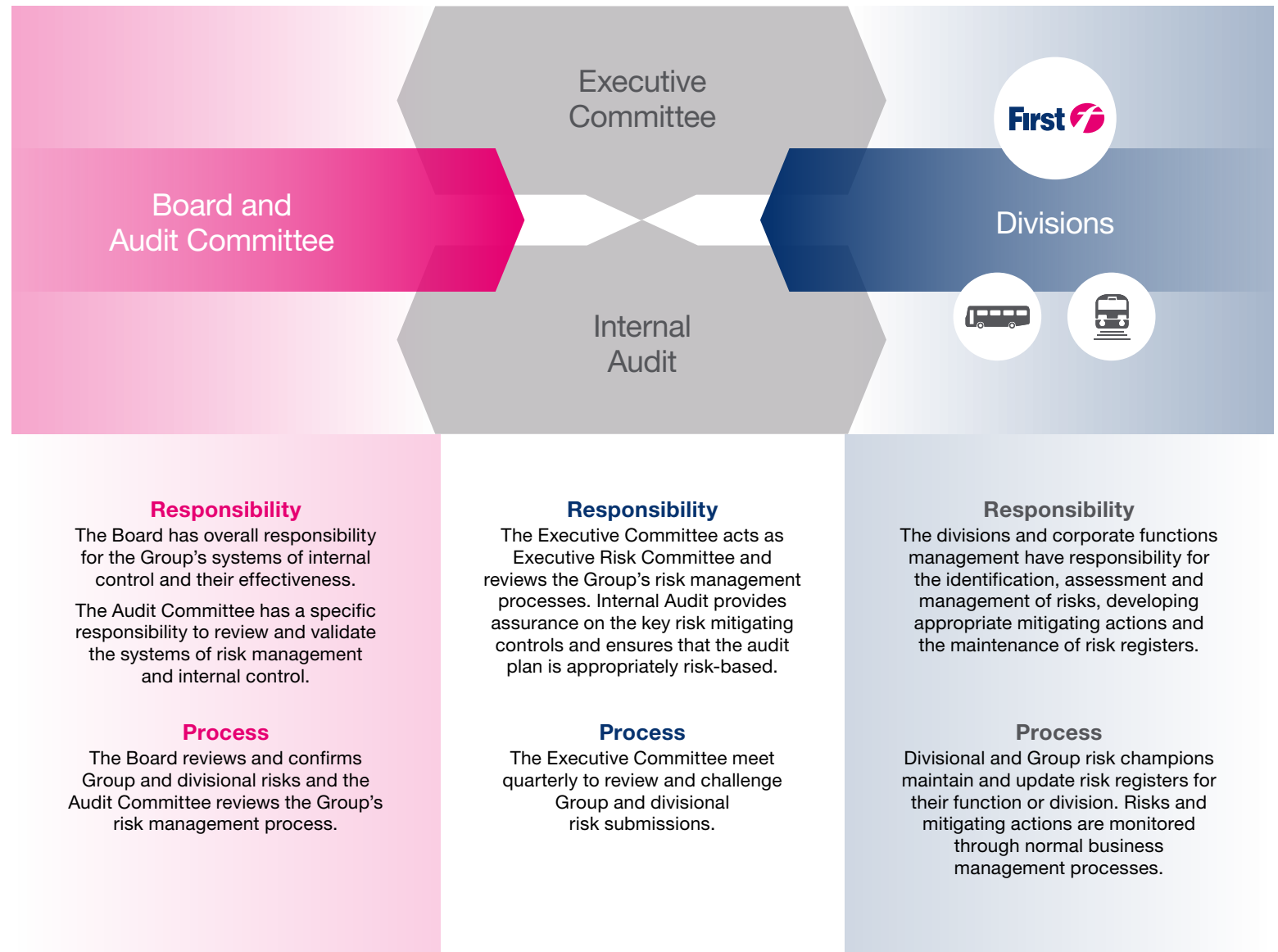


# Risk management

A crucial part to deliver on the Group's four strategic pillars is our ability to effectively manage the risk and opportunities the business faces. Our risk management framework considers the impacts of both the changing transportation market and the wider environment to our operations. We keep ahead of potential risks by horizon-scanning for emerging risks, training our people and investing in awareness campaigns and external expert advice, implementing risk mitigations, and reviewing opportunities that are identified through the evolution of the public transport models. Our principal risks and uncertainties are detailed on pages 88 to 95.

## Our risk management approach

We take a holistic approach to risk management, first building a picture of the principal risks at the divisional level, then consolidating these with Group risks into a Group view. The Executive Committee continues to have regular meetings dedicated to discussions around the Group's principal risks, as well as the identification and analysis of emerging risks, all of which are considered and approved before being presented to the Audit Committee and Board for review and approval. The objective of this process is to ensure that all key risks to the Group are identified and reviewed regularly, are actively monitored, and mitigating controls are put in place to ensure that the impact on the organisation is managed within the risk appetite levels set by the Board.



