

## Board of Directors



**1. Wolfhart Hauser** N  
Chairman

**Appointed:** May 2015 and became Chairman in July 2015

**Key areas of prior expertise:** Governance, Strategy

**Skills and experience:** Starting his career with various research activities covering also road traffic safety, Wolfhart went on to establish and lead a broad range of successful international service industry businesses. He was Chief Executive of Intertek Group plc for ten years until he retired in May 2015. He was previously Chief Executive Officer (CEO) and President of TÜV Süddeutschland AG for four years and CEO of TÜV product services for ten years.

**Other appointments:** independent Non-Executive Director of Associated British Foods plc and Senior Independent Director of RELX Group plc.

**Nationality:** German



**2. Tim O'Toole CBE**  
Chief Executive

**Appointed:** 2009 and became Chief Executive in 2010

**Key areas of prior expertise:** Transportation, Strategy

**Skills and experience:** Tim brings to the Board a wealth of international transport management experience gained over a number of years in the sector. Prior to joining the Company, he was Managing Director, London Underground, having previously been at Transport for London. He was President and Chief Executive of Consolidated Rail Corporation and a Non-Executive Director of CSX Corporation until March 2017.

**Nationality:** American/British



**3. Matthew Gregory**  
Chief Financial Officer

**Appointed:** 2015

**Key areas of prior expertise:** Finance, M&A

**Skills and experience:** Matthew has strong financial and operational expertise, including strategic and financial planning and control, as well as extensive international experience of driving performance improvement and restructuring. Former Group Finance Director of Essentra plc, having previously been Director of Corporate Development as well as having held a number of senior finance roles. His early career was spent at Rank Group plc and Ernst & Young.

**Nationality:** British



**6. Jimmy Groombridge** B  
Group Employee Director

**Appointed:** 26 May 2017

**Key areas of prior expertise:** Bus Industry, Employee Relations, Employee Engagement, Safety

**Skills and experience:** Jimmy has been a bus driver for almost 40 years and is currently employed as a bus driver for First Eastern Counties, one of the Group's bus operations. An Employee Director for First Eastern Counties Buses Ltd. for more than a decade, he was also elected as the regional Employee Director for Norfolk and Essex. Safety is a passion for Jimmy and as such he is a Be Safe champion. Having gained experience working on projects for different departments within FirstGroup, he has a unique wealth of experience of employee engagement.

**Nationality:** British



**7. Drummond Hall** N R  
Senior Independent Non-Executive Director

**Appointed:** 2014

**Key areas of prior expertise:** Marketing, Strategy

**Skills and experience:** Drummond brings to the Board a wealth of experience gained across a number of customer-focused businesses in the UK, Europe and the US. He was formerly Chief Executive of Dairy Crest Group plc, prior to which his career was spent mainly with Procter & Gamble, Mars and PepsiCo. He has also been Chairman and a Non-Executive Director of Mitchells & Butlers plc and a Non-Executive Director of Taylor Nelson Sofres PLC.

**Other appointments:** Senior Independent Non-Executive Director and Chair of the Remuneration Committee of WH Smith plc and of The Sage Group plc.

**Nationality:** British



**8. Martha Poulter**  
Independent Non-Executive Director

**Appointed:** 26 May 2017

**Key areas of prior expertise:** IT, Business Process Transformation

**Skills and experience:** Martha's experience in technology spans the telecommunications, financial services, and hospitality industries. She was most recently the Executive Vice President and Chief Information Officer (CIO) of Starwood Hotels & Resorts Worldwide and, prior to that, she was Vice President of General Electric and CIO of GE Capital with global responsibility for IT strategy and operations.

**Other appointments:** Board Director of Norwalk Community College Foundation

**Nationality:** American



**4. Richard Adam** A R  
Independent Non-Executive Director

**Appointed:** 24 February 2017

**Key areas of prior expertise:** Finance, M&A, International Business

**Skills and experience:** Richard has served as Finance Director of private and listed businesses for nearly 30 years. From 2007 until retiring in 2016 he was Group Finance Director of Carillion plc. Prior to this he was Group Finance Director of Associated British Ports Holdings plc for seven years. He was also previously Non-Executive Director and Chair of the Audit Committee of SSL International plc. He qualified as a chartered accountant with KPMG in 1982.

**Other appointments:** Non-Executive Director of Countryside Properties plc, Countrywide plc and BMT Group Ltd; Chair of the Audit Committee of Countryside Properties plc and Countrywide plc; Chair designate of the Audit Committee of BMT Group Ltd; Senior Independent Director of Countryside Properties plc.

**Nationality:** British



**5. Warwick Brady** A  
Independent Non-Executive Director

**Appointed:** 2014

**Key areas of prior expertise:** Transportation

**Skills and experience:** Warwick has a strong track record of delivering restructuring, cost reduction and modernisation programmes. 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. Warwick also held board positions at Airline Group and NATS, the UK's airspace provider, and was Deputy CEO of Buzz.

**Other appointments:** Deputy Chief Executive Officer (CEO) of Stobart Group Ltd (until 1 July 2017 when he will become CEO) and strategic Board Advisor at Vistair Systems Ltd.

**Nationality:** British



**9. Imelda Walsh** R N B  
Independent Non-Executive Director

**Appointed:** 2014

**Key areas of prior expertise:** Remuneration, HR

**Skills and experience:** Imelda brings considerable experience to the Board gained across a number of sectors, as well as outstanding remuneration practice skills. She was formerly Non-Executive Director and Chair of the Remuneration Committee of Sainsbury's Bank plc and Mothercare plc and has held senior executive roles at J Sainsbury plc (where she was Group HR Director), Barclays Bank plc and Coca-Cola & Schweppes Beverages Limited.

**Other appointments:** Non-Executive Director and Chair of the Remuneration Committees of William Hill plc and Mitchells & Butlers plc.

**Nationality:** British



**10. Jim Winestock** B N A  
Independent Non-Executive Director

**Appointed:** 2012

**Key areas of prior expertise:** Distribution

**Skills and experience:** Jim brings to the Board considerable operational experience gained within a large complex organisation, together with a track record of achievement. He has served in a number of senior roles and was a member of the management committee during his career at United Parcel Service, Inc, latterly as Senior Vice President and Director of US operations and global security with responsibility for all US operations and 360,000 employees.

**Other appointments:** Non-Executive Director of YRC Worldwide, Inc; also serves on the Board of two not-for-profit organisations in the US.

