



Shaping the future of transport

FirstGroup plc
Annual Report and Accounts 2023

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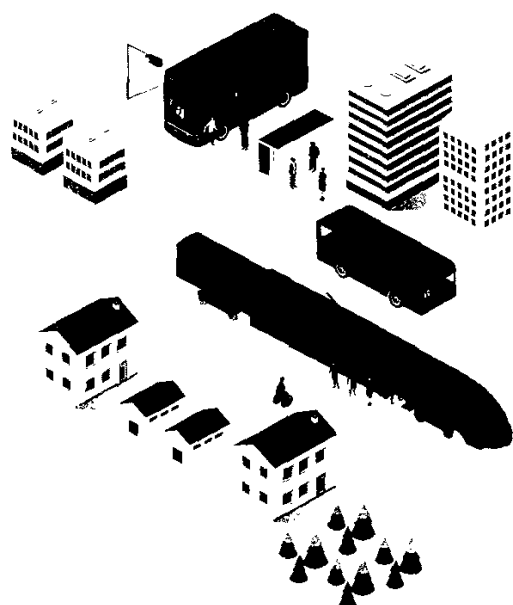
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We are FirstGroup

Shaping the future of transport

FirstGroup is a leading private sector provider of public transport. We provide easy and convenient mobility, improving quality of life by connecting people and communities. Our services are a vital part of society – transporting customers for business, education, health, social and leisure purposes. Our businesses are at the heart of our communities, and the essential services we provide are critical to delivering wider economic, social and environmental goals.



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FY 2023 highlights



We have delivered a strong financial performance in the financial year. In First Rail, our teams have worked extremely hard on our service objectives, and the notable success of our open access operations is further recognition of the considerable expertise and ambition of our team. In First Bus, we are seeing the benefits of actions we have taken to transform the business, and we are establishing ourselves as leaders in decarbonisation as we accelerate the electrification of our bus fleet to deliver value not just for FirstGroup but for all our stakeholders.

Our leading positions in bus and rail, together with the strength of our balance sheet will allow FirstGroup to create long-term shareholder value while delivering the vital services and innovation that are key to achieving society's sustainability and economic goals.

Graham Sutherland
Chief Executive Officer

- Strong financial performance driven by growth in First Bus and First Rail open access operations:
 - Group adjusted attributable profit more than doubled, to £82.1m ahead of expectations (FY 2022: £36.2m)
 - adjusted EPS of 10.6p for continuing operations (FY 2022: 1.6p)
 - year end adjusted net cash of £109.9m ahead of expectations
- Strategy remains focused on continuous improvement in operational delivery, continued investment in growth opportunities, delivering value to shareholders and playing a leading role in the decarbonisation of UK public transport
- In line with this strategy delivered targeted deployment of capital including:
 - c.£37m of capital deployed on value accretive acquisitions in First Bus before FY 2024 funding
 - accelerated investment in First Bus in decarbonisation following successful applications for government co-funding: c.£43m gross investment in electric buses and depot infrastructure before funding
 - final dividend of 2.9p recommended in line with progressive growth and dividend policy
 - launch of £75m on-market share buyback programme in December 2022; £52.6m completed as at 7 June 2023
 - additional buyback of £115m proposed following receipt of proceeds resulting from North America exit

Group revenue
(continuing operations)

£4,755.0m

FY 2022: £4,591.1m

Group adjusted operating profit
(continuing operations)

£161.0m

FY 2022: £106.7m

Adjusted earnings per share
(continuing operations)

10.6p

FY 2022: 1.6p

Dividend per share

3.8p

FY 2022: 1.1p

Cautionary comment concerning forward-looking statements

This Annual Report and Accounts includes forward-looking statements with respect to the business, strategy and plans of FirstGroup and its current goals, assumptions and expectations relating to its future financial condition, performance and results. Generally, words such as 'may', 'could', 'will', 'expect', 'intend', 'estimate', 'anticipate', 'aim', 'outlook', 'believe', 'plan', 'seek', 'continue', 'potential', 'reasonably possible' or similar expressions are intended to identify forward-looking statements.

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

Forward-looking statements are not guarantees of future performance, and shareholders are cautioned not to place undue reliance on them. Forward-looking statements speak only as of the date they are made and except as required by the UK Listing Rules and applicable law, FirstGroup does not undertake any obligation to update or change any forward-looking statements to reflect events occurring after the date of this Annual Report and Accounts. Nothing in this Annual Report and Accounts is intended as a profit forecast or estimate for any period.

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Performance summary

	FY 2023 (£m)			FY 2022 (£m)			Change (£m)	
	Cont.	Disc.	Total	Cont.	Disc.	Total	Cont.	Disc.
Revenue	4,755.0	4.0	4,759.0	4,591.1	996.9	5,588.0	163.9	(992.9)
Adjusted ¹ operating profit	161.0	(6.6)	154.4	106.7	120.1	226.8	54.3	(126.7)
Group adjusted ¹ attributable profit	82.1	~	82.1	36.2	–	36.2	45.9	–
Adjusted ¹ EPS	10.6p	(0.9)p	9.7p	1.6p	8.6p	10.2p	9.0p	(9.5)p
Dividend per share			3.8p			1.1p		
Adjusted ¹ Net Cash/(Debt)			109.9			(3.9)		

	FY 2023 (£m)			FY 2022 (£m)			Change (£m)	
	Cont.	Disc.	Total	Cont.	Disc.	Total	Cont.	Disc.
Statutory Revenue	4,755.0	4.0	4,759.0	4,591.1	996.9	5,588.0	163.9	(992.9)
Operating profit	153.9	31.3	185.2	122.8	683.3	806.1	31.1	(652.0)
Profit before tax			128.7			654.1		(525.4)
EPS			11.8p			60.2p		(48.4)p
Net debt			1,269.1			619.0		650.1
– Bonds, bank and other debt net of (cash)			(479.5)			(464.2)		(15.3)
– IFRS 16 lease liabilities			1,748.6			1,083.2		665.4

¹ Alternative Performance Measure (APM). Reconciliation of APMs to statutory measure can be found in note 4 on pages 168 to 171.

'Cont.' refers to the Continuing operations comprising First Bus, First Rail and Group items. 'Disc.' refers to discontinued operations, being First Student, First Transit and Greyhound. Statutory operating profit from discontinued operations of £683.3m includes the gains on sale of First Student, First Transit and Greyhound US.

Key developments

First Bus

- 1.1m passenger journeys a day (FY 2022: 0.9m); 166m service miles operated in FY 2023 (FY 2022: 185m)
- Passenger volumes increased 20% vs. FY 2022 levels, with commercial and concessionary volumes up 21% and 19%
- Total passenger revenue increased to £660.0m (FY 2022: £570.0m), more than offsetting the reduction in government funding, which decreased by £42.8m to £86.5m
- Improvement in operating margin in H2 2023 to 7.9% despite ongoing inflationary pressures due to:
 - increased passenger demand
 - improved driver availability and operational improvements
 - network and fare realignments to better match services to demand
 - regional management restructure completed to drive further operational efficiencies
- Acquisition of Ensignbus in Essex, Airporter in Northern Ireland and the Metrobus service in Bristol
- Disposal of First Scotland East and closure of Southampton-based operations
- Accelerated investment in electrification of fleet and infrastructure:
 - gross investment of c.£43m in electric buses and depot infrastructure before funding
 - 83 electric buses delivered in FY 2023 and 58 ultra-fast chargers installed
 - installation of solar panels at 20 depots completed in FY 2023
 - net investment of c.£105m committed in FY 2024 on First Bus decarbonisation, including the installation of 143 ultra-fast chargers, supported by government co-funding of £82m

First Rail

- 263m passenger journeys in FY 2023 (FY 2022: 201m); TOCs: 261m and open access 2.2m
- Open access operations performance ahead of expectations, underpinned by strong leisure volumes
- Management-fee based contracts aggregate financial performance broadly in line with expectations; focus remains on operational delivery for passengers across all our services
- Great Western Railway awarded National Rail Contract to June 2025 with an option for the DfT to extend it to June 2028
- South Western Railway contract extended to May 2025
- West Coast Partnership (incorporating Avanti West Coast) contract extended October 2023
- TPE contract not extended by DfT; operations were handed to the Operator of Last Resort on 28 May 2023

Corporate

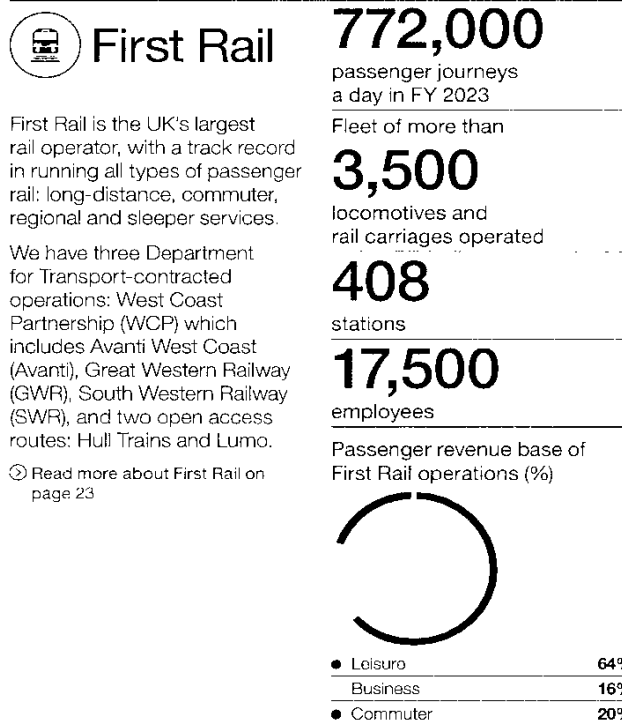
- Delivered a further c.£5m in annual central cost savings as previously guided
- £122m realised from sale of almost all remaining legacy Greyhound properties
- First Transit earnout crystallised following completion of sale of First Transit business by EQT Infrastructure in March 2023 with estimated proceeds of c.£89m anticipated in H1 FY 2024
- £32m of the £75m on-market share buyback programme completed by year end
- £15.7m of the Group's 2024 6.875% bonds repurchased in Bank of England bond auction

Strategic report



A leading UK public transport operator

FirstGroup is a leading private sector provider of public transport. We provide easy and convenient mobility, improving quality of life by connecting people and communities.



- Avanti West Coast (Avanti)
 - Great Western Railway (GWR)
 - South Western Railway (SWR)
 - TransPennine Express (until 28 May 2023)
 - Hull Trains
 - Lumo
- First Bus operations



Business split

Revenue (as % of Group)

● First Bus	18%
First Rail	82%

Adjusted operating profit
(as % of Group)

● First Bus	32%
First Rail	68%

Positioned for the future

We are a focused and resilient business, with a strong platform to grow as the partner of choice for innovative and sustainable transport.

We have a clear purpose, a strong balance sheet, and a robust position from which to deliver long-term, sustainable value for all of our stakeholders based on:

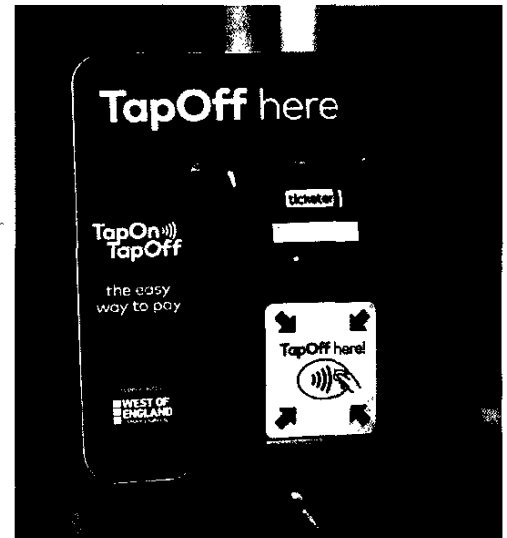
Leading positions

alongside our depth of experience and proven expertise in bus and rail transport



Digital innovation

enabling us to attract more customers and enhance business efficiency, flexibility and profitability



Current inflection point for growth in public transport as a critical enabler of society's sustainability goals

underpinned by supportive governments, social policies and investment

🕒 Read more about sustainability on page 38

First Bus:

a more agile business, ready to complete trajectory to 10% margin

🕒 Read more about First Bus on page 19



First Rail:

well placed for lower risk, long-term, cash generative rail operations with the increasing contribution of open access and additional service revenues

🕒 Read more about First Rail on page 23



Accelerating our investment in decarbonisation to deliver value to all of our stakeholders

and maximise the opportunities for our business in the transition to a low-carbon economy

🕒 Read more about decarbonisation on page 43

Chairman's statement



FirstGroup has a clear purpose to provide vital transport services that connect communities, which are critical to ensuring local economies are, and remain, vibrant and robust.

David Martin
Chairman



In last year's annual report I highlighted that the actions we had taken to divest the Group of its North American assets would create a focused and resilient business, with a strong platform to drive value for all our stakeholders. I am pleased to say that the 2023 financial year has seen FirstGroup further consolidate the significant evolutionary steps of the last two years, resulting in a strong financial performance, driven by growth in First Bus and First Rail open access operations, despite ongoing industry wide economic and industrial relations challenges.

Among the highlights from the year that you can read about elsewhere in this annual report, I am particularly pleased that our close partnerships, working with governments at all levels, is leading to the introduction of 600 zero emission buses by March 2024 as First Bus accelerates the trend to zero emission vehicles by 2035.

Both commercial and concessionary First Bus passenger volumes have increased by more than 20% compared to last year's levels, and we are seeing improved driver availability and operational improvements, as well as network and fare realignments to better match services to demand. We have deployed capital in First Bus on targeted growth acquisitions in Northern Ireland and Essex, and we have been successful in developing our pipeline of adjacent bus businesses.

In First Rail, we were able to secure a new National Rail Contract for GWR and extensions to our WCP and SWR contracts, although we were disappointed to learn recently that the contract for TPE would not be extended. The rail industry is entering a period of change and we welcome recent Government comments that the private sector will have an enhanced role to play in the sector's recovery after some very challenging years. We urge the Government to engage with the market on the steps that can be taken, without primary legislation, in order to achieve this.

Industrial action at train operating companies and Network Rail has been a feature of this year. The industry's focus remains on reaching a fair deal which both rewards our people with a pay rise, and delivers the reforms needed to improve reliability and punctuality across the network. Rail trade unions RMT, TSSA and Aslef have called a number of strikes or other action throughout the year, primarily over pay issues, which has led to significant disruption for everyone, especially our passengers. We have worked alongside other rail operators as part of the umbrella trade body the Rail Delivery Group (RDG) to negotiate and attempt to reach solutions to these disputes, putting fair and reasonable offers to all three. Notably, TSSA members were able to vote on the proposals, accepted the deal and have ended their dispute. In recent discussions with the RMT, the RDG put forward an industry-wide resolution proposal agreed with their negotiating team, which would have resolved this dispute and given our lowest paid staff a rise of up to 13%. Yet the leadership of both the RMT and Aslef unions refuse to put the offer to a democratic vote so that members can have their say.

In the meantime, we have collaborated closely with government and our industry partners to do all that we can to minimise the effects on our customers and provide as many trains as possible.

With rail industry-wide passenger volumes and revenues still below pre-pandemic levels and many travel patterns changing, the industry as a whole needs to deliver long overdue and much needed workforce reforms, focused on enabling a responsive railway and improving passenger experience on every day of the week. The railway industry considers these vital and long-overdue changes to working arrangements necessary to fund a reasonable pay deal and secure the sustainable future of the sector without placing pressure on public finances.



FirstGroup has further consolidated the significant evolutionary steps of the last two years, resulting in a very strong financial performance, driven by growth in First Bus and First Rail open access, despite ongoing industry wide economic and industrial relations challenges.

A real success story for us has been the sustained popularity of our open access businesses Hull Trains and Lumo. The latter saw its one millionth passenger in the year and helped to push rail's market share on the key flow between London and Edinburgh above 50% for the first time.

Away from the UK, we took our final significant steps in leaving the North American market, with the sale of Greyhound's legacy properties and the crystallisation of the First Transit earnout occurring during the year.

Our Purpose

FirstGroup has a clear purpose to provide vital transport services that connect communities. Public transport is an environmentally-friendly sector critical to resolving some of society's most pressing challenges, including climate change, air quality and congestion. The Group's bus and rail operations offer value for money, easy and convenient choices for customers, within and between some of the UK and Ireland's largest towns and cities. The services we offer are critical to ensuring local economies are, and remain, vibrant and robust and play an important role in supporting national development and sustainability aims.

Capital allocation and dividend

Following the completion of the sale of the North American divisions, in FY 2022 the Board authorised the de-risking of the balance sheet through a substantial contribution of £337m to the UK pension deficit (including £117m in escrow), reduced debt including repayment of the Covid Corporate Financing Facility to the UK Government, and addressed other longstanding liabilities. The Board subsequently looked at options for the appropriate capital structure and distribution policy for the Group going forward.

The Board concluded that a well-capitalised, de-risked balance sheet will provide FirstGroup with flexibility to withstand economic uncertainty, to adapt to new, post-pandemic travel patterns, pursue its growth strategy and support a progressive annual dividend as described in more detail below.

As a result of these considerations the Group has adopted a balanced capital allocation policy, including commitments to decarbonise the First Bus fleet, maintain its progressive dividend policy and to review targeted investment in strategically and financially accretive growth opportunities.

In December, we completed the sale of all but two in the portfolio of our legacy US Greyhound properties, with net proceeds of £122m. Accordingly, following the receipt of these proceeds, and in line with our balanced capital allocation policy, we began a £75m on-market share buyback programme and also announced that £15.7m of the Group's 2024 bonds had been repurchased in a Bank of England bond auction.

Following the crystallisation of most of the residual values from the North American divisions, combined with the well-capitalised balance sheet and cash generative business, the Board has recommended an additional share buy back programme of £115m that is subject to renewal of authority at the Group's Annual General Meeting.

In the context of a competitive process to seek the most attractive proposal for the sale of the North American divisions, an earnout structure was previously agreed for the First Transit business, which would benefit shareholders in the Group. EQT Infrastructure's sale of First Transit to Transdev North America completed during FY 2023 and as such, the Group is entitled to an earnout consideration which is calculated as a percentage of the realised equity value on the disposal and contemplating the cash flows generated by First Transit since March 2021 to completion. The Group currently anticipates receipt of the First Transit earnout consideration estimated at \$89m in H1 2024.

Final dividend

2.9p

per share
proposed by Board



Chairman's statement continued

In light of the Group's financial performance for FY 2023 and in line with its policy of an annual payout around three times covered by Group adjusted attributable profit, the Board has proposed a final dividend of 2.9p per share, resulting in a total dividend payment of c.£20m, to be paid on 18 August 2023 to shareholders on the register at 14 July 2023, subject to approval of shareholders at the 2023 AGM.