## Risk management continued

### Emerging risks

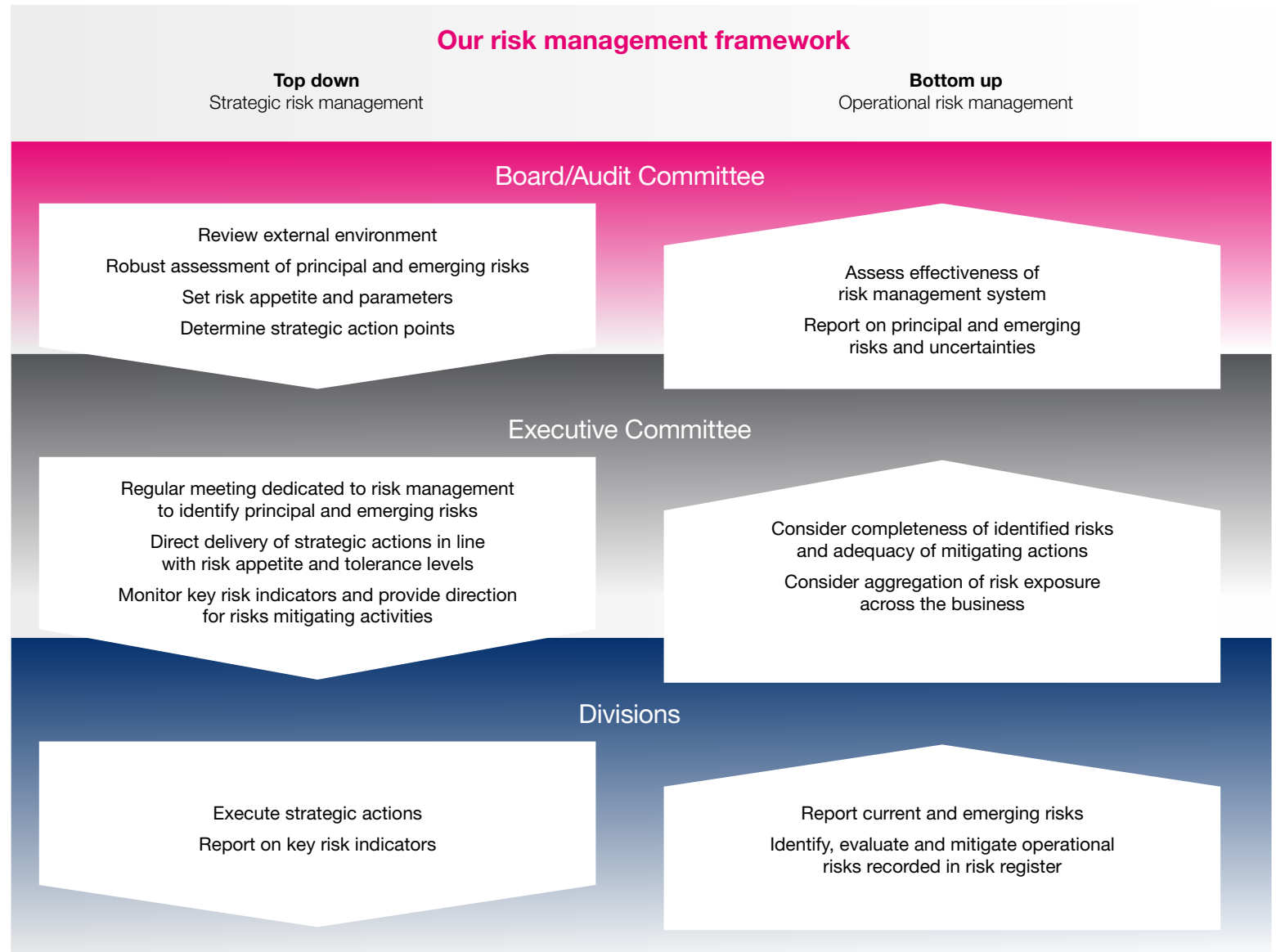
Our risk management approach and methodology includes review and identification of risks which may develop or already exist that may be difficult to quantify, and may lead to a significant impact on the Group. Emerging risks are reported to the Executive Committee and the Board to consider whether to establish them as principal risks. To identify and assess emerging risks, we conduct risk workshops and run deep-dive sessions with divisional and Group leadership teams, engage specialists and perform scenario analysis.

### Our risk management framework and structure

Whilst some risks, such as the financial resources risk, are managed at a Group level, all our businesses are responsible for identifying, assessing and managing the risks they face with appropriate assistance, review and challenge from the Group functions.

We seek to continue to improve the quality of risk management processes and information generated by our divisions. The Group has developed a risk appetite framework which informs the business of the Board's appetite for certain risks and informs their risk assessment activities.

Our risk management framework is shown in the adjacent diagram.



## Risk management continued

### Risks associated with artificial intelligence

Technological developments, including AI, continue to be fast-paced and uncertain. This will affect our external environment (e.g. customers, political and other stakeholders, competitors and cyber threat actors), and the Group's internal environment (our processes and supply chains), including new evolving regulatory compliance requirements.

In order for FirstGroup to remain competitive and responsive to the market, there is a need to continually seek opportunities to both deploy innovative technology solutions for our customers and to drive internal process and decision efficiency in a safe and trusted way. In addition, we need to monitor the use of these technologies externally by threat actors as well as emerging competitive deployment of AI, including generative AI.

AI is expected to have direct and indirect impacts across the Group's principal risks (e.g. Safety, Legal and Regulatory, HR skills and competencies & resourcing, and Cyber risks), and unlock opportunities within Contracted business and Growth within the sector. However, whilst these impacts are expected to be beneficial as well as adverse in some instances, the nature, scale and timing continue to be highly uncertain at this stage. We continually monitor technological developments, including Generative AI, to ensure our risk mitigation is effective for managing these risks from internal deployments and to protect the business from external use by third parties.

