was adhered to and customers and employees were kept safe, including installing barriers and Perspex screens, revised seating layouts, enhanced signage and floor markings ■ improved cab conditions for First Bus colleagues through enhanced cleaning regimes, modification of personal assault screen provisions and documenting Safe Systems of Work in respect of personal hygiene and ventilation ■ we trained and deployed nearly 700 Covid Marshalls to safely direct and reassure customers using our Rail services ■ developed best practice in enhanced cleaning and decontamination of vehicles, depots and terminals including ozonation and pioneered the use of Zoono Z71 via a fogging process ■ the entire First Bus fleet was fitted with innovative Low Bridge Warning Technology and all 12,000 operation colleagues were trained on the system. **Supporting our employees' wellbeing** ■ we continued to provide support to frontline employees on wellbeing issues, particularly mental health. Divisions have built on the range of existing wellbeing programmes that are tailored to their business attributes and needs.	7.5%

Annual report on remuneration continued

Measure	Weighting	Actual Result	
3. Personal objectives	15%	See detail below	
Objectives		Matthew Gregory	Ryan Mangold
Demonstrate personal leadership of action to protect customers and employees from health and safety risks including coronavirus, and further improve our health and safety culture.		The Chief Executive has led the pandemic strategic response, providing visible leadership, personally delivering key communications and established the priority of safeguarding the health and wellbeing of customers and colleagues to ensure the continued running of vital services.	The CFO has played a critical role in ensuring the resilience of FirstGroup during the pandemic, conducting a detailed Group-wide coronavirus risk review at the onset of the pandemic and developing a rigorous Group-wide coronavirus reporting process.
Protect the business whilst seeking opportunities for growth and innovation.		The Chief Executive has ensured a Group-wide continuing focus on cash control and cost reduction, achieving Funding in First Bus and First Rail to provide continuation of services and achieving high levels of revenue recovery in First Student and First Transit and securing Greyhound 5311(f) funding. Delivered a successful outcome to the North American contract business bid season, with retention rates in line with our expectations and several important new business wins.	The CFO maintained strong liquidity, in excess of £800m, throughout the pandemic, and worked closely with banks, lenders and ratings agencies to increase our facilities and attained covenant amendments at a very effective cost while maintaining investment grade. The CFO worked closely with all divisions to ensure that cost reductions and liquidity improvements were achieved, successfully negotiated a bridge loan to refinance the £350m bond and put in place £300m CCFF Commercial Paper to ensure enhanced near-term liquidity.
Lead implementation of portfolio rationalisation strategy to unlock the inherent value in the Group.		The Chief Executive led delivery of the North American contract businesses transaction to a credible cash buyer for a full strategic value, that looked beyond the effects of the pandemic. While the Greyhound sale has not yet been completed the Chief Executive ensured that the business was successfully separated into a stand-alone entity, that is, as far as possible, de-risked.	Throughout the year the CFO ensured that the North American transaction was progressed, and all necessary separation work delivered. Ensured the financial aspects of the North American transaction were successfully delivered including the prospect of future value through fiscal stimulus and the negotiation of an appropriate pension contribution from the sale proceeds.
Lead all necessary activity to establish an appropriately capitalised Retained Group with a clear and agreed ESG strategy		The Chief Executive led delivery of the Retained Group investment case, ensuring that the Retained Group was appropriately capitalised to handle current market uncertainties and positioned for potential growth. FirstGroup became the first UK public transport operator to formally commit to setting an ambitious science-based target aligned with limiting global warming to 1.5°C and to reaching net-zero emissions by 2050 or earlier. Successes this year included: ▪ the Group being awarded a place in the Clean200 report (top 200 publicly-listed companies worldwide by green revenues) as well as included in Standard & Poor's 2021 sustainability report the S&P Global Sustainability Yearbook 2021. ▪ winning significant funding from Scottish Government for 126 electric buses as well as running the world's first double-decker hydrogen buses, in Aberdeen.	The CFO developed a fit for purpose, financial policy and Group Finance design for the Retained Group with scope for a progressive dividend policy in the future. This will provide investors with a simpler and clearer methodology to value going forwards. Significant progress was made in streamlining and simplifying Corporate functions with detailed planning undertaken for further post-North American transaction structural savings.
Successful management of the transition to a new operating model and contractual framework for Rail.		The Chief Executive ensured First Rail maintained focus on delivering a commercially led transition to the new operating model, ensuring that Rail termination sums exceeded market expectations and that the design of the new National Rail Contract reflected an appropriate balance of risk and reward for operators and the Government.	N/A

Measure	Weighting	Actual Result	
3. Personal objectives	15%	See detail below	
Objectives		Matthew Gregory	Ryan Mangold
Lead initiatives to mitigate Insurance risk and cost with particular focus on North America.		N/A	The CFO successfully led a number of initiatives that delivered material improvements to our insurance risk position, including: ▪ increasing visibility of insurance costs and dynamics through an additional actuarial review by Marsh ▪ improving data and incident management ▪ improved claims handling and targeted settlements.

As noted in the Chief Executive's report, performance on the financial measures was ahead of our expectations with the impact of lower revenues mitigated by cost savings, better than expected revenue recoveries from customers and higher service levels in the final quarter and there was strong performance in respect of the non-financial measures (as detailed above).

In conclusion while the Committee recognises the strong delivery against the EABP targets set for FY21 as well as the significant personal contribution of the Executive Directors during FY21, in particular the swift and decisive actions taken to mitigate the impact of the global pandemic and protect the Group for the long-term, their leadership in ensuring we deployed our people, assets and expertise to support the communities we serve and the success in delivering the Board's strategic objective of portfolio rationalisation through the sale of our North American contract businesses, we continue to operate in an unusual and unprecedented environment. As such the Committee concluded that awarding a bonus to the Executive Directors would ultimately not be appropriate. As such, no bonus will be paid in respect of FY21 for the second year in succession.

Annual report on remuneration continued

Long Term Incentive Plan

Vesting of 2018 Long Term Incentive Awards (audited)

The vesting of the 2018 LTIP awards was subject to the achievement of EPS Growth (40%), Road ROCE (20%) and TSR (40%) performance conditions over a three-year performance period from 1 April 2018 to 27 March 2021.

TSR performance was measured against a comparator group of 29 companies in the travel, business services and industrial sectors, which are of comparable scale, complexity and activity to FirstGroup.

Metrics	Weighting	Outturn	0%	Threshold: 20%	Maximum: 100%	% of award which vested
EPS growth[1]	40%	**(34.8%)**	<4% CAGR	4% CAGR	11% CAGR	**0%**
Relative TSR	40%	**55th percentile**	<Median	Median	Upper Quartile	**36.6%**
Road ROCE[2]	20%	**2.4%**	<6.1%	6.1%	7.3%	**0%**
Total						**14.6%**

1 Adjusted EPS (per the Annual Report and Accounts) adjusted for translation constant currency.

2 Absolute improvement in ROCE for the Road divisions only.

Long Term Incentive Awards made during the year (audited)

As disclosed in last year's report, the Committee decided to delay 2020 LTIP grants and target setting to allow adequate time to better understand the impact of coronavirus on the wider economy and our business.

The uncertainties presented by coronavirus and the evolving effect on FirstGroup's businesses, the transport sector and the wider market as a whole as well as the significant period of strategic change that the Company is undergoing presented significant challenges in setting three-year targets (previously 40% EPS, 40% relative TSR, 20% Road ROCE). The Committee therefore determined that the most appropriate approach for the 2020 awards would be to assess performance based on relative TSR performance over a three-year period. This approach also aligned with the strategy to realise superior returns for our shareholders through the execution of portfolio rationalisation.

Awards were made in September 2020 and the performance targets were fully disclosed at this point.

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, targets and comparator group for the 2020 LTIP awards are set out below:

	Peer Group Relative TSR (80%)[2]	FTSE250 Relative TSR (20%)[2]
Threshold (20% vesting)[1]	Median	Median
Maximum (100% vesting)	Upper quartile	Upper quartile

1 Vesting will be on a straight-line basis between threshold and maximum.

2 Relative TSR will be assessed against a comparator group of 27 companies comprised of companies within travel, business services and industrial sectors, and the FTSE250 Index.

TSR comparator group				
Aggreko	DCC	Go-Ahead Group	National Express	Travis Perkins
Babcock International Group	easyJet	Grafton Group	Rentokil Initial	Wizz Air Holdings
Balfour Beatty	Electrocomponents	Hays	Serco Group	Wood Group (John)
Bunzl	Ferguson	IWG	SIG	
Capita	G4S	Kier Group	Smith (DS)	
Carnival	Galliford Try	Mitie Group	Stagecoach Group	

The comparator group is unchanged from 2019, other than the removal of Thomas Cook Group following their delisting.

LTIP awards of 200% of salary were granted to Matthew Gregory and 175% to Ryan Mangold on 24 September 2020.

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	38.87p	200%	3,164,556	£ 1,230,062	20%	1.4.20 – 31.3.23
Ryan Mangold	38.87p	175%	1,962,274	£ 762,735	20%	1.4.20 – 31.3.23

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.

In making these awards the Committee were mindful of the need to guard against unjustified windfall gains in light of the general stock market decline and continued coronavirus uncertainty. As is normal practice, the Committee will ensure that any vesting is appropriate in the context of underlying financial performance and the experience of our wider stakeholders. The Committee retains the ability to apply discretion in the event that the value at vesting is considered to be an unjustified windfall gain taking into account the performance of the Group.

Directorate changes

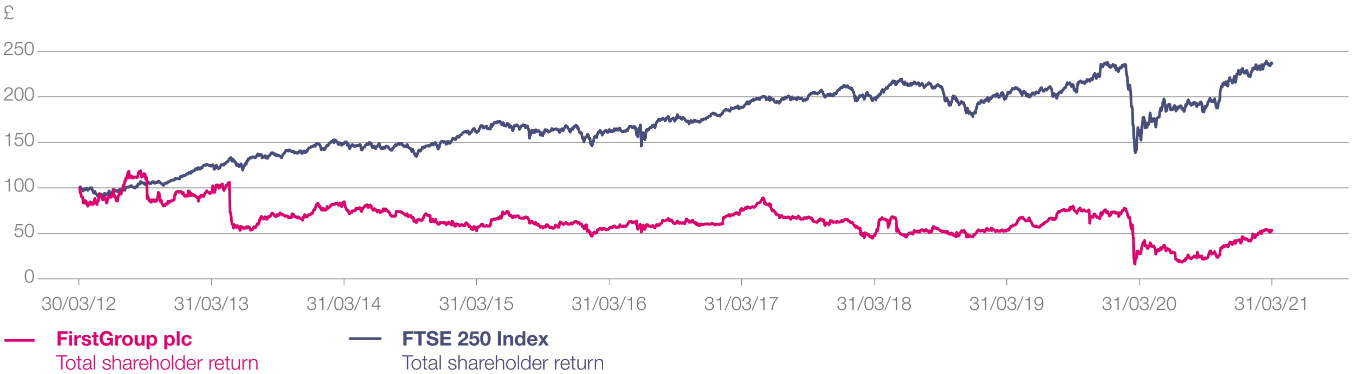
All Executive Directors are on a rolling contract terminable by either party on twelve months' notice. There were no Director changes during FY21.

Payments to past Directors and payments for loss of office (audited)

As noted in last year's report, 516,356 deferred bonus shares were transferred to the former Chief Executive, Tim O'Toole, a past Director, on 16 June 2020.

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 Thompson Reuters 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.

Annual report on remuneration continued

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 pay-out for each year as a percentage of the maximum.

	2012	2013	2014	2015	2016	2017	2018	2019 (Tim O'Toole)	2019 (Wolfhart Hauser)	2019 (Matthew Gregory)	2020	**2021**
Total remuneration (£000s)	1,055	1,068	1,986	1,647	1,243	1,267	1,100	175[4]	266[5]	422[6]	788	**840**
Annual bonus (% of maximum potential)	–[1]	–[1]	59.1	57	15.9	–[2]	–[3]	–	n/a	33.4	–	**–**
LTIP vesting (% of maximum potential)	–	–	–	–	–	16.3	–	–	n/a	12.5	12	**14.6**

1 Tim O'Toole waived his bonus in 2012 and 2013.

2 A bonus was not paid to Tim O'Toole in 2017 and instead he received a conditional deferred share award.

3 No bonus was paid to Tim O'Toole in 2018.

4 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.

5 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.

6 Relates to the remuneration of Matthew Gregory as Chief Executive from 13 November 2018 to 31 March 2019.

Non-Executive Directors' (NEDs') and Chairman's fees (audited)

No changes were made to NEDs' fees in 2021. These remained at a base fee of £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.

The Chairman and NEDs voluntarily reduced their base fees by 20% for the first four months of FY21 in light of the actions taken by the Group in response to the pandemic and the impact on the Group's wider stakeholders.

	FY21					FY20				
£'000	**Basic Fee[1]**	**Committee Chair**	**SID**	**Taxable Benefits[2]**	**Total**	Basic Fee	Committee Chair	SID	Taxable Benefits[2]	Total
David Martin	**289**				**289**	195			27	222
Warwick Brady	**54**				**54**	58				58
Sally Cabrini	**54**	**12**			**66**	11	2			13
Jimmy Groombridge[3]	**12**				**12**	58				58
Steve Gunning	**54**				**54**	58				58
Martha Poulter	**54**	**12**			**66**	58	6		4	68
David Robbie[4]	**54**	**12**	**12**		**78**	87	12	12		111
Julia Steyn[5]	**54**				**54**	53			8	61
Anthony Green[6]	**32**				**32**					

1 The Chairman and Non-Executive Directors voluntarily reduced their base fees by 20% from 29 March 2020 to 31 July 2020 as part of coronavirus cost reduction measures, amounting to a reduction of £20,667 for the Chairman and £3,866 for the NEDs.

2 The Company meets all reasonable travel, subsistence, accommodation, and other expenses, including any tax where such expenses are deemed taxable, incurred by the Chairman and NEDs in the course of performing their duties. None were incurred in FY21 due to the lockdown.

3 Jimmy Groombridge resigned as a Director on 29 June 2020 following the expiry of his three-year term as Group Employee Director. In addition to his fee as Group Employee Director, Jimmy Groombridge received earnings from the Group as an employee amounting to £6,456 (FY20: £21,193) and a contractual notice payment of £4,890.60 in respect of his employment as a bus driver. As a participant in the Company's SIP otherwise known as Buy As You Earn (BAYE), he received 144 Matching Shares during the financial year. Based on the middle-market closing price of a share on 27 March 2021 of 92.05p, the value of these were £132.55.

4 David Robbie received additional fees for acting as interim Chairman for the period 25 July 2019 to 14 August 2019 equivalent to the fee that would have been paid to the previous Chairman. The additional fee included the transitional period whilst the new Chairman assumed his duties.

5 Julia Steyn was appointed on 2 May 2019.

6 Anthony Green was appointed as Group Employee Director on 15 September 2020. In addition to his fee as Group Employee Director, he received earnings from the Group as an employee amounting to £12,969 in this period.

Implementation of Remuneration Policy for FY22

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 and 2021 annual salary reviews for the entire Group were cancelled for those employees not part of collective bargaining agreements, including the Executive Directors.

FY22 Executive Directors' annual bonus

For FY22 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 2021/22. The performance measures and targets for FY22 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 FY22 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 pay-outs 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.

2021 Long Term Incentive Awards

In light of the continuing uncertainty regarding the duration of social distancing measures in our major markets, and the impact of the material portfolio changes likely to take place over the coming months, the Committee will delay the setting of targets for the 2021 LTIP awards until there is greater clarity regarding these factors. The targets will be set no later than six months following the grant date, and these will be fully disclosed in next year's Remuneration Report. ESG measures are likely to be included in the 2021 LTIP, reflecting the important role that we as a public transportation company have in supporting the UK Government's commitment to a 'green transport revolution'. These awards will be made in line with our shareholder approved Remuneration Policy.

We had taken onboard feedback from our shareholders and were planning to provide prospective disclosure of 2021 LTIP targets. However, the Committee is of the view that delaying grants is the best course of action to ensure that robust targets can be set when there is more certainty. No 2021 LTIP award will be made to Matthew Gregory.

Leadership Transition

As announced in the Chairman's statement, Matthew Gregory will step down from his role as Chief Executive Officer and from the Board at the AGM, at which point David Martin will become interim Executive Chairman until a new Chief Executive is appointed.

Matthew will provide assistance in relation to ongoing projects and work closely with David to ensure a smooth transition, as required, to the end of his 12 month notice period. Remuneration arrangements relating to Matthew's cessation will be in line with his service contract and the shareholder approved remuneration policy and reflect his period of employment.

Annual report on remuneration continued

Directors' interests in share awards (audited)

The outstanding LTIP, deferred share bonus and Save As You Earn (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.

				During year							
Director	Plan[1]	Date of grant	Number of shares under award as at 01.04.20	Awards granted	Awards exercised[2]	Awards lapsed	Number of shares under award as at 31.03.21[3]	Exercise price (£)	Face value of awards (£)[4]	Date on which awards vest/ become exercisable[5]	Expiry date
Matthew Gregory[6]	LTIP	24.11.17	730,420	–	87,650	642,770	–	nil	765,334.08	01.04.20	01.04.21
		05.07.18	909,550	–	–	–	909,550	nil	773,390.37	01.04.21	01.04.22
		14.11.18	232,998	–	–	–	232,998	nil	194,693.13	01.04.21	01.04.22
		19.08.19	1,079,748	–	–	–	1,079,748	nil	1,294,185.95	01.04.22	01.04.23
		24.09.20	–	3,164,556	–	–	3,164,556	nil	1,230,062.92	01.04.23	01.04.24
	Deferred bonus shares	16.06.17	162,187	–	162,187	–	–	nil	227,451.05	16.06.20	15.06.27
		19.06.18	86,958	–	–	–	86,958	nil	72,662.10	19.06.21	19.06.22
		02.07.19	138,406	–	–	–	138,406	nil	136,246.87	02.07.22	02.07.23
Ryan Mangold[6]	LTIP	19.08.19	765,175	–	–	–	765,175	nil	917,138.76	01.04.22	01.04.23
		24.09.20	–	1,962,274	–	–	1,962,274	nil	762,735.90	01.04.23	01.04.24
Group Employee Director											
Anthony Green	SAYE	06.12.18	1,542	–	–	–	1,542	0.70	1,336.91	01.02.22	31.07.22

1 LTIP – nil cost options granted under the Long Term Incentive Plan (see page 122 for further information)

Deferred bonus shares are granted in the form of nil cost options under the EABP (see page 134 for further information)

SAYE – option granted under the Sharesave Plan (see page 135 for further information)

Participants are entitled to receive accrued dividends and dividend equivalents under the LTIP and EABP pro-rated in proportion to the amount of the award that vests.

2 The market value of shares on the date of exercise was £78,799.

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 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. The face value for the SAYE option has been calculated using the closing mid-market share price on the date of grant.

5 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.

6 LTIP and EABP awards are subject to clawback and malus in line with best practice and investors' expectations and LTIP awards granted in 2019 and 2020 are subject to an additional two-year holding period.

Directors' shareholding, Shareholding guidelines and summary of outstanding share interests (audited)

Under the terms of the Policy submitted for approval by shareholders at the 2021 AGM, Executive Directors will be expected to hold shares or rights to shares in the Company equivalent to a minimum of 200% of base salary within a five-year period from their date of appointment to create greater alignment of the Executive Directors' interests with those of shareholders. This represents an increase for the CFO from 150% to 200%. 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 2021. It shows that Matthew Gregory's current shareholding is 99% of base salary. Ryan Mangold's current shareholding is 49% of his base salary. The value of the Executive Directors' shareholdings has been impacted by the coronavirus-related fall in the Company's share price and 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 while the coronavirus pandemic persists.

The Committee believes that it is an essential part of the Policy that Executive Directors build significant shareholdings. The retention and build-up of equity is important in a long-term business such as FirstGroup as it encourages decisions to be made on a long-term, sustainable basis for the benefit of customers and shareholders.

There has been no change in the Directors' interests in the ordinary share capital of the Company between those set out below and 27 July 2021. The beneficial interests of Directors who held office at 31 March 2021 and their connected persons in the shares of the Company as at that date and 01 April 2020 are shown below.

		Ordinary shares beneficially owned							
Directors	Date of appointment	at 01.04.20 or appointment date if later	at 31.03.21[1]	Unvested Annual Bonus/ SIP Shares[2,3]	Unvested LTIP Shares[4]	Vested but not exercised Annual Bonus/ LTIP awards	Shareholding requirement as % of salary	Current shareholding as % of salary[5,6,7]	% shareholding requirement achieved
Executive Directors									
Matthew Gregory	1 Dec 15	425,063	557,061	225,364	5,386,852	–	200%	99%	50%
Ryan Mangold	31 May 19	187,007	238,661	219	2,727,449	–	150%	49%	31%
Non-Executive Directors[8]									
David Martin	15 Aug 19	100,000	250,000	–	–		–	–	–
Warwick Brady	24 Jun 14	108,701	108,701	–	–		–	–	–
Sally Cabrini	24 Jan 20	–	–	–	–		–	–	–
Anthony Green	15 Sep 20	–	–	–	–		–	–	–
Steve Gunning	1 Jan 19	–	–	–	–		–	–	–
Martha Poulter	26 May 17	60,000	60,000	–	–		–	–	–
David Robbie	2 Feb 18	60,000	160,000	–	–		–	–	–
Julia Steyn	2 May 19	–	–	–	–		–	–	–

1 Ryan Mangold participates in the all employee Share Incentive Plan (SIP). His Partnership Shares are held in trust and are not at risk of forfeiture. Ryan Mangold acquired an additional 733 Partnership Shares between 28 March 2021 and the date of approval of this Report.

2 Annual bonus shares are deferred shares which are subject to continued employment but not subject to further performance conditions.

3 SIP Matching Shares awarded to Ryan Mangold are held in trust and are at risk of forfeiture if the corresponding Partnership Shares are withdrawn from trust within three-years. Ryan Mangold was awarded an additional 98 Matching Shares between 28 March 2021 and the date of approval of this report.

4 LTIP awards are subject to ongoing performance conditions.

5 Based on the closing mid-market share price on 31 March 2021 (£0.9205).

6 Matthew Gregory has until 13 November 2023 to meet the CEO guideline of 200% of base salary.
Ryan Mangold has until 31 May 2024 to meet his current shareholding guideline.

7 The % shown includes the after-tax value of vested but unexercised awards and the after-tax value of unvested EABP awards that are subject to continued employment.

8 Shares for Non-Executive Directors are held outright with no attaching performance conditions.

Annual report on remuneration continued

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 27 March 2021, 1.38% of the Company's issued share capital had been issued for the purpose of the SAYE, BAYE and LTIP 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. As at 27 March 2021, 15,242,776 shares were held by the EBT to hedge outstanding awards of 56,753,874. This means that the EBT holds sufficient shares to satisfy approximately 27% 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 27 March 2021. All will put themselves for election or re-election at the 2021 AGM, with the exception of Jimmy Groombridge who resigned on 29 June 2020 and David Robbie who will stand down from the Board on 30 June 2021.

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
Anthony Green	15 September 2020

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 company boards.

Percentage change in remuneration levels

The table below shows the movement in the salary, benefits, and annual bonus for all Directors 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 believes 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.

			Executive Directors		Non–Executive Directors							
		Average UK employees[2]	CEO[3]	CFO[3,4]	DM[6]	WB	SC[6]	SG	MP[7]	DR[8]	JS[6]	AG[9]
% change to FY21	Salary/Fees[1]	5.2%	(6.7%)	11.4%	(6.7%)	(6.7%)	(5.7%)	(6.7%)	(5.7%)	(4.7%)	(6.7%)	n/a
	Benefits	17.88%	0.2%	16.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	Annual Bonus	(51.4%)	0.0%	0.0%	–	–	–	–	–	–	–	–
% change to FY20	Salary/Fees	3.3%	0.0%	n/a	n/a	0.0%	n/a	n/a	10.3%	17.1%[7]	n/a	n/a
	Benefits	(2.6%)	24.0%	n/a	n/a	0.0%	n/a	n/a	100.0%	0.0%	n/a	n/a
	Annual Bonus	25.7%	0.0%	0.0%	–	–	–	–	–	–	–	–

1 Directors' salary/fee figures present actual FY21 after the voluntary 20% reduction between 1 April to 31 July 2020

2 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 Benefits reflects the inclusion of Avanti employees for a full year. No management bonuses were paid in the Rail business in FY21.

3 No annual bonus was paid to the CEO or CFO in respect of FY20 or FY21.

4 Ryan Mangold was appointed to the Board as CFO on 31 May 2019 and therefore his reported salary for FY20 was for ten months of the year only. This explains the apparent year-on-year increase.

5 The prior year was a composite figure for three individuals. Wolfhart Hauser had 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 FY19 and FY20.

6 David Martin, Sally Cabrini and Julia Steyn were appointed on the Board in FY20 and no comparison to FY19 is therefore available. The comparison to FY21 has been made on the basis of FY20 on an annualised basis.

7 Martha Poulter was appointed as Chair of the Board Safety Committee on 30 September 2019. The comparison to 2020/21 has been made on the basis of 2019/20 on an annualised basis.

8 David Robbie was appointed SID on 31/05 May 2020 and received additional fees for acting as interim Chairman in 2019/20. The comparisons have been made on an annualised basis of ongoing fees.

9 Anthony Green was appointed on the Board in FY21 and no comparison to FY20 is therefore available

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.

	FY21 £'m	FY20 £'m	% change
Adjusted operating profit[1]	**209**	257	(18%)
Distributions to shareholders	**–**	–	–
Total employee pay[2]	**2,868**	3,613	(21%)

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 FY21 was 89,053 (FY20: 103,464).

Annual report on remuneration continued

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 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.

After each meeting, the Chair of the Committee presents a report on its activities to the Board.

Committee membership and attendance as at 27 March 2021

Committee member	Member since	Meetings attended
Sally Cabrini (Chair)	24 Jan 2020	7/7
David Robbie	2 Feb 2018	7/7
Julia Steyn	2 May 2019	7/7

The Committee met on seven occasions (four scheduled meetings and three non-scheduled meetings) during the year with all of its members in attendance at all times.

The Chairman, Chief Executive, Group HR Director, and General Counsel and Company Secretary will normally attend meetings by invitation, to provide advice and respond to specific questions. Other attendees may include the Chief Financial Officer, the Group Corporate Services Director, the Group Head of Reward, and the Committee's external remuneration adviser. Attendees are not involved in any decisions and are specifically excluded from any matter concerning their own remuneration. The Deputy Company Secretary act as secretary to the Committee.

The Committee's key responsibilities include determining;

	Senior Management	
	Executive Directors	Executive Committee
Performance Framework	●	
Remuneration Policy	●	●
Actual remuneration and benefits	●	●
Annual Bonus and Long Term Incentive Measures and Targets	●	●

In addition, the Committee has the responsibility for determining the Chair of the Board's remuneration. The Committee monitors the level and structure of remuneration for senior executives below Senior Management and makes recommendations if appropriate to ensure consistency and alignment with FirstGroup's remuneration objectives. The Committee 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. In exercising its responsibilities, the Committee takes into account a variety of stakeholder considerations. The Committee operates within an agreed set of Terms of Reference, which it reviews annually. They were last updated on 10 March 2021 and can be viewed on the Company's website.

The Chair of the Board was consulted on remuneration proposals affecting the Chief Executive, and the Chief Executive was consulted on proposals relating to the CFO and Senior Management.

Principles

The principles that underpin the Committee's approach to executive remuneration are set out in section 'Directors' Remuneration Policy'. The Committee considered the provisions of the UK Corporate Governance code, and has sought to reflect the principles of clarity, simplicity, risk management, predictability, proportionality, and alignment to culture in deciding FY21 pay outcomes and developing FY22 policy.

Who supports the Committee?

The Committee has appointed independent external remuneration advisers, Willis Towers Watson (WTW). They are solely responsible for their appointment, retention and termination and for approval of the basis of their fees and other terms. The Chair of the Committee agrees the protocols under which WTW provide advice.

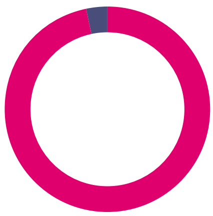
WTW is a member of the Remuneration Consultants Group Code of Conduct and adheres to this Code in its dealings with the Committee. The Committee reviews the appointment of its advisers annually and is satisfied that the advice it receives is objective and independent. During the course of the year WTW 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. WTW fees for advice provided to the Committee were £153,750 (2019/20: £62,450 plus £111,050 paid to the previous advisors PwC), charged on a time-spent basis.

Shareholder voting on remuneration

At the 2020 AGM, shareholders approved the Remuneration Report that was published in the 2019/20 Annual Report and Accounts. Shareholders approved the current Directors' Remuneration Policy at the 2018 AGM and that policy applies for three-years from the date of approval. The results of these votes are shown below, together with the result of previous shareholder votes on remuneration resolutions since 2015.

To approve the remuneration report at the 2020 AGM

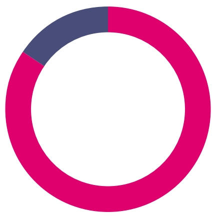
2020 AGM voting



● Votes for	**982,886**
● Votes against	**31,056**
Votes withheld	**128,233**

To approve the Directors' Remuneration Policy at the 2018 AGM

2018 AGM voting



● Votes for	**787,510,512**
● Votes against	**144,272,299**
Votes withheld	**5,492,503**

* 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.

To approve the relevant Remuneration Report	Votes For	Votes Against
2020 AGM	99.99%	0.01%
2019 AGM	76.32%	23.68%
2018 AGM	96.37%	3.63%
2017 AGM	91.32%	8.68%
2016 AGM	96.53%	3.47%

To approve the Directors' Remuneration Policy	Votes For	Votes Against
2018 AGM	84.52%	15.48%
2015 AGM	92.82%	7.18%

Further engagement

In line with provision 3 of the Code, the Committee Chair welcomes questions from shareholders on the Committee's activities. 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' remuneration policy

The Directors' Remuneration Policy sets out:

- summary of proposed changes to the Directors' Remuneration Policy, page 132
- Directors' Remuneration Policy, page 133
- Non-Executive Directors' Remuneration Policy, page 141

Remuneration Policy changes

The forthcoming 2021 AGM marks the third anniversary of the approval of our remuneration policy and as such, we are required to put a new Policy to a binding shareholder vote and we look forward to the continuing high levels of shareholder support as we have secured in the past. The Policy is the framework for setting the pay of the Executive Directors, Non-Executive Directors, and the Group's Executive Team. While the shareholder-approved policy applies to the most senior executives in the business, the Committee has also reviewed remuneration and incentives more widely, taking these into account when setting this policy.

In conducting the review, the Committee were cognisant of the plans to divest of our US businesses and the significant impact this would have on the Group's future size, shape, and strategy. Therefore, the proposed changes are minimal and focused on further alignment of FirstGroup with current market and governance best practice. Once these strategic objectives are achieved the Group will be a UK-based transportation provider with bus and rail operations at its core. With that greater clarity on the future shape of the Group, the Committee may take the opportunity to put a new Policy to a shareholder vote ahead of the typical three-year anniversary.

