Financial statements

This section contains the financial statements, the auditor's report, the accounting policies and the notes to the accounts, together with a glossary of key terms, information for shareholders and the financial calendar.

Financial statements

Consolidated income statement
For the year ended 31 March

Continuing Operations	Notes	2018 £m	2017 £m
Revenue	3,5	**6,398.4**	5,653.3
Operating costs		**(6,594.6)**	(5,369.7)
Operating (loss)/profit	5,6	**(196.2)**	283.6
Investment income	8	**1.3**	1.2
Finance costs	8	**(132.0)**	(132.2)
(Loss)/profit before tax		**(326.9)**	152.6
Tax	9	**36.0**	(36.5)
(Loss)/profit for the year		**(290.9)**	116.1
Attributable to:			
Equity holders of the parent		**(296.0)**	112.3
Non-controlling interests		**5.1**	3.8
		(290.9)	116.1
Earnings per share			
Basic	10	**(24.6)p**	9.3p
Diluted	10	**(24.2)p**	9.2p
Adjusted results[1]			
Adjusted operating profit	4	**317.0**	339.0
Adjusted profit before tax	4	**197.0**	207.0
Adjusted EPS	10	**12.3p**	12.4p

1 Adjusted for certain items as set out in note 4.

The accompanying notes form an integral part of this consolidated income statement.

Consolidated statement of comprehensive income
Year ended 31 March

	Note	2018 £m	2017 £m
(Loss)/profit for the year		**(290.9)**	116.1
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains/(losses) on defined benefit pension schemes	36	**26.6**	(89.7)
Deferred tax on actuarial gains/(losses) on defined benefit pension schemes		**(6.2)**	7.3
Deferred tax on defined benefit pension schemes due to US tax reform		**(20.4)**	–
		–	(82.4)
Items that may be reclassified subsequently to profit or loss			
Derivative hedging instrument movements	28	**45.1**	69.7
Deferred tax on derivative hedging instrument movements		**(9.3)**	(19.0)
Deferred tax on derivative hedging instruments due to US tax reform		**(1.4)**	–
Exchange differences on translation of foreign operations		**(324.9)**	356.2
		(290.5)	406.9
Other comprehensive (loss)/income for the year		**(290.5)**	324.5
Total comprehensive (loss)/income for the year		**(581.4)**	440.6
Attributable to:			
Equity holders of the parent		**(586.5)**	436.8
Non-controlling interests		**5.1**	3.8
		(581.4)	440.6

The accompanying notes form an integral part of this consolidated statement of comprehensive income.

Consolidated balance sheet
As at 31 March

	Note	2018 £m	2017 £m
Non-current assets			
Goodwill	11	**1,496.8**	1,956.1
Other intangible assets	12	**89.8**	150.6
Property, plant and equipment	13	**2,090.1**	2,276.5
Deferred tax assets	25	**37.7**	25.8
Retirement benefit assets	36	**32.5**	34.0
Derivative financial instruments	24	**25.0**	48.6
Investments	14	**31.0**	33.3
		3,802.9	4,524.9
Current assets			
Inventories	16	**56.0**	64.5
Trade and other receivables	17	**888.0**	790.9
Current tax assets		**2.9**	0.7
Cash and cash equivalents	20	**555.7**	400.9
Assets held for sale	18	**0.9**	2.9
Derivative financial instruments	24	**27.3**	1.7
		1,530.8	1,261.6
Total assets		**5,333.7**	5,786.5
Current liabilities			
Trade and other payables	19	**1,437.4**	1,155.3
Tax liabilities – Current tax liabilities		**3.8**	5.1
– Other tax and social security		**31.7**	20.3
Borrowings	21	**351.5**	204.4
Derivative financial instruments	24	**6.7**	29.5
		1,831.1	1,414.6
Net current liabilities		**300.3**	153.0
Non-current liabilities			
Borrowings	21	**1,339.6**	1,586.4
Derivative financial instruments	24	**3.0**	8.6
Retirement benefit liabilities	36	**306.2**	392.5
Deferred tax liabilities	25	**22.2**	24.3
Provisions	26	**341.0**	284.2
		2,012.0	2,296.0
Total liabilities		**3,843.1**	3,710.6
Net assets		**1,490.6**	2,075.9
Equity			
Share capital	27	**60.5**	60.4
Share premium		**681.4**	678.9
Hedging reserve	28	**16.5**	(17.9)
Other reserves	28	**4.6**	4.6
Own shares	28	**(6.3)**	(1.2)
Translation reserve	29	**383.5**	708.4
Retained earnings		**340.6**	621.9
Equity attributable to equity holders of the parent		**1,480.8**	2,055.1
Non-controlling interests		**9.8**	20.8
Total equity		**1,490.6**	2,075.9

The accompanying notes form an integral part of this consolidated balance sheet.

Tim O'Toole
31 May 2018

Matthew Gregory
31 May 2018

Consolidated statement of changes in equity
Year ended 31 March

	Share capital £m	Share premium £m	Hedging reserve £m	Other reserves £m	Own shares £m	Translation reserve £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
Balance at 1 April 2016	**60.2**	**676.4**	**(68.6)**	**4.6**	**(1.4)**	**352.2**	**585.4**	**1,608.8**	**24.4**	**1,633.2**
Total comprehensive income for the year	–	–	50.7	–	–	356.2	29.9	436.8	3.8	440.6
Shares issued	0.2	2.5	–	–	–	–	–	2.7	–	2.7
Dividends paid/other	–	–	–	–	–	–	–	–	(7.4)	(7.4)
Movement in EBT and treasury shares	–	–	–	–	0.2	–	(1.6)	(1.4)	–	(1.4)
Share-based payments	–	–	–	–	–	–	8.2	8.2	–	8.2
Balance at 31 March 2017	**60.4**	**678.9**	**(17.9)**	**4.6**	**(1.2)**	**708.4**	**621.9**	**2,055.1**	**20.8**	**2,075.9**
Balance at 1 April 2017	**60.4**	**678.9**	**(17.9)**	**4.6**	**(1.2)**	**708.4**	**621.9**	**2,055.1**	**20.8**	**2,075.9**
Total comprehensive (loss)/income for the year	–	–	34.4	–	–	(324.9)	(296.0)	(586.5)	5.1	(581.4)
Acquisition of non-controlling interests[1]	–	–	–	–	–	–	13.8	13.8	(13.8)	–
Shares issued	0.1	2.5	–	–	–	–	–	2.6	–	2.6
Dividends paid/other	–	–	–	–	–	–	–	–	(2.3)	(2.3)
Movement in EBT and treasury shares	–	–	–	–	(5.1)	–	(8.0)	(13.1)	–	(13.1)
Share-based payments	–	–	–	–	–	–	8.9	8.9	–	8.9
Balance at 31 March 2018	**60.5**	**681.4**	**16.5**	**4.6**	**(6.3)**	**383.5**	**340.6**	**1,480.8**	**9.8**	**1,490.6**

1 On 19 January 2018, the Group completed the acquisition of the remaining 49% share in Miles Square Transportation Inc from the non-controlling interest party at a fixed price of $19.1m. The exercise of this put option resulted in the reversal of the financial liability through equity.

The accompanying notes form an integral part of this consolidated statement of changes in equity.

Consolidated cash flow statement
Year ended 31 March

	Note	2018 £m	2017 £m
Net cash from operating activities	31	**636.9**	520.4
Investing activities			
Interest received		**1.3**	1.2
Proceeds from disposal of property, plant and equipment		**11.4**	43.0
Purchases of property, plant and equipment		**(395.9)**	(374.1)
Purchases of software		**(26.8)**	(30.2)
Acquisition of businesses		**(2.9)**	–
Acquisition of non-controlling interest		**(13.8)**	–
Net cash used in investing activities		**(426.7)**	(360.1)
Financing activities			
Dividends paid to non-controlling shareholders		**(1.1)**	(11.9)
Shares purchased by Employee Benefit Trust		**(11.2)**	(1.5)
Shares issued		**2.1**	2.1
Proceeds from senior unsecured loans		**193.3**	–
Repayment of bond		**(300.0)**	–
Repayment of senior unsecured loans		**(76.5)**	(41.0)
Drawdowns from bank facilities		**197.0**	–
Repayment of loan notes		**–**	(0.1)
Repayments under HP contracts and finance leases		**(62.1)**	(75.0)
Fees for finance facilities		**(1.0)**	(1.8)
Net cash flow used in financing activities		**(59.5)**	(129.2)
Net increase in cash and cash equivalents before foreign exchange movements		**150.7**	31.1
Cash and cash equivalents at beginning of year		**400.9**	360.1
Foreign exchange movements		**4.1**	9.7
Cash and cash equivalents at end of year per consolidated balance sheet	20	**555.7**	400.9

Cash and cash equivalents are included within current assets on the consolidated balance sheet.

Note to the consolidated cash flow statement – reconciliation of net cash flow to movement in net debt

	Note	2018 £m	2017 £m
Net increase in cash and cash equivalents in year		**150.7**	31.1
Decrease in debt and finance leases		**48.3**	116.1
Net cash flow		**199.0**	147.2
Foreign exchange movements		**23.2**	(26.5)
Other non-cash movements		**(2.6)**	(0.4)
Movement in net debt in year		**219.6**	120.3
Net debt at beginning of year		**(1,289.9)**	(1,410.2)
Net debt at end of year	32	**(1,070.3)**	(1,289.9)

Net cash flow is stated prior to cash flows in relation to debt and finance leases.

Net debt excludes all accrued interest.

The accompanying notes form an integral part of this consolidated cash flow statement.

1 General information

FirstGroup plc is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is 395 King Street, Aberdeen, AB24 5RP. The nature of the Group's operations and its principal activities are set out in the Strategic report on pages 4 to 44.

These financial statements are presented in pounds Sterling. Foreign operations are included in accordance with the accounting policies set out in note 2.

2 Significant accounting policies

Basis of accounting

The financial statements have been prepared in accordance with IFRSs adopted and endorsed for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments, and on a going concern basis, as described in the going concern statement within the directors' report and additional disclosures on pages 95 to 98. The principal accounting policies adopted are set out below.

The financial statements for the year ended 31 March 2018, include the results and financial position of the First Rail business for the year ended 31 March 2018 and the results and financial position of all the other businesses for the 53 weeks ended 31 March 2018. The financial statements for the year ended 31 March 2017, include the results and financial position of the First Rail businesses for the year ended 31 March 2017 and the results and financial position of all the other businesses for the 52 weeks ended 25 March 2017.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Non-controlling interests in subsidiaries are identified separately from the Group's equity interest therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation, may initially be measured at fair value, or at the non-controlling interests' proportionate share of their fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition by acquisition basis. Other non-controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations

The acquisition of subsidiaries is accounted for using the acquisitions method. The consideration for each acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in the income statement as incurred.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business Combinations* are recognised at their fair value at the acquisition date, with the exception of deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements, liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment and non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholder's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Assets held for sale

Assets held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year of the date of classification.

2 Significant accounting policies continued

Goodwill and intangible assets

Goodwill arising on consolidation is recognised as an asset at the date that control is acquired. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGUs) which are tested for impairment annually, or more frequently where there is an indication that the CGU may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the CGU, the impairment loss is allocated to the goodwill of the CGU and then to the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU. An impairment loss recognised for goodwill is not reversed in a subsequent period. On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Computer software is recognised separately as an intangible asset and is carried at cost less accumulated amortisation and accumulated impairment losses. Costs include software licences, website development, costs attributable to the development, design and implementation of the computer software and internal costs directly attributable to the software.

The existing finite life intangible assets have a residual value of nil and are amortised on a straight-line basis over their useful economic lives as follows:

Customer contracts – over the estimated life of the contract (9 to 10 years)
Greyhound brand and trade name – over the estimated life of the brand (20 years)
Franchise agreements – over the initial term of the franchise (2 to 10 years)
Software – over the estimated life of the software (3 to 5 years)

Revenue recognition

Revenue principally comprises revenue from train passenger services, road passenger transport, and certain management and maintenance services in the UK and North America. Where appropriate, amounts are shown net of rebates and sales taxes.

Revenue is recognised by reference to the stage of completion of the customers' travel or services provided under contractual arrangements as the proportion of total services to be provided. Receipts for season tickets and travel cards are deferred within 'Season ticket deferred income' and recognised in the income statement over the period covered by the relevant ticket.

Revenue in First Rail includes franchise subsidy receipts from the Department for Transport (DfT) and amounts receivable under franchise arrangements including certain funded operational projects. Franchise premium payments to the DfT for amounts due under the terms of a franchise are included in operating costs. Revenue also includes amounts attributable to the Train Operating Companies (TOCs), predominantly based on models of route usage, by the Railway Settlement Plan in respect of passenger receipts.

First Bus revenue principally comprises amounts receivable from ticket sales and concessionary fare schemes. Concessionary amounts are recognised in the period in which the service is provided. Greyhound coach revenue mainly comprises of amounts receivable from ticket sales. Other Bus, including First Student and First Transit, and services revenue from contracts with government bodies and similar organisations is recognised as the services are provided.

Interest income is recognised on an accruals basis.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases and the rental charges are charged against income on a straight-line basis over the life of the lease.

Assets held under hire purchase contracts and finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below).

Benefits received and receivable as an incentive to enter into an operating lease are spread on a straight-line basis over the lease term.

2 Significant accounting policies continued

Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds Sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period, except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

In order to hedge its exposure to certain foreign exchange risks, the Group holds currency swaps and borrowings in foreign currencies (see note 24 for details of the Group's policies in respect of foreign exchange risks).

On consolidation, the assets and liabilities of the Group's overseas operations are translated at the closing exchange rates on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising from the average or actual exchange rates used and the period end rate, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Non-GAAP measures and performance

In measuring the Group and divisional adjusted operating performance, additional financial measures derived from the reported results have been used by management in order to eliminate factors which distort year-on-year comparisons. The Group's adjusted performance is used to explain year-on-year changes when the effect of certain items are significant, including restructuring and reorganisation costs, property disposals, aged legal and self-insurance claims, onerous contract provisions, impairment charges and pension settlement gains or losses. In addition, management assess divisional performance before other intangible asset amortisation charges, as these are typically a result of Group decisions and therefore the divisions have little or no control over these charges. Management consider that this overall basis more appropriately reflects operating performance and provides a better understanding of the key performance indicators of the business. See note 4 for the reconciliation to non-GAAP measures and performance.

Subsequent revisions to adjusting items are also recognised as an adjusting item in future periods. In the current year non-GAAP adjusting items principally relate to other intangible asset amortisation charges, onerous contract provision, impairment charges, aged self-insurance claims, restructuring and reorganisation costs, bond 'make-whole' interest cost and the impact of the US tax reform. In the prior year the non-GAAP adjusting items principally related to other intangible asset amortisation charges, restructuring and reorganisation costs and gain on disposal of property.

Retirement benefit costs

The Group operates or participates in a number of pension schemes, which include both defined benefit schemes and defined contribution schemes.

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. There is no legal or constructive obligation to pay additional contributions into a defined contribution scheme, if the fund has insufficient assets to pay all employees' benefits relating to employee service in the current and prior periods.

For defined benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial updates being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement and presented in the consolidated statement of comprehensive income.

All past service costs are recognised immediately in the consolidated income statement.

Where changes to the benefits in payment on defined benefit pension schemes require a change in scheme rules or ratification by the Trustees, the change is recognised as a past service charge or credit in the income statement. Where changes in assumptions can be made without changing the Trustee agreement, these are recognised as a change in assumptions in other comprehensive income.

2 Significant accounting policies continued

The retirement benefit position recognised in the balance sheet represents the present value of the defined benefit obligation as reduced by the fair value of scheme assets. Any residual asset resulting from this calculation is limited to the present value of available refunds.

Various TOCs in the First Rail business participate in the Railways Pension Scheme, which is an industry-wide defined benefit scheme. The Group is obligated to fund the relevant section of the scheme over the period for which the franchise is held. The full liability is recognised on the balance sheet, which is then reduced by a franchise adjustment so that the net liability reflects the Group's obligations to fund the scheme over the franchise term.

Tax

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date and includes an estimate of the tax which could be payable as a result of differing interpretation of tax laws.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill, or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised and is based on the estimated tax consequences of items that are subject to differing interpretations of tax laws. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income or directly to equity, in which case the deferred tax is also dealt with in other comprehensive income or directly in equity respectively.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Property, plant and equipment

Properties for provision of services or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Passenger carrying vehicles and other plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost of assets, other than freehold land, the land element of long leasehold properties or on assets in the course of construction, over their estimated useful lives, using the straight-line method, on the following bases:

Freehold buildings	50 years straight-line
Long leasehold buildings	50 years straight-line
Short leasehold properties	period of lease
Passenger carrying vehicles	7 to 17 years straight-line
Other plant and equipment	3 to 25 years straight-line

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Capital grants

Capital grants relating to property, plant and equipment are treated as deferred income and released to the income statement over the expected useful lives of the assets concerned. Capital grants are not recognised until there is a reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

2 Significant accounting policies continued

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or CGU in prior years. A reversal of an impairment loss is recognised as income immediately except in the case of goodwill, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

The Group measures financial assets on initial recognition at fair value, and determines the classification of such assets at initial recognition and on any subsequent reclassification event.

Where there is no active market for a financial asset, fair value is determined using valuation techniques including recent commercial transactions and discounted cash flows. Otherwise financial assets are carried at amortised cost.

Financial assets are classified into one of three primary categories:

Fair value through profit and loss

This covers any financial asset designated on initial recognition to be measured at fair value with fair value changes to go through the profit and loss, and financial assets acquired principally for the purpose of trading in the short term.

Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified here when the Group has the intention and ability to hold to maturity. These financial assets are held at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the investments are derecognised or impaired as well as through amortisation.

Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest rate method and the carrying value in all cases approximates to the fair value.

The most significant financial assets under this category are trade receivables and bank deposits.

Trade receivables are measured at amortised cost. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

Bank deposits are included within cash and cash equivalents. Cash and cash equivalents as defined for the cash flow statement comprise cash in hand, cash held at bank with immediate access, other short term investments and bank deposits with maturities of three months or less from the date of inception and bank overdrafts. In the consolidated balance sheet, cash and cash equivalents exclude bank overdrafts. Bank overdrafts that have no legal right of set-off against cash and cash equivalents are included within borrowings in current liabilities. All are carried on the balance sheet at cost. Cash and cash equivalents includes ring-fenced cash. The most significant ring-fenced cash balances are held by the Group's First Rail subsidiaries. Under the terms of the Rail franchise agreements, cash can only be distributed by the train operating companies up to the lower of the amount of retained profits or the amount determined by prescribed liquidity ratios. The ring-fenced cash represents that which is not available for distribution or the amount required to satisfy the contractual liquidity ratio at the balance sheet date.

2 Significant accounting policies continued

Financial liabilities and equity instruments
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received net of direct issue costs.

Financial liabilities
Bank borrowings
Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs.

Bonds and loan notes
These are measured either on an amortised cost basis or at fair value, if adopted.

Trade payables
Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Derivative financial instruments and hedge accounting
The Group uses derivative financial instruments to hedge interest rate risks, foreign currency risks and fuel price risks. Use of such financial instruments is governed by policies and delegated authorities approved by the Board. The Group does not use derivative financial instruments for speculative purposes.

The main derivative financial instruments used by the Group are interest rate swaps, fuel swaps, and cross currency interest rate swaps. Such instruments are initially recognised at fair value and subsequently remeasured to fair value at the reported balance sheet date. The fair values are calculated by reference to market exchange rates, interest rates and fuel prices at the period end, and supported by counterparty confirmations.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting as cash flow hedges or foreign currency hedges of a foreign net investment are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

Debt
Debt is initially stated at the amount of the net proceeds after the deduction of issue costs. The carrying amount is increased by the amortisation of debt issuance fees in respect of the accounting period and reduced by repayments made in the period.

Provisions
Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material. Amounts due within 12 months of the balance sheet date are considered to be reliably measured and are therefore included within accruals.

Self-insurance
The Group's policy is to self-insure high frequency, low value claims within the businesses. In addition there are typically a smaller number of major claims during a financial year for which cover is obtained through third-party insurance policies subject to an insurance deductible. Provision is made under IAS 37 Provisions, Contingent Liabilities and Contingent Assets for the estimated cost of settling uninsured claims for incidents occurring prior to the balance sheet date. The provision is discounted to appropriately reflect the timing of future cash claims settlements.

Share-based payments
The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and is adjusted for the effects of non-market-based vesting conditions.

Fair value is measured by use of a Black-Scholes or other appropriate valuation models. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Dividend distribution
Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2 Significant accounting policies continued

New standards and interpretations not applied

At the date of authorisation of these Financial Statements, the Group has not applied the following standards that have been issued but are not yet effective:

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 with effect from accounting periods commencing 1 January 2018. The new standard covers three distinct areas: the classification and measurement of financial assets and liabilities; the impairment of financial assets[1]; and new hedging requirements designed to give increased flexibility in relation to hedge effectiveness.

IFRS 9 requires a new impairment model with impairment provisions based on expected credit losses rather than incurred credit losses under IAS 39. Based on an initial assessment of 2017/18 closing balances, the current expectation is that there will be a transitional increase/decrease in impairment allowances of nil. This amount will be finalised in the financial statements for the year ended 31 March 2019.

In relation to hedge accounting, we do not expect a material impact on the Group's financial statements. It is expected that our hedging instruments will remain effective and that current hedge relationships will qualify as continuing hedges upon the adoption of IFRS 9. There will be some increased disclosure requirements under IFRS 9 and these will be reflected in the financial statements for the year ended 31 March 2019.

The Group is adopting the new rules prospectively from 1 April 2018. It is currently considered that no material restatements will be necessary for the comparative period.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers replaces IAS 18 with effect from accounting periods commencing 1 January 2018. It introduces a new revenue recognition model that recognises revenue either at a point in time or over time. The model features a contract-based five step analysis of transactions to determine whether, how much and when revenue is recognised and is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The Group has evaluated a sample of customer contracts from all major revenue streams across the Group to identify the performance obligations, the timing of the revenue recognition and the treatment of variable elements of pricing.

