



Governance

In this section we explain our Board's approach to corporate governance and activities in the year, and give details of the Company's remuneration framework, which aims to support sustainable value creation.

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Board of Directors



Wolfhart Hauser N
Chairman

Appointed: 2015

Key areas of expertise: Governance, Strategy, Safety, Quality Assurance

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

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

Nationality: German



Tim O'Toole CBE
Chief Executive

Appointed: 2009 and became Chief Executive in 2010

Key areas of expertise: Transportation, Strategy, Safety

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

Other appointments: Independent Non-Executive Director of Edison International and Southern California Edison and board member at the US National Safety Council since September 2017.

Nationality: American/British



Matthew Gregory
Chief Financial Officer

Appointed: 2015

Key areas of expertise: Finance, M&A

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

Nationality: British



Drummond Hall N R
Senior Independent Non-Executive Director

Appointed: 2014

Key areas of expertise: Marketing, Strategy

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

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

Nationality: British



Martha Poulter A
Independent Non-Executive Director

Appointed: 2017

Key areas of expertise: IT, Business Process Transformation, Cyber Security

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

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

Nationality: American



David Robbie A R
Independent Non-Executive Director

Appointed: 2 February 2018

Key areas of expertise: Corporate Finance, Strategy

Skills and experience: David brings a wealth of financial, accounting, strategic and corporate finance experience and skills to the Board. He was Finance Director of Rexam PLC from 2005 until its acquisition by Ball Corporation in 2016. Prior to his role at Rexam, David served in senior finance roles at BTR plc before becoming Group Finance Director at CMG plc in 2000 and then Chief Financial Officer at Royal P&O Nedlloyd N.V. in 2004. He served as a Non-Executive Director of the BBC between 2006 and 2010 and as Chairman of their Audit Committee. David qualified as a Chartered Accountant at KPMG.

Nationality: British



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

Appointed: 2014

Key areas of expertise: Transportation

Skills and experience: Warwick has a strong track record of delivering restructuring, cost reduction and modernisation programmes. His previous roles include Chief Executive of Mandala Airlines in Asia, Deputy Operations Director at Ryanair plc and Chief Operating Officer at Air Deccan/Kingfisher in India and easyJet plc. Warwick also held board positions at Airline Group and NATS, the UK's airspace provider, and was Deputy CEO of Buzz.

Other appointments: CEO of Stobart Group Ltd and strategic Board Advisor at Vistair Systems Ltd.

Nationality: British



Jimmy Groombridge **B**
Group Employee Director

Appointed: 2017

Key areas of expertise: Transportation, Employee Relations, Employee Engagement, Safety

Skills and experience: Jimmy was a bus driver for almost 40 years. He is currently an employee of First Eastern Counties, where he served as Employee Director for more than a decade. He had also served as the regional Employee Director for Norfolk and Essex. Safety is a passion for Jimmy and as such he is a champion of our Group Safety programme Be Safe. Having worked on projects for different departments within FirstGroup, he has a unique wealth of experience of employee engagement.

Nationality: British



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

Appointed: 2014

Key areas of expertise: Remuneration, HR, Governance

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

Other appointments: Non-Executive Director and Chair of the Remuneration Committee of Mitchells & Butlers plc.

Nationality: British



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

Appointed: 2012

Key areas of expertise: Distribution, Safety

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

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

Nationality: American

Board Committees

- A** Audit Committee
- R** Remuneration Committee
- N** Nomination Committee
- B** Board Safety Committee
- Chair

Executive Committee

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

Constance Baroudel

Director of Strategy & Operational Performance

Rachael Borthwick

Group Corporate Services Director

Giles Fearnley

Managing Director, First Bus

Michael Hampson

General Counsel & Company Secretary

Dave Leach

President, Greyhound

Dennis Maple

President, First Student

Steve Montgomery

Managing Director, First Rail

Brad Thomas

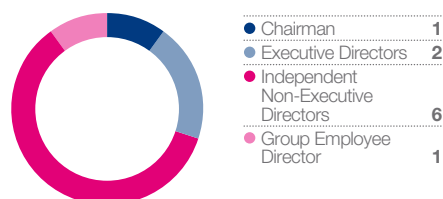
President, First Transit

Board composition at 31 March 2018

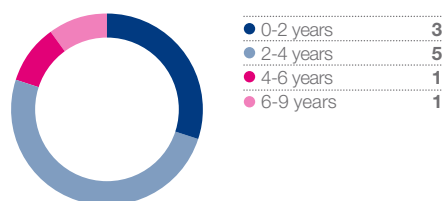
About the Board

The Board is the decision-making body for all matters of such importance as to be significant to the Group as a whole.

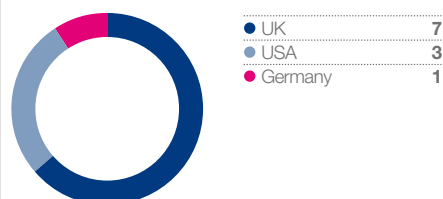
Board composition



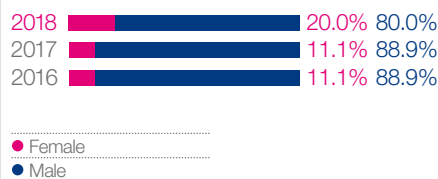
Length of tenure



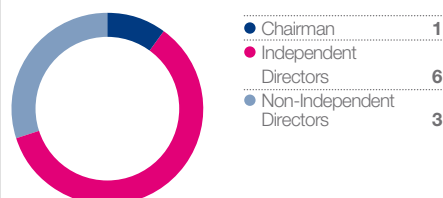
Nationalities¹



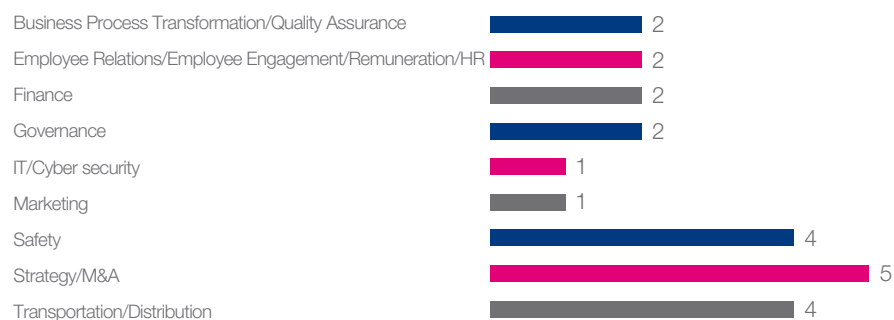
Gender diversity



Independence



Core areas of expertise¹



¹ Some Directors are represented in more than one category.