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

- alignment with strategy and business objectives
- rewarding performance
- performance-based framework
- competitive remuneration
- simplicity and transparency.

The Executive Directors' remuneration structure is made up of a fixed element of basic pay and two variable elements: the annual bonus (50% delivered in shares) and the Long Term Incentive Plan (LTIP). Variable pay outcomes are conditional on health and safety the successful execution of the operating plan in the short-term and the delivery of strategic goals and financial outperformance over the longer term. The award of shares under the bonus and LTIP, along with significant shareholding requirements, is intended to ensure executives have a sizeable shareholding in FirstGroup plc, the Company, and experience the same outcomes as shareholders.

During 2020 and 2021 the Committee reviewed the remuneration Policy to ensure that it remains fit for purpose, is aligned to the business strategy, and complies with the Companies Act, relevant regulatory requirements (including the six principles set out in provision 40 of the UK Corporate Governance Code of clarity, simplicity, risk, predictability, proportionality and alignment to culture) and latest investor guidelines. A key component of the Committee's review included a consultation exercise with our largest shareholders. This indicated that the broad policy framework could be continued for the next policy period, with some relatively minor refinements to align to the Code and investor guidelines.

No changes are therefore proposed to the structure or quantum of the annual bonus or LTIP. The review, has also provided an opportunity to formalise some of the best practice that we have already adopted, for example Executive Directors' pension contribution levels (at 15% of salary) are already aligned with the value of pension benefits provided to the wider workforce, and the Policy will be formally updated to reflect this. This level would also apply to any new appointments.

The Committee considers that the new Directors' remuneration policy is clear and as simple as possible, while incorporating the necessary safeguards to ensure a strong link between performance and reward and, further, ensuring that failure cannot be rewarded. The incentive plans align to the business strategy and culture and provide for a rounded assessment of performance. The overall structure of the package provides a market-competitive remuneration opportunity with proportionate levels of pay that vary with performance. Furthermore, the Committee has demonstrated in recent years that it is prepared to use discretion to reduce a formula-driven outcome when this does not reflect broader Company performance or the shareholder experience.

A summary of the main proposed changes to the Policy for the Executive Directors is outlined below. No changes are proposed to the Policy for Non-Executive Directors.

Remuneration element	Proposed changes to Policy	Rationale for change
Shareholding guidelines	Increase shareholding guideline to 200% of base salary for all Executive Directors to be built up within five-years. The introduction of a post-employment shareholding guideline of 100% of the in-employment guideline for the first year post-cessation, dropping to 50% of the in-employment guideline for the second year (or the full actual holding if lower). This will apply to awards granted from the date of the Policy.	The current CEO's shareholding requirement is already 200% and for Executive Directors it is 150%.
Long Term Incentive	To provide increased flexibility to allow LTIP awards to be based on one performance measure.	The current Policy is unusually prescriptive therefore we are making a minor amendment to ensure the LTIP can be based on one performance measure if appropriate. The approach to performance measurement, including the rationale for any change, will be fully disclosed in the relevant Directors' Remuneration Report.

As outlined on page 110, the updated Directors' remuneration policy, the 'Remuneration Policy', will be subject to a vote at the 2021 AGM on 13 September. The Remuneration Policy for the Company has been prepared in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2013, and taking account of the principles of the UK Corporate Governance Code, the 'Code'. The Remuneration Committee, 'the Committee', has also taken 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 on developments in the remuneration aspects of corporate governance generally and any changes to the Company's executive pay arrangements in particular. The Remuneration Policy will take effect from the date it is approved.

Remuneration Policy for Executive Directors

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Salary			
To attract and maintain high calibre executives with the attributes, skills and experience required to deliver the Group's strategy	Typically reviewed annually, effective from 1 April. Any increases take account of: ■ Company and individual performance and experience ■ role and responsibilities ■ market positioning ■ external indicators, such as inflation and market conditions ■ pay increases of Group employees. No recovery or withholding applies.	Salary increases (in percentage of salary terms) for Executive Directors will normally be within the range of those for Group employees. Where the Committee considers it necessary or appropriate, larger increases may be awarded in individual circumstances, such as a change in scope or responsibility. The Committee has the flexibility to set the salary of a new hire at a discount to the market level initially and to realign it over the following years as the individual gains experience in the role. In exceptional circumstances, the Committee may agree to pay above market levels to secure or retain an individual who is considered by the Committee to possess significant and relevant experience that is critical to the delivery of the Company's strategy.	Not applicable
Benefits			
Provide market competitive benefits to assist in attracting and retaining executives and to support them in the performance of their roles.	A range of benefits may be provided including, but not limited to, provision of Company car (or cash equivalent), private medical insurance, life assurance, long-term disability insurance, general employee benefits and travel and related expenses. The Committee retains the discretion to offer additional benefits as appropriate, such as assistance with relocation, tax equalisation and overseas tax advisory fees. No recovery or withholding applies.	The cost of benefits is not pre-determined, reflecting the need to allow for normal increases associated with the provision of benefits.	Not applicable
Pension benefits			
Allows executives to build long-term savings for their retirement, ensures the total remuneration package is competitive and aids retention.	Payment may be made into a pension scheme or delivered as a cash allowance. No recovery or withholding applies.	Executive Directors receive a pension contribution or cash allowance of up to 15% of base salary.	Not applicable.

Directors' remuneration policy continued

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Annual bonus			
To focus on the delivery of annual goals, to strive for superior performance and to achieve specific targets which support the strategy. Deferred share element encourages retention and provides a link between the bonus and share price growth.	Bonuses are awarded annually under the Executive Annual Bonus Plan (EABP). At least half the bonus awarded in any year will be deferred into shares, normally for a period of three-years. The EABP is reviewed annually to ensure performance measures and targets are appropriate and support the strategy. An amount of up to 25% of the maximum may be payable for threshold performance. The Committee has discretion to permit a dividend equivalent amount to accrue on shares which vest under the EABP. The rules of the EABP contain malus and clawback provisions to take account of exceptional and adverse circumstances. Cash bonus payments can be clawed back up to the third anniversary of payment and deferred share awards can be scaled back before they vest.	The maximum annual bonus opportunity for the Executive Directors is 150% of salary.	The bonus is based on a combination of financial, operational, and individual metrics, which the Committee may review from time to time. The precise allocation between financial and non-financial metrics (as well as weightings within these metrics), will depend on the strategic focus of the Company from year-to-year. At least half of any award will be subject to financial measures. Vesting of deferred shares is dependent on continued employment or good leaver status. The Committee retains the discretion, acting fairly and reasonably, to alter the bonus outcome in light of the underlying performance of the Company, taking account of any factors it considers relevant. The Committee will consult with major investors before any exercise of its discretion to increase the bonus outcome.
Long Term Incentive Plan (LTIP)			
Incentivises the execution of strategy, and drives long-term value creation and alignment with longer term returns to shareholders.	Awards under the LTIP are conditional rights to receive shares or nil-cost options over shares, subject to continued employment or good leaver status and one or more performance conditions. An amount of up to 20% of the maximum may be payable for threshold performance, with maximum vesting being equal to 100% of any award made. Shares which vest under the LTIP are typically subject to an additional holding period of two-years following the three-year performance period. Shares may be sold in order to satisfy tax or other relevant liabilities as a result of an award vesting. The Committee has discretion to permit a dividend equivalent amount to accrue on shares which vest under the LTIP. The rules of the LTIP contain malus and clawback provisions to take account of exceptional and adverse circumstances. LTIP awards can be scaled back before vesting. Where awards have vested, they may be clawed back up to the fifth anniversary of grant.	Normal award policy is for a maximum annual award opportunity of 200% of base salary for the Chief Executive and 175% for other Executive Directors. In exceptional circumstances, awards of up to 300% of base salary may be made, such as to aid recruitment.	LTIP awards will be subject to the achievement of one or more stretching targets designed to incentivise performance in support of the Group's strategy and business objectives usually measured over a three-year performance period. The Committee determines the measure(s), where there is more than one measure, their relative weightings and the target(s) for each award. The Committee retains the discretion, acting fairly and reasonably, to alter the LTIP vesting outcome in light of the underlying performance of the Company during the performance period, taking account of any factors it considers relevant. The Committee will consult with major shareholders before any exercise of its discretion to increase the LTIP vesting outcome.

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
All-Employee Share Plans			
To encourage all employees to make a long-term investment in the Company's shares in a tax efficient way.	Opportunity to participate in Save As You Earn (SAYE) and the Share Incentive Plan (known as Buy As You Earn or BAYE) on the same terms as other eligible employees. No recovery or withholding applies.	The maximum participation level is in accordance with HMRC limits.	Not applicable
Shareholding Guidelines			
To ensure that Executive Directors' interests are aligned with those of shareholders over a longer term time period	**During employment** The Executive Directors are expected to hold shares or rights to shares equivalent in value to a minimum of 200% of base salary within a five-year period from the later of their date of appointment or the initial approval of and, if appropriate, subsequent amendments to, this Remuneration Policy. For these purposes, rights to shares includes the estimated after-tax value of EABP awards and vested LTIP awards, including those subject to a holding period, but does not include any unvested LTIP awards. **Post employment** Following cessation Executive Directors are normally expected to hold: ■ the in-employment guideline (or full actual holding if lower) for the first year following cessation of employment; and ■ 50% of the in-employment guideline (or full actual holding if lower) for the second year following cessation of employment. This guideline will apply to share awards granted under incentive plans from the date the Remuneration Policy is approved and will not cover shares purchased outright by an Executive Director.	Not applicable	Not applicable

Directors' remuneration policy continued

EABP and Long Term Incentive Plan

The Committee operates within the Remuneration Policy at all times. It will also operate the EABP and LTIP according to the rules of each respective plan and consistently with normal market practice and the Listing Rules, including flexibility in a number of areas. How the Committee will retain flexibility includes:

- when to make awards and payments
- how to determine the size of an award, a payment, or when and how much of an award should vest
- who receives an award or payment
- how to deal with a change of control, restructuring or any other corporate event of the Group
- whether an Executive Director or senior manager is a good or bad leaver for incentive plan purposes and what proportion of awards vest, if any, at the time of leaving or at the original vesting date(s)
- how and whether an award or its performance condition(s) may be adjusted in certain circumstances, e.g. change of accounting policy
- the choice of (and adjustment of) performance measure(s), weighting(s) and target(s) for each incentive plan from year-to-year in accordance with the Remuneration Policy set out above and the rules of each plan
- amending plan rules in accordance with their terms.

Any use of the above discretions would, where relevant, be explained in the Annual Report on Remuneration and may, as appropriate, be the subject of consultation with the Company's major shareholders.

Malus and clawback

Malus and clawback provisions apply to the annual bonus (including deferred share awards) and LTIP awards and may be operated at the Remuneration Committee's discretion where it determines that there are exceptional circumstances. Such exceptional circumstances may include:

- a material misstatement (including any omission) in the Company's financial results
- where the award, or the vesting outcome of the award, was based on an error, or on inaccurate or misleading information
- any form of misconduct
- insolvency or corporate failure
- regulatory censure or significant reputational damage.

Corporate events

In the event of a change of control or winding-up of the Company, unvested share awards granted under the EABP and the LTIP will normally vest early. The number of shares which may vest under LTIP awards in these circumstances will be subject to any relevant performance conditions and, unless the Committee determines otherwise, time pro-rating. The Committee will determine the number of shares in respect of which an EABP award vests at its discretion. In the event of a demerger, distribution (other than an ordinary dividend) or other transaction which, in the opinion of the Committee, would affect the share price, the Committee may allow EABP and LTIP awards to vest subject, in the case of LTIP awards, to any relevant performance conditions and, if the Committee so decides, time pro-rating.

Setting performance measures and targets

In determining the levels of executive reward, the Committee places considerable emphasis on ensuring a strong and demonstrable link between actual remuneration received and the delivery of FirstGroup's strategic plans. The measures and weightings used under the EABP are selected annually to reflect the Group's key strategic initiatives for the year and reflect both financial and non-financial objectives. The targets for the EABP are set by reference to the Company's strategy and internal budgets as well as the external context, such as market forecasts. This approach seeks to ensure that the targets are appropriately challenging.

The LTIP provides a focus on delivering superior returns to shareholders by providing rewards for longer-term growth and shareholder return outperformance. The Committee reviews annually whether the performance measures, weightings and calibration of targets remain appropriate and sufficiently challenging taking into account the Company's strategic objectives and shareholder interests.

All-employee share plans awards are not subject to performance conditions in line with the treatment of such awards for all employees and in accordance with the applicable tax legislation.

Group employee considerations

In setting the remuneration of the Executive Directors, the Committee takes into account the overall approach to rewarding employees in the Group. FirstGroup operates in a number of markets and its employees carry out a diverse range of roles across the UK and US. All employees, including Directors, are paid by reference to the market rate and base salary levels are reviewed regularly. When considering salary increases for Executive Directors, the Committee pays close attention to pay and employment conditions across the wider workforce.

The key difference between Executive Director remuneration and other employees is that, overall, the remuneration Policy for Executive Directors is more heavily weighted towards variable pay linked to business performance than for other employees, so that remuneration will increase or decrease in line with business performance and align the interests of Executive Directors and shareholders. In particular, long term incentives are provided only to the most senior executives as they are reserved for those considered to have the greatest potential to influence overall levels of performance. The Committee does not formally consult with employees on Executive Director remuneration, however, as a result of the Company's all-employee share plans, UK-based employees are able to become shareholders in the Company and can comment on the Remuneration Policy in the same way as other shareholders. In addition, the Company provides a number of forums for employees to provide feedback as well as receiving employee views from the Group Employee Director.

Legacy arrangements

The Company may make any remuneration payments and payments for loss of office to satisfy commitments agreed prior to the approval of this Remuneration Policy notwithstanding that they are not in line with the Remuneration Policy set out above, provided that such payments were consistent with the Directors' remuneration policy in force at the time they were agreed. This includes previous incentive awards that are currently outstanding, and which have been disclosed to shareholders in previous remuneration reports. The Company may also make any remuneration payments and payments for loss of office outside of this Remuneration Policy in order to satisfy legacy arrangements made to an employee prior to (and not in contemplation of) joining the Board of Directors. All historic awards that were granted, but remain outstanding remain eligible to vest based on their original award terms.

Minor amendments

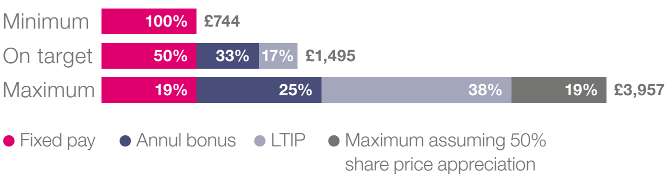
The Committee may make minor amendments to the Remuneration Policy (for example, for tax, regulatory, exchange control or administrative purposes) without obtaining shareholder approval.

Reward scenarios

The graphs below provide an indication of the reward opportunity for each of the current Executive Directors based on their roles as at 01 April 2021.

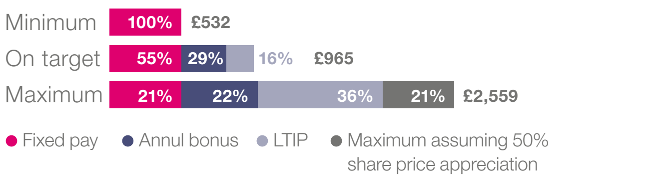
Chief Executive

Total remuneration (£'000s)



Chief Financial Officer

Total remuneration (£'000s)



The basis of calculation and key assumptions used to complete the charts are as follows:

Minimum – Only fixed pay is payable, i.e. base salary, benefits and pension or cash in lieu of pension. No bonus is payable, and no vesting achieved under the LTIP. The Executive Directors' pension benefit is included at 15% of salary.

On-target – Fixed pay plus 50% of maximum annual bonus pay-out and 20% vesting under the LTIP.

Maximum – Fixed pay plus 100% of maximum annual bonus pay-out and 100% vesting under the LTIP.

Maximum + 50% share price growth – In addition a maximum scenario showing maximum +plus 50% share price growth has been included.

For the minimum, on-target and maximum scenarios, it is assumed that the share price will remain unaltered.

Directors' remuneration policy continued

Approach to recruitment remuneration

The Committee believes it is vital to be able to attract and recruit high-calibre executives who are focused on delivering the Group's strategic plans, while relating reward to performance in the context of appropriate risk management, and aligning the interests of Executive Directors and senior managers with those of shareholders to build a sustainable performance culture.

The Committee's approach when considering the overall remuneration arrangements in the recruitment of a new Executive Director is to take account of his or her remuneration package in their prior role, the market positioning of the remuneration package and not to pay more than is necessary to facilitate their recruitment.

The remuneration package for a new Executive Director will be set in accordance with the terms of the Company's normal Remuneration Policy as set out above, modified as follows:

Salary	The salary level shall take into account Executive Director salaries paid by companies in the comparator group, which comprises companies that are broadly in line with FirstGroup's size, structure and complexity and have features that are comparable to FirstGroup. The Committee has the flexibility to set the salary of a new Executive Director at a discount to the market level initially, with a series of higher than usual increases implemented over the following few years to bring the salary to the desired positioning, subject to individual performance.
Benefits	The Company may award certain additional benefits and other allowances including, but not limited to, those to assist with relocation support, temporary living and transportation expenses, educational costs for children and tax equalisation to allow flexibility in employing an overseas national.
Pension benefits	Any new Executive Director based outside the UK will be eligible to participate in pension or pension allowance, insurance and other benefit programmes in line with local practice.
Annual bonus	The maximum bonus opportunity shall be 150% of base salary.
Long Term Incentive Plan	The maximum opportunity shall be 200% of base salary for a newly recruited Chief Executive and 175% of base salary for other newly recruited Executive Directors. However, a maximum opportunity of 300% of base salary may be used in exceptional circumstances, in addition to any buy-out of forfeited awards.
Buyout awards	The Committee may grant such cash or replacement share-based awards, if any, as it considers are reasonably necessary to facilitate the recruitment of a new Executive Director in the circumstances. This includes an assessment of the awards and any other compensation or benefits item that would be forfeited on leaving their current employer. The value of these payments would not exceed what is considered by the Committee to be a fair estimate of remuneration lost when leaving the former employer and would reflect, as far as possible, the nature and time horizons attached to that remuneration and the impact of any performance conditions. If the Executive Director's former employer pays a portion of the remuneration that was deemed forgone, the replacement payments will be reduced by an equivalent amount.
Relocation policies	In instances where the new Executive Director is required to relocate or spend significant time away from their normal residence, the Company may provide compensation to reflect the cost of relocation, including up to two-years temporary provision of accommodation and associated moving costs. The level of the relocation package will be assessed on a case-by-case basis but will take into consideration, amongst other items, any cost-of-living differences, housing allowances and schooling. Where an Executive Director leaves within two-years of their appointment, the Committee has the discretion to clawback part or all of the relocation package.
Notice periods	The Committee shall utilise notice periods of up to 12 months.

For the appointment of a new Chairman or Non-Executive Director, the fee arrangement shall be set in accordance with the normal Remuneration Policy as set out below.

In the case of an internal executive appointment, any variable pay element awarded in respect of the prior role will be allowed to pay out according to its existing terms, adjusted as relevant to take into account the appointment. In addition, any other ongoing remuneration obligations existing prior to appointment will continue

Executive Directors' service agreements

The Executive Directors' service agreements, including arrangements for early termination, are carefully considered by the Committee, and are designed to recruit, retain, and motivate Executive Directors of the calibre required to manage the Company. The Committee's policy is for Executive Directors' service contracts to be terminable on no more than one-year's notice. The details of existing Executive Directors' service contracts are summarised in the table below:

Executive Director	Date of service contract	Notice period
Matthew Gregory	1 December 2015	12 months
Ryan Mangold	31 May 2019	12 months

Policy on payment for loss of office

Executive Directors' service agreements contain provisions for payment in lieu of notice. The Company is unequivocally against rewards for failure; the circumstances of any departure, including the individual's performance, would be taken into account in every case. Executive Directors' service agreements are kept available for inspection by shareholders at the Company's registered office.

Service agreements may be terminated without notice and without payment in lieu of notice in certain circumstances, such as gross misconduct. The Company may require the Executive Director to work during their notice period or may choose to place the individual on 'garden leave', for example to ensure the protection of the Company's and shareholders' interests where the Executive Director has access to commercially sensitive information.

The Committee reserves the right to make any other payments in connection with an Executive Director's cessation of office or employment where the payments are made in good faith, in discharge of an existing legal obligation (or by way of damages for breach of such an obligation), by way of a compromise or settlement of any claim arising in connection with the cessation of the Executive Director's office or employment or to strengthen the Group's rights post-termination. Any such payment may include, but is not limited to, paying reasonable relocation costs, including possible tax exposure costs, any reasonable level of fees for outplacement assistance and/or the Executive Director's legal or professional advice fees in connection with his cessation of office or employment.

Directors' remuneration policy continued

In the event of an Executive Director's departure, any outstanding share awards will be treated in accordance with the plan rules as follows:

Plan	Treatment on Cessation
Salary, Benefits and Pension	These will be paid over the notice period and are subject to mitigation. The Company has discretion to make a lump sum payment in lieu.
EABP	**Good leaver reason*** Where an individual is considered a good leaver* a performance-related bonus may be paid. This will usually be based on the proportion of the bonus year for which the individual has been actively employed and bonus (if any) will be paid at the normal time, although the Committee retains discretion to pay it earlier in appropriate circumstances. **Other reason** The EABP provides no entitlement to a bonus following cessation of employment, unless the leaver is considered a good leaver.
Deferred Share Awards	**Good leaver reason*** Where an individual is considered a good leaver*, unvested EABP deferred share awards will typically vest at the end of the vesting period, although the Committee may accelerate vesting. Where an award vests early, time pro-rating will apply unless the Committee determines otherwise. In the case of death, all outstanding awards will vest in full immediately. **Other reason** Unvested EABP deferred share awards will normally lapse on cessation of employment or, at the Committee's discretion, on service of notice of termination of employment.
Long Term Incentive Plan	**Good leaver reason*** Where an individual is considered a good leaver*, unvested LTIP share awards will typically vest at the end of the vesting period subject to time pro-rating and to the extent that any performance conditions have been satisfied as determined by the Committee. The Committee may determine that vesting is accelerated with performance tested at this time. Unless the Committee decides otherwise, the holding period will continue to apply. In the case of death, awards will vest immediately subject to time pro-rating and no holding period will apply. **Other reason** Unvested LTIP awards will normally lapse on cessation of employment.
All-employee share plans	Awards will vest in accordance with the rules of the relevant plan, which do not permit the exercise of any discretion by the Committee.

* A good leaver is defined as a share plan participant who ceases to be employed in the following circumstances: ill-health; injury or disability; statutory redundancy; agreed retirement; employing company ceasing to be a Group company; transfer of employment to a company which is not a Group company; and at the Committee's discretion. Cessation of employment in circumstances other than death or those set out above is cessation for other reasons.

Policy on external appointments

The Committee believes that the Company can benefit from Executive Directors holding one approved Non-Executive directorship of another company, offering Executive Directors the opportunity to broaden their experience and knowledge. Company policy is to allow Executive Directors to retain the fees earned from such appointments.

Chairman and other Non-Executive Directors' letters of appointment

The Chairman and other Non-Executive Directors do not have service contracts, but each has a letter of appointment with the Company. Each letter of appointment generally provides for a three-month notice period. Non-Executive Directors are normally appointed for two consecutive three-year terms, with any third term of three-years being subject to rigorous review, taking into account the need progressively to refresh the Board.

In line with the requirement of the Code, all Non-Executive Directors including the Chairman are subject to annual re-election by shareholders at each AGM. The appointment of each of the Non-Executive Directors is subject to early termination without compensation if they are not reappointed at a meeting of shareholders.

Remuneration policy for the Chairman and Non-Executive Directors

The Chairman and Non-Executive Directors may on occasion receive reimbursement of costs incurred in relation to professional advice. These payments, if made, are taxable benefits to the Non-Executive Director and the tax arising is paid by the Company on the Director's behalf.

Fees for the Non-Executive Directors are determined by the Board as a whole, on the recommendation of the Executive Directors and the Chairman. Fees for the Chairman are determined by the Committee.

The policy on fees for the Chairman and Non-Executive Directors is:

Purpose and link to strategy	To be sufficient to attract, motivate and retain Non-Executive Directors necessary to contribute to a high-performing Board.
Chairman	The fee for the Chairman is determined by the Committee and reflects the commitment, demands and responsibility of the role. The fee is paid monthly and can either be taken in cash or shares or a combination of both. The fee is inclusive of all Committee roles and is not performance-related or pensionable. Limited benefits relating to travel, accommodation and meals may also be payable in certain circumstances, with the tax arising being paid by the Company on the Chairman's behalf. The fee payable to the Chairman may be varied (either up or down) from this level during the three-year period that this Remuneration Policy operates to ensure it continues to appropriately recognise the requirements of the role.
Non-Executive Directors	Fees are determined by the Board, within the limits set out in the Company's Articles of Association, with Non-Executive Directors abstaining from any discussion or decision on their fees. The Board takes account of recognised best practice standards for such positions when determining the fee level and structure. The Non-Executive Directors receive a base fee. Additional fees may be payable for additional responsibilities including chairmanship of the Company's key committees and for performing the Senior Independent Director role. Non-Executive Directors may also receive an allowance in the event they are required to undertake intercontinental travel for the purpose of attending Board or committee meetings or site visits. Fees are paid monthly and can either be taken in cash or shares or a combination of both. Non-Executive Directors' letters of appointment contain provisions for payment in lieu of notice. Other than the Group Employee Director, Non-Executive Directors do not participate in any of the Company's incentive arrangements or receive any pension provision. Non-Executive Directors are reimbursed for expenses and any tax arising on those expenses is settled directly by the Company. To the extent that these are deemed taxable benefits, they will be included in the Annual Report on remuneration, as required. Reasonable costs of travel and accommodation for business purposes are reimbursed to Non-Executive Directors. On the limited occasions when it is appropriate for a Non-Executive Director's spouse or partner to attend, such as to a business event, the Company will meet these costs. The Company will meet any tax liabilities that may arise on such expenses. Fee levels may be varied (either up or down) during the three-year period that the Remuneration Policy operates to ensure they continue to appropriately recognise the time commitment and responsibilities of the role, increases or decreases to fee levels for Non-Executive Directors in general and fee levels in companies of a similar size and complexity.
Group Employee Director	The Group Employee Director's fee is in line with the basic fee of the Non-Executive Directors and is payable in addition to the remuneration received as an employee of the respective Group operating company, which includes participation in any benefit and incentive arrangements and pension scheme.

Consideration of shareholder views

The Committee values its continued dialogue with shareholders and engages directly with them and their representative bodies at the earliest opportunity. Shareholder feedback received in relation to the AGM, as well as any additional feedback and guidance received during the year, is considered by the Committee as it develops the Company's remuneration framework and practices.

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 27 March 2021. Information required to be disclosed in the Directors' report may be found below and are incorporated into the Directors' Report by cross reference to the following sections of the Annual Report and Financial Statements in accordance with the Companies Act 2006 (the 2006 Act) and Listing Rule 9.8.4R of the Financial Conduct Authority.

Information	Page
Sustainability governance	35
Greenhouse gas emissions	55
Likely future developments in the business	13
Risk factors and principal risks; going concern and viability statements	62
Governance arrangements; human rights and anti-corruption and bribery matters	93
Long-term incentive schemes	122
Financial instruments and related market transactions	192

Directors

The Directors of the Company who served during the year, and those appointed after the end of the financial year, are shown on pages 76-79. Jimmy Groombridge, Group Employee Director, stepped down from the Board with effect from 29 June 2020. David Robbie decided not to seek re-election this year and stepped down from the Board with effect from 30 June 2021. Anthony Green was appointed to the Board as Group Employee Director on 15 September 2020. Peter Lynas and Jane Lodge were appointed to the Board effective 30 June 2021 and more recently, Matthew Gregory informed the Board that he would not be seeking re-election at the Company's forthcoming AGM.

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 the extent permitted by law to each of the Directors, the General Counsel & Company Secretary and a number of other executives and senior managers. 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 of the Company or any of its associated companies. Neither the indemnity, nor insurance cover provides cover in the event a Director or Officer is proved to have acted fraudulently or dishonestly. The indemnity is categorised as a 'qualifying third-party indemnity' for the purposes of the Companies Act 2006 and will continue in force for the benefit of Directors and Officers on an ongoing basis.

Conflicts of interest

The Directors have a statutory duty under the Companies Act 2006 to avoid situations in which they have, or can have, a direct or indirect interest that conflicts, or may conflict, with the interests of the Company. This duty is in addition to the existing duty that a Director owes to the Company to disclose to the Board any transaction or arrangement under consideration by the Company. The Company's conflict of interest procedures are reflected in the Articles. In line with the Companies Act 2006, 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 General Counsel & 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 General Counsel & 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. Anthony Green, appointed 15 September 2020, and Peter Lynas and Jane Lodge, both of whom were appointed with effect from 30 June 2021, will therefore retire and submit themselves for election. All other Directors, except for David Robbie and Matthew Gregory will submit themselves for re-election at the forthcoming AGM.

Disclosure of information to the external auditor

Each of the Directors who held office at the date of approval of this report 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 Companies Act 2006.

Share capital

As at 27 March 2021, the Company's issued share capital was 1,221,811,146 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 1,221,653,917 ordinary shares.

Further details of the Company's issued share capital are shown in note 28 to the Company's financial statements.

The Company's shares are listed on the London Stock Exchange.

Substantial shareholdings

As at 27 March 2021, the Company had been notified under the FCA's Disclosure, Guidance and Transparency Rule of the following interests in its total voting rights of 3% or more:

Name of shareholder	Number of ordinary shares	% of total voting rights	Date of notification
Coast Capital Management, LLC	168,200,445	13.79	23 March 2020
Schroders Plc[1]	146,958,561	12.04	1 March 2021
Ameriprise Financial Inc.[2]	133,739,566	10.95	17 February 2021
Lombard Odier Asset Management (Europe) Limited	61,385,767	5.03	24 June 2020
Majedie Asset Management (UK)	60,915,714	4.99	3 February 2021

Between 27 March 2021 and the date of this report:

1 Schroders plc notified the Company on 7 May 2021 that they had decreased their holding to 146,501,916 ordinary shares which represented 11.989% of total voting rights as at the date of notification.

2 Ameriprise Financial Inc. notified the Company on 15 July 2021 that their holding had decreased to 121,529,697 shares which represented 9.943% of total voting rights as at the date of notification.

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 Companies Act 2006. 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.

Going concern and viability

Directors are required to consider if it is appropriate to adopt the going concern basis of accounting. Disclosure of the Directors' deliberations to determine whether it is appropriate to adopt the going concern basis of accounting in addition to consideration of the material uncertainties which may affect the Group's ability to continue to adopt this basis can be found in the Going Concern statement on page 72, the Audit Committee report on page 102 and in note 2 to the financial statements. In summary, the Directors have concluded that it is appropriate to prepare the financial statements on a going concern basis.

Directors are also required to provide a broader assessment of viability over a longer period, which can be found on page 72.