Based on this assessment, Management have concluded that although there are areas of difference, there is not currently expected to be a material impact on the Group's financial statements and that revenues are correctly attached to performance obligations and are recognised as the service is transferred to the customer and that variable elements of price such as discounts, rebates and liquidated damages are properly provided.

The Group is adopting IFRS 15 from 1 April 2018 on a prospective basis. It is currently considered that no material restatements will be necessary for the comparative period and that there will not be a material impact on the Group's revenue recognition in future periods.

IFRS 16 Leases

IFRS 16 Leases replaces IAS 17 with effect from accounting periods commencing 1 January 2019. The new standard eliminates the operating lease classification and therefore on the balance sheet the lessees will be required to recognise an asset (the right to use the leased item) and lease liabilities for all leases unless they have a term of less than twelve months or are of low value. On the income statement, the operating lease expense will be replaced by a combination of depreciation and interest.

As at 31 March 2018, the Group holds a significant number of operating leases that are expensed over the lease term. Management are in the process of assessing the potential impact of this standard on the financial statements for the year ended 31 March 2020, and it is anticipated that the transition to IFRS 16 will have a material impact on the value of lease assets and liabilities recognised in the consolidated balance sheet. However at this stage it is not practical to provide a reasonable estimate of the financial effect until this assessment is complete.

Adoption of new and revised standards

The accounting policies adopted are consistent with those of the previous financial year except for the following amendments to existing Standards which have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements.

Amendment to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses, and

Amendment to IAS 7 – Disclosure initiative 'Changes in Liabilities arising from financing activities'

The amendment to IAS 7 requires a disclosure of changes in liabilities arising from financing activities. This has been presented in note 32.

1 Financial assets include trade receivables, other receivables, prepayments and accrued income.

2 Significant accounting policies continued

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge, actual results may ultimately differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

In the process of applying the Group's accounting policies which are described above, management has made the following judgements and estimates that have the most significant effect on the amounts recognised in the financial statements.

i) Critical accounting judgements

Defined benefit pension arrangements

The UK schemes retirement benefit obligations are discounted at a rate set by reference to market yields at the end of the reporting period on high-quality corporate bonds. Significant judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded. Management follows actuarial advice from a third party when determining these judgements. Another key judgement is the longevity of members. We take specialist advice on this from our actuarial advisors which aims to consider the likely experience taking into account each scheme's characteristics. Our approach is to review these assumptions following completion of their funding valuations, and more frequently only if appropriate to do so. The carrying amount of the Group's retirement benefit obligations at 31 March 2018 was a liability of £273.7m (2017: £358.5m). Further details and sensitivities are set out in note 36.

ii) Key sources of estimation uncertainty

Impairment of intangible assets (including goodwill)

Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which the goodwill has been allocated. The value in use requires the entity to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value. As detailed in notes 4 and 11, the Directors have concluded that there should be an impairment charge of £277.3m on the Greyhound CGU (£260.6m on goodwill, £12.3m on property, plant and equipment and £4.4m on other intangible assets).

The carrying amount of goodwill at the balance sheet date was £1,496.8m (2017: £1,956.1m) as set out in note 11 and the carrying amount of other intangible assets at the balance sheet date was £89.8m (2017: £150.6m) as set out in note 12.

Onerous contracts

The Group has a number of contractual commitments most notably in respect of its rail franchises and First Student and First Transit businesses. IAS 37 requires a provision to be made for an onerous contract where it is probable that the future economic benefits to be derived from the contract are less than the unavoidable costs under the contract. In order to determine the amount of any contract provision it is necessary to forecast future financial performance and then apply an appropriate discount rate to determine a net present value. The estimation of both the forecasts and the discount rate involves a significant degree of judgement. Actual results can differ from those assumed in the forecasts and there can be no absolute assurance that the assumptions used will hold true.

The TPE onerous contract provision is sensitive to a change in the assumptions used, most notably to passenger revenue growth. A reduction or increase of 0.5% in the cumulative annual passenger growth rate assumption would increase or decrease the onerous contract provision required of £106.3m by £27.0m.

Self-insurance

Provision is made for all known incidents for which there is self-insurance using management's best estimate of the likely settlement of these incidents. The estimated settlement is reviewed on a regular basis with independent actuarial advice and the amount provided (including IBNR) is adjusted as required. The self-insurance reserve is most sensitive to favourable or adverse developments on individually significant claims. The Group's total self-insurance provisions, including those classified within accruals, as at the balance sheet date were £368.8m (2017: £391.0m) as set out in note 26.

2 Significant accounting policies continued

Contract and franchise accounting

Estimates are made on an ongoing basis with regards to the recoverability of amounts due and the carrying value of related assets and liabilities arising from franchises and long term service contracts. Regular forecasts are compiled on the outcome of these types of franchises and contracts, which require assessments and estimates relating to the expected levels of profitability and, in cases where options exist, the life of the contract or franchise.

The useful economic lives of assets are determined by reference to the length of a franchise and matched to the franchise end date. The residual value of assets is determined by their condition at the franchise end date and by the amount of maintenance that has been carried out during the period of operation.

In particular, First Rail has a number of contractual relationships including those with the DfT and Network Rail which given their complexity and duration can be sensitive to changes in future assumptions. Due to the regulated nature of the rail industry, disputes and claims typically arise with such bodies as well as other TOCs where one or more TOCs have access to common infrastructure such as railway lines. Management is required to estimate the amounts receivable and also payable taking account of the information available at the time.

Uncertain tax positions

Uncertainties exist in relation to differing interpretations of complex tax law in the jurisdictions in which the Group operates. It may take several years to determine the final tax consequences of certain transactions in some jurisdictions. The tax liabilities and assets recognised by the Group are based on estimates made by management on the application of tax laws and management's estimate of the future amounts that will be agreed with tax authorities. Further details on the tax on profit on ordinary activities are set out in note 9.

There is a risk that the amounts eventually agreed with tax authorities may differ from the amounts recognised by the Group and would lead to future adjustments to tax assets and liabilities currently recognised, impacting future tax charges.

3 Revenue

	2018 £m	2017 £m
Services rendered	**6,398.4**	5,653.3
Investment income	**1.3**	1.2
Total revenue as defined by IAS 18	**6,399.7**	5,654.5

4 Reconciliation to non-GAAP measures and performance

In measuring the Group and divisional adjusted operating performance, additional financial measures derived from the reported results have been used in order to eliminate factors which distort year-on-year comparisons. The Group's adjusted performance is used to explain year-on-year changes when the effect of certain items are significant, including restructuring and reorganisation costs, property disposals, aged legal and self-insurance claims, onerous contract provisions, impairment charges and pension settlement gains or losses. In addition, management assess divisional performance before other intangible asset amortisation charges as these are typically a result of Group decisions and therefore the divisions have little or no control over these charges. Management consider that this overall basis more appropriately reflects operating performance and provides a better understanding of the key performance indicators of the business.

Reconciliation of operating (loss)/profit to adjusted operating profit	**Year to 31 March 2018 £m**	Year to 31 March 2017 £m
Operating (loss)/profit	**(196.2)**	283.6
Adjustments for:		
Other intangible asset amortisation charges	**70.9**	60.2
Greyhound impairment charges	**277.3**	–
TPE onerous contract provision	**106.3**	–
Restructuring and reorganisation costs	**26.0**	16.8
North America insurance reserves	**32.7**	–
Gain on disposal of property	**–**	(21.6)
Total operating profit adjustments	**513.2**	55.4
Adjusted operating profit (note 5)	**317.0**	339.0

4 Reconciliation to non-GAAP measures and performance continued

Reconciliation of (loss)/profit before tax to adjusted profit before tax and adjusted earnings	Year to 31 March 2018 £m	Year to 31 March 2017 £m
(Loss)/profit before tax	**(326.9)**	152.6
Operating profit adjustments (see table above)	**513.2**	55.4
Bond 'make whole' interest cost	**10.7**	–
Ineffectiveness on financial derivatives	**–**	(1.0)
Adjusted profit before tax	**197.0**	207.0
Adjusted tax charge (see below)	**(44.2)**	(53.8)
Non-controlling interests	**(5.1)**	(3.8)
Adjusted earnings	**147.7**	149.4

Reconciliation of tax (credit)/charge to adjusted tax charge	Year to 31 March 2018 £m	Year to 31 March 2017 £m
Tax (credit)/charge (note 9)	**(36.0)**	36.5
Tax effect of adjusting items (note 10)	**55.6**	17.3
Tax effect of US tax reform (note 9)	**24.6**	–
Adjusted tax charge	**44.2**	53.8

The adjusting items are as follows:

Other intangible asset amortisation charges
The amortisation charge for the year was £70.9m (2017: £60.2m). The increase primarily reflects a higher charge in the North American divisions due to an incremental £7.5m software intangible amortisation this year.

Greyhound impairment
Recognising the difficult trading conditions experienced by the Greyhound business in the 2017/18 financial year, the strategic plans for the business and estimates of future cash flows generated by the Greyhound division were revised. The calculated value in use of the Greyhound division resulted in a £277.3m shortfall to the carrying value of assets (2017: £360.4m surplus).

Following their review of these cash flow estimates, the Directors concluded that there should be an impairment charge of £277.3m on the Greyhound CGU. This is reflected in the financial statements as an impairment in full of the carrying value of Greyhound goodwill of £260.6m (see note 11), an impairment charge of £12.3m on Greyhound property, plant and equipment (see note 13), an impairment charge of £2.5m on Greyhound brand and trade name and £1.9m on Greyhound software (see note 12). After these impairments, the carrying value of Greyhound is £313.1m ($438.8m).

TPE onerous contract provision
Management have prepared updated financial forecasts for this franchise until the initial end date of 31 March 2023. The updated forecasts are based on a number of assumptions, most significantly passenger revenue growth. These are based on economic and other exogenous factors as well as changes in timetables, capacity and rolling stock. Although we are already achieving industry leading revenue growth, our forecasts suggest that we will fall short of the growth requirements in the original bid for this franchise. Based on these forecasts the Group considers it has an onerous contract, the value of which is estimated to be £106.3m. Accordingly this amount has been charged to the income statement.

North America insurance reserves
There have been adverse developments on a small number of aged insurance claims in North America which mainly relate to the 2014/15 and 2015/16 financial years. In aggregate the adverse developments on these claims give rise to a cost representing a significant proportion of the respective divisional results and accordingly management consider that including such amounts in operating profit would distort year-on-year comparisons for the North American divisions. The impact of these adverse developments was a charge of £32.7m comprising First Student £13.4m, First Transit £15.8m and Greyhound £3.5m.

Restructuring and reorganisation costs
There was a charge of £26.0m (2017: £16.8m) in the year for restructuring, impairment of assets and reorganisation costs relating to the business turnarounds in First Bus (£20.6m) and costs related to contract losses and impairment of assets in First Transit (£5.4m).

Bond 'make whole' costs
The early redemption of the £300m bond in March this year resulted in a one-off £10.7m 'make whole' interest charge.

5 Business segments and geographical information

For management purposes, the Group is organised into five operating divisions – First Student, First Transit, Greyhound, First Bus and First Rail. These divisions are managed separately in line with the differing services that they provide and the geographical markets which they operate in. The principal activities of these divisions are described in the Strategic report.

The segment results for the year to 31 March 2018 are as follows:

	First Student £m	First Transit £m	Greyhound £m	First Bus £m	First Rail £m	Group items[1] £m	Total £m
Revenue	1,771.1	1,072.7	690.2	879.4	1,968.8	16.2	6,398.4
EBITDA[2]	335.2	79.8	58.8	116.3	129.4	(28.9)	690.6
Depreciation	(178.7)	(21.6)	(33.3)	(66.1)	(87.6)	(2.3)	(389.6)
Capital grant amortisation	–	–	–	–	16.0	–	16.0
Segment results[2]	156.5	58.2	25.5	50.2	57.8	(31.2)	317.0
Other intangible asset amortisation charges	(54.7)	(2.8)	(11.0)	(0.2)	(2.1)	(0.1)	(70.9)
Other adjustments (note 4)	(13.4)	(21.1)	(280.8)	(20.7)	(106.3)	–	(442.3)
Operating (loss)/profit[3]	88.4	34.3	(266.3)	29.3	(50.6)	(31.3)	(196.2)
Investment income							1.3
Finance costs							(132.0)
Loss before tax							(326.9)
Tax							36.0
Loss after tax							(290.9)

Other information	First Student £m	First Transit £m	Greyhound £m	First Bus £m	First Rail £m	Group items[1] £m	Total £m
Capital additions	205.1	28.5	44.4	20.9	129.6	5.0	433.5

Balance sheet[4]	Total assets £m	Total liabilities £m	Net assets/ (liabilities) £m
First Student	2,544.1	(376.2)	2,167.9
First Transit	539.4	(140.1)	399.3
Greyhound	365.9	(328.1)	37.8
First Bus	717.0	(296.8)	420.2
First Rail	454.8	(909.0)	(454.2)
	4,621.2	(2,050.2)	2,571.0
Group items[1]	116.2	(109.2)	7.0
Net debt	555.7	(1,626.0)	(1,070.3)
Taxation	40.6	(57.7)	(17.1)
Total	5,333.7	(3,843.1)	1,490.6

1 Group items comprise Tram operations, central management and other items.

2 EBITDA is adjusted operating profit less capital grant amortisation plus depreciation.

3 Although the segment results are used by management to measure performance, statutory operating (loss)/profit by operating division is also disclosed for completeness.

4 Segment assets and liabilities are determined by identifying the assets and liabilities that relate to the business of each segment but excluding intercompany balances, net debt and taxation.

5 Business segments and geographical information continued

The segment results for the year to 31 March 2017 are as follows:

	First Student £m	First Transit £m	Greyhound £m	First Bus £m	First Rail £m	Group items[1] £m	Total £m
Revenue	1,780.3	1,042.0	684.7	861.7	1,268.8	15.8	5,653.3
EBITDA[2]	348.7	91.9	79.4	104.5	98.8	(36.7)	686.6
Depreciation	(177.6)	(18.6)	(36.8)	(67.5)	(50.3)	(2.1)	(352.9)
Capital grant amortisation	–	–	–	–	5.3	–	5.3
Segment results[2]	171.1	73.3	42.6	37.0	53.8	(38.8)	339.0
Other intangible asset amortisation charges	(49.6)	(1.8)	(8.5)	–	(0.3)	–	(60.2)
Other adjustments (note 4)	(2.5)	(0.2)	19.6	(10.9)	–	(1.2)	4.8
Operating profit[3]	119.0	71.3	53.7	26.1	53.5	(40.0)	283.6
Investment income							1.2
Finance costs							(132.2)
Profit before tax							152.6
Tax							(36.5)
Profit after tax							116.1

Other information	First Student £m	First Transit £m	Greyhound £m	First Bus £m	First Rail £m	Group items[1] £m	Total £m
Capital additions	165.9	17.8	31.7	63.9	75.4	2.9	357.6

Balance sheet[4]	Total assets £m	Total liabilities £m	Net assets/ (liabilities) £m
First Student	2,918.4	(414.9)	2,503.5
First Transit	600.6	(161.1)	439.5
Greyhound	694.5	(363.7)	330.8
First Bus	769.5	(364.6)	404.9
First Rail	245.8	(482.8)	(237.0)
	5,228.8	(1,787.1)	3,441.7
Group items[1]	130.3	(183.0)	(52.7)
Net debt	400.9	(1,690.8)	(1,289.9)
Taxation	26.5	(49.7)	(23.2)
Total	5,786.5	(3,710.6)	2,075.9

1 Group items comprise Tram operations, central management and other items.

2 EBITDA is adjusted operating profit less capital grant amortisation plus depreciation.

3 Although the segment results are used by management to measure performance, statutory operating profit by operating division is also disclosed for completeness.

4 Segment assets and liabilities are determined by identifying the assets and liabilities that relate to the business of each segment but excluding intercompany balances, net debt and taxation.

Geographical information

The Group's operations are located predominantly in the United Kingdom, United States of America and Canada. The following table provides an analysis of the Group's revenue by geographical market:

Revenue	**2018 £m**	2017 £m
United Kingdom	**2,864.4**	2,146.3
United States of America	**3,130.1**	3,092.6
Canada	**403.9**	414.4
	6,398.4	5,653.3

5 Business segments and geographical information continued

The following is an analysis of non-current assets excluding financial instruments, deferred tax and pensions, the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

	Non-current assets excluding financial instruments deferred tax and pensions		Additions to property, plant and equipment and intangible assets		Carrying amount of segment total assets	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
United Kingdom	**795.3**	803.1	**155.5**	142.4	**1,821.7**	1,505.6
United States of America	**2,620.6**	3,270.6	**256.8**	208.9	**3,124.2**	3,845.2
Canada	**291.8**	342.8	**21.2**	6.3	**347.2**	409.2
Unallocated corporate items	**–**	–	**–**	–	**40.6**	26.5
	3,707.7	4,416.5	**433.5**	357.6	**5,333.7**	5,786.5

6 Operating (loss)/profit

Operating (loss)/profit has been arrived at after charging/(crediting):

	2018 £m	2017 £m
Depreciation of property, plant and equipment (note 13)	**389.6**	352.9
Operating lease charges (note 34)	**522.6**	300.9
Other intangible asset amortisation charges (note 12)	**70.9**	60.2
Capital grant amortisation	**(16.0)**	(5.3)
Cost of inventories recognised as an expense	**575.1**	571.6
Employee costs (note 7)	**3,162.5**	2,944.6
Loss/(profit) on disposal of property, plant and equipment	**8.3**	(18.9)
Impairment charges	**284.8**	4.5
TPE onerous contract provision (note 4)	**106.3**	–
North America insurance reserves (note 4)	**32.7**	–
Auditor's remuneration (see below)	**2.3**	2.0
Rail franchise payments	**226.9**	140.8
Other operating costs[1]	**1,228.6**	1,016.4
	6,594.6	5,369.7

1 Includes £63.5m (2017: £66.1m) received or receivable from government bodies in respect of bus service operator grants and fuel duty rebates.

Amounts payable to Deloitte LLP and its associates by the Company and its subsidiary undertakings in respect of audit and non-audit services are shown below:

	2018 £m	2017 £m
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**0.1**	0.1
Fees payable to the Company's auditor and its associates for the audit of the Company's subsidiaries pursuant to legislation	**2.0**	1.7
Total audit fees	**2.1**	1.8
Audit-related assurance services	**0.2**	0.2
Total non-audit fees	**0.2**	0.2

Fees payable to Deloitte LLP and its associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

Details of the Group's policy on the use of auditors for non-audit services, the reasons why the auditor was used rather than another supplier and how the auditor's independence and objectivity was safeguarded are set out in the Corporate governance report on pages 63 to 64. No services were provided pursuant to contingent fee arrangements.

7 Employee costs

The average monthly number of employees (including Executive Directors) was:

	2018 Number	2017 Number
Operational	**94,225**	95,402
Administration	**5,821**	5,489
	100,046	100,891

The aggregate remuneration (including Executive Directors) comprised:

	2018 £m	2017 £m
Wages and salaries	**2,768.2**	2,587.2
Social security costs	**306.8**	286.1
Pension costs (note 36)	**87.5**	71.3
	3,162.5	2,944.6

Wages and salaries include a charge in respect of share-based payments of £8.9m (2017: £8.2m).

Disclosures on Directors' remuneration, share options, long term incentive schemes and pension entitlements required by the Companies Act 2006 and those specified for audit by the Financial Conduct Authority are contained in the tables/notes within the Directors' remuneration report on pages 68 to 94 and form part of these audited financial statements.

8 Investment income and finance costs

	2018 £m	2017 £m
Investment income		
Bank interest receivable	**(1.3)**	(1.2)
Finance costs		
Bonds	**84.3**	83.7
Bank borrowings	**8.8**	11.4
Senior unsecured loan notes	**1.3**	4.3
Loan notes	**1.1**	1.0
Finance charges payable in respect of HP contracts and finance leases	**4.6**	6.4
Notional interest on long term provisions	**11.0**	17.5
Notional interest on pensions	**10.2**	8.9
Finance costs before adjustments	**121.3**	133.2
Bond 'make whole' cost[1]	**10.7**	–
Hedge ineffectiveness on financial derivatives	**–**	(1.0)
Total finance costs	**132.0**	132.2
Finance costs before adjustments	**121.3**	133.2
Investment income	**(1.3)**	(1.2)
Net finance cost before adjustments	**120.0**	132.0

1 The early redemption of the £300m bond in March this year resulted in a one-off £10.7m 'make whole' interest charge.

Finance costs are stated after charging fee expenses of £2.7m (2017: £2.5m). There was no interest capitalised into qualifying assets in either the year ended 31 March 2018 or 31 March 2017.

9 Tax on (loss)/profit on ordinary activities

	2018 £m	2017 £m
Current tax	**8.9**	9.5
Adjustments with respect to prior years	**–**	(13.8)
Total current tax charge/(credit)	**8.9**	(4.3)
Origination and reversal of temporary differences	**(14.1)**	50.4
Adjustments with respect to prior years	**(6.2)**	(9.6)
Adjustments attributable to changes in tax rates and laws	**(24.6)**	–
Total deferred tax (credit)/charge (note 25)	**(44.9)**	40.8
Total tax (credit)/charge	**(36.0)**	36.5

The adjustments with respect to prior years includes the release of tax provisions.

UK corporation tax is calculated at 19% (2017: 20%) of the estimated assessable profit for the year. Tax for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

As the Group's parent company is domiciled and listed in the UK the Group uses the UK corporation tax rate to reconcile its effective tax rate. The tax (credit)/charge for the year can be reconciled to the UK corporation tax rate as follows:

	2018 £m	2018 %	2017 £m	2017 %
(Loss)/profit before tax	**(326.9)**	**100.0**	152.6	100.0
Tax at the UK corporation tax rate of 19% (2017: 20%)	**(62.1)**	**19.0**	30.5	20.0
Recurring items:				
Non deductible expenditure	**2.3**	**(0.7)**	1.4	0.9
Non taxable income	**–**	**–**	(0.3)	(0.2)
Tax rates outside of the UK	**2.5**	**(0.8)**	26.0	17.0
Unrecognised losses	**3.2**	**(1.0)**	3.1	2.0
Financing deductions	**–**	**–**	(5.6)	(3.6)
Non-recurring items:				
Unrecognised losses	**–**	**–**	4.6	3.0
Goodwill impairment	**49.5**	**(15.1)**	–	–
Reduced deferred tax rates on current year temporary differences	**(0.6)**	**0.2**	0.2	0.1
US tax reform	**(24.6)**	**7.5**	–	–
Reduction in tax provisions for uncertain tax positions relating to prior years	**(3.2)**	**1.0**	(20.7)	(13.5)
Other adjustments in relation to prior years	**(3.0)**	**0.9**	(2.7)	(1.8)
Tax (credit)/charge and effective tax rate for the year	**(36.0)**	**11.0**	36.5	23.9

The goodwill impairment attracts no tax benefit and the above reconciling item is calculated at the UK tax rate of 19%.