Some of the activities the Board carried out during the year

- April 2017**
Internal performance evaluation exercise
- May 2017**
Board and Committee meetings in London
Appointment of Martha Poulter and Jimmy Groombridge
Review of performance evaluation results
Review and approval of final results for 2017
- July 2017**
AGM and Board meeting in Aberdeen
Consideration of shareholder views
- September 2017**
Richard Adam announces resignation
Board and Committee meetings in Cincinnati
Site visits to Student and Transit operations in Chicago
- October 2017**
Strategy sessions in London
- November 2017**
Board and Committee meetings in London
Announcement of half-yearly results
- January 2018**
Board and Committee meetings in London
Martha Poulter joins Audit Committee
Review of RAIB report on Croydon incident
Risk appetite and significant risks review
- February 2018**
Appointment of David Robbie
Q3 trading update
- March 2018**
Budget and three-year plan review
David Robbie joins Remuneration Committee
Board and Committee meetings in New York and site visit to Greyhound operations
Review and approval of Gender Pay Gap Report for publication
Bond redemption

Board details at 31 March 2018



Our Group Employee Director

We are one of the few publicly listed companies that has an employee appointed to its Board (and also to the boards of most of its UK operating companies). This unique aspect of our corporate governance has been a feature of the organisation amongst UK employees, and is not regarded as either an alternative to conventional industrial relations, nor an artificial adjunct to a corporate governance framework.

Since the founding of the Company, the Board has been committed to promoting employee involvement at local level. The appointment of employee directors to the boards of the UK operating companies gives directors an employee viewpoint on all matters affecting the direction and governance of the Group, and allows employee directors to engage with employees at a local level on the strategic direction of the business.

Employee directors are elected by a ballot of employees in their respective companies, which is independently supervised. They take an active role at local level, carrying out safety audits and highlighting to employees the many benefits and assistance provided by the Group. They have the same responsibilities as any other non-executive director and play as full a role as any director in challenging the senior management team.

The Employee Directors' Forum meets at least twice a year and one of its functions is to nominate a candidate for the role of Group Employee Director when a vacancy arises. Last year the Employee Directors' Forum nominated Jimmy Groombridge, whose appointment was recommended to the Board by the Nomination Committee. Jimmy was then elected by shareholders at the 2017 AGM.

Every Non-Executive Director brings a different perspective and experience to the Board; our Group Employee Director brings his experience as a frontline employee and helps ensure that the Board takes the views of the workforce into account in its discussions.





Wolfhart Hauser
Executive Chairman



I believe firmly that good governance lies at the heart of a successful and sustainable company.

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Activities during the year

- Strategy presentations and direction of travel
- Business presentations and prospects discussions
- Further development of the Board's understanding and approach to risk appetite
- Budget and three-year plan
- Appointment of David Robbie and Martha Poulter as Non-Executive Directors, and of Jimmy Groombridge as Group Employee Director
- Succession planning and talent management for the Board and senior management
- Review of recommendations arising out of the internal evaluation exercise

Areas of focus in the future

- Recruitment of a new Chief Executive
- Disciplined growth and bidding
- Maintain strong cash management
- Ongoing development of the Group's strategy
- Review and implementation of recommendations arising out of the externally facilitated Board evaluation

Our Values

The Board sets out the Group's strategic aims, monitors the Group's strategic objectives and oversees their implementation by the Chief Executive. It provides leadership within a framework of appropriate and effective controls. The Board is also responsible for the culture and Values of the Group.

Our Values are:

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

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

Understanding our business

Corporate governance does not exist in isolation and cannot be reduced to compliance with checklists and codes.

In order for the Board to be able to review strategy, to determine our approach to risk and to respond to events, we need to have a thorough understanding of our businesses.

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

Board and Committee composition

In February 2018, David Robbie was appointed as a Non-Executive Director, succeeding Richard Adam as Chair of the Audit Committee and member of the Remuneration Committee. David has a wealth of financial, accounting, strategic and corporate finance experience and we look forward to working with him. I would also like to thank Richard on behalf of the Board for his commitment and contribution.

Martha Poulter, whom we had welcomed to the Board in May 2017, was appointed to the Audit Committee earlier this year.

Finally on 31 May 2018 the Group announced that Tim O'Toole had stepped down from the Board and his role as Chief Executive with immediate effect. The process to select a new Chief Executive is underway. Until such time as a successor is appointed, the Board has asked me to perform the role of Executive Chairman. Matthew Gregory has been appointed Interim Chief Operating Officer and will also continue his responsibilities as Chief Financial Officer.

Diversity

The composition of our Board includes the variety of skills and competences that are needed to add value to our businesses.

We remain committed to equality of opportunity, diversity and inclusion at every level, both in the Board and across our wider business. Two of our Non-Executive Directors are women, some are from different ethnic backgrounds and one is nominated by the UK workforce.

We believe diverse experiences and attitudes help us better understand the needs of our customers and communities, and deliver more creative and innovative solutions.

Remuneration

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

Risk management

We continued to adopt a risk-based approach in establishing the Group's system of internal control and in reviewing its effectiveness. Overall management of risks is vested in the Board, with the Audit Committee having delegated authority for reviewing the Group's risk management framework.

More detailed information on the Group's system of internal control and risk management can be found in the Principal risks and uncertainties section on page 34 onwards and in this Corporate governance report.

Engaging with shareholders

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

The Board receives regular reports on investor relations activities and, in particular, on shareholder sentiment and feedback. The Board continues to believe that ongoing engagement with shareholders and other stakeholders is vital to ensuring their views and perspectives are fully understood and taken into consideration. This will remain a key focus for the Board.

At the Company's forthcoming Annual General Meeting ('AGM'), all Directors who are able to attend will be available, as usual, to meet with shareholders after the meeting to discuss any issues they may have. I look forward to welcoming as many shareholders as possible to our AGM on 17 July 2018.

Wolfhart Hauser
Executive Chairman

Board visit to First Student Schaumburg location



Schaumburg is a 300-plus bus location in a northwest Chicago suburb that successfully serves several school districts. The Board toured the location in September 2017 and spent time in the maintenance workshop, dispatch and operations offices.

The picture shows the Chairman, the Chief Executive and the Group Employee Director being greeted by Bob Rutkoski, the First Student Area General Manager with responsibility for the location.

Compliance with the Code

The Annual Report and Accounts for the year ended 31 March 2018 have been prepared in accordance with the UK Corporate Governance Code which was issued in April 2016 (the 'Code') by the Financial Reporting Council and is available to view at www.frc.org.uk.

The Board therefore confirms that throughout the year the Company has complied with the provisions set out in the Code and looks forward to reporting on compliance with the new Code to be issued later in the year. We expect to do so in the Annual Report and Accounts for the year ending 31 March 2020.

The Board provides entrepreneurial leadership of the Group within a framework of prudent and effective controls for risk assessment and management.

The role of the Board

The Board is accountable to shareholders for managing the Company in a way which promotes its long term success for the benefit of the shareholders as a whole. The Board ensures that an appropriate balance between promoting long term growth and delivering short term objectives is achieved.

The Board is primarily responsible for:

- determining strategic direction and demonstrating leadership
- focusing on matters that consistently add value for shareholders of the Company, both present and future
- the governance and stewardship of the Group to provide protection and security for the shareholders' assets
- setting the Group's culture, standards and values, and ensuring that its obligations to shareholders and other stakeholders are understood and met
- determining the nature and extent of the principal risks the Group is willing to take to achieve its strategic objectives
- ensuring that management maintains a system of internal control that provides assurance of effective and efficient operations, internal financial controls and compliance with laws and regulations

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

Specific key matters have been reserved for approval by the Board and these include:

- the Group's strategy
- major acquisitions, mergers or disposals
- UK rail franchise bids
- dealings with regulatory authorities on matters of significance
- capital and liquidity matters
- medium term plan and annual budget
- Board and Committee membership

- financial results, viability statement and governance
- the appointment and removal of Directors and the Company Secretary

Board meetings and visits

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

To ensure the Board sees the Group's operations in action, the Directors normally meet at least three times each year at the Group's sites in the UK and North America. This provides senior management from across the Group with the opportunity to present to the Board and its Committees and to meet Directors informally. It also provides the Board with the opportunity to review operational matters on site.