The Board and corporate activity

We were very pleased to appoint Graham Sutherland to the role of Chief Executive Officer from 16 May 2022. Graham has an established record in strategic development, as well as engaging a diverse range of stakeholders including consumer, business and public sector customers, which he has continued since joining the Group. The Board and I have worked closely with Graham to identify the key drivers and means to enhance our businesses, and to consider opportunities that exist for growth to maximise the potential for future value creation. Shortly after Graham's appointment, the interim period during which I acted as Executive Chairman came to an end and I resumed the role of Non-Executive Chairman.

From May 2022 the Company received a series of unsolicited, conditional proposals from I Squared Capital Advisors (UK) LLP in relation to a possible offer to acquire the entire issued, and to be issued, share capital of the Company. The unsolicited offers from I Squared resulted in a final proposal of 135p per FirstGroup share together with further contingent value from the First Transit earnout. The Board, having carefully evaluated the proposals together with its advisers, concluded that the cash component significantly undervalued FirstGroup's continuing operations and its future prospects, and the contingent value did not provide shareholders with sufficient certainty. Following this, I Squared told us in August 2022 that it did not intend to make a firm offer for FirstGroup.

After a review of the Board's oversight of environment, social and governance commitments to shareholders, we established the Board's Responsible Business Committee to oversee the Group's practices and performance with respect to health, safety, diversity and inclusion and sustainability, including our transition to net-zero. We have seen good progress in these areas during the year. The new Committee held its inaugural meeting in May 2022 and reports to shareholders for the first time in this report.

“

The Group is committed to creating a more diverse and inclusive business in what has long been seen as a 'traditional' sector.



Sustainability

FirstGroup is a major employer in all UK regions and also in Ireland, with one third of the Group's employment falling within the 25% of UK local authority districts that have the highest rates of unemployment. The Group is committed to creating a more diverse and inclusive business in what has long been seen as a 'traditional' sector. Our recently launched Senior Women's Leadership programme is designed to accelerate the readiness of women for senior leadership roles across FirstGroup by building advanced leadership capabilities and personal confidence. Our Step Up/Step Forward and Reach Up/Reach Forward programmes continue to make a significant contribution in our drive to promote better gender and ethnic minority representation across our senior and middle management populations and of the current population that have gone through these programmes, around a third have either been promoted or given a development role.

We have been making steady progress on attracting and hiring more women and employees from ethnically diverse backgrounds into the business. For the roles advertised over the last year, we have again increased the proportion of applications from women and ethnic diverse backgrounds and from those hired, more than a fifth were women and more than a fifth were from an ethnically diverse background.

FirstGroup began implementing the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations in 2021, a year ahead of the regulatory mandate, and has built on this during the FY 2023 reporting cycle. At the Group level, we have set a science based emissions reduction target aligned with a 1.5°C ambition for Scope 1 and 2, as well as emissions reduction and supplier engagement targets for Scope 3. Our targets have recently been approved by the Science Based Targets initiative.

We also continue to strengthen our sustainability governance processes. During FY 2023 we have commenced work with a leading global consulting firm to facilitate further integration of climate considerations into our business processes through a series of tailored workshops and briefing sessions with key functions across the Group as well as the Board. We are also developing a Group-wide transition plan, in line with the upcoming Transition Plan Taskforce (TPT) recommendations and I look forward to reporting further progress in this regard.

Following the Remuneration Committee's review of the role of sustainability and climate-related measures within the Group's remuneration approach in FY 2022, our annual and long-term incentive plans are now linked to carbon intensity and the electrification of our transport services. This, of course, further reinforces our commitment to incorporating sustainability issues into core business decisions.

The future of the Group

Bus and rail networks are critical long-term green infrastructure and play a key role in our communities. Public transport connections offered by the Group's services are essential for vibrant local economies and governments at all levels across the country. Transport is the largest contributor to our domestic greenhouse

gas emissions, accounting for more than a quarter of the UK's total, and private cars are the source for more than half of the transport sector's emissions. It is incumbent on the sector to redouble efforts to get people out of those cars and planes onto buses and trains. For FirstGroup and other transport operators, this means doing everything we can to provide customer-friendly, reliable and accessible services, to make buses and trains a convenient choice for everyone, whether they are regular passengers or not. As for the Government, they are backing the importance of public transport and encouraging more people to use buses and trains, and they are putting in funding to support this call. Longer-term funding strategies are crucial for all bus and rail operators, as the industry adapts to new travel patterns and works to improve and grow public services in the UK.

In addition to the Group's services being a critical enabler for society meeting its broader environmental, social and governance objectives, as a transport operator, the Group's commitment to a zero-emission trajectory for its vehicle fleets is of vital importance. The supportive UK policy backdrop and the growing focus on innovation for the benefit of our customers and the sustainability of our business gives us encouragement for the Group's growth potential.

Our people

During the year the Group's 30,000 employees have seen a considerable change from the post-pandemic situation into something approaching a new normal, as passengers have been returning in numbers. There has also been a very challenging environment due to inflationary pressures and sustained industrial action. Our people are at the heart of our business and we are continuing to look for ways in which we can support them, particularly those most affected by the current cost of living crisis. I would like to thank all of our employees, on behalf of the Board, for continuing to support our customers and communities during this difficult period.

Conclusion

Transport is an important part of everyday life, and people travel for a huge variety of business and leisure reasons, all of which are essential to the economy. The vital role of public transport in the UK was made clear during the pandemic and the subsequent recovery, and governments at all levels understand the importance of the sector. FirstGroup is a cash generative, well capitalised business with a healthy and de-risked balance sheet and leading positions in our core UK bus and rail markets. The Group has a strong platform both for delivery and to maximise organic and inorganic opportunities that exist for growth, including the development of ancillary businesses in adjacent markets. The Board is confident the transformation of the Group undertaken in the last two years is delivering and will continue to deliver significant value for FirstGroup shareholders. There are an enormous number of opportunities ahead of us as a leader in public transport and I, and my fellow Board members, are very positive about the Group's future.

David Martin

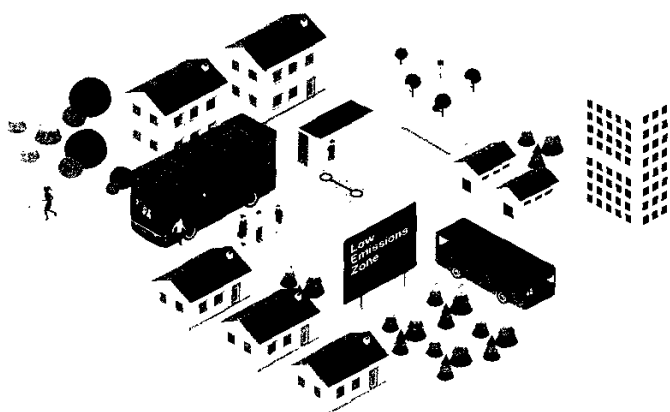
Chairman
8 June 2023

30,000

people employed
by the Group in the
UK and Ireland

Our markets

As a market leader in the UK bus and rail sectors, we are well placed to work closely with government and our partners across the industry to deliver the vital bus and rail services that connect people and communities and to respond to megatrends including the net zero and environmental agenda, digitalisation and social inclusion.



First Bus

We are the second largest regional bus operator in the UK, serving two-thirds of its largest conurbations.

The market

In a typical year, around 2.6bn passenger journeys are made on bus services outside London, generating approximately £4.3bn in revenue.

Local bus services (with the exception of London, Manchester and Northern Ireland) have been deregulated since the 1980s, with most services provided by private operators. For the majority of local bus services, operators set timetables and fares on a commercial basis. A proportion of local services are operated for local authorities on a tendered basis. The market is competitive, and, during a typical year, a number of operators will enter and leave the market.

Customers

A significant proportion of customers use local bus services to commute to work or education and for shopping and leisure purposes. As customer trips recover from the lows seen during the pandemic, travel habits have changed. Individual customers are travelling less frequently while an increasing number of younger customers are using buses.

Megatrends

There is significant Government recognition of the critical role played by the bus industry in economic, social and environmental agendas for a sustainable future. A range of emergency and recovery Government funding schemes were put in place to support the continued operation of regional bus services during the period of pandemic travel restrictions and the subsequent return of demand. Funding has also been allocated to schemes aimed at stimulating passenger demand, including free travel for Under 22s in Scotland and the £2 fare cap in England (rising to £2.50 from November 2023 to November 2024).

Partnerships between operators and local authorities are a core principle to support service delivery, minimise congestion, improve local economies and drive innovation and investment. This was demonstrated by the National Bus Strategy announced in March 2021, which included a multi-billion pound funding package to support simpler fares, improved services and thousands of new green buses via local authority-led enhanced partnerships or franchising.

In support of the decarbonisation agenda, Westminster and the devolved governments also have a number of co-funding grant schemes that are aiding the industry's investment in low and zero emission buses.

We expect these trends to continue in the coming years.

[Read more about sustainability megatrends in the Responsible business section on page 38](#)

Market attractions

- Bus services are the quickest and most cost-effective mechanism to achieve modal shift from private car use to lower emissions and improve congestion in towns and cities
- Bus travel is relatively low cost per user journey and therefore an important underpin for social inclusion policies and the levelling up agenda
- Using enhanced data there is increasing visibility of large numbers of customers who are regular but infrequent bus users enabling the development of new propositions to stimulate bus use. This includes opportunities in the youth demographic where car ownership is falling and customers are increasingly environmentally aware
- Growing digital capabilities provide significant opportunities to optimise pricing, improve service delivery, and create more efficient operations.



First Rail

We are the UK's largest passenger rail operator, with a track record in running all types of railway service.

The market

Passenger rail services are primarily provided by private Train Operating Companies (TOCs) through contracts awarded by the relevant authority. They may also be provided on an open access basis. There are currently 17 TOCs on contracts awarded by government bodies and four open access operations in the UK. The majority of the service elements the TOCs provide to customers are mandated as part of their contracts. First Rail bids for contracts against other current UK rail operators and public transport operators from other countries.

At the start of the pandemic the Government moved the contracted part of the industry to a fee-for-delivery based model, rather than the previous system under which operators were required to take considerable revenue and cost risk. The contracting system is currently undergoing a transition to a new structure intended to formalise this change going forward, with operators more heavily incentivised to improve passenger service metrics, and a lower risk/lower reward financial profile.

Open access operators run services on a different model. Track access agreements with Network Rail set out where and how often they run trains; with agreements approved by the Office of Rail and Road. Open access routes are typically awarded where there is a clear business case that the route will promote competition for the benefit of rail users and will generate sufficient new revenue.

Rail track and infrastructure (signalling and major stations) are owned and managed by Network Rail. TOCs typically lease rolling stock from leasing companies and stations from Network Rail. On some passenger routes there is competition from other rail services and, to a lesser extent, from long-distance coach services and airlines.

Customers

Rail is generally categorised into three sectors: London and South East commuter services, regional, and long distance. Certain networks also offer sleeper services. Parts of Great Western Railway fall into all four categories. South Western Railway's customers are largely commuters. Avanti West Coast is mainly a long distance intercity operation, while Hull Trains and Lumo cater to mainly long distance and leisure travellers.

Megatrends

The UK Government has a goal to remove all diesel-only trains from service by 2040 and a number of operators now have bi-mode trains in service which can run under both electric and diesel power, as well as fully electric trains, including Lumo's all electric fleet.

Open access operators who retain all revenue and cost risk and opportunity, are benefiting from leisure passenger volumes and have not only encouraged passengers to travel by train as opposed to flying on some routes, but they have also increased demand on some of the TOCs' routes.

The UK Government has provided significant support to the rail industry through one of the most challenging periods in its history as it adapts to post pandemic travel patterns and continued industrial action. The private rail sector has an important role to play alongside the Government, in reinvigorating the rail industry, driving innovation and attracting more customers to the railway.

Community rail is important to foster relations within the communities that we serve. Our local partnerships have helped to improve stations as well as encourage rail use.

🔗 Read more about sustainability megatrends in the Responsible business section on page 38

Market attractions

- Rail is a fundamental part of the UK's transport infrastructure, supporting critical commuting and leisure passenger flows
- The market offers more than £9bn of contract-backed passenger revenue in a typical year through around 17 major contract opportunities
- New contracts have no revenue risk and clear performance-based fee opportunities, with low capital intensity
- The environment is regulated, with limited cost risk protected by annual budgeting.



Business model

Our business model is designed to deliver value to a wide range of stakeholders by providing the vital services and innovation that are key to achieving society's social, economic and environmental goals.

Key strengths and resources >



Our people

Our 30,000 employees are at the heart of our business and have the skills, expertise and knowledge to drive our future success.



Vehicle fleets and depots

We operate more than 4,500 buses and more than 3,500 locomotives and rail carriages across the UK.



Reputation for safe and reliable transport services

Our commitment to our customers, employees and others on safety and reliability is an unwavering focus for the Group.



Relationships with key local authority and national government stakeholders

Our long-established relationships and deep engagement with government and decision makers at all levels are essential to our success.



A stable financial platform

Our business is cash generative, and we maintain an investment grade credit rating to enable long-term service continuity.

Our business >



First Bus

Revenues are principally derived from fares comprising passenger ticket sales and concessionary fare schemes (reimbursements by local authorities for passengers entitled to free or reduced fares); and funding revenue, which includes recovery funding and Bus Service Operators Grant ('BSOG') fuel reimbursement payments. Revenue is also generated through tendered local bus services and bespoke contracts for businesses or one-off events, as well as tendered services for local authorities such as Park & Ride schemes.



First Rail

Under the terms of the concession-based National Rail Contracts that have replaced the previous UK passenger rail franchising structure, the TOCs bear no revenue risk and very limited cost risk under an annual budget agreed with the DfT. They earn an annual management fee for service delivery, with the opportunity to earn additional performance-based incentives. Open access operators retain all revenue and cost opportunity and risk.

We act in accordance with our strategic Mobility Beyond Today sustainability framework which drives innovation for customers and ensures we meet our societal commitments.

The framework is aligned to six United Nations Sustainable Development Goals.



③ Read more about our sustainability framework on page 39

Our efforts are underpinned by our vision and values

We provide easy and convenient mobility, improving quality of life by connecting people and communities.



Committed to our customers



Dedicated to safety



Accountable for performance



Supportive of each other



Setting the highest standards

Stakeholders

[Read more on page 78](#)

We interact with a huge range of stakeholders every day.

Section 172 statement

[Read more on page 81](#)

The Board is responsible for promoting the success of the Company over the long term, having due regard for all stakeholders

Value creation for stakeholders >

Progress in FY 2023

1. Customers

Delivering safe, reliable, value for money and easy-to-use travel services for millions of passengers each year.

In a challenging inflationary environment, in First Bus we worked with local authority and government partners to ensure that our ticketing and fare options remain affordable, take advantage of the latest technology, and are better matched to evolving travel patterns. In First Rail we introduced new fleets, trialled low-cost flexible fares, and put in place a number of tools to improve accessibility and support all of our customers on our trains and at our stations.

390m bus passenger journeys and 263m rail passenger journeys recorded in FY 2023.

2. Investors

We aim to deliver sustainable financial performance and long-term value creation, with a capital allocation policy balanced between investment, growth, and shareholder returns.

In line with our disciplined capital allocation policy, in FY 2023 we declared a full year dividend of 3.8p per share, launched a £75m on-market share buyback programme, made a strategically and financially accretive acquisition in Bus and, following successful co-funding applications, we accelerated investment in the decarbonisation of the bus fleet and infrastructure.

c.£32m of £75m buyback programme completed in FY 2023. Announced proposed further additional buyback of £115m.

3. Government

Operating efficient and reliable transport services that help to meet wider policy objectives such as levelling up, decarbonisation and air quality.

We worked closely with the Westminster and devolved governments, as well as with local authorities across the country, to introduce zero emission fleets at First Bus and progress government funding initiatives to encourage passengers to return to bus travel. In First Rail, despite the challenging industrial relations environment, we worked with government and industry partners to encourage passengers to return to our networks through a variety of service improvements and ticketing initiatives.

In March 2023 we joined a group of leading Scottish businesses to launch the Climate Action Hub to support local SMEs to better understand climate risk and develop decarbonisation plans.

4. Employees

Many thousands of our employees work in depots, stations and offices. They are the face of FirstGroup, delivering great service to our millions of passengers.

We have established two groups to drive our equality, diversity and inclusion agenda and the Board's Responsible Business Committee reviews our practices in supporting our people. Our Step Up/Forward and Reach Up/Forward programmes continue to make a significant contribution in our drive to promote better gender and ethnic minority representation across our management populations. We have once again increased the number of apprentices training in our industry leading programmes.

Over 850 apprentices at the end of March 2023.

5. Communities

Supporting stronger economies and local communities by enhancing our engagement activities, improving our services and supporting social inclusion.

We have continued to support our communities through partnerships and initiatives with local community groups and charities. Following an employee vote, First Bus chose Macmillan as the division's charity partner for the next three years. In First Rail, our TOCs worked alongside the Department for Transport on local community rail programmes. During the year our rail TOCs supported the allocation of funds to over sixty community rail partnerships and worked with community partners to ensure the successful delivery of their initiatives.

We invested £617,00 in our local communities in FY 2023.

6. Strategic partners and suppliers

Building long-term relationships, optimising value, mitigating risk and increasing sustainability and ethical standards throughout our supply chain.

During FY 2023 we significantly increased engagement with our largest suppliers to support carbon reporting and decarbonisation initiatives in order to set Science Based Targets. We expect to continue broader and more regular engagement with key suppliers on sustainability going forward.

Chief Executive Officer's review

“

Performance in FY 2023 in the face of the ongoing industry wide challenges has demonstrated the value and increasing diversity of our revenue streams, which together with our strong balance sheet and breadth of capabilities underpin our robust platform to deliver further growth and value.

Graham Sutherland
Chief Executive Officer



Introduction

I am pleased to report a strong financial performance by the Group in FY 2023, despite the ongoing economic and industrial relations challenges. Growth in First Bus in the second half of the year and the outperformance of our open access rail operations have resulted in the Group more than doubling its adjusted attributable profit for the year, to £82.1m.

We ended the year with adjusted net cash of £109.9m, after deploying growth capital of £37m and capital expenditure of £94m in First Bus, and launching a £75m on-market share buyback programme. Both of these are in line with our strategy of investing in growth and decarbonisation in Bus and returning value to our shareholders. The Board is also recommending a final dividend of 2.9p (FY 2022: 1.1p) resulting in a full year dividend of 3.8p (FY 2022: 1.1p).

In First Bus, as the regional bus market gradually returns to a more commercial model and we continue the transformation of the business, our performance in the second half of FY 2023 has reinforced our confidence in the scope for significant earnings growth and margin enhancement over time, and we are working hard to deliver this.

Our First Rail open access operations have reported excellent progress during the year, with both Hull Trains and Lumo delivering revenue and profits ahead of our expectations, underpinned by strong leisure passenger demand. In its first year of operation, Lumo carried more than a million customers, many of whom would otherwise have flown between London and Edinburgh at a far greater environmental cost. The notable success of our open access operations has reinforced that, as the largest private sector rail operator in the UK, we have the experience and entrepreneurial spirit to resolve challenges and innovate in the rail sector for the future and encourage passengers back to the railway.