### Principal risks and uncertainties

We outline our principal risks on page 88 onwards with an overview of the associated mitigation activities, and corresponding movement of the risk. The Board defines the risk appetite for each of these principal risks. The overall risk appetite for the Group is balanced between risk averse for safety and regulatory compliance risks to neutral or risk accepting for areas that can drive future growth for the Group.

Our risk management methodology continues to aim at identifying the principal and emerging risks that could:

- adversely impact the safety or security of the Group's employees, customers and assets
- have a material effect on the financial or operational performance of the Group
- impede achievement of the Group's strategic objectives and financial targets
- adversely impact the Group's reputation or stakeholder expectations

Further information on our risk management processes is contained in the Governance report on pages 103 to 161.

### Principal risks

The following table provides an overview of our principal risks, their risk direction and severity at the year end compared to the prior year using individually assessed impact, likelihood and velocity scores. Understanding these risk parameters aids effective risk management and delivery of our strategy.

**Key:** ◀▶ FY 2024 risk is stable    ▽ FY 2024 risk is decreasing    ▲ FY 2024 risk is increasing

**Severity:** (Impact x Likelihood x Velocity)

Low

High

#### External risks

Economic conditions	◀▶
Geopolitical	▲
Climate change	◀▶

#### Strategic risks

Contracted business	▲
Growth within the sector	◀▶

#### Operational risks

Financial resources	▽
Safety	◀▶
Pension scheme funding	▽
Legal and regulatory compliance	◀▶
Information security, including cyber	▲
Human resources	◀▶

### How to use this scale:

During execution of the review and placement of the principal risks on the above table, the Executive Committee and the Board considered financial impacts to the divisions and the Group. Specifically, the 'High' end of the scale represents a combination of a catastrophic annual financial impact at a level that is expected to be difficult to mitigate being repetitive and the 'Low' end considers financial impacts that are not material.

## Risk management continued

Key: ◀▶ FY 2024 risk is stable    ▽ FY 2024 risk is decreasing    ▲ FY 2024 risk is increasing

### Risk description

### Mitigation

### Developments in the risk profile during the year

#### External risks

##### Economic conditions ◀▶

The Group's success depends on adapting to economic fluctuations or uncertainties which may negatively impact performance by increasing costs, changing customer needs, reducing demand and/or reducing opportunities for growth. Globally, the economic outlook is less certain, and the Group specifically has experienced continued industrial relations activity as well as inflationary cost pressures due to the macroeconomic environment, which eased in the second half of the year. All these market changes have the potential to decrease the Group's financial performance and available financial resources to invest capital in innovative solutions that drive demand.

Whilst passenger demand in our key markets has been stable, potential changes in passenger behaviours and the applicable economic conditions remain uncertain in the medium term.

- We actively engage with government departments and sector bodies to ensure an appropriate level of passenger services are delivered whilst at the same time designing and running our operations based on current demand levels
- We prioritise a customer-focused perspective and seek to provide innovative transport solutions, by adapting to market uncertainties and driving demand
- We continue to apply our fuel and energy hedging strategy to offset temporary economic impacts driven by inflation and supply chain challenges
- We continue to focus on developing new innovative service offerings to our customers to diversify the business, such as the open access fares model, to mitigate against the impacts of changing economic conditions

The macroeconomic landscape is showing signs of recovery, with the inflation outlook improving and the Group continuing to hedge exposure to foreign exchange and fuel price fluctuations to minimise material impact on costs. This has allowed for a certain level of visibility that can be built into the business forecasting models.

##### Geopolitical ▲

The Group operates in a political landscape that is constantly changing, with a UK general election scheduled to take place in July 2024. This has the potential to cause instability where the Group's operations have some reliance on government policy and funding to support public transport operators, as well as infrastructure initiatives. Significant industry reform and changes in government transport policies, an inability to maintain or participate in bus and rail contracts and/or participate in public transportation funding available may result in the reduction or elimination of bus services and rail contracts. Further, given the current uncertainty in the political landscape, failure to attract and retain resources with the knowledge and skills necessary to maintain/develop government partnerships for rail operations and local government for bus contracts, may result in adverse financial impact for the Group.

Developments in international affairs, such as international tensions, including conflicts in Ukraine and the Middle East, as well as changes in regulations in Europe and the UK following Brexit, may impact the Group's commitments to deliver key investments, or impact the Group's supply chain, resulting in financial loss and potential reputational damage.

- Whilst the Group collaborates with industry bodies to help anticipate government policy and/or funding regime changes in order to adjust operations, the Group is an apolitical organisation and does not have the ability to control or substantially influence government policy
- The Group has been able to mitigate resourcing challenges by partnering with third party consultants to help further drive the change in this area and ensure the business has the requisite skills and capabilities to leverage national funding
- Outside of the NRC's which earn fees, flexible operating models enable the business to react quickly and mitigate the impacts from changes in government funding and related customer demand
- We deploy hedging techniques to counterbalance potential negative impact on certain costs due to adverse developments in international affairs
- We regularly review and assess our risk environment to ensure that we are able to adapt to any geopolitical developments including focus on supply chain disruption
- We continue to actively engage with both local and national stakeholders and partners on transport policy that delivers best for our customers

The UK political environment remains uncertain, with an ever-evolving regulatory backdrop and the upcoming UK general election. The Labour Party has formally stated that NRCs will be brought into public ownership as they expire during their first term in office and that the party will support wider bus industry franchising should it win the next election. The Conservative Party has also outlined proposals for the rail industry. Both Parties advocate for a "guiding mind" in the form of Great British Railways, and support the continuing role of open access services, with track access independently granted and renewed by the ORR.