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

Board meetings are structured around divisional updates; strategy; financial and operational updates; assessment of risks and how they should be managed and mitigated; other reporting items for approval, including UK rail franchise bids; and reports from Committee Chairs, the Group Employee Director ('GED') and the Company Secretary.

Board visit to Greyhound operations in New York



In March 2018, the Board toured Greyhound's key passenger sales locations in New York City, the largest and most important market in the United States, observing Greyhound's passenger operations segments as follows:

- Port Authority of New York and New Jersey, the largest terminal in the United States and Manhattan's main gateway, where Greyhound's program to completely renovate the ticketing area will greatly enhance the customer experience;
- BoltBus, delivering direct service from key curbside locations throughout New York to Boston, Washington, D.C., Baltimore, Philadelphia and other major cities; and
- George Washington Bridge Bus Station, a brand new Greyhound location launched in September 2017, offering services to Philadelphia, Boston, Baltimore and Washington, D.C. Located in uptown Manhattan, a vibrant area undergoing rapid growth and community revitalisation, the facility enjoys many intermodal and upscale commercial amenities.

The tour demonstrated Greyhound's enhanced passenger services profile in New York, representing significant and exciting opportunities for customer growth, sales and passenger satisfaction.

Division of responsibilities

The Board has agreed a clear division of responsibilities between the Chairman and the Chief Executive, and these roles, as well as those of other Directors, are clearly defined so that no single individual has unrestricted powers of decision.

Roles and responsibilities

Our Chairman

- establishes the Group's Values and standards and sets the tone from the top
- promotes the interests of the Company with special regard to planning and development to secure the Group's future and sustainable success
- promotes the Board, ensuring it functions efficiently and in conformity with the highest standards of corporate governance
- ensures Board meetings are effective and open and constructive debate is promoted, the views of all Directors are taken into account and adequate time is available for discussion on all agenda items
- ensures that shareholders and the Board receive accurate, timely, clear and high-quality information
- chairs the Nomination Committee
- ensures effective induction and development of Directors
- ensures the performance of the Board, its Committees and individual Directors are formally evaluated annually, with an externally facilitated evaluation performed at least every three years
- facilitates effective and constructive relationships and communications between Non-Executive Directors ('NEDs') and Executive Directors and senior management
- ensures effective communication with shareholders and other stakeholders, and that their views are understood by the Board
- provides an appropriate balance of support and challenge to the Chief Executive in order to maintain an effective working relationship

Our Chief Executive

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

Our Senior Independent Director

- acts as a point of contact for shareholders and other stakeholders to discuss matters of concern which would not be appropriate through the normal channels of communication with the Chairman, Chief Executive or Chief Financial Officer
- acts as a sounding board for the Chairman and serves as an intermediary for the other Directors when necessary
- meets with the NEDs without the Chairman being present at least annually and leads the Board in the ongoing monitoring and annual performance evaluation of the Chairman
- deputises for the Chairman, as necessary

Our Non-Executive Directors

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

Our Group Employee Director

The Board considers that it is extremely beneficial for its employees to be represented on the Board so that employee-related issues are raised directly. The GED provides a two-way communication between the Board and employees. The GED is nominated by the Employee Directors of our UK operating companies at the Employee Directors' Forum, and serves a maximum of three, three-year terms.

The Committees of the Board

The four principal Committees of the Board are Audit, Board Safety, Nomination and Remuneration. Their members are appointed by the Board upon the recommendation of the Nomination Committee and membership is spread between the NEDs and the GED, drawing on each of their relevant skills and experience. Committee members are expected to attend each Committee meeting, unless there are exceptional circumstances that prevent them from doing so. Only members of the Committees are entitled to attend their meetings, but others may attend at the Committee's discretion.

The Executive Committee

The Executive Committee supports the Chief Executive in the day-to-day running of the Group. Its membership is shown on page 47. It normally meets every month and its main responsibilities are:

- to communicate, review and agree on significant issues and actions;
- to help to develop, implement and monitor strategic and operational plans;
- to consider the continuing applicability, appropriateness and impact of risks; and
- to lead the Group's culture and safety programme, supported by the Executive Safety Committee.

Corporate governance report continued

Effectiveness

Effective management and good stewardship of the Group are led by the Board.

Board Committee Chairmanships

A Audit Committee	N Nomination Committee
R Remuneration Committee	B Board Safety Committee

The attendance of Directors at Board and Committee meetings and the number of meetings attended in the year ended 31 March 2018 are shown below:

Director	Board		Audit Committee		Remuneration Committee		Nomination Committee		Board Safety Committee	
	Meetings eligible to attend	Meetings attended	Meetings eligible to attend	Meetings attended	Meetings eligible to attend	Meetings attended	Meetings eligible to attend	Meetings attended	Meetings eligible to attend	Meetings attended
Chairman										
Wolfhart Hauser N	10	10					6	6		
Executive Directors										
Tim O'Toole	10	10								
Matthew Gregory	10	10								
Non-Executive Directors										
Richard Adam ¹ A	7	7	3	3	7	7				
Warwick Brady	10	10	4	4						
Jimmy Groombridge ²	10	9							2	2
Drummond Hall	10	10			8	8	6	6		
Martha Poulter ³	10	9	1	1						
David Robbie ¹ A	3	3	1	1	1	1				
Imelda Walsh R	10	10			8	8	6	6	3	3
Jim Winestock B	10	9	4	4			6	6	3	3

1 Richard Adam resigned on 2 February 2018 and was replaced by David Robbie as Chair of the Audit Committee and member of the Remuneration Committee.

2 Jimmy Groombridge joined the Board on 26 May 2017 and his first Board Safety Committee meeting was in November 2017.

3 Martha Poulter was appointed to the Board in May 2017 and joined the Audit Committee in January 2018.

Board balance

The Board at 31 March 2018 was comprised of the Chairman, two Executive Directors, the GED and six NEDs. The balance of Directors on the Board ensures that no individual or small group of Directors can dominate the decision making process and that the interests of the minority shareholders are protected. Biographies of all Directors are set out on pages 46 and 47.

Board independence

It is the Company's policy that at least half the Board should be independent NEDs.

The Board carries out a review of the independence of its Directors on an annual basis. The Board considers each of its current NEDs to be independent in character and judgement. In reaching its determination of independence, the Board has concluded that each provides objective challenge to management, is willing to stand up and defend their own beliefs and viewpoints in order to support the ultimate aims of the Company and there are no business or other

relationships likely to affect, or which could appear to affect, their judgement.

Jimmy Groombridge, the GED, is not considered by the Board to be independent as he is an employee of one of the Group's subsidiaries.

Commitment

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

with the Directors. Reasons for non-attendance are generally prior business and personal commitments or illness.

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

During the year, the Chairman met on several occasions with the NEDs without the Executive Directors present, allowing for more informal discussions on a variety of issues.

Induction, Development and Evaluation

Receiving timely information enables the Directors to discharge their duties on strategic, financial, operational, compliance and governance issues effectively.