Employee share plans

The Company operates a number of employee share plans, details of which are set out in note 36 and in the Directors' Remuneration Report on page 134.

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.

Employment of disabled persons

Applicants with disabilities are given full and fair consideration during recruitment processes. We are committed to supporting employees with disabilities with regard to training, career development and promotion. Our policies on employee consultation and on equal opportunities for all employees can be found on page 40.

Employee engagement

We remain committed to employee involvement throughout the Group. Employees are kept well informed of the performance and strategy of the Group and other matters of concern through a variety of means including personal briefings, regular meetings, email and broadcasts by the Group Chief Executive and other senior managers. Refer to page 48 and page 90 for further information.

Stakeholder engagement

The Board has determined that the Group's stakeholders are customers, investors, government, employees, communities and our strategic partners and suppliers. The Board is aware that its actions and decisions impact our stakeholders. Effective engagement with stakeholders is important to the Board as it strengthens the business and helps to deliver a positive result for all our stakeholder groups. In order to comply with Section 172 of the Companies Act, the Board is required to take into consideration the interests of stakeholders and include a statement setting out the way in which Directors have discharged this duty during the year. The Group's stakeholders are identified on page 46 of the Strategic Report and the statement of compliance with Section 172 is set out on page 96. Further information on workforce engagement can also be found on page 90.

Purchase of own shares

At the AGM of the Company in 2020 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 121,982,993 ordinary shares. This authority remains in place until the 2021 AGM, when the Company intends to seek a renewal.

Directors' report and additional disclosures continued

Political donations

At the 2020 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 2020 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 $16,000 (2020/21: $19,024) 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 FY21.

See Stakeholders – Government on pages 46 and 37 for our approach to political donations in the US.

Change of control – significant agreements

Financing agreements

As at 27 March 2021, the Group had 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 had 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. The Group also had a £250m bridge term facility for the purpose of refinancing the £350m bond due in April 2021. On 24 March 2021, the Group arranged a further £300m bridge term facility. Following any change of control of the Company, individual lenders may negotiate with the Company with a view to resolving any concerns arising from such change of control. If the matter has not been resolved within 30 days, an individual bank may cancel its commitment and the Company must repay the relevant proportion of any drawdown.

The US$100m 4.17% notes due 2025, US$175m 4.29% notes due 2028, 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 £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 contracted 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 contractual agreement with the Secretary of State for Transport. These 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-contracted 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 operating contracts 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 rail operator and with Trenitalia in relation to the West Coast Partnership rail operator. As is customary, these agreements include provisions addressing change of control.

Post balance sheet events

Information on material events that occurred from 27 March 2021 to the date of this report can be found on page 34 and note 39.

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 and our energy consumption and energy and emissions reduction initiatives are reported on page 55.

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 27 July 2021.

David Isenegger
General Counsel & Company Secretary
27 July 2021
395 King Street, Aberdeen AB24 5RP

Directors' responsibility statement

Statement of Directors' responsibilities in respect of the Financial Statements

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have prepared the Group Financial Statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and the Company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Additionally, the Financial Conduct Authority's Disclosure Guidance and Transparency Rules require the Directors to prepare the Group Financial Statements in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Under Company law, 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 Group and Company and of the profit or loss of the Group for that period. In preparing the Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union have been followed for the Group Financial Statements and United Kingdom Accounting Standards, comprising FRS 101 have been followed for the Company Financial Statements, subject to any material departures disclosed and explained in the Financial Statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the Financial Statements and the Directors' Remuneration Report comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Directors' confirmations

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and Company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed in Board of Directors confirm that, to the best of their knowledge:

- the Group Financial Statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- the Company Financial Statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities, financial position and loss of the Company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the Directors' report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group's and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information.

Ryan Mangold
Chief Financial Officer
27 July 2021
395 King Street, Aberdeen AB24 5RP

Financial statements

This section contains the financial statements, the auditors' report, the accounting policies and the notes to the accounts, together with a glossary of key terms, information for shareholders and the financial calendar.

Financial statements

Consolidated income statement

For the 52 weeks ended 27 March

Continuing Operations	Notes	2021 £m	2020 £m
Revenue	3,5	**4,641.8**	4,642.8
Operating costs	6	**(4,417.5)**	(4,858.0)
Operating profit/(loss)	5,6	**224.3**	(215.2)
Investment income	8	**1.8**	2.6
Finance costs	8	**(150.9)**	(125.6)
Profit/(loss) before tax		**75.2**	(338.2)
Tax	9	**(15.8)**	3.6
Profit/(loss) from continuing operations		**59.4**	(334.6)
Profit from discontinued operations	21	**31.7**	10.0
Profit/(loss) for the year		**91.1**	(324.6)
Attributable to:			
Equity holders of the parent		**78.4**	(327.2)
Non-controlling interests		**12.7**	2.6
		91.1	(324.6)

Earnings per share			
Earnings per share for profit/(loss) from continuing operations attributable to the ordinary equity holders of the company			
Basic earnings per share		**3.9p**	(27.8)p
Diluted earnings per share		**3.9p**	(27.8)p
Earnings per share for profit/(loss) attributable to the ordinary equity holders of the company			
Basic earnings per share	10	**6.5p**	(27.0)p
Diluted earnings per share	10	**6.4p**	(27.0)p

Adjusted results (from continuing operations)[1]			
Adjusted operating profit	4	**101.9**	69.7
Adjusted loss before tax		**(47.2)**	(53.3)
Adjusted EPS	10	**(3.5)p**	(3.4)p
Adjusted diluted EPS		**(3.5)p**	(3.4)p

1 Adjusted for certain items as set out in note 4.

The accompanying notes form an integral part of this consolidated income statement.

Consolidated statement of comprehensive income

52 weeks ended 27 March

	Notes	2021 £m	2020 £m
Profit/(loss) for the year		**91.1**	(324.6)
Items that will not be reclassified subsequently to profit or loss			
Actuarial losses on defined benefit pension schemes	37	**(49.3)**	(29.0)
Deferred tax on actuarial losses on defined benefit pension schemes		**15.5**	1.1
Writing down previously recognised deferred tax assets on actuarial losses on defined benefit schemes		**–**	(25.7)
		(33.8)	(53.6)
Items that may be reclassified subsequently to profit or loss			
Derivative hedging instrument movements	29	**16.4**	(29.3)
Deferred tax on derivative hedging instrument movements		**(3.6)**	5.9
Exchange differences on translation of foreign operations		**(110.9)**	91.3
		(98.1)	67.9
Other comprehensive (loss)/income for the year		**(131.9)**	14.3
Total comprehensive loss for the year		**(40.8)**	(310.3)
Attributable to:			
Equity holders of the parent		**(53.5)**	(312.9)
Non-controlling interests		**12.7**	2.6
		(40.8)	(310.3)

Total comprehensive loss for the year attributable to owners of FirstGroup Plc arises from:	2021 £m	2020 £m
Attributable to:		
Continuing Operations	**18.1**	(400.1)
Discontinued Operations	**(58.9)**	89.8
	(40.8)	(310.3)

The accompanying notes form an integral part of this consolidated statement of comprehensive income.

Consolidated balance sheet

As at 27 March

	Notes	2021 £m	2020 (restated) £m
Non-current assets			
Goodwill	11	**83.9**	1,663.2
Other intangible assets	12	**16.2**	51.9
Property, plant and equipment	13	**2,443.7**	4,374.5
Deferred tax assets	26	**35.0**	33.6
Retirement benefit assets	37	**52.9**	53.2
Derivative financial instruments	25	**1.2**	15.8
Investments	14	**8.3**	32.9
		2,641.2	6,225.1
Current assets			
Inventories	16	**29.4**	63.3
Trade and other receivables	17	**676.7**	1,170.6
Current tax assets		**0.4**	9.8
Cash and cash equivalents	20	**1,438.9**	968.9
Derivative financial instruments	25	**14.9**	4.8
		2,160.3	2,217.4
Assets held for sale – continuing operations	18	**11.9**	1.0
Assets held for sale – discontinued operations	21	**3,479.5**	–
Total assets		**8,292.9**	8,443.5
Current liabilities			
Trade and other payables	19	**1,587.6**	1,816.9
Tax liabilities – Current tax liabilities		**14.4**	7.5
– Other tax and social security		**34.6**	42.9
Borrowings	22	**1,326.2**	776.7
Derivative financial instruments	25	**11.8**	44.2
Provisions	27	**74.4**	232.1
		3,049.0	2,920.3
Net current liabilities		**(888.7)**	(702.9)
Non-current liabilities			
Borrowings	22	**2,492.0**	3,502.9
Derivative financial instruments	25	**1.2**	19.2
Retirement benefit liabilities	37	**324.5**	366.6
Deferred tax liabilities	26	**–**	38.8
Provisions	27	**135.5**	419.0
		2,953.2	4,346.5
Liabilities held for sale - discontinued operations	21	**1,136.6**	–
Total liabilities		**7,138.8**	7,266.8
Net assets		**1,154.1**	1,176.7
Equity			
Share capital	28	**61.1**	61.0
Share premium		**689.6**	688.6
Hedging reserve	29	**(3.4)**	(28.3)
Other reserves	29	**4.6**	4.6
Own shares	29	**(9.0)**	(10.2)
Translation reserve	30	**524.7**	635.6
Retained earnings deficit		**(89.6)**	(141.5)
Equity attributable to equity holders of the parent		**1,178.0**	1,209.8
Non-controlling interests		**(23.9)**	(33.1)
Total equity		**1,154.1**	1,176.7

Prior year restatement is detailed in note 2.

The accompanying notes form an integral part of this consolidated balance sheet.

Ryan Mangold
27 July 2021

Consolidated statement of changes in equity

52 weeks ended 27 March

	Share capital (note28) £m	Share premium £m	Hedging reserve (note 29) £m	Other reserves (note 29) £m	Own shares (note 29) £m	Translation reserve (note 30) £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
Balance at 31 March 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 28 March 2020	61.0	688.6	(28.3)	4.6	(10.2)	635.6	(141.5)	1,209.8	(33.1)	1,176.7
Balance at 29 March 2020	**61.0**	**688.6**	**(28.3)**	**4.6**	**(10.2)**	**635.6**	**(141.5)**	**1,209.8**	**(33.1)**	**1,176.7**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**78.4**	**78.4**	**12.7**	**91.1**
Other comprehensive income/(loss) for the year	**–**	**–**	**12.8**	**–**	**–**	**(110.9)**	**(33.8)**	**(131.9)**	**–**	**(131.9)**
Total comprehensive (loss)/income for the year	**–**	**–**	**12.8**	**–**	**–**	**(110.9)**	**44.6**	**(53.5)**	**12.7**	**(40.8)**
Shares issued	**0.1**	**1.0**	**–**	**–**	**–**	**–**	**–**	**1.1**	**–**	**1.1**
Derivative hedging instrument movements transferred to balance sheet (net of tax)	**–**	**–**	**15.2**	**–**	**–**	**–**	**–**	**15.2**	**–**	**15.2**
Reserves reclassification	**–**	**–**	**(3.1)**	**–**	**–**	**–**	**3.1**	**–**	**–**	**–**
Dividends paid/other	**–**	**–**	**–**	**–**	**–**	**–**	**(1.6)**	**(1.6)**	**(3.5)**	**(5.1)**
Movement in EBT and treasury shares	**–**	**–**	**–**	**–**	**1.2**	**–**	**(6.1)**	**(4.9)**	**–**	**(4.9)**
Share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**11.9**	**11.9**	**–**	**11.9**
Balance at 27 March 2021	**61.1**	**689.6**	**(3.4)**	**4.6**	**(9.0)**	**524.7**	**(89.6)**	**1,178.0**	**(23.9)**	**1,154.1**

The accompanying notes form an integral part of this consolidated statement of changes in equity.

Consolidated cash flow statement

52 weeks ended 27 March

	Notes	2021 £m	2020 (restated) £m
Cash generated by operations	32	**1,358.7**	1,085.9
Tax paid		**(4.5)**	(2.9)
Interest paid		**(149.8)**	(125.9)
Net cash from operating activities	32	**1,204.4**	957.1
Investing activities			
Interest received		**2.0**	2.7
Proceeds from disposal of property, plant and equipment		**119.0**	30.5
Purchases of property, plant and equipment		**(385.5)**	(321.8)
Purchases of software		**(4.1)**	(9.2)
Disposal of businesses		**–**	16.2
Acquisition of businesses	31	**(1.4)**	(21.8)
Net cash used in investing activities		**(270.0)**	(303.4)
Financing activities			
Shares purchased by Employee Benefit Trust		**(4.7)**	(9.8)
Shares issued		**0.5**	4.5
Proceeds from CCFF		**298.2**	–
Drawdowns from bank facilities		**117.7**	122.9
Repayment of bank facilities		**(89.6)**	-
Repayment of loan notes		**(8.7)**	–
Repayments of lease liabilities		**(669.2)**	(596.5)
Fees for finance facilities		**(2.1)**	(2.1)
Net cash flow used in financing activities		**(357.9)**	(481.0)
Net increase in cash and cash equivalents before foreign exchange movements		**576.5**	172.7
Cash and cash equivalents at beginning of year		**886.5**	711.2
Foreign exchange movements		**(19.6)**	2.6
Cash and cash equivalents at end of year		**1,443.4**	886.5

Prior year has been restated and increased by £99.6m at 28 March 2020. Overdrafts of £82.4m had been set off against the cash balance in the prior period. Ring fenced cash has been restated and increased by £17.2m as cash balances relating to companies under the control of First Transit had not been recognised in prior periods.

Cash and cash equivalents are included within current assets on the consolidated balance sheet. Cash and cash equivalents includes ring-fenced cash of £662.9m at 27 March 2021 (28 March 2020: £632.2m). The most significant ring-fenced cash balance are held by the Group's First Rail subsidiaries. All cash in franchised Rail subsidiaries is considered ring-fenced under the terms of the Emergency Measures Agreement. Non Rail ring-fenced cash includes two elements: (1) loss escrow funds maintained by various third-party administrators, the purpose of which is to provide a source of funds for use by the administrators for payment of the self-insurance liability for losses and loss adjustment expenses in accordance with agreements between the administrators and the Business, and (2) balances within First Transit subsidiaries where those subsidiaries act as a disbursement agent on the behalf of their customers and the cash is only allowed to be used to settle customer liabilities.

Cash flows of discontinued operations are shown on note 21.

	Note	2021 £m	2020 £m
Reconciliation to cash flow statement			
Cash and cash equivalents – continuing operations	20	**1,438.9**	920.0
Cash and cash equivalents – discontinued operations		**58.3**	48.9
Cash and cash equivalents – total operations		**1,497.2**	968.9
Bank overdraft		**(53.8)**	(82.4)
Cash and cash equivalents at end of year per consolidated balance sheet		**1,443.4**	886.5

Note to the consolidated cash flow statement – reconciliation of net cash flow to movement in net debt

	Notes	2021 £m	2020 (restated) £m
Net increase in cash and cash equivalents in year		**576.5**	173.2
Increase in debt and IAS17 finance leases		**(292.5)**	(75.8)
Adjusted cash flow		**284.0**	97.4
Payment of lease liabilities		**644.1**	549.2
Inception of new leases		**(210.2)**	(1,828.3)
Fees capitalised against bank facilities and bond issues		**2.1**	0.7
Foreign exchange movements		**78.5**	(24.1)
Other non-cash movements		**(163.4)**	(2.5)
Movement in net debt in year		**635.1**	(1,207.6)
Adjustment for transition to IFRS 16		**–**	(1,168.2)
Net debt at beginning of year		**(3,260.9)**	(885.1)
Net debt at end of year	33	**(2,625.8)**	(3,260.9)

Prior year has been restated and increased by £99.6m at 28 March 2020. Overdrafts of £82.4m had been set off against the cash balance in the prior period. Ring fenced cash has been restated and increased by £17.2m as cash balances relating to companies under the control of First Transit had not been recognised in prior periods.

Adjusted cash flow is stated prior to cash flows in relation to debt and IAS17 finance leases.

The accompanying notes form an integral part of this consolidated cash flow statement.

Notes to the consolidated financial statements

1 General information

FirstGroup plc is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is 395 King Street, Aberdeen, AB24 5RP. The nature of the Group's operations and its principal activities are set out in the Strategic report on pages 4 to 73.

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 in conformity with the requirements of the Companies Act 2006 (IFRS) and the applicable legal requirements of the Companies Act 2006. In addition to complying with international accounting standards in comformity with requirements of the Companies Act 2006, the consolidated financial statements also comply with international financial reporting standards adopted persuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

On 31 December 2020 EU-adopted IFRS was brought into UK law and became UK-adopted international accounting standards, with future changes to IFRS being subject to endorsement by the UK Endorsement Board. The consolidated financial statements will transition to UK-adopted international accounting standards for financial periods beginning 1 April 2021.

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.

As set out on pages 72 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, 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 52 weeks ended 27 March 2021 include the results and financial position of the First Rail business for the year ended 31 March 2021 and the results and financial position of all the other businesses for the 52 weeks ended 27 March 2021. The financial statements for the 52 weeks ended 28 March 2020 include the results and financial position of the First Rail businesses 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 prior year cash and cash equivalents balance has been restated. The total impact is an increase of £99.6m at 28 March 2020 which comprises two restatements. The first for overdrafts of £82.4m which in the prior year were offset against cash balances when the group had no ability for net physical settlement. This has been grossed up and the impact is to increase cash balances by £82.4m with a corresponding increase in borrowings of the same amount. At 31 March 2019, the impact of the correction is to increase borrowings by £81.9m and increase cash and cash equivalents by the same amount. The second restatement is in relation to certain entities, in First Transit, which the group controls that were incorrectly excluded from consolidation in prior years. These have been consolidated in the current year and the effect of this is an increase in cash balances of £17.2m and a corresponding increase in payables of £17.2m. There is no material impact on the consolidated income statement. The impact on the cash flow statement is an increase in cash balance of £99.6m and increase on cash generated from operations of £1.1m. The Group and Company should present a third balance sheet to capture the opening position at 29 March 2020. However, having reviewed the guidance, management has opted instead to present the impact of the restatement in this note only, on the basis of materiality, as there is no impact on net assets.

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.

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 and disposal groups held for sale and discontinued operations

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale 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.

Such assets, or disposal groups, are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognised in profit or loss.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations; or
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the income statement.

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)

Notes to the consolidated financial statements continued

2 Significant accounting policies continued

Revenue recognition

Under IFRS 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.

Note that revenues include contractual and direct fiscal support as a result of coronavirus. This is covered in more detail further on in this note.

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, First Transit contracts in North America and tenders in First Bus. Revenues are recognised as the services are provided over the length of the contract and based on a transaction price which is defined in the terms of the contract.

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 from the DfT 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 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 as agreed between the individual TOCs and the DfT.

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.

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.

First Bus coronavirus related grants

First Bus has received coronavirus related grants are government grants receivable in light of the ongoing coronavirus situation. The amounts principally reflect grants receivable under the Coronavirus Job Retention Scheme (CJRS), the COVID-19 Bus Services Support Grant (CBSSG) scheme, the COVID-19 Support Grant (CSG) scheme for Scotland and the Bus Emergency Scheme (BES) for Wales. Under the CJRS, grant income may be claimed in respect of certain costs to the Group of furloughed employees. CJRS income is recognised in the income statement in the same period in which the related costs are incurred to the extent there is reasonable certainty that the grant will be received. Under the CBSSG, CSG and BES schemes, grant income may be claimed by operators of local bus services to close the shortfall of revenue earned by them during the period affected by coronavirus and the costs incurred by them in that period. The extent to which certain costs are eligible for inclusion in claiming bus support grant income and how certain costs should be determined for the purposes of the schemes remains subject to reconciliation processes. Income is recognised in the income statement in the same period in which the related shortfall of revenue over costs is incurred to the extent there is reasonable certainty that: (a) the Group will comply with the conditions attaching to the grant and (b) the grant will be received and retained by the Group, taking account of the potential adjustments to grant payments as a result of any reconciliation process.

CJRS grant income is disclosed as a negative cost, matching the direct staff costs it relates to. The other coronavirus related grants are disclosed in revenue.

2 Significant accounting policies continued

Leasing

The accounting policy for leasing is 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 1st April 2019 when IFRS16 was adopted. Similarly, £62.7m of the TPE onerous contract provision at 1 April 2019 was reclassified as an opening impairment on ROUA with the remaining balance of £44.2m being reclassified as impairment on ROUA additions in the prior year.

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.

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 25 for details of the Group's policies in respect of foreign exchange risks).

Notes to the consolidated financial statements continued

2 Significant accounting policies continued

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. 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 KPI's of the business. See note 4 for the reconciliation to non-GAAP measures and performance.

Subsequent remeasurements of adjusting items are also recognised as an adjusting item in the future period in which the remeasurement occurs. In the current year non-GAAP adjusting items principally relate to other intangible amortisation charges, strategy costs, rail termination sums net of impairment reversal, impairment of land and buildings, gain on disposal of properties, significant adverse loss development factors on insurance provisions and significant movements in the insurance discount rate.

In addition for the year ended 27 March 2021 the Group has formulated a new performance measure of Rail-adjusted EBITDA. This comprises First Bus and non-contracted First Rail EBITDA plus contracted First Rail dividends minus central costs. As differing contractual Rail arrangements existed in the preceding financial year no comparative to this measure is provided.

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.

Certain Transit Management contracts have defined benefit pension arrangements that are fully indemnified by the authority to which the contract relates. The gross assets and liabilities are recognised along with an amount recoverable from the contracting authorities on the basis that there is limited risk of default and which is also limited to the period of the contract.

Retirement benefit costs are also covered in the critical accounting judgement section of Note 2 below.

2 Significant accounting policies continued

Tax

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date 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 adopted IFRIC 23 Uncertainty over Income Tax Treatments for the first time in the FY20. 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.

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	seven to 17 years straight-line
Other plant and equipment	three 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.

Notes to the consolidated financial statements continued

2 Significant accounting policies continued

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 52 weeks ending 27 March 2021 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 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). There are no material inventory allowances.

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:

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.

2 Significant accounting policies continued

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.

Supplier financing

Supplier financing is initially measured at fair value, and subsequently measured at amortised cost, using the effective interest rate method. The majority of First Student school buses are supplied by one manufacturer. In the current year, this manufacturer provided the Business with an additional supplier finance facility. This facility has a maximum capacity of $250.0m and allows the Business to further defer settling the outstanding balance with the manufacturer. The facility allows the Business to finance the buses on an amortising basis over 7 years with a 25% balloon payment at the end of the term. The facility can be drawn for both US dollar and Canadian dollar amounts due. The US dollar loan interest rate is at a rate of 1-month LIBOR + 2.6% while the Canadian dollar loan value is at a fixed rate of 4.49%. On issuance, this arrangement did not result in any cash flows as short-term payables were converted into this supplier finance facility. Due to its nature, the supplier financing facility is included in note 33 as part of net debt.

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.

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.

Notes to the consolidated financial statements continued

2 Significant accounting policies continued

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. Self-insurance is also covered in the key sources of estimation uncertainty section of note 2 below.

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.

Contractual and direct fiscal support as a result of coronavirus
The Group has received contractual and direct fiscal support as a result of coronavirus. During the year the principal contractual and direct fiscal support recognised comprised £2,900.7m of EMA funding in First Rail, £453.0m of coronavirus recoveries in First Student, £99.7m of CARES Act 5311(f) funding in Greyhound and £266.5m of CBSSG and other funding in First Bus. In addition employee retention credits were received through the CARES Act in the US and the Canada Emergency Wage Subsidy (CEWS) in Canada. First Student received £95.7m, First Transit received £28.9m and Greyhound received £3.2m

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. The grant funding receivable is recognised in other revenue in the period in which the service is provided.

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 27 March 2021 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.

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. Adoptions in the current year include amendments to IAS 1 'Presentation of Financial Statements', amendments to IFRS3 'Business Combinations' and Phase 2 of the 'Interest Rate Benchmark Reform'. There has been no material change as a result of applying these amendments and no significant impact is expected from any of the future standards and amendments that are visible.

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.

Going Concern statement

The Board reviewed an updated base case and a severe but plausible downside scenario, considering the progress made since the Group's announcement of its full year results for the 52 weeks ended 27 March 2020 (FY20) and the potential mitigating actions.

Based on their review of the financial forecasts and having regard to the risks and uncertainties to which the Group is exposed, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the 12 month period from the date on which the financial statements were approved. Accordingly, they continue to adopt a going concern basis of accounting in preparing the consolidated financial statements in this full year report.

In the FY20 results the Group disclosed that the risks and uncertainties facing the Group at that stage of the pandemic indicated that material uncertainty existed that could cast doubt on the Group's and the Company's ability to continue as a going concern. The material uncertainty related 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; 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.

Update since the FY20 results

As noted in the Chief Executive's review and divisional reviews, compared with the position in July 2020 we now have substantially greater clarity about the resilience of our businesses, the contractual arrangements in First Rail through the ERMA in Avanti, NRCs in SWR and TPE, the EMA in GWR, and the fiscal arrangements in place in the UK and North America.

- continued support from governments, school boards and other contract customers throughout the FY21 pandemic period have demonstrated a commitment to maintaining the essential public transport services that the Group operates. In the US, further fiscal support bills are being legislated through Congress in FY22 including significant provision for further support to the public transport sector
- passenger volume levels have outperformed our prior forecast assumptions in year-to-date trading. It is anticipated that governments will continue to support minimum operating service levels through the emergence from the pandemic until social distancing is removed and these services can be run commercially
- management has demonstrated the flexibility of our businesses to generate cash flows well within required debt facility and covenant levels since the pandemic struck
- on 21 July the Group completed the sale of First Student and First Transit to EQT Infrastructure for net proceeds of c.£2.3 billion. The transaction has resulted in a material deleveraging and de-risking of the business.

Evaluation of going concern

The Board evaluated whether it was appropriate to prepare the consolidated financial statements in this report on a going concern basis and in doing so considered whether any material uncertainties exist that cast doubt on the Group's and the Company's ability to continue as a going concern over the next 12 months, and in particular whether any of the circumstances giving rise to the material uncertainties at the 2020 year-end still existed.

Notes to the consolidated financial statements continued

2 Significant accounting policies continued

Consistent with prior years, the Board's going concern assessment is based on a review of future trading projections, including whether the amended banking covenants are likely to be met and whether there is sufficient committed facility headroom to accommodate future cash flows for the going concern period. Divisional management teams prepared detailed, bottom-up projections for their businesses reflecting the impact of the coronavirus pandemic operating environment, including customer revenue recovery where services had been disrupted and what government or contractual support arrangements were in place.

Base case scenario

These projections were the subject of a series of executive management reviews and were used to update the base case scenario that was used for the purposes of the going concern assessment at the 2021 year end. The base case assumes a gradual recovery in passenger volumes as a result of an anticipated lifting of social distancing and travel restrictions in FY22, but that passenger volumes remain below pre-pandemic levels in the going concern assessment period. The macro projections in the updated base case assume that the UK operates in a post-Brexit coronavirus economy. We have not assumed any further North American fiscal support beyond what has already been committed by the federal governments.

Severe, plausible downside scenario

In addition, a severe but plausible downside case was also modelled which assumes a more protracted post-pandemic recovery profile. In Greyhound and First Bus the severe but plausible downside case assumes slower recovery with passenger revenue in the second half of FY22 at an average of 57% and 75% of pre-pandemic levels repsectively. In First Rail, the downside case assumes reduced TOC performance fee awards and operating losses in Hull Trains and East Coast Open Access.

Mitigating actions

If the impact on the Group of the pandemic were to be more protracted than assumed in the base case scenario, the Group would reduce and defer planned growth capex and further reduce costs in line with a lower volume operating environment to the extent that the essential services we operate are not required to be run for the governments and communities we support.

Going concern statement

Based on the scenario modelling undertaken, and the potential mitigating actions referred to above, the Board is confident that the Group's liquidity over the going concern period is sufficient for the business needs.

Defined benefit pension arrangements

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. 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 and 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 while 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 Other Comprehensive Income (OCI). For the 52 weeks ending 27 March 2021 the impact of this alternative approach would be an increase in costs of £54.9m (2020: £63.3m) in the income statement and a debit to OCI of £43.6m (2020: credit of £169.9m). In addition, the balance sheet would reflect a surplus of £56.8m (2020: £155.3m). 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 estimate is the longevity of members. We take specialist advice on this from our actuarial advisers 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.

2 Significant accounting policies continued

The Pension Regulator (TPR) has been in discussions with the RPS (the Scheme) regarding the long-term funding strategy of the Scheme. 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.

The carrying amount of the Group's retirement benefit obligations at 27 March 2021 was a liability of £271.6m (2020: £313.4m). Further details and sensitivities are set out in note 37.

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 and the value of net proceeds realisable from the Greyhound property portfolio. 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.

There are certain contracts in First Transit which are assessed as being for the provision of management services and not employment services. Therefore, the employment costs are accounted for on an agency basis in the income statement. This judgement only applies to the income statement, any liabilities and assets associated with the employment arrangements are accounted for as such in the balance sheet. This has been restated since prior year but with no material impact.

Throughout the year the 4 franchised TOC contracts were operated under the terms of the emergency arrangements (EMAs and ERMAs) put in place by the UK Government in response to the pandemic. Under the initial EMA agreements to 20 September 2020, the DfT waived revenue, cost and contingent capital risk and the TOCs were paid a fixed management fee to operate at agreed service levels, as well as a performance-based fee. The EMAs were replaced in September 2020 by ERMAs for Avanti, SWR and TPE which are similar in structure.

Net EMA and ERMA funding including the management fees and appropriately accrued performance fees are 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 27 March 2021 have been prepared on the basis that there will be a continuation of EMA and ERMA 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. The continuing arrangements for each of the 4 TOCs are explained below.

In May 2021 we agreed the final payment with the DfT to terminate our pre-existing franchise contracts by agreement, which then enabled TPE and SWR to agree National Rail Contracts ('NRC') later that month. These run to 2023 with potential extensions to 2025 and are the first contracts awarded under the Government's new model offering a more appropriate balance of risk and reward for rail operators, passengers and the taxpayer. Under the new NRC agreements, operators no longer take passenger revenue risk, instead receiving a fixed fee for operating the service, with the opportunity to earn additional fees based on performance.

For Avanti, the ERMA is in place to the end of March 2022 and can be extended by a further six months. We are discussing an NRC which could last up to 31 March 2032, with the core and extension periods to be determined. The DfT recently exercised its option to extend the EMA for GWR until 12 December 2021, subsequent to which it is expected that GWR will move on to an NRC in due course.

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 2021 total £13.9m.

Hull Trains is not subject to an EMA or ERMA. It has non-current assets of £34.1m as at 31 March 2021. The impairment assessment of Hull Trains is covered in note 11.

Notes to the consolidated financial statements continued

2 Significant accounting policies continued

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 the Incurred But Not Reported (IBNR) element) 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 £561.6m (2020: £588.9m) as set out in note 27. Of this £477.7m relates to North America where the actuarial range is £401.4m to £523.9m (2020: £527.3m and actuarial range £422.2m to £548.2m). In addition, North America has an additional provision of £24.7m 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.

