

## Directors' report and additional disclosures

The Directors present their report on the affairs of the Group, together with the audited financial statements and the report of the auditor for the year ended 31 March 2018. Information required to be disclosed in the Directors' report may be found below and in the following sections of the Annual Report and Accounts, in accordance with the Companies Act 2006 (the "2006 Act") and Listing Rule 9.8.4R of the Financial Conduct Authority (the "FCA"):

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### Directors

The Directors of the Company who served during the year and their biographical details are shown on pages 46 and 47. Richard Adam and Tim O'Toole stood down from the Board on 2 February and 31 May 2018 separately. Details of Directors' interests in shares can be found in the Directors' remuneration report on pages 89 and 92.

During the year, no Director had any interest in any shares or debentures in the Company's subsidiaries, or any material interest in any contract with the Company or a subsidiary being a contract of significance in relation to the Company's business.

### Powers of the Directors

The Directors are responsible for the management of the business of the Company and may exercise all powers of the Company subject to applicable legislation and regulation and the Company's Articles.

### Directors' indemnities and liability insurance

FirstGroup maintains liability insurance for its Directors and Officers. The Company has also granted indemnities to each of the Directors as well as the General Counsel & Company Secretary, the Group Director of Finance, the Group Financial Controller, the Group Treasury & Tax Director, the Chief Information Officer, the Greyhound President and an Officer of FGI Canada to the extent permitted by law. These indemnities are uncapped in amount, in relation to certain losses and liabilities which they may incur to third parties in the course of acting as a Director (or Officer or Company Secretary as the case may be) of the Company or any of its associated companies. In the case of Group Director of Finance, the Group Financial Controller, the Group Treasury & Tax Director, the Chief Information Officer, the Greyhound President and an Officer of FGI Canada the indemnities are limited to their actions as Directors of specific associated companies. Neither the indemnity nor insurance cover provides cover in the event that a Director (or Officer or Company Secretary as the case may be) is proved to have acted fraudulently or dishonestly. The indemnity is categorised as a 'qualifying third-party indemnity' for the purposes of the 2006 Act and will continue in force for the benefit of Directors (or Officers or Company Secretary as the case may be) on an ongoing basis.

### Share capital

As at 31 March 2018, the Company's issued share capital was 1,210,832,034 ordinary shares of 5 pence, each credited as fully paid. The Company holds 157,229 ordinary shares in treasury, and the issued share capital of the Company which carries voting rights of one vote per share comprises 1,210,674,805 ordinary shares. Further details of the Company's issued share capital are shown in note 27 to the Company's financial statements.

The Company's shares are listed on the London Stock Exchange.

### Substantial shareholdings

As at 31 March 2018, the Company had been notified under the FCA's Disclosure, Guidance and Transparency Rule ("DGTR") 5 of the following interests in its total voting rights of 3% or more:

Name of holder	Number of ordinary shares	% of total voting rights
Vidacos Nominees Ltd – HSBC Custody Nominees (Australia) Ltd	71,695,290	5.95
Schroders plc	64,283,712	5.33
Jupiter Asset Management Limited	60,603,024	5.03
Vidacos Nominees Ltd	59,397,756	4.93

There have been no further notifications between 31 March 2018 and the date of this report.

### Articles of Association

The description in this section summarises certain provisions of the Company's Articles and applicable Scottish law concerning companies. This summary is qualified in its entirety by reference to this Company's Articles and the 2006 Act. The Company's Articles may be amended by a special resolution of the Company's shareholders.

## Shares

The rights attached to the ordinary shares of the Company are defined in the Company's Articles. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

## Voting rights

Shareholders are entitled to attend and vote at any general meeting of the Company. It is the Company's practice to hold a poll on every resolution at general meetings. Every member present in person or by proxy has, upon a poll, one vote for every share held. In the case of joint holders of a share the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the Register of Members in respect of the joint holding. The Notice of the 2018 AGM accompanying this document specifies the deadlines for exercising voting rights.

## Dividend rights

Shareholders may by ordinary resolution declare dividends but the amount of the dividend may not exceed the amount recommended by the Board. The Directors are not recommending the payment of a final dividend this year.

## Transfer of shares

There are no specific restrictions on the size of a holding nor on the transfer of shares which are both governed by the general provisions of the Company's Articles and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights at any meeting of the Company.

## Employee share plans

The Company operates a number of employee share plans, details of which are set out in note 35 to the consolidated financial statements. Kleinwort Benson (Guernsey) Trustees Limited, as trustee of the FirstGroup plc Employee Benefit Trust (EBT), holds shares in the Company in trust in order to satisfy awards made to participants under the Company's employee share plans. The EBT waives its rights to vote and to dividends on the shares it holds which are unallocated.

Under the rules of the FirstGroup plc Share Incentive Plan, also known as BAYE, employees buy Partnership Shares and receive Matching Shares in the Company. In order to preserve certain tax benefits these shares are held in a trust by Computershare for employees. Whilst these shares are held in trust, the voting rights attached to them are exercised by the trustee, but only at the direction of the employees.

All of the Company's employee share plans contain provisions relating to change of control. On a change of control, options and awards granted to employees may vest and become exercisable, subject to the satisfaction of any applicable performance conditions at the time.

Further details on the Company's employee share plans can be found in the Directors' remuneration report on page 68.

## Purchase of own shares

At the AGM of the Company in 2017 authority was granted for the Company to purchase up to 10% of its ordinary shares. During the year no ordinary shares were purchased. Under the existing authority the Company may purchase up to 120,791,435 ordinary shares. This authority remains in place until the 2018 AGM, when the company intends to seek a renewal.