Induction and development

On appointment, all new Directors receive a comprehensive and structured induction, tailored to their individual requirements. The induction programme, which is arranged by Company Secretariat, includes visits to the Group's businesses and meetings with senior managers and advisers, as appropriate. The programme is designed to facilitate their understanding of the Group, the key drivers of business performance, the role of the Board and its Committees, the Company's corporate governance practices and procedures. It also provides them with appropriate training and guidance as to their duties, responsibilities and liabilities as a director of a public limited company. During the year, Martha Poulter, Jimmy Groombridge and David Robbie were supported by Company Secretariat in this regard.

In addition, in order to assist Directors in the performance of their duties, there are procedures in place to provide them with appropriate and timely information, including receiving information between meetings regarding Group business developments and financial performance.

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

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

All NEDs can attend shareholder meetings and analyst presentations, and shareholders may meet informally with Directors at the AGM.

Evaluation

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

Following internal reviews in 2015/16 and 2016/17, the Board conducted an externally facilitated review in 2017/18. The results of the performance evaluation were presented and discussed at the May 2018 Board meeting and will be disclosed in the 2018/19 Annual Report and Accounts.

The 2016/17 internal review was led by the Chairman with the support of Company Secretariat. It was carefully structured and pragmatic, designed to bring about a genuine debate on issues that were relevant, check on progress against matters identified in the previous evaluation and assist in identifying any potential for improvement in the Company's processes. It entailed the completion of a questionnaire to assess the effectiveness of the Board, its Committees and individual Directors, and the preparation of a report. The questionnaire focused on the oversight responsibilities and effectiveness of the Board, the role of the Chairman and the operation of the Committees. It was concluded that the dynamics, culture and effectiveness of the Board had improved and that the individual members of the Board remained effective in their ability to discharge their duties and responsibilities. Each Director continued to make a valuable contribution whilst demonstrating commitment to their role.

The Senior Independent Director also led the NEDs in evaluating the performance of the Chairman, with the Chairman showing effectiveness in leadership.

Information and support

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

All Directors receive detailed papers and other relevant information on the business to be conducted at each Board or Committee meeting well in advance and all Directors have direct access to senior management should they wish to receive additional information on any of the items for discussion. The head of each division attends Board meetings on a regular basis to ensure that the Board is properly informed about the performance of that division and any issues that it faces. Directors are provided between meetings with relevant information on matters affecting the business. Such updates are carried out by a variety of methods, including conference calls and video conferences of the full Board or

The main areas identified for improvement in the 2016/17 internal review and corresponding actions taken during 2017/18 are detailed in the table below:

Area identified	Responsibility	Action taken
More time to consider investors' expectations, succession planning and people matters	Chairman	Identified topics added to the rolling agenda to become standing items
Provision of supporting papers in a timely manner and presentation less complex	Company Secretary	Guidelines and template developed and implemented
Reinforce the work of the Board Safety Committee	Board Safety Committee	Rolling agenda developed

between the Chairman and/or the Chief Executive and the NEDs. Company Secretariat also circulates monthly financial and operational reports as well as papers and updates on relevant issues. Board and Committee papers are delivered securely to the Directors using a fully encrypted electronic portal system which enables a faster and more secure distribution of information.

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

Conflicts of interest

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

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

Furthermore, the Articles include provisions relating to confidential information, attendance at Board meetings and availability of Board papers to protect a Director from breaching their duty if a conflict of interest arises. These provisions will only apply where the circumstance giving rise to the potential conflict of interest has previously been authorised by the Directors.

The Board considers that the formal procedures for managing conflicts of interest currently in place have operated effectively during the year under review.

Election and re-election of Directors

Directors are required under the Articles to submit themselves for election by shareholders at the AGM following their appointment by the Board. Also, in accordance with best practice and the Code, all of our Directors put themselves forward for re-election by shareholders annually.

David Robbie, who was appointed on 2 February 2018, will therefore retire and submit himself for election and all other Directors will submit themselves for re-election at the forthcoming AGM.

Following the formal performance evaluation process, the Chairman is content that all Directors continue to be effective and demonstrate commitment to their role.

Anti-bribery and corruption

The Group has continued to implement its compliance programmes and specific policies around key legislation (e.g. UK Bribery Act and the Modern Slavery Act), as well as refreshing its programme in response to new legislation and regulation (e.g. the UK Criminal Finances Act). In addition, the Group has developed a new Group-wide Code of Ethics which will be implemented across the operational divisions and support functions during 2018/19. Colleagues in high risk areas have continued to receive training and policy communications to support their ongoing awareness of policies upholding our zero tolerance position on bribery and corruption, including on the giving and receipt of appropriate gifts, hospitality or entertainment. The training is supplemented by a dedicated ethics and compliance section on the Group intranet. There is also an externally managed whistleblowing service available across the Group for colleagues, with a helpline (online and phone-based) for the anonymous reporting of inappropriate conduct. The anti-bribery steering committee has the primary and day-to-day responsibility to ensure that our internal control systems and procedures are effective in countering bribery and corruption. The Group continues to develop its effective systems to counter bribery and corruption, including the introduction of its integrated risk and compliance online tool to monitor the use and awareness of policies and procedures and, to provide management data on compliance risks.

Modern slavery and human trafficking

We continue our zero tolerance approach to slavery and human trafficking, which extends to all business dealings and transactions in which we are involved, regardless of location or sector. As part of our contracting processes with suppliers, we include prohibitions against the use of forced, compulsory or trafficked labour, or anyone held in slavery or servitude, whether adults or children. We have continued to implement our Code of Conduct on Anti-Slavery and Human Trafficking Prevention and have required our higher risk UK-based suppliers to provide us with a detailed update on their activities to address the issue in their supply chains. We have included a section on modern slavery in our new Group Code of Ethics, and have also published our second Modern Slavery and Human Trafficking Statement on our Group websites. The statement sets out the steps we took to address this issue during the previous financial year, and sets goals for the current one. We will publish an updated statement for the year ended 31 March 2018 on our Group websites in due course. We remain committed to strengthening our practices in this area, both within our own business and across our supply chains.

Brexit Steering Committee

The Committee, which was formed in 2016 to monitor the potential impact of Brexit, met on two occasions during the year and reported to the Board via the CFO and the Company Secretary, where appropriate.

The Board is responsible for promoting the long term success of the Company for the benefit of shareholders and other stakeholders.

The Board ensures that an appropriate system of governance is in place throughout the Group. To discharge this responsibility, the Board has established a framework for risk management and internal control which identifies, evaluates and manages the principal risks associated with the Group's achievement of its business objectives, with a view to safeguarding shareholders' investment and the Group's assets.

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

Internal control

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

The Board confirms that throughout the year ended 31 March 2018 and up to the date of approval of this Annual Report and Accounts, there have been rigorous processes in place to identify, evaluate and manage the principal risks faced by the Group, including those that would threaten its business model, future performance, solvency or liquidity in accordance with the Guidance on Risk Management and Internal Control published by the Financial Reporting Council.