**Nationality:** American

## Board Committees

A Audit Committee

R Remuneration Committee

N Nomination Committee

B Board Safety Committee

● Chair

## Executive Committee: supports the Chief Executive in the day-to-day running of the Group

In addition to the Chief Executive, who chairs it, and the Chief Financial Officer, its members are:

**Constance Barouel**

Director of Strategy & Operational Performance

**Rachael Borthwick**

Group Corporate Services Director

**Giles Fearnley**

Managing Director, First Bus

**Michael Hampson**

General Counsel & Company Secretary

**Dave Leach**

President, Greyhound

**Dennis Maple**

President, First Student

**Steve Montgomery**

Managing Director, First Rail

**Brad Thomas**

President, First Transit

## Chairman's report



I believe firmly that good governance lies at the heart of a successful and sustainable company. The Board sets out the Group's strategic aims, monitors the Group's strategic objectives and oversees its implementation by the management team. The Board is also responsible for shaping the culture and values of the Group.

### Our values

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

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

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

### Understanding our business

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

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

### Board and Committee composition

The Board underwent some changes during the year with Mick Barker and Brian Wallace stepping down, whilst welcoming Richard Adam, Jimmy Groombridge and Martha Poulter as new additions. I would like to thank Mick and Brian on behalf of the Board for their commitment and contribution over their years with the Group.

In February 2017, Richard Adam was appointed as a Non-Executive Director, succeeding Brian Wallace as Chair of the Audit Committee. Richard has a wealth of financial acumen, M&A and international business experience and we look forward to working with him.

In May 2017, Martha Poulter joined the Board as Non-Executive Director. Martha's strong background and experience in customer-focused, technology-led businesses will be of immense value to the Board.

### Group Employee Director

We are proud of our long history in bringing the voice of our colleagues into the boardroom through our Employee Directors. Such a role has received significant focus over the year, in particular since the launch of the Government's consultation on corporate governance reform. Whether or not it becomes a requirement for all companies to have employee representation on the board, in our experience, the perspectives and input of Employee Directors aid decision-making and demonstrate the Company's desire to hear from our workforce.

Mick Barker was our Group Employee Director from January 2012 until his resignation on 17 February 2017. Mick was succeeded by Jimmy Groombridge on 26 May 2017, with whom we look forward to working over the coming years given his important and unique perspective as an employee of the Group.

### Remuneration

There continues to be a great deal of focus on Directors' remuneration and the way it is disclosed. The Remuneration Committee has ensured that there is a clear line of sight for management between pay and performance in the areas most valued by our shareholders.

## Risk management

We continue to adopt a risk-based approach in establishing the Group's system of internal control and in reviewing its effectiveness.

Overall management of risks is vested in the Board, with the Audit Committee having delegated authority for reviewing the Group's risk management framework.

More detailed information on the Group's system of internal control and risk management can be found in the Principal risks and uncertainties section on page 32 onwards and in this Corporate Governance Report.

## Engaging with shareholders

Engaging with shareholders and being fully aware of their views is one of the key aspects of corporate governance. My fellow Directors and I welcome open, meaningful discussion with shareholders, particularly with regard to governance, strategy and remuneration. The Board and management have undertaken a number of activities in this regard during the year, many of which are detailed in this Annual Report and Accounts.

The Board receives regular reports on investor relations activities and, in particular, on shareholder sentiment and feedback. The Board continues to believe that ongoing engagement with shareholders and other stakeholders is vital to ensuring their views and perspectives are fully understood and taken into consideration. This will remain a key focus for the Board. At the Company's forthcoming Annual General Meeting ('AGM'), all Directors who are able to attend will be available, as usual, to meet with shareholders after the meeting to discuss any issues they may have. I encourage as many shareholders as possible to attend the AGM on 18 July 2017.

**Wolfhart Hauser**  
Chairman

## Key achievements during the year

- Delivery of the transformation plans
- Development of the Group's strategy and business objectives
- Further review of succession planning and talent management for the Board and senior management
- Review of recommendations arising out of the internal Board evaluation
- Further development of the Board's understanding and approach to risk appetite
- Appointments of Richard Adam and Martha Poulter as Non-Executive Directors, and Jimmy Groombridge as Group Employee Director

## Areas of focus in the future

- Disciplined growth and bidding
- South Western rail franchise mobilisation
- Strong cash management
- Ongoing development of Group's strategy

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### Governance framework

The Annual Report and Accounts for the year ended 31 March 2017 has been prepared in accordance with the UK Corporate Governance Code which was issued in April 2014 (the 'Code') by the Financial Reporting Council (the 'FRC') and is available to view at [www.frc.org.uk](http://www.frc.org.uk).

### Code compliance and internal control

The Board confirms that throughout the year the Company has applied the main principles and complied with the provisions of the Code,

including those regarding risk management and internal control. The Board also confirms that we will detail in next year's Annual Report and Accounts how we have applied the principles and provisions of the Code, as revised by the FRC in April 2016.