During the year the US Tax Cuts and Jobs Act which included a reduction in the federal corporate income tax rate from 35% to 21% was enacted. As a result of the US tax law changes the brought forward deferred tax balances were remeasured leading to a net tax credit of £24.6m in the income statement and charges to other comprehensive income of £20.4m in respect of pensions and £1.4m in respect of cash flow hedges.

The Group recognises provisions for transactions and events in its open tax returns and its ongoing tax audits whose treatment for tax purposes is uncertain, in respect of multiple years. These uncertainties exist due to differing interpretations of local tax laws and decisions by tax authorities. When calculating the carrying amounts management make assumptions relating to the estimated tax which could be payable. The Group maintains engagement with tax authorities and engagement with peer groups that may have similar issues. We engage advisers to obtain opinion on tax legislation and we monitor proposed changes in legislation.

The reduction in tax provisions for uncertain tax positions relating to prior years reduces the deferred tax provision and arises from the closure of earlier tax years due to the passage of time. Should certain tax returns be closed from the passage of time in the next financial year then the amount required to be provided in deferred tax could reduce by up to £5m.

Future years' tax charges would be impacted if the final liability for currently open years is different from the amount currently provided for. The future tax charge may also be affected by the levels and mix of profits in the countries in which we operate including differing foreign exchange rates that apply to those profits. Changes to the prevailing tax rates and tax rules in any of the countries in which we operate may also impact future tax charges. At the balance sheet date the change to reduce the UK corporation tax rate to 17% from 1 April 2020 has been enacted.

In addition to the amount charged/(credited) to the income statement, deferred tax relating to actuarial (gains)/losses on defined benefit pension schemes £6.2m (2017: £(7.3)m) and cash flow and net investment hedges £9.3m (2017: £19.0m). These charges and those in relation to the US Tax Cuts and Job Act of £21.8m amount to a total charge of £37.3m (2017: £11.7m) recognised in other comprehensive income.

10 Earnings per share (EPS)

EPS is calculated by dividing the loss attributable to equity shareholders of £296.0m (basic loss) (2017: profit £112.3m) by the weighted average number of ordinary shares of 1,205.1m (2017: 1,204.8m). The number of ordinary shares used for the basic and diluted calculations are shown in the table below.

The difference in the number of shares between the basic calculation and the diluted calculation represents the weighted average number of potentially dilutive ordinary share options.

	2018 Number m	2017 Number m
Weighted average number of shares used in basic calculation	1,205.1	1,204.8
Executive share options	17.9	11.5
Weighted average number of shares used in the diluted calculation	1,223.0	1,216.3

The adjusted EPS is intended to highlight the recurring operating results of the Group before amortisation charges, ineffectiveness on financial derivatives and certain other adjustments as set out in note 4. A reconciliation is set out below:

	2018		2017	
	£m	EPS (p)	£m	EPS (p)
Basic (loss)/profit/EPS	(296.0)	(24.6)	112.3	9.3
Amortisation charges (note 12)	70.9	5.9	60.2	5.0
Ineffectiveness on financial derivatives	–	–	(1.0)	(0.1)
Bond 'make whole' cost	10.7	0.9	–	–
Other adjustments (note 4)	442.3	36.7	(4.8)	(0.4)
Tax effect of above adjustments	(55.6)	(4.6)	(17.3)	(1.4)
Tax effect of change in US tax legislation	(24.6)	(2.0)	–	–
Adjusted profit/EPS	147.7	12.3	149.4	12.4

Diluted EPS	2018 pence	2017 pence
Diluted EPS	(24.2)	9.2
Adjusted diluted EPS	12.1	12.3

11 Goodwill

	2018 £m	2017 £m
Cost		
At 1 April	1,960.1	1,740.3
Additions (note 30)	1.2	–
Foreign exchange movements	(199.9)	219.8
At 31 March	1,761.4	1,960.1
Accumulated impairment losses		
At 1 April	4.0	4.0
Impairment	260.6	–
At 31 March	264.6	4.0
Carrying amount		
At 31 March	1,496.8	1,956.1

11 Goodwill continued

Goodwill acquired in a business combination is allocated, at acquisition, to the CGUs that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated as follows:

	2018 £m	2017 £m
Carrying amount		
First Student	**1,137.6**	1,271.1
First Transit	**275.4**	309.5
Greyhound	**–**	291.9
First Bus	**78.2**	78.0
First Rail	**5.6**	5.6
	1,496.8	1,956.1

Impairment testing

At the year end the carrying value of goodwill was reviewed for impairment in accordance with IAS 36 Impairment of Assets. For the purposes of this impairment review goodwill has been tested for impairment on the basis of discounted future cash flows arising in each relevant CGU.

The Group prepares cash flow forecasts derived from the most recent budget for 2018/19 and Three-Year Plan projections up to 2020/21 (2017: Three-Year Plan projections up to 2019/20) which take account of both past performance and expectations for future market developments. The projections for First Student assume the incremental benefits of the existing recovery plan, the programme to address contract portfolio pricing together with an economic recovery. Cash flows beyond the plan period are extrapolated using estimated growth rates of 2.5% (2017: 2.5%) for the United Kingdom and 2.8% (2017: 3.0%) for North America. Cash flows are discounted using a pre-tax discount rate of 7.3% (2017: 7.3%) for the United Kingdom CGUs and 8.2% (2017: 8.7%) for the North American CGUs to arrive at the value in use. The pre-tax discount rates applied are derived from a market participant's weighted average cost of capital. The assumptions used in the calculation of the Group's weighted average cost of capital are benchmarked to externally available data.

The Directors consider the assumptions to be reasonable based on the historic performance of each CGU and to be realistic in the light of economic and industry forecasts.

The calculation of value in use for each CGU is most sensitive to the principal assumptions of discount rate, growth rates and margins achievable. Sensitivity analysis has been performed on the calculations and confirms that no reasonably possible changes in the assumptions would cause the carrying amount of the CGUs to exceed their recoverable amount in respect of the First Transit, First Bus and First Rail divisions.

The value in use of the First Student division exceeds its carrying amount by £662.5m (2017: £709.2m). The sensitivity analysis indicates that the First Student margin or growth rates would need to fall in excess of 212 or 181 basis points respectively compared to medium term double digit margin expectations for there to be an impairment to the carrying value of net assets in this business. An increase in the discount rate in excess of 160 basis points would lead to the value in use of the division being less than its carrying amount.

Following the review of goodwill, the Directors have concluded that there is no impairment to First Student, First Transit, First Bus and First Rail.

Recognising the difficult trading conditions experienced by the Greyhound business in the 2017/18 financial year, the strategic plans for the business and estimates of future cash flows generated by the Greyhound division were revised. The calculated value in use of the Greyhound division resulted in a £277.3m shortfall to the carrying value of assets (2017: £360.4m surplus).

Following their review of these cash flow estimates, the Directors concluded that there should be an impairment charge of £277.3m on the Greyhound CGU. This is reflected in the financial statements as an impairment in full of the carrying value of Greyhound goodwill of £260.6m, an impairment of £12.3m on Greyhound property, plant and equipment (see note 13), an impairment of £2.5m on Greyhound brand and trade name and £1.9m on Greyhound software (see note 12). After these impairments, the carrying value of Greyhound is £313.1m ($438.8m).

The Greyhound business impairment review is sensitive to a change in the assumptions used, most notably to changes in the discount rate, terminal growth rate or terminal margin. A summary of the movements in the impairment charge from a change in these assumptions is as follows:

- 0.1% movement in the discount rate would increase or decrease the impairment charge by £5.6m
- 0.1% movement in the terminal growth rate would increase or decrease the impairment charge by £5.3m
- 0.1% movement in terminal margin would increase or decrease the impairment charge by £9.8m.

12 Other intangible assets

	Customer contracts £m	Greyhound brand and trade name £m	Rail franchise agreements £m	Software £m	Total £m
Cost					
At 1 April 2016	433.8	66.0	5.5	11.6	516.9
Additions	–	–	–	30.2	30.2
Cessation of franchise	–	–	(5.5)	–	(5.5)
Foreign exchange movements	57.2	8.7	–	1.1	67.0
At 31 March 2017	491.0	74.7	–	42.9	608.6
Acquisitions (note 30)	0.7	–	–	–	0.7
Additions	–	–	–	26.8	26.8
Disposals	–	–	–	(1.9)	(1.9)
Foreign exchange movements	(52.0)	(7.8)	–	(4.7)	(64.5)
At 31 March 2018	**439.7**	**66.9**	**–**	**63.1**	**569.7**
Accumulated amortisation and impairment					
At 1 April 2016	320.9	28.3	5.5	–	354.7
Charge for year	50.1	3.5	–	6.6	60.2
Cessation of franchise	–	–	(5.5)	–	(5.5)
Foreign exchange movements	44.5	3.9	–	0.2	48.6
At 31 March 2017	415.5	35.7	–	6.8	458.0
Charge for year	53.3	3.5	–	14.1	70.9
Disposals	–	–	–	(1.0)	(1.0)
Impairment[1]	–	2.5	–	1.9	4.4
Foreign exchange movements	(47.1)	(3.9)	–	(1.4)	(52.4)
At 31 March 2018	**421.7**	**37.8**	**–**	**20.4**	**479.9**
Carrying amount					
At 31 March 2018	**18.0**	**29.1**	**–**	**42.7**	**89.8**
At 31 March 2017	75.5	39.0	–	36.1	150.6

1 The impairment charges of £4.4m in 2018 relates to assets associated with Greyhound (£2.5m of brand and trade name and £1.9m of software).

Intangible assets include customer contracts, the Greyhound brand and trade name which were acquired through the purchases of businesses and subsidiary undertakings and software. These are being amortised over their useful economic lives as shown in note 2 to the consolidated financial statements.

13 Property, plant and equipment

	Land and buildings £m	Passenger carrying vehicle fleet £m	Other plant and equipment £m	Total £m
Cost				
At 1 April 2016	483.0	3,183.9	674.2	4,341.1
Additions in the year	13.3	218.0	96.1	327.4
Disposals	(11.1)	(97.4)	(33.5)	(142.0)
Reclassified as held for sale	–	(148.0)	–	(148.0)
Foreign exchange movements	36.9	312.8	41.1	390.8
At 31 March 2017	522.1	3,469.3	777.9	4,769.3
Acquisitions (note 30)	–	1.6	–	1.6
Additions in the year	11.1	243.5	150.5	405.1
Disposals	(6.8)	(42.4)	(113.0)	(162.2)
Reclassified as held for sale	–	(153.4)	–	(153.4)
Foreign exchange movements	(33.6)	(294.0)	(36.9)	(364.5)
At 31 March 2018	**492.8**	**3,224.6**	**778.5**	**4,495.9**
Accumulated depreciation and impairment				
At 1 April 2016	82.2	1,614.8	501.9	2,198.9
Charge for year	12.8	249.6	90.5	352.9
Disposals	(2.8)	(97.4)	(18.6)	(118.8)
Impairment	–	4.5	–	4.5
Reclassified as held for sale	–	(147.6)	–	(147.6)
Foreign exchange movements	7.9	165.7	29.3	202.9
At 31 March 2017	100.1	1,789.6	603.1	2,492.8
Charge for year	11.8	243.5	134.3	389.6
Disposals	(2.9)	(40.4)	(110.7)	(154.0)
Impairment[1]	1.2	17.1	1.5	19.8
Reclassified as held for sale	–	(146.2)	–	(146.2)
Foreign exchange movements	(7.7)	(159.3)	(29.2)	(196.2)
At 31 March 2018	**102.5**	**1,704.3**	**599.0**	**2,405.8**
Carrying amount				
At 31 March 2018	**390.3**	**1,520.3**	**179.5**	**2,090.1**
At 31 March 2017	422.0	1,679.7	174.8	2,276.5

1 The impairment charge of £19.8m in 2018 relates to First Transit (£2.6m), Greyhound (£12.3m) and First Bus (£4.9m).

An amount of £0.1m (2017: £0.2m) in respect of assets under construction is included in the carrying amount of land and buildings, plant and equipment.

At 31 March 2018 the Group had entered into contractual capital commitments amounting to £216.8m (2017: £128.8m), principally representing buses ordered in the United Kingdom and North America and commitments under the Great Western Railway and South Western Railway franchises.

Property, plant and equipment held under HP contracts and finance leases are analysed as follows:

	2018 £m	2017 £m
Passenger carrying vehicle fleet – cost	**291.4**	456.9
– depreciation	**(138.0)**	(192.9)
Net passenger carrying vehicle fleet	**153.4**	264.0
Other plant and equipment – cost	**–**	0.6
– depreciation	**–**	(0.5)
Net other plant and equipment	**–**	0.1
Total net book value	**153.4**	264.1

The title to the assets under HP contracts and finance leases is held by the lenders.

14 Investments

	2018 £m	2017 £m
US deferred compensation plan assets	**28.6**	30.3
Other investments	**2.4**	3.0
	31.0	33.3

15 Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given below.

A full list of subsidiaries, joint ventures and associates is disclosed in note 38.

UK local bus and coach operators

First Aberdeen Limited[1]
First Beeline Buses Limited
First Cymru Buses Limited
First Eastern Counties Buses Limited
First Essex Buses Limited
First Glasgow (No. 1) Limited[1]
First Glasgow (No. 2) Limited[1]
First Hampshire and Dorset Limited
First Manchester Limited
First Midland Red Buses Limited
First Potteries Limited
First Scotland East Limited[1]
First West of England Limited
First South West Limited
First South Yorkshire Limited
First West Yorkshire Limited
First York Limited
Leicester CityBus Limited (94%)
Midland Bluebird Limited[1]

Rail companies

First Greater Western Limited
First TransPennine Express Limited
Hull Trains Company Limited
First MTR South Western Trains Limited (70%)

North American school bus operators

First Canada ULC[2]
First Student, Inc[3]

Transit contracting and fleet maintenance

First Transit, Inc[3]
First Vehicle Services, Inc[3]

North American coach operators

Americanos USA, Inc[3]
Greyhound Lines, Inc[3]
Greyhound Canada Transportation ULC[2]

All subsidiary undertakings are wholly owned by FirstGroup plc at the end of the year except where percentage of ownership is shown above. All these companies above are incorporated in United Kingdom and registered in England and Wales except those:

1 Registered in Scotland.
2 Registered in Canada.
3 Incorporated in the United States of America.

All shares held in subsidiary undertakings are ordinary shares, with the exception of Leicester CityBus Limited where the Group owns 100% of its redeemable cumulative preference shares, as well as 94% of its ordinary shares.

All of these subsidiary undertakings are owned via intermediate holding companies.

16 Inventories

	2018 £m	2017 £m
Spare parts and consumables	**56.0**	64.5

In the opinion of the Directors there is no material difference between the balance sheet value of inventories and their replacement cost. There was no material write-down of inventories during the current or prior year.

17 Trade and other receivables

Amounts due within one year	2018 £m	2017 £m
Trade receivables	**482.2**	457.3
Provision for doubtful receivables	**(4.3)**	(4.2)
Other receivables	**106.8**	74.6
Prepayments	**103.7**	79.0
Accrued income	**199.6**	184.2
	888.0	790.9

Credit risk

Credit risk is the risk that financial loss arises from failure by a customer or counterparty to meet its obligations under a contract.

Credit risk exists in relation to the Group's financial assets, which comprise trade and other receivables of £888.0m (2017: £790.9m), cash and cash equivalents of £555.7m (2017: £400.9m) and derivative financial instruments of £52.3m (2017: £50.3m).

The Group's maximum exposure to credit risk for all financial assets at the balance sheet date was £1,496.0m (2017: £1,242.1m). The exposure is spread over a large number of unconnected counterparties and the maximum single concentration with any one counterparty was £73.0m (2017: £62.0m) at the balance sheet date.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment. The provision for doubtful receivables at the balance sheet date was £4.3m (2017: £4.2m).

Most trade receivables are with public or quasi public bodies, principally the DfT, Network Rail and city councils in the UK and school bus boards and city municipal authorities in North America. The Group does not consider any of these counterparties to be a significant risk. Each division within the Group has a policy governing credit risk management on trade receivables.

The counterparties for bank balances and derivative financial instruments are mainly represented by lending banks and large banks with a minimum of 'A' credit ratings assigned by international credit rating agencies. These counterparties are subject to approval by the Board. Group treasury policy limits the maximum deposit with any one counterparty to £75m, and limits the maximum term to three months.

An analysis of financial assets which are past due but not impaired and movements in the provision for doubtful receivables are set out below:

Aging past due but not impaired trade receivables	2018 £m	2017 £m
Less than 30 days	**18.2**	23.0
30 – 90 days	**8.2**	11.9
90 – 180 days	**5.1**	4.1
180+ days	**13.2**	7.4
Total	**44.7**	46.4

Movement in the provision for doubtful receivables	2018 £m	2017 £m
At 1 April	**4.2**	4.3
Amounts written off during the year	**(4.3)**	(3.0)
Amounts recovered during the year	**(0.6)**	(0.7)
Increase in allowance recognised in the income statement	**5.4**	3.2
Foreign exchange movements	**(0.4)**	0.4
At 31 March	**4.3**	4.2

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

18 Assets held for sale

	2018 £m	2017 £m
Assets held for sale	**0.9**	2.9

The balances primarily relate to First Student yellow school buses which are surplus to requirements and are being actively marketed on the internet. Gains or losses arising on the disposal of such assets are included in arriving at operating profit in the income statement. The Group expects to sell such yellow school buses within 12 months of them going onto the 'for sale' list. The value at each balance sheet date represents management's best estimate of their resale value less cost of disposal. There are no liabilities associated with these held for sale assets at the balance sheet date.

Movement in assets held for sale	£m
At 1 April 2017	2.9
Net book value of additions	7.2
Net book value of disposals	(9.0)
Foreign exchange movements	(0.2)
At 31 March 2018	**0.9**

19 Trade and other payables

Amounts falling due within one year	2018 £m	2017 £m
Trade payables	**248.8**	255.6
Other payables	**230.2**	217.6
Accruals	**785.6**	607.3
Deferred income	**83.6**	49.7
Season ticket deferred income	**89.2**	25.1
	1,437.4	1,155.3

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. Also included within accruals are provisions of £203.7m (2017: £169.6m) as disclosed in note 26.

The average credit period taken for trade purchases is 29 days (2017: 32 days). The Group has controls in place to ensure that all payments are paid within the appropriate credit timeframe.

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

20 Cash and cash equivalents

	2018 £m	2017 £m
Cash and cash equivalents	**555.7**	400.9

The fair value of cash and cash equivalents approximates to the carrying value. Cash and cash equivalents includes ring-fenced cash of £392.3m (2017: £259.8m). The most significant ring-fenced cash balances are held by the Group's First Rail subsidiaries. Under the terms of the rail franchise agreements, cash can only be distributed by these subsidiaries up to the lower of the amount of their retained profits or the amount determined by prescribed liquidity ratios. The ring-fenced cash represents cash which is not available for distribution and any additional amounts required to satisfy the liquidity ratios at the balance sheet date. Ring-fenced cash balances of £0.8m (2017: £4.0m) are held outside the First Rail subsidiaries.

21 Borrowings

	2018 £m	2017 £m
On demand or within 1 year		
Finance leases (note 22)	**47.1**	65.3
Senior unsecured loan notes	**–**	80.0
Bond 8.125% (repayable 2018)[1]	**–**	12.9
Bond 6.125% (repayable 2019)	**261.3**	3.0
Bond 8.75% (repayable 2021)[1]	**30.1**	30.2
Bond 5.25% (repayable 2022)[1]	**5.8**	5.8
Bond 6.875% (repayable 2024)[1]	**7.2**	7.2
Total current liabilities	**351.5**	204.4
Within 1-2 years		
Finance leases (note 22)	**39.5**	53.5
Loan notes (note 23)	**9.5**	9.5
Bond 8.125% (repayable 2018)	**–**	298.8
Bond 6.125% (repayable 2019)	**–**	270.0
	49.0	631.8
Within 2-5 years		
Syndicated loan facilities	**197.0**	–
Finance leases (note 22)	**18.0**	64.8
Bond 8.75% (repayable 2021)	**358.9**	369.0
Bond 5.25% (repayable 2022)	**321.6**	–
	895.5	433.8
Over 5 years		
Finance leases (note 22)	**0.1**	0.1
Senior unsecured loan notes	**195.2**	–
Bond 5.25% (repayable 2022)	**–**	321.1
Bond 6.875% (repayable 2024)	**199.8**	199.6
	395.1	520.8
Total non-current liabilities at amortised cost	**1,339.6**	1,586.4

1 Relates to accrued interest.

Fair value of bonds and senior unsecured loan notes issued

	Par value £m	Interest payable	Month	2018 Fair value £m	2017 Fair value £m
Bond 8.125% (repayable 2018)	300.0	Annually	September	**–**	342.6
Bond 6.125% (repayable 2019)	250.0	Annually	January	**262.2**	274.1
Bond 8.75% (repayable 2021)	350.0	Annually	April	**448.0**	474.1
Bond 5.25% (repayable 2022)	325.0	Annually	November	**373.4**	384.9
Bond 6.875% (repayable 2024)	200.0	Annually	September	**255.2**	266.4
	$m			**£m**	£m
Senior unsecured loan notes	275.0	Semi-annually	March & September	**194.8**	–
Senior unsecured loan notes	– (2017: $100m)	Semi-annually	April & October	**–**	82.0

The fair value of the bonds and senior unsecured loan notes are inclusive of accrued interest. The fair values are calculated by discounting the future cash flow that will arise under the contracts.