To assist in the identification and management of the Group's principal risks, the Board has:

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

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

- a clearly defined organisation structure with established responsibilities
- a focused business strategy, thus restricting potential risk exposures
- Group financial, treasury, operating, compliance and administrative policies and procedures which incorporate statements of required behaviour
- ongoing review of safety, operating and financial performance of the Group's businesses
- regular reports to the Board, Board Safety Committee and Executive Safety Committee on safety matters

- monitoring by the Board of a comprehensive reporting system, including monthly results, periodic short term forecasts, annual budgets and a medium term business plan
- well-defined procedures for the assessment, approval, control and monitoring of major investments, with proposals being subject to rigorous strategic, financial and commercial examination
- divisions identifying and reviewing their principal risks and controls for monitoring and managing risks, which are reviewed by senior executive management. The updated divisional and Group risk profiles, which are reviewed by the Chief Executive and CFO, are presented to the Executive Committee prior to being assessed by the Audit Committee
- an established methodology for ranking the level of risk in each of its business operations and the principal risk issues associated therewith
- implementation of appropriate strategies to deal with principal risks, including careful internal monitoring and ensuring external specialists are consulted where necessary
- a centrally co-ordinated internal audit programme to verify that policies and internal control procedures are being correctly implemented and to identify any risks at an early stage
- reviewing and monitoring the confidential reporting system to allow employees to raise concerns about possible legal, regulatory, financial reporting or any other improprieties
- regular reports to the Audit Committee on the adequacy and effectiveness of internal controls
- a remuneration policy for executives that motivates them, without delivering excessive benefits or encouraging excessive risk-taking

Twice a year the Board is presented with an update for its robust assessment on the principal risks facing the Group together with a risk map, highlighting any changes made since the previous update and the reasons for any changes. Each Committee that reports regularly to the Board provides an update on the status of risks considered within its remit. Biannually, the Group's risk management framework is robustly reviewed by the Audit Committee, together with the process for identifying and assessing risks and a detailed analysis of the risks identified in the previous six months.

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

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

The process is designed to provide assurance by way of cumulative assessment. It is a risk-based approach.

Internal audit

Internal audit advises management on the extent to which systems of internal control are adequate and effective to manage business risk, safeguard the Group's resources, and ensure compliance with the Group's policies and legal and regulatory requirements as well as advising on ways in which areas of risk can be addressed. It provides objective assurance on risk and controls to senior management, the Audit Committee and the Board. Internal audit's work is focused on the Group's principal risks. The mandate and programme of work of the internal audit department is considered and approved by the Audit Committee. Based on the approved internal audit plan, a number of internal audits took place across the Group's divisions to facilitate improvement of the Group's internal controls and findings were reported to relevant operational management and to the Audit Committee. Internal audit follows up on the

implementation of recommendations and reports on progress to senior management and to the Audit Committee.

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

Financial and business reporting

In its reporting to shareholders the Board recognises its responsibility to present a fair, balanced and understandable assessment of the Group's position and prospects. This responsibility encompasses all published information including, but not limited to: the year end and half-yearly financial statements; regulatory news announcements; and other public information.

The quality of the Company's reporting is ensured by having in place procedures for the review of information by management. There are also strict procedures determining who has authority to release information. A statement of the Directors' responsibilities for preparing the financial statements can be found on page 98.

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

Treasury operations

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

Tax strategy

We believe we have a responsibility to manage our tax affairs in a way that sustainably benefits the customers and communities that we serve. We also have a responsibility to shareholders to ensure we pay the right amount of tax and ensure compliance with the tax rules in each country in which we operate. Our Tax Strategy was approved by the Board in March 2018 and is available on our website. The Board receives regular updates on taxation matters through the Audit Committee.

Payments policy

We recognise the importance of good supplier relationships to the overall success of our business. We manage dealings with suppliers in a fair, consistent and transparent manner and the Group has controls in place to ensure that all payments are made within the appropriate credit timeframe. The average credit period taken for trade purchases is 29 days (2017: 32 days).

Relations with shareholders

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

The Executive Directors are available, through the Group Corporate Services Director, to discuss the concerns of major shareholders at any time during the year and the Chairman is available to discuss governance and strategy with major shareholders. The Senior Independent Director is available to discuss matters of concern that would not be appropriate through normal channels of communication, including issues relating to

the Chairman's performance. Non-Executive Directors make themselves available to attend meetings with shareholders in order to develop an understanding of their views.

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

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

Annual General Meeting

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

At the 2017 AGM, the Chairman provided shareholders with a brief summary of the Company's activities for the previous year. All resolutions at the 2017 AGM were voted on by way of a poll. The procedure for voting on a poll follows best practice and allows the Company to count all votes, rather than just those of the shareholders attending the meeting.

As recommended by the Code, all resolutions proposed at the 2017 AGM were voted separately and the voting results, which included all votes cast for, against and those withheld, together with all proxies lodged prior to the meeting, were announced to the London Stock Exchange and made available on the Company's website as soon as practicable after the meeting. As in previous years, the Form of Proxy clearly advised that a vote withheld is not a vote in law and is not used in calculating the votes for or against a resolution.

This year's AGM will be held at 1.30pm on Tuesday 17 July 2018 at the Aberdeen Exhibition and Conference Centre, Exhibition Avenue, Bridge of Don, Aberdeen, AB23 8BL. Details of the meeting venue and the resolutions to be proposed, together with explanatory notes, are set out in the Notice of AGM which accompanies the Annual Report and Accounts. A summary of the business carried out at the AGM will be published on the Company's website.

Board visit to First Transit operation in Chicago Midway Airport



The Board's visit to Chicago included a tour of First Transit's Midway International Airport Car Rental Shuttle operation. The purpose of the visit was to provide the Board with a review of this operation and to discuss major initiatives and the division's focus on best practices.

This operation is open all day, every day of the year, and the Board had the opportunity to observe our vision and values in action. Hosted by the local management team and Chief Operating Officer, Beverly Edwards, the Board toured the operation which, during 2017/18, had transported 1.87 million customers safely and reliably between Midway International Airport and the nearby consolidated rental car facility that is shared by ten major rental car agencies.

The operation was proudly congratulated by the Board for its outstanding safety performance of zero accidents year to date and their commitment to Be Safe.



Wolfhart Hauser
Chair, Nomination Committee



The Committee ensures that the right people with the right range of skills and experience are on the Board.

Role and responsibilities

- Regular review of the structure, size and composition (including skills, experience, independence, knowledge and diversity) of the Board and recommendation for change
- Identification and nomination of candidates to fill Board vacancies, including that of the Senior Independent Director
- Regular review of membership of the Board Committees and recommendation for change
- Ensuring that Board and executive leadership skills are fully aligned to the Company's long term strategy
- Oversight of succession planning for Directors and other senior executives
- Assessing the time commitment of candidates to Board positions
- Recommendation of re-appointment of any Non-Executive Director at the conclusion of their specified term of office
- Recommendation of appointment of the Group Employee Director upon nomination by the Employee Directors' Forum
- Recommendation of re-election by shareholders of any Director
- Formal reporting to the Board, performance evaluation and terms of reference

The full terms of reference of the Committee can be found on the Company's website.

The Committee is primarily responsible for leading the process for appointments to the Board and reviewing the composition of the Committees.

In terms of how the Committee operates, if a matter were to concern the Committee Chair, then he would leave the meeting and the Senior Independent Director would instead take the Chair. The Chief Executive attends meetings of the Committee upon invitation. Committee members take no part in any discussions concerning their own membership of the Board or appointment as a Chair of a Committee, but are involved in the recommendations on Committee membership changes. The General Counsel & Company Secretary acts as the Committee Secretary.