Wider afield the developments from the 2024 US presidential election, as well as ongoing international tensions including war in Ukraine and the Middle East add further uncertainty and could impact the Company's operations via reduction in economic growth and consumer confidence and disruption in supply chain or inflation.

Nonetheless, passenger demand for our services has remained stable and both national and local governments in the UK continue to support public transport service providers.

## Risk management continued

Key: ◀▶ FY 2024 risk is stable    ▽ FY 2024 risk is decreasing    ▲ FY 2024 risk is increasing

### Risk description

### Mitigation

### Developments in the risk profile during the year

#### External risks continued

#### Climate change ◀▶

Businesses globally continue to experience increasing pressure and scrutiny from all stakeholders, particularly policymakers and investors, to demonstrate strong progress on their climate-related commitments and performance. Inadequate attention to our climate-related risks and opportunities, as well as emerging technologies, could negatively impact the Group's performance, reputation and growth.

The UK Government has set a legally binding target for net-zero GHG emissions by 2050, to which we were the first public transport operator to formally commit. Delays in implementing our strategic plans to mitigate climate-related risks, including transitioning our fleets to zero emissions, could result in lost business, reduced revenue, reputational impacts and reduced opportunities from modal shift.

Climate change poses both physical and transition risks to our business, from weather events impacting our assets, operations, service delivery and customer demand, to changes in policy, technology and market expectations impacting our capital and operational costs, our reputation, and access to funding.

➔ [Read more on page 74](#)

- Climate change has been an integral part of our risk management framework for many years and is included within our strategic framework for sustainability 'Mobility Beyond Today'. Our business strategy was updated in 2024 to reflect our progress and ambition on addressing climate change. Driving modal shift and leading in environmental and social sustainability were both placed at the heart of this new strategy, forming two of the four key pillars
- FirstGroup was the first bus and rail operator in the UK to formally commit to setting an ambitious science-based target aligned with limiting global warming to 1.5°C and reaching net-zero emissions by 2050 or earlier. During FY 2023, we completed our submission of a science-based target and had our target formally approved by the SBTi. Avanti and SWR have also successfully submitted science-based targets
- We continue to embed the TCFD recommendations to assess and mitigate impacts from climate change onto our business and build long-term climate resilience across our operations
- More details on our climate-related targets, commitments, mitigation and actions can be found in the TCFD section of this report from page 74

The Group recognises the continued responsibility and opportunity to create a more sustainable world and maintains our commitment to invest in new technologies and collaborate with partners to help create a cleaner future. Our TCFD implementation work, the climate-related commitments we have made and the strategies we are developing to meet them will ensure we are managing our climate transition risks effectively and continuing to build business resilience for the long term. We have also started work on a Group-wide transition plan in line with Transition Plan Taskforce recommendations, and we intend to publish this plan later in 2024.

Whilst recognising the risks, as a public transport provider we are also focused on the opportunities from modal shift and the vital role we play in reducing congestion on the roads, improving air quality and facilitating the transition to a zero-carbon world.

Highlights on climate and related sustainability initiatives during the year can be found in the Responsible business section of this report from page 48, with further details set out on pages 54 to 59.

More details on our climate-related performance can be found in our Environmental Performance Report 2024 at [www.firstgroupplc.com](http://www.firstgroupplc.com)

## Risk management continued

Key: ◀▶ FY 2024 risk is stable    ▽ FY 2024 risk is decreasing    ▲ FY 2024 risk is increasing

### Risk description

### Mitigation

### Developments in the risk profile during the year

#### Strategic risks

##### Contracted business ▲

The Group's contracted bus and rail businesses are dependent on the ability to secure and renew contracts on profitable terms, manage affiliate contracts effectively, deliver in accordance with contract terms and avoid termination. This is becoming increasingly important for First Bus in the emerging franchising landscape, and in First Rail with the Labour Party stating that they will bring the NRCs into public ownership as they expire. Additionally, the ability of the Group to achieve performance targets is dependent on our ability to meet and exceed performance metrics laid out in rail contracts.

Failure to secure profitable contracts would result in reduced revenue and profitability and/or negative impact on delivering the Group's strategic objectives.

- The NRC structure is concession-based with a fixed management fee plus performance incentives, providing a balance of risk and reward
- GWR's NRC runs to June 2028, with a core term to June 2025. The SWR NRC was extended in accordance with its terms and runs until May 2025. The TransPennine Express NRC was not renewed at the end of the core term on 28 May 2023. The West Coast Partnership Emergency Recovery Measures Agreement was superseded by an NRC which commenced in October 2023. It runs until October 2032, with a core term to October 2026
- First Rail's Hull Trains and Lumo open access operations have track access agreements in place to 2032 and 2033 respectively
- We have the extensive operational expertise needed to meet requirements for the contract performance incentives
- In First Bus the contracted element of the business has historically been low, although this is likely to rise materially over the coming years as franchising affects more areas, commencing with the Rochdale franchise in the TfGM area in 2024. At Leicester, First Bus delivered an all-electric depot under an Enhanced Partnership model with the City Council
- The Group maintains delegated authority control across all contracted operation bids

The transition from the previous franchising regime to NRCs in First Rail has provided a balance of risk and reward via reduced revenue risk, minimal cost and contingent capital risk, and will continue to provide more consistent cash generation each year subject to government policy changes. Going forward, First Rail is actively leveraging its operational structure and depth of experience and evaluating opportunities to diversify its portfolio. This includes expanding open access and participating in bids for new contracts like the TfL Elizabeth Line where First Rail has prequalified, and the contract to operate the IFS Cloud London Cable Car, which First Rail has been awarded. The contract commences in June 2024 and runs to 2032.