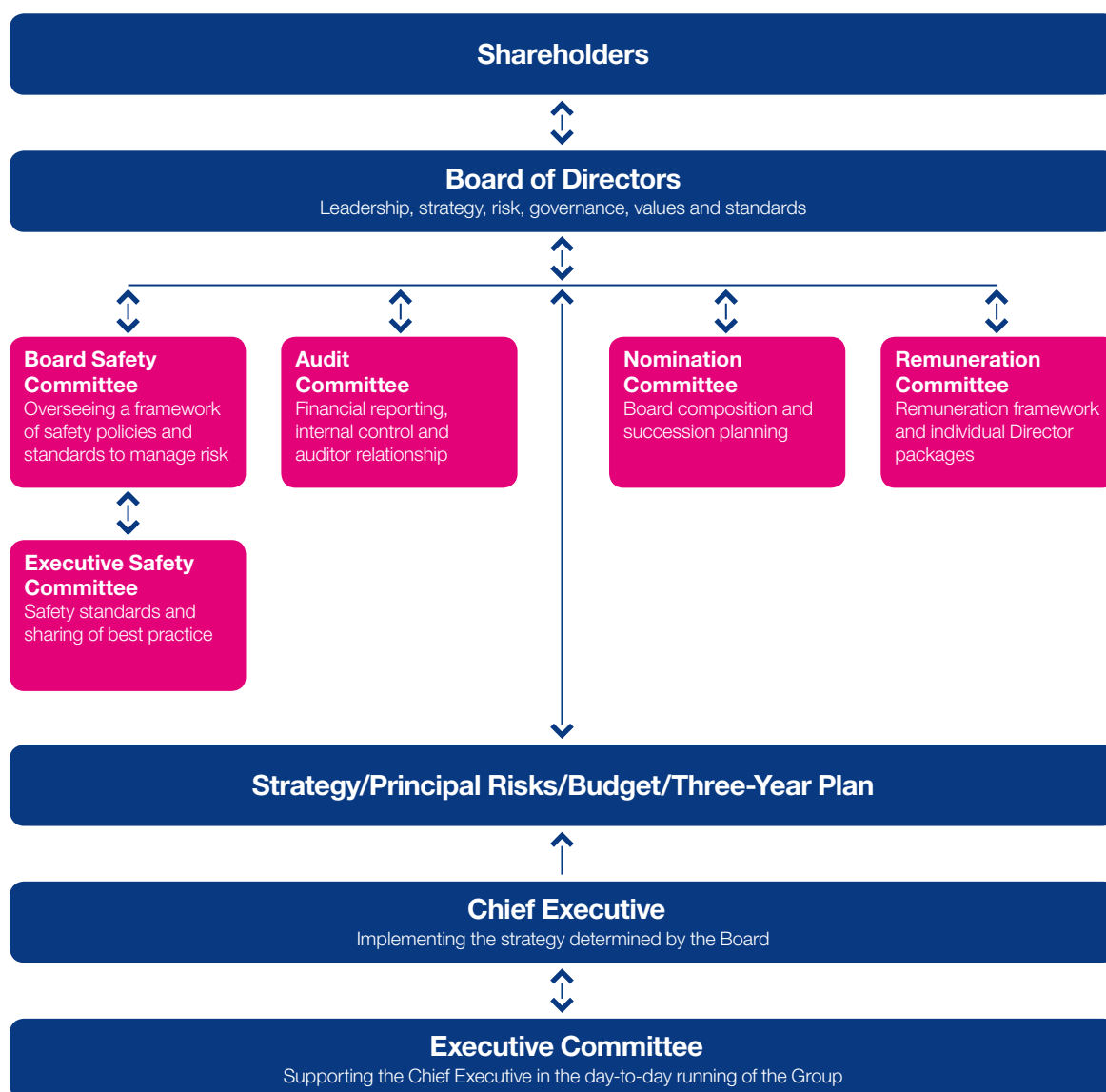
### Leadership

#### The role of the Board

The Board is accountable to shareholders for managing the Company in a way which promotes the long-term success of the Company for the benefit of the shareholders

as a whole. The Board ensures that an appropriate balance between promoting long-term growth and delivering short-term objectives is achieved.

The Board provides entrepreneurial leadership of the Group within a framework of prudent and effective controls for risk assessment and management. The Board is primarily responsible for: determining strategic direction and demonstrating leadership; focusing on matters that consistently add value for shareholders of the Company, both present





and future; the governance and stewardship of the Group to provide protection and security for the shareholders' assets; the management of the Group's employees; setting the Group's culture, standards and values, and ensuring that its obligations to shareholders and other stakeholders are understood and met; and determining the nature and extent of the principal risks the Group is willing to take to achieve its strategic objectives. Another key responsibility of the Board is to ensure that management maintains a system of internal control that provides assurance of effective and efficient operations, internal financial controls and compliance with laws and regulations.

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

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

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

### Board meetings and visits

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

To ensure the Board sees the Group's operations in action, the Board normally holds at least three meetings each year at the Group's sites in the UK and North America. This provides senior management from across the Group with the opportunity to present to the Board and its Committees and to meet Board members informally. It also provides the Board with the opportunity to review operational matters on site. For example, during the year the Board visited our operations in Miami and San Francisco, which included presentations from senior

management on their businesses' performance, employees, opportunities, risks and strategy.

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

Board meetings are structured around the following areas:

- divisional updates;
- strategy;
- financial and operational updates;
- assessment of risks and how they should be managed and mitigated;
- other reporting items for approval, including UK rail franchise bids; and
- reports from Committee Chairs.

### Division of 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.

### Roles and responsibilities

#### Chairman

- establishes the Group's values and standards and sets the tone from the top;
- promotes the interests of the Company with special regard to Group planning and development to secure the Group's future and sustainable success;
- promotes the Board, ensuring it functions efficiently and in conformity with the highest standards of corporate governance;
- ensures Board meetings are effective and open and constructive debate is promoted, the views of all Directors are taken into account and adequate time is available for discussion on all agenda items;
- ensures that shareholders and the Board receive accurate, timely, clear and high-quality information;
- chairs the Nomination Committee;



### Board visit to First Student operation in San Francisco

The purpose of the visit was to provide the Board with a full year review of the division's performance to date and to discuss major operational initiatives and future plans for the business, including an increased focus on growth.

During the visit the Board toured the facility, met and interacted with location personnel, and attended the business briefing.

The areas of greatest interest for the Board were touring the maintenance area, and meeting employees and the location's routing team and local location management.

- ensures effective induction and development of Directors;
- ensures the performance of the Board, its Committees and individual Directors are formally evaluated annually, with an externally facilitated evaluation performed at least every three years;
- facilitates effective and constructive relationships and communications between Non-Executive Directors and Executive Directors and senior management;
- ensures effective communication with shareholders and other stakeholders, and that their views are understood by the Board; and
- provides an appropriate balance of support and challenge to the Chief Executive in order to maintain an effective working relationship.

### Chief Executive

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

### Senior Independent Director

- acts as a point of contact for shareholders and other stakeholders to discuss matters of concern which would not be appropriate through the normal channels of communication with the Chairman, Chief Executive or CFO. No such matters of concern were raised by shareholders or stakeholders during the year ended 31 March 2017;
- acts as a sounding board for the Chairman and serves as an intermediary for the other Directors when necessary;
- meets with the Non-Executive Directors (NEDs) without the Chairman being present at least annually and leads the Board in the ongoing monitoring and annual performance evaluation of the Chairman; and
- deputises for the Chairman, as necessary.

### Non-Executive Directors

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

### Group Employee Director

The Board considers that it is extremely beneficial for its employees to be represented on the Board so that employee-related issues are raised directly and providing a two-way communication between the Board and employees. The Group Employee Director (GED) is nominated by his fellow Employee Directors at the Forum, and serves a maximum of three, three-year terms.

### Board Committees

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

Committee members are expected to attend each Committee meeting, unless there are

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

The terms of reference of each Committee are available to view on the Company's website ([www.firstgroupplc.com](http://www.firstgroupplc.com)) and on request from the Company Secretary. The terms of reference are normally reviewed annually, as they have been this year.