The DfT management fee-based contracts experienced significant industrial relations challenges, most notably at Avanti and TPE. Our teams have worked extremely hard to address the issues they have faced and deliver their agreed plans to restore services to the levels that our passengers rightly expect.

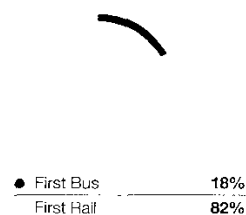
The past three years have been among the most challenging in the history of the UK's rail industry, with it adapting to post pandemic travel patterns and continued industrial action which has caused significant disruption for rail passengers and businesses across the country. We welcomed the recent position articulated by the Secretary of State highlighting that going forward, there will be an enhanced role for the private sector, to reinvigorate the rail industry, drive innovation and attract more customers to the railway and we urge the Government to engage with the industry on the steps that can be taken, without primary legislation, in order to achieve this. First Rail has been a market leader in UK rail for many years and we will play a significant role in the industry as it evolves; we remain committed to working closely with government and our partners to deliver a successful railway that serves the needs of our customers and communities.

Operational highlights – First Bus

The overall performance of our First Bus business is predicated on running better quality mileage by using our enhanced data to align services to demand, implement smarter fares, and drive efficiencies across our operations. The division's strong performance in FY 2023 has demonstrated that we are achieving this.

The division's total revenue increased significantly in FY 2023, to £902.5m, from £789.9m in FY 2022. Total passenger revenue increased by £90.0m to £660.0m, more than offsetting the reduction in government funding, which decreased by £42.8m to £86.5m. The division reported an adjusted operating profit of £58.4m for the full year (FY 2022: £45.2m) and its operating margin of 7.9% in the second half of the year was well ahead of our full year margin of 5.7% in FY 2022.

Revenue (as % of Group)



Total passenger volumes increased by 20% from FY 2022 levels during the year. The £2 fare cap scheme in England that was introduced in January 2023 and recently extended to November 2024, with an increase in the cap to £2.50 from November 2023, and the free travel for Under 22s scheme in Scotland, in place since January 2022, have both positively impacted volumes.

We have also benefited from improved driver recruitment in many of our locations, the yield and pricing actions we made during the year as permitted under the continued government funding, further realignment of our network to better align services to demand and the implementation of our regional management structure to deliver further operational efficiencies.

Our enhanced data and digital capabilities are a key part of the transformation of our business. They are providing unprecedented granular insight that is now driving our commercial decisions, allowing us to deliver our pricing strategy and to have more informed conversations with our local authority partners. Around 80% of our ticket transactions are now digital and we recently became the first major UK bus operator to install 'tap on tap off' technology on an entire bus fleet, allowing for improved customer convenience and distance-based fares, as well as enhanced data for the business.

We have also successfully diversified and increased our revenues from our adjacent services. These businesses reported a good financial performance in FY 2023, aided by the first full year of our 100% ownership of Somerset Passenger Solutions ('SPS') and the acquisition of Airporter in Northern Ireland in October 2022. The adjacent bus services market in the UK is considerable, and we are actively reviewing a pipeline of opportunities to increase our presence in the market, including the recent award of additional contracts for a large logistics provider and for East Midlands Airport and of course, through the recently completed acquisition of Ensignbus.

Regional bus operators have welcomed the DfT's recent two-year funding settlement for operators in England, demonstrating a strong recognition of the value of buses to the economy and to local communities. It will also enable bus operators and local authorities to plan, promote and grow services with greater confidence and with an extended period of clarity. The Scottish Government has also recently announced the launch of a second phase of zero emissions funding for bus operators and, in Wales, the Government continues to work with bus operators and local authorities on a detailed strategy to deliver on its long-term ambitions for bus to support climate change and economic strategy.

80%

of our First Bus ticket transactions are now digital



How our Caledonia bus depot works

Having completed its transformation in May 2022, our Caledonia depot in Glasgow is the UK's largest electric bus depot, with 150 new buses supported by the Scottish ultra-low emission bus scheme and £48m of our own investment.

We selected Hitachi as a prime strategic partner to support the transformation of the depot. Hitachi provides batteries through a leasing arrangement and is also responsible for the maintenance and effective utilisation of the batteries, as well as providing charging software and other decarbonisation technology.

Our electric buses, which were purchased from Scottish manufacturer ADL, are plugged into one of our 150 charging points situated at Caledonia, normally charging overnight once they have been cleaned. All the chargers on site are ultra-rapid chargers with some reaching full charge within four hours.

Maintenance activities on these buses are conducted in the same space as our diesel vehicles with the addition of some specialist tooling and chargers within the maintenance bays. Our engineers receive specific electric vehicle technical familiarisation and training.

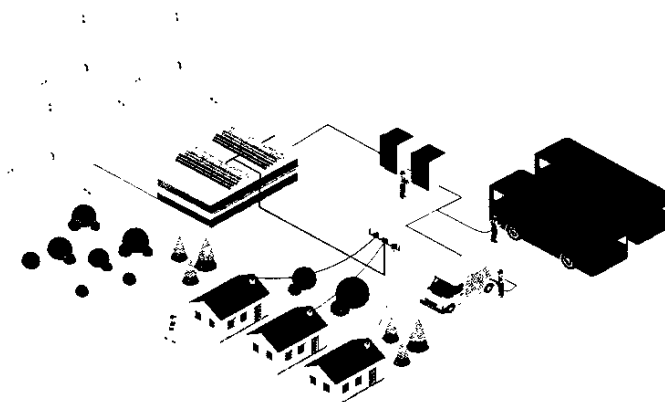
Our smart charging software ensures there is sufficient electricity in the grid to charge the electric buses. It also optimises charging when electricity is at its cheapest, as well as making sure the amount we receive does not exceed capacity.

Our buses are not charged at the depot while they are in service during the day, and we currently have a number of pilot schemes in progress where a number of local businesses, including delivery firm DPD, are using our ultra-rapid chargers to charge their electric vehicles during the day.

To power our depot we receive electricity from a local primary substation which is a fully renewable energy source. We are in the process of building a substation which will allow for an additional 200 vehicles to be charged, both for use by our own fleet as well as other third parties from around the city who want to utilise the facility.

150

electric charging points in our Caledonia depot



Chief Executive Officer's review continued

There is no doubt that First Bus is a more agile business today, and following its outperformance in the second half of FY 2023 we remain confident that we will deliver further, sustainable revenue growth and continue our progression towards a 10% operating margin in bus as the business returns to a more commercial model.

Accelerating our investment in our bus fleet and infrastructure

As a major UK regional bus operator, we have a key role to play in the decarbonisation of public transport in the UK and we are rapidly establishing ourselves as a leader in bus fleet and infrastructure electrification as we progress towards our commitment of a 100% zero emission bus fleet by 2035.

The electrification of bus fleets and infrastructure requires close co-operation between operators and local authorities, and funding from both parties. We have committed net investment of c.£105m in FY 2024, supported by government co-funding of £82m.

In FY 2023 we took delivery of 83 electric buses and we have c.400 electric buses on order for delivery in FY 2024, which means that we will have over 600 zero emission vehicles by March 2024, as well as four fully electric depots, in York, Leicester, Norwich and Hampshire, the first outside of London. As part of our bus depot infrastructure decarbonisation and cost cutting initiatives, we are installing solar panels at our depots. We made good progress in this regard in FY 2023, installing panels at 20 of our depots.

The electrification of our bus fleet and depots will also create significant opportunities for the creation of adjacent revenue streams and sustainable value for all of our stakeholders. We are already conducting trials with third party businesses making use of our ultra-fast chargers when our buses are in service during the day at our Caledonia depot in Glasgow and in Aberdeen and we plan to replicate this at other depots in the future.

Lumo – our green open access success

Launched in October 2021, Lumo is our open access rail service between London and Edinburgh that uses electric trains on every service. Offering customers five services a day each way at an affordable price, Lumo carried a million passengers within its first year.

Travelling by Lumo is 40 times greener than flying. Between April and August 2022, for the first time, over half (57%) the journeys between Edinburgh and London were by rail, compared to 35% pre-pandemic. This has helped take the equivalent of more than 2,500 flights out of the air. In July 2022, around 63% of travellers between Edinburgh and London chose rail over domestic flights, suggesting a modal shift that is here to stay. We are also proud to be supporting green jobs as we deliver the transition to zero emission public transport, with Lumo alone creating more than 100 jobs at its Newcastle headquarters.

Open access operators run services on a different model from other train operating companies. They have track access agreements with Network Rail that set out where and how often they run trains; these agreements must also be approved by the Office of Rail and Road. Open access routes are awarded where there is a clear business case that the route will promote competition for the benefit of rail users and will generate sufficient new revenue without taking it from current operators.

Lumo's services operate along the East Coast Main Line connecting London, Newcastle, and Edinburgh.

Lumo's proposition focuses on providing a greener rail alternative to air travel between the two capitals, as well as stops at Morpeth and Stevenage to give customers an alternative to using Newcastle and Luton airports. Lumo came to the market at the right time, offering a unique product, with no equivalent rail service and at a price competitive to budget airlines to encourage a modal shift from air travel to rail.

Having demonstrated how Lumo would offer the greatest benefit and growth for the rail market and once Network Rail upgrades had taken place to support the new route, the rights were awarded in May 2021. While the pandemic impacted both of FirstGroup's open access routes in terms of passenger volumes and revenue, as well as causing delays in training and manufacturing, it was felt the leisure customers who would use Lumo would return post pandemic. Lumo launched in October 2021 starting out with four services a day, increasing to ten a day over time by April 2022.

While the Lumo business incurred significant start-up costs, we have seen significant growth over the past year. This is thanks to passenger demand beating our initial forecasts, with leisure travel returning strongly post pandemic as well as increased advertising and digital ticket purchasing channels. The autonomy on pricing is a significant advantage of the open access model.

To emphasise Lumo's green credentials we are launching a carbon calculator that measures Lumo's carbon emissions, giving us data that we can then utilise to highlight to stakeholders the benefit of rail over air travel as well as with customers when they buy tickets.

40%

Travelling by Lumo is 40% greener than flying

Operational highlights – First Rail

The management fee based operations reported revenue of £3,805.6m in FY 2023 (FY 2022: £3,762.2m) and adjusted operating profit of £93.3m (FY 2022: £97.5m).

In June 2022 we were awarded a National Rail Contract for GWR to June 2025 with an option for the DfT to extend it to June 2028. As well as working on the introduction of three new stations on the network that are due to open in FY 2024, GWR introduced a new timetable in May this year that has resulted in a 5% increase in train services a day.

In February, we welcomed the DfT's decision to exercise the option to continue the current contractual arrangements for SWR for the full two year extension period. The NRC will now run until 25 May 2025 and will allow the SWR team to build on its achievements during the first two years of the contract, and to continue to improve the customer offering on the network, with a new fleet of Arterio trains starting to be introduced in H2 FY 2024.

We subsequently announced in March 2023 that we had agreed an extension of the current contractual arrangements for WCP with the DfT, to 15 October 2023 and we continue discussions with the DfT regarding a longer-term NRC for WCP. The agreement to extend the contract has allowed our team to continue their focus on delivering their robust plans to improve services for our customers, including further progress on our train upgrade and refurbishment programme, and we also continue to work closely with HS2 Limited in our role as shadow operator. Performance at Avanti is much improved. Since the introduction of the new timetable in mid-December, the number of services has increased by more than 40% compared to last summer, with more seats and better frequencies, and during the most recent period Avanti operated around 98% of scheduled services. We have also continued to roll out the £117m refurbishment programme of the Pendolino fleets with all trains being fully refurbished this year.

In May 2023 the DfT announced its decision not to exercise its option to extend TPE's NRC and its Operator of Last Resort has now taken over the delivery of passenger services on the network. The decline in TPE's service levels was due to circumstances largely out of our control, mainly the challenging industrial relations environment including the withdrawal of longstanding industry-standard overtime arrangements when TPE was undertaking unprecedented driver training requirements due to infrastructure upgrades. The loss of the contract was a huge disappointment for our team which has worked extremely hard to improve services and to successfully recruit and train more drivers than ever before. We had also worked closely with the DfT and Transport for the North on an agreed recovery plan, which had led to a c.40% reduction in cancellations in May 2023. The decision has not altered our belief in the important role of private rail operators in the delivery of vital, environmentally friendly transport for customers and communities across the UK.

Our open access operations Lumo and Hull Trains had a very successful year and performed ahead of our expectations, supported by high leisure passenger volumes.

For FY 2023 they delivered an adjusted operating profit of £19.6m compared to a loss of £(16.6)m in FY 2022 (which reflected Hull Trains' recovery from the pandemic and the start up costs for Lumo). This is a remarkable achievement and reinforces our belief in the ability of the private operators to provide the expertise, innovation and investment to bring more passengers back to rail and deliver profitable operations.

Our additional services businesses, including Mistral Data, evo-rail and First Customer Contact delivered adjusted operating profit of £11.9m in FY 2023, up from £6.9m in the prior year.

Corporate activity

We have made significant progress in monetising the contingent values from exiting North America. In December 2022 the Group received net proceeds of £122m from the sale of all but two of its remaining Greyhound US properties. Following the receipt of these funds we launched a £75m on-market share buyback programme on 19 December 2022 and by the end of FY 2023 we had completed £32m of the programme. We were also able to buy back £15.7m of our 6.785% September 2024 bonds as part of the Bank of England's bond auction in November 2022.

In March, EQT Infrastructure completed the sale of First Transit and we anticipate receipt of the First Transit earnout consideration currently estimated at \$89m in H1 FY 2024.

In line with our strategy of investing in value accretive growth opportunities, in First Bus we have deployed growth capital of c.£37m on a number of acquisitions in FY 2023, most notably Ensignbus in Essex and Airporter in Northern Ireland. The acquisition of Ensignbus, a long-established, high-performing business, will not only provide a number of synergies and value accretive growth opportunities in adjacent services contracts and the bus vehicle dealership market, but it will also enhance our local commercial bus operations in Essex. The addition of Airporter has expanded our footprint in Ireland and created an enhanced service.

Capital allocation and dividends

In light of the Group's financial performance for FY 2023 and in line with its progressive dividend policy, the Board has proposed a final dividend of 2.9p per share, resulting in a final dividend payment of c.£20m, be paid on 18 August 2023 to shareholders on the register at 14 July 2023, subject to approval of shareholders at the 2023 AGM. The total dividend for the year paid and recommended is 3.8p per share (FY 2022: 1.1p per share). We have also announced today that the Board has proposed an additional buyback of £115m, subject to renewal of the usual buyback authority at the AGM and following the receipt of the proceeds from exiting North America.

Progressing our sustainability credentials and social value contributions

I am very pleased to report that for the fourth consecutive year, we have been included in the Clean200 Report, which ranks the world's largest publicly listed companies by their total clean energy revenues from products and services that provide solutions for the planet and define a clean energy future.

Open access delivered an operating profit of

£19.6m

£122m

received from sale of portfolio of Greyhound properties

Chief Executive Officer's review continued

We have also received the Green Economy Mark on the London Stock Exchange in recognition of our contribution to the global green economy. We were also the only UK public transport operator to be included in the 2022 S&P Sustainability Yearbook and our score improved to B on the Carbon Disclosure Project ('CDP') global disclosure programme this year. In addition, we were ranked third out of the world's 90 most influential transport companies in the World Benchmarking Alliance's recently published Transport Benchmark that uses publicly available information to assess companies on their progress towards decarbonisation and their contributions to a just transition and social transformation.

The Group has worked hard over many years to establish its safety culture and our focus remains on our commitment to the safety of our customers and employees. In FY 2023 we continued to invest in technology systems and introduced a number of initiatives and awareness campaigns to reduce incidents and to effectively monitor and manage our performance.

In September 2022 we published our first social value report, working with the Centre for Economics and Business Research to identify in a clear, robust and evidence-based way how exactly we add value, and how much we contribute in a given year. We create social value by supporting prosperity, growth and jobs in the communities we serve, for example through local employment (direct and in our supply chain), local procurement and community engagement programmes. We also play a critical role in reducing congestion on the roads, improving air quality and facilitating the transition to a zero-carbon world. The report highlighted that during FY 2022 we generated £1.44bn of gross value added ('GVA') contribution to the UK economy and spent £2.44bn on goods and services provided by UK firms. Our bus and rail services were estimated to have saved the UK economy £1.3bn in congestion costs in FY 2022 and in terms of employment benefits, for every 10 jobs directly generated by FirstGroup in the UK, a further 13.1 jobs are supported in the wider economy and our aggregate employment compensation was £2.9bn for the year.

Looking ahead

Whilst the broader economic and industrial relations backdrop remains challenging, current trading is in line with our expectations and the Group anticipates financial performance in line with our expectations for FY 2024. Positive free cash generation after investment of c.£130m principally in the electrification of the First Bus fleet and infrastructure, as well as capital returns to shareholders, is expected to result in an adjusted net cash position in the range of £10-20m at the end of FY 2024, assuming the completion of the returns to shareholders and before investing in potential inorganic growth opportunities.

Although clearly sensitive to broader consumer spending and inflation trends, we do expect sequential progress in First Bus in FY 2024 as we continue to benefit from the actions we have taken to transform the business as well as the first full year contribution of both Airporter and Ensignbus.

In First Rail, financial performance is expected to be in line with our expectations despite the TPE contract not being extended by the DfT. We expect profit from our open access operations to be at least in line with FY 2023, with continued strong passenger demand offsetting increased electricity prices and track access costs. We expect our management fee-based operations to deliver aggregate financial performance broadly in line with management expectations.

Looking further ahead, it is anticipated that First Bus will deliver further earnings growth as it continues its transition to a more commercial and efficient model, and from the targeted deployment of growth capital in both commercial and adjacent services opportunities, including over time, additional revenue streams resulting from the electrification of our fleet and infrastructure.

In First Rail, we expect a broadly consistent level of contribution from the management fee-based operations, and we anticipate further growth from both our open access and rail additional services as we look at ways to expand our customer offering, and our additional services businesses. We also continue to actively review a broad pipeline of growth opportunities where we can make use of our extensive experience and expertise.

In line with its disciplined capital allocation policy, the Board remains committed to its progressive dividend policy as well as reviewing the potential for further additional distributions to shareholders over time.

Conclusion

Our performance in FY 2023 in the face of the ongoing industry wide challenges has demonstrated the value and increasing diversity of our revenue streams, which together with our strong balance sheet and breadth of capabilities underpin our robust platform to deliver further growth and value. It is also testament to the expertise, dedication and resilience of our employees at all levels across the Group, and I am extremely proud and grateful to all of our employees for their hard work in support of our customers and communities especially during the cost of living crisis.

I look forward to working with all of our teams to capitalise on the considerable opportunities that lie ahead for FirstGroup to create substantial and sustainable value for all of our stakeholders and support the UK's social, economic and environmental ambitions.

Graham Sutherland

Chief Executive Officer
8 June 2023

Business review



First Bus

The overall performance of our business is predicated on running better quality mileage by using our enhanced data to align services to demand, implement smarter fares and stimulate demand, and drive efficiencies across our operations.