First Bus in Manchester has been awarded franchise contracts to operate local bus services in and around Rochdale in the evolving Bee Network, with the division continuing to operate both tendered local bus services and B2B employee shuttle/airport services across the UK and Ireland.

##### Growth within the sector ▶◀

The Group's operational success from both organic and inorganic growth is dependent on effectively responding to customer demand, delivering operational efficiencies, and identifying and executing acquisitions and transactions. Recent consolidation in the transport industry may also lead to future opportunities for the Group.

Failure to identify and/or execute acquisitions and other transactions in a timely manner, along with the failure to complete transactions in accordance with agreed terms, could result in negative impact on business operations (contracts, employee retention, etc.), the inability to meet financial goals and obligations, and negative reputational impacts.

- The Group actively seeks out and reviews M&A opportunities that would be beneficial to our portfolio, ensuring existing funding facilities are flexible
- We continue active dialogue with our shareholders and investors and gather insights from our strategic advisers and contacts within the business to evaluate potential transactions. In particular, we have strong relationships with banks which enable us to move fast when opportunities are identified
- When necessary, we continue to seek external advice and input (e.g., from brokers or other experts)
- We have evaluation frameworks that include a disciplined and researched approach to acquisitions
- Participation in the wider opportunities from the electrification and decarbonisation of First Bus, including the strategic partnership with Hitachi ZeroCarbon, B2B and B2C charging using the charging infrastructure

The Group completed the bolt-on acquisition of York Pullman bus business during the year adding new product lines in the coach and B2B market to the portfolio, following the acquisition of Airporter and Ensign completed the prior year.

Acquisition opportunities are expected to continue.

We continue to engage with shareholders on strategic direction and growth opportunities. Any material transactions are announced on a timely basis.

Applications for the expansion of open access rail services delivered by Hull Trains and Lumo have been submitted to the ORR.

## Risk management continued

Key: ◀ FY 2024 risk is stable    ▽ FY 2024 risk is decreasing    ▲ FY 2024 risk is increasing

### Risk description

### Mitigation

### Developments in the risk profile during the year

#### Operational risks

##### Financial resources ▽

The ability of the Group to service its current debt or other financial obligations relies on its capability to refinance debt as it becomes due and the capital allocation policy being applied.

The Group is investment grade credit rated by Standard & Poor's and Fitch, as well as having achieved further upgrades during the year. A downgrade in the Group's credit ratings to below current investment grade may lead to increased financing costs and other consequences and affect the Group's ability to obtain financing if required to invest in its operations.

The Group's banking arrangements contain financial and other covenants with financial covenants tested semi-annually on 30 September and 31 March. In the event a covenant test level is breached, the Group may not be able to negotiate sufficient debt capacity to allow it to continue to trade.

- The Group monitors our leverage ratios and overall liquidity consistently to ensure we remain within our target range and have adequate financial resources on a two-to three-year period looking forward
- As at year end, the Group has adjusted net cash of £64m and an undrawn £300m committed revolving credit facility that matures in August 2026 together with a further committed Green Hire Purchase Finance Facility of £150m that is available to draw to January 2027 for 1,000 EV bus bodies, and through Hitachi joint venture a £80m debt facility for the financing of up to 1,000 EV bus batteries
- We conduct a bi-annual viability assessment of the headroom and ensure this is sufficiently resilient, including cash and financing facilities

The Group maintains strong bank relationships, with good awareness and understanding of debt market trends and regular monitoring of banking covenants and headroom. Our credit rating was upgraded by Fitch on 23 May 2023 and Standard & Poor's on 12 September 2023 to being further up the investment grade credit rating.

We have experience in raising material amounts of credit facilities, ensuring we plan alternative solutions to mitigate liquidity risk in the event of wider refinancing requirements.

##### Safety ◀▶

The Group is strongly committed to fostering and maintaining a culture of safety. However, public transport inherently includes safety-related risks, many of which are out of our control. These include geopolitical risks impacting security and supply chain, the increase in adverse weather and its impacts and increased congestion on public roads. A safety incident, or a threat of an incident, could be caused by mechanical failures and/or human error resulting in adverse financial impact, reputational damage through reduced public confidence in public transport and potentially reduce demand for our services.

➔ [Read more on page 71](#)

- All divisions have extensive safety plans and safety training for our employees
- We work with industry peers to share lesson learned and collaborate on shared risks
- Incidents are thoroughly investigated to maintain a learning culture where we continuously improve our safety standards
- Mechanical safety controls (speed monitoring, cameras, etc.) are implemented across our fleet of vehicles and trains
- We follow the regulatory regime and comply with statutory inspections and monitoring
- Whilst the Group has implemented preventative safety measures and procedures, we recognise that certain incidents are ultimately out of our control and do at times result in legal claims. As a result, the Group has dedicated departments, utilising third party experts when needed, to analyse and maintain effective insurance structures and levels
- The Responsible Business Committee oversees material safety matters and risks across the Group, as well as reviewing and challenging targets in respect of safety performance
- Across all our divisions we implement targeted biannual assurance reviews of our safety management systems, improvements and performance. We use data analysis and insights to prioritise our efforts in improving safety through both technology and behaviour

The Group continues to assess, update and implement safety procedures across our businesses, mitigating risks to reduce the likelihood of safety incidents from occurring, taking into consideration any technological advancements.