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.

IBRs applied to new (or modified) leases 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.

3 Revenue

	2021 £m	2020 £m
Services rendered	**1,368.6**	4,268.4
First Rail franchise subsidy receipts	**2,905.9**	369.1
Other revenues	**367.3**	5.3
Revenue from continuing operations	**4,641.8**	4,642.8
Discontinued operations	**2,203.2**	3,111.8
Revenue	**6,845.0**	7,754.6

Disaggregated revenue by operating segment is set out in note 5.

Other income represents recoveries in relation to coronavirus in First Bus 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. 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 KPIs of the business.

Reconciliation of operating profit to adjusted operating profit	**52 weeks ending 27 March 2021 £m**	52 weeks ending 28 March 2020 £m
Operating profit on a continuing basis	**224.3**	(215.2)
Adjustments for:		
Greyhound impairment charges	**–**	186.9
Strategy costs	**15.2**	47.7
Rail termination sums net of impairment reversal	**(95.7)**	–
Impairment of land and buildings	**16.6**	–
Other intangible asset amortisation charges	**1.1**	2.5
Ineffectiveness on derivatives	**0.3**	–
Gain on disposal of properties	**(71.1)**	(1.3)
North America insurance provisions	**11.2**	43.7
Fuel over hedge	**–**	4.3
Increase in SWR performance bond	**–**	1.1
Total operating profit adjustments on a continuing basis	**(122.4)**	284.9
Adjusted operating profit on a continuing basis (note 5)	**101.9**	69.7

Reconciliation of operating profit/(loss) to adjusted operating profit	**52 weeks ending 27 March 2021 £m**	52 weeks ending 28 March 2020 £m
Operating profit/(loss) from discontinued operations	**61.5**	62.5
Adjustments for:		
Strategy costs	**22.0**	10.5
Other intangible asset amortisation charges	**3.0**	2.4
Gain on disposal of properties	**–**	(8.0)
North America insurance provisions	**21.0**	97.6
Transit legal settlements	**–**	4.9
Student losses on onerous contracts	**–**	14.1
Fuel over hedge	**–**	3.1
Total operating profit adjustments from discontinued operations	**46.0**	124.6
Adjusted operating profit from discontinued operations	**107.5**	187.1

Notes to the consolidated financial statements continued

4 Reconciliation to non-GAAP measures and performance continued

Reconciliation of profit/(loss) before tax to adjusted profit before tax and adjusted earnings	52 weeks ending 27 March 2021 £m	52 weeks ending 28 March 2020 £m
Profit/(loss) before tax	**115.8**	(299.6)
Operating profit adjustments – continuing operations	**(122.4)**	284.9
Operating profit adjustments – discontinued operations	**46.0**	124.6
Operating profit adjustments – total operations	**(76.4)**	409.5
Adjusted profit before tax including discontinued operations	**39.4**	109.9
Adjusted tax charge (see below)	**(4.2)**	(24.6)
Non-controlling interests[1]	**(6.1)**	(2.6)
Adjusted earnings including discontinued operations	**29.1**	82.7

1 Statutory non-controlling interests in both 2021 and 2020 principally reflect Avanti West Coast. Adjusted non-controlling interests of £6.6m (2020: £nil) relate to termination sums and other adjustments at South Western Rail.

Reconciliation of tax charge to adjusted tax charge	52 weeks ending 27 March 2021 £m	52 weeks ending 28 March 2020 £m
Tax charge (note 9)	**24.7**	25.0
Tax effect of adjusting items (note 10)	**(30.6)**	39.6
Write back of previously unrecognised deferred tax assets (note 10)	**10.1**	–
Write down of previously recognised deferred tax assets (note 10)	**–**	(40.0)
Adjusted tax charge (including discontinued)	**4.2**	24.6

The adjusting items are as follows:

Strategy costs

The total charge of £37.2m (2020: £58.2m) comprises of £15.2m (2020: £47.4m) from continuing operations and £22.0m (2020: £10.5m) from discontinued operations. The charge comprises £22.0m related to the sale of First Student & First Transit, £7.0m for the proposed sale of Greyhound, £6.9m of costs related to restructuring in Greyhound Canada, including the cost of severance, legal costs, lease termination costs and other costs of closure and £1.3m relates to other costs associated with the rationalisation of the Group.

Rail Termination Sums net of impairment reversal

The Group has agreed franchise termination sums with the DfT in respect of all our obligations under the ERMAs. The agreed amounts are SWR £33.2m (FirstGroup 70% share – the 100% consolidation amount is £47.4m), Nil for TPE (net of other favourable settlements) and Nil for Avanti. These are included in Adjusting Items, together with the agreed settlement and other adjustments under the Net Asset clauses of the ERMA and the release of the impairment provisions relating to SWR and TPE as at 31 March 2020.

	SWR £m	TPE £m	Total £m
Termination sums payable (100% included – FG share £33.2m)	**(47.4)**	**–**	**(47.4)**
Adjustments relating to the Net Asset clauses of the ERMA	**(31.1)**	**6.2**	**(24.9)**
Release of provision for impairment at 31 March 2020	**88.1**	**79.9**	**168.0**
Adjusting items	**9.6**	**86.1**	**95.7**

North America insurance provision

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 $657m. 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 0.8% to 1.65%, creating the requirement to decrease the provision.

4 Reconciliation to non-GAAP measures and performance continued

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 $44.8m or £32.2m (2020: $175.2m or £141.3m); of this charge, $15.6m or £11.2m relates to Greyhound and $29.2m or £21.0m relates to discontinued operations. The charge comprises $57.0m or £41.0m relating to losses from historical claims (of this, $18.6m or £13.4m relates to Greyhound and $38.4m or £27.6m relates to discontinued operations) and a credit of $12.2m or £8.8m relating to the change in the discount rate (of this, $3.0m or £2.2m relates to Greyhound and $9.2m or £6.6m relates to discontinued operations). It is expected that the majority of these claims will be settled over the next five years. Following these charges, the provision at 27 March 2021 stands at $659m (2020: $657m) compared with the actuarial range of $554m to $723m (2020: $551m to $683m). Of the total provision at 27 March 2021, $156m relates to Greyhound and $503m relates to discontinued operations. 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 continues to make improvements to claims management processes. It has been agreed that the self-insurance provisions for First Student and First Transit will transfer under the sale of those business and part of the proceeds from the sale will be used to de-risk the residual self insurance provisions of Greyhound.

Impairment of land and buildings

An impairment charge of £10.0m has been booked in respect of the Aberdeen headquarters and £6.6m for First Bus premises in Southampton.

Other intangible asset amortisation charges

The amortisation charge for the year was £4.1m (2020: £4.9m) 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. This charge is made up of £1.1m from continuing operations and £3.0m from discontinuing operations.

Ineffectiveness on derivatives

There was a charge of £0.3m relating to ineffectiveness on three fuel hedges of £0.2m and an ineffective element on foreign exchange and currency derivatives due to IFRS 13 credit value adjustments of £0.1m.

Gain on disposal of properties

Greyhound recognised a profit of £71.1m on sale of properties in the year (2020: £1.3m continuing and £8.0m discontinued). A gain of £51.6m was recognised on the disposal of property in Los Angeles, California. A gain of £20.2m was recognised on the disposal of property in Denver, Colorado, while a loss of £0.7m was recognised on disposal of a number of other properties in Canada.

Reconciliation of underlying[1] adjusted including discontinued operations[2]	**52 weeks ending 27 March 2021**			52 weeks ending 28 March 2020					
	Reported £m	**Avanti franchise 12 months £m**	**Avanti adjusted £m**	Reported £m	Avanti franchise 3 months £m	Avanti adjusted £m	Effect of foreign exchange £m	Adjusted constant currency £m	**% change**
Revenue	**6,845.0**	**(897.6)**	**5,947.4**	7,754.6	(331.2)	7,423.4	(89.5)	7,333.9	**(18.9)%**
Operating profit	**209.4**	**(29.6)**	**179.8**	256.8	(14.3)	242.5	(0.8)	241.7	**(25.6)%**

Reconciliation of constant currency including discontinued operations[3]	**52 weeks ending 27 March 2021 £m**	52 weeks ending 28 March 2020 (restated) Reported £m	Effect of foreign exchange £m	Constant Currency £m	**% change**
Revenue	**6,845.0**	7,754.6	(89.5)	7,665.1	**(10.7)%**
Adjusted operating profit	**209.4**	256.8	(0.8)	256.0	**(18.2)%**
Adjusted profit before tax	**39.4**	109.9	2.4	112.3	**(64.9)%**
Adjusted EPS	**2.4p**	6.8p	0.2p	7.0p	**(65.7)%**
Net debt	**2,625.8**	3,260.9	(22.5)	3,238.4	**18.9%**

1 Growth excluding the 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 charges, strategy costs, impairments, other intangible asset amortisation charges and any other charges which are included in note 4.

3 Changes 'in constant currency' throughout this document are based on retranslating 2020 foreign currency amounts at 2021 rates.

Notes to the consolidated financial statements continued

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. First Student and First Transit are categorised as discontinued at 27 March 2021. The 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 52 weeks ending 27 March 2021/year ended 31 March 2021 are as follows:

	Continuing Operations					Discontinued Operations			
	First Bus £m	First Rail £	Greyhound[1] £m	Group items[2] £m	Continuing Operations £m	First Student £m	First Transit £m	Group items[2] £m	Total £m
Passenger revenue	383.1	537.7	179.3	–	1,100.1	–	–	–	1,100.1
Contract revenue	46.5	–	–	–	46.5	1,191.8	867.1	–	2,105.4
Charter/private hire	–	–	1.3	–	1.3	18.1	0.6	–	20.0
Rail franchise subsidy receipts	–	2,905.9	–	–	2,905.9	–	–	–	2,905.9
Other	269.3	176.3	142.4	–	588.0	16.3	109.3	–	713.6
Revenue	698.9	3,619.9	323.0	–	4,641.8	1,226.2	977.0	–	6,845.0
EBITDA[3]	100.8	711.1	17.0	(29.1)	799.8	282.6	87.1	–	1,169.5
Depreciation	(68.7)	(607.9)	(26.2)	(2.8)	(705.6)	(223.6)	(32.9)	–	(962.1)
Software amortisation	(1.4)	(1.4)	(2.2)	(0.6)	(5.6)	(3.2)	(2.5)	–	(11.3)
Capital grant amortisation	5.9	6.3	1.1	–	13.3	–	–	–	13.3
Segment results	36.6	108.1	(10.3)	(32.5)	101.9	55.8	51.7	–	209.4
Other intangible asset amortisation charges	–	–	(1.1)	–	(1.1)	(3.0)	–	–	(4.1)
Other adjustments (note 4)	(5.8)	95.7	53.0	(19.4)	123.5	9.3	(31.2)	(21.1)	80.5
Operating profit/(loss)[4]	30.8	203.8	41.6	(51.9)	224.3	62.1	20.5	(21.1)	285.8
Investment income									2.0
Finance costs									(172.0)
Profit before tax									115.8
Tax									(24.7)
Profit after tax									91.1

Other information	First Bus £m	First Rail £m	Greyhound £m	Group items £m	Continuing Operations £m	Discontinued Operations First Student £m	Discontinued Operations First Transit £m	Total £m
Capital additions	24.1	118.5	18.3	–	160.9	246.4	27.8	435.1

Capital additions comprises of intangible asset additions and acquisitions (note 12) and property plant and equipment acquisitions, additions and transfers from right of use assets (note 13)

5 Business segments and geographical information continued

Balance sheet[5]	Total assets £m	Total liabilities £m	Net assets/ (liabilities) £m
Greyhound[1]	**266.1**	**(320.6)**	**(54.5)**
First Bus	**732.1**	**(404.0)**	**328.1**
First Rail	**2,272.0**	**(1,346.4)**	**925.6**
	3,270.2	**(2,071.0)**	**1,199.2**
Group items[2]	**68.9**	**(107.0)**	**(38.1)**
Borrowings and cash	**1,438.9**	**(3,775.3)**	**(2,336.4)**
Taxation	**35.4**	**(48.9)**	**(13.5)**
Total Continuing	**4,813.4**	**(6,002.2)**	**(1,188.8)**
First Student	**2,848.6**	**(467.5)**	**2,381.1**
First Transit	**572.2**	**(274.2)**	**298.0**
Group items[2]	**–**	**(10.0)**	**(10.0)**
Borrowings and cash	**58.3**	**(347.7)**	**(289.4)**
Taxation	**0.4**	**(37.2)**	**(36.8)**
Total Discontinued	**3,479.5**	**(1,136.6)**	**2,342.9**
Total	**8,292.9**	**(7,138.8)**	**1,154.1**

1 Greyhound segment results contains £71.1m of property gains mainly from the disposal of properties.

2 Group items comprise central management and other items.

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

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.

The segment results for the 52 weeks ending 28 March 2020/year ended 31 March 2020 are as follows:

	Continuing Operations					Discontinued Operations			
	First Bus £m	First Rail £	Greyhound[1] £m	Group items[2] £m	Continuing Operations £m	First Student £m	First Transit £m	Group items[2] £m	Total £m
Passenger revenue	758.2	2,584.1	532.7	–	3,875.0	–	–	–	3,875.0
Contract revenue	63.5	17.8	–	–	81.3	1,764.9	1,031.9	–	2,878.1
Charter/private hire	–	–	3.5	–	3.5	159.4	5.0	–	167.9
Rail franchise subsidy receipts	–	369.1	–	–	369.1	–	–	–	369.1
Other	14.2	232.7	67.0	–	313.9	16.1	134.5	–	464.5
Revenue	835.9	3,203.7	603.2	–	4,642.8	1,940.4	1,171.4	–	7,754.6
EBITDA[3]	113.2	540.3	35.3	(30.2)	658.4	387.6	62.9	–	1,108.9
Depreciation	(69.2)	(518.2)	(39.7)	(4.3)	(631.4)	(225.8)	(32.2)	–	(889.4)
Software amortisation	(0.9)	(1.0)	(8.1)	(0.7)	(10.7)	(3.0)	(2.4)	–	(16.1)
Capital grant amortisation	3.0	49.5	0.9	–	53.4	–	–	–	53.4
Segment results	46.1	70.4	(11.6)	(35.2)	69.7	158.8	28.3	–	256.8
Other intangible asset amortisation charges	–	–	(2.5)	–	(2.5)	(2.4)	–	–	(4.9)
Other adjustments (note 4)	(13.7)	(1.1)	(239.3)	(28.3)	(282.4)	(67.0)	(50.2)	(5.0)	(404.6)
Operating profit/(loss)[3]	32.4	69.3	(253.4)	(63.5)	(215.2)	89.4	(21.9)	(5.0)	(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 items £m	Total £m
Capital additions	281.5	21.2	59.5	58.9	123.1	2.7	546.9

Notes to the consolidated financial statements continued

5 Business segments and geographical information continued

Balance sheet[5]	Total assets £m	Total liabilities £m	Net assets/ (liabilities) £m
First Bus	722.8	(343.3)	379.5
First Rail	2,513.6	(1,164.9)	1,348.7
First Student	3,157.7	(608.5)	2,549.2
First Transit	663.2	(291.2)	372.0
Greyhound	261.4	(392.2)	(130.8)
	7,318.7	(2,800.1)	4,518.6
Group items[2]	112.5	(147.7)	(35.2)
Net debt	968.9	(4,229.8)	(3,260.9)
Taxation	43.4	(89.2)	(45.8)
Total	8,443.5	(7,266.8)	1,176.7

1 Greyhound segment results contain £8.4m of property gains on the disposal of properties.

2 Group Items comprise central management and other Items.

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

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.

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	2021 £m	2020 £m
United Kingdom	**4,318.8**	4,039.6
United States of America – continuing operations	**322.8**	567.7
Canada – continuing operations	**0.2**	35.5
Total continuing operations	**4,641.8**	4,642.8
United States of America – discontinued operations	**1,933.4**	2,813.0
Canada – discontinued operations	**269.8**	298.8
Total discontinued operations	**2,203.2**	3,111.8
	6,845.0	7,754.6

5 Business segments and geographical information continued

The following is an analysis of non-current assets excluding financial instruments, deferred tax and pensions, the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

	Non-current assets excluding financial instruments deferred tax and pensions		Additions to property, plant and equipment and intangible assets		Carrying amount of segment total assets	
	2021 £m	2020 £m	**2021 £m**	2020 £m	**2021 £m**	2020 £m
United Kingdom	**2,400.6**	2,884.1	**142.6**	184.7	**4,554.5**	4,428.4
United States of America – continuing operations	**148.6**	2,879.8	**18.2**	328.5	**216.1**	3,568.4
Canada – continuing operations	**2.9**	336.0	**0.1**	49.9	**7.4**	403.7
Unallocated corporate items	**–**	–	**–**	–	**35.4**	43.4
Total – continuing operations	**2,552.1**	6,099.9	**160.9**	563.1	**4,813.4**	8,443.5
United States of America – discontinued operations	**2,530.3**	–	**241.8**	–	**3,075.1**	–
Canada – discontinued	**321.9**	–	**32.4**	–	**404.0**	–
Unallcoated corporate items	**–**	–	**–**	–	**0.4**	–
Total – discontinued operations	**2,852.2**	–	**274.2**	–	**3,479.5**	–
	5,404.3	6,099.9	**435.1**	563.1	**8,292.9**	8,443.5

6 Operating profit

Operating profit has been arrived at after charging/(crediting):

	2021 £m	2020 £m
Depreciation – owned assets (note 13)	**91.3**	181.6
– ROU assets (note 13)	**604.9**	437.1
Operating commitments (note 35)	**463.1**	416.6
Other intangible asset amortisation charges (note 12)	**7.6**	13.2
Capital grant amortisation	**(13.3)**	(53.4)
Cost of inventories recognised as an expense	**219.2**	321.1
Employee costs (note 7)	**1,513.3**	1,571.2
Gain on disposal of property, plant and equipment	**(70.6)**	(6.6)
UK Rail termination sums net of impairment reversal (note 4)	**(95.7)**	–
Impairment charges (note 4)	**16.6**	186.9
North America insurance provisions (note 4)	**11.2**	43.7
Auditor's remuneration (see below)	**5.2**	4.1
Rail franchise payments	**4.9**	317.2
Other operating costs[1]	**1,659.8**	1,425.3
Operating costs – continuing operations	**4,417.5**	4,858.0
Operating costs – discontinued operations	**2,141.7**	3,049.3
Operating costs – continuing and discontinued operations	**6,559.2**	7,907.3

1 Other operating costs includes £53.0m (2020: £58.6m) received or receivable from Government bodies in respect of non-CBSSG bus service operator grants and fuel duty rebates.

Notes to the consolidated financial statements continued

6 Operating profit continued

Amounts payable to PricewaterhouseCoopers LLP and its associates (2020: Deloitte LLP) by the Company and its subsidiary undertakings for continuing and discontinued operations in respect of audit and non-audit services are shown below:

	2021 £m	2020 £m
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**0.2**	0.1
Fees payable to the Company's auditor and its associates for the audit of the Company's subsidiaries pursuant to legislation	**3.4**	3.7
Total audit fees	**3.6**	3.8
Audit-related assurance services	**0.3**	0.2
Other non-audit services	**1.3**	0.1
Total non-audit fees	**1.6**	0.3

Fees payable to PricewaterhouseCoopers LLP and its associates (2020: Deloitte LLP) 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 page 104. No services were provided pursuant to contingent fee arrangements.

Non-audit services principally reflect the review of the half yearly financial information and reporting accounting work.

7 Employee costs

The average monthly number of employees including discontinued operations (including Executive Directors) was:

	2021 Number	2020 Number
Operational	**83,139**	97,324
Administration	**5,914**	6,170
	89,053	103,494
Less – discontinued operations	**(54,571)**	(68,358)
	34,482	35,136

The aggregate remuneration including discontinued operations (including Executive Directors) comprised:

	2021 £m	2020 £m
Wages and salaries	**2,634.3**	3,178.8
Employee retention credits[1]	**(168.1)**	(16.1)
Social security costs	**291.0**	350.8
Pension costs (note 37)	**112.3**	99.3
	2,869.5	3,612.8
Less – discontinued operations	**(1,356.2)**	(2,041.6)
	1,513.3	1,571.2

1 £124.6m (2020: £16.1m) of these credits were in First Student and First Transit as part of the coronavirus temporary relief measures through the CARES Act in the US and the Canada Emergency Wage Subsidy (CEWS) in Canada. In addition, £43.5m (2020: nil) relates to relief in First Bus from the Coronavirus Job Retention Scheme (CJRS).

Wages and salaries include a charge in respect of share-based payments of £11.9m (2020: £10.3m).

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 (FCA) are contained in the tables/notes within the Directors' Remuneration Report on pages 112 to 131. Directors' emoluments in aggregate were £2.0m (2020: £2.9m).

8 Investment income and finance costs

	2021 £m	2020 £m
Investment income		
Bank interest receivable	**(2.0)**	(2.7)
Finance costs		
Bonds	**55.8**	56.5
Bank borrowings	**15.7**	18.5
CCFF funding	**2.0**	–
Supplier financing	**3.0**	1.2
Senior unsecured loan notes	**9.1**	9.2
Loan notes	**0.1**	1.2
Finance charges payable in respect of leases	**73.1**	42.6
Notional interest on long-term provisions	**3.8**	11.8
Notional interest on pensions	**9.0**	8.6
Notional interest – other	**0.4**	–
Total finance costs (including discontinued operations)	**172.0**	149.6
Finance costs before adjustments	**172.0**	149.6
Investment income	**(2.0)**	(2.7)
Net finance cost before adjustments	**170.0**	146.9

Finance costs are stated after charging fee expenses of £2.1m (2020: £0.7m). There was no interest capitalised into qualifying assets in either the 52 weeks ending 27 March 2021 or 28 March 2020.

Investment income of £0.2m and finance costs of £21.1m relate to discontinued operations (note 21).

9 Tax on profit/(loss) on ordinary activities

	2021 £m	2020 £m
Current tax	**17.2**	(0.7)
Adjustments with respect to prior years	**5.5**	1.2
Total current tax charge (including discontinued operations)	**22.7**	0.5
Origination and reversal of temporary differences	**27.0**	(14.1)
Adjustment in respect of prior years	**(14.9)**	1.4
Adjustments attributable to changes in tax rates and laws	**–**	(2.8)
Writing down of previously recognised deferred tax assets	**–**	40.0
Write back of peviously unrecognised deferred tax assets	**(10.1)**	–
Total deferred tax charge (note 26)	**2.0**	24.5
Total tax charge (including discontinued operations)	**24.7**	25.0
Tax charge/(credit) attributable to:		
Profit from continuing operations	**15.8**	(3.6)
Profit from discontinued operations	**8.9**	28.6

The adjustments with respect to prior years includes the release of tax provisions.

UK corporation tax is calculated at 19% (2020: 19%) of the estimated assessable profit for the year. Tax for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. Since the proposal to increase the rate to 25% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements.

Notes to the consolidated financial statements continued

9 Tax on profit/(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 for the year can be reconciled to the UK corporation tax rate as follows:

	2021 £m	2021 %	2020 £m	2020 %
Profit/(loss) from continuing operations before income tax expense	**75.2**	**n/a**	(338.2)	n/a
Profit from discontinued operations before income tax expense	**40.6**	**n/a**	38.6	n/a
Profit/(loss) from total operations	**115.8**	**100.0**	(299.6)	100.0
Tax at the UK corporation tax rate of 19% (2020: 19%)	**22.0**	**19.0**	(56.9)	19.0
Non deductible expenditure	**11.9**	**10.3**	5.2	(1.7)
Non taxable income	**(0.2)**	**(0.2)**	(1.5)	0.5
Tax rates outside of the UK	**3.2**	**2.8**	(5.2)	1.7
Unrecognised losses	**6.9**	**5.9**	3.1	(1.0)
Reduction in tax provisions for uncertain tax positions relating to prior years[1]	**–**	**–**	(1.0)	0.4
Other adjustments in relation to prior years	**(9.4)**	**(8.1)**	3.6	(1.2)
Unrecognised losses on SWR onerous contract provisions	**–**	**–**	0.8	(0.3)
Non-recognition of deferred tax asset on Greyhound impairment[2]	**0.4**	**0.4**	39.7	(13.2)
Writing down of previously recognised deferred tax assets[3]	**–**	**–**	40.0	(13.4)
Write back of previously unreconised deferred tax assets[3]	**(10.1)**	**(8.8)**	–	–
Adjustments attributable to changes in tax rates and laws	**–**	**–**	(2.8)	0.9
Tax charge and effective tax rate for the year	**24.7**	**21.3**	25.0	(8.3)

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. 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 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 not been recognised have now been written back as the profits for Rail were higher than anticipated at the previous balance sheet date. In the prior year certain deferred tax assets had been written down as it was not probable at that time that there would be sufficient future profits before these assets would expire as a result of the impact of the coronavirus pandemic on the near-term forecasts and the North American sales processes.

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. From 1 April 2023 the UK corporation tax rate will increase from 19% to 25%.

In addition to the amount charged/(credited) to the income statement, deferred tax relating to actuarial losses on defined benefit pension schemes £(15.5)m (2020: £24.6m) and cash flow hedges £3.6m (2020: £(5.9)m) have been charged/(credited) to comprehensive income together with a further £6.4m (2020: £(5.9)m) taken directly to equity on cash flow hedges. These amount to a total charge/(credit) of £(5.5)m (2020: £12.8m) recognised in other comprehensive income and equity.

10 Earnings per share (EPS)

EPS is calculated by dividing the profit attributable to equity shareholders of £78.4m (2020: loss £327.2m) by the weighted average number of ordinary shares of 1,203.6m (2020: 1,210.9m). 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.

	2021 Number m	2020 Number m
Weighted average number of shares used in basic calculation	**1,203.6**	1,210.9
Executive share options	**27.9**	14.8
Weighted average number of shares used in the diluted calculation	**1,231.5**	1,225.7

10 Earnings per share (EPS) continued

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:

	2021 £m	2021 EPS (pence)	2020 £m	2020 EPS (pence)
Basic profit/(loss)/EPS	**78.4**	**6.5**	(327.2)	(27.0)
Amortisation charges (note 4)	**4.1**	**0.3**	4.9	0.4
Other adjustments (note 4)	**(80.5)**	**(6.7)**	404.6	33.4
NCI on SWR	**6.6**	**0.6**	–	–
Tax effect of above adjustments	**30.6**	**2.5**	(39.6)	(3.3)
Write back of previously unrecognised deferred tax assets	**(10.1)**	**(0.8)**	–	–
Write down of previously recognised deferred tax assets	**–**	**–**	40.0	3.3
Adjusted profit and EPS attributable to the ordinary equity holders of the company	**29.1**	**2.4**	82.7	6.8
Adjusted profit from discontinued operations	**70.9**	**5.9**	123.4	10.2
Adjusted loss/EPS from continuing operations	**(41.8)**	**(3.5)**	(40.7)	(3.4)

	2021 pence	2020 pence
Diluted EPS	**6.4**	(27.0)
Adjusted diluted EPS	**2.4**	6.7

11 Goodwill

	2021 £m	2020 £m
Cost		
At 29 March/31 March	**1,955.3**	1,862.7
Additions (note 31)	**–**	1.7
Transfers to held for sale – discontinued operations	**(1,442.0)**	–
Foreign exchange movements	**(165.6)**	90.9
At 27 March/28 March	**347.7**	1,955.3
Accumulated impairment losses		
At 29 March/31 March	**292.1**	264.6
Foreign exchange movements	**(28.3)**	27.5
At 27 March/28 March	**263.8**	292.1
Carrying amount		
At 27 March/28 March (from continuing operations)	**83.9**	1,663.2

Goodwill acquired in a business combination is allocated, at acquisition, to the CGUs that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated as follows:

Carrying amount	2021 £m	2020 £m
Held for sale – discontinued operations – First Student	**1,162.1**	1,269.4
Held for sale – discontinued operations – First Transit	**279.9**	309.8
	1,442.0	1,579.2
First Bus	**78.3**	78.4
First Rail	**5.6**	5.6
	83.9	84.0
	1,525.9	1,663.2

Impairment testing

At the year end, the carrying value of goodwill was reviewed for impairment in accordance with IAS 36 Impairment of Assets. In carrying out this review the impact of climate change and impact on climate change were both fully considered.

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11 Goodwill continued

First Student and First Transit are classed as Assets Held for Sale and as Discontinued operations at 27 March 2021. Given that there is an expected gain on sale of First Student and First Transit which will be included in the FY22 results, there will not be an impairment at 27 March 2021. As noted in note 21 under Assets Held for Sale and Discontinued Operations, the expected gain on sale includes an expected partial earnout benefit of $140m on First Transit. First Transit earnout would need to be reduced to c. $20m in order for an impairment of the discontinued assets to arise.

Full detailed impairment testing has been performed on First Bus, Hull Trains (on a value in use basis) and Greyhound (on a fair value less costs to sell basis) for the 52 weeks ending 27 March 2021. The value of the Franchised TOC asset base is protected by the passthrough and termination arrangements of the respective EMA/ERMAs, such that no impairment is expected to arise on these assets.

The Group prepares cash flow forecasts derived from the Board approved plan for 2021/22 to 2023/24 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.

Impairment testing – First Bus

First Bus value in use has been assessed based on the projected cash flows for 2021/22 and 2022/23 from the board approved forecasts. These have been extrapolated to perpetuity cash flows and discounted to a net present value based on the following assumptions.

First Bus has £594m of positive headroom at 27 March 2021 (28 March 2020: £441m) based on a 9.1% discount rate and 10.9% terminal margin, which reflects the planned resizing of network and timetables post-CBSSG support.

Headroom would reduce to £319m if a higher 10.5% discount rate and lower 10.0% terminal margin were applied.

Break-even would arise at:

- 15.9% discount rate (with a 11.0% terminal margin),
- 4.2% terminal margin (applying the cap to just the final year / terminal value) using a 9.1% discount rate, or
- 5.1% terminal margin throughout the five year forecast period and terminal margin (applying the cap all years at 5.1%, not just the terminal years) using a 9.1% discount rate

As the break-even points lie outwith management's range of reasonable expectation, no impairment of First Bus is proposed.

Impairment testing – Hull Trains

The carrying value of non-current assets of the Group includes £34.1m in respect of our Hull Trains operation which does not benefit from the EMA / ERMA mechanisms that support 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 2021.

The Group prepares cash flow forecasts for Hull Trains through to the end of the current open access agreement in December 2032. 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 principal non-current assets of the business as we consider that this approximates to the market WACC.

Cash flows have been projected forward beyond 2021/22 using an average annual revenue growth rate of 4%, an operating cost growth rate of 2.3% and is discounted using a 3.41% pre-tax discount rate assumption. On this basis the value in use of Hull Trains exceeds its carrying value by £34.3m.

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 2.0% from 2022/23 or an increase in the annual operating cost growth rate to 4.5% 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 £31.5m in 2023/24 followed by average annual revenue growth of 4% and operating cost growth of 2.3% thereafter (in line with independent GDP forecasts for the UK) the CGU assets would be impaired by £(3.5)m.