Activities during the year

During the year, the Committee kept under review the balance of skills, experience, independence, knowledge and diversity (including gender), on the Board to ensure the orderly evolution of the membership of the Board and its Committees. In identifying and nominating candidates for approval by the Board, the Committee tried to ensure that the right people with the right range of skills and experience are on the Board and in senior management positions in the coming years.

Recruitment of Non-Executive Directors

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

Membership and operation

Committee member	Meetings attended	Other Committees/Roles	Independent
Wolfhart Hauser (Chair)	6	Company Chairman	Yes, on appointment
Drummond Hall	6	Senior Independent Director Remuneration Committee	Yes
Imelda Walsh	6	Chair of Remuneration Committee Board Safety Committee	Yes
Jim Winestock	6	Chair of Board Safety Committee Audit Committee	Yes

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

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

The appointments of Martha Poulter and Jimmy Groombridge took place during this financial year but we reported on those in last year's annual report.

Richard Adam announced he was stepping down in September 2017. The Committee then began a comprehensive and rigorous search, with a candidate profile and position specification drawn up. JCA Group, a global executive search firm with no other connection with the Company, was engaged to assist with the selection process and conducted searches to identify suitable, qualified candidates. A number of interviews and meetings were held with shortlisted candidates. The appointment of David Robbie was then recommended to the Board for approval as he fully met the criteria required. David joined the Board on 2 February 2018 and was appointed to chair the Audit Committee. Later in the year, David joined the Remuneration Committee, upon the Committee's recommendation.

Diversity

The Committee and the Board consider diversity as an important factor when reviewing the composition of the Boards. The Committee views diversity in its wider sense, including gender, length of tenure and nationality.

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

Furthermore, the Board comprises a range of nationalities, which bring cultural diversity as well as different geographical experiences and viewpoints. The combination of these factors

means that the Board benefits from a diverse range of competencies, perspectives and thoughts, which provides a dynamic environment for decision making.

Whilst the Board at 31 March 2018 is below its target of 25% female representation at 20%, it remains committed to achieving that goal as soon as practicable. The Board remains of the opinion that appointments should be made on merit and relevant experience, against the criteria identified by the Committee. Future appointments to the Board must also complement the balance of skills the Board already possesses.

The Board recognises the need to create the conditions that foster talent and encourage more women and people from diverse backgrounds to achieve their full potential in their careers in the Group. The Board also welcomes the recommendations of the Hampton-Alexander and Parker reports. In that sense, as part of an overall approach to HR management, a framework has been developed which includes an Equality, Diversity and Inclusion Policy as well as practical training materials and support for line managers to promote its communication across the Group. Further details on the Group's approach to diversity are set out in the Corporate responsibility section on page 27.

Looking ahead to 2018/19

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

We will also continue with the process to select a new Chief Executive following the departure of Tim O'Toole on 31 May 2018.

Summary of Committee Activities during the year

May 2017

Jimmy Groombridge – recommendation for appointment



Martha Poulter – recommendation for appointment



November 2017

Internal performance evaluation – review of results

Terms of reference annual review

December 2017

Committee composition review

January 2017

Board composition review

Martha Poulter joins Audit Committee

February 2018

David Robbie – recommendation for appointment



March 2018

David Robbie joins Remuneration Committee



David Robbie
Chair, Audit Committee



I am pleased to present my first report as Chair of the Audit Committee. This Committee acts independently of management to ensure that the interests of shareholders are properly protected in relation to financial reporting, internal control and risk management.

Role and responsibilities

- Monitor and challenge the integrity of the financial statements of the final and half-yearly results
- Review and challenge the actions and judgements of management taking into account the views of the external auditor
- Review the Company's internal controls, including financial controls and risk management systems
- Approve the internal audit plan and monitor the role and effectiveness of the internal audit function
- Oversee the Company's relationship with the external auditor, including:
 - independence and expertise
 - engagement terms and fees
 - effectiveness of the audit process
 - annual audit plan scope and output
 - policy on the provision of non-audit services
 - appointment, re-appointment, dismissal or resignation of the external auditor
 - review of plans regarding mandatory competitive tendering process
- Reporting formally to the Board, performance evaluation and terms of reference.

The full terms of reference of the Committee can be found on the Company's website.

David Robbie has recent and relevant financial experience for the purposes of the Code, being a chartered accountant and having held a number of senior finance roles. The other Committee members have significant current or recent executive experience in the transport and distribution industries, as well as in IT. The range and depth of financial, commercial and IT experience in the Committee enable its members to deal effectively with the matters the Committee is required to address.

The Group Chairman, the Chief Executive, the CFO, the General Counsel & Company Secretary, the Director of Finance, the Group Director of Assurance, the Group Financial Controller and Deloitte LLP (Deloitte) are normally invited to attend Committee meetings, as well as other members of the Board. The Deputy Company Secretary acts as Committee Secretary.

At the end of each meeting, the Committee meets with the external auditor and the Group Director of Assurance, without management present, to discuss any matters relating to their remit and any matters arising from external and internal audits. These discussions help shape thought processes and decision making, and promote a more rounded view of the Group.

Activities during the year

During the year, the Committee has continued to devote significant time to reviewing the integrity of the Group's financial statements, including the significant financial reporting judgements, as well as reviewing internal controls, and the effectiveness of both internal and external audit. The table on page 63 provides further information on the year's activities.

Looking ahead to 2018/19

In addition to its routine business, the Committee has the following focus areas for 2018/19:

- Plan for the tender of the external audit service
- Further develop the structure and effectiveness of the risk management system and process

Membership and operation

Committee member	Meetings attended	Other Committees/Roles	Independent
David Robbie ¹ (Chair)	1	Remuneration Committee	Yes
Warwick Brady	4		Yes
Martha Poulter ²	1		Yes
Jim Winestock	4	Chair of Board Safety Committee Nomination Committee	Yes

¹ David Robbie was appointed on 2 February 2018.

² Martha Poulter joined the Committee in January 2018.