Specific initiatives include enhancing the low bridge warning system in First Bus, and enhancements to door operation systems in First Rail to improve the safety of train door opening.

Collaboration within the rail and bus sectors continues to enhance safety by fostering industry-wide learning and sharing innovative solutions for safety improvements.

First Bus have also introduced a Road Passenger Transport Specific H&S training programme approved by IOSH to take employee competence to the next level. We have also gained ISO 45001 accreditation for our Safety Management System (SMS) which is independently scrutinised against the ISO45001: 2023 standards annually.

## Risk management continued

Key: ◀ FY 2024 risk is stable    ▽ FY 2024 risk is decreasing    ▲ FY 2024 risk is increasing

### Risk description

### Mitigation

### Developments in the risk profile during the year

#### Operational risks continued

#### Pension scheme funding ▽

The Group sponsors several defined benefit pension schemes. The Group's future cash contributions and funding requirements in respect of each of the schemes are dependent on investment performance, movements in discount rates, expectations of future inflation and life expectancy, and relevant regulatory requirements.

In order to maintain adequate funding for its pension liabilities and prevent adverse financial impacts or reputational damage, the Group continues to monitor the performance of pension fund investments and movements in the factors that affect the value of the related pension liabilities.

- The Group's pension schemes are well funded and have active programmes to either fully de-risk (North American legacy schemes) or meet the objective of low dependency in the short to medium term (Bus and Group schemes in the UK)
- The Group uses third party experts to advise on investment strategies and liability management and monitor movements in discount rates, mortality and inflation expectations
- Interest rate and inflation risks are hedged to a high degree with the use of liability-driven investment strategies
- The Group TOCs which operate under the NRCs are not responsible for any residual deficit at the end of a contract and First Rail bears no cost risk during the contract
- Apart from the TOCs operating under NRCs, pension provision for all new employees is provided via defined contribution arrangements
- We work closely with experienced trustee boards that are ensuring effective systems of governance are in place to manage risk
- Pension risks are carefully scrutinised before any new contract or acquisition is approved

We have reduced the Group's exposure to pension risk by c.£1bn as a result of:

- terminating our participation in Local Government Pension Schemes in the UK;
- settling pension obligations by payment of cash lump sums to eligible participants in North American pension plans;
- buying out a portion of the US pension plan with an insurer, and
- fully annuitising the Canadian pension plan.

Plans for terminating the legacy North American pension plans in the near term are progressing well. The legacy pension schemes in the UK continue to mature reducing risk as a result of closure to accrual several years ago. C.£100m continues to be retained in Limited Partnerships for the Group and Bus schemes in the UK following the sale of the North American businesses in 2021. The cash in these arrangements could be returned to the Group in certain scenarios depending on achieving low dependency funding levels. Key funding valuations will be the April 2024 and April 2030 valuations for Bus and Group Schemes Respectively.



## Risk management continued

Key: ◀▶ FY 2024 risk is stable    ▽ FY 2024 risk is decreasing    ▲ FY 2024 risk is increasing

### Risk description

### Mitigation

### Developments in the risk profile during the year

## Operational risks continued

### Legal and regulatory compliance ◀▶

The Group's operations are subject to a wide range of legislation and regulation. Failure to comply could lead to financial penalties, investigation expenses, legal costs and/or reputational damage. The need to comply with new or amended laws and regulations may increase the Group's operating costs.

The main legal and regulatory compliance risks specific to the Group that are not covered in other principal risks include compliance with data protection legislation, employment law and regulation compliance (employee wages and other terms and conditions of employment, including expanded rights for employees), health and safety compliance, responding to the development of ESG regulations, and key corporate compliance risks such as competition and anti-bribery and corruption legislation.

The Group continues to see an increase in digital ticket sales across all divisions. These sales channels necessitate the processing of personal data which require safeguards to protect our customer data and comply with applicable data protection legislation, including the Data Protection Act 2018 and the UK and EU General Data Protection Regulations (GDPR).

- To help the Group comply with all applicable legislative and regulatory requirements, we have an in-house legal function which includes dedicated subject-matter experts, who help to ensure relevant national and international laws and regulations are followed
- Our in-house team is supported by other internal colleagues (including the Information Security and divisional Health & Safety functions) and external legal experts where necessary
- We have a comprehensive suite of Group-wide policies and procedures, which are implemented and managed locally. These include data protection, modern slavery, anti-bribery and competition law policies
- To protect our data and comply with our integrity and confidentiality obligations under data protection legislation, the Group has implemented robust IT infrastructure controls across the Company. Additional information about how this risk is managed can be found on page 94
- The Group administers a training programme to employees across key areas of compliance risk, communicating their roles and responsibilities in preventing and mitigating compliance breaches
- We have a named compliance officer in each division with responsibility for ensuring the delivery of the compliance programme
- We monitor new legislation across the jurisdictions in which we operate and adapt or introduce policies and processes as required to ensure compliance
- We provide a confidential reporting hotline for employees and third parties to report concerns – the hotline is operated by an independent third party to ensure objectivity and anonymity

Although our legislative and regulatory environment continues to change, the Group maintains its commitment to adapt policies and procedures to detect and prevent non-compliance.