Impairment testing – Greyhound

For the 52 weeks ending 27 March 2021 the value of the Greyhound CGU has been assessed on a fair value less costs to sell basis for the purposes of the impairment review, which is consistent with the intention to divest of the business. 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 £180.7m 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% (2020 1.0%) and terminal margin of 5% (2020: 5.4%) on a stand-alone CGU basis has been assumed. Cash flows are discounted using a pre-tax discount rate of 11.2% (March 2020: 9.7%).

11 Goodwill continued

On this basis the fair value less costs to sell of Greyhound exceeds its carrying value by £57.6m, therefore no additional impairment is required. An impairment reversal has not been booked due to uncertainties casued by coronavirus.

The Greyhound CGU 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 15.1% discount rate, a -4.1% terminal growth rate or a 3.4% terminal margin would reduce the fair value less costs to sell to equal the carrying value of Greyhound owned property and other assets at 27 March 2021.

This value has been assessed using our standard DCF approach, including the following long-term assumptions:

	2021	2020
Discount Rate	**11.2%**	9.7%
Terminal Growth Rate	**1.0%**	1.0%
Terminal Margin	**5.0%**	5.4%

12 Other intangible assets

	Customer contracts £m	Greyhound brand and trade name £m	Software £m	Total £m
Cost				
At 31 March 2019	471.4	71.5	76.2	619.1
Acquisitions (note 31)	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 28 March 2020	501.8	74.2	87.9	663.9
Acquisitions (note 31)	0.9	–	–	0.9
Additions	–	–	4.1	4.1
Transfers to held for sale – discontinued operations	(460.6)	–	(21.2)	(481.8)
Disposals	–	–	(3.8)	(3.8)
Foreign exchange movements	(42.1)	(5.8)	(6.9)	(54.8)
At 27 March 2021	**–**	**68.4**	**60.1**	**128.5**
Accumulated amortisation and impairment				
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 28 March 2020	481.3	64.7	66.0	612.0
Charge for year	2.9	1.2	11.0	15.1
Transfers to held for sale – discontinued operations	(443.7)	–	(16.3)	(460.0)
Disposals	–	–	(3.3)	(3.3)
Foreign exchange movements	(40.5)	(5.1)	(5.9)	(51.5)
At 27 March 2021	**–**	**60.8**	**51.5**	**112.3**
Carrying amount				
At 27 March 2021	**–**	**7.6**	**8.6**	**16.2**
At 28 March 2020	20.5	9.5	21.9	51.9

1 The impairment charge of £nil (2020: £23.0m) relates to Greyhound.

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.

Notes to the consolidated financial statements continued

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 31 March 2019	463.9	3,217.0	866.9	4,547.8
Acquisitions (note 31)	–	16.2	–	16.2
Additions	10.1	294.0	149.1	453.2
Transfers to right of use assets[1]	–	(0.7)	–	(0.7)
Transfers from right of use assets/assets held for sale[2]	34.9	23.0	–	57.9
Disposals	(15.6)	(90.4)	(161.4)	(267.4)
Reclassified as assets held for sale	(24.4)	(122.9)	7.1	(140.2)
Foreign exchange movements	11.3	103.9	14.3	129.5
At 28 March 2020	480.2	3,440.1	876.0	4,796.3
At 29 March 2020	480.2	3,440.1	876.0	4,796.3
Acquisitions (note 31)	–	0.6	–	0.6
Additions	4.9	197.4	135.5	337.8
Transfers to right of use assets[1]	–	(89.2)	–	(89.2)
Transfers from right of use assets[1]	–	91.7	–	91.7
Disposals	(37.0)	(119.6)	(93.0)	(249.6)
Reclassified as assets held for sale	(14.6)	(110.4)	–	(125.0)
Transferred to held for sale – discontinued operations	(134.2)	(2,150.6)	(251.5)	(2,536.3)
Foreign exchange movements	(23.9)	(233.1)	(32.4)	(289.4)
At 27 March 2021	**275.4**	**1,026.9**	**634.6**	**1,936.9**
Accumulated depreciation and impairment				
At 31 March 2019	101.0	1,686.8	668.5	2,456.3
Charge for year	15.0	234.7	143.3	393.0
Transfers to right of use assets[1]	–	(0.2)	–	(0.2)
Transfers from right of use assets/assets held for sale[2]	8.4	7.9	–	16.3
Disposals	(4.9)	(93.4)	(160.5)	(258.8)
Impairment[3]	–	108.4	8.4	116.8
Reclassified as assets held for sale	(2.8)	(121.5)	6.4	(117.9)
Foreign exchange movements	3.2	55.9	12.3	71.4
At 28 March 2020	119.9	1,878.6	678.4	2,676.9
At 29 March 2020	119.9	1,878.6	678.4	2,676.9
Charge for year	13.5	226.6	51.7	291.8
Transfers to right of use assets[1]	–	(11.5)	–	(11.5)
Transfers from right of use assets[1]	–	44.3	–	44.3
Disposals	(8.9)	(103.7)	(86.9)	(199.5)
Impairment[3]	16.6	–	–	16.6
Reclassified as assets held for sale	(2.7)	(106.5)	–	(109.2)
Transferred to held for sale – discontinued operations	(52.6)	(1,076.6)	(229.0)	(1,358.2)
Foreign exchange movements	(8.3)	(131.0)	(24.3)	(163.6)
At 27 March 2021	**77.5**	**720.2**	**389.9**	**1,187.6**
Carrying amount				
At 27 March 2021	**197.9**	**306.7**	**244.7**	**749.3**
At 28 March 2020	360.3	1,561.5	197.6	2,119.4

1 Transfers to right of use assets represents purchased property, plant and equipment that was transitioned to lease shortly after purchase. Transfers from right of use assets represents lease buyouts.

2 Transfers from right of use assets comprise £22.3m of cost and £7.9m accumulated depreciation. Transfers from assets held for sale comprises £34.9m of cost and £8.4m of accumulated depreciation.

3 The impairment charge of £16.6m in 2021 relates to properties associated with First Bus and Group. The impairment charge of £116.8m in 2020 relates to assets associated with Greyhound.

13 Property, plant and equipment continued

An amount of £0.8m (2020: £0.8m) in respect of assets under construction is included in the carrying amount of land and buildings, plant and equipment.

At 27 March 2021/31 March 2021 the Group had entered into contractual capital commitments amounting to £266.8m (2020: £193.2m), principally representing buses ordered in the United Kingdom and North America and commitments under the South Western Railway franchise.

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 31 March 2019	829.4	217.2	257.1	4.3	1,308.0
Additions	1,712.0	36.8	85.6	2.3	1,836.7
Transfer from owned assets[1]	–	–	0.7	–	0.7
Transfer to owned assets[1]	–	–	(23.0)	–	(23.0)
Foreign exchange movements	–	7.3	12.4	0.2	19.9
At 28 March 2020	2,541.4	261.3	332.8	6.8	3,142.3
At 29 March 2020	2,541.4	261.3	332.8	6.8	3,142.3
Additions	102.9	56.6	13.7	0.5	173.7
Transfer to owned assets[1]	–	–	(91.7)	–	(91.7)
Transfers from owned assets[1]	–	–	89.2	–	89.2
Disposals	(46.8)	(4.3)	–	–	(51.1)
Transferred to held for sale – discontinued operations	–	(177.0)	(174.3)	(0.4)	(351.7)
Foreign exchange movements	–	(20.9)	(24.7)	–	(45.6)
At 27 March 2021	**2,597.5**	**115.7**	**145.0**	**6.9**	**2,865.1**
Accumulated depreciation and impairment					
At 31 March 2019	–	–	–	–	–
Adjustment on transition to IFRS 16	208.6	–	93.2	–	301.8
At 31 March 2019	208.6	–	93.2	–	301.8
Transfer from onerous contract provision	44.2	–	–	–	44.2
Transfer from owned assets[1]	–	–	0.2	–	0.2
Transfer to owned assets[1]	–	–	(7.9)	–	(7.9)
Charge for period	399.5	59.4	35.0	2.5	496.4
Impairment[2]	–	33.8	13.0	–	46.8
Foreign exchange movements	–	0.8	4.9	–	5.7
At 28 March 2020	652.3	94.0	138.4	2.5	887.2
At 29 March 2020	652.3	94.0	138.4	2.5	887.2
Transfer to owned assets	–	–	(44.3)	–	(44.3)
Transfers from owned assets[1]	–	–	11.5	–	11.5
Charge for period	571.2	52.7	44.7	1.8	670.4
Impairment[2]	(146.5)	3.5	–	–	(143.0)
Disposals	(17.4)	(1.5)	–	–	(18.9)
Transferred to held for sale – discontinued operations	–	(79.0)	(93.2)	(0.4)	(172.6)
Foreign exchange movements	–	(8.3)	(11.3)	–	(19.6)
At 27 March 2021	**1,059.6**	**61.4**	**45.8**	**3.9**	**1,170.7**
Carrying amount					
At 27 March 2021	**1,537.9**	**54.3**	**99.2**	**3.0**	**1,694.4**
At 28 March 2020	1,889.1	167.3	194.4	4.3	2,255.1

1 Transfers from owned assets represents purchased property, plant and equipment that was transitioned to lease shortly after purchase. Transfers to owned assets represents lease buyouts.

2 The impairment charge of £3.5m relates to First Student. The impairment reversal of £146.5m relates to SWR and TPE (2020: charge of £46.8m relates to Greyhound).

Notes to the consolidated financial statements continued

13 Property, plant and equipment continued

The discounted lease liability relating to the right of use assets included above are shown in note 23.

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 27 March 2021	**1,537.9**	**252.2**	**405.9**	**247.7**	**2,443.7**
At 28 March 2020	1,889.1	527.6	1,755.9	201.9	4,374.5

The maturity analysis of lease liabilities is presented in note 23.

Amounts recognised in income statement (including discontinued operations)	**2021 £m**	2020 £m
Depreciation expense on right of use assets	**670.4**	496.4
Interest expense on lease liabilities	**73.1**	42.6
Expense relating to short-term leases	**4.7**	31.7
Expense relating to leases of low value assets	**3.4**	3.4
	751.6	574.1

14 Investments

	2021 £m	2020 £m
US deferred compensation plan assets	**6.4**	30.3
Other investments	**1.9**	2.6
	8.3	32.9

On 27 March 2021 investments of £30.9m (2020: £nil) were transferred to held for sale – discontinued operations, see note 21.

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 40.

The non-controlling interests of the Group are First Trenitalia 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 40. The non-controlling interest share of loss for the financial year is a profit of £5.1m which relates to First Trenitalia West Coast Limited.

UK and Ireland local bus and coach operators

First Aberdeen Limited[1]
First Beeline Buses Limited
First Cymru Buses Limited
First Eastern Counties Buses Limited
First Essex Buses Limited
First Glasgow (No. 1) Limited[1]
First Glasgow (No. 2) Limited[1]
First Hampshire and Dorset Limited
First Manchester Limited
First Midland Red Buses Limited
First Potteries Limited
First Scotland East Limited[1]
First West of England Limited
First South West Limited
First South Yorkshire Limited
First West Yorkshire Limited
First York Limited
Last Passive Limited[4]
Leicester CityBus Limited (94%)
Midland Bluebird Limited[1]

Rail companies

First Greater Western Limited
First TransPennine Express Limited
Hull Trains Company Limited
First Trenitalia West Coast Limited (70%)
First MTR South Western Trains Limited (70%)

North American school bus operators

First Canada ULC[2]
First Student, Inc[3]

Transit contracting and fleet maintenance

First Transit, Inc[3]
First Vehicle Services, Inc[3]

North American coach operators

Americanos USA, LLC[3]
Greyhound Lines, Inc[3]
Greyhound Canada Transportation ULC[2]

All subsidiary undertakings are wholly owned by FirstGroup plc at the end of the year except where percentage of ownership is shown above. All these companies above are incorporated in United Kingdom and registered in England and Wales except those:

1 Registered in Scotland.

2 Registered in Canada.

3 Incorporated in the United States of America.

4 Incorporated in the Republic of Ireland

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

	2021 £m	2020 £m
Spare parts and consumables from continuing operations	**29.4**	63.3

On 27 March 2021 inventories of £19.5m (2020: £nil) have been transferred to held for sale – discontinued operations, see note 21.

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.

Notes to the consolidated financial statements continued

17 Trade and other receivables

Amounts due within one year (from continuing operations)	2021 £m	2020 £m
Trade receivables	**223.5**	652.2
Loss allowance	**(7.3)**	(4.9)
Trade receivables net	**216.2**	647.3
Other receivables	**162.4**	90.2
Amounts recoverable on contracts	**23.3**	91.2
Prepayments	**75.6**	90.3
Accrued income	**199.2**	251.6
	676.7	1,170.6

Movement in accrued income:	2021 £m	2020 £m
Balance as at 29 March 2020	**251.6**	234.9
Additions	**2,212.0**	3,166.4
Accrued income invoiced during the year	**(2,054.8)**	(3,158.3)
Transferred to held for sale – discontinued operations	**(198.2)**	–
Foreign exchange movements	**(11.4)**	8.6
Balance as at 27 March 2021	**199.2**	251.6

On 27 March 2021 Trade and other receivables of £548.4m (2020: £nil) have been transferred to held for sale – discontinued operations, see note 21.

The loss allowance relates solely to credit loss allowances arising from contracts with customers.

Other receivables includes £48.4m (2020: £54.2m) of VAT receivables, £8.4m (2020: £11.1m) of receivables from government bodies for fuel duty rebates, £24.7m (2020: £22.1m) of insurance recoveries and £70.6m (2020: nil) of CBSSG.

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 receivables, amounts recoverable on contracts and accrued income of £446.0m (2020: £995.0m), cash and cash equivalents of £1,438.9m (2020: £968.9m) and derivative financial instruments of £16.7m (2020: £20.6m).

The Group's maximum exposure to credit risk for all financial assets at the balance sheet date was £1,899.0m (2020: £1,907.5m). The exposure is spread over a large number of unconnected counterparties and the maximum single concentration with any one counterparty was £232.0m (2020: £175.0m) at the balance sheet date.

The Group's credit risk is primarily attributable to its trade receivables, amounts recoverable on contracts and accrued income. The amounts presented in the balance sheet are net of credit loss allowances, estimated by the Group's management based on prior experience and their assessment of the current economic environment. The credit loss allowance at the balance sheet date was £7.3m (2020: £4.9m).

Most trade receivables, amounts recoverable on contracts and accrued income are with public or quasi public bodies, principally the DfT, Network Rail and local authorities 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 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 £225.0m and limits the maximum term to three months.

17 Trade and other receivables continued

Impairment of trade receivables amounts recoverable on contracts and accrued income

The Group applies the IFRS 9 simplified approach to measuring expected credit losses for all trade receivables, amounts recoverable on contracts and accrued income 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, amounts recoverable on contracts and accrued income 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 and accrued income. 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.

The gross carrying amount of trade receivables, amounts recoverable on contracts and accrued income for which the loss allowance is measured at an amount equal to the lifetime expected credit losses under the simplified method, is analysed below:

			Days past due			
	Carrying amount £m	Current £m	Less than 30 days £m	30-90 days £m	90-180 days £m	Over 180 days £m
Expected credit loss rate	**1.6%**	**–**	**1.7%**	**1.8%**	**31.9%**	**9.6%**
Gross carrying amount of trade receivables, amounts recoverable on contracts and accrued income	**446.0**	**352.6**	**23.3**	**11.4**	**4.7**	**54.0**
Loss allowance (from continuing operations)	**7.3**	**–**	**0.4**	**0.2**	**1.5**	**5.2**

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 ageing 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	2021 £m	2020 £m
At 29 March/31 March	**4.9**	3.6
Amounts written off during the year	**(3.2)**	(0.6)
Increase in allowance recognised in the income statement	**9.5**	1.8
Transferred to held for sale – discontinued operations	**(3.8)**	–
Foreign exchange movements	**(0.1)**	0.1
At 27 March/28 March	**7.3**	4.9

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

18 Assets held for sale

	2021 £m	2020 £m
Assets held for sale – continuing operations	**11.9**	1.0

Assets held for sale relates to Greyhound properties which are being actively marketed and are expected to be sold within 12 months (and prior to being transferred to discontinued operations includes First Student yelllow school buses which are surplus to requirement and are also being actively marketed). Gains or losses arising on the disposal of such assets are included in arriving at operating profit in the income statement. 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.

Assets held for sale – discontinued operations are shown in note 21.

Notes to the consolidated financial statements continued

18 Assets held for sale continued

Movement in assets held for sale	£m
At 29 March 2020	1.0
Net book value of additions	15.8
Net book value of disposals	(3.8)
Impairment	(0.7)
Transferred to held for sale – discontinued operations	(0.4)
At 27 March 2021 from continuing operations	**11.9**

19 Trade and other payables

Amounts falling due within one year (from continuing operations)	2021 £m	2020 (restated) £m
Trade payables	**182.3**	336.9
Other payables	**239.5**	402.9
Accruals	**1,047.0**	838.5
Def rred income	**112.8**	152.3
Season ticket deferred income	**6.0**	86.3
	1,587.6	1,816.9

Prior year has been restated and increased by £17.2m as liabilities relating to companies under the control of First Transit had not been recognised in prior periods. These liabilities relate to payroll costs.

On 27 March 2021 Trade and other payables of £325.4m (2020: £nil) have been transferred to held for sale – discontinued operations, see note 21.

Movement in deferred income	2021 £m	2020 £m
Balance as at 29 March/31 March	**152.3**	167.8
Additions	**574.7**	926.1
Utilised during year	**(609.0)**	(941.7)
Transferred to held for sale – discontinued operations	**(4.2)**	–
Foreign exchange movements	**(1.0)**	0.1
Balance as at 27 March/28 March	**112.8**	152.3

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 £nil (2020: £120.4m) due to our principal supplier of school buses in the US and Canada for deliveries in the prior 6 months under the term of the supplier arrangement we may choose to finance these amounts when due under arrangements with the supplier and its parent company..

Other payables includes £21.3m (2020: £188.4m) 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 £150.6m (2020: £99.0m).

The average credit period taken for trade purchases is 25 days (2020: 28 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

	2021 £m	2020 (restated) £m
Cash and cash equivalents from continuing operations	**1,438.9**	968.9

20 Cash and cash equivalents continued

The prior year cash and cash equivalents balance has been restated. The total impact is an increase of £99.6m at 28 March 2020 which comprises two restatements. The first for an £82.4m overdraft which in prior year was incorrectly offset against cash balances when the group had no ability for net physical settlement. This has been grossed up and the impact is to increase cash balances by £82.4m with a corresponding increase in borrowings of the same amount. At 31 March 2019, the impact of the correction is to increase borrowings by £81.9m and increase cash and cash equivalents by the same amount. The second restatement is in relation to certain entities, in First Transit, which the group controls that were incorrectly excluded from consolidation in prior years. These have been consolidated in the current year and the effect of this is an increase in cash balances of £17.2m and a corresponding increase in payables of £17.2m. There is no material impact on the consolidated income statement. The impact on the cash flow statement is an increase in cash balance of £99.6m and increase on cash generated from operations of £1.1m. The Group and Company should present a third balance sheet to capture the opening position at 29 March 2020. However, having reviewed the guidance, management has opted instead to present the impact of the restatement in this note only, on the basis of materiality, as there is no impact on net assets.

On 27 March 2021 Cash and cash equivalents of £58.3m (2020: £nil) have been transferred to held for sale – discontinued operations, see note 21.

The fair value of cash and cash equivalents approximates to the carrying value. Cash and cash equivalents includes ring-fenced cash of £662.9m (2020: £649.4m). 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 £24.4m (2020: £37.5m) are held outside the First Rail subsidiaries. Ring-fenced cash includes two elements: (1) loss escrow funds maintained by various third-party administrators, the purpose of which is to provide a source of funds for use by the administrators for payment of the self-insurance liability for losses and loss adjustment expenses in accordance with agreements between the administrators and the Business, and (2) balances within First Transit subsidiaries where those subsidiaries act as a disbursement agent on the behalf of their customers and the cash is only allowed to be used to settle customer liabilities.

21 Discontinued operations

The sale of First Student and First Transit was approved by a Shareholder majority on 27 May 2021. As such they are reported in the current period as discontinued operations. Financial information relating to the discontinued operations for the period to the date of disposal is set out below.

Financial performance and cash flow information

The financial performance and cash flow information presented are for the 52 weeks ending 27 March 2021 and 28 March 2020.

Discontinued Operations	**2021 £m**	2020 £m
Revenue	**2,203.2**	3,111.8
Operating costs	**(2,141.7)**	(3,049.3)
Operating profit	**61.5**	62.5
Investment income	**0.2**	0.1
Finance costs	**(21.1)**	(24.0)
Profit before tax	**40.6**	38.6
Tax	**(8.9)**	(28.6)
Profit for the year after tax	**31.7**	10.0
Attributable to:		
Equity holders of the parent	**30.9**	10.0
Non-controlling interests	**0.8**	–
	31.7	10.0

EPS	**2021 pence**	2020 pence
Basic EPS	**2.6**	0.8
Diluted EPS	**2.5**	0.8

Cash flow	**2021 £m**	2020 £m
Net cash inflow from operating activities	**331.4**	280.0
Net cash outflow from investing activities	**(227.3)**	(163.3)
Net cash outflow from financing activities	**(111.9)**	(86.0)
Net (decrease)/increase in cash generated	**(7.8)**	30.7

Notes to the consolidated financial statements continued

21 Discontinued operations continued

Revenue includes £508.8m (2020: £48.2m) of recoveries in relation to coronavirus in First Student and First Transit. The First Student recoveries represent compensatory revenue from customers mainly as a result of the US Coronavirus Aid, Relief and Economic Security Act ('CARES Act') passed on 27 March 2020, which stipulated that School Boards should to the greatest extent practicable pay all of their contractors in full. The First Transit recoveries also represent compensatory revenue agreed upon with customers.

Details of the sale of the divisions

The sale of First Student and First Transit was approved by a Shareholder majority on 27 May 2021 and completed on 21 July 2021. The headline enterprise value is £3.3bn, which includes a First Transit earnout of up to c.£170m. Initial net proceeds are c.£2,190m (after deducting First Student and First Transit self-insurance liabilities valued at c.£390m and c.£505m in debt and debt-like items, net working capital and other adjustments).

Assets and liabilities of disposal group classified as held for sale

The following assets and liabilities were reclassified as held for sale in relation to the discontinued operations as at 27 March 2021:

	2021 £m
Non-current assets	
Goodwill	1,442.0
Other intangible assets	21.8
Property, plant and equipment	1,357.2
Derivative financial instruments	0.5
Investments	30.9
	2,852.4
Current assets	
Inventories	19.5
Trade and other receivables	548.4
Current tax assets	0.4
Derivative financial instruments	0.1
Assets held for sale	0.4
Cash and cash equivalents	58.3
	627.1
Total assets of discontinued operations	3,479.5
Current liabilities	
Trade and other payables	325.4
Tax liabilities – current tax liabilities	3.5
Derivative financial instruments	0.9
Borrowings	68.4
Provisions	138.6
	536.8
Net current assets	90.3
Non-current liabilities	
Borrowings	279.3
Derivative financial instruments	0.2
Retirement benefit liabilities	24.7
Deferred tax liabilities	33.6
Provisions	262.0
	599.8
Total liabilities of discontinued operations	1,136.6
Net assets of discontinued operations	2,342.9

The table above does not include the value of the earnout of First Transit of a maximum of $240m (c. £170m) that has been fair valued using stochastic modelling of discounted cash flows and assumes EQT does not dispose of the business by the third anniversary (21 July 2024). Fair value is $140m (c.£102m).

22 Borrowings

	2021 £m	2020 (restated) £m
On demand or within 1 year		
Leases (note 23)[3]	**581.4**	642.2
Bank overdraft	**53.8**	82.4
Loan notes (note 24)	**–**	8.7
CCFF	**298.2**	–
Bond 8.75% (repayable 2021)[1]	**380.1**	30.4
Bond 5.25% (repayable 2022)[2]	**5.6**	5.8
Bond 6.875% (repayable 2024)[2]	**7.1**	7.2
Total current liabilities from continuing operations	**1,326.2**	776.7
Amounts relating to held for sale – discontinued operations	**68.4**	–
Total current liabilities (including discontinued operations)	**1,394.6**	776.7
Within 1-2 years		
Leases (note 23)[3]	**572.8**	587.4
Syndicated loans	**116.5**	–
Loan notes (note 24)	**0.7**	0.7
Bond 8.75% (repayable 2021)	**–**	355.1
Bond 5.25% (repayable 2022)	**323.4**	–
	1,013.4	943.2
Within 2-5 years		
Syndicated loan facilities	**449.8**	573.9
Leases (note 23)[3]	**577.0**	1,030.3
Bond 5.25% (repayable 2022)	**–**	322.6
Bond 6.875% (repayable 2024)	**199.8**	199.8
Senior unsecured loan notes	**72.5**	80.3
	1,299.1	2,206.9
Over 5 years		
Leases (note 23)[3]	**53.2**	213.3
Senior unsecured loan notes	**126.3**	139.5
	179.5	352.8
Total non-current liabilities at amortised cost from continuing operations	**2,492.0**	3,502.9
Amounts related to held for sale – discontinued operations	**279.3**	–
Total non-current liabilities (including discontinued operations)	**2,771.3**	3,502.9

'Bank overdraft' has been restated and increased by £82.4m at 28 March 2020, as an overdraft had been set off against the cash balance In the prior periods.

1 Includes accrued interest.

2 Includes accrued interest only.

3 The right of use assets relating to lease liabilities are shown in note 13. The maturity analysis of lease liabilities is presented in note 23.

Fair value of bonds and senior unsecured loan notes issued

	Par value £m	Interest payable	Month	2021 Fair value £m	2020 Fair value £m
Bond 8.75% (repayable 2021)	350.0	Annually	April	**380.3**	395.1
Bond 5.25% (repayable 2022)	325.0	Annually	November	**351.3**	336.4
Bond 6.875% (repayable 2024)	200.0	Annually	September	**236.9**	223.2

	$m			£m	£m
Senior unsecured loan notes	275.0	Semi-annually	March and September	**194.7**	231.3

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.

Notes to the consolidated financial statements continued

22 Borrowings continued

Effective interest rates

The effective interest rates at the balance sheet dates were as follows:

	2021	Maturity	2020	Maturity
Bank overdraft	**LIBOR + 1%**	**–**	LIBOR + 1%	–
Syndicated loan facilities	**LIBOR + 0.5%**	**November 2023**	LIBOR + 0.5%	November 2023
Bond 2021[1]	**7.02%**	**April 2021**	8.87%	April 2021
Bond 2022	**5.49%**	**November 2022**	5.49%	November 2022
Bond 2024	**6.93%**	**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 2.93%**	**Various**	Average fixed rate of 2.7%	Various
Loan notes	**LIBOR + 0.5%**	**March 2024**	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	2021 £m	2020 £m
Pounds Sterling	**3,098.1**	3,279.1
US Dollar	**965.7**	823.5
Canadian Dollar	**102.1**	94.6
	4,165.9	4,197.2

Borrowing facilities

The Group had £346.1m (2020: £348.6m) of undrawn committed borrowing facilities as at year end. Total bank borrowing facilities at year end stood at £935.8m (2020: £936.4m) of which £920.0m (2020: £920.0m) was committed and £15.8m (2020: £16.4m) was uncommitted.

Capital management

The Group aims to maintain an investment grade credit rating and appropriate balance sheet liquidity headroom. The Group has a net debt to EBITDA ratio of 2.85 times as at March 2021 for the whole Group and 2.25 times for the continuing Group (2020: 2.9 times).

Liquidity within the Group has remained strong. At year end there was £1,130.6m (2020: £585.7m) 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 27 March 2021, was £2,625.8m (2020: £3,260.9m) as set out on page 32 of the Financial review.

The Group's primary objectives of capital management is to ensure that the Group is able to continue as a going concern, to maintain an optimal capital structure and adequate liquidity headroom to deliver on shareholder and stakeholder expectations. The Group's capital structure consists of equity and net debt The Group actively manages its capital structure and will adjust it when appropriate should economic conditions change. The Group's debt is monitored on the basis of a gearing ratio, being net debt divided by EBITDA, further details of which are provided in the Chief Financial Officer's review.

As a consequence of coronvirus the Group drew down £300m under the Government CCFF scheme. In addition we agreed a $250m 7 year financing facility with one of our key suppliers and also arranged a £250m Bridge finance facility to cover the maturity of our April 2021 Bond. All these measures resulted in improved liquidity and a strengthened balance sheet.

23 Lease liabilities

The Group had the following lease liabilities at the balance sheet dates excluding liabilities relating to the discontinued operations:

Maturity analysis:	2021 £m	2020 £m
Due in less than one year	**632.3**	702.4
Due in more than one year but not more than two years	**592.9**	632.8
Due in more than two years but not more than five years	**606.6**	1,089.3
Due in more than five years	**71.7**	240.6
	1,903.5	2,665.1
Less future financing charges	**(119.1)**	(191.9)
	1,784.4	2,473.2

On 27 March 2021 Lease liabilities of £187.5m (2020: £nil) have been transferred to held for sale – discontinued operations, see note 21.

Lease liabilities have a fair value of £1,787.0m (2020: £2,478.1m)

The total cash outflow for lease principal recorded on the balance sheet amounted to £669.2m (2020: 596.5m), this includes cash outflow relating to held for sale – discontinued operations amounting to £111.9m (2020: £86.0m).

The right of use assets related to the lease liabilities is presented in note 13.

24 Loan notes

The Group had the following loan notes issued as at the balance sheet dates relating to continuing operations:

	2021 £m	2020 £m
Due in less than one year	**–**	8.7
Due in more than one year but not more than two years	**0.7**	0.7
	0.7	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 £nil (2020: £8.7m) are supported by unsecured bank guarantees.

The loan notes have an average effective borrowing rate of 1.7% (2020: 10.3%) and an average remaining term of three years (2020: one year) assuming that the holders do not request redemption. The fair value of the loan notes has been determined to be £0.7m (2020: £9.4m). This has been calculated by discounting future cash flows that will arise under the loan notes.

Notes to the consolidated financial statements continued

25 Financial instruments

Derivative financial instruments

	2021 £m	2020 £m
Total derivatives		
Total non-current assets	**1.2**	15.8
Total current assets	**14.9**	4.8
Total assets from continuing operations	**16.1**	20.6
Amounts relating to held for sale – discontinued operations	**0.6**	–
Total assets	**16.7**	20.6
Total current liabilities	**11.8**	44.2
Total non-current liabilities	**1.2**	19.2
Total liabilities from continuing operations	**13.0**	63.4
Amounts relating to held for sale – discontinued operations	**1.1**	–
Total liabilities	**14.1**	63.4
Derivatives designated and effective as hedging instruments carried at fair value		
Non-current assets		
Coupon swaps (fair value hedge)	**–**	13.3
Fuel derivatives (cash flow hedge)	**1.0**	–
Cross currency swaps (net investment hedge)	**0.3**	–
Currency forwards (cash flow hedge)	**–**	2.5
	1.3	15.8
Current assets		
Fuel derivatives (cash flow hedge)	**1.9**	–
Cross currency swaps (net investment hedge)	**13.5**	–
Currency forwards (cash flow hedge)	**–**	4.8
	15.4	4.8
Current liabilities		
Fuel derivatives (cash flow hedge)	**4.8**	32.4
Currency forwards (cash flow hedge)	**1.1**	–
Currency forwards (net investment hedge)	**6.4**	4.4
	12.3	36.8
Non-current liabilities		
Currency forwards (cash flow hedge)	**0.6**	–
Fuel derivatives (cash flow hedge)	**0.8**	19.2
	1.4	19.2
Derivatives designated classified as held for trading		
Current liability		
Fuel derivatives	**0.4**	7.4
	0.4	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 £14.1m (2020: £63.4m) were subject to netting arrangements.

