

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

**Matthew Gregory**  
Chief Financial Officer



### Summary of the year

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

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

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

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

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

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

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

## Revenue and adjusted operating profit

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

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

<sup>1</sup> Adjusted.

<sup>2</sup> Tramlink operations, central management and other items.

## Finance costs and investment income

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

## Profit before tax

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

## Tax

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

## EPS

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

## Shares in issue

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

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

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

## Reconciliation to non-GAAP measures and performance

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

### Other intangible asset amortisation charges

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

### Pensions past service gain

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

## Financial review

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#### North America insurance reserves

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

#### First Bus depot sales and closures

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

#### Legal claims

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

#### Ineffectiveness on financial derivatives

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

#### Capital expenditure

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

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

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

#### EBITDA

EBITDA by division is set out below:

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

<sup>1</sup> Adjusted operating profit less capital grant amortisation plus depreciation.

<sup>2</sup> Tramlink operations, central management and other items.

#### Cash flow

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

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

#### Funding and risk management

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

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

#### Interest rate risk

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

#### Foreign currency risk

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

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

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

### Fuel price risk

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

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

### Balance sheet

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

### Goodwill

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

### Foreign exchange

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

	Year to 31 March 2016		Year to 31 March 2015	
	Closing rate	Effective rate	Closing rate	Effective rate
US Dollar	<b>1.41</b>	<b>1.49</b>	1.49	1.58
Canadian Dollar	<b>1.87</b>	<b>1.93</b>	1.88	1.83

### Seasonality

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

### Pensions

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

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

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

## Financial review

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#### Net debt

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

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

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

#### Forward-looking statements

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

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

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

#### Other information

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

All references to 'adjusted' figures throughout this document are before other intangible asset amortisation charges and certain other items as

set out in note 4 to the financial statements.

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

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

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

#### Going concern

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

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

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

**Tim O'Toole**  
Chief Executive  
14 June 2016

**Matthew Gregory**  
Chief Financial Officer  
14 June 2016