## Risk management continued

Key: ◀▶ FY 2024 risk is stable    ▽ FY 2024 risk is decreasing    ▲ FY 2024 risk is increasing

### Risk description

### Mitigation

### Developments in the risk profile during the year

## Operational risks continued

### Information security, including cyber ▲

The transport sector is increasingly reliant on technology and data, which has led to an increase in cyber security risks. In particular, we continue to monitor the cyber landscape internally at Group level, across our divisions, as well as third party suppliers and networks.

Businesses continue to be targeted by cyber threat actors which can include criminal cartels, whose motivation is financial gain. In its 2023 annual review, the National Cyber Security Centre (NCSC) warned that 2023 has seen the emergence of state-aligned actors as a new cyber threat to critical national infrastructure.

The majority of ransomware attacks are delivered as the result of a successful phishing attack. Such incidents could disrupt our operations and/or compromise our confidential business information. This may lead to long-term financial damage with significant costs to recover, including penalties, and an adverse impact on reputation and consumer confidence in the Group.

The safeguarding and integrity of data continues to remain a central issue relating to the emerging AI technologies.

- Business continuity plans continue to evolve and are updated as the transition to greater dependency on technology continues in order to minimise the impact of cyber attacks and the potential impact on the continuity of our operations
- We have ransomware procedures and have tested our incident response across Group businesses in the event of a ransomware attack
- We have a suite of information security procedures in place
- We run regular cyber risk awareness training and phishing prevention campaigns.
- Robust due diligence is performed for new suppliers, with information security obligations as a prerequisite to be included in third party contracts

The risk of a cyber attack for all UK companies remains high. The official UK Government 'Cyber Security Breaches Survey 2023' reported 69% of UK large businesses were subject to a cyber attack in 2023. 93% of these instances were phishing attacks for large businesses, and around one in five of the respondents identified a more sophisticated attack type such as a malware attacks. Amongst those that have identified any breaches or attacks, 33% of large businesses have had some sort of negative outcome from these. Amongst these large businesses, 8% report user accounts being compromised and 4% say assets, trade secrets or intellectual property were stolen.

We continue to be vigilant and diligent in evaluating and implementing enhanced techniques to protect our systems from threats, including investing in further cyber resiliency tools.

## Risk management continued

Key: ◀▶ FY 2024 risk is stable    ▽ FY 2024 risk is decreasing    ▲ FY 2024 risk is increasing

### Risk description

### Mitigation

### Developments in the risk profile during the year

## Operational risks continued

### Human resources ◀▶

Employee costs represent the largest component of the Group's operating costs. These costs include expenses related to recruitment, retention and talent development. These costs are affected by changes in employment markets, regulatory requirements and diversity and inclusion programmes.

A failure to effectively recruit and retain a diverse and talented workforce could have adverse financial, operational and reputational impacts.

The employment market for drivers and engineering technicians remains challenging under an increasing consumer travel demand and tight labour market. Our employee turnover has also been impacted by current wider economic circumstances, particularly rising inflation and wider labour mobility.

[Read more on page 65](#)

- We continue to focus on improving communication with employees, developing our people strategies and investing in employee development through compelling employee value, diversity and inclusion propositions linked with market competitive wages and benefits
- The wellbeing of our employees remains a key priority for FirstGroup. Our employees have access to various wellbeing resources such as the Wellbeing Hub, accessed through our intranet. First Rail have introduced webinars on neurodiversity and stress awareness, and marked Stress Awareness Month. First Bus hosts a weekly Wellbeing Wednesday and appointed a new Company-wide occupational health provider in the past year and tripled the number of mental health first aiders. We continue to offer training for colleagues who may wish to take up these roles in the future
- First Rail continues to develop its people strategy, including effective talent management and succession planning, ongoing commitment to apprenticeship and graduate schemes, and a focus on diversity
- First Rail continues to support efforts to resolve continued industrial action at a national level
- The First Bus people strategy has a focus on workforce development and culture, including improving communication and frontline capability management, with emphasis on reducing attrition and effective absence management
- We have an ongoing programme for monitoring KPIs, including leveraging exit interview data in designing recruitment activity
- Employee engagement survey results are reviewed to develop actions to address low performing metrics to further help retain our top talent

We continue to focus on our bus and train driver recruitment and retention programmes, and on managing our multi-year pay deals with local unions.

We have developed new programmes to have effective and engaging communications with employees to impact our recruitment, retention, diversity and development strategies.

First Bus, Avanti and Tram Operations Ltd. are accredited Living Wage Employers and pay the Real Living Wage (RLW) to employees and, as contracts renew, to third party contractors working directly for the Company in accordance with the Living Wage Foundation rates of pay. GWR also pay the RLW to directly employed colleagues.

# Viability and going concern

## Viability

### Time horizon

The Directors have assessed the viability of the Group over a three-year period. This period reflects the Group's corporate planning processes and is considered appropriate for a fast-moving competitive environment such as passenger transport. Beyond three years, forecasts may be affected by changes in government transport policy and/or major contract wins and losses.

### Scenario testing

In making their assessment, the Directors have taken into account the potential financial and operational impacts, in severe but plausible scenarios, of the principal and emerging risks which might threaten the Group's viability during the three-year period to 31 March 2027 and the likely degree of effectiveness of current and available mitigating actions that could be taken to avoid or reduce the impact or occurrence of such risks (details of the risks and mitigating actions are set out on pages 87 to 95). The assessment of the available mitigating actions includes the Group's ability to manage its cost base and capital expenditure.