Total cash flow hedges are a liability of £4.4m (2020: £44.3m liability). Total fair value hedges are an asset of £nil (2020: £13.3m).

25 Financial instruments continued

The following losses were transferred from equity into inventory as basis adjustments during the year:

	2021 £m	2020 £m
Operating losses	**19.1**	28.3

Fair value of the Group's financial assets and financial liabilities (including cash, trade and other receivables, trade and other payables) on a continuing basis:

					2021
				Fair value	**Carrying value**
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**	**Total £m**
Financial assets and derivatives					
Cash and cash equivalents	**1,438.9**	**–**	**–**	**1,438.9**	**1,438.9**
Trade and other receivables	**–**	**446.0**	**–**	**446.0**	**446.0**
Derivative financial instruments	**–**	**16.1**	**–**	**16.1**	**16.1**
Financial liabilities and derivatives					
Borrowings[1]	**919.0**	**2,948.5**	**–**	**3,867.5**	**3,818.4**
Trade and other payables		**1,437.0**	**–**	**1,437.0**	**1,437.0**
Derivative financial instruments	**–**	**13.0**	**–**	**13.0**	**13.0**

1 Includes lease liabilities as set out in note 23.

On 27 March 2021 fair value of financial assets and financial liabilities of £(292.7)m (2020: £nil) being cash and equivalents of £58.3m (Level 1), borrowings of £(159.2)m (Level 1) and £(191.3)m (Level 2) and derivative financial instruments of £(0.5)m (Level 2) have been transferred to held for sale – discontinued operations.

					2020
				Fair value	Carrying value
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Total £m
Financial assets and derivatives					
Cash and cash equivalents	968.9	–	–	968.9	968.9
Trade and other receivables	–	995.0	–	995.0	995.0
Derivative financial instruments	–	20.6	–	20.6	20.6
Financial liabilities and derivatives					
Borrowings	656.3	3,672.9	–	4,329.2	4,279.6
Trade and other payables	–	1,700.7	–	1,700.7	1,700.7
Derivative financial instruments	–	63.4	–	63.4	63.4

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.

Notes to the consolidated financial statements continued

25 Financial instruments continued

Financial assets/(liabilities)	**Fair values at 27 March 2021 £m**	Fair values at 28 March 2020 £m	Fair value hierarchy	Valuation technique(s) and key inputs
Derivative contracts				
1) Coupon swaps	**–**	13.3	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	**(3.1)**	(59.0)	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 and swaps	**5.7**	2.9	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 on a continuing basis.

				2021
Classification of financial instruments	**Assets and liabilities at amortised costs £m**	**At fair value through profit and loss £m**	**At fair value through OCI £m**	**Total £m**
Financial assets and derivatives				
Cash and cash equivalents	**1,438.9**	**–**	**–**	**1,438.9**
Trade and other receivables	**446.0**	**–**	**–**	**446.0**
Derivative financial instruments	**–**	**–**	**16.1**	**16.1**
	1,884.9	**–**	**16.1**	**1,901.0**
Financial liabilities and derivatives				
Interest bearing loans and borrowings[1]	**3,818.4**	**–**	**–**	**3,818.4**
Trade and other payables	**1,437.0**	**–**	**–**	**1,437.0**
Derivative financial instruments	**–**	**0.4**	**12.6**	**13.0**
	5,255.4	**0.4**	**12.6**	**5,268.4**

1 Includes lease liabilities as set out in note 23.

				2020
Classification of financial instruments	Assets and liabilities at amortised costs £m	At fair value through profit and loss £m	At fair value through OCI £m	Total £m
Financial assets and derivatives				
Cash and cash equivalents	968.9	–	–	968.9
Trade and other receivables	995.0	–	–	995.0
Derivative financial instruments	–	13.3	7.3	20.6
	1,963.9	13.3	7.3	1,984.5
Financial liabilities and derivatives				
Interest bearing loans and borrowings	4,279.6	–	–	4,279.6
Trade and other payables	1,700.7	–	–	1,700.7
Derivative financial instruments	–	7.4	56.0	63.4
	5,980.3	7.4	56.0	6,043.7

25 **Financial instruments** continued

As at 27 March 2021	Cash flow hedges Commodity price risk	 Foreign exchange price risk	Net investment hedges Foreign exchange risk
Nominal amount of hedging	1.42m bbls	$69.7m	$2,105.6m
< 1 year	1.03m bbls	$42.0m	$527.3m
1 – 2 years	0.38m bbls	$24.1m	$506.7m
2 – 5 years	0.01m bbls	$0.6m	$896.6m
> 5 years	–	$175.0m	
	$72.17/bbl	1.3377	1.3627
Average hedged rate	Apr21-Jun23	Apr21-Jun23	n/a
Maturity			
Carrying amount of hedging instruments			
Assets – Derivatives (£m)	2.9	0.0	13.8
Liabilities – Derivatives (£m)	5.6	1.7	(6.4)
(Liabilities – Borrowings (£m)			(635.8)
Carrying amount of hedged item	n/a	n/a	n/a
Liabilities – Borrowings (£m)			
Accumulated amount of fair value hedging adjustments included in carrying amount of hedged item	n/a	n/a	n/a
Liabilities – Borrowings (£m)			
Changes in fair value of hedged item used for calculating hedge effectiveness	(22.5)	6.1	(116.1)
Changes in fair value of hedging instrument used in calculating hedge effectiveness	22.5	(6.1)	116.1
Changes in fair value of hedging instrument accumulated in cash flow hedge reserve	34.6	(6.6)	n/a

The following gains and losses on derivatives designated for hedge accounting have been charged through the consolidated income statement in the year:

	2021 £m	2020 £m
Losses on hedging instruments in fair value hedges	**(6.4)**	(3.0)
Gains on hedged item attributable to hedged risk fair value hedges	**6.4**	3.0
Hedge ineffectiveness in cash flow hedges	**(0.3)**	(7.4)
	(0.3)	(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 (2020: £920.0m), and committed headroom was £346.1m (2020: £348.6m), in addition to free cash balances of £784.5m (2020: £237.1m). 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 27 March 2021 was 2.7 years (2020: 3.3 years).

Notes to the consolidated financial statements continued

25 Financial instruments continued

The following tables detail, on a continuing basis, 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.

	< 1 year £m	1-2 years £m	2-5 years £m	> 5 years £m	2021 Total £m
Borrowings[1]	**1,977.0**	**632.9**	**1,262.5**	**209.5**	**4,081.9**
Fuel derivatives	**4.4**	**0.6**	**–**	**–**	**5.0**
Currency forwards	**7.5**	**0.6**	**–**	**–**	**8.1**
Trade and other payables	**1,437.0**	**–**	**–**	**–**	**1,437.0**
	3,425.9	**634.1**	**1,262.5**	**209.5**	**5,532.0**

1 Includes lease liabilities as set out in note 23.

	< 1 year £m	1-2 years £m	2-5 years £m	> 5 years £m	2020 Total £m
Borrowings	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

No derivative financial instruments had collateral requirements or were due on demand in any of the years. Derivative financial instruments are net settled.

Adoption of new standards Inter-Bank Offered Rate ('IBOR') Reform – Phase 1 and Phase 2 (amendments to IFRS 9, IAS 39, IFRS7, IFRS 4 and IFRS 16)

These reforms were issued in September 2019 and was applied for the first time with effect from 1 January 2020 and 1 January 2021 respectively. The Company does not hold any derivative financial instruments linked to IBOR rates such as LIBOR that expire beyond 31 December 2021, therefore no existing hedge relationships have been affected as a result of adopting these amendments.

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. 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.

	2021 £m	2020 £m
Impact on profit after tax	**2.1**	0.3
Impact on hedging reserve	**0.3**	(1.0)

25 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 27 March 2021, 50% (2020: 46%) of gross debt (pre IFRS16) was fixed. This fixed rate protection had an average duration of 2.9 years (2020: 4.2 years).

Interest rate risk within operating leases is hedged 100% by agreeing fixed rentals with the lessors prior to inception of the lease contracts.

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.

	2021 £m	2020 £m
Impact on profit after tax	1.2	(0.6)

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	
Fair value hedges	**2021 %**	2020 %	**2021 £m**	2020 £m	**2021 £m**	2020 £m
Less than one year	–	–	–	–	–	–
One to two years	–	2.21	–	350	–	6.4
Two to five years	–	–	–	–	–	–

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 49% to March 2022 and 18% to March 2023 for UK diesel price risk exposure and 0% to March 2022 and 0% to March 2023 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 52 weeks ending 28 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 during the 52 weeks ending 27 March 2021 and at the year end:

	2021 £m	2020 £m
Impact on profit after tax	(3.9)	(2.7)
Impact on hedging reserve	8.0	11.9

Volume at risk for the year to 26 March 2022 is 1.7m (year to 27 March 2021: 2.1m) barrels for which 49% is hedged to diesel price risk.

Notes to the consolidated financial statements continued

26 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 31 March 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 29 March 2020	207.3	(30.6)	91.7	(263.2)	5.2
Charge/(credit) to income statement	6.8	6.4	(26.8)	15.6	2.0
(Credit)/charge to other comprehensive income and equity	–	(15.5)	10.0	–	(5.5)
Transferred to held for sale – discontinued operations	(185.8)	6.3	(77.4)	223.3	(33.6)
Foreign exchange and other movements	(17.6)	1.0	(10.8)	24.3	(3.1)
At 27 March 2021	**10.7**	**(32.4)**	**(13.3)**	**–**	**(35.0)**

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2021 Continuing £m	**2021 Discontinued £m**	**2021 £m**	2020 £m
Deferred tax assets	**(35.0)**	**–**	**(35.0)**	(33.6)
Deferred tax liabilities	**–**	**33.6**	**33.6**	38.8
	(35.0)	**33.6**	**(1.4)**	5.2

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 £232.2m (2020: £220.6m) and tax losses of £430.4m (2020: £478.7m) and US tax credits of £9.7m (2020: £10.7m) have not been recognised. £42.7m of the losses are subject to expiry with £28.4m expiring in 2024, £11.5m expiring in 2025 to 2028 and £2.8m expiring thereafter.

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. Since the proposal to increase the rate to 25% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the balance sheet date, would be to increase the deferred tax asset by £11.6m.

27 Provisions

	2021 £m	2020 £m
Insurance claims	**111.9**	382.8
Legal and other	**22.8**	34.6
Pensions	**0.8**	1.6
	135.5	419.0

27 Provisions continued

On 27 March 2021 provisions of £400.6m (2020: £nil) have been transferred to discontinued operations, see note 21.

	Insurance claims £m	Legal and other £m	Pensions £m	Total £m
At 29 March 2020	588.9	60.6	1.6	651.1
Charged to the income statement	205.4	13.3	–	218.7
Utilised in the year	(186.0)	(19.3)	–	(205.3)
Transferred from accruals	–	(3.8)	(0.4)	(4.2)
Notional interest	3.8	–	–	3.8
Transferred to held for sale – discontinued operations	(389.4)	(11.2)	–	(400.6)
Foreign exchange movements	(50.5)	(3.1)	–	(53.6)
At 27 March 2021	**172.2**	**36.5**	**1.2**	**209.9**
Current liabilities	**60.3**	**13.7**	**0.4**	**74.4**
Non-current liabilities	**111.9**	**22.8**	**0.8**	**135.5**
At 27 March 2021	**172.2**	**36.5**	**1.2**	**209.9**
Current liabilities	206.1	26.0	–	232.1
Non-current liabilities	382.8	34.6	1.6	419.0
At 28 March 2020	588.9	60.6	1.6	651.1

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 £10.3m (2020: £35.4m) can extend for up to 30 years. The utilisation of £205.3m (2020: £219.4m) 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 £24.7m (2020: £22.1m) 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.

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.

At the Half Year to September 2020 a provision was made for estimated Rail termination sums of £161.1m. Final Rail termination sums are £47.4m and are included within accruals, with balance of £127.9m reversed in the second half of the year.

28 Called up share capital

	2021 £m	2020 £m
Allotted, called up and fully paid		
1,221.8m (2020: 1,219.5m) ordinary shares of 5p each	**61.1**	61.0

The Company has one class of ordinary shares which carries no right to fixed income.

During the year 2.3m shares were issued to satisfy principally SAYE exercises.

29 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 Hedging reserve includes £1.2m in relation to the cost of hedging.

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.

Notes to the consolidated financial statements continued

29 Reserves continued

Hedging reserve

The movements in the hedging reserve were as follows:

	2021 £m	2020 £m
Balance at 29 March/31 March	**(28.3)**	17.5
Transfer to hedging reserve through consolidated statement of comprehensive income		
Fuel derivatives	**22.5**	(33.5)
Currency forwards	**(6.1)**	4.2
	16.4	(29.3)
Tax on derivative hedging instrument movements through statement of comprehensive income	**(3.6)**	5.9
Transfer from hedging reserve to the balance sheet:		
Fuel derivatives	**21.2**	(20.8)
Currency forwards	**(2.1)**	(7.5)
	19.1	(28.3)
Tax on derivative hedging instrument movements to the balance sheet	**(3.9)**	5.9
Balance at 27 March/28 March	**(0.3)**	(28.3)
Transfer to translation reserve	**(3.1)**	–
	(3.4)	(28.3)

Own shares

The number of own shares held by the Group at the end of the year was 15,432,525 (2020: 8,650,254) FirstGroup plc ordinary shares of 5p each. Of these, 15,242,776 (2020: 8,460,505) were held by the FirstGroup plc Employee Benefit Trust, 32,520 (2020: 32,520) by the FirstGroup plc Qualifying Employee Share Ownership Trust and 157,229 (2020: 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 27 March 2021 was £14.2m (2020: £4.4m).

Other reserves	Capital redemption reserve £m	Capital reserve £m	Total other reserves £m
At 27 March 2021 and 28 March 2020	**1.9**	**2.7**	**4.6**

There have been no movements on the capital redemption reserve or capital reserve during the year ended 27 March 2021. 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.

30 Translation reserve

	2021 £m	2020 £m
At 29 March/31 March	**635.6**	544.3
Movement for the financial year	**(110.9)**	91.3
At 27 March/28 March	**524.7**	635.6

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 £114.0m (2020: £(13.1)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 £(370.5)m (2020: £(484.5)m).

31 Acquisition of businesses and subsidiary undertakings

	2021 £m	2020 £m
Provisional fair value of net assets acquired:		
Property, plant and equipment	**0.6**	16.2
Other intangible assets	**0.9**	11.1
Other liabilities	**–**	(3.2)
	1.5	24.1
Goodwill	**–**	1.7
Satisfied by cash paid and payable	**1.5**	25.8

On 21 August 2020 the Group completed the acquisition of Wubs Transit, a provider of school and charter transportation services based in Ontario Canada.

The total consideration of £1.5m in 2021 represents £1.4m cash paid during the year and £0.1m deferred to be paid in future periods. In 2020 the total consideration of £25.8m represents £21.8m cash paid during the year and £4.0m deferred to be paid in future periods

The businesses acquired during the year contributed £0.5m (2020: £7.9m) to Group revenue and £0.2m profit (2020: £2.4m profit) to Group operating profit from date of acquisition to 27 March 2021.

If the acquisition of the businesses acquired during the year had been completed on the first day of the financial year, Group revenue from acquisitions for the period would have been £0.8m (2020: £27.5m) and the Group operating profit from this acquisition attributable to equity holders of the parent would have been £0.2m (2020: £5.5m).

32 Net cash from operating activities

	2021 £m	2020 (restated) £m
Operating profit/(loss) from:		
Continuing operations	**224.3**	(215.2)
Discontinued operations	**61.5**	62.5
Total operations	**285.8**	(152.7)
Adjustments for:		
Depreciation charges	**962.3**	889.4
Capital grant amortisation	**(13.3)**	(53.4)
Software amortisation charges	**11.2**	16.1
Other intangible asset amortisation charges	**4.1**	4.9
Impairment charges	**16.6**	189.0
Share-based payments	**11.9**	10.3
Profit on disposal of property, plant and equipment	**(73.0)**	(12.9)
Operating cash flows before working capital and pensions	**1,205.6**	890.7
Increase/(decrease) in inventories	**12.0**	(1.7)
Increase in receivables	**(5.9)**	(9.0)
Increase in payables due within one year	**197.0**	167.9
(Increase)/decrease in provisions due within one year	**(1.7)**	9.7
Increase in provisions due over one year	**10.9**	67.1
Defined benefit pension payments in excess of income statement charge	**(59.2)**	(38.8)
Cash generated by operations	**1,358.7**	1,085.9
Tax paid	**(4.5)**	(2.9)
Interest paid[1]	**(149.8)**	(125.9)
Net cash from operating activities[2]	**1,204.4**	957.1

1 Interest paid includes £73.1m relating to lease liabilities (2020: £42.6m)

2 Net cash from operating activities is stated after an outflow of £17.3m (2020: inflow of £13.2m) in relation to financial derivative settlements.

Ring-fenced cash has been restated and increased by £17.2m at 29 March 2020 and £18.3m as at 31 March 2019, as cash balances relating to companies under the control of First Transit had not been recognised in prior periods. The cashflow impact of these changes has been reflected in payables since the liabilities relating to companies under the control of First Transit had not been recognised in prior periods.

Notes to the consolidated financial statements continued

33 Analysis of changes in net debt

	At 29 March 2020 (restated) £m	Cash flow £m	Foreign exchange movements £m	Other £m	**At 27 March 2021 £m**
Components of financing activities:					
Bank loans	(573.9)	(28.1)	35.7	–	**(566.3)**
Bonds	(877.5)	–	–	4.4	**(873.1)**
Fair value of interest rate coupon swaps	6.4	–	–	(6.4)	**–**
Senior unsecured loan notes	(219.8)	–	21.3	(0.3)	**(198.8)**
CCFF	–	(298.2)	–	–	**(298.2)**
Supplier financing[1]	–	–	–	(159.2)	**(159.2)**
Lease liabilities[2]	(2,473.2)	669.2	41.1	(210.0)	**(1,972.9)**
Other debt	(9.4)	8.7	–	–	**(0.7)**
Total components of financing activities	(4,147.4)	351.6	98.1	(371.5)	**(4,069.2)**
Cash	319.5	532.5	(17.7)	–	**834.3**
Bank overdrafts	(82.4)	28.6	–	–	**(53.8)**
Ring-fenced cash	649.4	15.4	(1.9)	–	**662.9**
Cash and cash equivalents	886.5	576.5	(19.6)	–	**1,443.4**
Net debt (including held for sale – discontinued operations)	(3,260.9)	928.1	78.5	(371.5)	**(2,625.8)**

1 Supplier financing relates wholly to First Student and the payable in respect of these items is included within discontinued operations in note 21.

2 Lease liabilities 'other' includes £242.6m inception of new leases, this comprises £107.5m of PCV and property leases in First Student, £105.2m of rolling stock leases across TOCs and £29.9m of other PCV and property leases across the Group, offset by £32.4m of lease terminations in the year.

On 27 March 2021 net debt of £289.4m (2020: £nil) relates to held for sale – discontinued operations, see note 21.

'Bank overdrafts' and 'cash' have been restated and increased by £82.4m at 29 March 2020, as an overdraft had been set off against the cash balance in prior periods. Ring-fenced cash has been restated and increased by £17.2m at 29 March 2020, as cash balances relating to companies under the control of First Transit had not been recognised in prior periods.

	At 31 March 2019 (restated) £m	IFRS 16 transitional adjustment £m	Cash flow £m	Foreign exchange movements £m	Other £m	At 28 March 2020 (restated) £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	249.2	–	67.7	2.6	–	319.5
Bank overdrafts	(81.9)	–	(0.5)	–	–	(82.4)
Ring-fenced cash	543.9	–	105.5	–	–	649.4
Cash and cash equivalents	711.2	–	172.7	2.6	–	886.5
Net debt (including held for sale – discontinued operations)	(885.1)	(1,168.2)	646.7	(24.1)	(1,830.2)	(3,260.9)

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 First Bus and North American divisions.

'Bank overdrafts' and 'cash' have been restated and increased by £81.9m at 31 March 2019 and increased by £82.4m at 29 March 2020, as an overdraft had been set off against the cash balance in prior periods.

'Ring-fenced cash' has been restated and increased by £18.3m at 31 March 2019 and £17.2m at 29 March 2020, as cash balances relating to companies under the control of First Transit had not been recognised in prior periods.

Accrued interest of £42.9m (2020: £43.4m) is excluded from the values above and derivative valuations are presented as the clean values.

34 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 £743.0m (2020: £990.0m) and letters of credit for £422.8m (2020: £393.8m). The performance bonds relate to the North American and First Bus businesses of £517.3m (2020: £686.5m) and the First Rail franchise operations of £225.7m (2020: £303.5m). 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. Following the sale of First Student and First Transit, the letters of credit, surety bonds and parent company guarantees relating to First Student and First Transit have been cancelled or in the process of being released.

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.

The inquest relating to the death of seven passengers in the Croydon tram incident in November 2016 completed on 22 July 2021. The Office of Rail & Road (ORR) investigations into the incident 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 formal ORR proceedings have been commenced and, as such, it is not possible to assess whether any financial penalties or related costs could be incurred.

First MTR South Western Trains Limited (FSWT), a subsidiary of the Company and the operator of the SWR rail franchise, is currently facing proposed collective proceedings before the UK Competition Appeal Tribunal (the CAT) in respect of alleged breaches of UK competition law. Stagecoach South Western Trains Limited (SSWT) (the former operator of the SWR rail franchise) is also a proposed defendant to these proceedings. A separate set of proceedings has been issued against London & South Eastern Railway Limited (LSER) in respect of another rail franchise. The two sets of proceedings are being heard together. The first substantive hearing, at which the CAT was asked to determine whether or not to certify the proposed collective proceedings, took place between 9 and 12 March 2021, and judgement is currently awaited. The proposed class representative alleges that FSWT, SSWT and LSER breached their obligations under UK competition law by not making boundary fares sufficiently available for sale, and/or by failing to ensure that customers were aware of the existence of boundary fares and/or bought an appropriate fare in order to avoid being charged twice for part of a journey. At present the Company cannot accurately determine the likelihood, quantum or timing of any damages and costs which may arise from these proceedings.

Notes to the consolidated financial statements continued

35 Operating commitments

	2021 £m	2020 £m
Minimum payments made under contractual terms recognised in the income statement for the year:		
Plant and machinery	**3.9**	4.0
Track and station access	**455.7**	384.9
Hire of rolling stock	**–**	25.1
Other assets	**3.5**	7.4
Discontinued operations	**3.6**	–
	466.7	421.4

At the balance sheet dates, the Group, including discontinued operations had outstanding commitments for future payments under non-cancellable operating contracts, which fall due as follows:

	2021 £m	2020 £m
Within one year	**495.4**	413.7
In the second to fifth years inclusive	**1,112.0**	1,067.5
After five years	**–**	3.3
	1,607.4	1,484.5

Included in the above commitments are contracts relating to discontinued operations of £0.3m which fall due within one year and £nil falling due after one year.

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 £1,595.1m (2020: £1,472.5m).

36 Share-based payments

Equity-settled share option plans

The Group recognised total expenses of £11.9m (2020: £10.3m) 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 2016 Options Number	SAYE Dec 2017 Options Number	SAYE Dec 2018 Options Number
Outstanding at the beginning of the year	1,363,371	7,594,487	8,574,766
Exercised during the year	(17,144)	(507,339)	(8,740)
Lapsed during the year	(1,346,227)	(1,242,891)	(1,052,848)
Outstanding at the end of the year	**–**	**5,844,257**	**7,513,178**
Exercisable at the end of the year	–	5,844,257	–
Weighted average exercise price (pence)	86.0	83.0	70.0
Weighted average share price at date of exercise (pence)	52.0	92.1	83.2

36 Share-based payments continued

(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 2010 Options Number	DBS 2011 Options Number	DBS 2012 Options Number	DBS 2013 Options Number	DBS 2014 Options Number
Outstanding at the beginning of the year	39,200	54,281	52,646	128,922	156,406
Exercised during the year	(26,901)	(22,548)	–	–	(4,990)
Lapsed during the year	(12,299)	–	–	–	–
Outstanding at the end of the year	**–**	**31,733**	**52,646**	**128,922**	**151,416**
Exercisable at the end of the year	–	31,733	52,646	128,922	151,416
Weighted average exercise price (pence)	Nil	Nil	Nil	Nil	Nil
Weighted average share price at date of exercise (pence)	55.71	87.99	Nil	Nil	32.82

	DBS 2015 Options Number	DBS 2016 Options Number	DBS 2017 Options Number	DBS 2018 Options Number	DBS 2019 Options Number	DBS 2020 Options Number
Outstanding at the beginning of the year	301,212	525,549	1,460,912	686,665	2,141,376	–
Granted during the year	–	–	–	–	–	2,245,095
Forfeited during the year	–	–	(587,624)	(14,953)	(60,793)	–
Lapsed during the year	–	–	(6,263)	–	(61,138)	(81,478)
Exercised during the year	(10,260)	(47,355)	(521,618)	(95,115)	(161,265)	–
Outstanding at the end of the year	**290,952**	**478,194**	**345,407**	**576,597**	**1,858,180**	**2,163,617**
Exercisable at the end of the year	290,952	478,194	345,407	91,647	143,940	–
Weighted average exercise price (pence)	Nil	Nil	Nil	Nil	Nil	Nil
Weighted average share price at date of exercise (pence)	61.27	41.60	36.67	60.04	47.55	N/A

(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 27 March 2021 there were 4,869 (2020: 5,439) participants in the BAYE scheme who have cumulatively purchased 27,988,255 (2020: 23,832,265) shares with the Company contributing 9,027,444 (2020: 7,755,927) 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 are settled by equity where an award exceeds a performance target.

	LTIP 2016 Options Number	LTIP 2017 Options Number	LTIP 2018 Options Number	LTIP 2019 Options Number	LTIP 2020 Options Number
Outstanding at the beginning of the year	47,815	5,243,883	7,270,187	4,260,429	–
Granted during the year	–	–	–	2,510,564	14,254,616
Forfeited during the year	–	(67,826)	–	–	–
Lapsed during the year	–	(4,641,721)	(645,568)	(530,483)	(213,474)
Exercised during the year	(17,464)	(379,215)	–	–	–
Outstanding at the end of the year	**30,351**	**155,121**	**6,624,619**	**6,240,510**	**14,041,142**
Exercisable at the end of the year	30,351	155,121	–	–	–
Weighted average share price at date of exercise (pence)	43.39	36.50	Nil	Nil	Nil

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36 Share-based payments continued

(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	72,296
Exercised during the year	(42,374)
Outstanding at the end of the year	**29,922**
Exercisable at the end of the year	29,922
Weighted average exercise price (pence)	Nil
Weighted average share price at date of exercise (pence)	45.60

(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	ESP 2020 Options Number
Outstanding at the beginning of the year	203,558	245,558	1,540,449	3,251,253	9,959,413	–
Granted during the year	–	–	–	–	103,173	17,168,395
Forfeited during the year	–	–	(125,208)	(252,944)	(537,511)	–
Lapsed during the year	–	–	(19,668)	(123,677)	(627,059)	(439,506)
Exercised during the year	(16,415)	(20,696)	(654,507)	(611,307)	(980,238)	–
Outstanding at the end of the year	**187,143**	**224,862**	**741,066**	**2,263,325**	**7,917,778**	**16,728,889**
Exercisable at the end of the year	187,143	224,862	741,066	926,168	506,394	–
Weighted average exercise price (pence)	Nil	Nil	Nil	Nil	Nil	Nil
Weighted average share price at date of exercise (pence)	76.1	75.1	67.2	45.5	46.1	N/A

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:

	2021	2020
Weighted average share price at grant date (pence)		
– DBS	**54.3**	98.1
– LTIP	**53.7**	122.1
– ESP	**47.3**	111.3
Weighted average exercise price at grant date (pence)		
– DBS	**–**	–
– LTIP	**–**	–
– ESP	**–**	–
Expected volatility (%)		
– DBS	**N/A**	N/A
– LTIP	**57**	33
– ESP	**N/A**	N/A
Expected life (years)		
– DBS	**3.0**	3.0
– SAYE schemes	**3.0**	3.0
– LTIP	**2.41**	2.58
– ESP	**3.0**	3.0
Rate of interest (%)		
– DBS	**N/A**	N/A
– LTIP	**–**	–
– ESP	**–**	–
Expected dividend yield (%)		
– DBS	**–**	–
– LTIP	**–**	–
– ESP	**–**	–

36 Share-based payments continued

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.

	2021 pence	2020 Pence
Weighted average fair value of options at grant date		
– DBS	**54.3**	98.1
– LTIP	**53.7**	122.2
– ESP	**47.3**	111.3

37 Retirement benefit schemes

Non-Rail

Defined contribution plans (shown on a continuing basis)

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 £36.6m (2020: £34.2m) 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 (shown on a continuing basis)

The Group sponsors 9 funded defined benefit plans across its non-rail operations, covering approximately 45,000 former and current employees. These defined benefit arrangements, which are all closed to new entrants, are summarised below. Overall, the duration of the company's obligations is approximately 19 years although the durations of the individual schemes tend to vary with the UK exposures tending to be of longer duration and the North American exposures tending to be of shorter duration.

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 that have been paid/secured, can be repaid to the employer, in line with the rules of the schemes.

Notes to the consolidated financial statements continued

37 Retirement benefit schemes continued

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, 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.

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.

As at the balance sheet date, the Group's transit subsidiary companies sponsored a total of 7 single-employer pension arrangements. The Group is indemnified against any pension liabilities by the relevant transit authorities, and pension costs are reimbursed as they fall due. The Group will not retain any pension liability upon expiry of the contract or if the contracts are reassigned.

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 being merged into a single plan (subject to regulatory approval) in order to be able to improve oversight and streamline investment strategy, which are expected to generate efficiency savings.

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 75% and 114% (2020: 71% and 114%). The market value of the assets at 27 March 2021 for all non-rail operation defined benefit schemes totalled £3,071m (2020: £2,994m) (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 contractual arrangements with the DfT, the employer's responsibility is to pay the contributions following triennial funding valuations while it operates the franchise. These contributions are subject to change on consideration of future statutory valuations. At the end of the franchise, any deficit or surplus in the scheme section passes to the subsequent train operating company with no compensating payments from or to the outgoing TOC.

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.