21 Borrowings continued

Effective interest rates

The effective interest rates at the balance sheet dates were as follows:

	2018	Maturity	2017	Maturity
Bank overdraft	LIBOR + 1%	–	LIBOR + 1%	–
Bank borrowings	LIBOR + 0.5%	July 2021	LIBOR + 0.6%	July 2021
Bond 2018	–	–	8.32%	September 2018
Bond 2019[1]	6.18%	January 2019	6.18%	January 2019
Bond 2021[1]	8.87%	April 2021	8.87%	April 2021
Bond 2022	5.49%	November 2022	5.49%	November 2022
Bond 2024	6.95%	September 2024	6.95%	September 2024
Senior unsecured loan notes	4.37%	March 2025 / March 2028	4.39%	October 2017
HP contracts and finance leases	LIBOR + 0.6% up to average fixed rate of 4.2%	Various	LIBOR + 0.6% up to average fixed rate of 4.2%	Various
Loan notes	LIBOR + 1.0% up to total fixed rate of 11.0%	Various	LIBOR + 1.0% up to total fixed rate of 11.0%	Various

1 The 2019 and 2021 bonds have been swapped to floating rates and hence have a lower effective rate net of these swaps.

Carrying amount of gross borrowings by currency	2018 £m	2017 £m
Pounds Sterling	1,392.4	1,541.5
US Dollar	291.7	239.2
Canadian Dollar	7.0	10.1
	1,691.1	1,790.8

Borrowing facilities

The Group had £603.0m (2017: £800.0m) of undrawn committed borrowing facilities as at year end. Total bank borrowing facilities at year end stood at £815.7m (2017: £816.4m) of which £800.0m (2017: £800.0m) was committed and £15.7m (2017: £16.4m) was uncommitted.

Capital management

We aim to maintain an investment grade credit rating and appropriate balance sheet liquidity headroom. The Group has net debt:EBITDA of 1.5 times as at March 2018 (2017: 1.9 times).

Liquidity within the Group has remained strong. At year end there was £766.4m (2017: £941.1m) of committed headroom and free cash. Largely due to seasonality in the North American school bus business, committed headroom typically reduces during the financial year up to October and increases thereafter. The Group's Treasury policy requires a minimum of £150m of committed headroom at all times.

The Group's net debt, excluding accrued bond interest at 31 March 2018, was £1,070.3m (2017: £1,289.9m) as set out on page 43 of the Financial review.

22 HP contracts and finance leases

The Group had the following obligations under HP contracts and finance leases as at the balance sheet dates:

	2018 Minimum payments £m	2018 Present value of payments £m	2017 Minimum payments £m	2017 Present value of payments £m
Due in less than one year	**48.3**	**47.1**	66.9	65.3
Due in more than one year but not more than two years	**41.6**	**39.5**	56.4	53.5
Due in more than two years but not more than five years	**19.6**	**18.0**	70.2	64.8
Due in more than five years	**0.1**	**0.1**	0.1	0.1
	109.6	**104.7**	193.6	183.7
Less future financing charges	**(4.9)**	**–**	(9.9)	–
	104.7	**104.7**	183.7	183.7

HP lease obligations

Pounds Sterling denominated fixed rate leases	2018	2017
Pounds Sterling fixed rate leases	**£1.2m**	£11.1m
Average remaining lives	**1 years**	2 years
Effective borrowing rate	**3.68%**	2.96%

US Dollar denominated fixed rate leases	2018	2017
US Dollar fixed rate leases	**£96.5m**	£159.2m
Average remaining lives	**2 years**	2 years
Effective borrowing rate	**2.50%**	2.57%

Canadian Dollar denominated fixed rate leases	2018	2017
Canadian Dollar fixed rate leases	**£7.0m**	£10.1m
Average remaining lives	**2 years**	2 years
Effective borrowing rate	**4.27%**	4.13%

The Group considers there to be no material difference between the fair values of the Pounds Sterling and Canadian Dollar finance leases and the carrying amount in the balance sheet. The US Dollar finance leases have a fair value of £99.1m (2017: £156.8m). The fair value is calculated by discounting future cash flows that will arise under the lease agreements.

23 Loan notes

The Group had the following loan notes issued as at the balance sheet dates:

	2018 £m	2017 £m
Due in more than one year but not more than two years	**9.5**	9.5

The loan notes have been classified by reference to the earliest date on which the loan note holder can request redemption. Loan notes of £8.7m (2017: £8.7m) are supported by unsecured bank guarantees.

The loan notes have an average effective borrowing rate of 10.1% (2017: 10.1%) and an average remaining term of 3 years (2017: 4 years) assuming that the holders do not request redemption. The fair value of the loan notes has been determined to be £11.2m (2017: £12.3m). This has been calculated by discounting future cash flows that will arise under the loan notes.

24 Financial instruments

Derivative financial instruments

	2018 £m	2017 £m
Total derivatives		
Total non-current assets	**25.0**	48.6
Total current assets	**27.3**	1.7
Total assets	**52.3**	50.3
Total current liabilities	**6.7**	29.5
Total non-current liabilities	**3.0**	8.6
Total liabilities	**9.7**	38.1
Derivatives designated and effective as hedging instruments carried at fair value		
Non-current assets		
Coupon swaps (fair value hedge)	**17.6**	48.6
Fuel derivatives (cash flow hedge)	**7.4**	–
	25.0	48.6
Current assets		
Coupon swaps (fair value hedge)	**11.4**	–
Fuel derivatives (cash flow hedge)	**15.9**	0.6
Currency forwards (cash flow hedge)	**–**	0.7
	27.3	1.3
Current liabilities		
Fuel derivatives (cash flow hedge)	**1.4**	29.4
Currency forwards (cash flow hedge)	**5.3**	0.1
	6.7	29.5
Non-current liabilities		
Currency forwards (cash flow hedge)	**2.9**	–
Fuel derivatives (cash flow hedge)	**0.1**	8.6
	3.0	8.6
Derivatives classified as held for trading		
Current assets		
Currency forwards	**–**	0.4

Total cash flow hedges are an asset of £13.6m (2017: £36.8m liability). Total fair value hedges are an asset of £29.0m (2017: £48.6m).

During the year £33.7m was credited to the hedging reserve in respect of cash flow hedges (2017: £13.3m credited).

The following losses transferred from equity into profit or loss during the year are included in line items in the consolidated income statement:

	2018 £m	2017 £m
Operating losses	**(11.4)**	(56.4)

24 Financial instruments continued

Fair value of the Group's financial assets and financial liabilities (including cash, trade and other receivables, trade and other payables) that are measured at fair value on a recurring basis:

					2018
				Fair value	Carrying value
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Total £m
Financial assets					
Cash and cash equivalents	**555.7**	**–**	**–**	**555.7**	**555.7**
Trade and other receivables	**–**	**584.7**	**–**	**584.7**	**584.7**
Derivative financial instruments	**–**	**52.3**	**–**	**52.3**	**52.3**
Financial liabilities and derivatives					
Borrowings	**197.0**	**1,652.1**	**–**	**1,849.1**	**1,691.1**
Trade and other payables	**–**	**1,437.4**	**–**	**1,437.4**	**1,437.4**
Derivative financial instruments	**–**	**9.7**	**–**	**9.7**	**9.7**

					2017
				Fair value	Carrying value
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Total £m
Financial assets					
Cash and cash equivalents	400.9	–	–	400.9	400.9
Trade and other receivables	–	527.7	–	527.7	527.7
Derivative financial instruments	–	50.3	–	50.3	50.3
Financial liabilities and derivatives					
Borrowings	–	1,958.7	–	1,958.7	1,790.8
Trade and other payables	–	1,155.3	–	1,155.3	1,155.3
Derivative financial instruments	–	38.1	–	38.1	38.1

Level 1: Quoted prices in active markets for identical assets and liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly.

Level 3: Inputs for the asset or liability that are not based on observable market data.

There were no transfers between Level 1 and Level 2 during the current or prior year.

Financial assets/(liabilities)	**Fair values at 31 March 2018 £m**	Fair values at 31 March 2017 £m	Fair value hierarchy	Valuation technique(s) and key inputs
Derivative contracts				
1) Coupon swaps	**29.0**	48.6	Level 2	Discounted cash flow; future cash flows are estimated based on forward interest rates and contract interest rates and then discounted at a rate that reflects the credit risk of the various counterparties.
2) Fuel derivatives	**21.8**	(37.4)	Level 2	Discounted cash flow; future cash flows are estimated based on forward fuel prices and contract rates and then discounted at a rate that reflects the credit risk of the various counterparties.
3) Currency forwards	**(8.2)**	1.0	Level 2	Discounted cash flow; future cash flows are estimated based on forward foreign exchange rates and contract rates and then discounted at a rate that reflects the credit risk of the various counterparties.
4) Trade and other receivables	**584.7**	527.7	Level 2	Carried at amortised cost using the effective interest rate method.
5) Trade and other payables	**1,437.4**	1,155.3	Level 2	Initially measured at fair value, and are subsequently measured at amortised cost using the effective interest rate method.
6) Borrowings	**1,849.1**	1,958.7	Level 1&2	Measured either on an amortised cost basis or at fair value. The fair values are calculated by discounting the future cash flows that will arise under the contracts.

24 Financial instruments continued

The following gains and losses on derivatives designated for hedge accounting have been charged through the consolidated income statement in the year:

	2018 £m	2017 £m
Losses on hedging instruments in fair value hedges	**(21.6)**	(9.5)
Gains on hedged item attributable to hedged risk fair value hedges	**21.9**	10.2
Change in the fair value of derivatives classified as held for trading	**(0.4)**	0.3
	(0.1)	1.0

Financial risk management

The Group is exposed to financial risks including liquidity risk, credit risk and certain market-based risks principally being the effects of changes in foreign exchange rates, interest rates and fuel prices. The Group manages these risks within the context of a set of formal policies established by the Board. Certain risk management responsibilities are formally delegated by the Board, principally to a sub-committee of the Board and to the Chief Financial Officer and to the Treasury Committee. The Treasury Committee comprises the Chief Financial Officer and certain senior finance employees and is responsible for approving hedging transactions permitted under Board approved policies, monitoring compliance against policy and recommending changes to existing policies.

Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulty in meeting obligations associated with financial liabilities. The objective of the Group's liquidity risk management is to ensure sufficient committed liquidity resources exist. The Group has a diversified debt structure largely represented by medium term unsecured syndicated committed bank facilities, medium to long term unsecured bond debt and finance leases. It is a policy requirement that debt obligations must be addressed well in advance of their due dates.

Group treasury policy requires a minimum of £150m of committed liquidity headroom at all times within medium term bank facilities and such facilities must be renewed or replaced well before their expiry dates. At year end, the total amount of these facilities stood at £800.0m (2017: £800.0m), and committed headroom was £603.0m (2017: £800.0m), in addition to free cash balances of £163.4m (2017: £141.1m). The next material contractual expiry of revolver bank facilities is in July 2021. Largely due to the seasonality of the First Student school bus business, headroom tends to reduce from March to October and increases again by the following March.

The average duration of net debt (excluding ring-fenced cash) at 31 March 2018 was 4.1 years (2017: 3.6 years).

The following tables detail the Group's expected maturity of payables/(receivables) for its derivative financial instruments and trade and other payables. The amounts in these tables are different to the balance sheet as the table is prepared on an undiscounted cash flow basis.

					2018
	< 1 year £m	1-2 years £m	2-5 years £m	> 5 years £m	Total £m
Coupon swaps	**(15.3)**	**–**	**(30.9)**	**–**	**(46.2)**
Coupon swaps	**3.8**	**–**	**12.9**	**–**	**16.7**
Fuel derivatives	**(14.5)**	**(6.3)**	**(1.0)**	**–**	**(21.8)**
Currency forwards	**5.3**	**2.4**	**0.5**	**–**	**8.2**
Trade and other payables	**1,437.4**	**–**	**–**	**–**	**1,437.4**
	1,416.7	**(3.9)**	**(18.5)**	**–**	**1,394.3**

					2017
	< 1 year £m	1-2 years £m	2-5 years £m	> 5 years £m	Total £m
Coupon swaps	–	(30.6)	(38.7)	–	(69.3)
Coupon swaps	–	9.4	10.4	–	19.8
Fuel derivatives	28.8	7.8	0.8	–	37.4
Currency forwards	(1.0)	–	–	–	(1.0)
Trade and other payables	1,155.3	–	–	–	1,155.3
	1,183.1	(13.4)	(27.5)	–	1,142.2

Total amounts payable per the tables are £1,462.3m (2017: £1,212.5m). Total amounts receivable per the tables are £68.0m (2017: £70.3m).

No derivative financial instruments had collateral requirements or were due on demand in any of the years.

24 Financial instruments continued

Currency risk

Currency risk is the risk of financial loss to foreign currency net assets, earnings and cash flows reported in pounds Sterling due to movements in exchange rates.

The Group's principal operations outside the UK are in the US and Canada, with the US being the most significant. Consequently, the principal currency risk relates to movements in the US Dollar to pounds Sterling.

'Certain' and 'highly probable' foreign currency transaction exposures may be hedged at the time the exposure arises for up to two years at specified levels, or longer if there is a very high degree of certainty. The Group does not hedge the translation of earnings into the Group reporting currency (pounds Sterling), but accepts that reported Group earnings will fluctuate as exchange rates against pounds Sterling fluctuate for the currencies in which the Company does business. During the year, the net cash generated in each currency may be converted by Group Treasury into pounds Sterling by way of spot transactions in order to keep the currency composition of net debt broadly constant.

IFRS 7 requires the Group to show the impact on profit after tax and hedging reserve on financial instruments from a movement in exchange rates. The following analysis details the Group's sensitivity to a 10% strengthening in pounds Sterling against the US Dollar. The analysis has been prepared based on the change taking place at the beginning of the financial year and being held constant throughout the reporting period. A positive number indicates an increase in earnings or equity where pounds Sterling strengthens against the US Dollar.

	2018 £m	2017 £m
Impact on profit after tax	**0.7**	4.8
Impact on hedging reserve	**(0.8)**	2.2

Interest rate risk

The Group has variable rate debt and cash and therefore net income is exposed to the effects of changes to interest rates. The Group treasury policy objective is to maintain fixed interest rates at a minimum of 50% of on-balance sheet net debt over the medium term, so that volatility is substantially reduced year-on-year to EPS. The policy objective is primarily achieved through fixed rate debt. The main floating rate benchmarks on variable rate debt are US Dollar LIBOR and pounds Sterling LIBOR.

At 31 March 2018, 78% (2017: 84%) of net debt was fixed. This fixed rate protection had an average duration of 5.7 years (2017: 3.7 years).

Interest rate risk within operating leases is hedged 100% by agreeing fixed rentals with the lessors prior to inception of the lease contracts.

Fair value changes in the £250.0m 2019 and the £350.0m 2021 Sterling bonds relating to the LIBOR element are hedged with coupon swaps. These swaps offset the fair value movements in the bond in the income statement and have the same term as the bonds.

The following sensitivity analysis details the Group's sensitivity to a 100 basis points (1%) increase in interest rates throughout the reporting period with all other variables held constant.

	2018 £m	2017 £m
Impact on profit after tax	**(1.8)**	(1.9)

Interest rate hedges

The following table details the notional amounts of interest rate swap contracts designated as a cash flow or fair value hedge which were outstanding at the reporting date, the average fixed rate payable or receivable under these swaps and their fair value. The average interest rate is based on the outstanding balances at the reporting date. The fair value of interest rate swaps is determined by discounting the future cash flows.

The interest rate swaps settle on a quarterly or semi-annual basis. The differences between the fixed and floating rates are settled on a net basis.

	Average fixed rate		Notional principal amount		Fair value asset	
Fair value hedges	**2018 %**	2017 %	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Less than one year	**6.13**	–	**250**	–	**8.4**	–
One to two years	**–**	6.13	**–**	250	**–**	20.1
Two to five years	**2.21**	2.21	**350**	350	**10.5**	20.4

24 Financial instruments continued

Fuel price risk

The Group purchases diesel fuel on a floating price basis in its First Bus, First Rail, US and Canadian bus operations and therefore is exposed to changes in diesel prices, of which the most significant element is crude oil price risk. The Group's policy objective is to maintain a significant degree of fixed price protection in the short term with lower levels of protection over the medium term, so that the businesses affected are protected from any sudden and significant increases and have time to prepare for potentially higher costs, whilst retaining some access for potentially lower costs over the medium term. The Group primarily uses fixed rate swap instruments to achieve significant fixed price certainty. During the year to 31 March 2018, the Group was hedged 78% on fuel price risk.

The Group has also entered into swaps for periods from April 2018 to March 2021 with the majority of these swaps relating to the year to 31 March 2019. The swaps give rise to monthly cash flow exchanges with counterparties to offset the underlying settlement of floating price costs, except where they have a deferred start date. Gains or losses on fuel derivatives are recycled from equity to the income statement on qualifying hedges to achieve fixed rate fuel costs within operating results.

The following analysis details the Group's sensitivity on profit after tax and equity if the price of crude oil had been $10 per barrel higher at the year end:

	2018 £m	2017 £m
Impact on profit after tax	**(3.4)**	(3.2)
Impact on hedging reserve	**21.5**	23.7

Volume at risk for the year to 31 March 2019 is 3.2m (year to 31 March 2018: 3.2m) barrels for which 69% is hedged to diesel price risk.

25 Deferred tax

The major deferred tax liabilities/(assets) recognised by the Group and movements thereon during the current and prior reporting periods are as follows:

	Accelerated tax depreciation £m	Retirement benefit schemes £m	Other temporary differences £m	Tax losses £m	Total £m
At 1 April 2016	174.2	(78.3)	70.7	(212.3)	(45.7)
Charge/(credit) to income statement	22.6	8.5	(19.2)	28.9	40.8
Charge/(credit) to other comprehensive income	–	(7.3)	19.0	–	11.7
Foreign exchange and other movements	21.2	(8.8)	11.7	(32.4)	(8.3)
At 31 March 2017	218.0	(85.9)	82.2	(215.8)	(1.5)
(Credit)/charge to income statement	(19.9)	(1.0)	2.7	(26.7)	(44.9)
Charge to other comprehensive income	–	26.6	10.7	–	37.3
Foreign exchange and other movements	(23.7)	6.5	(9.7)	20.5	(6.4)
At 31 March 2018	**174.4**	**(53.8)**	**85.9**	**(222.0)**	**(15.5)**

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2018 £m	2017 £m
Deferred tax assets	**(37.7)**	(25.8)
Deferred tax liabilities	**22.2**	24.3
	(15.5)	(1.5)

The deferred tax asset relates to the UK and is recognised despite there being a loss in the current year caused by the non recurring TPE onerous contract provision. It is appropriate to recognise this deferred tax asset as the remainder of the Group in the UK is profitable.

No deferred tax has been recognised on deductible temporary differences of £52.5m (2017: £62.1m) and tax losses of £141.9m (2017: £141.1m). The earliest period in which some of the unrecognised assets will expire is year ended 31 March 2027.

No deferred tax asset has been recognised in respect of £2.4m (2017: £2.4m) of capital losses.

26 Provisions

	2018 £m	2017 £m
Insurance claims	**231.7**	236.1
Legal and other	**28.1**	45.7
TPE onerous contract	**79.2**	–
Pensions	**2.0**	2.4
Non-current liabilities	**341.0**	284.2

	Insurance claims £m	Legal and other £m	TPE onerous contract £m	Pensions £m	Total £m
At 1 April 2017	391.0	60.4	–	2.4	453.8
Charged to the income statement	196.5	27.4	106.3	–	330.2
Utilised in the year	(192.7)	(17.3)	–	(0.4)	(210.4)
Notional interest	11.0	–	–	–	11.0
Foreign exchange movements	(37.0)	(2.9)	–	–	(39.9)
At 31 March 2018	**368.8**	**67.6**	**106.3**	**2.0**	**544.7**
Current liabilities	**137.1**	**39.5**	**27.1**	**–**	**203.7**
Non-current liabilities	**231.7**	**28.1**	**79.2**	**2.0**	**341.0**
At 31 March 2018	**368.8**	**67.6**	**106.3**	**2.0**	**544.7**
Current liabilities	154.9	14.7	–	–	169.6
Non-current liabilities	236.1	45.7	–	2.4	284.2
At 31 March 2017	391.0	60.4	–	2.4	453.8

The current liabilities above are included within accruals in note 19.

The insurance claims provision arises from estimated exposures for incidents occurring prior to the balance sheet date. It is anticipated that the majority of such claims will be settled within the next six years although certain liabilities in respect of lifetime obligations of £22.2m (2017: £21.7m) can extend for up to 30 years. The utilisation of £192.7m (2017: £194.3m) represents payments made largely against the current liability of the preceding year.

The insurance claims provisions contains £15.5m (2017: £27.7m) which is recoverable from insurance companies and is included within other receivables in note 17.

Legal and other provisions relate to estimated exposures for cases filed or thought highly likely to be filed for incidents that occurred prior to the balance sheet date. It is anticipated that most of these items will be settled within 10 years. Also included are provisions in respect of costs anticipated on the exit of surplus properties which are expected to be settled over the remaining terms of the respective leases and dilapidation, other provisions in respect of contractual obligations under rail franchises and restructuring costs. The dilapidation provisions are expected to be settled at the end of the respective franchise.

The onerous contract provision in respect of TPE has been calculated based on updated financial forecasts for this franchise until the initial end date of 31 March 2023. The updated forecasts are based on a number of assumptions, most significantly passenger revenue growth. These are based on economic and other exogenous factors as well as changes in timetables, capacity and rolling stock. Whilst the onerous contract provision is based upon management's current best estimate, there can be no certainty that actual results will be consistent with those forecast. The TPE onerous contract provision is sensitive to a change in the assumptions used, most notably to passenger revenue growth. A reduction or increase of 0.5% in the cumulative annual passenger growth rate assumption would increase or decrease the onerous contract provision required by £27.0m. The provisions are expected to be fully utilised within five years.

The pension's provision relates to unfunded obligations that arose on the acquisition of certain First Bus companies. It is anticipated that this will be utilised over approximately five years.