### Executive Committee

The Executive Committee supports the Chief Executive in the day-to-day running of the Group. Its membership is shown on page 45. It meets every month to communicate, review and agree on significant issues and actions. It helps to develop, implement and monitor strategic and operational plans, considers the continuing applicability, appropriateness and impact of risks and leads the Group's culture and safety programme.

### Effectiveness

#### Board balance

Effective management and good stewardship of the Group are led by the Board. The Board is currently comprised of the Chairman, two Executive Directors, one GED and six NEDs. The balance of Directors on the Board ensures that no individual or small group of Directors can dominate the decision-making process and that the interests of the minority shareholders are protected. Biographies of all current Directors are set out on pages 44 and 45. Mick Barker resigned on 17 February 2017 and Brian Wallace retired on 24 February 2017. Richard Adam was appointed on 24 February 2017 and Jimmy Groombridge and Martha Poulter were appointed on 26 May 2017.

### Board Committee membership

Director	Audit Committee	Board Safety Committee	Nomination Committee	Remuneration Committee
Wolfhart Hauser	—	—	C	—
Tim O'Toole	—	—	—	—
Matthew Gregory	—	—	—	—
Richard Adam	C	—	—	M
Warwick Brady	M	—	—	—
Jimmy Groombridge	—	M	—	—
Drummond Hall	—	—	M	M
Martha Poulter	—	—	—	—
Imelda Walsh	—	M	M	C
Jim Winestock	M	C	M	—

C: Chair of Committee

M: Member of Committee

The attendance of Directors at scheduled Board and Committee meetings, which they were eligible to attend, and the number of meetings attended in the year ended 31 March 2017, is shown below. Jimmy Groombridge and Martha Poulter were appointed on 26 May 2017 and are therefore not included.

Director	Board		Audit Committee		Remuneration Committee		Nomination Committee		Board Safety Committee	
	Number of scheduled meetings eligible to attend	Number of scheduled meetings attended	Number of scheduled meetings eligible to attend	Number of scheduled meetings attended	Number of scheduled meetings eligible to attend	Number of scheduled meetings attended	Number of scheduled meetings eligible to attend	Number of scheduled meetings attended	Number of scheduled meetings eligible to attend	Number of scheduled meetings attended
<b>Chairman</b>										
Wolfhart Hauser	9	9					8	8		
<b>Executive Directors</b>										
Tim O'Toole	9	9								
Matthew Gregory	9	9								
<b>Non-Executive Directors</b>										
Richard Adam <sup>1</sup>	1	1	1	1						
Mick Barker <sup>2</sup>	7	7							3	3
Warwick Brady	9	9	4	4						
Drummond Hall	9	8			3	3	8	7		
Brian Wallace <sup>3</sup>	8	8	3	3	2	2	7	6		
Imelda Walsh	9	8			3	3	8	7	3	3
Jim Winestock	9	9	4	4			8	8	3	3

<sup>1</sup> Richard Adam was appointed a Non-Executive Director on 24 February 2017.

<sup>2</sup> Mick Barker resigned on 17 February 2017.

<sup>3</sup> Brian Wallace retired on 24 February 2017.

### Board independence

It is the Company's policy that at least half the Board should be independent Non-Executive Directors. The Board carries out a review of the independence of its Directors on an annual basis. The Board considers each of its current NEDs to be independent in character and judgment. In reaching its determination of independence, the Board has concluded that each provides objective challenge to management, is willing to stand up and defend their own beliefs and viewpoints in order to support the ultimate good of the Company and there are no business or other relationships likely to affect, or which could appear to affect, the judgment of Richard Adam, Warwick Brady, Drummond Hall, Martha Poulter, Imelda Walsh or Jim Winestock. Jimmy Groombridge, the GED, is not considered by the Board to be independent as he is an employee of one of the Group's subsidiaries.

### Commitment

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

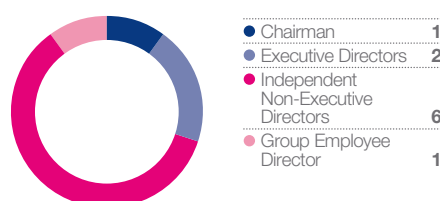
The Board is satisfied that each of the Non-Executive Directors is able to devote sufficient time to the Company's business. Non-Executive Directors are advised on appointment of the time required to fulfil the role and are asked to confirm that they can make the required commitment.

During the year the Chairman met on several occasions with the Non-Executives without the Executive Directors present, allowing for more informal discussions on a variety of issues. The Senior Independent Director also led the Non-Executive Directors in evaluating the performance of the Chairman, with the Chairman showing effectiveness in leadership.

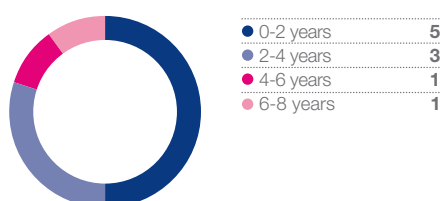
### Development

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

### Board composition



### Length of tenure





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

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

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

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

### Information and support

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

All Directors receive detailed papers and other relevant information on the business to be conducted at each Board or Committee meeting well in advance and all Directors have direct access to senior management should they wish to receive additional information on any of the items for discussion. The head of each Division attends Board meetings on a regular basis to ensure that the Board is properly informed about the performance of that Division and any issues that it faces.

Directors are provided between meetings with relevant information on matters affecting the business. Such updates were carried out by a variety of methods, including conference calls amongst the full Board or between the Chairman and/or the Chief Executive and the Non-Executive Directors, and by way of the Company Secretary circulating monthly financial and operational reports as well as papers and updates on relevant issues.

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

The Company Secretary is Michael Hampson, who joined the Group in 2016. Michael is secretary to the Remuneration and Nomination Committees and his deputy, Silvana Glibota-Vigo, is secretary to the Audit and Board Safety Committees.

### Conflicts of interest

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

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

Furthermore, the Company's 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.

### Performance evaluation

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

Following an internal review in 2016, the Board conducted another internal review in 2017 led by the Chairman with the support of the Company Secretary. The 2017 evaluation was carefully structured but pragmatic, designed to bring about a genuine debate on issues that were relevant, check on progress against matters identified in the previous evaluation and assist in identifying any potential for improvement in the Company's processes. It entailed completion of a questionnaire to assess the effectiveness of the Board, its Committees and individual Directors, and the preparation of a report. The questionnaire focused on the oversight responsibilities and effectiveness of the Board, the role of the Chairman and the operation of the Committees. The results of the performance evaluation were presented and discussed at the May 2017 Board meeting and therefore will be disclosed in next year's Annual Report and Accounts.