First Bus is a more agile business today, and its outperformance in the second half of FY 2023 has given us *increased confidence* that we will deliver further revenue growth and a 10% operating margin in bus in the medium term.



Janette Bell
Managing Director, First Bus

Revenue

£902.5m

FY 2022: £789.9m

Adjusted operating margin

6.5%

FY 2022: 5.7%

Adjusted operating profit

£58.4m

FY 2022: £45.2m

Average number of employees

12,800

FY 2022: 13,500

	£m FY 2023	£m FY 2022	£m change
52 weeks to 25 March			
Revenue	902.5	789.9	+112.6
Revenue per mile £	5.36	4.27	+1.09
Adjusted operating profit	58.4	45.2	+13.2
Adjusted operating margin	6.5%	5.7%	+80bps
EBITDA	120.9	104.4	+16.5
Passenger volumes	390.0	323.8	+66.2
Operated mileage	168.2	185.1	16.9
Net operating assets	511.9	626.4	(114.5)
Capital expenditure	121.8	63.2	+58.6

First Bus reported revenue of £902.5m (FY 2022: £789.9m) principally due to a 15.8% increase in passenger revenue, mainly reflecting increased passenger volumes in the second half of the year. Total passenger revenue increased to £660.0m (FY 2022: £570.0m), more than offsetting the £42.8m decrease in government funding. Our adjacent services revenue increased to £175.1m from £120.9m in the prior year.

Adjusted operating profit increased to £58.4m (FY 2022: £45.2m). Statutory operating profit was £51.4m (FY 2022: £45.2m) with £7.0m of adjusting charges relating to the restructuring of the business including the sale of First Scotland East and the closure of our Southampton-based operations.

Overall passenger volumes increased by 20% in FY 2023 relative to FY 2022 equivalent levels, with commercial passenger volumes up 21% and concessions up 19%. Passenger volumes have benefited from the £2 fare cap scheme in England, and the free travel for under-22s scheme in Scotland that has already funded over 50 million free bus journeys since its launch in January 2022. By stimulating passenger demand these schemes have both encouraged a modal shift to bus travel and increased social mobility. Under the £2 fare cap scheme in England, operators agree a reimbursement schedule in advance with the DfT based on the projected cost to the operator for charging a flat £2 fare for journeys that would otherwise have cost more. In Scotland, under the free travel for under-22s scheme, operators are reimbursed a proportion of the cost of a full adult fare.

25%

Revenue per mile increased by 25% in FY 2023, to £5.36 per mile.

Business review continued

First Bus operated 168 million service miles in FY 2023 compared with 185 million miles in the equivalent period in FY 2022 on a like for like basis following the network changes implemented in FY 2023 to better align services to demand.

Since September 2021, the delivery of local bus services across England has been reinforced by the DfT's £226.5m Bus Recovery Grant ('BRG') package which was allocated to regional bus operators based on mileage and volumes. The scheme was extended from April to July 2023 with £80m to support bus services through operators and local transport authorities, and £70m to support the £2 fare cap scheme.

In May 2023, bus operators and local authorities welcomed the DfT's announcement of a two-year funding settlement for operators in England which includes £300m of further funding to protect bus services until 2025, and £200m funding to extend the £2 fare cap until the end of October 2023 and then at £2.50 until November 2024. Currently, just over three quarters of First Bus commercial revenue is covered by the £2 fare cap scheme which reimburses operators using a shadow fare that includes an uplift in line with CPI. The new funding package will support passenger volume growth and provide increased certainty for us, and importantly, an extended period of clarity for us to plan the business around.

Optimising our business and delivering increased margins

The actions we have taken over the last few years to transform our business have resulted in a significant improvement in revenue and profit margins in the second half of FY 2023. These included net fare increases, initiatives to improve driver availability, as well as operational improvements, cost efficiencies and network realignments to better align services to demand. Revenue per mile increased by 25% in FY 2023, to £5.36 per mile.

We have also continued to successfully develop our pricing and yield management strategy, focused on the implementation of shorter term products such as lower entry single and return fares and updated weekly and monthly discounts. Having been prohibited from doing so under the earlier pandemic funding regime, we implemented fare increases in October 2022 and have since made further interventions within the CPI cap permitted under current funding schemes. These increases have been designed to better match our new ticketing products to evolving travel trends, whilst at the same time recognising the potential impact of the cost of living crisis on discretionary passenger journeys by retaining low single fares.

We have a clear focus on delivering data-led, smart efficiency initiatives across our operations. We have delivered annualised cost savings of c.£20m since 2019 and we continue to identify and progress additional efficiency initiatives through the further modernisation of our business processes. In H2 2023 our driver recruitment, retention and training initiatives resulted in an easing of driver resource pressures and increased operational efficiencies. Higher than anticipated inflation impacted a number of our key input costs during the year, including pay, fuel and utility costs. The vast majority of our local wage agreements (a number of which are multi-year) were concluded in FY 2023, broadly in line with CPI. Our fuel hedge programme has allowed us to offset higher fuel costs; we currently have 85% of our FY 2024 exposure hedged at 46p per litre and FY 2025 is currently 55% hedged at 50p per litre. We also have an electricity hedge programme in place, with 69% of our consumption (based on current consumption forecasts) hedged for FY 2024 at £172/MWh and 60% for FY 2025 at £146/MWh.

We have also continued to implement energy efficiency measures during the year, such as aligning electricity usage with building occupancy, awareness campaigns to encourage behavioural change and we are accelerating our investment in the self-generation of power. This has included the installation of new energy efficient lighting, bus washes and energy management systems, and the installation of solar panels. To date, we have installed panels at 20 of our depots generating c.2million kWh of electricity, partially offsetting energy usage.

As part of our initiatives to address underperforming locations and optimise our portfolio, we completed the sale of our First Scotland East operations to McGill's Group in September 2022 and in February 2023 we closed our Southampton-based operations. We have also completed a reorganisation of our regional management structure in the period to deliver further operational efficiencies.

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We have a clear focus on delivering data led, smart efficiency initiatives across our operations.

Digital innovation

First Bus remains at the forefront of the digital transformation of the bus industry, thanks to our investment in real-time passenger volume data capture, GPS functionality and ticketing. We have significantly more actionable data which is transforming our ability to understand and assess passenger flows and make commercial decisions more efficiently. We are now able to accurately observe how passenger demand patterns are evolving, which is allowing us to optimise our networks, timetables and pricing strategies to align with passenger needs, improve our overall yield and attract new customers.

Ticket sales using digital payment methods now account for around 80% of our ticket transactions, and we recently became the first regional bus operator in the UK to install 'tap on tap off' capped payment technology on its entire fleet. This will allow for improved customer convenience and distance-based fares, as well as enhanced data for the business.

We are also successfully using data to increase our operational performance and efficiencies. In FY 2023 we rolled out the Prospective data-led timetabling and scheduling platform at a number of our operating companies. The software allows us to predict journey times and plan our schedules based on granular data. We have already seen significant improvements in punctuality and service reliability throughout the day and more resource efficient operations resulting in lower lost mileage and positive feedback from both customers and drivers.

Adjacent Services

Our adjacent services reported an increase in overall revenue to £175.1m in FY 2023 (FY 2022: £120.9m), aided by the first full year contribution of our 100% ownership of SPS and the acquisition of Airporter during the year. Prior year revenue of £120.9m reflects adjacent revenues adjusted for the impact of inter division trading.

Having acquired the 50% of SPS we did not already own in FY 2022, in H1 2023 we agreed a five-year extension to our contract to provide passenger transport for the construction workers employed at the EDF Hinkley Point C nuclear power station. SPS employs around 450 staff running a 145 vehicle operation, delivering shuttle services seven days a week to and from the Hinkley Point site, with annual revenues of c.£31m.

The addition of Northern Ireland-based Airporter to our business in October 2022 has expanded our footprint in Ireland and increased our daily routes to seven with the new route connecting the North-West to Belfast International Airport, Dublin Airport and Dublin city centre.

The acquisition of Ensignbus, with two high performing complementary business segments that include rail replacement and private hire contract operations has also boosted our complementary businesses portfolio. In addition, the business has a young vehicle fleet that will require limited capital expenditure for several years and its vehicle refurbishment and re-sale division will provide synergies for First Bus as it sells its older fleet and replaces them with zero emission vehicles. The wider UK bus industry will also benefit, as the oldest, most polluting diesel buses are taken out of service. It is anticipated that the market for the resale of lower emission used diesel vehicles will continue to remain robust in the medium term, followed by the emergence of a similar market for the resale of zero emission vehicles.

During the period we have also been active with regards to bus franchising opportunities. First West of England took over the running of the m1 metrobus service in Bristol, a rapid transit contract serving more than 50,000 passengers a week and we continue to participate in the bidding for franchise operations in Greater Manchester.

The adjacent services market in the UK is considerable and we continue to actively review a pipeline of opportunities to increase our presence in the market, including a recent contract win for East Midlands Airport.



First Bus remains at the forefront of the digital transformation of the bus industry

Business review continued

Fleet decarbonisation

We are a leader in sustainable mobility and are fully aligned and working closely with central and local governments and our local authority partners across the UK to support the delivery of national decarbonisation ambitions and commitments, including zero emission bus fleets. In 2020 we announced our commitment to operate a fully zero emission fleet by 2035.

As an early mover in the sector, and an operator who strives to deliver innovation for customers, we are leading the industry in trialling and deploying various modes of vehicles and technologies across our fleet and at our depots.

The electrification of bus fleets and infrastructure requires close co-operation between operators and local authorities and funding from both parties.

To date, we have worked with our local authority and government partners to secure government co-funding assistance for 552 zero emission vehicles and associated infrastructure under the Zero Emission Buses Regional Area (ZEBRA) funding in England, and Transport Scotland's Scottish Zero Emission Bus Phase 1 (ScotZEB) funding scheme, alongside committed net investment from the Group of £105m in FY 2024. We have welcomed the recent announcement by the Scottish Government regarding the launch of the second phase of its ScotZEB fund, through which up to £58m of funding to be made available to fund zero emission buses and infrastructure, reinforcing its commitment to drive forward a fully decarbonised future for Scotland's buses.

In FY 2023 we took delivery of 83 electric buses and we now have a total of 58 ultra-fast charging sockets already installed and fully operational. We anticipate that four of our depots (York, Leicester, Norwich and Hampshire) will be operating a fully electric fleet by the end of March 2024.

The electrification of our bus fleet and depots will also create significant opportunities for the creation of adjacent revenue streams and sustainable value for all of our stakeholders. We are already conducting trials with third party businesses, including courier company DPD and a number of public service vehicles, making use of our ultra-fast chargers at our Caledonia depot in Glasgow and our Aberdeen depot when our buses are out in service during the day. We plan to replicate this at other depots in the future.

In order to support our ambitious decarbonisation targets, we are also working to attract and retain talent and grow the future skills we know the industry will need. As part of First Bus's apprenticeship programme, we have partnered with Reaseheath College in Cheshire to establish the UK's first bus and coach engineering academy delivering tailored training to First Bus apprentice engineering technicians in the maintenance of next generation, zero emission transport vehicles.

Looking ahead

The overall performance of our First Bus business is predicated on running better quality mileage by using our enhanced data to align services to demand, implement smarter fares and stimulate passenger demand, and drive efficiencies across our operations. The division's performance in FY 2023 has demonstrated that the management actions we have taken to transform the business have achieved this, and we are confident that this is sustainable going forward.

Although clearly sensitive to broader consumer spending and inflation trends, we expect further sequential progress in FY 2024. This will result from further data-led efficiencies and network optimisation, lower operating costs as we reduce the average age of the fleet, continued improvement in driver resources, as well as the full year contribution of both Airporter and Ensignbus.

We will continue to invest in decarbonisation and to deploy growth capital, including to create additional revenue streams from the electrification of our fleets and depots and to develop our adjacent services businesses, including participation in franchising opportunities. First Bus is a more agile business today, and following its outperformance in the second half of FY 2023 we remain confident that we will deliver further revenue growth and continue our progression towards a 10% operating margin in bus.

The electrification of our bus fleet and depots will create significant opportunities for the creation of adjacent revenue streams and sustainable value for all of our stakeholders.



First Rail

With approximately a quarter of the UK rail market, First Rail will play a significant role in the industry as it evolves, and the success of our open access operations has further reinforced that we have the experience and entrepreneurial spirit to resolve challenges, fix problems and innovate for the future, encouraging passengers back to the railway whilst also growing our business.

Twelve months to 31 March	£m FY 2023	£m FY 2022	£m change
Revenue from management fee-based operations	3,805.6	3,762.2	+43.4
Revenue from open access and additional services	190.8	119.2	+71.6
Inter-divisional eliminations	(103.2)	(80.2)	(23.0)
First Rail revenue	3,893.2	3,801.2	+92.0
Attributable net income from management fee-based operations ¹	38.7	45.5	(6.8)
Gross up for tax, minorities and IFRS 16	54.6	52.0	+2.6
Adjusted operating profit / (loss) from open access and additional services	31.5	(9.7)	+41.2
First Rail adjusted operating profit	124.8	87.8	+37.0
Passenger journeys (m) – management fee-based operations	261	200	+61
Passenger journeys (m) – open access operations	2.2	0.9	+1.3
Passenger journeys (m) – Total	263	201	+62

¹ Represents the Group's share of the management fee income available for dividend distribution from the GWR, SWR, TPE and WCP (incorporating Avanti) contracts with DfT on a pre-IFRS 16 basis net of tax and minority interests as described in more detail on page 171. See also note 4 to the financial statements for a reconciliation to the segmental disclosures.

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In the medium to longer term, we anticipate further growth from our open access operations, as we look at ways to expand our customer offering, and from our additional rail services businesses



Steve Montgomery
Managing Director, First Rail

Revenue

£3,893.2m

FY 2022: £3,801.2m

Adjusted operating margin

3.2%

FY 2022: 2.3%

Adjusted operating profit

£124.8m

FY 2022: £87.8m

Average number of employees

17,500

FY 2022: 17,500

The First Rail division reported total revenue of £3,893.2m in FY 2023 (FY 2022: £3,801.2m), with increased passenger volumes offset by lower funding in the management fee-based operations. The division's open access operations contributed £70.8m in revenue for the period (FY 2022: £26.6m). Additional services including Mistral Data, evo-rail and First Customer Contact delivered gross revenue of £120.0m (FY 2022: £92.6m) before inter-divisional eliminations in the period and adjusted operating profit of £11.9m (FY 2022: £6.9m).

The management fee-based operations have delivered overall performance metrics broadly in line with our expectations in FY 2023 and have accordingly recorded actual performance fees and accrued for the remaining performance fees, that comprise fixed and variable elements, as a result. From FY 2024, performance fee metrics have been updated to place a greater weighting on quantified, rather than qualitative measures that don't rely on a subjective assessment of an operator's performance. The Group does not anticipate a material impact on net income as a result of these changes. Rail attributable net income from management fee-based operations – being the Group's share of the management fee income available for distribution from the GWR, SWR, TPE and WCP (incorporating Avanti West Coast) contracts with the DfT – was £38.7m (FY 2022: £45.5m). The Group receives an annual inter-company remittance from the TOCs reflecting the post-tax net management and performance fees from the prior year. These become payable up to the Group in the second half of the financial year following completion of the TOC audited accounts.

£124.8m

The First Rail division's adjusted operating profit increased to £124.8m (FY 2022: £87.8m)

Business review continued

Our two open access operations Lumo and Hull Trains primarily serve leisure passengers, which as a segment has seen good demand throughout FY 2023. As a result of high volumes of passenger bookings and positive yield management including inflationary increases in fares, both operations performed ahead of expectations in FY 2023, delivering an adjusted operating profit of £19.6m compared to a loss of £(16.6)m in FY 2022 (which reflected Hull Trains' recovery from the pandemic and the start up costs for Lumo).

To address energy cost inflation, our train operating companies are members of industry buying groups in order to mitigate the long-term impact of electricity costs. For our open access operations, electricity costs represent a material proportion of their total costs, and these are expected to increase in FY 2024 before reducing in line with reductions in energy prices.

The First Rail division's adjusted operating profit increased to £124.8m (FY 2022: £87.8m), which principally reflects the increase in open access contribution, the settlement of one-off claims relating to prior reporting periods, as well as higher impact from IFRS 16 following the award of the new GWR contract in June 2022, which increased adjusted profit by £8.8m in FY 2023. The division reported a statutory operating profit of £124.8m (FY 2022: £91.8m).

Transition to longer-term National Rail Contracts

Under the NRCs, the DfT retains substantially all revenue and cost risk (including for fuel, energy and wage increases). There is a fixed management fee and the opportunity to earn an additional performance fee. The punctuality and other operational targets required to achieve the maximum level of performance fee under the contracts are designed to incentivise service delivery for customers.

In June 2022 GWR was awarded an NRC with a core three-year term to 21 June 2025, with an option for the DfT to extend it by up to three further years to June 2028. The NRC also includes the operation of the Heathrow Express service.

In February we announced that the DfT had exercised their option to continue the current contractual arrangements for SWR for the full two year extension period. The NRC will now run until 25 May 2025 and will allow the SWR team to build on their achievements during the first two years of the contract, and to continue to improve the customer offering on the network.

In March we agreed an extension of the current contractual arrangements for WCP with the DfT, to 15 October 2023. The WCP contract comprises operation of Avanti West Coast and acting as shadow operator to the HS2 programme. The agreement to extend the contract has allowed our team to continue their focus on delivering their robust plans to enhance services for our customers, including further progress on our £117m train upgrade and refurbishment programme. Performance at Avanti is much improved. Since the introduction of the new timetable in mid-December, the number of services has increased by more than 40% compared to last summer, with more seats and better frequencies, and during the most recent period Avanti operated around 98% of scheduled services. Discussions with the DfT regarding a longer-term NRC for WCP continue.

In May 2023 the DfT announced their decision not to exercise its option to extend TPE's NRC and the Operator of Last Resort has now taken over the delivery of passenger services on the network. The decline in TPE's service levels was due to circumstances largely outside of our control, mainly the challenging industrial relations environment including the withdrawal of longstanding industry-standard overtime arrangements whilst undertaking unprecedented levels of driver training due to infrastructure upgrades. The loss of the contract was a huge disappointment for our team who have worked extremely hard to improve services, and to successfully recruit and train more drivers than ever before. We had also worked closely with the DfT and Transport for the North on an agreed recovery plan, which had led to a c.40% reduction in cancellations in May 2023.

Innovation and adjacent rail opportunities

During the year we continued to develop, market and deploy our additional rail customer, industry and technology tools and services. Most of these were initially developed to strengthen our offering to passengers on our large passenger rail operations but are increasingly being marketed to third party operators.

Our evo-rail track-to-train superfast rail-5G technology uses trackside poles to provide a connectivity solution that we expect will improve the passenger experience and help to encourage modal shift towards rail. The evo-rail technology is generating interest, and the installation of the technology across the SWR main line continues, with the first of six sections now completed and the remaining sections due in the second half of 2023. A number of trials and negotiations are also underway in the UK and abroad.