27 Called up share capital

	2018 £m	2017 £m
Allotted, called up and fully paid		
1,210.8m (2017: 1,207.7m) ordinary shares of 5p each	**60.5**	60.4

The Company has one class of ordinary shares which carries no right to fixed income.

During the year 3.1m shares were issued to satisfy principally SAYE exercises.

28 Reserves

The hedging reserve records the movement on designated hedging items.

The share premium account represents the premium on shares issued since 1999 and arose principally on the rights issue on the Ryder acquisition in 1999 and the share placings in 2007 and 2008. The reserve is non-distributable.

The own shares reserve represents the cost of shares in FirstGroup plc purchased in the market and either held as treasury shares or held in trust to satisfy the exercise of share options.

Hedging reserve

The movements in the hedging reserve were as follows:

	2018 £m	2017 £m
Balance at 1 April	**(17.9)**	(68.6)
Gains/(losses) recognised:		
Fuel derivatives	**46.5**	12.7
Currency forwards	**(12.8)**	0.6
Charged/(credited) to income statement:		
Fuel derivatives	**7.4**	56.4
Currency forwards	**4.0**	–
Tax on derivative hedging instrument movements	**(10.7)**	(19.0)
Balance at 31 March	**16.5**	(17.9)

Own shares

The number of own shares held by the Group at the end of the year was 7,653,968 (2017: 437,005) FirstGroup plc ordinary shares of 5p each. Of these, 7,464,219 (2017: 247,256) were held by the FirstGroup plc Employee Benefit Trust, 32,520 (2017: 32,520) by the FirstGroup plc Qualifying Employee Share Ownership Trust and 157,229 (2017: 157,229) were held as treasury shares. Both trusts and treasury shares have waived the rights to dividend income from the FirstGroup plc ordinary shares. The market value of the shares at 31 March 2018 was £6.3m (2017: £0.6m).

Other reserves	Capital redemption reserve £m	Capital reserve £m	Total other reserves £m
At 31 March 2018 and 31 March 2017	**1.9**	**2.7**	**4.6**

There have been no movements on the capital redemption reserve or capital reserve during the year ended 31 March 2018. The capital redemption reserve represents the cumulative par value of all shares bought back and cancelled. The capital reserve arose on acquisitions in 2000. Neither reserve is distributable.

29 Translation reserve

	£m
At 1 April 2017	708.4
Movement for the financial year	(324.9)
At 31 March 2018	**383.5**

The translation reserve records exchange differences arising from the translation of the balance sheets of foreign currency denominated subsidiaries offset by movements on loans used to hedge the net investment in those foreign subsidiaries.

30 Acquisition of businesses and subsidiary undertakings

	2018 £m	2017 £m
Provisional fair value of net assets acquired:		
Property, plant and equipment	**1.6**	–
Other intangible assets	**0.7**	–
Other liabilities	**(0.3)**	–
	2.0	–
Goodwill	**1.2**	–
Satisfied by cash paid and payable	**3.2**	–

On 11 August 2017, the Group completed the acquisition of Falcon Transportation, a Chicago-based provider of school and charter transportation services. The £3.2m consideration represents £2.9m cash paid in the period and £0.3m of deferred consideration.

The business acquired during the year contributed £3.2m (2017: £nil) to Group revenue and £0.3m (2017: £nil) to Group operating loss from date of acquisition to 31 March 2018.

If the acquisitions of the business acquired during the year had been completed on the first day of the financial year, Group revenue from this acquisition for the period would have been £4.8m (2017: £nil) and the Group operating profit from this acquisition attributable to equity holders of the parent would have been £0.5m (2017 £nil).

31 Net cash from operating activities

	2018 £m	2017 £m
Operating (loss)/profit	**(196.2)**	283.6
Adjustments for:		
Depreciation charges	**389.6**	352.9
Capital grant amortisation	**(16.0)**	(5.3)
Amortisation charges	**70.9**	60.2
Impairment charges	**284.8**	4.5
Share-based payments	**8.9**	8.2
Loss/(profit) on disposal of property, plant and equipment	**8.3**	(18.9)
Operating cash flows before working capital and pensions	**550.3**	685.2
Decrease in inventories	**4.6**	1.3
Increase in receivables	**(168.7)**	(36.7)
Increase in payables	**341.7**	56.3
TPE onerous contract provision	**106.3**	–
Decrease in other provisions	**(10.5)**	(30.6)
Defined benefit pension payments in excess of income statement charge	**(47.9)**	(37.6)
Cash generated by operations	**775.8**	637.9
Tax paid	**(12.2)**	(10.2)
Interest paid	**(122.1)**	(100.9)
Interest element of HP contracts and finance leases	**(4.6)**	(6.4)
Net cash from operating activities	**636.9**	520.4

32 Analysis of changes in net debt

	At 1 April 2017 £m	Cash flow £m	Exchange Movements £m	Other £m	At 31 March 2018 £m
Components of financing activities:					
Bank loans	–	(197.0)	–	–	**(197.0)**
Bonds	(1,458.5)	300.0	–	19.9	**(1,138.6)**
Fair value of interest rate coupon swaps	40.9	–	–	(21.9)	**19.0**
Senior unsecured loan notes	(80.0)	(116.8)	0.6	1.0	**(195.2)**
Finance lease obligations	(183.7)	62.1	15.5	1.4	**(104.7)**
Other debt	(9.5)	–	3.0	(3.0)	**(9.5)**
Total components of financing activities	(1,690.8)	48.3	19.1	(2.6)	**(1,626.0)**
Cash	141.1	18.2	4.1	–	**163.4**
Ring-fenced cash	259.8	132.5	–	–	**392.3**
Cash and Cash equivalents	400.9	150.7	4.1	–	**555.7**
Net debt	**(1,289.9)**	**199.0**	**23.2**	**(2.6)**	**(1,070.3)**

	At 1 April 2016 £m	Cash flow £m	Exchange Movements £m	Other £m	At 31 March 2017 £m
Components of financing activities:					
Bank loans	–	–	–	–	–
Bonds	(1,467.5)	–	–	9.0	(1,458.5)
Fair value of interest rate coupon swaps	51.1	–	–	(10.2)	40.9
Senior unsecured loan notes	(105.9)	41.0	(15.1)	–	(80.0)
Finance lease obligations	(238.3)	75.0	(23.9)	3.5	(183.7)
Other debt	(9.7)	0.1	2.8	(2.7)	(9.5)
Total components of financing activities	(1,770.3)	116.1	(36.2)	(0.4)	(1,690.8)
Cash	140.2	(8.8)	9.7	–	141.1
Ring-fenced cash	219.9	39.9	–	–	259.8
Cash and Cash equivalents	360.1	31.1	9.7	–	400.9
Net debt	(1,410.2)	147.2	(26.5)	(0.4)	(1,289.9)

All values above exclude accrued interest.

33 Contingent liabilities

Investigations into the Croydon tram incident are ongoing and it is uncertain when they will be concluded. The tram was operated by Tram Operations Limited (TOL), a subsidiary of the Company, under a contract with a TfL subsidiary. TOL provides the drivers and management to operate the tram services, whereas the infrastructure and trams are owned and maintained by a TfL subsidiary. No proceedings have been commenced and, as such, it is not possible to assess whether any financial penalties or related costs could be incurred.

To support subsidiary undertakings in their normal course of business, the Company and certain subsidiaries have indemnified certain banks and insurance companies who have issued performance bonds for £783.1m (2017: £710.4m) and letters of credit for £327.7m (2017: £369.0m). The performance bonds relate to the North American businesses of £544.6m (2017: £570.1m) and the First Rail franchise operations of £238.5m (2017: £140.3m). The letters of credit relate substantially to insurance arrangements in the UK and North America. The parent company has committed further support facilities of up to £145.2m to First Rail Train Operating Companies.

The Company is party to certain unsecured guarantees granted to banks for overdraft and cash management facilities provided to itself and subsidiary undertakings. The Company has given certain unsecured guarantees for the liabilities of its subsidiary undertakings arising under certain loan notes, HP contracts, finance leases, operating leases and certain pension scheme arrangements. It also provides unsecured cross guarantees to certain subsidiary undertakings as required by VAT legislation. First Bus subsidiaries have provided unsecured guarantees on a joint and several basis to the Trustees of the First Bus Pension Scheme.

The Group is party to legal proceedings and claims which arise in the normal course of business, including but not limited to employment and safety claims. The Group takes legal advice as to the likelihood of success of claims and counterclaims. No provision is made where due to inherent uncertainties, no accurate quantification of any cost, or timing of such cost, which may arise from any of the legal proceedings can be determined.

In its normal course of business First Rail has ongoing contractual negotiations with government and other organisations.

On 14 November 2017, Reading Borough Council served First Greater Western Limited (GWR), a subsidiary of the Group, and Network Rail Infrastructure Limited (a third party) with a noise abatement notice in respect of the operations at the Reading railway depot. The serving of the notice has been appealed and the related court hearing is currently scheduled to take place in the first quarter of 2019 (unless the matter is settled between the parties before that date). It is not possible at this stage to quantify the implications for the GWR operations, if any, if they are not ultimately successful with respect to this appeal.

34 Operating lease arrangements

	2018 £m	2017 £m
Minimum lease payments made under operating leases recognised in the income statement for the year:		
Plant and machinery	**23.7**	22.0
Track and station access	**154.4**	110.1
Hire of rolling stock	**255.3**	89.8
Other assets	**89.2**	79.0
	522.6	300.9

At the balance sheet dates, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2018 £m	2017 £m
Within one year	**955.6**	405.1
In the second to fifth years inclusive	**2,158.7**	995.6
After five years	**507.8**	70.4
	3,622.1	1,471.1

Included in the above commitments are contracts held by the First Rail businesses with Network Rail for access to the railway infrastructure track, stations and depots of £1,027.6m (2017: £348.5m). They also have contracts under which they lease rolling stock of £2,223.6m (2017: £845.4m).

35 Share-based payments

Equity-settled share option plans

The Group recognised total expenses of £8.9m (2017: £8.2m) related to equity-settled share-based payment transactions.

(a) Save as you earn (SAYE)

The Group operates an HMRC approved savings related share option scheme. Grants were made as set out below. The scheme is based on eligible employees being granted options and their agreement to opening a sharesave account with a nominated savings carrier and to save weekly or monthly over a specified period. Sharesave accounts are held with Computershare. The right to exercise the option is at the employee's discretion at the end of the period previously chosen for a period of six months.

	SAYE Dec 2013 Options Number	SAYE Dec 2014 Options Number	SAYE Dec 2015 Options Number	SAYE Dec 2016 Options Number	SAYE Dec 2017 Options Number
Outstanding at the beginning of the year	1,774,654	5,671,340	6,709,681	7,595,520	–
Awarded during the year	–	–	–	–	9,954,274
Exercised during the year	(759,602)	(1,299,179)	(55,341)	(15,375)	–
Lapsed during the year	(1,015,052)	(396,939)	(774,931)	(873,816)	(199,161)
Outstanding at the end of the year	–	3,975,222	5,879,409	6,706,329	9,755,113
Exercisable at the end of the year	–	3,975,222	–	–	–
Weighted average exercise price (pence)	94.1	97.0	85.0	86.0	83.0
Weighted average share price at date of exercise (pence)	126.9	102.8	113.5	112.8	N/A

(b) Deferred bonus shares (DBS)

	DBS 2007 Options Number	DBS 2008 Options Number	DBS 2009 Options Number	DBS 2010 Options Number	DBS 2011 Options Number
Outstanding at the beginning of the year	18,831	46,761	31,109	63,150	117,835
Exercised during the year	(17,257)	(18,765)	(3,616)	(8,028)	(29,345)
Outstanding at the end of the year	1,574	27,996	27,493	55,122	88,490
Exercisable at the end of the year	1,574	27,996	27,493	55,122	88,490
Weighted average exercise price (pence)	Nil	Nil	Nil	Nil	Nil
Weighted average share price at date of exercise (pence)	134.6	98.8	140.2	140.9	122.9

	DBS 2012 Options Number	DBS 2013 Options Number	DBS 2014 Options Number	DBS 2015 Options Number	DBS 2016 Options Number	DBS 2017 Options Number
Outstanding at the beginning of the year	164,972	708,331	1,960,690	2,503,615	1,586,348	–
Granted during the year	–	–	–	–	–	2,144,862
Forfeited during the year	–	–	–	(79,639)	(46,909)	(43,862)
Lapsed during the year	–	–	–	(8,876)	(2,096)	–
Exercised during the year	(45,980)	(301,773)	(1,598,475)	(116,921)	(2,765)	(1,907)
Outstanding at the end of the year	118,992	406,558	362,215	2,298,179	1,534,578	2,099,093
Exercisable at the end of the year	118,992	406,558	362,215	31,397	2,312	1,673
Weighted average exercise price (pence)	Nil	Nil	Nil	Nil	Nil	Nil
Weighted average share price at date of exercise (pence)	115.3	108.2	130.4	133.4	112.1	112.1

35 Share-based payments continued

(c) Buy As You Earn (BAYE)

BAYE enables eligible employees to purchase shares from their gross income. The Company provides two matching shares for every three shares bought by employees, subject to a maximum Company contribution of shares to the value of £20 per employee per month. If the shares are held in trust for five years or more, no income tax and national insurance will be payable. The matching shares will be forfeited if the corresponding partnership shares are removed from trust within three years of award.

At 31 March 2018 there were 6,263 (2017: 4,275) participants in the BAYE scheme who have cumulatively purchased 18,817,893 (2017: 16,702,455) shares with the Company contributing 6,218,455 (2017: 5,535,678) matching shares on a cumulative basis.

(d) Long Term Incentive Plan (LTIP)

	LTIP 2014 Options Number	LTIP 2015 Options Number	LTIP 2016 Options Number	LTIP 2017 Options Number
Outstanding at the beginning of the year	9,145,375	3,367,906	3,584,210	–
Granted during the year	–	–	–	6,965,893
Forfeited during the year	(132,253)	(35,438)	(38,405)	–
Lapsed during the year	(7,594,201)	–	–	–
Exercised during the year	(1,414,875)	–	–	–
Outstanding at the end of the year	4,046	3,332,468	3,545,805	6,965,893
Exercisable at the end of the year	4,046	–	–	–
Weighted average share price at date of exercise (pence)	124.4	Nil	Nil	Nil

(e) Divisional Incentive Plan (DIP)

	DIP Options Number
Outstanding at the beginning of the year	7,781,248
Granted during the year	1,125,912
Forfeited during the year	(18,952)
Lapsed during the year	(7,781,248)
Exercised during the year	(6,316)
Outstanding at the end of the year	1,100,644
Exercisable at the end of the year	–
Weighted average exercise price (pence)	Nil
Weighted average share price at date of exercise (pence)	112.1

(f) Executive Share Plan (ESP)

	ESP 2015 Options Number	ESP 2016 Options Number	ESP 2017 Options Number
Outstanding at the beginning of the year	1,011,117	1,746,770	–
Granted during the year	–	–	3,432,146
Forfeited during the year	(40,505)	(115,622)	(181,847)
Lapsed during the year	–	(15,061)	–
Exercised during the year	(311,372)	(376,499)	(6,176)
Outstanding at the end of the year	659,240	1,239,588	3,244,123
Exercisable at the end of the year	296,716	203,934	11,163
Weighted average exercise price (pence)	Nil	Nil	Nil
Weighted average share price at date of exercise (pence)	121.0	121.8	112.1

35 Share-based payments continued

The fair values of the options granted during the last two years were measured using a Black-Scholes or other appropriate valuation models. The inputs into the models were as follows:

	2018	2017
Weighted average share price at grant date (pence)		
– DBS	**140.1**	92.6
– SAYE December 2016	**–**	107.6
– SAYE December 2017	**108.0**	–
– LTIP	**104.7**	92.6
– ESP	**104.7**	92.6
Weighted average exercise price at grant date (pence)		
– DBS	**–**	–
– SAYE December 2016	**–**	86.1
– SAYE December 2017	**83.0**	–
– LTIP	**–**	–
– ESP	**–**	–
Expected volatility (%)		
– DBS	**N/A**	N/A
– SAYE December 2016	**–**	35
– SAYE December 2017	**35**	–
– LTIP	**32**	37
– ESP	**N/A**	N/A
Expected life (years)		
– DBS	**3.0**	2.75
– SAYE schemes	**3.0**	3.0
– LTIP	**2.35**	2.75
– ESP	**3.0**	3.0
Rate of interest (%)		
– DBS	**N/A**	N/A
– SAYE December 2016	**–**	0.3
– SAYE December 2017	**0.5**	–
– LTIP	**–**	–
– ESP	**–**	–
Expected dividend yield (%)		
– DBS	**–**	–
– SAYE December 2016	**–**	–
– SAYE December 2017	**–**	–
– LTIP	**–**	–
– ESP	**–**	–

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous five years. The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Allowances have been made for the SAYE schemes for the fact that, amongst a group of recipients some are expected to leave before an entitlement vests. The accounting charge is then adjusted over the vesting period to take account of actual forfeitures, so although the total charge is unaffected by the pre-vesting forfeiture assumption, the timing of the recognition of the expense will be sensitive to it. Fair values for the SAYE include a 10% per annum pre-vesting leaver assumption whereas the Executive, LTIP and deferred share plans exclude any allowance for pre-vesting forfeitures.

The Group used the inputs noted above to measure the fair value of the new share options.

	2018 pence	2017 pence
Weighted average fair value of options at grant date		
– DBS	**140.1**	92.6
– SAYE December 2016	**–**	36.0
– SAYE December 2017	**38.0**	–
– LTIP	**70.7**	80.6
– ESP	**104.7**	92.6

36 Retirement benefit schemes

Non-Rail

Defined contribution plans

Payments to defined contribution plans are charged as an expense as they fall due. There is no legal or constructive obligation to pay additional contributions into a defined contribution plan if the fund has insufficient assets to pay all employees' benefits relating to employee service in the current and prior periods.

UK

The Group operates defined contribution plans for all Group and First Bus employees who have joined a pension arrangement since April 2013. They receive a company match to their contributions, which varies by salary and/or service.

North America

Employees in the US have been able to join a defined contribution arrangement for many years. They receive a company match which varies by employment status.

All new employees in Canada join a defined contribution arrangement. Union employees join the Eastern or Western plan, whilst managers and supervisors join the Supervisory plan. They receive a company contribution dependent on their personal contribution and the plan they are in.

The total expense recognised in the consolidated income statement of £23.9m (2017: £23.0m) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

Defined benefit plans

The Group sponsors 10 funded defined benefit plans across its non-rail operations, covering approximately 50,000 former and current employees.

UK

The majority of defined benefit provision is through trust-based schemes. These arrangements are closed to new entrants.

The assets of the trust-based schemes are invested separately from those of the Group, and the schemes are run independently of the Group by trustee boards. There is a requirement for the trustee boards to have some member representation, with the other trustee directors being company appointed. The Trustee is responsible for the investment policy in respect of the assets of the fund, although the Company must be consulted on this, and typically has some input into the investment decisions.

Triennial valuations assess the cost of future service and the funding position. The Company and Trustee are required to agree on assumptions for the valuations and to agree the contributions that result from these. Deficit recovery contributions may be required in addition to future service contributions. In agreeing contribution rates, reference must be made to the affordability of contributions by the employer.

In most arrangements, any surplus after benefits have been paid/secured, can be repaid to the employer.

The First UK Bus Pension Scheme

This provides pension benefits to employees in First Bus. Historically it provided salary related benefits on a shared cost basis, but from April 2013, all new members have been enrolled in the defined contribution section.

The funding level of the scheme on 5 April 2017 failed to reach a pre-agreed funding level, and as such, the scheme closed to defined benefit accrual on 5 April 2018.

A smaller Group scheme provides defined benefit pensions to Group employees. This scheme closed to defined benefit accrual on 5 April 2018.

Local Government Pension Schemes

The Group participates in three Local Government Pension Schemes (LGPS), one in England and two in Scotland, which provide salary related benefits. These differ from trust-based schemes in that their benefits and governance are prescribed by specific legislation, and they are administered by local authorities.

Contribution rates are agreed for the three-year period until the next valuation. The Group only recognises existing surpluses relating to the LGPS when determining the balance sheet position, to the extent that these surpluses could be recouped by the reduction of future Company contributions.

36 Retirement benefit schemes continued

North America

US

The Group operates two defined benefit arrangements in the US although benefit accrual ceased some years ago. The plans are valued annually, when the funding position and minimum and maximum contributions are established. Deficits are paid off as required by legislation.

Greyhound Canada

There are three plans, relating to Eastern, Western and Supervisory employees. All the plans are now closed to new members, although benefit accrual continues for existing members.

The plans are valued annually, when the cost of future service and the funding position are identified. Future service costs are shared between the members and the Company, with deficit contributions being met entirely by the Company.

Valuations

At their last valuations, the defined benefit schemes had funding levels between 71.0% and 108.3% (2017: 74.4% and 105.4%). The market value of the assets at 31 March 2018 for all non-rail operation defined benefit schemes totalled £3,077m (2017: £3,123m).

Rail

The Railways Pension Scheme (RPS)

The Group currently sponsors five sections of the RPS, relating to its franchising obligations for its TOCs, and a further section for Hull Trains, its Open Access operator.

The RPS is governed by the Railways Pension Trustee Company Limited, and is subject to regulation from the Pensions Regulator and relevant UK legislation.

The RPS is a shared cost arrangement. All costs, and any deficit or surplus, are shared 60% by the employer and 40% by the members.

For the TOC sections, under the franchising obligations, the employer's responsibility is to pay the contributions requested by the Trustee, whilst it operates the franchise. There is no residual liability or asset for any deficit, or surplus, which remains at the end of the franchise period.

Since the contributions being paid to each TOC section are lower than the share of the service cost that would normally be calculated under IAS 19, the Group does not make any contribution towards the sections' deficits. Therefore, the Group does not need to reflect any deficit on its balance sheet. A franchise adjustment (asset) exists that exactly offsets any section deficit that would otherwise remain after reflecting the cost sharing with the members.

Valuation assumptions

The valuation assumptions used for accounting purposes have been made uniform to Group standards, as appropriate, when each scheme is actuarially valued.