Summary of Committee activities during the year

The Committee:	May 2017	Sep 2017	Nov 2017	Mar 2018
Financial Reporting				
reviewed the Group's final and half-yearly results, considered the significant accounting policies, principal estimates and accounting judgements used in their preparation, the transparency and clarity of disclosures within them, and compliance with financial reporting standards and governance	●		●	
reviewed the matters which informed the Board's assessment that it was appropriate to prepare accounts on a going concern basis	●		●	
reviewed the process for assessing the long term viability of the Company	●			
received reports from management and Deloitte on accounting, financial reporting regulation and taxation issues	●	●	●	●
reviewed reports from Deloitte on its audit in respect of the final and half-yearly results prior to them being approved by the Board	●		●	
reviewed and assessed the process by which the Annual Report and Accounts, taken as a whole, was fair, balanced and understandable and provided the information necessary for shareholders to assess the Company's position and performance, business model and strategy	●			
Internal control, risk management and internal audit				
reviewed the structure and effectiveness of the Group's system of risk management and internal control and the disclosures made in the Annual Report and Accounts on this matter	●			●
reviewed the Group's risk management activities undertaken by the divisions and at Group level in order to identify, measure and assess the Group's principal risks and review the risk appetite statement, developed by management, for recommendation to the Board	●			●
reviewed the effectiveness of the Group's risk management framework, and reports arising from the risk management process	●			●
approved the annual internal audit plan and reviewed reports from the internal audit department relating to control matters, monitored progress against the internal audit plan and any deviations to the plan were agreed	●	●	●	●
monitored and assessed the Group's insurance arrangements		●		●
considered reports from the General Counsel & Company Secretary on litigation matters		●		●
External audit				
approved the terms of engagement of Deloitte, the fees paid to it and the scope of work carried out by it	●		●	
performed an annual review of the policies on the independence and objectivity of Deloitte, the use of Deloitte for non-audit services and the employment of former employees of Deloitte	●			
reviewed the performance and effectiveness of Deloitte in respect of the previous financial year			●	
assessed the objectivity and independence of Deloitte	●			
received reports on the findings of Deloitte during the half-yearly review and annual audit, and reviewed the recommendations made to management by Deloitte and management's responses	●		●	
reviewed the external audit plan			●	
reviewed letters of representation to Deloitte	●		●	
recommended the re-appointment of Deloitte	●			
Other matters				
reviewed its terms of reference and the results of its performance evaluation, including effectiveness			●	
received reports from divisional and functional management on a range of financial, operational, risk management, legal and corporate governance matters	●	●	●	●
received reports from the Chief Information Officer on cyber security	●		●	●
received reports on matters raised on the confidential whistleblowing system and the process for the investigation of such matters, ensuring that the arrangements in place were appropriate for employees to confidentially raise concerns about possible legal, regulatory or other improprieties	●	●	●	●

Auditor independence and objectivity

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

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

Internal control and risk management

During the year, the Committee reviewed the requirements of the Code in relation to the assessment and reporting of longer term viability, risk management and internal control. The Committee assessed the Group's risk management methodology, which is used to identify and manage the principal risks, as well as the reporting and categorisation of Group risks. The Committee also reviewed the process for assessing the principal risks that could threaten the Company's business model, future performance, solvency or liquidity in order to make the long term viability statement on page 44 and considered the appropriate period for which the Company was viable. Key external audit findings and management actions were discussed as well as reports on the outcomes of internal audit planned activities. The operation and effectiveness of the internal audit function were also reviewed, including its focus, plans and resources. The Committee monitored the progress of action plans to ensure they were completed satisfactorily.

The Company's policies on financial risk management, including the Company's exposure to liquidity risk, credit risk and certain market-based risks including foreign exchange rates, interest rates and fuel prices, can be found in note 24 to the consolidated financial statements.

Assessing the effectiveness of the external audit process

During 2017/18, the effectiveness of the external audit process was reviewed by the Committee and the findings reported to the Board. The review involved an initial assessment of the delivery and performance of the external auditor against the external audit plan for the year. An annual assessment was then carried out by the Committee, taking into account the results of questionnaires completed by each of the divisions and Group management functions. These questionnaires covered a variety of topics including:

- the audit partners and team
- the planning and execution of the audit approach
- insights and added value provided by the audit process

Feedback from the annual assessment was shared with the external auditor so that any areas for improvement could be followed up. The Committee concluded that the external audit process was effective.

Having reviewed the independence, objectivity and performance of the external auditor, the Audit Committee has recommended to the Board that Deloitte be re-appointed. Ordinary resolutions re-appointing Deloitte as auditor and authorising the Directors to set their remuneration will be proposed at the 2018 AGM.

External audit tendering

The current external auditor, Deloitte, was appointed in 1998 following a full tendering process. The Committee has undertaken a review of Deloitte's performance every year since its appointment. The Committee, which remains satisfied with Deloitte's performance, believes that consistency of approach in the audit is of particular importance as the Group returns to a leadership position. It remains the Committee's intention to put the external audit out to tender during the lead audit partner's five-year tenure, which is due to expire at the conclusion of the 2019/20 audit. This means that the external audit will be put out to tender in 2019 so that the process is completed by the conclusion of the 2019/20 audit. This approach is in accordance with the

EU audit reform legislation and the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

The lead audit partner is Mark Mullins.

Audit information

The Directors who held office at 31 May 2018 confirm that so far as they each are aware, there is no relevant audit information (being information needed by the auditor in connection with preparing their audit report), of which the Company's auditor is unaware, and each of the Directors has taken all the steps that they ought reasonably to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the 2006 Act.

Committee effectiveness review

The effectiveness of the Committee was evaluated during the year as part of the Board evaluation process. Further details can be found on page 55. The review found that the Committee was operating effectively and its role and remit remained appropriate for the current needs of the business. In order to identify opportunities for further improvement, members discuss how the Committee is functioning in the private sessions that follow each meeting.

Significant issues

The external audit process identifies significant issues and accounting estimates and judgements which are reviewed by the Committee. These are summarised in the table on page 65. Management prepared papers and analysis on the significant issues and judgements which were discussed in Committee meetings during the year. The Committee also discussed these issues with the external auditor at the half year and year end. All the significant issues were also areas of focus for the external auditor as detailed in the auditor's report on page 157.

Significant issues and judgements

How the Audit Committee addressed these issues

Carrying value of First Student and Greyhound goodwill and intangible assets

Management exercises a significant amount of judgement during the impairment testing process as it is based on an estimation of future growth rates, cash flows and a suitable discount rate.

The Committee has considered and challenged the inputs for the impairment test model. The cash flow forecasts have been reviewed alongside past performance and committed operational changes to the business. The discount rate has been benchmarked to externally available data. The long term growth rate assumptions have been applied in line with both market data and the macroeconomic environment in the UK and North America. Sensitivities to the model inputs have been tested for reasonableness. Recognising the difficult trading conditions experienced by Greyhound during the year, management recommended that the strategic plans and estimates of future cash flows generated by the division be revised. Under these revised projections, the calculated value in use of the division resulted in a £277.3m shortfall to the carrying value of assets (2017: £360.4m surplus). Following the review of management's recommendation and projections, the Committee concluded that there should be an impairment charge of £277.3m on the Greyhound cash-generating unit. Further detail on impairment testing is provided in notes 4 and 11 in the consolidated financial statements.

North America self-insurance provisions

Provisions are measured at management's best estimate of the likely settlement of all known incidents. A valuation of the expense required to settle the obligation and, where applicable, the discount rate is used to calculate the expected settlement.

As reported elsewhere, 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. 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.

The Committee has reviewed the provision and considered the assumptions used to calculate the liability. Independent actuarial expert advice on the adequacy of the provisions against such liabilities is sought on a regular basis and the discount rate has been benchmarked against external data. The Committee agreed with management's view not to charge the items relating to the adverse developments in arriving at adjusted operating profit for the North American divisions in order to avoid distorting year-on-year comparisons for these businesses. The Committee considered this significant issue at its meeting in May 2018. Further detail on the assumptions used in determining the value is provided in note 4 in the consolidated financial statements.

Pensions

The Group participates in a number of defined benefit pension schemes. Management exercises significant judgement when determining the assumptions used to value the pension liabilities as these are materially sensitive to changes in the underlying assumptions.

Management has engaged with external experts and the Committee has considered the assumptions used for estimating the liability. Sensitivity analysis has been performed on the key assumptions: discount and inflation rates. The overall liability has also been assessed for reasonableness. Further detail on pensions is provided in note 36 in the consolidated financial statements.