As set out in last year's Annual Report and Accounts, an internal Board performance evaluation process was undertaken in 2016 and the results were presented at the June 2016 Board meeting. It was concluded that the dynamics, culture and effectiveness of the Board had improved and that the individual members of the Board remained effective in their ability to discharge their duties and responsibilities. Each Director continued to make a valuable contribution whilst demonstrating commitment to their role. The main areas identified for improvement and corresponding actions taken during 2016/17 are detailed in the table on page 53.

Area identified	Responsibility	Action taken
Review the Board calendar, information flows and the use of time when Directors are together for Board and Committee meetings to determine how better to optimise the use of Directors' time	Chairman supported by Company Secretary	Rolling agendas were developed not only for the Board but also for the Audit, Nomination and Remuneration Committees. The Company Secretary and his team provide guidance to senior management on the structure and content of Board and Committee papers.
Information flow and contact involving the Chairman and the Non-Executive Directors between Board meetings	Chairman	Informal contact in between meetings increased.
Prioritisation of agenda items and allocation of time for discussion in Board meetings	Chairman supported by Company Secretary	Rolling agendas were developed and the Company Secretary and his team monitor the time allocated on agendas in line with business priorities.
Aspects of strategy into the planning cycle and Board programme	Chief Executive	As the Group moves out the transformation phase, certain aspects of strategy now have a prominent place in the Board cycle.
Succession planning and talent management	Chairman	The Nomination Committee, led by the Chairman and supported by the HR Director, continued to keep under review the leadership needs of the Company.
Role and modus operandi of the Nomination Committee	Chairman	The Nomination Committee had previously met on an ad-hoc basis. Meetings are now scheduled one year in advance.
Development of a positive safety culture across the organisation	Board Safety Committee	Proactive steps were taken across the Group in training, technology and management to promote the embedding of a safety culture.

The review of the performance of the Chairman, led by the Senior Independent Director, concluded that Wolfhart continued to operate to a high level.

The evaluation of the Board was externally facilitated in 2014/15 and it will be so again in 2017/18, in line with the requirements of the Code.

### Election and re-election of Directors

Directors newly appointed by the Board are required to submit themselves for election by shareholders at the AGM following their appointment. Richard Adam, who was appointed on 24 February 2017, and Jimmy Groombridge and Martha Poulter, who were appointed on 26 May 2017, will retire and submit themselves for election at the forthcoming AGM.

In accordance with best practice and the Code, it is proposed that all other Directors will submit themselves for re-election at the forthcoming AGM as, following the formal performance evaluation process, the Chairman is content that all Directors' continue to be effective and demonstrate commitment to their role.

### Anti-Bribery and Corruption

The Group has implemented and refreshed its existing compliance programmes and specific policies around key legislation (e.g. UK Bribery Act and the Modern Slavery Act). In particular, policies upholding our zero-tolerance position on bribery and corruption, including on the giving and receipt of appropriate gifts, hospitality or entertainment, have been updated. Colleagues in high-risk areas have received training and policy communications to support their ongoing awareness of these policies and other regulatory risks. There is also an externally managed whistleblowing service available across the Group for colleagues, with a dedicated helpline for the anonymous reporting of inappropriate conduct. The anti-bribery steering committee has the primary and day-to-day responsibility to ensure that our internal control systems and procedures are effective in countering bribery and corruption. The Group continues to develop its effective systems to counter bribery and corruption, including the introduction of its integrated risk and compliance online tool to monitor the use and awareness of policies and procedures and, to provide management data on compliance risks.

### Modern Slavery and Human Trafficking

On human rights, we continue our zero-tolerance approach to slavery and human trafficking, which extends to all business dealings and transactions in which we are involved, regardless of location or sector. As part of our contracting processes with suppliers, we include prohibitions against the use of forced, compulsory or trafficked labour, or anyone held in slavery or servitude, whether adults or children. We implemented our Code of Conduct on Anti-Slavery and Human Trafficking Prevention and published our Modern Slavery and Human Trafficking Statement across the Group. The statement sets out the steps we have taken to address this issue during the previous financial year, and sets goals for the current one. We will publish an updated statement for the year ended 31 March 2017 on our Group websites in due course. We remain committed to strengthening our practices in this area, both within our own business and across our supply chains.

### Accountability

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

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

### Internal control

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

The Board confirms that throughout the year ended 31 March 2017 and up to the date of approval of this Annual Report and Accounts, there have been rigorous processes in place to identify, evaluate and manage the principal risks faced by the Group, including those that would threaten its business model, future performance, solvency or liquidity in accordance with the Guidance on Risk Management and Internal Control published by the FRC.

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

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

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

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

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

- a clearly defined organisation structure with established responsibilities;
- a focused business strategy, thus restricting potential risk exposures;
- Group financial, treasury, operating, compliance and administrative policies and procedures which incorporate statements of required behaviour;
- ongoing review of safety, operating and financial performance of the Group's businesses;
- regular reports to the Board, Board Safety Committee and Executive Safety Committee on safety matters;
- monitoring by the Board of a comprehensive reporting system, including monthly results, periodic short-term forecasts, annual budgets and a medium-term business plan;
- well-defined procedures for the assessment, approval, control and monitoring of major investments, with proposals being subject to rigorous strategic, financial and commercial examination;
- Divisions identifying and reviewing their principal risks and controls for monitoring and managing risks, which are reviewed by senior executive management. The updated divisional and Group risk profiles, which are reviewed by the Chief Executive and CFO,

are presented to the Executive Committee prior to being assessed by the Audit Committee;

- an established methodology for ranking the level of risk in each of its business operations and the principal risk issues associated therewith;
- implementation of appropriate strategies to deal with principal risks, including careful internal monitoring and ensuring external specialists are consulted where necessary;
- a centrally coordinated internal audit programme to verify that policies and internal control procedures are being correctly implemented and to identify any risks at an early stage;
- reviewing and monitoring the confidential reporting system to allow employees to raise concerns about possible legal, regulatory, financial reporting or any other improprieties;
- regular reports to the Audit Committee on the adequacy and effectiveness of internal controls; and
- a remuneration policy for executives that motivates them, without delivering excessive benefits or encouraging excessive risk-taking.

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

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

The Group's approach to risk management and how it profiles the risks identified is set out on pages 32 onwards.

### Financial and business reporting

In its reporting to shareholders the Board recognises its responsibility to present a fair, balanced and understandable assessment of the Group's position and prospects. This

responsibility encompasses all published information including, but not limited to: the year-end and half-yearly financial statements; regulatory news announcements; and other public information.