	First Bus 2018 %	**First Rail 2018 %**	**North America 2018 %**	First Bus 2017 %	First Rail 2017 %	North America 2017 %
Key assumptions used:						
Discount rate	**2.70**	**2.70**	**3.80**	2.80	2.80	3.65
Expected rate of salary increases	**2.05**	**3.30**	**2.50**	2.00	3.35	2.50
Inflation – CPI	**2.05**	**2.05**	**2.00**	2.00	2.00	2.00
Future pension increases	**2.05**	**2.05**	**–**	2.00	2.00	–
Post-retirement mortality (life expectancy in years)[1]						
Current pensioners at 65:	**19.8**	**20.6**	**18.1**	20.1	20.6	18.9
Future pensioners at 65 aged 45 now:	**21.3**	**21.9**	**19.3**	21.3	21.9	20.1

A 0.1% movement in the discount rate would impact 2017/18 operating profit and the balance sheet position by approximately £1.2m and £30m respectively. A 0.1% movement in the inflation rate would impact 2017/18 operating profit and the balance sheet position by approximately £2.9m and £25m respectively.

1 Life expectancies are weighted averages, reflecting the different underlying plans .

36 Retirement benefit schemes continued

(a) Income statement

Amounts (charged)/credited to the income statement in respect of these defined benefit schemes are as follows:

Year to 31 March 2018	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
Current service cost	(21.5)	(10.0)	(31.5)	(72.5)	(104.0)
Impact of franchise adjustment on operating cost	–	–	–	40.7	40.7
Past service loss including curtailments and settlements	–	(0.3)	(0.3)	–	(0.3)
Net interest cost	(3.0)	(7.1)	(10.1)	(11.4)	(21.5)
Impact of franchise adjustment on net interest cost	–	–	–	11.4	11.4
	(24.5)	(17.4)	(41.9)	(31.8)	(73.7)

Year to 31 March 2017	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
Current service cost	(16.7)	(9.9)	(26.6)	(37.1)	(63.7)
Impact of franchise adjustment on operating cost	–	–	–	11.3	11.3
Past service gain on TOC schemes	–	–	–	4.1	4.1
Net interest cost	(1.1)	(7.7)	(8.8)	(5.8)	(14.6)
Impact of franchise adjustment on net interest cost	–	–	–	5.8	5.8
	(17.8)	(17.6)	(35.4)	(21.7)	(57.1)

Net interest comprises:

	2018 £m	2017 £m
Interest cost (table (c))	(131.6)	(130.1)
Interest income on assets (table (d))	114.8	120.3
Interest on irrecoverable surplus (table (h))	(4.7)	(4.8)
	(21.5)	(14.6)

During the year £17.8m (2017: £11.5m) of administrative expenses were incurred.

Actuarial gains and losses have been reported in the consolidated statement of comprehensive income.

The actual return on scheme assets was:

	2018 £m	2017 £m
First Bus	55.4	413.2
First Rail	(6.7)	146.0
North America	(4.6)	106.0
	44.1	665.2

Reconciliation of the actual return on scheme assets:

	2018 £m	2017 £m
Interest income on assets	114.8	120.3
Employee share of return on assets (First Rail)	(2.7)	58.4
Actuarial (loss)/gain on assets	(19.6)	428.0
Currency (loss)/gain	(48.4)	58.5
Actual return on scheme assets	44.1	665.2

36 Retirement benefit schemes continued

(b) Balance sheet

The amounts included in the balance sheet arising from the Group's obligations in respect of its defined benefit pension schemes are as follows:

At 31 March 2018	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
Fair value of schemes' assets	**2,622.6**	**454.8**	**3,077.4**	**1,866.0**	**4,943.4**
Present value of defined benefit obligations	**(2,570.6)**	**(617.5)**	**(3,188.1)**	**(2,951.1)**	**(6,139.2)**
(Deficit)/surplus before adjustments	**52.0**	**(162.7)**	**(110.7)**	**(1,085.1)**	**(1,195.8)**
Adjustment for irrecoverable surplus[1] (table (h))	**(160.4)**	**–**	**(160.4)**	**–**	**(160.4)**
First Rail franchise adjustment (table (f)) (60%)	**–**	**–**	**–**	**648.4**	**648.4**
Adjustment for employee share of RPS deficits (40%)	**–**	**–**	**–**	**434.1**	**434.1**
Deficit in schemes	**(108.4)**	**(162.7)**	**(271.1)**	**(2.6)**	**(273.7)**
Liability recognised in the balance sheet	**(108.4)**	**(162.7)**	**(271.1)**	**(2.6)**	**(273.7)**
The amount is presented in the consolidated balance sheet as follows:					
Non-current assets	**32.5**	**–**	**32.5**	**–**	**32.5**
Non-current liabilities	**(140.9)**	**(162.7)**	**(303.6)**	**(2.6)**	**(306.2)**
	(108.4)	**(162.7)**	**(271.1)**	**(2.6)**	**(273.7)**

At 31 March 2017	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
Fair value of schemes' assets	2,614.5	508.7	3,123.2	1,018.0	4,141.2
Present value of defined benefit obligations	(2,586.6)	(725.4)	(3,312.0)	(1,519.9)	(4,831.9)
(Deficit)/surplus before adjustments	27.9	(216.7)	(188.8)	(501.9)	(690.7)
Adjustment for irrecoverable surplus[1] (table (h))	(167.7)	–	(167.7)	–	(167.7)
First Rail franchise adjustment (table (f)) (60%)	–	–	–	299.1	299.1
Adjustment for employee share of RPS deficits (40%)	–	–	–	200.8	200.8
Deficit in schemes	(139.8)	(216.7)	(356.5)	(2.0)	(358.5)
Liability recognised in the balance sheet	(139.8)	(216.7)	(356.5)	(2.0)	(358.5)
The amount is presented in the consolidated balance sheet as follows:					
Non-current assets	34.0	–	34.0	–	34.0
Non-current liabilities	(173.8)	(216.7)	(390.5)	(2.0)	(392.5)
	(139.8)	(216.7)	(356.5)	(2.0)	(358.5)

1 The irrecoverable surplus represents the amount of the surplus that the Group could not recover through reducing future Company contributions to LGPS.

36 Retirement benefit schemes continued

c) Defined benefit obligations (DBO)

Movements in the present value of DBO were as follows:

	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
At 1 April 2017	**2,586.6**	**725.4**	**3,312.0**	**1,519.9**	**4,831.9**
New SWR franchise	**–**	**–**	**–**	**1,246.4**	**1,246.4**
Current service cost	**21.5**	**10.0**	**31.5**	**72.5**	**104.0**
Effect of settlements	**–**	**(4.5)**	**(4.5)**	**–**	**(4.5)**
Interest cost	**70.8**	**24.1**	**94.9**	**36.7**	**131.6**
Employee share of change in DBO (not attributable to franchise adjustment)	**10.8**	**1.1**	**11.9**	**68.8**	**80.7**
Experience (gain)/loss on DBO	**(33.8)**	**(3.0)**	**(36.8)**	**27.3**	**(9.5)**
Gain on change of assumptions (demographic)	**(17.1)**	**(3.0)**	**(20.1)**	**–**	**(20.1)**
Loss/(gain) on change of assumptions (financial)	**52.2**	**(0.5)**	**51.7**	**31.8**	**83.5**
Benefit payments	**(120.4)**	**(63.3)**	**(183.7)**	**(52.3)**	**(236.0)**
Currency gain	**–**	**(68.8)**	**(68.8)**	**–**	**(68.8)**
At 31 March 2018	**2,570.6**	**617.5**	**3,188.1**	**2,951.1**	**6,139.2**

	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
At 1 April 2016	2,208.9	667.9	2,876.8	1,168.5	4,045.3
Current service cost	12.7	3.4	16.1	36.1	52.2
Past service costs and curtailments	–	–	–	(0.3)	(0.3)
Effect of settlements	–	–	–	(10.9)	(10.9)
Interest cost	79.9	24.9	104.8	25.3	130.1
Employee share of change in DBO (not attributable to franchise adjustment)	13.3	1.3	14.6	33.5	48.1
Experience (gain)/loss on DBO	(43.3)	2.7	(40.6)	(21.0)	(61.6)
(Gain)/loss on change of assumptions (demographic)	1.9	(4.3)	(2.4)	–	(2.4)
Loss on change of assumptions (financial)	452.6	5.7	458.3	316.0	774.3
Benefit payments	(139.4)	(61.3)	(200.7)	(27.3)	(228.0)
Currency loss	–	85.1	85.1	–	85.1
At 31 March 2017	2,586.6	725.4	3,312.0	1,519.9	4,831.9

36 Retirement benefit schemes continued

(d) Fair value of schemes' assets

Movements in the fair value of schemes' assets were as follows:

	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
At 1 April 2017	**2,614.5**	**508.7**	**3,123.2**	**1,018.0**	**4,141.2**
New SWR franchise	**–**	**–**	**–**	**854.7**	**854.7**
Settlement impact on assets	**–**	**(4.8)**	**(4.8)**	**–**	**(4.8)**
Interest income on assets	**72.5**	**17.0**	**89.5**	**25.3**	**114.8**
Company contributions	**62.4**	**17.6**	**80.0**	**31.5**	**111.5**
Employee contributions	**10.8**	**1.1**	**11.9**	**20.7**	**32.6**
Employee share of return on assets	**–**	**–**	**–**	**16.9**	**16.9**
Actuarial (loss)/gain on assets	**(17.1)**	**26.8**	**9.7**	**(48.9)**	**(39.2)**
Benefit paid from schemes	**(115.1)**	**(56.8)**	**(171.9)**	**(46.2)**	**(218.1)**
Employer administration expenses	**(5.4)**	**(6.4)**	**(11.8)**	**(6.0)**	**(17.8)**
Currency loss	**–**	**(48.4)**	**(48.4)**	**–**	**(48.4)**
At 31 March 2018	**2,622.6**	**454.8**	**3,077.4**	**1,866.0**	**4,943.4**

	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
At 1 April 2016	2,281.3	455.4	2,736.7	875.5	3,612.2
Settlement impact on assets	–	–	–	(7.1)	(7.1)
Interest income on assets	83.6	17.2	100.8	19.5	120.3
Company contributions	50.0	14.0	64.0	21.9	85.9
Employee contributions	13.3	1.3	14.6	14.6	29.2
Employee share of return on assets	–	–	–	53.7	53.7
Actuarial gain on assets	329.6	30.3	359.9	68.1	428.0
Benefit paid from schemes	(139.4)	(61.3)	(200.7)	(27.2)	(227.9)
Employer administration expenses	(3.9)	(6.5)	(10.4)	(1.0)	(11.4)
Currency gain	–	58.3	58.3	–	58.3
At 31 March 2017	2,614.5	508.7	3,123.2	1,018.0	4,141.2

36 Retirement benefit schemes continued

(e) Asset allocation

The vast majority of the assets held by the pension arrangements are invested in pooled funds with a quoted market price. The analysis of the schemes' assets at the balance sheet dates were as follows:

At 31 March 2018	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
Global equity	890.4	167.9	1,055.9	–	1,055.9
Private equity	90.3	–	90.3	164.6	254.9
Fixed income/liability driven	1,265.8	167.0	1,472.0	1.1	1,473.1
Other return seeking assets	279.8	41.4	285.4	1,660.0	1,945.4
Real estate	85.7	63.3	149.0	40.3	189.3
Cash and cash equivalents	10.6	15.2	24.8	–	24.8
	2,622.6	454.8	3,077.4	1,866.0	4,943.4

The table above includes a cash holding of £80m that is a component of an investment designed to provide exposure to the equity market. The portfolio will therefore benefit from equity market investment that is £80m higher than shown under equities above.

At 31 March 2017	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
Global equity	851.8	190.3	1,042.1	–	1,042.1
Private equity	99.3	29.7	129.0	111.7	240.7
Fixed income/liability driven	1,239.6	232.5	1,472.1	–	1,472.1
Other return seeking assets	275.2	6.3	281.5	871.8	1,153.3
Real estate	92.7	37.2	129.9	32.5	162.4
Cash and cash equivalents	55.9	12.7	68.6	2.0	70.6
	2,614.5	508.7	3,123.2	1,018.0	4,141.2

(f) Accounting for First Rail pension arrangements

In relation to the defined benefit pension arrangements it sponsors for employees of the rail franchises it operates, FirstGroup's obligations differ from its obligations to its other pension schemes. These are shared cost arrangements. All the costs, and any deficit or surplus, are shared 60% by the employer and 40% by the members. In addition, at the end of the franchise, any deficit or surplus in the scheme passes to the subsequent franchisee with no compensating payments from or to the outgoing franchise holder. FirstGroup's obligations are thus limited to its contributions payable to the schemes during the period over which it operates the franchise.

The disclosed information has been set out to illustrate the effect of this on the costs borne by FirstGroup. In particular, 40% of the costs, gains or losses and any deficit are attributed to the members. In addition, the total surplus or deficit is adjusted by way of a 'franchise adjustment' which includes an assessment of the changes that will arise from contracted future contributions and which is the portion of the deficit or surplus projected to exist at the end of the franchise which the Group will not be required to fund or benefit from. The remaining balance sheet items and gains or losses relate to Hull Trains which is operated under direct access, rather than franchise.

36 Retirement benefit schemes continued

Reconciliation of Rail franchises:

	Assets £m	Liabilities £m	Adjustment for employee share of RPS deficits (40%) £m	Franchise adjustment £m	Net £m
At 1 April 2017	1,018.0	(1,519.9)	200.8	299.1	(2.0)
New SWR franchise	854.7	(1,246.4)	156.7	235.0	–
Income statement					
Operating					
– Service cost	–	(110.8)	44.3	40.7	(25.8)
– Admin cost	–	(6.0)	–	–	(6.0)
Total Operating	–	(116.8)	44.3	40.7	(31.8)
Financing	42.2	(61.2)	7.6	11.4	–
Total Income statement	42.2	(178.0)	51.9	52.1	(31.8)
Amounts paid to/(from) scheme					
Employer contributions	31.5	–	(12.6)	12.5	31.4
Employee contributions	20.8	–	(8.3)	(12.3)	0.2
Benefit paid	(52.3)	52.3	–	–	–
Total	–	52.3	(20.9)	0.2	31.6
Expected closing position	1,914.9	(2,892.0)	388.5	586.4	(2.2)
Change in financial assumptions	–	(31.8)	12.7	18.8	(0.3)
Return on assets in excess of discount rate	(48.9)	–	19.6	29.2	(0.1)
Experience	–	(27.3)	13.3	14.0	–
Total	(48.9)	(59.1)	45.6	62.0	(0.4)
At 31 March 2018	1,866.0	(2,951.1)	434.1	648.4	(2.6)

36 Retirement benefit schemes continued

	Assets £m	Liabilities £m	Adjustment for employee share of RPS deficits (40%) £m	Franchise adjustment £m	Net £m
At 1 April 2016	875.5	(1,168.5)	117.2	174.9	(0.9)
Income statement					
Operating					
– Service cost	–	(60.2)	24.1	15.1	(21.0)
– Admin cost	–	(1.0)	–	–	(1.0)
– Past service gain including curtailments	–	0.5	(0.2)	–	0.3
– Settlements	(11.8)	18.2	(2.6)	(3.8)	–
Total Operating	(11.8)	(42.5)	21.3	11.3	(21.7)
Financing	32.6	(42.2)	3.8	5.8	–
Total Income statement	20.8	(84.7)	25.1	17.1	(21.7)
Amounts paid to/(from) scheme					
Employer contributions	21.9	–	–	–	21.9
Employee contributions	14.6	–	(14.6)	–	–
Benefit paid	(28.2)	28.2	–	–	–
Total	8.3	28.2	(14.6)	–	21.9
Expected closing position	904.6	(1,225.0)	127.7	192.0	(0.7)
Change in financial assumptions	–	(315.9)	126.5	188.0	(1.4)
Return on assets in excess of discount rate	113.4	–	(45.4)	(68.0)	–
Experience	–	21.0	(8.0)	(12.9)	0.1
Total	113.4	(294.9)	73.1	107.1	(1.3)
At 31 March 2017	1,018.0	(1,519.9)	200.8	299.1	(2.0)

36 Retirement benefit schemes continued

(g) Consolidated statement of comprehensive income

Amounts presented in the consolidated statement of comprehensive income comprise:

	2018 £m	2017 £m
Actuarial loss on DBO	**(53.9)**	(710.3)
Actuarial (loss)/gain on assets	**(39.2)**	473.4
Actuarial gain on franchise adjustment	**107.7**	180.2
Adjustment for irrecoverable surplus	**12.0**	(33.0)
Actuarial gains/(losses) on defined benefit schemes	**26.6**	(89.7)

(h) Adjustment for First UK Bus irrecoverable surplus

Movements in the adjustment for the First UK Bus irrecoverable surplus were as follows:

	2018 £m	2017 £m
At 1 April	**(167.7)**	(129.9)
Interest on irrecoverable surplus	**(4.7)**	(4.8)
Actuarial gain/(loss) on irrecoverable surplus	**12.0**	(33.0)
At 31 March	**(160.4)**	(167.7)

Cash contributions

As at 31 March 2018 the Group is committed to make deficit recovery payments with a net present value of £207m (2017: £131m), over the period to 5 April 2029, in respect of the First UK Bus Pension Scheme. The net present value reflects the current value of deficit recovery payments that would be required to meet the actuarial deficit in full, discounted at 7.3% per annum. The IAS 19 deficit of the scheme at 31 March 2018 is £127.0m (2017: £152.8m). Management consider that, were a pension asset to arise in respect of this scheme, this would be fully recoverable through actions within the Group's control, in line with the rules of the scheme.

The estimated amounts of employer contributions expected to be paid to the defined benefit schemes during the financial year to 31 March 2019 is £96.0m (year to 31 March 2018: £111.5m).

Risks associated with defined benefit plans:

Generally the number of employees in defined benefit plans is reducing rapidly, as these plans are largely closed to new entrants, and in many cases to future accrual. Consequently, the number of defined contribution members is increasing.

The First UK Bus Pension Scheme and the FirstGroup Pension Scheme both closed to future accrual on 5 April 2018. This change will serve to limit the risks associated with defined benefit pension provision by the Group.

Despite remaining open to new entrants and future accrual, the risks posed by the RPS are limited, as under the franchise arrangements, the First Rail TOCs are not responsible for any residual deficit at the end of a franchise. As such, there is only short term cash flow risk within this business.

36 Retirement benefit schemes continued

The key risks relating to the defined benefit pension arrangements and the steps taken by the Group to mitigate them are as follows:

Risk	Description	Mitigation
Asset volatility	The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. Most of the defined benefit arrangements hold a significant proportion of return-seeking assets (equities, diversified growth funds and global absolute return funds) which, though expected to outperform corporate bonds in the long term, create volatility and risk in the short term.	Asset liability modelling has been undertaken to ensure that any risks taken are expected to be rewarded.
Inflation risk	A significant proportion of the UK benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities.	The business has certain inflation linking in its revenue streams that helps to offset this risk. In addition, the investment strategy reviews have led to increased inflation hedging, mainly through swaps or holding Index Linked Gilts in the UK schemes.
Uncertainty over level of future contributions	Contributions to defined benefit schemes can be unpredictable and volatile as a result of changes in the funding level revealed at each valuation.	The Group engages with the Trustees and Administering Authorities to consider how contribution requirements can be made more stable. The level of volatility and the Group's ability to control contribution levels varies between arrangements.
Life expectancy	The majority of the scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.	Linking retirement age to State Pension Age (as in The First UK Bus Pension Scheme and LGPS) has mitigated this risk to some extent.
Trapped surplus	At termination of LGPS arrangements there is no right for the Company to receive any surplus that exists within the scheme. Therefore there is a risk of overfunding the schemes.	This issue is discussed with the Administering Authorities when contribution schedules are set, and the Group receives professional advice on potential ways of mitigating some of this risk.
Legislative risk	Future legislative changes are uncertain. In the past these have led to increases in obligations, through introducing pension increases, and vesting of deferred pensions, or reduced investment return through the ability to reclaim Advance Corporation Tax.	The Group receives professional advice on the impact of legislative changes.

37 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Remuneration of key management personnel

The remuneration of the Directors, which comprise the plc Board who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual Directors is provided in the Directors' remuneration report on pages 68 to 94.