Mistral Data, our analytics business, was launched in 2021 and now has 14 software systems in operation built on native cloud technology, allowing them to be quickly deployed whilst also ensuring security and scalability. They include revenue and operational analysis and reporting tools that enable real-time

£19.6m

Lumo and Hull Trains delivered an adjusted operating profit of £19.6m compared to a loss of £(16.6)m in FY 2022

Read more about Lumo on page 16

integration and the sharing of complex data needed to operate services. This is enabling our teams to identify and resolve problems before they develop further, using live data pulled from several systems. The software also provides real-time information and messaging to our customers via website and mobile app channels on the formation and facilities available on each train, as well as any changes their train times in advance, allowing them to plan their journey with confidence. Also in FY 2023, a new Mistral safety application was successfully developed and deployed on the SWR network, to identify areas of potentially low rail-wheel adhesion, based on real-time wheel slip reported data.

Our First Customer Contact passenger service centre was established in 2019 and built based on scalability and the state-of-the-art customer service and data analytics systems appropriate for servicing rail customers. In FY 2023 the centre supported customers, processing delay repay claims and passenger assistance bookings, with quick turnaround times. The shared passenger service centre operates at a lower cost than our previous outsourcing arrangements and provides a single service for customer queries across several First Rail operations.

Our WCP Development team continued to support the HS2 infrastructure project during FY 2023. We worked closely with HS2 Ltd, the DfT, Network Rail, Avanti West Coast, our stakeholders and customers to drive consistent, high-quality delivery of the programme and maximise the benefits of the Government's very significant HS2 infrastructure investment. We completed more than 35 project deliverables on time and within budget, led by our technical leadership team.

Customer experience

Our operations continue to make use of their industry knowledge and expertise to work collaboratively with industry partners and stakeholders to enhance our service offering and ensure that our services are as accessible as possible for all passengers. In FY 2023 we introduced a number of accessibility tools; these included the launch of My Station View and GoodMaps Explore on TPE and Travel Companion on Avanti. A number of innovative ticketing schemes were also introduced in FY 2023. Avanti introduced a low-cost Superfare for flexible travel, with fares fixed by destination and starting from £12 for a one-way ticket between London and Birmingham and GWR launched a Long Weekender leisure ticket in response to changing customer habits, offering savings of more than 60% on a number of routes. Ticket sales for Avanti's Standard Premium service which celebrated two years in May 2023, have exceeded expectations, with our 1.5 million tickets already sold.

Fleet upgrades

First Rail has an important contribution to make in meeting the challenges of climate change, and we are working with our partners to reduce carbon emissions through a number of initiatives including the introduction of electric trains to replace diesel where possible.

Avanti will be taking delivery of its first new Hitachi trains following an investment of £350m in ten electric-only trains and 13 bi-mode trains that can run under both electric and diesel power. The new trains are set to replace Avanti's diesel-only Voyager trains, leading to a 61% reduction in carbon emissions as well as providing a quieter and roomier service, more reliable Wi-Fi, wireless charging and a real-time customer information system. The first trains are expected to enter service later in FY 2024. In FY 2023 Avanti also continued the refurbishment of its electric Pendolino fleet through a £117m investment programme financed by the fleet owners Angel Trains. The first fully refurbished Avanti Pendolino entered service in April 2022 and the upgrade programme will be completed in CY 2024.

SWR have taken delivery of 400 Alstom Class 701 trains and it is anticipated that a phased introduction of the trains into operation will commence in H2 FY 2024.

In 2019 five Hitachi Class 802 Paragon trains were introduced into passenger service at Hull Trains, following a £60m investment programme, resulting in a growth in revenue thanks to more seats and better reliability. A recent report has also shown that the new trains have reduced the Hull Trains fleet's CO₂ emissions by almost 60%.

In February, GWR completed the purchase of a number of assets from emission-free battery and hybrid trains manufacturer Vivarail, which entered into administration in December 2022. GWR had been working closely with Vivarail for some time and the purchase of assets has secured the future of the planned trials of the technology between West Ealing and Greenford in London.

60%

New trains have reduced Hull Trains fleet's CO₂ emissions by almost 60%.

Business review continued

During FY 2023 GWR has been working on the introduction of three new stations (Reading Green Park, Marsh Barton in Exeter and Portway Park and Ride in Bristol) to better serve its communities. These stations are all due to open in FY 2024. We have also continued to work to improve our station facilities and deliver increased connectivity with other transport modes in FY 2023. More than 500 additional bike parking spaces and 30 electric bike spaces were completed at various SWR stations and in FY 2024 SWR plan to create a 700 space Cycle Hub at Richmond station, adding almost 500 additional spaces to existing facilities. GWR completed 72 bike parking spaces at Bristol Parkway and an additional 56 spaces across Avonmouth, Severn Beach and Truro stations and Avanti introduced secure bike shelters at ten stations during the year.

Rail policy

The Government's plans for rail published in May 2021 set out their aims to put the expertise, innovation and experience of private sector rail operators at the heart of the new model for the industry in the coming years. We welcomed the recent position articulated by the Secretary of State highlighting that going forward, there will be an enhanced role for the private sector, to reinvigorate the rail industry, drive innovation and attract more customers to the railway. We urge the Government to engage with the sector on the steps that can be taken, without primary legislation, in order to achieve this. This could include activating revenue incentives in current contracts, working with the sector to finalise the form new Passenger Service Contracts will take and setting out a timeline and framework for bringing those contracts to markets, including those currently operated by the public sector.

The UK's rail sector is embarking on a period of reform necessary to modernise industry practices and secure the long-term future of the industry, after some of the most challenging years in its history. A number of trade unions continue to stage industrial action at train operating companies across the UK; notwithstanding the fact that under the management fee-based contracts operators bear no revenue risk and limited cost risk, prolonged industrial action presents enormous challenges for everyone, and most importantly for our passengers who rely on these services to go about their daily lives. We are working closely with our industry partners to do all that we can to minimise the effects of disruption for our passengers.

With approximately a quarter of the UK rail market, First Rail will play a significant role in the industry as it evolves, and the success of our open access operations has further reinforced that we have the experience and entrepreneurial spirit to resolve challenges, fix problems and innovate for the future, encouraging passengers back to the railway whilst also growing our business.

Looking ahead

Financial performance is expected to be in line with our expectations in FY 2024 despite the TPE contract not being extended by the DfT. We expect profits from our open access operations to be at least in line with FY 2023 despite increased electricity prices and the reversal of positive effect of one-off settlement claims in FY 2023. We anticipate a broadly consistent level of financial contribution from First Rail's management fee-based operations in FY 2024 despite the ongoing industrial relations challenges.

In the medium to longer term, we anticipate further growth from our open access and rail additional services, as we look at ways to expand our customer offering, and from our additional rail services businesses. We also continue to actively review a broad pipeline of growth opportunities where we can make use of our extensive experience and expertise.

Financial review

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Strong growth in First Bus in the second half of the year and the outperformance of our open access rail operations have resulted in the Group more than doubling its adjusted attributable profit in FY 2023 to £82.1m.

Ryan Mangold
Chief Financial Officer



FY 2024 financial outlook and financial policy framework

The financial outlook and financial policy framework for the ongoing Group for the financial year ending in March 2024 (FY 2024) and beyond can be summarised as follows:

FY 2024 outlook

- Although the economic and industrial relations backdrop remains challenging, current trading for FY 2024 is in line with expectations
- First Bus: although clearly sensitive to broader consumer spending and inflation trends, we expect further sequential progress in FY 2024 through continued passenger volume recovery and as management actions taken to transform the business, as well as the full year contribution of both Airporter and Ensignbus, will deliver further productivity improvements and increased revenues
- First Rail: despite the loss of the TPE contract, we expect profit from our open access and additional rail services to be at least in line with FY 2023 despite increased costs and the reversal of the positive effect of one-off settlement claims in FY 2023. The management fee-based operations (which have no passenger revenue risk and limited cost risk) are forecast to deliver aggregate financial performance broadly in line with management expectations despite ongoing industrial relations challenges
- Adjusted net cash¹ position expected to be in the range of £10m to £20m at the end of FY 2024, following investment of c.£130m, principally in the electrification of the First Bus fleet and infrastructure and assuming the completion of announced capital returns to shareholders
- The TPE National Rail Contract expired on 28 May 2023. TPE had ring-fenced cash of £41.8m at the year end and its IFRS 16 lease liability on the Group's balance sheet at year end was £10.1m. Fees for the period April 2022 to end of May 2023 will be paid to FirstGroup through the normal mechanism following completion of the audited accounts (expected in H2 FY 2024 and H1 FY 2025)

Investment

- First Bus: c.£130m in net cash capex, principally transition of bus fleet to 100% zero emissions by 2035
- First Rail: continues to be cash capital-light, with any capital expenditure required by the management fee-based operations fully funded under the new contracts
- Growth: actively reviewing adjacent organic and inorganic opportunities where this creates value for shareholders and exceeds the Group's pre-tax WACC

Balance sheet

- Less than 2.0x Adjusted Net Debt: rail management fee-adjusted EBITDA² target in the medium term
- Significant balance sheet strength

Returns for shareholders

- Dividends: final dividend of 2.9p per share proposed
- Targeting progressive dividend 3x covered by Group adjusted attributable profit³
- Additional £115m buyback programme proposed

¹ 'Adjusted Net Debt/Cash' excludes ring-fenced cash and IFRS 16 lease liabilities from net debt as shown in the table on page 32.

² First Bus and First Rail EBITDA from open access and additional services, plus First Rail attributable net income from management fee-based operations, minus central costs (see also page 29).

³ First Bus and First Rail adjusted operating profit from open access and additional services, plus First Rail attributable net income from management fee-based operations, minus central costs, minus cash interest, minus tax (see also page 29).

Financial review continued

	52 weeks to 25 March 2023			52 weeks to 26 March 2022		
	Revenue £m	Adjusted operating profit ¹ £m	Adjusted operating margin ¹ %	Revenue £m	Adjusted operating profit ¹ £m	Adjusted operating margin ¹ %
First Bus	902.5	58.4	6.5	789.9	45.2	5.7
First Rail	3,893.2	124.8	3.2	3,801.2	87.8	2.3
Group items/eliminations ²	(40.7)	(22.2)		-	(26.3)	
Continuing operations	4,755.0	161.0	3.4	4,591.1	106.7	2.3
Discontinued operations	4.0	(6.6)	n/a	996.9	120.1	12.0
Total	4,759.0	154.4	3.2	5,588.0	226.8	4.1

1 'Adjusted' figures throughout this document are before list adjusting and certain other items as set out in note 4 to the financial statements. The statutory operating profit including discontinued operations for the year was £185.2m (FY 2022: £806.1m) as set out in note 5.

2 Includes elimination of intra-group trading between Bus and Rail divisions. Prior year elimination was immaterial. Central management and other items.

Revenue

Revenue from continuing operations increased to £4,755.0m (FY 2022: £4,591.1m), principally reflecting improving passenger volumes in First Bus partially offset by lower receipts from government grant funding and increased revenue in First Rail.

Adjusted operating performance

Adjusted operating profit from continuing operations was £161.0m (FY 2022: £106.7m). First Bus benefited from the improving passenger volumes and yields, which were partly offset by lower grant receipts and the impact of inflationary cost headwinds. In First Rail, management fee-based operations saw adjusted operating profits below the prior year as a result of lower performance fee expectations, although these were more than offset by the outperformance in open access (Hull Trains and Lumo) as they transitioned from loss to profit.

Central costs were lower than the prior year, reflecting the actions to resize the organisation following the North American disposals. The net impact to operating profit of IFRS 16 in the year was £41.9m (FY 2022: £37.3m), further improving the reported result.

The Group's adjusted attributable profit alternative performance measure is calculated as follows and more than doubled in the year, mainly as a result of the strong operational performance across the business:

	52 weeks to 25 March 2023 £m	52 weeks to 26 March 2022 £m
First Bus adjusted operating profit	58.4	45.2
Attributable net income from First Rail management fee-based operations ¹ – Group's share of the management fee income available for dividend distribution from GWR, SWR, TPE and WCP contracts	38.7	45.5
First Rail adjusted operating profit from open access and additional services	31.5	(9.7)
Group central costs (operating profit basis)	(22.2)	(26.3)
Treasury interest ²	(14.1)	(20.7)
Tax ³	(10.2)	2.2
Group adjusted attributable profit	82.1	36.2

1 A reconciliation to the segmental disclosures is set out in note 4.

2 Interest charge excluding notional interest and IFRS 16 lease interest.

3 Pro forma taxation at 19%.

A reconciliation of the Group's adjusted attributable profit measure to adjusted earnings after tax is shown below:

	FY 2023 Group adjusted attributable profit £m	Movements			FY 2023 Adjusted earnings after tax £m
		Adjusted First Rail earnings to IFRS 16 basis £m	Gross up tax and minority interests £m	Actual interest and tax £m	
First Bus adjusted operating profit	58.4	–	–	–	58.4
Attributable net income from First Rail management fee-based operations ¹	38.7	39.3	15.3	–	93.3
First Rail adjusted operating profit from open access and additional services	31.5	–	–	–	31.5
Group central costs (operating profit basis)	(22.2)	–	–	–	(22.2)
Subtotal	106.4	39.3	15.3	–	161.0
Treasury interest ²	(14.1)	(50.6)	–	7.9	(56.8)
Tax ³	(10.2)	–	(10.2)	–	(20.4)
Minority interest	–	–	(5.1)	–	(5.1)
Total	82.1	(11.3)	–	7.9	78.7

1 A reconciliation to the segmental disclosures is set out in note 4.

2 Pro forma interest charge excluding notional interest and IFRS 16 lease interest.

3 Pro forma taxation at 19%.

The Group's EBITDA adjusted for First Rail management fees performance measure also increased materially year-on-year and is calculated as follows:

	52 weeks to 25 March 2023 £m	52 weeks to 26 March 2022 £m
First Bus EBITDA ¹	105.0	87.6
Attributable net income from First Rail management fee-based operations ² – Group's share of the management fee income available for dividend distribution from GWR, SWR, TPE and WCP contracts	38.7	45.5
First Rail EBITDA from open access and additional services ¹	32.5	(9.7)
Group central costs (EBITDA basis ¹)	(21.2)	(24.8)
Group EBITDA adjusted for First Rail management fees	155.0	98.6

1 IAS 17 basis.

2 A reconciliation to the segmental disclosures is set out in note 4.

Financial review continued

Reconciliation to non-GAAP measures and performance

Note 4 to the financial statements sets out the reconciliations of operating profit/(loss) and profit/(loss) before tax to their adjusted equivalents.

The principal adjusting items in the year are as follows:

First Bus restructuring

As part of the restructuring of the First Bus division to exit loss-making markets and to align networks with post-pandemic demand, the Group completed the sale of its First Scotland East business in September 2022, realising a loss on disposal of £(3.7)m, and closed the Southampton depot resulting in closure costs and a release of prior impairment for a net credit of £2.3m. In line with this transition plan, the Group also incurred costs of £(5.6)m relating to surplus vehicle write-downs and other reorganisation charges in the division.

Strategic items

A final net credit of £1.4m was recognised, being costs incurred in relation to the Group's central functions as part of its ongoing cost efficiency initiatives, offset by the release of accruals following the disposal of North America and the execution of the strategy.

Greyhound Canada

Net restructuring and closure costs of £1.5m relating to the continued winding down of Greyhound Canada operations were incurred during the year.

Adjusting items

– discontinued operations

First Transit earnout

Following the announcement on 26 October 2022 of EQT Infrastructure's agreement to sell First Transit to Transdev North America, Inc., the Group now estimates its earnout consideration to be around \$89m (c.£72m) based on the information received on the sale by EQT. This gives rise to a non-cash, adjusting charge of £33.8m relative to the carrying value of the earnout of £106.1m as at 26 March 2022.

Gain on disposal of properties

A gain of £71.4m arose on the completion of the sale of the majority of the remaining Greyhound US properties in December 2022.

In the prior year, the principal adjusting items in relation to the continuing business were as follows:

Gain on disposal of properties

An overall gain of £13.8m was realised in the prior year on the disposal of Greyhound Canadian properties.

Greyhound Canada closure

£1.7m in relation to Greyhound Canada restructuring and closure costs were incurred during the prior year.

First Rail termination sums net of impairment reversal

A £4.0m credit was recognised in the prior year, representing final adjustments of residual matters regarding the TPE and SWR termination sums.

The principal adjusting items in relation to the discontinued operations for 2022 were as follows:

Other intangible asset amortisation charges

The amortisation charge for the prior year was £0.4m.

Gain on sale of First Student and First Transit

As a result of the disposal of First Student and First Transit, a gain on sale of £501.1m was realised in the prior year.

Other costs associated with the disposal of First Student and First Transit

£32.7m of costs were incurred in the prior year associated with the disposal of First Student and First Transit that were not directly attributable to the sale and were therefore not included in the gain on disposal calculation.

Gain on sale and partial reversal of prior year impairments of Greyhound

As a result of the terms of the disposal of the Greyhound US business, there was a gain on disposal in the prior year of £109.0m and a credit of £55.4m representing the partial reversal of the prior years' impairment charges.

Other costs associated with the disposal of Greyhound

There was a charge of £11.1m in the prior year principally comprising legal and professional costs.

Employment taxes relating to First Student and First Transit

There was a charge of £6.6m during the prior year for a one-off charge for accelerated state and federal employment taxes.

North American insurance provisions and Greyhound insurance de-risking

There was a prior year charge of £31.5m for insurance costs due to deteriorations in respect of prior years' claims, and for the de-risking of legacy Greyhound insurance liabilities.

Gain on disposal of properties and impairment of land and buildings

An overall gain on disposal of Greyhound US properties of £6.5m was realised in the prior year. There was also an impairment charge of £7.2m for properties where market value was less than the book value.

The adjusting items in relation to finance cost adjustments – continuing operations for 2022 were as follows:

Total make-whole costs (bonds and facilities)

Costs of £50.0m in the prior year comprised a charge of £30.4m for the early repayment of the \$275m US Private Placement (USPP) and a charge of £19.6m for the early repayment of the £325m 2022 bond.

Write-off of unamortised bridge, bond and facility costs

There was a charge of £8.6m in the prior year for unamortised fees for various facilities which were cancelled on completion of the sale of First Student and First Transit.

Discontinued operations

In FY 2023, the Group's residual Greyhound US activities are disclosed as discontinued operations. The Group completed the sale of First Student and First Transit to EQT Infrastructure on 21 July 2021, and the sale of Greyhound Lines Inc. to a wholly owned subsidiary of FlixBus GmbH on 21 October 2021. All three are reported as discontinued operations in the prior year.

Group statutory operating profit

Statutory operating profit from continuing operations was £153.9m (FY 2022: £122.8m).

Finance costs and investment income

Net finance costs from continuing operations were £56.8m (FY 2022: £140.5m) with the decrease principally due to the adjusting finance costs in the prior year (£58.6m), lower finance costs on bonds and bank borrowings following the deleveraging in

FY 2022 resulting from the sale of First Student and First Transit in July 2021, and increased interest income on cash deposits. IFRS 16 interest costs were £50.6m (FY 2022: £41.0m) and increased mainly in Rail due to new leases for the management fee-based operations.