The quality of the Company's reporting is ensured by having in place procedures for the review of information by management. There are also strict procedures determining who has authority to release information. A statement of the Directors' responsibilities for preparing the financial statements can be found on page 84.

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

### Treasury operations

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

### Internal audit

Internal audit advises management on the extent to which systems of internal control are adequate and effective to manage business risk, safeguard the Group's resources, and ensure compliance with the Group's policies and legal and regulatory requirements as well as advising on ways in which areas of risk can

be addressed. It provides objective assurance on risk and controls to senior management, the Audit Committee and the Board. Internal audit's work is focused on the Group's principal risks. The mandate and programme of work of the internal audit department is considered and approved by the Audit Committee. Based on the approved internal audit plan, a number of internal audits took place across the Group's divisions to facilitate improvement of the Group's internal controls and findings were reported to relevant operational management and to the Audit Committee. Internal audit follows up on the implementation of recommendations and reports on progress to senior management and to the Audit Committee.

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

### Relations with shareholders

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

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

The Company responds as necessary to requests from individual shareholders on a wide range of issues. There is regular dialogue with key institutional shareholders, fund managers and sell-side analysts to discuss strategy, financial performance and investment activities throughout the Group. General presentations to shareholders and the wider financial community are made by the Executive Directors following the announcement of trading updates and half and full-year results.

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

### Annual General Meeting

The Notice of AGM is circulated to all shareholders at least 20 working days prior to such meeting. All shareholders are invited to attend the AGM where there is an opportunity for individual shareholders to question the Chairman and, through him, the Chairs of the principal Board Committees. After the AGM, shareholders can meet informally with the Directors.

At the 2016 AGM, the Chairman provided shareholders with a brief summary of the Company's activities for the previous year. All resolutions at the 2016 AGM were voted on by way of a poll. The procedure for voting on a poll follows best practice and allows the Company to count all votes, rather than just those of the shareholders attending the meeting.

As recommended by the Code, all resolutions proposed at the 2016 AGM were voted separately and the voting results, which included all votes cast for, against and those withheld, together with all proxies lodged prior to the meeting, were announced to the London Stock Exchange and made available on the Company's website as soon as practicable after the meeting. As in previous years, the Form of Proxy clearly advised that a vote withheld is not a vote in law and is not used in calculating the votes for or against a resolution.



## Nomination Committee



The Committee is primarily responsible for leading the process for Board appointments.

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

We have seen further changes on our Board composition this year. In February 2017, Mick Barker resigned and Brian Wallace retired from the Board. During the year, we welcomed Richard Adam to the Board, who was appointed on 24 February 2017 and he succeeded Brian as Chair of the Audit Committee. Jimmy Groombridge was appointed as Group Employee Director and Martha Poulter also joined the Board on 26 May 2017. We look forward to working with them.

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

**Wolfhart Hauser**  
Chair, Nomination Committee

### Role and responsibilities

The key roles and responsibilities of the Committee are to:

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

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

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

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

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

### Membership

The current members of the Committee are the Group Chairman, who chairs it; the Senior Independent Director; the Chair of the Remuneration Committee, and the Chair of the Board Safety Committee. A majority of its members are independent Non-Executive Directors, in accordance with the provisions of the Code.

If a matter were to concern the Group Chairman, then he would leave the meeting and the Senior Independent Director would instead take the Chair.

The Chief Executive attends meetings of the Committee at the invitation of the Committee.

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



### Activities in 2016/17

At its meetings in 2016/17, the Committee considered, amongst other matters, the following:

- selecting and recommending to the Board the appointments of Richard Adam and Martha Poulter as Non-Executive Directors;
- recommending to the Board the appointment of Jimmy Groombridge as Group Employee Director;
- reviewing the composition of the Board and its Committees;
- succession planning for the Non-Executive Directors and, in so doing, considering the tenure, mix and diversity of skills and experience of existing Board members and those of prospective Board members in the context of the Group strategy, and
- reviewed the results of the performance evaluation of the Committee.

### Recruitment of Non-Executive Directors

A comprehensive and rigorous search process was put in place with candidate profiles and position specifications. Spencer Stuart and MWM Consulting, external search consultancies who have no other connection with the Company, were engaged to assist with the selection process and conducted searches to identify suitable, qualified candidates. A number of interviews and meetings were held with shortlisted candidates. Richard Adam and Martha Poulter were then recommended to the Board for approval as they fully met the criteria required.

### Group Employee Director

Following the resignation of Mick Barker in February 2017, the Employee Directors' Forum met on 20 April 2017 to nominate a candidate for this position. Jimmy Groombridge was put forward to the Nomination Committee, who in turn was pleased to recommend his appointment to the Board.

### Diversity

The Company takes account of diversity when recruiting, including when it considers Board appointments, and will continue to do so in the future.

The Board consists of Directors with a wide range of skills and business experience drawn from a number of industries, which is vital for bringing both the expertise required and to enable different perspectives to be brought to Board and Committee discussions.

Furthermore, the Board comprises a range of nationalities, which bring cultural diversity as well as different geographical experiences and viewpoints. The combination of these factors means that the Board benefits from a diverse range of competencies, perspectives and thoughts, which provides a dynamic environment for decision making.

Whilst the Board is currently below its target of 25% female representation at 20%, it remains committed to achieving that goal as soon as practicable. The Board remains of the opinion that appointments should be made on merit and relevant experience, against the criteria identified by the Committee, having regard to the benefits of diversity, including gender. Future appointments to the Board must also complement the balance of skills the Board already possesses.

The Board recognises the need to create the conditions that foster talent and encourage more women to achieve their full potential in their careers in the Group. The Board also welcomes the recommendations of the Hampton-Alexander report. In that sense, as part of an overall approach to HR management, a framework has been developed which includes an Equality, Diversity and Inclusion Policy as well as practical training materials and support for line managers to promote its communication across the Group. Further details on the Group's approach to diversity are set out in the Corporate responsibility section on pages 38 to 42.

## Audit Committee



I am pleased to present my first report as Chair of the Audit Committee. I succeeded Brian Wallace on 24 February 2017 and I am looking forward to continuing his good work.

During the year the Committee has continued to devote significant time to reviewing the integrity of the Group's Financial statements, including the significant financial reporting judgments, as well as reviewing internal controls, and the effectiveness of both internal and external audit.

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

**Richard Adam**  
Chair, Audit Committee

### Role and responsibilities

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

The key responsibilities of the Committee are to:

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

The terms of reference of the Committee can be found on the Company's website ([www.firstgroupplc.com](http://www.firstgroupplc.com)).

### Membership

The current members of the Committee are Richard Adam, who chairs it, Warwick Brady and Jim Winestock.