	Year to 31 March 2018 £m	Year to 31 March 2017 £m
Basic salaries[1]	**1.6**	1.6
Performance-related bonuses	**0.1**	0.5
Benefits in kind	**0.1**	0.0
Fees	**0.7**	0.6
Share-based payment	**1.1**	0.8
	3.6	3.5

1 Basic salaries include cash emoluments in lieu of retirement benefits and car and tax allowances.

38 Information about related undertakings

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiaries and equity accounted investments as at 31 March 2018 is disclosed below:

Subsidiaries – wholly owned and incorporated in the United Kingdom

A E & F R Brewer Limited, Heol Gwyrosydd, Penlan, Swansea, SA5 7BN

Airport Buses Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Airport Coaches Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Badgerline Group Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Bolton Coachways and Travel Limited, Wallshaw Street, Oldham, OL1 3TR

Bristol Bus Station Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Butler Woodhouse Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Cawlett Limited, Enterprise House, Easton Road, Bristol, BS5 0DZ

CCB Holdings Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

CCB TV Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

CentreWest Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

CentreWest London Buses Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

CentreWest ESOP Trustee (UK) Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Chester City Transport Limited, Bus Depot, Wallshaw Street, Oldham, OL1 3TR

Crosville Limited, Bus Depot, Wallshaw Street, Oldham, OL1 3TR

Don Valley Buses Limited, Olive Grove, Sheffield, South Yorkshire, S2 3GA

East Coast Trains Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

East West Rail Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

Eastern Scottish Omnibuses Limited, Carmuirs House, 300 Stirling Road, Larbert, Stirlingshire, FK5 3NJ

ECOC (Holdings) Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

FB Canada Holdings Limited, 395 King Street, Aberdeen, AB24 5RP

FG Canada Investments Limited, 395 King Street, Aberdeen, AB24 5RP

FG Learning & Development Limited[1], 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

FG Properties Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

FGI Canada Holdings Limited, 395 King Street, Aberdeen, AB24 5RP

First Aberdeen Limited, 395 King Street, Aberdeen, AB24 5RP

First Ashton Limited, Wallshaw Street, Oldham, OL1 3TR

First Beeline Buses Limited, Bus Depot, Empress Road, Southampton, Hampshire, SO14 0JW

First Bristol Limited [4], 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

First Caledonian Sleeper Limited, 395 King Street, Aberdeen, AB24 5RP

First Capital Connect Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Capital East Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

First Capital North Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

First CentreWest Buses Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

First Coaches Limited, Enterprise House, Easton Road, Bristol, BS5 0DZ

First Cross Country Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Cymru Buses Limited, Heol Gwyrosydd, Penlan, Swansea, West Glamorgan, SA5 7BN

First Dublin Metro Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First East Anglia Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First East Midlands Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Eastern Counties Buses Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

First Essex Buses Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

First European Holdings Limited[1], 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

First Games Transport Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

First Glasgow Limited[1], 100 Cathcart Road, Glasgow, G42 7BH

First Glasgow (No.1) Limited, 100 Cathcart Road, Glasgow, G42 7BH

First Glasgow (No.2) Limited, 100 Cathcart Road, Glasgow, G42 7BH

First Great Northern Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Great Western Link Limited[3], 15 Canada Square, Canary Wharf, London, E14 5GL

First Great Western Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Great Western Trains Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Greater Western Limited, Milford House 1 Milford Street, Swindon, Wiltshire, SN1 1HL

First Hampshire & Dorset Limited, Bus Depot, Empress Road, Southampton, Hampshire, SO14 0JW

First Information Services Limited[1], 395 King Street, Aberdeen, AB24 5RP

First International (Holdings) Limited[1], 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

First International No.1 Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

First Manchester Limited, Wallshaw Street, Oldham, OL1 3TR

First Merging Pension Schemes Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

First Metro Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Midland Red Buses Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

First North West (Schools) Limited, Wallshaw Street, Oldham, OL1 3TR

First North West Limited, Wallshaw Street, Oldham, OL1 3TR

First Northern Ireland Limited, 21 Arthur Street, Belfast, BT1 4GA

First Northern Railway Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Pioneer Bus Limited, Wallshaw Street, Oldham, OL1 3TR

First Potteries Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

First Provincial Buses Limited, Empress Road, Southampton, Hampshire, SO14 0JW

First Rail Holdings Limited[1], 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Rail Support Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

First Scotland East Limited, Carmuirs House, 300 Stirling Road, Larbert, Stirlingshire, FK5 3NJ

First ScotRail Limited, 395 King Street, Aberdeen, AB24 5RP

First ScotRailRailways Limited, 395 King Street, Aberdeen, AB24 5RP

First Shared Services Limited, 395 King Street, Aberdeen, AB24 5RP

First South West Limited, Union Street, Camborne, Cornwall, TR14 8HF

First South Yorkshire Limited, Olive Grove, Sheffield, South Yorkshire, S2 3GA

First Student UK Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

First Thameslink Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Trains Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First TransPennine Express Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Travel Solutions Limited, Unit 20 Time Technology Park, Blackburn Road, Burnley, BB12 7TG

First Wessex National Limited, Enterprise House, Easton Road, Bristol, BS5 0DZ

First West of England Limited, Enterprise House, Easton Road, Bristol, BS5 0DZ

First West Coast Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First West Yorkshire Limited, Hunslet Park Depot, Donisthorpe Street, Leeds, Yorkshire, LS10 1PL

First York Limited, Hunslet Park Depot, Donisthorpe Street, Leeds, Yorkshire, LS10 1PL

FirstBus (North) Limited[1], 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

FirstBus (South) Limited[1], 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

FirstBus Group Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

FirstBus Investments Limited[1], 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

FirstGroup American Investments, 395 King Street, Aberdeen, AB24 5RP

FirstGroup Canadian Finance Limited[1], 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

FirstGroup CIF Trustee Limited[1], 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

FirstGroup Construction Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

FirstGroup Holdings Limited[1], 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

FirstGroup (QUEST) Trustees Limited[1], 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

38 Information about related undertakings continued

FirstGroup US Finance Limited[1], 395 King Street, Aberdeen, AB24 5RP

FirstGroup US Holdings, 395 King Street, Aberdeen, AB24 5RP

Fleetrisk Management Limited, Olive Grove, Sheffield, South Yorkshire, S2 3GA

G.E. Mair Hire Services Limited, 395 King Street, Aberdeen, AB24 5RP

G.A.G. Limited[1], Enterprise House, Easton Road, Bristol, BS5 0DZ

GB Extended Ventures Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

GB Railways Group Limited[1], 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

GB Railways Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

GMBN Employees' Share Scheme Trustee Limited, Bus Depot, Wallshaw Street, Oldham, Lancashire, OL1 3TR

Great Western Holdings Limited[1], Milford House, 1 Milford Street, Swindon, SN1 1HL

Great Western Trains Company Limited[3], 15 Canada Square, Canary Wharf, London, E14 5GL

Great Western Trustees Limited, Milford House, 1 Milford Street, Swindon, SN1 1HL

Grenville Motors Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Greyhound Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Greyhound UK Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

GRT Bus Group Limited[1], 395 King Street, Aberdeen, AB24 5RP

Gurna Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Halesworth Transit Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Hampshire Books Limited, Empress Road, Southampton, Hampshire, SO14 0JW

Horizon Trains Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

Hull Trains Company Limited, 4th Floor Europa House, 184 Ferensway, Hull, HU1 3UT

Indexbegin Limited, Hunslet Park Depot, Donisthorpe Street, Leeds, Yorkshire, LS10 1PL

KCB Limited, 100 Cathcart Road, Glasgow, G42 7BH

Kelvin Central Buses Limited, 100 Cathcart Road, Glasgow, G42 7BH

Kelvin Scottish Omnibuses Limited, 100 Cathcart Road, Glasgow, G42 7BH

Kirkpatrick of Deeside Limited, 395 King Street, Aberdeen, AB24 5RP

Lynton Bus & Coach Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Lynton Company Services Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Mainline ESOP Trustees (No 1) Limited, Olive Grove, Sheffield, South Yorkshire, S2 3GA

Mainline ESOP Trustees (No 2) Limited, Olive Grove, Sheffield, South Yorkshire, S2 3GA

Mainline Partnership Limited[1], Olive Grove, Sheffield, South Yorkshire, S2 3GA

Mainline Partnership Pension Trustees Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Mainline Employees' Shareholding Trustees Limited, Olive Grove, Sheffield, South Yorkshire, S2 3GA

Midland Bluebird Limited, Carmuirs House, 300 Stirling Road Larbert, Stirlingshire, FK5 3NJ

Midland Travellers Limited, Hunslet Park Depot, Donisthorpe Street, Leeds, Yorkshire, LS10 1PL

North Devon Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

North Western Trains Company Limited[3], 15 Canada Square Canary Wharf, London, E14 5GL

Northampton Transport Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Portsmouth Transit Limited, Empress Road, Southampton, Hampshire, SO14 0JW

Quickstep Travel Limited, Hunslet Park Depot, Donisthorpe Street, Leeds, Yorkshire, LS10 1PL

Reiver Ventures Properties Limited, Carmuirs House, 300 Stirling Road, Larbert, Stirlingshire, FK5 3NJ

Reiver Ventures Limited, Carmuirs House, 300 Stirling Road, Larbert, Stirlingshire, FK5 3NJ

Reynard Buses Limited, Hunslet Park Depot, Donisthorpe Street, Leeds, Yorkshire, LS10 1PL

Rider Holdings Limited, Hunslet Park Depot, Donisthorpe Street, Leeds, Yorkshire, LS10 1PL

Rider Travel Limited, Hunslet Park Depot, Donisthorpe Street, Leeds, Yorkshire, LS10 1PL

S Turner & Sons Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Scott's Hospitality Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Sheafline (S.U.T.) Limited, Olive Grove, Sheffield, South Yorkshire, S2 3GA

Sheffield & District Traction Company Limited, Olive Grove, Sheffield, South Yorkshire, S2 3GA

Sheffield United Transport Limited,Olive Grove, Sheffield, South Yorkshire, S2 3GA

Skillplace Training Limited, Heol Gwyrosydd, Penlan, Swansea, West Glamorgan, SA5 7BN

Smiths of Portland Limited, Enterprise House, Easton Road, Bristol, BS5 0DZ

SMT Omnibuses Limited, Carmuirs House, 300 Stirling Road, Larbert, Stirlingshire, FK5 3NJ

Southampton CityBus Limited, Empress Road, Southampton, Hampshire, SO14 0JW

Southampton City Transport Company Limited, Empress Road, Southampton, Hampshire, SO14 0JW

Sovereign Quay Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Strathclyde Buses Limited, 100 Cathcart Road, Glasgow, G42 7BH

Streamline Buses (Bath) Limited[1], Enterprise House, Easton Road, Bristol, BS5 0DZ

Taylors Coaches Limited, Enterprise House, Easton Road, Bristol, BS5 0DZ

The FirstGroup Pension Scheme Trustee Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

The FirstGroup Scottish Pension Scheme Trustee Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

The First South & Wales Pension Scheme Trustee Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

The First UK Bus Pension Scheme Trustee Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

The New Great Eastern Railway Company Limited[1], 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

Totaljourney Limited[1], 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

Tram Operations Limited, Tramlink Depot, Coomber Way, Croydon, CR0 4TQ

Transportation Claims Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Truronian Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Wessex of Bristol Limited, Enterprise House, Easton Road, Bristol, BS5 0DZ

West Dorset Coaches Limited, Enterprise House, Easton Road, Bristol, BS5 0DZ

Western National Holdings Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Subsidiaries – wholly owned and incorporated in the United States of America

Americanos USA, LLC, 350 N. St. Paul Street, Dallas, TX 75201

ATE Management of Duluth, 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Atlantic Greyhound Lines of Virginia, Inc. 350 N. St. Paul Street, Dallas, TX 75201

Berkshire Transit Management, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Central Mass Transit Management Co, Inc. 287 Grove St, Worcester, MA 01606

Central Virginia Transit Management, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Champion City Transit Management, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Durham City Transit Company, 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

First DG, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

FirstGroup Investment Corporation, 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

First Management Services LLC, 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

First Mile Square LLC, 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

First Student Management Services LLC, 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

First Student, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

First Transit, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

First Transit Rail Services of MD, LLC. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

First Transit Rail Services of TX, LLC. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

First Vehicle Services, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

FirstGroup America Holdings, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

FirstGroup America, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

FirstGroup International, Inc. 2221 E Lamar Blvd, Suite 500, Arlington, TX, 76007

Franklin Transit Management, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

GLI Corporate Risk Solutions, Inc. 350 N. St. Paul Street, Dallas, TX 75201

Greyhound Lines, Inc. 350 N. St. Paul Street, Dallas, TX 75201

H.N.S. Management Company, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Laidlaw International Finance, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

38 Information about related undertakings continued

Laidlaw Medical Holdings, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Laidlaw Transportation Holdings, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Laidlaw Transportation Management, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Laidlaw Transportation, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Laidlaw Two, Inc. Corporation Trust Center, 1209 Orange Street, Wilmington, DE 19801

Laredo Transit Management, Inc. 2221 E Lamar Blvd, Suite 500, Arlington, TX, 76007

LSX Delivery, LLC, 350 N. St. Paul Street, Dallas, TX 75201

Merrimack Valley Area Transportation, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

MidSouth Transportation Management, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

National Insurance and Indemnity Corporation, 30 Main Street, Suite 330, Burlington, VT 05401

On Time Delivery Service, Inc. 350 N. St. Paul Street, Dallas, TX 75201

Paratransit Brokerage Services TM, Inc. 287 Grove Street, Worchester, MA 01606

Paratransit Management of Berkshire, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Safe Ride Services, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Shuttle Services M.I.A., Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

South Coast Transit Management, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Southwestern Virginia Transit Management, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Special Transportation Services, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Springfield Area Transit Company, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

SuTran, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Abilene, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Ada County, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Alexandria, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Ashville, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Canyon County, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Central Maryland, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Denton, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Dutchess County, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Montgomery, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Racine, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Richland, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Rocky Mount, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Sherman, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Spartanburg, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of St Joseph, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Wilmington, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Valley Area Transit Company, Inc. 350 N. St. Paul Street, Dallas, TX 75201

Valley Garage Co, 350 N. St. Paul Street, Dallas, TX 75201

Valley Transit Co, Inc. 350 N. St. Paul Street, Dallas, TX 75201

Subsidiaries – not wholly owned but incorporated in the United States of America

DG 21 LLC (51%), 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

SYPS LLC (87.5%), 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transportation Realty Income Partners Limited Partnership (50%), 600 Vine Street Suite 1400, Cincinnati, Ohio 45202

Subsidiary – wholly owned and incorporated in US Virgin Islands

Primaisla, Inc. 1 Estate Hope, St. Croix, Virgin Islands

Subsidiaries – wholly owned and incorporated in Ireland

Aeroporto Limited, 25-28 North Wall Quay, Dublin

FirstGroup Treasury Finance (Ireland) DAC, Airport Business Park, Dublin Airport, Dublin

Last Passive Limited, 25–28 North Wall Quay, Dublin

Subsidiary – wholly owned and incorporated in India

Transit Operations India Private Limited, Lentin Chambers, 2nd Floor, Dalal Street, Fort Mumbai 400023

Subsidiary – wholly owned and incorporated in Panama

First Transit de Panama, Inc. Morgan & Morgan, Costa del Este, MMG Tower, 23rd Floor, Panama City

Subsidiaries – wholly owned and incorporated in Canada

Autobus Transco (1988) Limited, Blake, Cassels & Graydon LLP, 1 Place Ville Marie, Suite 3000, Montreal, QC

FC Investment Limited, Blake, Cassels & Graydon LLP, 3500, 855 – 2 Street SW, Calgary, Alberta, T2P 4J8

FirstCanada ULC, Blake, Cassels & Graydon LLP, 3500, 855 – 2 Street SW, Calgary, AB, T2P 4J8

GCT Holdings Limited, Blake, Cassels & Graydon LLP, 3500, 855 – 2 Street SW, Calgary, Alberta, T2P 4J8

GCT Investment Limited Partnership, Blake, Cassels & Graydon LLP, 3500, 855 – 2 Street SW, Calgary, Alberta, T2P 4J8

Gray Coach Travel, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Greyhound Canada Transportation ULC, Blake, Cassels & Graydon LLP, 595 Burrard Street, P.O. Box 49314, Suite 2600, Three Bentall Centre, Vancouver, BC V7X 1L3

Greyhound Courier Express Limited, Blake, Cassels & Graydon LLP, 595 Burrard Street, P.O. Box 49314, Suite 2600, Three Bentall Centre, Vancouver, BC V7X 1L3

Manhattan Equipment Supply Company Limited, 1111 International Blvd, Suite 700, Burlington, ON, L7L 6W1

Subsidiary not wholly owned but incorporated in Canada

Greyhound and Coach Canada Terminal Operation Limited (50%), 130 King Street West, #1600, Toronto, ON, M5X 1J5

Subsidiaries – wholly owned and incorporated in Puerto Rico

First Transit of Puerto Rico, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

First Transit Rail of Puerto Rico, Inc. 361 San Francisco Street, San Juan, Puerto Rico

Subsidiary – wholly owned and incorporated in Mexico

Greyhound Lines Mexico, S.A. de R.L. de C.V. 350 N. St. Paul Street, Dallas, TX 75201

Subsidiaries not wholly owned but incorporated in the United Kingdom

Careroute Limited (80%), Empress Road, Southampton, Hampshire, SO14 0JW

First/Keolis Holdings Limited (55%)[1], 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First/Keolis TransPennine Holdings Limited (55%), 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First/Keolis TransPennine Limited (55%), 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First MTR South Western Trains Limited (70%), 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Trenitalia East Midlands Rail Limited (70%), 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Trenitalia West Coast Rail Limited (70%), 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

PTI Website Limited (20%)[1], 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Leicester CityBus Limited (94%)[2], Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

LCB Engineering Limited (94%), Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Leicester CityBus Benefits Limited (94%), Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Nicecon Limited (50%), 395 King Street, Aberdeen, AB24 5RP

Somerset Passenger Solutions Limited (50%), Somerset Energy Innovation Centre, Woodlands Business Park, Bristol Road, Bridgwater, Somerset, TA6 4FJ

1 Directly owned by FirstGroup plc.

2 All shares held in subsidiary undertakings are ordinary shares, with the exception of Leicester CityBus Limited where the Group owns 100% of its redeemable cumulative preference shares and 94% of its ordinary shares.

3 In liquidation.

4 On 11 May 2018 First Bristol Limited changed its name to First Bus Central Services Limited.

Independent auditor's report to the members of FirstGroup plc

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2018 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of FirstGroup plc (the 'Parent Company') and its subsidiaries (the 'Group') which comprise:

- the Consolidated income statement;
- the Consolidated statement of comprehensive income;
- the Consolidated and Parent Company balance sheets;
- the Consolidated cash flow statement;
- the Consolidated and Parent Company statements of changes in equity; and
- the related notes 1 to 38 of the Consolidated results and 1 to 10 of the Parent Company results.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (FRC's) Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: ▪ Accounting for rail franchise contracts, including the forecast profitability of the TransPennine Express ("TPE") and Great Western Railway ("GWR") franchises, and the recognition of certain performance related amounts at GWR and South Western Railway ("SWR") receivable under the franchise contracts. ▪ The assessment of the carrying value of First Student and Greyhound goodwill; ▪ Valuation and completeness of individually material and incurred but not reported claims forming part of the self-insurance provision in North America; ▪ Valuation of pension scheme liabilities; and ▪ Accuracy of material manual adjustments to revenue recognition at First Student and First Transit.
Materiality	The materiality that we used for the Group financial statements was £7.5 million which was determined on the basis of 5.4% of loss before tax adjusted for intangible amortisation, bond 'make whole' costs, impairment charges and TPE onerous contract provisioning.
Scoping	We performed full scope audit procedures at each of the five operating divisions as well as certain Group central functions. These components account for over 95% of the Group's net assets, revenue, and operating profit.
Significant changes in our approach	Our audit approach for the current year included the following changes, as compared to our audit of the prior year: ▪ The inclusion of SWR within the scope of our audit following the commencement of the franchise in August 2017. ▪ The key audit matter relating to the carrying value of goodwill was expanded at the planning stage of our audit to include Greyhound due to reduced forecast performance. This key audit matter was also specifically focused on the forecast cash flows in the current year. ▪ The key audit matter relating to the self-insurance provision in North America was focused on the valuation of individually material claims, and the incurred but not reported claims as well as the discount rate applied. ▪ The revenue recognition key audit matter in the current year is specific to the accuracy of material manual adjustments to revenue in First Student and First Transit, as opposed to the whole group as in the prior year. ▪ In the current year we have revisited our materiality calculation as the forecast results of the Group were revised. We have also updated our approach to exclude the impact of bond make whole costs, impairments and TPE onerous contract provisioning.

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the directors' statement on page 44 about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Parent Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Group's and the Parent Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 34-39 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation on page 44 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 44 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Accounting for rail franchise contracts

Key audit matter description

The Group operates a number of complex rail franchise contracts. Judgement is required in the evaluation of the overall profitability of the franchise contracts and whether they are onerous and as such require provision for future losses.

GWR and TPE franchise profitability
This judgement includes consideration of the key assumptions regarding passenger revenue growth, costs, the impact of major infrastructure work, electrification and resignalling, introduction of new trains and negotiations with industry partners.

GWR and SWR Performance related amounts
Judgement is also required in relation to the timing of recognition of certain performance related amounts the Group is entitled to receive under franchise contracts but the valuation of which was not finalised as at the year end.

Management has highlighted contract and franchise accounting as a key source of estimation uncertainty in note 2 to the consolidated financial statements and the Audit Committee has identified this as a Significant Issue or Judgement in their report.

How the scope of our audit responded to the key audit matter

The audit procedures we performed in respect of the key audit matter included:

GWR and TPE franchise profitability

- Walking through the process undertaken by Management in estimating the forecast profitability and the design and implementation of key controls;
- Challenging Management to understand the key drivers forming the basis of the franchise profitability forecasts;
- Reviewing and challenging Management's key assumptions by reference to independent industry sources and relevant supporting evidence and sensitising the impact these have on management's assessment of the profitability of the two contracts;
- Recalculating the relevant forecasts;
- Assessing and challenging Management's expected range of possible outcomes; and
- Reviewing the related financial statement disclosures.

Performance related amounts in GWR and SWR

- Gaining an understanding of Management's process for recognising performance related amounts and the calculation of any amount to be deferred and assessing the design and implementation of key controls;
- Reviewing the calculations performed by Management and the correspondence with industry partners;
- Assessing the appropriateness of the treatment of performance regime compensation recognised in the income statement and deferred on the balance sheet.

Key observations

The results of our procedures were satisfactory and we concur with the judgements made and the resulting accounting for rail franchise contracts, noting the following observations:

GWR and TPE franchise profitability
We concluded based on the available evidence that:

- Management's assessment that the GWR franchise contract will remain profitable, and that no onerous contract provision is required is reasonable;
- The onerous contract provision of £106.3 million recorded by Management in respect of TPE is reasonable.

Performance related amounts in GWR and SWR

We concluded that performance related amounts recognised in the income statement during the year and deferred on the balance sheet at year end are reasonable.