Profit before tax

Statutory profit before tax was £97.1m (FY 2022: loss before tax of £(17.7)m). Adjusted profit before tax as set out in note 4 to the financial statements was £97.9m (FY 2022: £133.4m) including discontinued operations. In the prior year there was an overall credit of £520.7m (including £58.6m of adjusting items in net finance costs) for adjustments principally reflecting the profit on sale of the North American businesses and partial reversal of impairment charges on Greyhound, resulted in a total profit before tax of £654.1m.

Tax

The tax charge, on adjusted profit before tax on continuing operations for the year was £20.4m (FY 2022: £2.7m), representing an effective tax rate of 19.6% (FY 2022: 10.9%). The rate has increased in the current year because the significant increase in profit before tax in the current year leads to certain reconciling items having less of an impact on the rate. The total tax charge, including tax on discontinued operations, was £33.4m (FY 2022: £12.1m). The actual tax paid during the year was £1.0m (FY 2022: £21.4m).

The ongoing Group's effective tax rate is expected to be broadly in line with UK corporation tax levels being 25% from 1 April 2023.

Adjusted cash flow

The Group's adjusted cash flow of £28.0m (FY 2022: £1,008.9m) in the year reflects positive operational cash flow from the continuing divisions as well as the disposal proceeds from Greyhound properties and collection of deferred consideration and other receivables, offset by the repayment of debt and de-risking of certain retained liabilities. Underlying operational cash flow under IFRS 16 before capital expenditure and lease payments in the year was £644.8m (FY 2022: £185.8m), ahead of expectations due to better business performance and timing of certain working capital flows. The adjusted cash flow is set out below:

	52 weeks to 25 March 2023 £m	52 weeks to 26 March 2022 £m
EBITDA	755.8	862.1
Other non-cash income statement charges	10.9	3.8
Working capital	(101.3)	(89.2)
Movement in other provisions	(33.0)	(27.4)
Increase in financial assets/contingent consideration receivable	–	(223.1)
Settlement of foreign exchange hedge	(1.2)	–
Pension payments in excess of income statement charge/LGPS refund	13.6	(340.4)
Cash generated by operations	644.8	185.8
Capital expenditure and acquisitions	(208.5)	(262.9)
Proceeds from disposal of property, plant and equipment	147.8	23.1
Proceeds from capital grant funding	144.2	77.6
Net proceeds from disposal of businesses	2.0	2,320.0
Interest and tax	(64.6)	(196.6)
Shares purchased for Employee Benefit Trust	(15.3)	(23.5)
Share repurchases from buyback programme including costs (FY 2022: tender offer)	(31.6)	(506.0)
Dividends paid including to non-controlling interests	(20.8)	–
Settlement of foreign exchange hedge	(12.5)	–
Lease payments now in debt/other	(557.5)	(608.6)
Adjusted cash flow	28.0	1,008.9
Foreign exchange movements	(4.0)	(3.8)
Net (inception)/termination of leases	(1,231.8)	184.1
Lease payments now in debt	557.5	609.8
Other non-cash movements	0.2	207.8
Movement in net debt in the period	(650.1)	2,006.8

Financial review continued

EPS

Total adjusted EPS from continuing operations was 10.6p (FY 2022: 1.6p). Basic EPS was 11.8p (FY 2022: 60.2p).

Shares in issue

29.5m shares had been repurchased by year-end, as part of the £75m share buyback programme announced on 16 December 2022. As at 25 March 2023 there were 707.8m shares in issue (FY 2022: 740.7m), excluding treasury shares and own shares held in trust for employees of 42.8m (FY 2022: 9.5m). The weighted average number of shares in issue for the purpose of basic EPS calculations (excluding treasury shares and own shares held in trust for employees) in the period was 739.5m (FY 2022: 1,057.5m).

Dividend

The Board is proposing that a final dividend of 2.9p per share, resulting in a total dividend payment of c.£20m, be paid on 18 August 2023 to shareholders on the register at 14 July 2023, subject to approval of shareholders at the 2023 AGM.

Capital expenditure

Non-First Rail cash capital expenditure was £121.3m (FY 2022: £194.3m), comprising First Bus £120.3m and Group items £1.0m (FY 2022: £194.3m, comprising First Bus £61.1m, Group items £1.7m, First Student £72.6m, First Transit £21.8m and Greyhound £37.1m). In the year, the First Bus average fleet age was 9.1 years (FY 2022: 10.1 years). First Rail capital expenditure was £56.6m (FY 2022: £57.3m) and is typically matched by receipts from the DfT under current contractual arrangements or other funding.

During the year asset-backed financial liabilities were entered into leases in First Bus of £19.3m (FY 2022: £22.4m comprising First Bus £11.3m, Group items £0.8m, First Student £8.4m, First Transit £1.7m and Greyhound £0.2m).

In addition, during the year the Group entered into leases with a right of use value of £1,219.0m comprising First Rail £1,213.8m, First Bus £4.2m and Group items £1.0m (FY 2022: £116.6m, comprising First Rail £94.6m, First Bus £11.3m, Group items £0.8m, First Student £8.4m, First Transit £1.3m and Greyhound £0.2m).

Gross capital investment (fixed asset and software additions plus rights of use asset additions) was £1,426.9m (FY 2022: £374.8m) and comprised First Bus £154.3m, First Rail £1,270.5m and Group items £2.1m (FY 2022: First Bus £74.5m, First Rail £147.6m, Group items £5.9m, First Student £96.1m, First Transit £13.5m and Greyhound £37.2m). The balance between cash capital expenditure and gross capital investment represents new leases, creditor movements and the recognition of additional right of use assets in the year.

Net cash/(debt)

The Group's adjusted net cash as at 25 March 2023, which excludes IFRS 16 lease liabilities and ring-fenced cash was £109.9m (FY 2022: adjusted net debt of £(3.9)m). Reported net debt was £(1,269.1)m (FY 2022: reported net debt of £619.0m) after IFRS 16 and including ring-fenced cash of £369.6m (FY 2022: £468.1m), as follows:

	25 March 2023	26 March 2022
	Total Group £m	Total Group £m
Analysis of net debt/(cash)		
Sterling bond (2024)	184.2	199.9
Bank loans and overdrafts	82.9	87.5
Lease liabilities	1,748.6	1,083.2
Asset backed financial liabilities	44.2	35.5
Loan notes	0.6	0.6
Gross debt excluding accrued interest	2,060.5	1,406.7
Cash	(421.8)	(319.6)
First Rail ring-fenced cash and deposits	(364.2)	(440.4)
Other ring-fenced cash and deposits	(5.4)	(27.7)
Net debt excluding accrued interest	1,269.1	619.0
IFRS 16 lease liabilities – rail	1,711.2	1,031.2
IFRS 16 lease liabilities – non-rail	37.4	52.0
IFRS 16 lease liabilities – total	1,748.6	1,083.2
Net (cash)/debt excluding accrued interest (pre-IFRS 16)	(479.5)	(464.2)
Adjusted net (cash)/debt (pre-IFRS 16 and excluding ring-fenced cash)	(109.9)	3.9

Funding

During the second half of FY 2023, the Group completed the sale of its Greyhound property portfolio for net proceeds of £122m. Following the receipts of these proceeds, the Group announced a £75m share buyback programme, and the repurchase of £15.7m of its 2024 6.875% bonds. At 25 March 2023, the Group had repurchased £29.5m shares for an amount of £31.6m (including costs) under the share buyback programme.

As at the year end, the Group had £638.9m of undrawn committed headroom and free cash, being £300.0m (FY 2022: £300.0m) of undrawn committed RCF and £338.9m (FY 2022: £232.1m) of net free cash after offsetting overdraft positions.

Under the terms of the First Rail contractual agreements with the DfT, cash can only be distributed by the TOCs either up to the lower amount of their retained profits or the amount determined by prescribed liquidity ratios. £48.7m has been paid in dividends from the TOCs after finalisation of their statutory accounts to the Group during the year. The ring-fenced cash represents that which is not available for distribution or the amount required to satisfy the liquidity ratio at the balance sheet date.

Interest rate risk

We seek to manage our exposure to floating interest rates by ensuring that at least 50% (but at no time more than 100%) of the Group's gross debt is fixed rate for the medium term.

Based on the current adjusted net debt profile, the variable rate RCF is undrawn with only finance leases and the 2024 6.875% £184.2m fixed rate bond outstanding.

Fuel and electricity price risk

We use a progressive forward hedging programme to manage commodity risk. As at June 2023, 85% of our 'at risk' UK crude requirement for FY 2024 (81.4m litres, which is all in First Bus) was hedged at an average rate of 46p per litre, and 55% of our requirements for the year to the end of March 2025 at 50p per litre. We also have an electricity hedge programme in place, with 69% of our consumption (based on current consumption forecasts) hedged for FY 2024 at £172/MWh and 60% for FY 2025 at £146/MWh.

Foreign currency risk

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

Foreign exchange

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

	52 weeks to 25 March 2023		52 weeks to 26 March 2022	
	Closing rate	Effective rate	Closing rate	Effective rate
US Dollar	1.22	1.11	1.32	1.40
Canadian Dollar	1.68	1.76	1.64	1.73

Pensions

We have updated our pension assumptions as at 25 March 2023 for the defined benefit schemes in the UK and North America. The net pension surplus of £186.7m at the beginning of the year moved to a net surplus of £27.8m at the end of the year.

The movement is principally due to the impacts of the high yield environment. Whilst the significant increase in discount rates was the main contributor to gains from changes in financial assumptions, the corresponding reduction in the value of bond and liability-matching assets, together with a

modest fall in the value of growth-seeking assets and higher than expected inflation led to an overall loss. The main factors that influence the balance sheet position for pensions and the principal sensitivities to their movement at 25 March 2023 are set out below:

	Movement	Impact
Discount rate	+1.0%	Increase surplus by £202m
Inflation	+1.0%	Decrease surplus by £151m
Life expectancy	+1 year	Decrease surplus by £52m

Following the exceptional gilt yield movements in FY 2023, the Group agreed to make £95m from the Limited Partnership created following the sale of the North American divisions (the escrow) available to the Bus Pension Scheme to assist with liquidity management. The loan was repaid in February 2023. The funding shortfall (the basis which will determine the final distribution of funds from the escrow following the next triennial valuation) remains

materially lower than it was at the beginning of the period. The Company has now started the formal process of removing the legacy North American pension obligations from the balance sheet by giving notice of its intention to terminate the pension plan in Canada.

During FY 2023, £11.8m of excess funding was returned to the Group by a Local Government Pension Scheme in Scotland. This had been made possible by the transfer

of assets and liabilities held within the Strathclyde Pension Fund into the North East Scotland Pension Fund and a subsequent annuity purchase.

On an agreed low-dependency funding basis, Bus and Group Scheme shortfalls are in aggregate c.£60m lower than at the start of the year, to c.£146m at year-end (with £117.6m remaining in escrow).

Financial review continued

Balance sheet

Net assets have decreased by £134.3m since 26 March 2022. The principal reasons are the impact of the profit for the year, which is more than offset by the reduction in the pension surplus, as well as the share buyback programme.

Balance sheets – Net assets/(liabilities)	As at 25 March 2023 £m	As at 26 March 2022 £m
First Bus	511.9	626.4
First Rail	1,368.3	597.3
Greyhound	(21.8)	33.7
Divisional net assets	1,858.4	1,257.4
Group items	162.1	245.8
Net debt	(1,275.6)	(619.0)
Taxation	5.3	–
Greyhound – Held for sale	0.6	0.9
Total	750.8	885.1

Legacy North American assets and liabilities on balance sheet

As part of the disposal of First Transit to EQT, FirstGroup was entitled to an 'earnout' consideration of up to \$290m (c.£220m). On 26 October 2022, EQT Infrastructure announced its agreement to sell First Transit to Transdev North America, Inc., and as a result the Group currently estimates the earnout consideration to be c.\$88.5m (£72.3m). During the year this gave rise to a non-cash, adjusting charge of £33.8m relative to the carrying value of the earnout of £106.1m at 26 March 2022.

Post-balance sheet events

- On 11 May 2023, the Department for Transport (DfT) confirmed that it would not exercise its option to extend the existing arrangements for FirstGroup's TransPennine Express (TPE) National Rail Contract, which was due to expire on 28 May 2023. On that date the DfT appointed its Operator of Last Resort to take over delivery of passenger services on the TPE network.
- The sale of the Bus division's depot at Empress Road, Southampton, which was disclosed as held for sale at 25 March 2023, completed on 3 April 2023 with proceeds in line with the held for sale valuation.
- First Transit earnout crystallised following completion of sale of First Transit business by EQT Infrastructure in March 2023, with estimated proceeds of c.\$89m anticipated in H1 FY 2024.
- In May 2023, the DfT announced a two-year funding settlement for bus operators in England which includes £300m of further funding to protect bus services until 2025, and £200m funding to extend the £2 fare cap until the end of October 2023 and then at £2.50 until November 2024.

Going concern

The Board carried out a review of the Group's financial projections for the 18 months to 30 September 2024 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.

Definitions

Unless otherwise stated, all financial figures for the 52 weeks to 25 March 2023 (the 'year' or 'FY 2023') include the results and financial position of the First Rail business for the year ended 31 March 2023 and the results of all other businesses for the 52 weeks ended 25 March 2023. The figures for the 52 weeks to 26 March 2022 (the 'prior year' or 'FY 2022') include the results and financial position of the First Rail business for the year ended 31 March 2022 and the results and financial position of all other businesses for the 52 weeks ended 26 March 2022. Results for the 53 weeks to 30 March 2024 ('FY 2024') will include the results and financial position for First Rail for the year ending 31 March 2024 and the results and financial position of all the other businesses for the 53 weeks ending 30 March 2024.

'Cont.' or the 'Continuing operations' refer to First Bus, First Rail and Group items.

'Disc.' or the 'Discontinued operations' refer to First Student, First Transit and Greyhound US.

References to 'adjusted operating profit', 'adjusted profit before tax', and 'adjusted EPS' throughout this document are before the adjusting items as set out in note 4 to the financial statements.

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

The Group's 'EBITDA adjusted for First Rail management fees' is First Bus and First Rail EBITDA from open access and additional services on a pre-IFRS 16 basis, plus First Rail attributable net income from management fee-based operations, minus central costs.

'Group adjusted attributable profit' is First Bus and First Rail adjusted operating profit from open access and additional services, plus First Rail attributable net income from management fee-based operations, minus central costs, minus cash interest, minus tax.

'Net debt/(cash)' is the value of Group external borrowings, excluding accrued interest, less cash balances.

'Adjusted net debt/(cash)' excludes ring-fenced cash and IFRS 16 lease liabilities from net debt/(cash).

Ryan Mangold

Chief Financial Officer
8 June 2023

Key performance indicators

The Group and our divisions focus on a range of financial and non-financial KPIs to measure progress and evaluate performance over time. KPIs linked to remuneration are marked **REM**

Read more about remuneration in the Remuneration Committee report on pages 107 to 134.

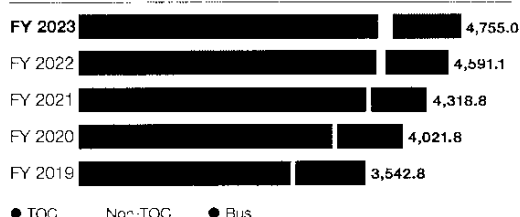
Financial KPIs

Group revenue (£m)

Continuing operations

£4,755.0m

Group revenue reflects the overall size and health of the business driven by passenger volumes and funding receipts.



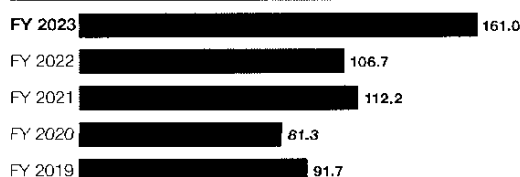
Revenue from continuing operations increased to £4,755.0m (FY 2022: £4,591.1m), principally reflecting improving passenger volumes in First Bus partially offset by lower receipts from government grant funding and increased revenue in First Rail.

Group adjusted operating profit¹ (£m)

Continuing operations

£161.0m **REM**

Group adjusted operating profit is a measure of our ability to extract value from our revenue and manage costs.



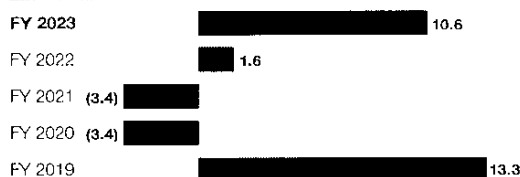
First Bus benefited from improving passenger volumes and yields, which were partly offset by lower grant receipts and the impact of inflationary cost headwinds. In First Rail, operating profit for management fee-based operations was down primarily due to the result of lower performance fee expectations, although these were more than offset by a strong performance in open access (Hull Trains and Lumo).

Adjusted earnings per share¹ (pence)

Continuing operations

10.6p **REM**

Adjusted EPS summarises the overall financial performance of the Group and profit attributable to shareholders.



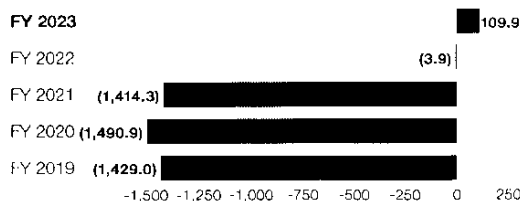
Adjusted EPS for the continuing business has increased from 1.6p to 10.6p due to strong growth in First Bus and First Rail open access EBIT as well as a significant reduction in net finance costs following the deleveraging in FY 2022 and benefits of capital deployed on the share buyback programme.

Businesses which are now discontinued cannot be disaggregated for the purposes of EPS beyond the comparative year. FY 2020 includes Greyhound and FY 2019 includes Greyhound, First Student and First Transit.

Adjusted net cash/(debt)¹ (£m)

£109.9m **REM**

The level of net cash/(debt) in the business influences our ability to invest and finance the business.



Adjusted net cash/(debt) has improved by £114m due to strong EBITDA in First Bus and First Rail open access operations in addition to proceeds from the sale of legacy US properties offset by investment in First Bus fleet and infrastructure, acquisitions and the buyback programme.

¹ Alternative Performance Measure (APM). Reconciliation of APMs to statutory measure can be found in note 4 on pages 168 to 171.

Key Performance Indicators continued

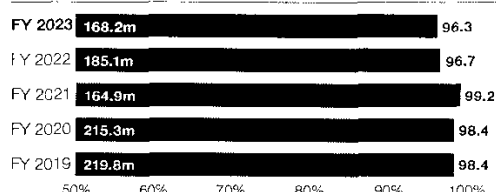
Non-financial KPIs

Customer performance

First Bus total operated mileage

96.3%

This measures bus miles operated as a percentage of timetabled bus miles. It is an important indicator of service to customers and contract fulfilment.