The broad details of the scenarios that were considered in the assessment are:

- 1) a protracted period of weak passenger volumes comprising reductions of up to 10% in First Bus and 25% in non-contracted rail, and performance fees on NRCs 50% lower than budgeted;
- 2) heightened operational, policy and environmental pressures, including increased inflation up to 3% higher than budgeted levels and risk from changes to governmental transport policy (including decarbonisation) of £10m per annum, with operating profit impact increasing to £39m per annum in FY 2027;
- 3) one-off safety, regulatory non-compliance, climate or technology incidents leading to short-term reduced revenue and/or additional costs of up to £30m;
- 4) loss of NRCs at the end of their core contractual periods, reducing operating profit and cash inflows to the Group; and
- 5) inability to renew the £300m revolving credit facility when it matures in August 2026.

While the Group's remaining £99.7m bond expires in September 2024, the Group has already put into place additional financing facilities, and considers that it will continue to have access to debt markets to negotiate additional new credit facilities if required. The results of this scenario testing showed that the Group would be able to remain viable and maintain liquidity over the assessment period.

## Climate change

The Board has also considered how climate risks could impact the Group's viability. More detail on the Group's assessment of risks and opportunities from climate change is contained in our TCFD disclosure on pages 74 to 84. The key conclusions relating to the viability assessment were that given the Group's geographic diversity across the UK, the financial impact of extreme weather events over the three-year viability period was not judged to be material.

Transitional risks, related to changes to the government's decarbonisation policy, were unlikely to cause any material adverse impact over the viability period given that, whilst the vast majority of the Group's emissions are from vehicles, the Group is already targeting industry-leading timescales for transitioning its vehicles to zero emissions.

## Corporate planning processes

The Group's corporate planning processes include completion of a strategic review for the rail and bus divisions, preparation of a medium-term business plan and a quarterly re-forecast of current year business performance. The plans and projections prepared as part of these corporate planning processes consider the Group's cash flows, committed funding and liquidity positions, forecast future funding requirements, banking covenants and other key financial ratios, including those relevant to maintaining the Group's existing investment grade status. The planning processes also considers the ability of the Group to deploy capital. A key assumption underpinning these corporate planning processes is that credit and asset-backed financing markets will be sufficiently available to the Group to put additional new facilities in place, if required.

## Viability statement

Based on the results of the analysis explained above, including scenario testing, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 March 2027 and that the likelihood of extreme scenarios which would lead to a breach of covenant is remote.

The Board confirms that in making this statement it carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency and/or liquidity.

## Viability and going concern continued

### Going concern

The Board carried out a review of the Group's financial projections for the 18 months to 30 September 2025 and evaluated whether it was appropriate to prepare the full year results on a going concern basis. In doing so the Board considered whether any material uncertainties exist that cast doubt on the Group's and the Company's ability to continue as a going concern over the going concern period.

Consistent with prior years, the Board's going concern assessment is based on a review of future trading projections, including whether banking covenants are likely to be met and whether there is sufficient committed facility headroom to accommodate future cash flows for the going concern period.

Divisional management teams prepared detailed, bottom-up projections for their businesses reflecting the impact of macroeconomic considerations on the operating environment, assumptions on passenger volumes and government support, as well as the impact of actions required to address the Group's climate-related targets and ambitions, and having regard to the risks and uncertainties to which the Group is exposed.

### Base case scenario

The Board considered the annual budget to 31 March 2025 and medium-term plan to be the base case scenario for the purpose of the going concern assessment for the FY 2024 year end. These projections were the subject of a series of executive management reviews and were used to establish the base case scenario that was used for the purposes of the going concern assessment. The base case assumes a continuing recovery in bus passenger volumes and yields in FY 2025, with some offset from a reduction in direct government funding. The rail base case also reflects the expiry in May 2025 of the SWR contract and the uncertainty regarding its renewal. The macro projections in the updated base case assume that the UK operates in a low-growth, cautiously recovering economy. The annual budget and medium-term plan also capture the expected financial impact of the actions required to support the Group's climate-related targets and ambitions.

### Downside scenario

In addition, a downside case was also modelled which assumes a more adverse macroeconomic recovery profile. In First Bus, the downside case assumes a reduction in passenger volumes driving a 25% reduction in profitability, as well as the impact of other unexpected cost inflation. In First Rail, the downside case assumes TOC performance fee awards at 50% of expected levels, potential expiry of the GWR NRC at the end of its core period, and volume and revenue reductions in Hull Trains and Lumo driving a 25% reduction in open access profitability. The downside scenario also considers potential impacts of significant climate-related event or unbudgeted decarbonisation costs, as well as the risk of one-off safety, regulatory non-compliance or technology incidents.

### Mitigating actions

If the performance of the Group were to be more adversely impacted than assumed in the base case or downside case scenarios, the Group would reduce and defer planned growth capital expenditure, and further reduce costs in line with a lower volume operating environment to the extent that the essential services we operate in First Bus are not required to be run for the governments and communities we support.

### Going concern statement

Based on the review of the financial forecasts for the period to September 2025 and having regard to the risks and uncertainties to which the Group is exposed, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least the 12-month period from the date on which the financial statements were approved. Accordingly, they continue to adopt a going concern basis of accounting in preparing the consolidated financial statements in this full year report.