Richard Adam has recent and relevant financial experience for the purposes of the Code, being a chartered accountant and having held a number of senior finance roles. The other Committee members have significant current or recent executive experience in the transport and distribution industries. This range and depth of financial and commercial experience enables the Committee to deal effectively with the matters it is required to address and to challenge management when necessary.

The Group Chairman, Chief Executive, the Chief Financial Officer, the General Counsel & Company Secretary, the Director of Finance, the Group Director of Assurance, the Group Financial Controller and the external auditor are normally invited to attend Committee meetings, as well as members of the Board. The Deputy Company Secretary acts as Committee Secretary.

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

### Activities in 2016/17

At its meetings in 2016/17, the Committee considered and discharged its responsibilities on the following matters:

#### Financial Reporting

- reviewed the Group's final and half-yearly results, and considered the significant accounting policies, principal estimates and accounting judgments used in their preparation and the transparency and clarity of disclosures within them, and compliance with financial reporting standards and governance;
- reviewed the matters which informed the Board's assessment that it was appropriate to prepare accounts on a going concern basis;
- reviewed the process for assessing the long-term viability of the Company;
- received reports from management and the external auditor on accounting, financial reporting regulation and taxation issues;

- reviewed reports from the external auditor on its audit in respect of the final and half-yearly results prior to them being approved by the Board; and
- reviewed and assessed the process by which the Annual Report and Accounts, taken as a whole, was fair, balanced and understandable and provided the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

#### Internal control, risk management and internal audit

- reviewed the structure and effectiveness of the Group's system of risk management and internal control and the disclosures made in the Annual Report and Accounts on this matter;
- reviewed the Group's risk management activities undertaken by the divisions and at Group level in order to identify, measure and assess the Group's principal risks and develop a risk appetite statement for recommendation to the Board;
- reviewed the effectiveness of the Group's risk management framework, and reports arising from the risk management process;
- approved the annual internal audit plan and reviewed reports from the internal audit department relating to control matters. Progress against the internal audit plan was monitored and any deviations to the plan were agreed;
- monitored and assessed the Group's insurance arrangements; and
- considered reports from the General Counsel & Company Secretary on litigation matters.

#### External auditor

- approved the terms of engagement of the external auditor, the fees paid to it and the scope of work carried out by it;
- performed an annual review of the policies on the independence and objectivity of the external auditor, the use of the external auditor for non-audit services and the employment of former employees of the external auditor;
- reviewed the performance and effectiveness of the external auditor in respect of the previous financial year;

- assessed the objectivity and independence of the external auditor. In assessing independence and objectivity, the Committee considered the level and nature of service provided by the external auditor as well as confirmation from the external auditor that it has remained independent;
- received reports on the findings of the external auditor during the half-yearly review and annual audit, and reviewed the recommendations made to management by the external auditor and management's responses;
- reviewed letters of representation to the external auditor; and
- recommended the re-appointment of the external auditor.

#### Other matters

- reviewed its terms of reference and the results of its performance evaluation;
- received reports from divisional and functional management on a range of financial, operational, risk management, legal and corporate governance matters, including a review on cyber security arrangements across the Group, and GWR performance regime receipts;
- received reports on the latest technical accounting, taxation and regulatory changes; and
- received reports on matters raised on the confidential reporting system and the process for the investigation of such matters, ensuring that the arrangements in place were appropriate for employees to confidentially raise concerns about possible legal, regulatory or other improprieties.

#### Policy on the provision of non-audit services

The Committee's policy on the use of the external auditor for non-audit services, which has been updated to reflect the FRC's Ethical Standard (revised in 2016), includes the identification of non-audit services that may be provided and those prohibited, and a process through which other non-audit services may be provided. The policy can be summarised as follows:

- audit-related services – the external auditor can be invited to provide services, which in its position as external auditor, it must or is best placed to undertake as it is clearly audit-related. These include reviews of half-yearly and other interim financial information, advice on correct accounting treatment of proposed transactions and reporting on regulatory returns;

- permitted non-audit services – there are a number of projects or engagements where the external auditor is best placed to perform the work due to their skills and knowledge of the business, or experience and market leadership in a particular area. These are set out in the policy and include providing tax compliance advice (in line with the Ethical Standard and other related corporate governance guidance), formalities relating to shareholder circulars and various other regulatory reports, and professional training. Before engaging in any work of this type, approval is required from the CFO with services likely to cost more than £125,000 requiring the approval of the Committee;
- other permitted non-audit services – for those projects or engagements that are not covered by the permitted non-audit services category and where the external auditor is best placed to provide them, approval is required from the CFO, with services likely to cost more than £75,000 requiring the approval of the Committee. In addition, the Committee considers whether a tender should be conducted before awarding such work to the external auditor; and
- not permitted services – there are some projects that are not to be performed by the external auditor because they would represent a threat to the independence of the audit team, for example where the external auditor is remunerated through a success fee or where the project could lead to the external auditor being in a position of auditing their own work or making management decisions for the Company or its subsidiaries.

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

Twice a year the Committee is also provided with a report on all non-audit assignments awarded to the external auditor and a breakdown of non-audit fees incurred. Details of amounts paid to the external auditor for audit and non-audit services for the year ended 31 March 2017 are set out in note 6 to the consolidated financial statements.

### Auditor independence and objectivity

The independence of the external auditor is essential to the provision of an objective opinion on the true and fair view presented in the financial statements. The external auditor's independence and objectivity are safeguarded by a number of control measures:

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

### Internal control and risk management

During the year the Committee reviewed the requirements of the Code in relation to the assessment and reporting of longer-term viability, risk management and internal control. The Committee assessed the Group's risk management methodology, which is used to identify and manage the principal risks, as well as the reporting and categorisation of Group risks. The Committee also reviewed the process for assessing the principal risks that could threaten the Company's business model, future performance, solvency or liquidity in order to make the long-term viability statement on page 83 and considered the appropriate period for which the Company was viable.

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

### Assessing the effectiveness of the external audit process

The Committee manages the relationship with the external auditor on behalf of the Board. During 2016/17, the effectiveness of the external audit process was reviewed by the Committee and the findings reported to the Board. This involved an initial assessment of the delivery and performance of the external auditor against the external audit plan for the year, which includes the reports and updates provided to the Committee. An annual assessment was then carried out by the Committee, taking into account the results of questionnaires completed by each of the divisions and Group management. These questionnaires covered a variety of topics including: the audit partners and team; the planning and execution of the audit approach; and insights and added value provided by the audit process. Feedback from the annual assessment was shared with the external auditor so that any areas for improvement could be followed up. The Committee concluded that the external audit process was effective.