## Political donations

At the 2017 AGM, shareholders passed a resolution to authorise the Company and its subsidiaries to make political donations to political parties or independent election candidates, to other political organisations, or to incur political expenditure (as such terms are defined in sections 362 to 379 of the 2006 Act), in each case in amounts not exceeding £100,000 in aggregate. As the authority granted at the 2017 AGM will expire, renewal of this authority will be sought at this year's AGM. Further details are available in the Notice of AGM. As a result of the broad definition used in the 2006 Act of matters constituting political donations, it is possible that normal business activities, which might not be thought to be political expenditure in the usual sense, could be caught. Accordingly, authority is being sought as a precaution to ensure that the Company's normal business activities do not infringe the 2006 Act, but it is not the policy of the Company to make donations to EU political organisations or to incur other political expenditure in the EU.

In the US it is far more common for businesses to participate in the political process through a variety of methods. During the year the Group's US businesses incurred political expenditure in the US of \$18,948 (2016/17: \$67,748) in the support of their business goals. The Group has fully complied with jurisdictional reporting of these contributions.

No other political donations or expenditure was incurred by the Company and its subsidiaries during 2017/18.

## Change of control – significant agreements

### Financing agreements

The Group has a £800m multi-currency revolving credit and guarantee facility between, amongst others, the Company and The Royal Bank of Scotland plc dated 22 March 2017. This refinanced the Group's existing revolving credit and guarantee facility. Following any change of control of the Company, individual lenders may negotiate with the Company with a view to resolving any concerns arising from such change of control. If the matter has not been resolved within 30 days, an individual bank may cancel its commitment and the Company must repay the relevant proportion of any drawdown.

The US\$100m 4.17% notes due 2025, US\$175m 4.29% notes due 2028, the £250m 6.125% bonds due 2019, the £350m 8.750% bonds due 2021, the £200m 6.875% bonds due 2024 and the £325m 5.250% bonds due 2022 issued by the Company may also be affected by a change of control of the Company. In respect of the £350m 8.750% bonds due 2021, the £200m 6.875% bonds due 2024 and the £325m 5.250% bonds due 2022, upon a change of control of the Company, provided that certain further thresholds in relation to the credit rating of the bonds are met, the bondholders have the option to require the Company to redeem the bonds. In respect of the US\$100m 4.17% notes due 2025, US\$175m 4.29% notes due 2028, upon a change of control, the Company must make an offer to noteholders to prepay the entire unpaid principal amount of the notes held by each bondholder (at par) together with interest accrued thereon.

## First Rail

The Group's franchised passenger rail operators, First TransPennine Express Limited, First Greater Western Limited First MTR South Western Trains Limited (jointly owned with MTR Corporation) are each party to a franchise agreement with the Secretary of State for Transport. These franchise agreements are subject to termination clauses which may apply on a change of control. First MTR South Western Trains Limited, First TransPennine Express Limited and First Greater Western Limited and the Group's non-franchised rail operator, Hull Trains Company Limited, each hold railway licences as required by the Railways Act 1993 (as amended); these licences may be revoked on three months' notice if a change of control occurs without the approval of the Office of Rail and Road. All of these operators also require and hold track access agreements with Network Rail Infrastructure Limited under which they are permitted to access railway infrastructure. Failure by any of the operators to maintain its railway licence is a potential termination event under the terms of the track access agreements. The Group's railway operators also lease rolling stock from specialist rolling stock leasing companies such as Eversholt Rail Group, Porterbrook Leasing Company Limited and Angel Trains Limited. A material number of the individual leasing agreements include change of control provisions. The Group is also involved from time to time in bidding processes for UK rail franchises and transport contracts further afield which customarily include change in circumstance provisions which would be triggered on a change of control and could result in termination or rejection from further participation in the relevant competitions.

## Significant shareholders' agreements

The Group, through First Rail Holdings Limited, has shareholders' agreements governing its relationship with MTR Corporation in relation to the South Western rail franchise and with Trenitalia for the purposes of bidding for (and, if successful, operating) the West Coast Partnership and East Midlands franchises. As is customary, these agreements include provisions addressing change of control.

## Post-balance sheet events

There have been no material post-balance sheet events as at the date of this report.

## Employee involvement and policies concerning disabled employees

Throughout the Group, regular dialogue is maintained with employee representatives, including trade unions. Each division has its own information and consultation arrangements, with employees being represented by more than 30 different unions.

Across the group, full and fair consideration is given to applications for employment by people with disabilities. We are committed to supporting disabled employees, including employees who become disabled during their employment, with regards to training, career development and promotion.

## Management report

The Strategic and Directors' reports together are the management report for the purposes of the FCA's DGTR 4.1.5R.

The Strategic report was approved on behalf of the Board on 31 May 2018.

## Michael Hampson

General Counsel & Company Secretary

31 May 2018

395 King Street, Aberdeen AB24 5RP

# Directors' responsibility statement

**Statement of Directors' responsibilities in respect of the Annual Report and the financial statements**

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have chosen to prepare the parent company financial statements in accordance with applicable UK Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and applicable law.

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy, at any time, the financial position of the Company and enable them to ensure that the financial statements comply with the 2006 Act. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities, and have adopted a control framework across the Group.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Responsibility statement

Each Director confirms to the best of their knowledge that:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic report and Governance section include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's and the Group's position and performance, business model and strategy.

The Strategic report comprising pages 4 to 44 and the Governance section comprising pages 46 to 97, and including the sections of the Annual Report and Accounts referred to in these pages, have been approved by the Board and signed on its behalf by:

**Matthew Gregory**  
Chief Financial Officer  
31 May 2018  
395 King Street, Aberdeen AB24 5RP