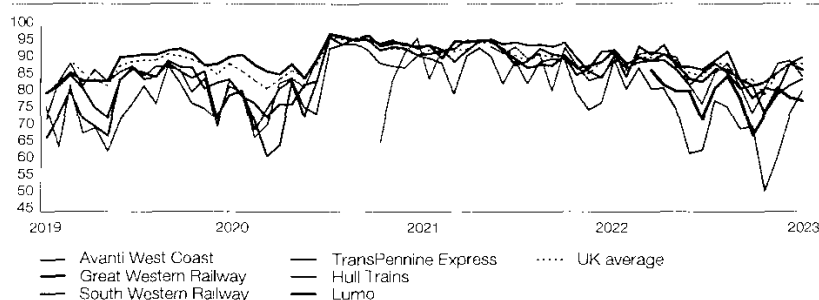


There has been an improved performance in H2 FY 2023. This is driven by increased passenger volumes, improved driver availability and the implementation of other efficiency measures.

First Rail Public Performance Measure

This measures % of passenger trains punctual at final destination¹ by financial period and moving annual average (MAA).

Punctual is defined as arriving at the final destination within five minutes of the planned timetable for London and South East, Regional and Scottish operators, or within ten minutes for long distance operators. Source: Network Rail



Safety

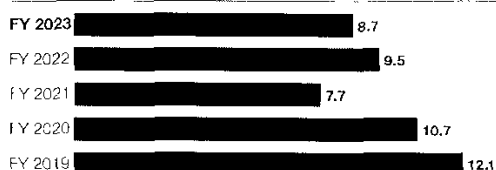
Our two safety KPIs measure the success of our Dedicated to Safety value, our duty of care to our customers, and our commitment to providing a safe place to work for our employees.

[Read more about safety on page 51](#)

Employee Lost Time Injury Rate

8.7

Measures the number of lost time injuries per 1,000 employees per year.

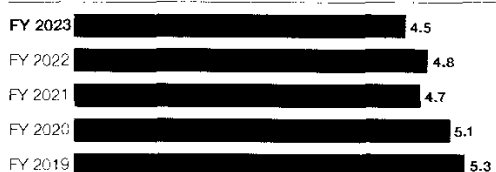


The lost time injury rate has reduced by 9% due to significant reductions in severity of injuries across both First Bus and First Rail. Ensuring a safe working environment for all colleagues is paramount and we continue to strive to eliminate all injuries in the workplace.

Passenger injury rate per million journeys

4.5

Historical data is restated annually to incorporate the most accurate information for the last 36 months.



Passenger injuries have gone down by 7%, a reduction mirrored in both the bus and rail divisions. We have implemented several strategies to help our passengers travel safely on our vehicles and trains through educational campaigns, process improvements, and technology.

¹ Punctual is defined by Network Rail as arriving at the final destination within five minutes of the planned timetable for London and South East, Regional and Scotland operators, or within ten minutes for long distance operators. The moving annual average (MAA) reflects the proportion of trains on time in the past 12 months.

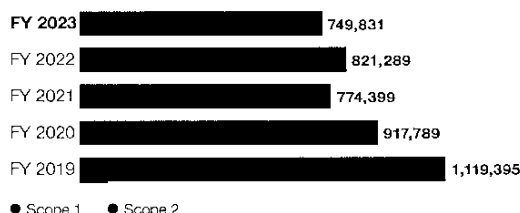
Non-financial KPIs continued

Environment [See page 45 for our full environmental disclosures](#)

Scope 1&2 emissions

749,831
tCO₂e **REM**

Measures the success of our actions to combat climate change and improve local air quality by delivering low and zero emission mobility solutions and infrastructure for our customers and communities.

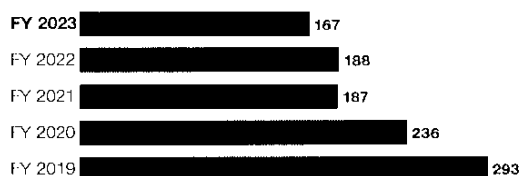


Scope 1 and 2 emissions have slightly decreased from FY 2022 to FY 2023. This is partly due to improved emission factors and progress on bus electrification as well as strike action significantly impacting First Rail service levels over the last year.

Carbon intensity

167
tCO₂e/£m **REM**

Normalised measure of our Scope 1, 2, 3 (limited) and out-of-scope emissions, calculated as tonnes of carbon dioxide equivalent per £m of revenue. Also linked to the Group's Revolving Credit Facility.

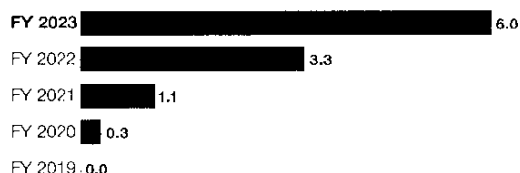


Carbon intensity per £m revenue has improved due to ongoing decarbonisation efforts across the business, indicating a de-coupling of GHG emissions from business growth.

Zero emission buses

6.0%
of bus fleet **REM**

Indicates the speed of investment in decarbonising our bus fleet. Also linked to the Group's Revolving Credit Facility.



The number of zero emission buses in our fleet continues to increase in line with our ambition to achieve a 100% zero emission bus fleet by 2035.

Community investment [Read more about community involvement on page 53](#)

£617,000

Measures the Group's contribution to local communities using the London Benchmarking Group (LGB) model which tracks direct cash contributions, employee volunteering time, in-kind support, and leverage including employee, customer and supplier contributions.



This year we contributed over £617,000 to the communities we serve. We transitioned from a Group charity partner to divisional charity partners this year. While this was being implemented, our programme of gifting advertising space was put on pause for several months, resulting in a temporary drop.

Explanation of changes to KPIs

ROCE has been removed from the KPIs. The majority of the capital deployed by the Group is in First Bus, given the very low capital requirement in First Rail in line with the terms of the management-fee based contracts. When we assess growth capital deployment in First Bus, we use a Weighted Average Cost of Capital ("WACC") measure, adjusted for risk.

We have included Adjusted net cash/(debt). We use adjusted performance metrics which adjust for the nature of the management-fee based rail contracts where we bear no revenue and cost risk, to measure the performance of our business.

Responsible business

Our ambition is to be the partner of choice for innovative and sustainable transport, accelerating the transition to a zero carbon world.

We are committed to building a business for the long term, and our sustainability agenda goes to the heart of who we are and what we do as an organisation. We have a critical role in creating a connected, healthy, zero carbon world, contributing to local prosperity and growth, reducing congestion on the roads, improving air quality and helping to reduce carbon emissions. Our newly formed Responsible Business Committee reports to our Board and oversees all our responsible business activities.

Climate leadership

We have recently set a science-based emissions reduction target aligned with a 1.5°C ambition and approved by the Science Based Targets initiative (SBTi). Climate-related KPIs are embedded into the variable remuneration of our senior leaders to support achievement of this target. We were the first public transport operator in the UK to officially support the Task Force for Climate-related Financial Disclosures (TCFD) and publish our third TCFD report this year.

Social value

We create jobs in many UK regions. We are committed to increasing the diversity of our workforce and building their skills for the future, all of which generates social value, alongside our support for communities.

Stakeholder engagement

We review our strategic priorities through robust materiality assessments and extensive dialogue and consultation with both internal and external stakeholders. We recognise this is a process that will continually evolve and so too will our work, with the needs and perspectives of our stakeholders continuing to inform our plans. See pages 78-80 for more information on our stakeholder engagement throughout FY 2023.

Our performance on ESG indices

We continue to be recognised as a leader by third party evaluations, ratings, and rankings of corporate ESG performance. We have been included in the Clean200 Report for a fourth consecutive year, which ranks the world's largest publicly-listed companies by their total clean energy revenues from products and services that provide solutions for the planet and define a clean energy future.

We were the only UK transport operator included in the 2022 S&P Sustainability Yearbook and our score improved to B on the CDP global disclosure programme this year. We also ranked third out of the world's 90 most influential transport companies in the World Benchmarking Alliance's new 2022 Transport Benchmark, making us the top performing UK transport company in the category.

Further recognition during the year includes:

- Green Economy Mark on the London Stock Exchange and recognised for our contribution to the global green economy
- ranked as the top performing bus and rail operator in our sector in the FTSE4Good Index
- 'Low Risk' rating on the Sustainalytics Index and ranked in the 94th percentile in our sector
- 'Prime' status on the ISS ESG Index and ranked in the top decile in our sector
- 'AA' ranking on the MSCI ESG Index for the sixth year running



Claire Hawkings
Chair, Responsible
Business Committee



The business continues to make progress on our sustainability agenda, with performance and future priorities overseen by the Responsible Business Committee.



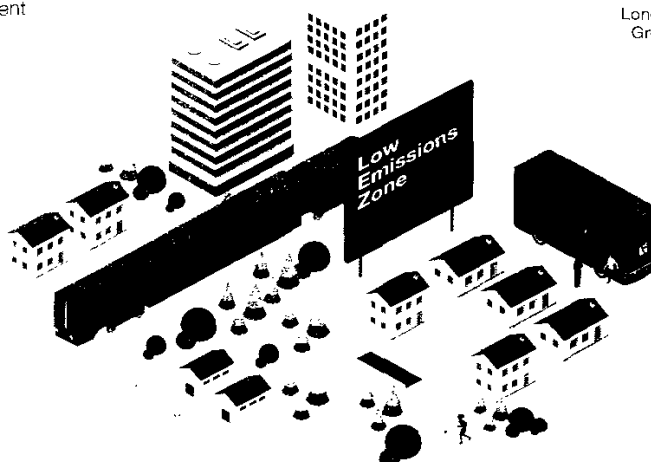
CLEAN200*



FTSE4Good



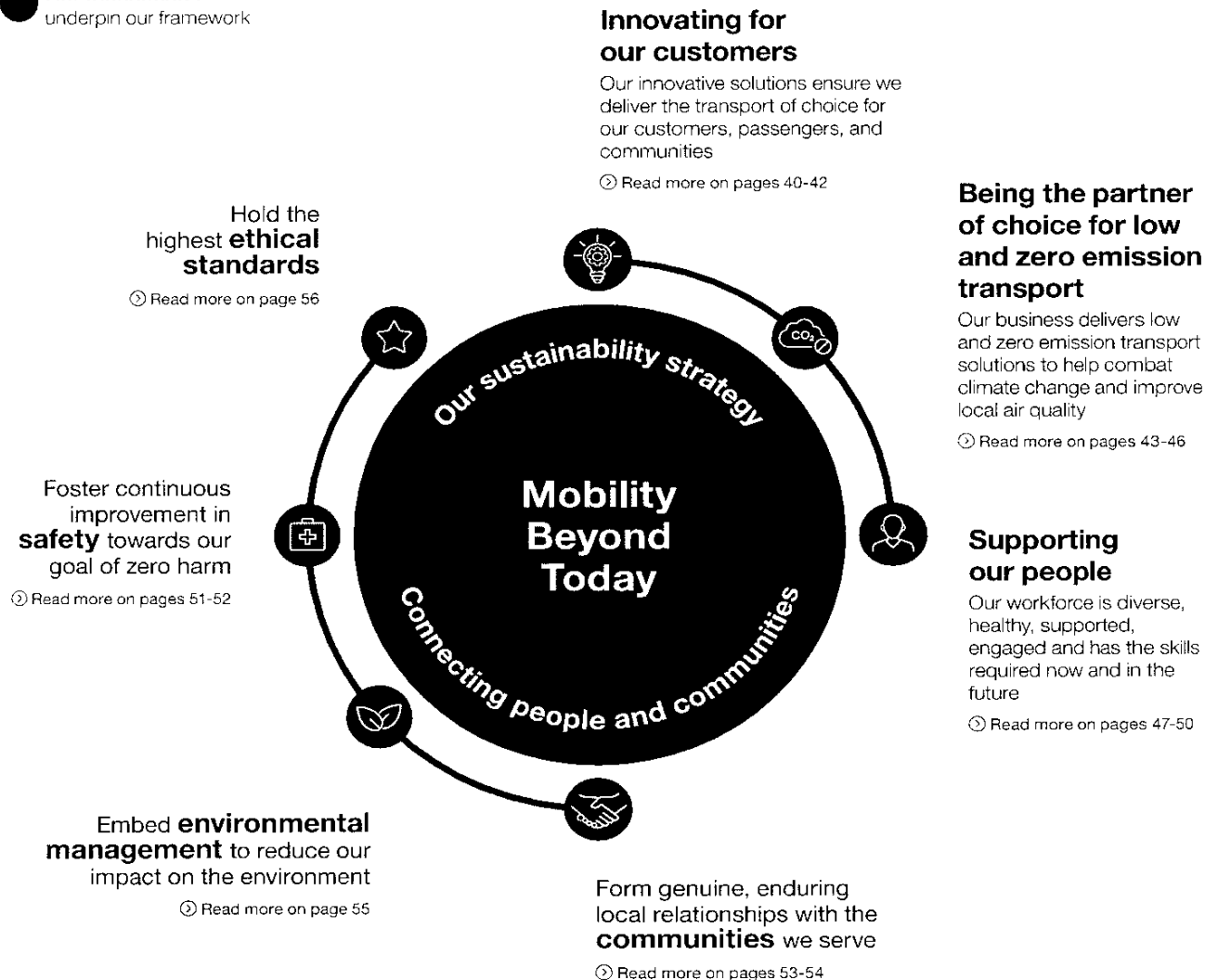
London Stock Exchange
Green Economy Mark



Mobility Beyond Today

Our strategic framework for driving sustainability

- **Our three priority areas**
drive our sustainability ambitions
- **Our foundations**
underpin our framework



Underpinned by our Vision and Values

We provide easy and convenient mobility, improving quality of life by connecting people and communities.



Committed to our customers



Dedicated to safety



Accountable for performance



Supportive of each other



Setting the highest standards

Responsible business continued



Innovating for our customers

We are focused on providing services that have innovation, ease, convenience, and sustainability at their core, in order to have more people than ever travelling on our bus and rail services and taking cars off the road.

Our aims



Enabling the shift

Helping more people to use bus and rail services, increasing ridership and leading to fewer car journeys being made.



Driving innovation

Embracing new technologies and ways of working to deliver easy, convenient and sustainable mobility solutions for our customers.



Using our influence

Collaborating and partnering with stakeholders to shape the sustainable communities of the future.

Providing alternative modes of travel

We play a critical role in reducing congestion on our roads, improving air quality and helping to lower carbon emissions. Transport remains the largest element of the UK's carbon footprint. Government statistics also show that bus and coach transport accounts for only 2.2% and rail just 1.5% of greenhouse gas emissions produced within the transport sector, compared with 52% from cars.

Rail journeys emit up to 80% less carbon and bus journeys over 30% less carbon than journeys by car. We are focused on helping more people to make the shift to our bus and rail services, leading to fewer car journeys being made. Not only is this desirable for the UK to meet its Net Zero goals, but public transport is also vitally important for social inclusion, acting as a leveller for access to education, jobs and health facilities, reducing congestion and supporting social mobility and cohesion.

Our fully electric rail operator Lumo has achieved two major milestones in its first year, having attracted a million passengers and (alongside other rail operators) seen rail overtake air travel to become the preferred mode of transport between Edinburgh and London. Between April and August 2022, for the first time over half (57%) of journeys between Edinburgh and London were by rail. The sustainable rail operator carried its millionth passenger in November 2022 having run more than 2,500 services, the equivalent of around 4,125 full flights* each carrying 180 people.

First Bus welcomed the DfT's new £2 fare cap scheme, which came into effect in England in January 2023. The aim is to help the sector encourage greater bus use, whilst supporting customers at a time when the cost of living has increased. We welcomed the extension of the scheme until the end of November 2024 at £2.50, having seen more than five million passengers already utilise the £2 fare scheme on First Bus services since it began.

We have also been supporting the Scottish government's scheme to provide free bus travel for under-22s, which came into effect in January 2022. We launched a new marketing campaign called #FreeToExplore to promote this scheme in 2023.

Simplifying end-to-end journeys and supporting active travel

To reduce journeys made by private car, we strive to improve and simplify end-to-end passenger journeys, and to increase the integration of active travel, including cycling and walking, into our networks.

This year, our rail businesses have continued to install hundreds of secure bike spaces to allow even more people to choose a sustainable way of getting to and from the station. As an example, we opened a new cycle hub at Salisbury station with 74 cycle parking spaces and an e-bike docking station.

Just over a year after GWR's Dartmoor Line reopened to regular passenger trains, journey numbers on the line passed 250,000, exceeding the demand levels originally forecast.

Read more about Lumo on page 16

* Estimated using Airbus A320 with seating capacity of 180 people.



Improving accessibility

We are committed to making our services accessible and we make every effort to support customers with disabilities or restricted mobility.

We recognise that access to public transport services is often fundamental to such customers' independence. We work with both national and local disability groups and continue to invest in making our services more accessible. We put in place a number of technological enhancements to improve accessibility on our services this year.

Avanti has launched a dedicated communications channel to provide disabled customers with instant help during their journey in a first for the UK rail industry. Called 'Travel Companion', the channel utilises WhatsApp, to connect passengers to accessible travel experts who can offer specialist support while travelling. To support blind or partially-sighted people Avanti has also included within this channel, Be My Eyes – a free app offering video support at a moment's notice from sighted volunteers and professionals who lend their eyes to solve tasks.

Travellers who are deaf or have hearing loss often struggle to hear station announcements and communicate with staff, which can make it harder to plan and carry out journeys. Both SWR and TPE have trialled Artificial Intelligence technology at various stations this year which translates live journey information into British Sign Language (BSL). This is displayed through a figure on digital totem screens, giving them more confidence on their journeys.

Combining excellent customer service with innovation

To encourage more people to use bus and rail services, we continue to invest in innovations to improve customer service, delivering more convenience, smarter, easier and more flexible ticketing, better real-time information and improved on-board amenities.

We have now launched 'tap on tap off' payment technology and ticketing options on our buses in various UK regions including Aberdeen, Glasgow, Cornwall, West Yorkshire and Leicester. This payment technology is now installed on all our fleet. It allows customers to pay by contactless for the journey they make – calculated from the point they 'tap on' to the point they 'tap off'. It also helps speed up boarding times and journeys.

Using our influence

Transport is public facing, often the topic of public and political debate and subject to significant interaction with government at local, regional and national level. Our goals are to advocate for innovation and investment in sustainable mobility, and to make the case for transport infrastructure decisions that help reduce congestion, enhance customer experience and decrease journey times. We achieve this by engaging with a wide range of stakeholders and policymakers.

With government

At Group level, we have long-established and strong relationships with government officials and departments, as well as positive engagement with ministers. We work with both government and opposition policy teams and advisers, as well as Parliamentary committee members, and MPs and councillors who are local to our businesses.

We engage with policymakers and seek to influence the development of policy both directly, and through the membership of sector trade organisations in the UK, who in turn engage with government and regulators to promote a positive policy environment for private sector transport. We welcome the government's recent announcement on the launch of a Bus Centre of Excellence in partnership with the Chartered Institute of Highways and Transportation (CIHT) to upskill, recruit and retain a new generation of bus professionals, and we look forward to engaging proactively following its launch in the spring.