37 Retirement benefit schemes continued

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 RPS(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 DfT had requested that the RDG co-ordinate the Train Operators' involvement in an industry-wide review of Scheme's 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 contractual agreements with the DfT 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 TPRs key objectives while 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 EMAs and NRCs have impacted the position in relation to the Group's funding obligations towards the RPSs and no allowance has therefore been made within the disclosures for these Agreements.

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 2021 %	**First Rail 2021 %**	**North America 2021 %**	First Bus 2020 %	First Rail 2020 %	North America 2020 %
Key assumptions used:						
Discount rate	**2.05**	**2.05**	**2.87**	2.40	2.40	3.30
Expected rate of salary increases	**2.55**	**3.05**	**2.50**	1.80	2.75	2.50
Inflation – CPI	**2.55**	**2.55**	**2.00**	1.80	1.80	2.00
Future pension increases	**2.55**	**2.55**	**–**	1.80	1.80	–
Post retirement mortality (life expectancy in years)[1]						
Current pensioners at 65:	**19.1**	**20.1**	**20.1**	19.1	21.1	20.1
Future pensioners at 65 aged 45 now:	**20.6**	**21.9**	**21.5**	20.6	22.3	21.3

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.

Notes to the consolidated financial statements continued

37 Retirement benefit schemes continued

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 2020/21 balance sheet position by approximately £32m. A 0.1% movement in the inflation rate would impact the 2020/21 balance sheet position by approximately £27m. A one-year movement in life expectancy would impact the balance sheet position by approximately £90m.

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.

(a) Income statement

Amounts (charged)/credited to the income statement in respect of these defined benefit schemes are as follows:

52 weeks ending 27 March 2021/year ended 31 March 2021	**First Bus £m**	**North America £m**	**Total non-rail £m**	**First Rail £m**	**Total £m**
Current service cost	**(8.2)**	**(8.0)**	**(16.2)**	**(115.1)**	**(131.3)**
Past service gain including curtailments and settlements	**(0.9)**	**(1.5)**	**(2.4)**	**–**	**(2.4)**
Impact of franchise adjustment on operating cost	**–**	**–**	**–**	**58.0**	**58.0**
Net interest cost	**(1.7)**	**(5.8)**	**(7.5)**	**(19.2)**	**(26.7)**
Impact of franchise adjustment on net interest cost	**–**	**–**	**–**	**19.1**	**19.1**
	(10.8)	**(15.3)**	**(26.1)**	**(57.2)**	**(83.3)**
Less discontinued operations	**–**	**2.9**	**2.9**	**–**	**2.9**
	(10.8)	**(12.4)**	**(23.2)**	**(57.2)**	**(80.4)**

52 weeks ending 28 March 2020/year ended 31 March 2020	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
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)
Less discontinued operations	–	2.9	2.9	–	2.9
	(13.6)	(11.5)	(25.1)	(45.8)	(70.9)

Net interest comprises:

52 weeks ending 27 March 2021	**2021 £m**	2020 £m
Interest cost (table (c))	**(135.2)**	(136.0)
Interest income on assets (table (d))	**113.7**	112.5
Interest on irrecoverable surplus (table (h))	**(5.1)**	(4.5)
	(26.6)	(28.0)
Less discontinued operations	**1.2**	1.3
	(25.4)	(26.7)

During the year £23.5m (2020: £20.8m) of gross administrative expenses were incurred. Net administration expenses were £17.9m (2020: £16.7m).

37 Retirement benefit schemes continued

(b) Balance sheet (continuing operations only)

The amounts included in the balance sheet arising from the Group's obligations in respect of its defined benefit pension schemes are as follows:

At 27 March 2021/31 March 2021	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
Fair value of schemes' assets	**2,720.3**	**364.9**	**3,085.2**	**3,382.7**	**6,467.9**
Present value of defined benefit obligations	**(2,775.2)**	**(469.6)**	**(3,244.8)**	**(5,336.2)**	**(8,581.0)**
Deficit before adjustments	**(54.9)**	**(104.7)**	**(159.6)**	**(1,953.5)**	**(2,113.1)**
Adjustment for irrecoverable surplus[1] (table (h))	**(108.7)**	**–**	**(108.7)**	**–**	**(108.7)**
First Rail franchise adjustment (table (f)) (60%)	**–**	**–**	**–**	**1,168.8**	**1,168.8**
Adjustment for employee share of RPS deficits (40%)	**–**	**–**	**–**	**781.4**	**781.4**
Deficit in schemes	**(163.6)**	**(104.7)**	**(268.3)**	**(3.3)**	**(271.6)**
Liability recognised in the balance sheet	**(163.6)**	**(104.7)**	**(268.3)**	**(3.3)**	**(271.6)**
The amount is presented in the consolidated balance sheet as follows:					
Non-current assets	**52.9**	**–**	**52.9**	**–**	**52.9**
Non-current liabilities	**(216.5)**	**(104.7)**	**(321.2)**	**(3.3)**	**(324.5)**
	(163.6)	**(104.7)**	**(268.3)**	**(3.3)**	**(271.6)**

1 The irrecoverable surplus represents the amount of the surplus that the Group could not recover through reducing future Company contributions to LGPS.

On 27 March 2021 a net pension liability of £24.7m (2020: £nil) comprising assets of £72.9m and liabilities of 97.6m was transferred to held for sale – discontinued operations, see note 21.

Total assets including Transit Management subsidiaries (see note 37 (i)) and discontinued operations are £6,890.4m (2020: £6,078.9m) and total liabilities are £9,132.8m (2020: £7,753.3m).

At 28 March 2020/31 March 2020	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
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.

Notes to the consolidated financial statements continued

37 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 29 March 2020/1 April 2020	2,452.2	636.1	3,088.3	4,245.5	7,333.8
Current service cost	8.2	8.0	16.2	115.1	131.3
Past service costs including curtailments	0.9	–	0.9	–	0.9
Effect of settlements	–	(13.1)	(13.1)	–	(13.1)
Interest cost	57.4	18.7	76.1	59.1	135.2
Employee share of change in DBO (not attributable to franchise adjustment)	0.7	0.2	0.9	116.2	117.1
Experience loss on DBO	(20.2)	(12.7)	(32.9)	15.8	(17.1)
Loss on change of assumptions (demographic)	(44.2)	(0.6)	(44.8)	(221.1)	(265.9)
Gain on change of assumptions (financial)	433.2	25.7	458.9	1,124.1	1,583.0
Benefit payments	(113.0)	(58.0)	(171.0)	(118.5)	(289.5)
Transferred to held for sale – discontinued operations	–	(97.6)	(97.6)	–	(97.6)
Currency gain	–	(37.1)	(37.1)	–	(37.1)
At 27 March 2021/31 March 2021	**2,775.2**	**469.6**	**3,244.8**	**5,336.2**	**8,581.0**

	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
At 31 March 2019/1 April 2019	2,644.9	632.4	3,277.3	3,451.2	6,728.5
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
Business acquisition	–	–	–	1,153.5	1,153.5
At 28 March 2020/31 March 2020	2,452.2	636.1	3.088.3	4,245.5	7,333.8

(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 29 March 2020/31 March 2020	2,576.2	417.6	2,993.8	2,796.2	5,790.0
Impact on settlement of assets	–	(14.6)	(14.6)	–	(14.6)
Interest income on assets	60.9	12.9	73.8	39.9	113.7
Company contributions	43.9	34.1	78.0	56.9	134.9
Employee contributions	0.7	0.2	0.9	37.1	38.0
Employee share of interest on assets	–	–	–	26.6	26.6
Actuarial gain on assets	151.6	68.0	219.6	544.5	764.1
Benefit paid from schemes	(108.3)	(51.7)	(160.0)	(104.4)	(264.4)
Employer administration expenses	(4.7)	(6.2)	(10.9)	(14.1)	(25.0)
Transferred to held for sale – discontinued operations	–	(72.9)	(72.9)	–	(72.9)
Currency loss	–	(22.5)	(22.5)	–	(22.5)
At 27 March 2021/31 March 2021	**2,720.3**	**364.9**	**3,085.2**	**3,382.7**	**6,467.9**

37 Retirement benefit schemes continued

	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
At 31 March 2019/1 April 2019	2,693.4	468.0	3,161.4	2,077.9	5,239.3
Settlement impact on assets	–	–	–	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 gain 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 28 March 2020/31 March 2020	2,576.2	417.6	2,993.8	2,796.2	5,790.0

(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 27 March 2021/31 March 2021	**First Bus**	**North America**	**Total non-rail**	**First Rail**	**Total**
Global equity (listed)	**14%**	**34%**	**17%**	**0%**	**7%**
Private equity	**3%**	**0%**	**3%**	**8%**	**6%**
Fixed income/liability driven	**62%**	**40%**	**57%**	**0%**	**28%**
Other return seeking assets	**10%**	**2%**	**9%**	**91%**	**52%**
Real estate	**2%**	**18%**	**4%**	**0%**	**2%**
Annuities	**6%**	**0%**	**6%**	**0%**	**2%**
Cash and cash equivalents*	**3%**	**6%**	**4%**	**1%**	**3%**
	100%	**100%**	**100%**	**100%**	**100%**

* Includes net current assets. In Canada, a downwards adjustment of c. £8m has been applied in respect of lump sums expected to be paid out as part of an ongoing redundancy exercise.

The UK Bus 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 27 March 2021 these had a market value of £16m. 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.

In aggregate, the plans' assets performed well over the year, leading to an overall increase in assets. Following the market fall in March 2020, global equity markets have seen significant rallies since the previous year-end, with c. 40% pounds sterling returns over the 52 weeks ending 27 March 2021. However, financial markets are still volatile as a result of the coronavirus pandemic and uncertainty over the extent and timing of economic recovery. Note that a number of the Company's pension schemes have protections in place to reduce exposure to changes in equity markets. Sovereign bond yields increased over the year as the medium-term growth and inflation outlook was boosted by vaccine rollouts and continued Government support for hard hit industries. Global investment-grade credit spreads have fallen significantly since the previous year end in response to central bank purchase programmes and Government programmes alleviating initial concerns around defaults and downgrades.

In January 2021, the Aberdeen City Council Transport Fund secured a £230m buy-in covering its pensioner obligations. For IAS19 purposes this generated an OCI loss of c. £65m although, due to irrecoverable surplus restrictions, the underlying economic loss is significantly lower. The buy in provides a direct match to the underlying benefits thereby eliminating future balance sheet volatility in respect of these obligations. The buy in assets at the year-end are categorised as 'annuities' in the table above.

Notes to the consolidated financial statements continued

37 Retirement benefit schemes continued

At 28 March 2020/31 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 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.

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 TOCs 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 term of the contract, any deficit or surplus in the scheme passes to the subsequent TOC with no compensating payments from or to the outgoing TOC. FirstGroup's obligations are thus limited to its contributions payable to the schemes during the period over which it operates the contract.

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 under contract.

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 2020	2,796.2	(4,245.5)	579.7	867.3	(2.3)
Income statement					–
Operating					–
– Service cost	–	(177.8)	71.2	58.1	(48.5)
– Admin cost	–	(14.1)	5.6	–	(8.5)
Total operating	–	(191.9)	76.8	58.1	(57.0)
Financing	66.5	(98.5)	12.8	19.1	(0.1)
Total income statement	66.5	(290.4)	89.6	77.2	(57.1)
Amounts paid to/(from) scheme					–
Employer contributions	57.0	–	(22.7)	22.7	57.0
Employee contributions	37.1	–	(14.9)	(22.2)	–
Benefits paid	(118.5)	118.5	–	–	–
Total	(24.4)	118.5	(37.6)	0.5	57.0
Expected closing position	2,838.3	(4,417.4)	631.7	945.0	(2.4)
Change in financial assumptions	–	(1,124.1)	449.6	671.9	(2.6)
Change in demographic assumptions	–	221.1	(88.4)	(132.2)	0.5
Return on assets in excess of discount rate	544.4	–	(217.8)	(325.6)	1.0
Experience	–	(15.8)	6.3	9.7	0.2
Total	544.4	(918.8)	149.7	223.8	(0.9)
At 31 March 2021	3,382.7	(5,336.2)	781.4	1,168.8	(3.3)

37 Retirement benefit schemes continued

	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)	72.1	68.3	(39.6)
– Admin cost	–	(10.2)	4.1	–	(6.1)
Total operating	–	(190.2)	76.2	68.3	(45.7)
Financing	54.8	(87.2)	13.0	19.4	–
Total income statement	54.8	(277.4)	89.2	87.7	(45.7)
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
Benefits 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)

(g) Consolidated statement of comprehensive income

Amounts presented in the consolidated statement of comprehensive income comprise:

	2021 £m	2020 £m
Actuarial (loss)/gain on DBO	**(1,300.0)**	670.8
Actuarial gain/(loss) on assets	**764.1**	(237.7)
Actuarial gain/(loss) on franchise adjustments	**373.6**	(438.3)
Adjustment for irrecoverable surplus	**113.0**	(23.8)
	(49.3)	(29.0)
Less discontinued operations	**(20.5)**	12.5
Actuarial losses on defined benefit schemes	**(28.8)**	(41.5)

(h) Adjustment for First Bus irrecoverable surplus

Movements in the adjustment for the First Bus irrecoverable surplus were as follows:

	2021 £m	2020 £m
At 29 March/31 March	**(216.6)**	(188.2)
Interest on irrecoverable surplus	**(5.1)**	(4.5)
Actuarial gain/(loss) on irrecoverable surplus	**113.0**	(23.9)
At 27 March/28 March	**(108.7)**	(216.6)

Notes to the consolidated financial statements continued

37 Retirement benefit schemes continued

(i) Transit management contracts

The Group is retaining 10 Transit Management Contacts which contain defined benefit pension arrangements covering seven single employer pension schemes. The pension contributions and deficits relating to these schemes are fully indemnified by the contracting authority. Details of the assets and liabilities of these schemes is as follows:

	2021 £m	2020 £m
Assets	349.6	288.9
Liabilities	(454.2)	(419.5)
Deficits in schemes	(104.6)	(202.6)
Amounts recoverable from contracting authorities	104.6	202.6
Net deficits in schemes	–	–

Cash contributions

The estimated amounts of employer contributions expected to be paid to the defined benefit schemes during the 52 weeks ending 26 March 2022 is £138m based on current contributions schedules in force (27 March 2021: £132m).

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 contractual arrangements with DfT, 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.	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.

38 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 108 to 131.

	52 weeks ending 27 March 2021 £m	52 weeks ending 28 March 2020 £m
Basic salaries[1]	**1.1**	1.2
Benefits in kind	**0.1**	0.1
Fees	**0.7**	0.8
Share-based payment	**0.1**	0.8
	2.0	2.9

1 Basic salaries include cash emoluments in lieu of retirement benefits and car allowances.

39 Post balance sheet events

- On 23 April announced sale of First Student and First Transit (see discontinued operations note 21) and completed the sale on 21 July
- Cancelled the £300m bridge facility that matures in March 2022
- Repaid Sterling bond 2021 of £350m on 15 April 2021
- Repaid a further £527m of indebtedness and contributed £220m to UK Bus Pension Scheme in applying some of the sales proceeds from the sale of First Student and First Transit
- Following the sale of First Student and First Transit, the letters of credit, surety bonds and parent company guarantees relating to First Student and First Transit have been cancelled or in the process of being released
- Agreed a nil termination sum with the DfT relating to TPE franchise
- Signed National Rail Contracts for SWR and TPE in May for initial two year term with the DfT having an option to extend the respective contracts for a further two years to May 2025
- Agreed with the DfT the extension of the Emergency Measures Agreement for GWR to December 2021
- Announced the closure of Greyhound Canada on 15 May 2021

Notes to the consolidated financial statements continued

40 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 2021 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

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

CentreWest Limited (02844270),[4] 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

CentreWest London Buses Limited, 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 Limited, 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, Carmuirs House, 300 Stirling Road, Larbert, Stirlingshire, FK5 3NJ

ECOC (Holdings) Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Evolutionary Rail Limited, 4th Floor, Capital House, 25 Chapel Street, London, NW1 5DH

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 Beeline Buses Limited, Bus Depot, Empress Road, Southampton, Hampshire, SO14 0JW

First Bus Central Services Limited, 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 Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

First Capital North Limited, 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 Ltd, 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 Eastern Counties Buses Limited, Davey House, 7b Castle Meadow, Norwich, Norfolk, 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 Limited,[1] 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 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, Abbey Lane, Leicester, England, LE4 0DA

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, Abbey Lane, Leicester, England, LE4 0DA

First Provincial Buses Limited, Empress Road, Southampton, Hampshire, SO14 0JW

Subsidiaries – wholly owned and incorporated in the United Kingdom (continued)

First Rail Holdings Limited,[1] 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Rail Procurement Limited,[1] 4th Floor Capital House, 25 Chapel Street, London, United Kingdom, NW1 5DH

First Rail Support Limited, 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

First Scotland East Limited, Carmuirs House, 300 Stirling Road, Larbert, Stirlingshire, FK5 3NJ

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 5 Petre Court, Petre Road Clayton Business Park, Clayton Le Moors, Accrington, BB5 5HY

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 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) Limited,[1] 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

FirstBus (South) Limited,[1] 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, 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

FirstGroup Holdings Limited,[1] 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

FirstGroup (QUEST) Trustees Limited,[1] 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. Limited,[1] Enterprise House, Easton Road, Bristol, BS5 0DZ

GB Railways Group Limited,[1] 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

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, The Point, 8th Floor, 37 North Wharf Road, London, England, W2 1AF

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 Partnership Limited,[1] Olive Grove, Sheffield, South Yorkshire, S2 3GA

Midland Bluebird Limited, Carmuirs House, 300 Stirling Road Larbert, Stirlingshire, FK5 3NJ

Midland Travellers Limited, Hunslet Park Depot, Donisthorpe Street, Leeds, Yorkshire, LS10 1PL

Mistral Data Limited, 4th Floor, Capital House, 25 Chapel Street, London, NW1 5DH

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 Ltd, Hunslet Park Depot, Donisthorpe Street, Leeds, Yorkshire, LS10 1PL

Reiver Ventures Properties Limited, Carmuirs House, 300 Stirling Road, Larbert, Stirlingshire, FK5 3NJ

Reiver Ventures Limited, Carmuirs 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

Scott's Hospitality Limited, 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

Sheafline (S.U.T.) Limited, Olive Grove, Sheffield, South Yorkshire, S2 3GA

Notes to the consolidated financial statements continued

40 Information about related undertakings continued

Subsidiaries – wholly owned and incorporated in the United Kingdom (continued)

Sheffield & District Traction Company Limited, Olive Grove, Sheffield, South Yorkshire, S2 3GA

Sheffield United Transport Limited, Olive Grove, Sheffield, South Yorkshire, S2 3GA

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, Carmuirs 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

Strathclyde Buses Limited, 100 Cathcart Road, Glasgow, G42 7BH

Streamline Buses (Bath) Limited,[1] Enterprise House, Easton Road, Bristol, BS5 0DZ

Taylors 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 Limited,[1] 4th Floor, Capital House, 25 Chapel Street, London, NW1 5DH

Tram Operations Limited, Tramlink Depot, Coomber Way, Croydon, CR0 4TQ

Transportation Claims Limited, Abbey Warf, 57-75 King Road, Reading RG1 3AB

Truronian Limited, 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

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 Inc, Inc. 287 Grove St, Worcester, Massachusetts 01606

Central Virginia Transit Management, Co, 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 Student of Orleans LLC 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

First Transit, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

First Transit Management of Lowell, 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

FirstGroup Management, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

FirstGroup Services, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Franklin Transit Management, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

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.[3] 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

Subsidiaries – wholly owned and incorporated in the United States of America (continued)

On Time Delivery Service, Inc. 350 N. St. Paul Street, Dallas, Texas 75201

Paratransit Brokerage Services TM, Inc. 287 Grove Street, Worchester, 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

Saferide Safe Ride Services, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Safe Transport LLC. 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

SuTran. 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 Asheville 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Beaumont, Inc. 1999 Bryan Street, Suite 900, Dallas, Texas 75201

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 Volusia, 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

Transportation Realty Income Partners LP (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 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) Ltd, 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

FirstCanada Transportation BC Ltd, Blake, Cassels & Graydon LLP, 595 Burrard Street, P.O. Box 49314, Suite 2600, Three Bentall Centre, Vancouver, British Columbia V7X 1L3

First Transit Canada Inc, 1111 International Blvd, Suite 700, Burlington, Ontario L7L 6W1

GCT Holdings Ltd, Blake, Cassels & Graydon LLP, 3500, 855 – 2 Street SW, Calgary, Alberta, T2P 4J8

GCT Investment LP 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

Notes to the consolidated financial statements continued

40 Information about related undertakings continued

Subsidiary not wholly owned but incorporated in Canada

Mikisew-FirstCanada GP Ltd (49%) 2400 43rd Street Vernon British Columbia

Mikisew-FirstCanada Limited Partnership (49%) 2400 43rd Street Vernon British Columbia

First Kitamaat Limited Partnership (49%) 2400 43rd Street Vernon British Columbia

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

Subsidiary – wholly owned and incorporated in Mexico

Greyhound Lines Mexico, S de R.L. de C.V. 350 N. St. Paul Street, Dallas, Texas 75201

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

Leicester CityBus Benefits Limited (94%), Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Leicester CityBus Limited (94%),[2] Abbey Lane, Leicester, England, LE4 0DA

LCB Engineering Limited (94%), Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Nicecon Limited (50%), 395 King Street, Aberdeen, AB24 5RP

Somerset Passenger Solutions Ltd (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 27 March 2021 these subsidiaries are exempt from audit of individual accounts under S479A of the UK Companies Act 2006.

Independent auditors' report to the members of FirstGroup plc

Report on the audit of the financial statements

Opinion

In our opinion:

- FirstGroup plc's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 27 March 2021 and of the group's profit and the group's cash flows for the 52 week period then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: consolidated balance sheet and the company balance sheet as at 27 March 2021; consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated cash flow statement for the period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in note two to the financial statements, the group, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 6, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Context

COVID-19 and the impact of lockdowns has had a significant impact on the group's performance with all divisions being impacted by reduced demand for services. Throughout the pandemic, the Group has received government and customer support to ensure continuity of services in each of the divisions. In the Rail Division, the agreement of the Emergency Measures Agreements (EMA), which were superseded by Emergency Recovery Measures Agreements (ERMA's) in Autumn 2020 for Avanti West Coast (AWC), South Western Railway (SWR) and TransPennine Express (TPE), meant a fixed management fee was received to operate at agreed service levels, as well as a performance-based fee element. This has reduced the revenue and cost risk compared to the franchise arrangements. First Bus has continued to receive the rolling Covid-19 Bus Services Support Grant (CBSSG) to ensure continuity of service on certain crucial routes.Greyhound has benefited from subsidy funding made available under the terms of the US CARES Act and First Student and Transit have gained support from the U.S government, through the Employee Retention Credit scheme that was introduced as part of the CARES Act. Post year end the sale of the First Student and First Transit business was agreed. We revised our risk assessment for potential impairment of these businesses, noting a decreased risk given the agreed sale. These businesses are shown as discontinued operations in the financial statements.

Independent auditors' report to the members of FirstGroup plc continued

Overview

Audit scope

- The scope of our audit determines where we go and what we do, the best types of audit evidence to obtain, the right areas of operations to focus on and the resources needed to deliver this. As group auditors we are required to obtain sufficient audit evidence from the components of the group. We have determined there are eight components for group reporting purposes:
  - Each Rail Train Operating Company (TOC) is a separate component, totalling four components being Great Western Railway (GWR), South Western Railway (SWR), TransPennine Express (TPE) and Avanti West Coast (AWC)
  - UK Bus
  - In the US we have four components three of which are trading businesses (US Student, US Transit and US Greyhound) and two entities which hold insurance reserves and various other related balances, are together considered as one separate component (FirstGroup America Inc and National Insurance and Indemnity Corporation).

Key audit matters

- Valuation of pension liabilities driven by salary increase, mortality and discount rate assumptions (group)
- Valuation of complex investments within the pension assets (group)
- Valuation of North American insurance reserves (group)
- Valuation of assets held in Greyhound division (group)
- Ability of the group and company to continue as a going concern (group and company)
- Recoverability of the company's investments in subsidiary undertakings (company)
- Impact of COVID-19 (group and company)

Materiality

- Overall group materiality: £10,500,000 based on 0.25% of revenue from continuing operations and based on 0.15% of total revenues
- Overall company materiality: £15,000,000 (based on 1% of net assets restricted for the purposes of the group audit)
- Performance materiality: £7,875,000 (group) and £11,250,000 (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, including 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, and any comments we make on the results of our procedures thereon, 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.

This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Valuation of pension liabilities driven by salary increase, mortality and discount rate assumptions (Group)	
The group has gross defined benefit obligations in the UK and US totalling £8,581.0m at 27 March 2021 (2020: £7,333.8m) from continuing operations (excluding agent arrangements), and £97.6m from discontinued operations which is significant in the context of the overall balance sheet. The valuation of pension plan liabilities requires estimation in determining appropriate assumptions such as salary increases, mortality rates, discount rates and inflation levels. Movement in these assumptions can have a material impact on the determination of the liability. Management uses external actuaries to assist in determining these assumptions In addition, there are restrictions under IAS19 and IFRIC 14 as to when a net pension surplus should be recognised, as well as balance sheet adjustments in respect of First Rail due to the franchise contracts. Refer note 37 and the Critical accounting judgements and key sources of estimation uncertainty section in note 2. Refer to the Audit Committee report on page 99 for a description of its assessment of significant judgement	We used our actuarial experts to assess whether the assumptions used in calculating the defined benefit liabilities for the US and UK were reasonable. We assessed whether salary increases and mortality rate assumptions were consistent with the specifics of each plan and, where applicable, with relevant national benchmarks. We also assessed whether the discount rate and inflation rates were consistent with our internally developed benchmarks and in line with other companies' recent external reporting. We reviewed the trust deeds and statutory legislation relevant to each plan and concur with management's view that the surplus in the Local Government Pension Schemes cannot be recognised in full on the balance sheet. We tested the IFRIC 14 adjustments in respect of these plans and found it to be reasonable, based on the specifics of each plan. We also assessed management judgement with regard to the rail franchise adjustment and found no exception. We evaluated the calculations prepared by the external actuaries to assess the consistency of the assumptions used. We tested the census data for each scheme by comparing the number of members to the latest triennial valuation performed for each scheme and investigated any differences. In addition we performed two-way testing of the listings of active members back to the scheme administrator records, or alternate procedures where appropriate. We have reviewed the controls report of the administrator and identified no exceptions relating to members data. Based on procedures performed we consider that the assumptions used to value the pension obligation are within an acceptable range. We assessed the appropriateness of the related disclosures in note 37 of the group financial statements and consider them to be materially appropriate.
Valuation of complex investments within the pension assets (Group)	
As set out in note 37, the group has gross defined benefit plan assets in the UK and US totalling £6,467.9m at 27 March 2021 (2020: £5,790.0m) from continuing operations (excluding agent arrangements) and £72.9m from discontinued operations. The pension schemes in which the Group participates hold unquoted plan assets in private equity, infrastructure and property funds. Significant judgement is required in determining the valuation of the investments which are based on inputs that are not directly observable. The funds where the valuation requires significant judgement across the group total £720m. The funds are present in the UK and US businesses, with £94m present in the US businesses and £627m in the UK. The majority of the complex assets (£558m) sit in the First UK Bus Pension Scheme. There is a potential range of reasonable outcomes to the valuations of these assets greater than our materiality for the financial statements as a whole. 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 the First UK Bus scheme has a surplus which cannot be fully recognised in the financial statements of the Group under IFRS.	We obtained pricing confirmations directly from investment managers as primary sources of evidence. We also performed additional procedures on investments that are more complex in nature to evaluate whether there is any contradictory evidence suggesting that the pricing confirmations do not reflect an appropriate valuation as at the balance sheet date. These procedures included one or more of the following: Obtained third party controls assurance reports and bridging letters on the investment managers' operations for the current financial year; Reviewed the pricing of transactions taking place close to the balance sheet date; Performed look back testing of previous valuations provided by investment managers to audited financial statements of the underlying funds; Performed an independent web based search for information suggesting any doubts in the investment managers' capability of pricing; or Reviewed investment contributions and distributions between the valuation date and the balance sheet date and obtaining affirmations from investment managers that the price taken is the latest price available to date where the valuation date is different to the balance sheet date. Based on the procedures performed we have no findings to report.

Independent auditors' report to the members of FirstGroup plc continued

Key audit matter	How our audit addressed the key audit matter
Valuation of North American self-insurance reserves (Group)	
As set out in note 2, the Group has recorded a provision of £477.7m in respect of North American self insurance reserves including discontinued operations. These provisions reflect management's best estimate of the likely settlement of claims for all known incidents which have occurred as part of the operations of the FirstGroup North American businesses. The calculation of the reserve is based on actuarial methods and assumptions used to estimate the unpaid claims. There are a number of significant factors in this calculation including claim type, range of possible outcomes, volume, severity and size of claims and the time taken to settle these claims. Management has highlighted North American self-insurance provisioning as a key source of estimation uncertainty in the notes to the consolidated financial statements. The provision has primarily increased due to adverse market developments and settlements across the claim portfolio, and deterioration of loss development factors Refer to the Critical accounting judgements and key sources of estimation uncertainty section in note 2 and note 27, for management's disclosures of the relevant judgements and estimates involved in assessing this provision valuation. Refer to the Audit Committee report on page 99 for a description of its assessment of significant judgement.	We have assessed management's processes and controls for developing the provision. We used our actuarial experts in the US to assess whether the assumptions used in management's calculation of the provision fall within our independently calculated acceptable range. In addition, we have assessed the methodology and assumptions used by management as well as testing the mathematical accuracy of the model. We engaged actuarial specialists in the UK to review and assess the procedures performed by our US actuarial team. We corroborated key assumptions and tested key inputs to the actuarial calculations through agreement to supporting third party data and other information as appropriate. We are satisfied that the assumptions used in the valuation of the North American self-insurance reserve are within our independently assessed actuarial range and that the related disclosures are reasonable.
Valuation of assets held in Greyhound division (Group)	
Assets totalling £266.1m (2020: £261.4m) are held in the Greyhound division. As set out in note 2 (Impairment of tangible and intangible assets excluding goodwill) where management has identified an impairment indicator, an impairment assessment is performed. See also note 11. Management has identified the impact of Covid-19 as an indicator and has assessed the recoverable amount by reference to a fair value less costs to sell ("FVLCTS") model. Included with the FVLCTS model are a number of properties for which the market value is judged to be in excess of the book value the properties are held at, Judgement is required in assessing the value of these properties.	We obtained management's impairment assessment and ensured the calculations were mathematically accurate. We evaluated and challenged the future cash flow forecasts of the CGU. We compared the forecast used for the impairment test to the latest Board-approved plans. We challenged the key assumptions for long term growth rate, discount rate and operating margin. We recalculated management's own sensitivity analysis of key assumptions used and also performed our own independent sensitivity analysis by replacing key assumptions with alternative scenarios in order to ascertain the extent of change in those assumptions that either individually or collectively would be required for the assets to be impaired. We inspected property valuations to support the property disposal proceeds included within the Greyhound FVLCTS model; We have reviewed the proceeds received from property sales completed recently noting that they were in excess of included in the FVLCTS model for the prior year Based on the work performed, as summarised above, we have concluded that the carrying value of Greyhound assets is materially correct.