### External audit tendering

The current external auditor, Deloitte LLP, was appointed in 1998 following a full tendering process. The Committee has undertaken a review of Deloitte's performance every year since its appointment. The Committee, which remains satisfied with Deloitte's performance, believes that consistency of approach in the audit is of particular importance as the Group returns to a leadership position. The Company will not, therefore, be putting its audit out to tender in the next year, but the Committee will review this annually.

It remains the Committee's intention to put the external audit out to tender during the lead audit partner's five-year tenure, which is due to expire at the conclusion of the 2019/20 audit. This means that the external audit will be put out to tender in 2019 so that the process is completed by the conclusion of the 2019/20 audit. This approach is in accordance with the EU audit reform legislation and the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

### Significant issues

The external audit process identifies significant issues and accounting judgments which are reviewed by the Committee. These are summarised in the table on page 61. Management prepared papers and analysis on the significant issues and judgments which were discussed in Committee meetings during the year. The Committee also discussed these issues with the external auditor at the half year and year end. All the significant issues were also areas of focus for the external auditor as detailed in the auditor's report.

Significant issues and judgments	How the Audit Committee addressed these issues
<p><b>Carrying value of First Student goodwill and intangible assets</b></p> <p>Management exercises a significant amount of judgment during the impairment testing process as it is based on an estimation of future cash flows and a suitable discount rate.</p>	<p>The Committee has considered the inputs for the impairment test model. The cash flow forecasts have been reviewed alongside past performance and committed operational changes to the business. The discount rate has been benchmarked to externally available data. The growth rate assumptions have been applied in line with both market data and the macroeconomic environment in the UK and North America. Sensitivities to the model inputs have been tested for reasonableness. Further detail on impairment testing is provided in notes 2 and 11 in the consolidated financial statements.</p>
<p><b>North America self-insurance provisions</b></p> <p>Provisions are measured at management's best estimate of the likely settlement of all known incidents. A valuation of the expense required to settle the obligation and, where applicable, the discount rate is used to calculate the expected settlement.</p>	<p>The Committee has reviewed the provision and considered the assumptions used to calculate the liability. Independent actuarial expert advice on the adequacy of the provisions against such liabilities is sought on a regular basis and the discount rate has been benchmarked against external data. Further detail on the assumptions used in determining the value is provided in notes 2 and 26 in the consolidated financial statements.</p>
<p><b>Pensions</b></p> <p>The Group participates in a number of defined benefit pension schemes. Management exercises significant judgment when determining the assumptions used to value the pension liabilities as these are materially sensitive to changes in the underlying assumptions.</p>	<p>Management has engaged with external experts and the Committee has considered the assumptions used for calculating the liability. Sensitivity analysis has been performed on the key assumptions which are: the discount and the inflation rates. The overall liability has also been assessed for reasonableness. Further detail on pensions is provided in notes 2 and 34 in the consolidated financial statements.</p>
<p><b>Revenue recognition</b></p> <p>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 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.</p>	<p>The Committee has reviewed the revenue recognition policies. These policies and their application are in line with accounting standards. Regular forecasts are compiled on the outcome of these types of franchises and contracts to assess the reasonableness of the assumptions applied. Further detail on revenue recognition is provided in note 2 in the consolidated financial statements.</p>



## Board Safety Committee



The tragic tram incident in Croydon, which resulted in the loss of seven lives, highlights the importance of continuously reviewing and improving our safety strategy, procedures, systems and performance.

We continue to provide full support to the ongoing investigations into the incident. It is absolutely essential that we learn the lessons that emerge; all relevant recommendations from the investigations will be implemented.

We welcome the roll out of the Be Safe programme across the Group. This is a highly valuable investment that will change behaviours and culture, building on established compliance with safety management systems, processes, procedures and practices to achieve the goal of zero harm. The Board commends the implementation of this forward-looking and innovative programme, which was sponsored by the Committee.

The year finishes with the Group having successfully improved the majority of its occupational performance indicators, with the total number of staff injuries, days lost through incidents at work, staff major injuries and fatalities all reduced. Total passenger injuries reduced but major injuries and fatalities increased and included those who were injured and lost their lives in Croydon.

Proactive steps are being taken across the Group in training, technology and management to ensure the safety of customers, employees and third parties. Safety is front of mind but we must accelerate our progress toward achieving zero harm.

**Jim Winestock**  
Chair, Board Safety Committee

### Membership

The current members of the Committee are Jim Winestock, who chairs it; Jimmy Groombridge, Group Employee Director and Imelda Walsh, Chair of the Remuneration Committee. The Deputy Company Secretary acts as Committee Secretary.

### Safety Governance

The Committee meets at least three times per year and reviews safety performance on behalf of the Board, providing oversight of the management of the Group safety risk profile. The Committee promotes a positive safety culture throughout the business and reports back to the Board on safety trends, actions and other deliberations.

The Executive Safety Committee, chaired by the Chief Executive, meets six times per year to review and oversee the Group's safety strategy and the performance, procedures and practices of the divisions and operating companies.

Divisions and operating companies consider safety at executive level at monthly meetings to review performance, agree divisional safety plans and actions and drive safety performance.

The overall structure of FirstGroup's safety governance represents a balance between delegated decision making to the operating company and retaining strategic direction, oversight and challenge from the Board.

Our approach to safety governance is characterised by:

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

For more information on the Group's approach to safety and activities in the year, see pages 40 and 41 in the Corporate responsibility section.

### Role and responsibilities

The key responsibilities of the Board Safety Committee are to:

- keep under review the development and maintenance of a framework of policies and standards for managing safety risks and their impact on the Group's activities;

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

### Activities in 2016/17

The Committee's agenda during the year covered a range of matters including:

- safety performance of the Group, its divisions and operating companies and significant incidents across the Group;
- lessons learnt and steps taken following significant incidents;
- safety targets for incentive plans and approval of performance outturns;
- key safety initiatives across the Group; and
- terms of reference and performance evaluation of the Committee.

In addition to the above, a key focus of the Committee has been the Be Safe programme, which is designed to deliver a step change in safety performance through the enhanced safety behaviours of our employees. Be Safe is a comprehensive programme which encompasses the safety management system, includes safety rules enforcement and promotes behavioural change using positive reinforcement. Initial indications from the locations who were first to implement Be Safe are encouraging.

Also, to better understand the safety risk exposures and challenges faced by the divisions and the operating companies and the actions being taken to address these, during the year presentations were given by the senior management teams of Greyhound, First Rail and First Student.