Revenue recognition

Estimates are made on an ongoing basis when determining the recoverability of amounts due and the carrying value of related assets and liabilities arising from franchises and long term service contracts. In addition, revenue recorded may be subject to manual adjustment to reflect the timing and valuation of revenue recognised, e.g. due to timing of travel or where amounts are unbilled at a period end.

The Committee has reviewed the revenue recognition policies. These policies and their application are in line with accounting standards. Regular forecasts are compiled on the outcome of these types of franchises and contracts to assess the reasonableness of the assumptions applied. Further detail on revenue recognition is provided in note 2 in the consolidated financial statements.

Going Concern and Viability

The Group regularly prepares an assessment detailing available resources to support the going concern assumption and the viability statements.

The Committee reviewed management's funding forecasts and sensitivity analysis and the impact of various possible adverse scenarios. Following the review, which the Committee carried out at its meeting in May 2018, the Committee recommended to the Board the adoption of both the going concern and viability statements for inclusion in this report. The statements can be found on page 44.

Rail franchises profitability

The Committee regularly reviews projected trading for all rail franchises to ensure that they remain profitable over the respective franchise term.

The Committee considered the profitability of rail franchises at various meetings during the financial year and in May 2018 reached the conclusion that, with the exception of TPE, all rail franchises remained profitable for the duration of the respective franchise terms. Further detail on rail franchises profitability is provided in notes 4 and 26 in the consolidated financial statements.

TPE onerous contract provision

Management prepared updated financial forecasts for this franchise until the initial end date of 31 March 2023 and considered whether the TPE franchise was onerous and if an onerous contract provision should be recorded.

The Committee considered this significant issue at its meeting in May 2018. The Committee noted that the profitability forecasts for TPE prepared by management were based on a number of assumptions, most significantly passenger revenue growth. The assumptions are based on economic and other exogenous factors as well as changes in timetables, capacity and rolling stock. Based on these projections the Committee reviewed management's judgement that the most probable outcome was an onerous contract, as well as management's recommendation of the onerous contract provision charge to the income statement of £106.3m. Further detail on this provision is provided in notes 4 and 26 in the consolidated financial statements.

Non-GAAP measures

The Committee regularly reviews items which management consider appropriate to adjust for in arriving at Group and divisional results in order to avoid distortions in year-on-year comparisons.

The Committee considered the treatment of the adjusting items as set out in note 4 to the consolidated financial statements and in May 2018 reached the conclusion that this treatment was appropriate.

Corporate governance report continued

Audit Committee report continued

Policy on the provision of non-audit services

The Committee's policy on the use of the external auditor for non-audit services includes the identification of non-audit services that may be provided, those prohibited, and a process through which other non-audit services may be provided. The policy requires that non-audit services of the external auditor will only be used where the Group benefits in a cost-effective manner and the external auditor maintains the necessary degree of independence and objectivity.

Twice a year the Committee is also provided with a report on all non-audit assignments awarded to the external auditor and a breakdown of non-audit fees incurred. Details of amounts paid to the external auditor for audit and non-audit services for the year ended 31 March 2018 are set out in note 6 to the consolidated financial statements.

The policy, which was reviewed by the Committee in March 2018, is summarised below:

	Fees for other services				Audit fee
Fee categories	Non permitted services	Permitted non-audit services	Other permitted non-audit services	Statutory and audit related services	n/a
	Projects that are not to be performed by the external auditor because they would represent a threat to the independence of the audit team	Projects or engagements where the external auditor is best placed to perform the work due to their network and knowledge of the business or experience and market leadership in a particular area	Projects or engagements which are not covered under any of the other categories but where the external auditor is best placed to provide them	Projects or engagements where the external auditor is best placed to perform the work as it is clearly audit related	
Examples of other services	<p>Tax, payroll, HR, legal, valuation and actuarial services</p> <p>Management or decision-making consultancy</p> <p>Bookkeeping and preparing accounting records and financial statements</p> <p>Internal control or risk management procedures, internal audit outsourcing services</p> <p>Corporate financial, restructuring or transaction related services</p>	<p>Formalities relating to shareholder circulars and other regulatory reports</p> <p>Professional training</p>	<p>Due diligence related to M&A</p> <p>Consultations and audits regarding acquisitions and disposals, financial accounting and reporting standards</p> <p>Investment circular reporting accountant engagements</p> <p>Employee benefit plans, IT security and sustainability audits</p> <p>Reports required by regulators</p>	<p>Review of half-yearly and other interim financial information</p> <p>Advice on correct accounting treatment of proposed transactions</p> <p>Reporting on regulatory returns</p>	n/a
Roles and responsibilities	↑	↑	↑	↑	↑
CFO	n/a	Approval needed before work starts		Pre-approved as part of the approval of the annual audit fee	Negotiation and recommendation
Audit Committee		Approval needed if services likely to cost more than £125,000	Approval needed if services likely to cost more than £75,000 Consider if tender should be conducted		Review and approval

Corporate governance report continued

Board Safety Committee report



Jim Winestock
Chair, Board Safety Committee



It is important for the Committee to continuously review our safety strategy, procedures and systems in order to improve our safety performance.

Summary of Committee activities during the year

- May 2017**
Safety targets review and approval of performance objectives
Annual review of terms of reference
Review of the Group's safety management framework and commission of independent assurance review
- November 2017**
Performance evaluation review of results
First Bus safety presentation to better understand the division's safety risk exposures and challenges and the actions being taken to address these
- January 2018**
Review of new technologies and its impact on safety initiatives
Review of RAIB report on Croydon tram incident
- At every meeting**
Safety performance of the Group, divisions and operating companies
Key safety initiatives
Be Safe programme
Reports from the Executive Safety Committee
- Ad hoc**
Lessons learnt and steps taken following significant incidents

The Committee meets at least three times per year and the Deputy Company Secretary acts as Committee Secretary. It is supported by the Executive Safety Committee, which is chaired by the Chief Executive, and meets every two months.

Safety Governance

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

Our approach to safety governance is characterised by:

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

In May 2017, we commissioned an independent review of safety to Arthur D Little. We report further on the outcome of that review on page 26. We are pleased that the initial findings demonstrate that FirstGroup has robust and mature safety governance and management arrangements.

For more information on the Group's approach to safety and activities in the year, see page 26 in the Corporate responsibility section.

Looking ahead to 2018/19

We are grateful for the Rail Accident Investigation Branch (RAIB)'s recommendations for improvements to the tram system in Croydon and across the UK. Tram Operations Limited has learned from the RAIB's analysis and its own internal reviews and it will continue to work hard, with our support and alongside TfL, to follow the RAIB's recommendations and to make further improvements where necessary.

Membership and operation

Committee member	Meetings attended	Other Committees/Roles	Independent
Jim Winestock (Chair)	3	Audit Committee Nomination Committee	Yes
Jimmy Groombridge ¹	2	Group Employee Director	No
Imelda Walsh	3	Nomination Committee Chair of Remuneration Committee	Yes

¹ Jimmy Groombridge was appointed in May 2017 and his first Committee meeting was in November 2017.

Role and responsibilities

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

The full terms of reference of the Committee can be found on the Company's website.

We will also continue with the roll out of the Be Safe programme in GWR and SWR. Be Safe is a highly valuable investment that is already changing behaviours and culture, building on established compliance with safety management systems, processes, procedures and practices to achieve the goal of zero harm.

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