Key audit matter	How our audit addressed the key audit matter
Ability of the group and company to continue as a going concern (Group and Company)	
COVID-19 and the impact of lockdowns has had a significant impact on the group's performance with all divisions being impacted by reduced demand for services. At the half year management disclosed material uncertainties, relating to covenant compliance and availability of additional funding to repay the COVID Corporate Financing Facility ('CCFF') in December 2021. Since the half year management has successfully raised £550m of new debt improving the liquidity position and now has greater certainty over the cashflows with the agreement of new rail contracts. There is on-going uncertainty regarding the medium to longer-term impact of the COVID19 on passenger travel patterns. Taking into consideration this uncertainty management has modelled a base and downside position assessing liquidity and covenant compliance for its going concern assessment. The Directors have concluded that there is sufficient liquidity available for at least the period of its going concern assessment to September 2022. As the going concern assessment is dependent on management's future cash flow forecasts there is significant judgement involved in determining these and concluding that there is not a material uncertainty. Refer to the Critical accounting judgements and key sources of estimation uncertainty section in note 2 and the Going Concern Statement at pages 164. Refer to the Audit Committee report on page 99 for a description of its assessment of significant judgement.	Our procedures and conclusions in respect of going concern are set out below in the 'Conclusions relating to going concern' section on page 229.
Recoverability of the company's investments in subsidiary undertakings (Company)	
As set out in note 5 to the Company financial statements, investments in subsidiaries are £1,534.8m (2020: £1,530.9m). These are accounted for at cost less provision for impairment in the Company balance sheet at 27 March 2021. Investments are tested for impairment if impairment indicators exist. If such indicators exist, the recoverable amounts of the investments in subsidiaries are estimated in order to determine the extent of any impairment loss. Judgement is required in this area, particularly in assessing whether the carrying value of an asset can be supported by the recoverable value, being the higher of fair value less cost of disposal or the net present value of future cash flows which are estimated based on the continued use of the asset in the business. The investments principally relate to the First Bus business and the North American business (First Student, First Transit and Greyhound). The carrying value of the investment is supported by the recoverable amount which for the North American businesses is calculated using the fair value less cost to sell and for First Bus on a value in use basis.	We evaluated management's determination of whether any indicators of impairment existed by comparing the carrying value of investments in subsidiary undertakings to the market capitalisation of the group at 27 March 2021 and agreed that an impairment assessment is necessary. The recoverable value of the investment in the North American business is assessed by comparing the proceeds from the signed sale and purchase agreement for First Student and First Transit, plus the FVLTCS of Greyhound to the book value of the investment. We have agreed the sale proceeds to the signed sale agreement and tested the FVLCTS of Greyhound as described in the key audit matter above. We agree with management's assessment that the investment value is recoverable. The recoverable value of the investment in First Bus was determined from the discounted future cash flows of the Bus division. We have tested the reasonableness of the key assumptions used, including revenue, profit and cash flow growth rates, terminal growth rates and the discount rate As a result of our work, we did not identify any material impairment We have assessed the disclosures provided and consider them to be appropriate.

Independent auditors' report to the members of FirstGroup plc continued

Key audit matter	How our audit addressed the key audit matter
Impact of COVID-19 (Group and Company)	
The COVID-19 pandemic has had a significant impact on the Group's business during the financial year with the performance of the business being significantly adversely affected. COVID-19 has had a pervasive impact across the Group and has required management to reconsider a number of accounting judgements and estimates. These included adjusting business plans and models which underpin the annual assessments of impairment and going concern; assessing the recognition criteria for government support. Separate key audit matters cover our conclusions on going concern and impairment of assets in Greyhound. Disclosure of the risk to the Group and Company of the impact of Covid-19, and management's conclusions on going concern and viability, have been included within the relevant sections of the financial statements.	In advance of the year end, and throughout the course of our audit procedures, we assessed the risks arising from Covid-19. We focused on areas where significant additional audit effort might be required, as well as those areas that we considered might be susceptible to a material financial impact on the performance and position of the Group and Company for the year ended 27 March 2021. Certain judgements are based on forecast financial information such as the impairment assessments across the divisions. Where forecast financial information is relevant to an accounting judgement we have considered how management has modelled the impact of COVID-19 in its forecasts for 2021 and 2022. In performing this assessment we have taken into account the impact that the first wave of the virus and the associated government restrictions had on the Group's results and considered how further lockdowns and restrictions may affect the business in subsequent periods. We have considered whether financial support received from governments and customers due to the impact of the pandemic meets the revenue recognition criteria under IFRS 15. We have reviewed the disclosures included within the financial statement in respect to the impact of COVID-19 to ensure that the disclosures are consistent with published guidance and the presentation of additional costs incurred by the Group in responding to the pandemic is appropriate.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group is organised into five operating divisions, First Student, First Transit, Greyhound, First Bus and First Rail. There are 115 reporting units within the consolidation, the majority of which are inactive although there is limited trading activity in 6 reporting units in addition to those included in Group reporting scope as discussed below. We have defined a component as a business unit where legal entities have been grouped together based on the fact they have the same management, the same control environment and also considering the way the component reports to the group. We have determined there are nine components required for Group reporting as follows:

- Each Rail Train Operating Company (TOC) is a separate component, with four components being Great Western Railway (GWR), South Western Railway (SWR), TransPennine Express (TPE) and Avanti West Coast (AWC) in scope for group reporting
- UK Bus
- In the US we have four components in scope for group reporting, three of which are trading businesses (US Student, US Transit and US Greyhound) and two entities which hold insurance reserves and various other related balances, are together considered as one separate component (FirstGroup America Inc and National Insurance and Indemnity Corporation).

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determined our audit scope for each of component within the group. Each component above required a complete audit of its financial information. The Rail TOC's (excluding TPE), UK Bus, US Student and US Transit were considered financially significant to the group. National Insurance and Indemnity Corporation was considered a significant risk component. US Greyhound and the Rail TOC TPE were considered material components. The Group audit team tested certain balances centrally including IFRS 16 adjustments posted at Group level, tax balances, pensions obligations and pension assets, and share based payments. In addition the group team performed audit procedures on the material balances in the parent company including testing investments, borrowings, cash and derivatives. This approach ensures that appropriate audit coverage has been obtained over all financial statement line items.

Where work was performed by component auditors, we determined the appropriate level of involvement we needed to have in that audit work to ensure we could conclude that sufficient appropriate audit evidence had been obtained for the Group financial statements as a whole. We issued written instructions to all component auditors and had regular communications with them throughout the audit cycle. Due to COVID-19 restrictions we have not been able to perform site visits at our component auditor locations. However we have obtained and reviewed their working papers virtually. We have also been actively involved in key meetings to plan, execute and conclude the audits of all components.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements – group	Financial statements – company
Overall materiality	£10,500,000	£15,000,000
How we determined it	Based on 0.25% of revenue from continuing operations and 0.15% of total revenues	Based on 1% of net assets, restricted for the purposes of group reporting
Rationale for benchmark applied	Revenue is considered to be the most appropriate benchmark for the financial year as it has remained consistent with the prior year despite volatile profits/ losses. In the engagement leader's judgement £10.5 million is an appropriate materiality for a group of the scale and size of FirstGroup plc.	The entity is a holding company of the rest of the Group and is not a trading entity. Therefore an asset based measure is considered appropriate.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was £2,500,000 - £7,000,000.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £7,875,000 for the group financial statements and £11,250,000 for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount in the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £525,000 (group audit) and £525,000 (company audit) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- obtaining and agreeing management's going concern assessment to the business's board approved plan and ensuring that the base case scenario, indicates that the business generates sufficient cash flows to meets its long and short term obligations while complying with covenant arrangements;
- considering the extent to which the group's and company's future cash flows might be adversely affected by COVID-19; reviewing management's cash flow forecasts, assessing the existing sources of finance and considering the overall impact on liquidity
- ensuring the mathematical accuracy of management's models;
- evaluating management's severe but plausible scenario of disruptions continuing into the future and ensuring this is appropriately modelled through the cash flows;
- considering the risk of breach of the covenant arrangements in place for external borrowings under the severe but plausible scenario;
- observing that climate change is expected to have a limited impact during the period of the going concern assessment;
- performing further sensitivity analysis on the severe but plausible scenario;
- considering the adequacy of the disclosures in the financial statements

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Independent auditors' report to the members of FirstGroup plc continued

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report and additional disclosures, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report and additional disclosures

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report and additional disclosures for the period ended 27 March 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report and additional disclosures.

Directors' Remuneration

In our opinion, the part of the Remuneration Committee Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement, included within the Governance Report is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's and 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;
- The directors' explanation as to their assessment of the group's and company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to 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 its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 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 company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to non-compliance with UK and overseas tax legislation, employment laws and regulations, health and safety legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue and management bias within accounting estimates. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- Enquiries of management at the Group and divisional levels;
- Enquiries of the Group, Rail and US legal teams;
- Enquiries with component auditors;
- Review of internal audit reports in so far as they related to the financial statements;
- Identifying and testing journal entries, in particular certain journal entries posted with unusual account combinations which result in an impact to revenue;
- Challenging estimates and judgements made by management in determining significant accounting estimates, in particular in relation to insurance reserves, valuation of pensions liabilities, valuation of complex investments within the pension assets, impairment of goodwill and going concern.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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 auditors' report.

Independent auditors' report to the members of FirstGroup plc continued

Use of this report
This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements and the part of the Remuneration Committee Report to be audited are not in agreement with the accounting records and returns; or

We have no exceptions to report arising from this responsibility.

Appointment
Following the recommendation of the Audit Committee, we were appointed by the directors on 5 November 2020 to audit the financial statements for the year ended 27 March 2021 and subsequent financial periods. This is therefore our first year of uninterrupted engagement.

Matthew Mullins (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 July 2021

Group financial summary
Unaudited

Consolidated income statement (includes discontinued operations of First Student and First Transit)	2021 £m	2020 £m	2019 £m	2018 £m	2017 £m
Group revenue	**6,845.0**	7,754.6	7,126.9	6,398.4	5,653.3
Operating profit before amortisation charges and other adjustments	**209.4**	256.8	314.8	317.0	339.0
Amortisation charges	**(4.1)**	(4.9)	(11.8)	(70.9)	(60.2)
Other adjustments	**80.5**	(404.6)	(293.2)	(442.3)	4.8
Operating profit/(loss)	**285.8**	(152.7)	9.8	(196.2)	283.6
Net finance cost	**(172.0)**	(146.9)	(107.7)	(130.7)	(132.0)
Investment income	**2.0**	–	–	–	1.0
Ineffectiveness on financial derivatives	**–**	–	–	–	1.0
Profit/(loss) before tax	**115.8**	(299.6)	(97.9)	(326.9)	152.6
Tax	**(24.7)**	(25.0)	(10.1)	36.0	(36.5)
Profit/(loss) for the year	**91.1**	(324.6)	(108.0)	(290.9)	116.1
EBITDA	**1,169.5**	1,108.9	670.3	690.6	686.6

Earnings per share	pence	pence	pence	pence	pence
Adjusted	**2.4**	6.8	13.3	12.3	12.4
Basic	**6.5**	(27.0)	(5.5)	(24.6)	9.3

Consolidated balance sheet	£m	£m	£m	£m	£m
Non-current assets	**2,641.2**	6,225.1	4,003.5	3,802.9	4,524.9
Net current (liabilities)/assets	**(888.7)**	(701.9)	10.7	(300.3)	(153.0)
Non-current liabilities	**(2,817.7)**	(3,927.5)	(1,958.9)	(1,671.0)	(2,011.8)
Held for sale – discontinued operations	**2,354.8**	–	–	–	–
Provisions	**(135.5)**	(419.0)	(532.0)	(341.0)	(284.2)
Net assets	**1,154.1**	1,176.7	1,523.3	1,490.6	2,075.9

Share data Number of shares in issue	millions	millions	millions	millions	millions
At year end	**1,221.8**	1,219.5	1,213.9	1,210.8	1,207.7
Average (excluding treasury shares and shares in trusts)	**1,203.6**	1,210.9	1,205.9	1,205.1	1,204.8

Share price	pence	pence	pence	pence	pence
At year end	**92**	50	91	82	132
High	**95**	138	117	153	133
Low	**31**	28	79	77	89

Market capitalisation	£m	£m	£m	£m	£m
At year end	**1,124**	610	1,105	993	1,594

Continuing operations	2021 £m	2020 £m	2019 £m	2018 £m	2017 £m
Revenue	**4,641.8**	4,642.8	4,205.2	3,554.6	2,831.0
Adjusted operating profit	**101.9**	69.7	107.9	102.3	94.6
Operating profit/(loss)	**224.3**	(215.2)	(128.6)	(318.9)	93.3
EBITDA	**799.8**	658.4	246.6	275.6	246.0

Company balance sheet

As at 27 March 2021/28 March 2020

	Note	2021 £m	2020 (restated) £m
Non-current assets			
Trade and other receivables	3	**1,768.1**	2,210.8
Derivative financial instruments	4	**0.3**	15.8
Investments	5	**1,534.8**	1,530.9
		3,303.2	3,757.5
Current assets			
Cash and cash equivalents		**659.5**	219.8
Derivative financial Instruments	4	**13.5**	4.8
		673.0	224.6
Total assets		**3,976.2**	3,982.1
Current liabilities			
Trade and other payables	7	**1,025.1**	471.5
Derivative financial instruments	4	**7.8**	9.5
		1,032.9	481.0
Net current liabilities		**(359.9)**	(256.4)
Non-current liabilities			
Trade and other payables	7	**1,289.4**	1,780.0
Derivative financial instruments	4	**0.6**	1.0
		1,290.0	1,781.0
Total liabilities		**2,322.9**	2,262.0
Net assets		**1,653.3**	1,720.1
Equity			
Share capital	8	**61.1**	61.0
Share premium		**689.6**	688.6
Other reserves		**149.7**	258.6
Own shares	9	**(9.0)**	(10.2)
Retained earnings		**761.9**	722.1
Total equity		**1,653.3**	1,720.1

The prior year cash and cash equivalents balance has been restated. The total impact is an increase of £82.4m at 28 March 2020. Overdrafts of £82.4m which in the prior year were offset against cash balances when the group had no ability for net physical settlement. This has been grossed up and the impact is to increase cash balances by £82.4m with a corresponding increase in borrowings of the same amount. At 31 March 2019, the impact of the correction is to increase borrowings by £81.9m and increase cash and cash equivalents by the same amount.

The company reported a loss for the 52 weeks ending 27 March 2021 of £69.3m (2020: loss of £382.3m).

Ryan Mangold
27 July 2021

Company number SC157176

Statement of changes in equity

As at 27 March 2021/28 March 2020

	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 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 28 March 2020	61.0	688.6	(10.2)	(3.5)	166.4	93.8	1.9	722.1	1,720.1
Balance at 29 March 2020	**61.0**	**688.6**	**(10.2)**	**(3.5)**	**166.4**	**93.8**	**1.9**	**722.1**	**1,720.1**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(69.3)**	**(69.3)**
Other comprehensive loss for the year	**–**	**–**	**–**	**(3.4)**	**–**	**–**	**–**	**(2.2)**	**(5.6)**
Total comprehensive loss for the year	**–**	**–**	**–**	**(3.4)**	**–**	**–**	**–**	**(71.5)**	**(74.9)**
Reserves reclassification	**–**	**–**	**–**	**(3.1)**	**–**	**–**	**–**	**3.1**	**–**
Shares issued	**0.1**	**1.0**	**–**	**–**	**–**	**–**	**–**	**–**	**1.1**
Movement in EBT and treasury shares	**–**	**–**	**1.2**	**–**	**–**	**–**	**–**	**(6.1)**	**(4.9)**
Share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**11.9**	**11.9**
Reclassification to retained earnings	**–**	**–**	**–**	**–**	**(102.4)**	**–**	**–**	**102.4**	**–**
Balance at 27 March 2021	**61.1**	**689.6**	**(9.0)**	**(10.0)**	**64.0**	**93.8**	**1.9**	**761.9**	**1,653.3**

Merger reserves relating to disposal of investments for qualifying consideration and those relating to the extent related investments are impaired are considered realised and transferred to retained earnings.

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 pages 72 and 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, certain related party transactions and the requirement to present a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of its financial statements.

The financial statements for the 52 weeks ending 27 March 2021 include the results and financial position of the Company for the 52 weeks ending 27 March 2021. The financial statements for the 52 weeks ending 28 March 2020 include the results and financial position of the Company for the 52 weeks ending 28 March 2020.

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 in the form of shares, including the issue of shares qualifying for merger relief, cost is measured by reference to the fair value only of the shares issued.

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 27 March 2021 is £1,534.8m (2020: £1,530.9m).

2 Loss 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 27 March 2021 of £69.3m (2020: loss of £382.3m).

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

	2021 £m	2020 £m
Amounts due from subsidiary undertakings	**1,771.6**	2,212.4
Loss allowance	**(3.5)**	(3.6)
Net amounts due from subsidiary undertakings	**1,768.1**	2,208.8
Deferred tax asset (note 6)	**–**	2.0
	1,768.1	2,210.8

4 Derivative financial instruments

	2021 £m	2020 £m
Total derivatives		
Total assets – due after more than one year	**0.3**	15.8
Total assets – due within one year	**13.5**	4.8
Total assets	**13.8**	20.6
Total creditors – amounts falling due within one year	**7.8**	9.5
Total creditors – amounts falling due after more than one year	**0.6**	1.0
Total creditors	**8.4**	10.5
Derivatives designated and effective as hedging instruments carried at fair value		
Non-current assets		
Cross currency swaps (net investment hedge)	**0.3**	–
Coupon swaps (fair value hedge)	**–**	13.3
Total assets	**0.3**	13.3
Current liabilities		
Currency forwards (net investment hedge)	**7.5**	4.4
	7.5	4.4
Total liabilities	**7.5**	4.4
Derivatives classified as held for trading		
Non-current assets		
Currency forwards (cash flow hedge)	**–**	2.5
Current assets		
Currency forwards (net investment hedge)	**13.5**	–
Currency forwards (cash flow hedge)	**–**	4.8
	13.5	4.8
Total assets	**13.5**	7.3
Current liabilities		
Fuel derivatives (cash flow hedge)	**0.3**	5.1
	0.3	5.1
Non-current liabilities		
Fuel derivatives (cash flow hedge)	**0.6**	1.0
	0.6	1.0
Total liabilities	**0.9**	6.1

Full details of the Group's financial risk management objectives and procedures can be found in note 25 of the Group accounts. As the holding company for the Group, the Company faces similar risks over foreign currency and interest rate movements.

Notes to the Company financial statements continued

5 Investments in subsidiary undertakings

	Unlisted subsidiary undertakings £m
Cost	
At 29 March 2020	2,186.9
Additions	11.9
At 27 March 2021	**2,198.8**
Provision for impairment	
At 29 March 2020	656.0
Impairment	8.0
At 27 March 2021	**664.0**
Carrying amount	
At 27 March 2021	**1,534.8**
At 28 March 2020	1,530.9

The carrying value of the investment in subsidiary undertakings is reviewed for impairment on an annual basis. The recoverable amount is the higher of fair value less cost of disposal or the net present value of future cash flows which are estimated based on the continued use of the asset in the business; The investments of £1,535m principally relate to the First Bus and the North American business (First Student, First Transit and Greyhound). The carrying value of the investment is supported by the recoverable amount which for the North American businesses is calculated using the fair value less cost to sell and for First Bus on a value in use basis. The First Bus value in use requires the determination of appropriate assumptions (which are sources of estimation uncertainty) in relation to the cash flow forecasts, the long-term growth rate to be applied and the discount rate used to discount the estimated cash flows to present value. The FVLCTS calculation for First Student, First Transit and Greyhound require judgement in assessing the earn out value associated with First Transit in the sale of the businesses and judgement in assessing the valuation of surplus properties in Greyhound.

The Directors have determined that no impairment charge is required.

In the North American investments break even would arise if there was either a reduction of the earn out to £44.0m or a 20% reduction of Greyhound property proceeds and reduction of terminal margin to 3%.

Similarly the First Bus investments would break even with a discount rate of 10% and reduction of terminal margin to 1.2%

The additions in the year relate to IFRS 2 share based charges.

A full list of subsidiaries and investments can be found in note 40 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 29 March 2020	(2.0)
Debit to income statement	2.3
Charged to reserves	2.4
Credit to hedging reserve	(1.6)
At 27 March 2021	**1.1**

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2021 £m	2020 £m
Deferred tax liability/(asset) due after more than one year	**1.1**	(2.0)

7 Creditors

	2021 £m	2020 (restated) £m
Amounts falling due within one year		
Bank overdraft	**53.8**	82.4
CCFF	**298.2**	–
£350.0m Sterling bond – 8.750% 2021	**380.1**	30.4
£325.0m Sterling bond – 5.250% 2022	**5.6**	5.8
£200.0m Sterling bond – 6.875% 2024	**7.1**	7.2
Amounts due to subsidiary undertakings	**278.8**	342.9
Accruals and deferred income	**1.5**	2.8
	1,025.1	471.5
Amounts falling due after more than one year		
Syndicated loan facilities	**566.3**	574.0
£350.0m Sterling bond – 8.750% 2021	**–**	355.1
£325.0m Sterling bond – 5.250% 2022	**323.4**	322.6
£200.0m Sterling bond – 6.875% 2024	**199.8**	199.8
Senior unsecured loan notes	**198.8**	219.7
Amounts due to subsidiary undertakings	**–**	108.8
Deferred tax liability (note 6)	**1.1**	–
	1,289.4	1,780.0

Bank overdraft has been restated and increased by £82.4m at 28 March 2020 as an overdraft had been offset against the cash balance in the prior period.

Borrowing facilities

The maturity profile of the Company's undrawn committed borrowing facilities is as follows:

	2021 £m	2020 £m
Facilities maturing:		
Due in more than two years	**350.1**	348.6

Details of the Company's borrowing facilities are given in note 22 to the Group accounts.

8 Called up share capital

	2021 £m	2020 £m
Allotted, called up and fully paid		
1,221.8m (2020: 1,219.5m) ordinary shares of 5p each	**61.1**	61.0

The number of ordinary shares of 5p in issue, excluding treasury shares held in trust for employees, at the end of the period was 1,206.4m (2020: 1,210.8m). At the end of the period 15.4m shares (2020: 8.7m shares) were being held as treasury shares and own shares held in trust for employees.

9 Own shares

	Own shares £m
At 29 March 2020	(10.2)
Movement in EBT, QUEST and treasury shares during the year	1.2
At 27 March 2021	**(9.0)**

The number of own shares held by the Group at the end of the year was 15,432,525 (2020: 8,650,254) FirstGroup plc ordinary shares of 5p each. Of these, 15,242,776 (2020: 8,460,505) were held by the FirstGroup plc Employee Benefit Trust, 32,520 (2020: 32,520) by the FirstGroup plc Qualifying Employee Share Ownership Trust and 157,229 (2020: 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 27 March 2021 was £14.2m (2020: £4.4m).

Notes to the Company financial statements continued

10 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 £743.0m (2020: £990.0m) and letters of credit for £422.8m (2020: £393.8m). The performance bonds relate to the North American and First Bus businesses of £517.3m (2020: £686.5m) and the First Rail franchise operations of £225.7m (2020: £303.5m). 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. Following the sale of First Student and First Transit, the letters of credit, surety bonds and parent company guarantees relating to First Student and First Transit have been cancelled or in the process of being released.

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.

The inquest relating to the death of seven passengers in the Croydon tram incident in November 2016 completed on 22 July 2021. The Office of Rail & Road (ORR) investigations into the incident 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 formal ORR proceedings have been commenced and, as such, it is not possible to assess whether any financial penalties or related costs could be incurred.

First MTR South Western Trains Limited (FSWT), a subsidiary of the Company and the operator of the SWR rail franchise, is currently facing proposed collective proceedings before the UK Competition Appeal Tribunal (the CAT) in respect of alleged breaches of UK competition law. Stagecoach South Western Trains Limited (SSWT) (the former operator of the SWR rail franchise) is also a proposed defendant to these proceedings. A separate set of proceedings has been issued against London & South Eastern Railway Limited (LSER) in respect of another rail franchise. The two sets of proceedings are being heard together. The first substantive hearing, at which the CAT was asked to determine whether or not to certify the proposed collective proceedings, took place between 9 and 12 March 2021, and judgement is currently awaited. The proposed class representative alleges that FSWT, SSWT and LSER breached their obligations under UK competition law by not making boundary fares sufficiently available for sale, and/or by failing to ensure that customers were aware of the existence of boundary fares and/or bought an appropriate fare in order to avoid being charged twice for part of a journey. At present the Company cannot accurately determine the likelihood, quantum or timing of any damages and costs which may arise from these proceedings

Shareholder information

Annual General Meeting

The AGM will be held on 13 September 2021 at The Brewery, 52 Chiswell Street, London, EC1Y 4SD.

The Notice of AGM is available on the Company's website and will have been posted to you if you have chosen to receive hard copy communications from the Company. Either a Form of Proxy or online Voting Card has been posted to all shareholders registered on the Company's register of members.

We are intending to hold the AGM as a physical meeting, however, we will be monitoring restrictions over public gatherings and the UK Government's safety guidance in light of the pandemic. Any changes to the arrangements will be communicated to shareholders before the meeting through our website and, where appropriate, by RIS announcement. We will also be making arrangements for shareholders to follow the meeting remotely via an audiocast.

Shareholders are encouraged to submit proxies for the 2021 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.

Shareholders who wish to ask questions relating to the business of the AGM are encouraged to do so by submitting questions in advance of the AGM by email to companysecretariat@firstgroup.com, or by post for the attention of the General Counsel & Company Secretary (see addresses on the next page). We will consider all questions received and, to the extent practicable, answers will also be published on the Company's website. 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

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 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.

Shareholder information continued

Analysis of shareholders at 27 March 2021

	Number of accounts	% of total accounts	Number of ordinary shares	% of ordinary share capital
By category of shareholders				
Individual	28,794	97.38	45,505,373	3.72
Institutional	776	2.62	1,176,312,711	96.28
Total	**29,570**	**100**	**1,221,818,084**	**100**
By size of holding				
1-1,000	21,507	72.73	5,088,066	0.42
1,001-5,000	5,732	19.38	13,732,490	1.12
5,001-10,000	1,290	4.36	9,040,886	0.74
10,001-100,000	773	2.61	17,893,272	1.46
Over 100,000	268	0.91	1,176,063,370	96.26
Total	**29,570**	**100.00**	**1,221,818,084**	**100.00**

Contact information

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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.

Adjusted cash flow
Net cash inflow is described in the table shown on page 31 of the Financial review

Adjusted net debt
Net debt excluding First Rail ring-fenced cash and IFRS 16 lease liabilities from net debt

Adjusted measures (other)
References to 'adjusted operating profit', 'adjusted profit before tax', and 'adjusted EPS' throughout this document are before rail termination sums net of impairment reversal, gain on disposal of properties, impairment of land and buildings, strategy costs and certain other items as set out in note 4 to the financial statements

AGM
Annual General Meeting

APTA
American Public Transportation Association

ASE
National Institute for Automotive Service Excellence, a US non-profit organisation promoting excellence in vehicle repair

Avanti
Avanti West Coast train operating company

BAYE
Buy As You Earn

The Board
The Board of Directors of the Company

CARES Act
Coronavirus Aid, Relief, and Economic Security Act; the US economic relief package signed into law on 27 March 2020

CBSSG
COVID-19 Bus Service Support Grant, a UK Government measure to secure continuity of service on crucial bus routes which may otherwise have ceased during the pandemic

CCFF
Covid Corporate Financing Facility, a UK Government commercial paper lending facility

CDP
An international non-profit organisation that helps companies and cities disclose their environmental impact

CEBR
Centre for Economics and Business Research, an economics consultancy

CEWS
Canada Emergency Wage Subsidy, a coronavirus temporary relief measure

CGU
Cash Generating Unit

CJRS
Coronavirus Job Retention Scheme, under which grant income may be claimed in respect of certain costs to the Group of furloughed employees

CO_2(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

Company
FirstGroup plc, a company registered in Scotland with number SC157176 whose registered office is at 395 King Street, Aberdeen AB24 5RP

COP26
2021 United Nations Climate Change Conference to be held in Glasgow in October/ November 2021

Coronavirus / Covid-19
Covid-19 is an infectious disease caused by a newly discovered coronavirus

CPI
Consumer price index, an inflation measure that excludes certain housing-related costs

CPT
Confederation of Passenger Transport UK, the voice of the bus and coach industry bringing together more than 1,000 operators

Defra
Department for Environment, Food and Rural Affairs (UK Government)

DfT
Department for Transport (UK Government)

Dividend
Amount payable per ordinary share on an interim and final basis

EABP
Executive Annual Bonus Plan

EBITDA
Earnings before interest, tax, depreciation and amortisation, calculated as adjusted operating profit less capital grant amortisation plus depreciation

EBT
Employee benefit trust

EDF
Employee Directors' forum

EMA/ERMA
Emergency Measures Agreements and Emergency Recovery Measures Agreements were introduced by the DfT to ensure that rail services could continue to operate during the pandemic

EPS
Earnings per share

ESG
Environmental, Social and Governance

EV
Electric vehicle

GED
Group Employee Director

GHG
Greenhouse gas emissions

GPS
Global positioning system

Group
FirstGroup plc and its subsidiaries

GVA
Gross Value Added represents the value added to the economy and is often used as a proxy for estimating the contribution of a firm or industry to GDP

GWR
Great Western Railway train operating company

IAS
International Accounting Standards

IFRS
International Financial Reporting Standards

Glossary continued

KPIs
Key performance indicators, financial and non financial metrics used to define and measure progress towards our strategic objectives

LBG
London Benchmarking Group, an organisation that has created a framework for measuring community impact

LGPS
Local Government Pension Scheme

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

Local authority
Local government organisations in the UK, including unitary, metropolitan, district and county councils

LTIP
Long-Term Incentive Plan

MaaS
Mobility as a Service integrates various forms of transport services into a single mobility service accessible on demand

NBS
National Bus Strategy, announced by UK Government in March 2021

NRC
National Rail Contract

NSC
National Safety Council

Net debt
The value of Group external borrowings excluding the fair value adjustment for coupon swaps designated against certain bonds, excluding accrued interest, less cash balances

Network Rail
Owner and operator of Britain's rail infrastructure

NOx
A generic term for the nitrogen oxides that are most relevant for air pollution

NSTA
National School Transportation Association

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, the UK rail industry membership body that brings together passenger and freight rail companies, Network Rail and High Speed 2.

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

RSSB
Rail Safety and Standards Board

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 train operating company

TCFD
Task Force on Climate-Related Financial Disclosures

TfL
Transport for London, the transport authority responsible for most aspects of London's transport system

TOC
Train operating company

TPE
TransPennine Express train operating company

TSR
Total shareholder return, the growth in value of a shareholding over a specified period assuming that dividends are reinvested to purchase additional shares

USPP
The US Private Placement market is a US private bond market which is available to both US and non-US companies

100%
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