Forecast margin used in the valuation of First Student and Greyhound goodwill (£1,138 million)	
Key audit matter description	The assessment of the carrying value of goodwill, as described in note 2, involves judgement in relation to forecasting future cash flows. At the planning stage of our audit we identified the Cash Generating Units (CGU) most sensitive to variation in future cash flows to be the First Student CGU (£1,137.6 million; 2017: £1,271.1 million) and Greyhound CGU (£nil; 2017: £291.9 million), as disclosed in note 11 to the financial statements. In the current year we focused on the forecast margin within Management's discounted cash flow model given this is the area where the most significant judgement is required. Headroom for First Student has decreased in reported sterling from £709.2 million at 31 March 2017 to £662.5 million at 31 March 2018. An impairment loss of £277.3 million has been recognised as the recoverable amount calculated by Management was less than the carrying value of the Greyhound CGU. The impairment loss of £260.6 million was first allocated to Goodwill, which has been fully written down, and the remaining impairment loss of £16.7 million was allocated to the other tangible and intangible assets of the CGU on a pro rata basis according to the carrying amount of each asset in the CGU. Management has highlighted impairment of intangible assets (including goodwill) as a key source of estimation uncertainty in note 2. The Audit Committee report on page 65 refers to the carrying value of First Student and Greyhound goodwill as one of the significant issues and judgements considered by the Audit Committee.
How the scope of our audit responded to the key audit matter	The audit procedures we performed in respect of this key audit matter included: ▪ gaining an understanding of Management's process for developing their impairment models and assessing the design and implementation of key controls; ▪ agreeing the underlying forecasts to the Board approved three year plan; ▪ meeting with Divisional Management teams to understand and challenge forecasts in detail; ▪ testing the underlying assumptions within the cash flow projections impacting the forecast margin including estimates around contract retention at First Student and passenger revenue growth and cost assumptions at Greyhound by reference to third party data; ▪ challenging the terminal growth and discount rate assumptions used within the impairment models by reference to market data; ▪ assessing cash flow projections with reference to historical trading performance and forecasting accuracy; ▪ considering the reasonableness of, and recalculating, the sensitivity assessment applied by Management; ▪ performing further independent sensitivity analysis on the impairment model; and ▪ considering the appropriateness of the disclosure on reasonably possible changes.
Key observations	We concluded that taken together the assumptions applied in the final impairment models are reasonable. We consider the disclosure around the sensitivity to be proportionate to the level of judgement.

Valuation of the self-insurance provision in North America (£311 million)	
Key audit matter description	The underlying calculation of the North American self-insurance reserves is subject to judgement based on the volume and severity of claims. We have identified a key audit matter in relation to the valuation of the individually material claims within the North American self-insurance provision and the estimated value of incurred but not reported ("IBNR") claims as well as the discount rate applied. Management has highlighted self-insurance provisioning as a key source of estimation uncertainty in note 2 to the consolidated financial statements. The Audit Committee report on page 65 refers to North America self-insurance provisions as one of the significant issues and judgements considered by the Audit Committee. The provision is disclosed in note 26 to the consolidated financial statements.
How the scope of our audit responded to the key audit matter	The audit procedures we performed in respect of this key audit matter included: ▪ gaining an understanding of Management's process for developing the North American self-insurance reserves, including how Management ensures the completeness of IBNR claims, and assessing the design and implementation of key controls; ▪ meeting with the Management and their external actuary to challenge key assumptions; ▪ working with our actuarial specialists in North America to independently develop an actuarial calculation and comparing the provision recorded to the actuarial range calculated by Management and their external actuary, considering the methodologies employed and comparing assumptions used to the Group's historical experience; and ▪ challenging the appropriateness of the discount rate used through comparison to market rates.
Key observations	We are satisfied that the assumptions used are reasonable and that the valuation of the North American self-insurance reserve is reasonable.

Valuation of pension scheme liabilities (£6,139 million)	
Key audit matter description	The Group operates in a labour intensive industry with large membership to a number of defined benefit pension schemes. The valuation of gross pension liabilities, as disclosed in note 36 is materially sensitive to changes in the underlying assumptions adopted in respect of the discount, inflation, and mortality rates. Management has highlighted defined benefit pension arrangements as a key source of estimation uncertainty in note 2 to the consolidated financial statements. The Audit Committee report on page 65 refers to Pensions as one of the significant issues and judgements considered by the Audit Committee.
How the scope of our audit responded to the key audit matter	The audit procedures we performed in respect of this key audit matter included: ▪ gaining an understanding of Management's process for determining the underlying assumptions and assessing the design and implementation of key controls; ▪ working with our actuarial specialists to test the estimates determined by Management and its external actuary considering the methodologies employed and comparing assumptions used to the Group's historical experience and to listed and industry benchmarks; and ▪ challenging the appropriateness of the discount, inflation and mortality rates used through comparison to those used by similar entities.
Key observations	We are satisfied that taken together the assumptions applied in respect of the valuation of the liabilities are reasonable and that the valuation of the pension scheme liabilities is reasonable. We consider the disclosure around the sensitivity of the liabilities to reasonably possible change to be proportionate to the level of judgement.

Accuracy of material manual adjustments to revenue recognition processes	
Key audit matter description	As described in the Significant accounting policies in note 2 revenue transactions across the Group are predominantly high volume and low value. In some instances, revenue recorded may be subject to manual adjustments to reflect the timing and valuation of revenue recognised, for example where amounts are unbilled at the year end. The accuracy of recording any such material manual adjustments to revenue represents a key risk of material misstatement to revenue due to fraud. This includes manual adjustments to accrued or deferred income balance sheet items that impact revenue in the income statement. The key audit matter applies to the First Student and First Transit divisions, due to the judgement required in assessing the level of unbilled revenue accrued on contracts in those divisions at year end. We focus on these divisions as we have not identified such unbilled balances in the other divisions of the Group. The Audit Committee report on page 65 refers to Revenue recognition as one of the significant issues and judgements considered by the Audit Committee.
How the scope of our audit responded to the key audit matter	The audit procedures we performed in respect of this risk included: ▪ gaining an understanding of Management's process for ensuring the accuracy of manual adjustments to revenue and assessing the design and implementation of key controls; ▪ understanding the judgements taken by Management in determining material manual adjustments at First Student and First Transit, their accuracy and the associated deferred and accrued income; ▪ recalculating the accuracy of material accrued income balances and reviewing supporting documentation on a sample basis; and ▪ auditing revenue related journal entries by selecting items that demonstrated characteristics of being manual in nature by agreeing them to supporting documentation to determine the rationale for the entries.
Key observations	The results of our procedures were satisfactory and we did not identify inappropriate manual adjustments to revenue.

Financial statements

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent Company financial statements
Materiality	£7.5 million (2017: £9.0 million)	£6.0 million (2017: £8.0 million)
Basis for determining materiality	We determined materiality for the Group to be £7.5 million (2017: £9.0 million), which is 5.4% (2017: 4.3%) of loss before tax of £326.9 million adjusted for intangible amortisation of £70.9 million, bond make-whole payments of £10.7 million, impairment of £277.3 million and TPE onerous contract provision of £106.3 million.	Parent Company materiality represents less than 1% of net assets (2017: less than 1%).
Rationale for the benchmark applied	We consider a profit measure the most appropriate basis for determining materiality as this is the measure on which business performance is analysed. The exclusion of amortisation, bond make whole costs, impairments and the TPE onerous contract provision is consistent with the key measure used by the Group for internal and external reporting.	The Parent Company is a holding company which does not produce revenue and therefore a revenue or profit benchmark would not be relevant. Net assets was considered the most relevant benchmark for the nature of the Parent Company

* Benchmark profit measure is calculated as the loss before tax adjusted for intangible amortisation, bond make-whole payments, impairment and TPE onerous contract provision.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £375,000 (2017: £300,000) for the Group, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls over key audit areas, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our Group audit scope primarily on the FirstGroup America component (First Student, First Transit, Greyhound and the North American self-insurance captive entity) the three significant Train Operating Companies (GWR, TPE and SWR), the First Bus Division as well as certain Group central functions. The SWR franchise is new to the Group during the current year and represents a change to the scope of our audit.

The locations subject to full audit procedures represent the principal business units and account for over 95% of the Group's net assets, revenue and operating profit. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work at locations subject to full audit procedures was executed at levels of component materiality of between £3.0 million and £6.0 million applicable to each individual location.

At the Parent Company level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit.

The Group audit team have directed and supervised the work of the component audit teams during the course of the year. We included all component teams in our team briefing, discussed their risk assessment and remained in contact throughout the audit process. The Senior Statutory Auditor met all component teams and held meetings with Management at all components to discuss the work performed. In relation to the current year the Senior Statutory Auditor of the Group audit team visited the FirstGroup America component team in September 2017, March 2018 and May 2018. Other senior members of the Group audit team also visited the FirstGroup America component in October 2017 and January 2018. The Group audit team have reviewed documentation of the findings from the component audit teams' work.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- Fair, balanced and understandable – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- Directors' statement of compliance with the UK Corporate Governance Code – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the audit committee, we were appointed on 2 March 1999 to audit the financial statements for the year ending 31 March 1999 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 20 years, covering the years ending 31 March 1999 to 31 March 2018.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Mark Mullins, FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London
31 May 2018

Group financial summary
Unaudited

Consolidated income statement	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Group revenue	**6,398.4**	5,653.3	5,218.1	6,050.7	6,717.4
Operating profit before amortisation charges and other adjustments	**317.0**	339.0	300.7	303.6	268.0
Amortisation charges	**(70.9)**	(60.2)	(51.9)	(54.3)	(53.4)
Other adjustments	**(442.3)**	4.8	(2.5)	(3.5)	17.6
Operating (loss)/profit	**(196.2)**	283.6	246.3	245.8	232.2
Net finance cost	**(130.7)**	(132.0)	(132.4)	(139.7)	(156.1)
Ineffectiveness on financial derivatives	**–**	1.0	(0.4)	(0.3)	(17.6)
(Loss)/profit before tax	**(326.9)**	152.6	113.5	105.8	58.5
Tax	**36.0**	(36.5)	(17.1)	(20.3)	5.7
(Loss)/profit for the year	**(290.9)**	116.1	96.4	85.5	64.2
EBITDA	**690.6**	686.6	615.9	624.4	579.8

Earnings per share	pence	pence	pence	pence	pence
Adjusted	**12.3**	12.4	10.3	9.8	7.5
Basic	**(24.6)**	9.3	7.5	6.2	5.1

Consolidated balance sheet	£m	£m	£m	£m	£m
Non-current assets	**3,802.9**	4,524.9	4,201.3	4,025.1	3,686.7
Net current liabilities	**(300.3)**	(153.0)	(239.3)	(160.9)	(78.4)
Non-current liabilities	**(1,671.0)**	(2,011.8)	(2,066.5)	(2,141.3)	(2,123.7)
Provisions	**(341.0)**	(284.2)	(262.3)	(236.7)	(261.6)
Net assets	**1,490.6**	2,075.9	1,633.2	1,486.2	1,223.0

Share data Number of shares in issue (excluding treasury shares and shares in trusts)	millions	millions	millions	millions	millions
At year end	**1,210.8**	1,207.7	1,204.3	1,203.7	1,204.2
Average	**1,205.1**	1,204.8	1,204.0	1,204.0	1,059.3

Share price	pence	pence	pence	pence	pence
At year end	**82**	132	97	91	146
High	**153**	133	128	140	224
Low	**77**	89	81	91	92

Market capitalisation	£m	£m	£m	£m	£m
At year end	**993**	1,594	1,168	1,095	1,757

Company balance sheet
As at 31 March

		Note	2018 £m	2017 £m
Fixed assets				
Investments		3	**2,099.6**	2,011.6
Current assets				
Cash and cash equivalents			**63.9**	18.9
Derivative financial instruments	– due within one year	4	**17.7**	1.7
	– due after more than one year	4	**20.7**	48.6
Debtors	– due within one year	5	**2,120.0**	2,468.7
	– due after more than one year	5	**1.0**	2.5
			2,223.3	2,540.4
Current liabilities				
Creditors – amounts falling due within one year		7	**(550.0)**	(471.3)
Derivative financial instruments		4	**(5.4)**	(29.5)
			(555.4)	(500.8)
Net current assets			**1,667.9**	2,039.6
Total assets less current liabilities			**3,767.5**	4,051.2
Non-current liabilities				
Creditors – amounts falling due after more than one year		7	**(1,272.5)**	(1,458.5)
Derivative financial instruments		4	**(2.9)**	(8.6)
Net assets			**2,492.1**	2,584.1
Capital and reserves				
Called up share capital		8	**60.5**	60.4
Share premium			**681.4**	678.9
Other reserves			**262.1**	269.6
Own shares		9	**(6.3)**	(1.5)
Profit and loss account			**1,494.4**	1,576.7
Shareholders' funds			**2,492.1**	2,584.1

The Company reported a loss for the financial year ended 31 March 2018 of £83.4m (2017: £229.7m profit).

Tim O'Toole
31 May 2018

Matthew Gregory
31 May 2018

Company number SC157176

Statement of changes in equity
As at 31 March

	Share capital £m	Share premium £m	Own shares £m	Hedging reserve £m	Merger reserve £m	Capital reserve £m	Capital redemption reserve £m	Retained earnings £m	Total £m
Balance at 1 April 2016	**60.2**	**676.4**	**(1.6)**	**6.7**	**166.4**	**93.8**	**1.9**	**1,341.0**	**2,344.8**
Total comprehensive income for the year	–	–	–	0.8	–	–	–	229.7	230.5
Shares issued	0.2	2.5	–	–	–	–	–	–	2.7
Movement in EBT and treasury shares	–	–	0.1	–	–	–	–	(2.2)	(2.1)
Share-based payments	–	–	–	–	–	–	–	8.2	8.2
Balance at 31 March 2017	**60.4**	**678.9**	**(1.5)**	**7.5**	**166.4**	**93.8**	**1.9**	**1,576.7**	**2,584.1**
Total comprehensive loss for the year	–	–	–	(7.5)	–	–	–	(83.4)	(90.9)
Shares issued	0.1	2.5	–	–	–	–	–	–	2.6
Movement in EBT and treasury shares	–	–	(4.8)	–	–	–	–	(7.8)	(12.6)
Share-based payments	–	–	–	–	–	–	–	8.9	8.9
Balance at 31 March 2018	**60.5**	**681.4**	**(6.3)**	**–**	**166.4**	**93.8**	**1.9**	**1,494.4**	**2,492.1**

Notes to the Company financial statements

1 Significant accounting policies

Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006. The financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial instruments and on a going concern basis as described in the going concern statement within the Directors' report and additional disclosures on pages 95 to 97.

The Company meets the definition of a qualifying entity under Financial Reporting Standard (FRS 101) 'Reduced Disclosure Framework' issued by the Financial Reporting Council. Accordingly, these financial statements have been prepared in accordance with FRS 101.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payment, financial instruments, capital management, presentation of a cash-flow statement and certain related party transactions.

The financial statements for the year ended 31 March 2018 include the results and financial position of the Company for the 53 weeks ended 31 March 2018. The financial statements for the year ended 31 March 2017 include the results and financial position of the Company for the 52 weeks ended 25 March 2017.

Where relevant, equivalent disclosures have been given in the consolidated financial statements. The principal accounting policies adopted are the same as those set out in note 2 to the consolidated financial statements except as noted below.

Investments

Fixed asset investments in subsidiaries and associates are shown at cost less provision for impairment. For investments in subsidiaries acquired for consideration, including the issue of shares qualifying for merger relief, cost is measured by reference to the nominal value only of the shares issued. Any premium is ignored.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

Dividends receivable from the Company's subsidiaries are recognised only when they are approved by shareholders.

2 Profit for the year

As permitted by section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year. The profit attributable to the Company is disclosed in the footnote to the Company's balance sheet.

Fees payable to the Company's auditors for the audit of the Company's annual financial statements are disclosed in note 6 of the Group accounts.

The Company had no employees in the current or preceding financial year.

3 Investments in subsidiary undertakings

	Unlisted subsidiary undertakings £m
Cost	
At 1 April 2017	2,027.5
Additions	88.0
At 31 March 2018	**2,115.5**
Provision for impairment	
At 1 April 2017 and 31 March 2018	(15.9)
Carrying amount	
At 31 March 2018	**2,099.6**
At 31 March 2017	2,011.6

The additions in the year principally relate to investment in FirstGoup US Finance Limited.

A full list of subsidiaries and investments can be found in note 38 to the Group accounts.

4 Derivative financial instruments

	2018 £m	2017 £m
Total derivatives		
Total assets – due after more than one year	**20.7**	48.6
Total assets – due within one year	**17.7**	1.7
Total assets	**38.4**	50.3
Total creditors – amounts falling due within one year	**5.4**	29.5
Total creditors – amounts falling due after more than one year	**2.9**	8.6
Total creditors	**8.3**	38.1
Derivatives designated and effective as hedging instruments carried at fair value		
Non-current assets		
Coupon swaps (fair value hedge)	**17.6**	48.6
Current assets		
Coupon swaps (fair value hedge)	**11.4**	–
Total assets	**29.0**	48.6
Derivatives classified as held for trading		
Non-current assets		
Fuel derivatives	**3.1**	–
Current assets		
Currency forwards	**–**	1.1
Fuel derivatives	**6.3**	0.6
	6.3	1.7
Total assets	**9.4**	1.7
Current liabilities		
Currency forwards	**5.3**	0.1
Fuel derivatives	**0.1**	29.4
	5.4	29.5
Non-current liabilities		
Fuel derivatives	**–**	8.6
Currency forwards	**2.9**	–
	2.9	8.6
Total liabilities	**8.3**	38.1

Full details of the Group's financial risk management objectives and procedures can be found in note 24 of the Group accounts. As the holding company for the Group, the Company faces similar risks over foreign currency and interest rate movements.

5 Trade and other receivables

	2018 £m	2017 £m
Amounts due within one year		
Amounts due from subsidiary undertakings	**2,120.0**	2,468.6
Other debtors	**–**	0.1
	2,120.0	2,468.7
Amounts due after more than one year		
Deferred tax asset (note 6)	**1.0**	2.5

6 Deferred tax

The major deferred tax assets recognised by the Company and the movements thereon during the current and prior reporting periods are as follows:

	Other temporary differences £m
At 1 April 2017	(2.5)
Charge to income statement	2.9
Credit to equity	(1.4)
At 31 March 2018	**(1.0)**

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2018 £m	2017 £m
Deferred tax assets due after more than one year	**(1.0)**	(2.5)

7 Creditors

	2018 £m	2017 £m
Amounts falling due within one year		
Bank loans and overdrafts	**–**	54.3
Senior unsecured loan notes	**–**	80.0
£300.0m Sterling bond – 8.125% 2018	**–**	12.9
£250.0m Sterling bond – 6.125% 2019	**261.3**	3.0
£350.0m Sterling bond – 8.750% 2021	**30.1**	30.2
£325.0m Sterling bond – 5.250% 2022	**5.8**	5.8
£200.0m Sterling bond – 6.875% 2024	**7.2**	7.2
Corporation tax	**–**	1.7
Amounts due to subsidiary undertakings	**237.1**	269.6
Accruals and deferred income	**8.5**	6.6
	550.0	471.3
Amounts falling due after more than one year		
Syndicated loan facilities	**197.0**	–
£300.0m Sterling bond – 8.125% 2018	**–**	298.8
£250.0m Sterling bond – 6.125% 2019	**–**	270.0
£350.0m Sterling bond – 8.750% 2021	**358.9**	369.0
£325.0m Sterling bond – 5.250% 2022	**321.6**	321.1
£200.0m Sterling bond – 6.875% 2024	**199.8**	199.6
Senior unsecured loan notes	**195.2**	–
	1,272.5	1,458.5

Borrowing facilities

The maturity profile of the Company's undrawn committed borrowing facilities is as follows:

	2018 £m	2017 £m
Facilities maturing:		
Due in more than two years	**603.0**	800.0

Details of the Company's borrowing facilities are given in note 21 to the Group accounts.

8 Called up share capital

	2018 £m	2017 £m
Allotted, called up and fully paid		
1,210.8m (2017: 1,207.7m) ordinary shares of 5p each	**60.5**	60.4

The number of ordinary shares of 5p in issue, excluding treasury shares held in trust for employees, at the end of the period was 1,203.1m (2017: 1,207.3m). At the end of the period 7.7m shares (2017: 0.4m shares) were being held as treasury shares and own shares held in trust for employees.

9 Own shares

	Own shares £m
At 1 April 2017	(1.5)
Movement in EBT, QUEST and treasury shares during the year	(4.8)
At 31 March 2018	**(6.3)**

The number of own shares held by the Group at the end of the year was 7,653,968 (2017: 437,005) FirstGroup plc ordinary shares of 5p each. Of these, 7,464,219 (2017: 247,256) were held by the FirstGroup plc Employee Benefit Trust, 32,520 (2017: 32,520) by the FirstGroup plc Qualifying Employee Share Ownership Trust and 157,229 (2017: 157,229) were held as treasury shares. Both trusts and treasury shares have waived the rights to dividend income from the FirstGroup plc ordinary shares. The market value of the shares at 31 March 2018 was £6.3m (2017: £0.6m).

10 Contingent liabilities

Investigations into the Croydon tram incident are ongoing and it is uncertain when they will be concluded. The tram was operated by Tram Operations Limited (TOL), a subsidiary of the Company, under a contract with a TfL subsidiary. TOL provides the drivers and management to operate the tram services, whereas the infrastructure and trams are owned and maintained by a TfL subsidiary. No proceedings have been commenced and, as such, it is not possible to assess whether any financial penalties or related costs could be incurred.

To support subsidiary undertakings in their normal course of business, the Company and certain subsidiaries have indemnified certain banks and insurance companies who have issued performance bonds for £783.1m (2017: £710.4m) and letters of credit for £327.7m (2017: £369.0m). The performance bonds relate to the North American businesses of £544.6m (2017: £570.1m) and the First Rail franchise operations of £238.5m (2017: £140.3m). The letters of credit relate substantially to insurance arrangements in the UK and North America. The parent company has committed further support facilities of up to £145.2m to First Rail Train Operating Companies.

The Company is party to certain unsecured guarantees granted to banks for overdraft and cash management facilities provided to itself and subsidiary undertakings. The Company has given certain unsecured guarantees for the liabilities of its subsidiary undertakings arising under certain loan notes, hire purchase contracts, finance leases, operating leases, supply contracts and certain pension scheme arrangements. It also provides unsecured cross guarantees to certain subsidiary undertakings as required by VAT legislation. First Bus subsidiaries have provided unsecured guarantees on a joint and several basis to the Trustees of the First Bus Pension Scheme.

In its normal course of business First Rail has ongoing contractual negotiations with governmental and other organisations.

On 14 November 2017, Reading Borough Council served First Greater Western Limited (GWR), a subsidiary of the Group, and Network Rail Infrastructure Limited (a third party) with a noise abatement notice in respect of the operations at the Reading railway depot. The serving of the notice has been appealed and the related court hearing is currently scheduled to take place in the first quarter of 2019 (unless the matter is settled between the parties before that date). It is not possible at this stage to quantify the implications for the GWR operations, if any, if they are not ultimately successful with respect to this appeal.