Our project to deploy superfast on-board 5G Wi-Fi for SWR customers between Basingstoke and Earlsfield is underway. Engineers for the project by evo-rail and SWR, in partnership with Network Rail, have now installed the first series of rail-5G poles on the line between the stations on the South West Main Line. It will be the first railway line in the mainland UK to deploy the industry-leading rail-5G technology for customer use. With over 100 trains already fitted to accommodate the solution, the technology will cover 70km of the SWR network.

Responsible business continued

With local authorities

In First Bus we work closely with our local authority partners to pursue partnerships which help us deliver better services through measures which reduce road congestion and give priority to buses.

In First Rail, we deploy Regional Development Managers within our operating companies who liaise with local and regional government, local businesses, user groups and others.

This commitment to, and experience of, effective local and regional partnerships, underpins our approach to the partnership options set out in the government's National Bus Strategy, as well as our engagement with the devolved nations, to ensure that the experience and expertise of private operators remains central to the delivery of public transport services. This year we were delighted to successfully secure further funding with our local authority partners which we supplemented with our own investment for further electric buses in Norwich, Leicester, York, Bramley (Leeds) and Hoeford (Portsmouth) depots. Read more on page 43.

We have worked in strong collaboration with a number of local transport and combined authorities. For example, in Leeds with the West Yorkshire Combined Authority (WYCA) and Leeds City Council we exceeded our Enhanced Partnership target to implement 75% Euro VI vehicles in the authority, instead reaching 82% Euro VI. Wider collaboration with West Yorkshire operators and WYCA has enabled tap on tap off capping across all operators, with First Bus having invested £600,000 to ensure rapid implementation.

With our industry

In the UK, we engage with, and are members of, a number of business advocacy organisations, sustainability lobby groups and public transport campaigns. By working through these alliances, we amplify our influence on policy.

Our Group Engineering Director continues to chair the Industry Sustainable Rail Leadership Group and attends the industry wide Sustainable Rail Executive. In addition to this, representatives from First Rail and our train operating companies chair the Rail Environment Forum, the Air Quality Working Group and the Noise Working Group. We are also active members of other industry working groups. Along with other industry members we have been heavily involved in development of the Sustainable Rail Blueprint, led by the Rail Safety and Standards Board (RSSB). This sets out the industry-wide blueprint for sustainable rail.

First Bus is a proactive member of the Confederation of Passenger Transport. This year we have worked together to successfully develop the case to government for revenue support for bus operators as we adapt to changing travel patterns post pandemic and position ourselves for growth.

We comply with the Lobbying (Scotland) Act 2016 regulations and key personnel are registered with the UK Lobbying Register. FirstGroup's gifts and hospitality policy is strictly adhered to when engaging with stakeholders at all levels.

As company policy, we do not make political donations. More information on our stakeholder engagement strategies can be found on pages 78-80.

“

We're very grateful for the contribution of sustainability leaders from First Rail to drive forward progress across GB rail. They bring practical experience, innovation and are fully committed to tackling industry-wide challenges.

George Davies,
Director of Sustainable Development, RSSB





Being the partner of choice for low and zero emission transport

We are taking action to combat climate change and improve local air quality by delivering low and zero emission mobility solutions for our customers. We are focused on eliminating carbon emissions associated with our operations in line with the latest climate science and our goal is for our operations to be net zero by 2050.

Our aims



Zero carbon

Eliminating the carbon emissions associated with our operations.



Air quality

Improving local air quality in our towns and cities through our cleaner fleets.



Climate resilience

Incorporating climate adaptation measures to improve the resilience of our services.

The vital role of public transport in helping to address the challenges of climate change has never been clearer. We are committed to delivering a more sustainable future for the communities we serve.

We actively manage our greenhouse gas emissions across our business and are working to eliminate the carbon emissions associated with our operations.

Zero carbon

We have set a near-term science-based emissions reduction target, approved by the SBTi and aligned with the ambition of the Paris Agreement to limit annual average temperature increase to 1.5°C above pre-industrial levels. Our target is to reduce Scope 1 and 2 GHG emissions 63% by FY 2035 from a FY 2020 base year. We also commit to reduce absolute Scope 3 GHG emissions from fuel and energy related activities 20% by FY 2028 from a FY 2020 base year, and that 75% of our suppliers by emissions, covering purchased goods and services and capital goods, will have science-based targets by FY 2028. More information on our Scope 1, 2 and 3 emissions can be found in the table on page 45.

In FY 2023, we have seen a 8% decrease in our carbon emissions compared with FY 2022, partly due to strike action affecting service levels in First Rail. We expect service levels to stabilise from FY2024 onwards, with continued growth driven by modal shift.

First Bus is at the forefront of the industry in the operation of low and zero emission vehicles and in 2020 announced a commitment to achieving a fully zero emission fleet by 2035. During FY 2023, First Bus and our local authority partners have been successful in securing government co-funding to boost their existing Zero Emission Bus Regional Area (ZEBRA) projects in four locations.

This means we are co-funding an additional 328 electric buses over the next year across our York and Bramley depots in West Yorkshire, our Leicester depot, one of our Norwich depots in Norfolk and the Hoveford depot in Hampshire, with 58% of the funding provided by First Bus and the remaining 42% from the UK Government's ZEBRA scheme. This brings the total investment across all ZEBRA projects that First Bus is delivering to £105m, alongside ZEBRA funding of £82m. At the conclusion of these ZEBRA projects in March 2024, First Bus will have over 600 zero-emission buses in its fleet.

Four of our depots will operate fully electric fleets by March 2024, with Hampshire, Leicester, York and Norwich set to become the UK's first bus depots outside of London to reach this milestone. In Leicester, First Bus will invest £6.6m to bring this project to fruition, alongside additional DfT funding of £2.9m secured in partnership with Leicester City Council. An additional 86 electric buses will arrive in Leicester by March 2024.

We also completed the transformation of our Caledonia depot this year, with 160 state-of-the-art, rapid-charging EV points now installed.



We are thrilled to announce the completion of our Caledonia depot. It's a landmark moment on our journey to an entirely zero emission fleet and a vital step in decarbonising the local environment and improving air quality.

Duncan Cameron,
Managing Director
at First Bus Scotland

600

zero emission buses by
end of FY 2024

Read more about our
Caledonia depot on
page 15

Responsible business continued

While our total rail km powered by electric traction have remained the same as last year at 73%, we expect this to increase as the UK rail network gets progressively electrified.

To continue to eliminate carbon emissions from our operations it is critical that we continue to work with the UK and devolved governments, the Great British Railways Transition Team and other key stakeholders to support further electrification of the UK network. TPE continued to effectively support the route upgrade and electrification of the 72-mile York to Manchester route in support of its decarbonisation roadmap. Work progressed well in FY 2023 with nearly 20% of the route expected to be electrified by the end of 2024 and the significant remodelling at Stalybridge station successfully completed after a 26 day closure.

Where full electrification is not going to be possible, we support the case for other low or zero carbon alternatives to diesel trains. In Avanti, we achieved a key milestone in our project to replace old diesel trains with new electric and bi-mode trains, by commencing testing of two trains on the West Coast Main Line for the first time. The new fleet will be a mix of ten seven-carriage electric trains and 13 five-carriage bi-mode trains, with the ability to switch seamlessly between electric and diesel power. The new fleet is scheduled to enter service on the West Coast Main Line in 2023.

Over the past four years, Hull Trains has replaced four older diesel trains with five new bi-mode trains on the route from Hull into London. This has led to a 57% reduction in Hull Trains' carbon emissions between FY 2019 and FY 2023.

This year, GWR completed the purchase of assets from emission-free battery and hybrid trains manufacturer Vivarail, which went into administration. Through this deal, we have bought intellectual property, rolling stock and equipment relating to the development of high-performance battery technology designed to support wider introduction of battery-powered trains on the UK's rail network.

Sustainability is a key focus in all of the DfT rail contracts and we expect and support carbon-related metrics in future contracts and negotiations.

Air quality

Air quality has a significant impact on the health of our communities, and many cities and towns are already working to place restrictions on the most polluting vehicles and prioritise public transport. An important aspect of improving local air quality is to encourage modal shift away from car journeys, and to invest in convenient and cost-effective low emission public transport networks.

Alongside our long-term commitment to transition our business to become net-zero, we also have programmes in place to reduce the emissions of air pollutants from our existing fleet. Through the process of contract renewal, new contracts and planned fleet replacement, we are replacing our older, higher emission fleet with new models.

We have taken over as chair of the rail industry's Air Quality Steering Group. We continue to be part of the first ever Air Quality Monitoring Network across 105 stations in England and Wales. Our rail businesses have installed diffusion tubes and other monitoring equipment at various stations to monitor nitrogen oxide, nitrogen dioxide and particulate matters. We will use this data to inform air quality improvement plans where necessary. We are part of the industry idling reduction project which seeks to overcome the technical and operational barriers to reduce idling and improve air quality.

In First Bus, 77% of our diesel fleet has now achieved the equivalent of Euro VI low emission standards this year. As part of this, we continue to retrofit Exhaust After-Treatment Systems (EATS) to older diesel vehicles and we now have more than 1,600 retrofitted vehicles in our fleet. The growth of electric buses in our fleet will also continue to reduce our air quality impacts over time.

Climate resilience

To ensure the success of our business for the long term, we are not only focused on climate change mitigation but also climate resilience – understanding the physical and transition impacts climate change can have on our business over the short, medium and long term, and taking action to mitigate the risks and leverage the opportunities. Climate change is managed and reported as one of our principal risks and these considerations have been an integral part of our risk management framework for many years.

Following a qualitative review of climate-related risks and opportunities in FY 2021, and a quantitative scenario analysis and financial impact assessment in FY 2022, this year we have worked closely with key internal functions to understand how these risks and opportunities are being addressed and what further actions can be put in place as part of a broader, Group-wide transition plan. Our TCFD update on pages 57-65 provides more details on how we are assessing and managing these risks.

73%

rail distance powered by electric traction

5

new bi-mode trains in Hull Trains replacing older diesel trains over the past four years

Greenhouse gas (GHG) emissions

The Group's overall carbon emissions decreased by 8% from FY 2022 to FY 2023. This is partly due to strike action significantly impacting First Rail service levels over the last year, as well as improved emission factors and progress on bus electrification. We are continuing to pursue our goal to become a net-zero business by 2050 or sooner.

The primary factors affecting our FY 2023 performance are:

- First Rail have decreased service levels compared to FY 2022 due to strike action
- The use of bi-mode trains to, where possible, switch train operations from diesel to electric

- First Rail driver training and other energy efficiency initiatives
- Increased use of low emission and zero emission buses
- A reduction in carbon emission factors for electricity purchased

For a more detailed analysis and an understanding of our Group carbon performance please see FirstGroup's Environmental Performance Report 2023. (at www.firstgroupplc.com)

First Bus brought into service 83 zero emission buses during FY 2023. This has helped to increase our zero emission vehicles proportion to 6% (3.3% in FY 2022).

6%

of our bus fleet
now made up of
zero emission vehicles

Tonnes of carbon dioxide equivalent (tCO₂e):

Total by emission scope	2023	2022	2021	2020	2019
Scope 1: Direct emissions from road and rail vehicle fuel, heating fuel, fleet fuel and fugitive refrigerant gas emissions	545,054	599,869	534,555	696,771	802,118
Scope 2: Indirect emissions from the generation of electricity purchased for buildings and to power electric road or rail vehicles (location-based)	204,777	221,420	239,844	221,018	217,277
Scope 3: Other indirect emissions inclusive of business travel, water use and downstream waste treatment and disposal	8,784	9,192	10,399	12,220	16,472
Out of Scope: Indirect emissions from biogenic content of our liquid and gas fuels	33,752	30,848	23,819	21,460	8,988
Total All scopes	792,367	861,330	808,617	951,469	1,044,855
% change YOY	-8%	7%	-15%	-9%	7%
% change (2019 baseline)	-24%	-21%	-23%	-9%	N/A
Adjusted¹ Total All scopes	792,367	861,330	808,617	1,083,002	1,246,614
% change YOY	-8%	7%	-25%	-13%	-1%
% change (2019 baseline)	-36%	-45%	-35%	-13%	N/A
Per £m revenue (tCO ₂ e/£m)	167	188	187	236	293

¹ Adjusted total provides like-for-like comparison of our carbon emissions by adjusting for major changes in rail (inclusion of Avanti and SWR). Please see more detail in our methodologies section below.

Energy efficiency initiatives

FirstGroup tracks and monitors energy-saving initiatives to ensure we continue to focus on energy efficiency alongside switching to low and zero carbon energy choices. The following are examples of significant, approved initiatives in the short to medium term which will be driving continuous improvement in our energy and carbon performance:

- Great Western Rail (GWR) is trialling fast-charging battery technology to help bring regular battery-only rail services a step closer. The battery is currently being trialled from West Ealing to Greenford in north-west London
- The completion of the Caledonia depot with the introduction of a significant number of electric vehicles and associated charging infrastructure

- First Bus is investing £2.5m in more than 6,000 solar panels to help power 20 of its depots

Methodologies and calculations

Our carbon and energy reporting approach is prepared in accordance with the following standards and guidelines:

- Greenhouse Gas Protocol (GHG Protocol) for Corporate Accounting and Reporting Standard
- UK Government Streamlined Energy and Reporting (SECR) Guidelines

FirstGroup has an operational control boundary covering 100% of its business activities with a materiality reporting threshold of 5%.

Responsible business continued

The term 'carbon emissions' in this report refers to GHG emissions as required for a GHG inventory. This includes carbon dioxide alongside six other GHGs calculated in mass of carbon equivalent (CO₂e).

Our GHG inventory is reported in four categories or 'scopes', listing our direct and indirect emissions in accordance with the GHG Protocol:

Scope 1: Direct emissions from road and rail vehicle fuel, heating fuel and fugitive refrigerant gas emissions

Scope 2: Indirect emissions from the generation of electricity purchased for buildings and to power electric road or rail vehicles (location-based)

Scope 3: Other indirect emissions inclusive of business travel, waste disposal, water supply and water treatment

Out of Scope: relating to the combustion of biofuels

Our reported total carbon figure is inclusive of our reported 'Scope 3' and 'Out of scope' emissions.

Our gross carbon emissions are also provided with an adjusted total to account for the incorporation of SWR and Avanti in previous reported years. It applies the equivalent emissions of these businesses to prior reported years to better compare our performance free from the impacts of major business change. This is calculated in accordance with Appendix E of the GHG Protocol.

Our UK carbon and energy emissions are calculated using Government-issued emission factors:

- UK Government GHG conversion factors for company reporting: BEIS, 2022

There are limited examples where emission factors have been developed as 'bespoke'.

To calculate underlying energy use, liquid and gaseous fuels have been converted from a volume to kWh (Gross Calorific Value). The following sources have been used to derive fuel energy properties for these calculations:

- UK Government GHG conversion factors for company reporting: BEIS, 2022.

A detailed understanding of our calculation methodologies is available within FirstGroup's Environmental Performance Report 2023, which can be found on our website at www.firstgrouppic.com.

Monitoring our underlying energy use ensures we are focusing on energy efficiency as well as switching to low and zero carbon energy choices. The underlying energy use which affects our carbon footprint has decreased 16% since last year.

This year the proportion of renewable energy we used was 6%, impacted by the relative use of electric versus diesel vehicles in our fleet. For a more detailed analysis and understanding of our Group energy performance please see FirstGroup's Environmental Performance Report 2023.

Group revenues increased 4% compared to FY 2022. This, coupled with a 8% decrease in carbon emissions and an 16% decrease in energy use, has led to a 11% decrease in our carbon per £m revenue and a 19% decrease in our energy per £m revenue.

Total energy use (kWh)

Kilowatt-hours of energy (kWh HHV): Total by energy source and renewable content

	2023	2022	2021	2020	2019
Non-renewable sources	2,934,638,964	3,378,894,410	3,102,497,653	3,499,209,894	3,763,697,692
Renewable energy sources	172,559,038	309,115,330	304,782,436	627,153,709	80,185,975
Total All	3,107,198,003	3,688,009,740	3,407,280,089	4,126,363,602	3,843,883,667
% change (year-on-year)	-16%	8%	-17%	7%	8%
% change (2019 baseline)	-19%	-4%	-11%	7%	N/A
Per £m revenue (MWh/£m)	653	803	789	1,021	1,080

First Bus

Percentage of low and zero emission passenger fleet – First Bus

Low emission buses

(defined as diesel or biomethane powered buses with a 15% or greater carbon saving from a standard alternative)

	2023	2022	2021	2020
	30.8%	23.4%	21.6%	20.2%

Zero emission buses

(electric or hydrogen powered)

	2023	2022	2021	2020
	6.0%	3.3%	1.1%	0.3%

Total passenger fleet	4,591	4,974	5,189	5,619
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Supporting our people

We employ around 30,000 people in depots, stations and offices, providing vital services which connect people and communities. Our people are at the heart of our business, and we are extremely proud of the way they keep our customers moving.

Our aims



Diversity and inclusion

We value diversity and inclusion, and our workforce represents the communities we serve, increasing effective participation and equal opportunities.



Skills for the future

Our people have the skills, expertise and knowledge to drive the transition to a sustainable future.



Wellbeing

Our culture means that our employees are supported towards good mental and physical wellbeing.

Diversity and inclusion

To better understand and meet the needs of the diverse customers and communities we serve, we are committed to increasing the diversity of our workforce. We continue to recognise that attracting and retaining people with different backgrounds and experience requires an inclusive culture where everyone feels valued and respected. While we are proud of the progress being made in many areas, we do acknowledge there is still more to do in order to create an inclusive workplace for everyone.

Governance

In the past year we have established two separate bodies to help us drive our equality, diversity and inclusion (ED&I) agenda. Internally we have an ED&I working group where we share learnings across the business and develop strategy. Within this group we are also setting ED&I targets, for all of our operating companies, and are using strategic workforce planning to help us achieve them.

The Responsible Business Committee – a new committee of the Board, met for the first time in FY 2023 and one of its main duties is to review the practices and performance of the Group in supporting our people, and in particular our progress towards meeting the Group's goals and objectives with regard to ED&I.

As an organisation, we want our workforce to be reflective of the communities we serve. The four gender commitments we set out in 2017 remain a key focus, namely to:

- increase the number of female applicants for all roles
- encourage more women to stay and progress their careers with the company
- support and develop more women into higher paying roles
- ensure men are aware of the role they play in creating an inclusive workplace that is welcoming to women

Our aspiration is to have half of all the roles we recruit for, to be filled by women. We also aspire to be representative of the communities we serve from an ethnicity perspective, including within our senior management populations. We are also reviewing additional internal targets around specific roles to help us make positive progress against our respective pay gaps.

Transparency in our approach is important to us. We are already signatories to Change the Race Ratio, First Bus are now signatories to the Business in the Community Race at Work Charter and this is the second year that we have voluntarily published our ethnicity pay gap.

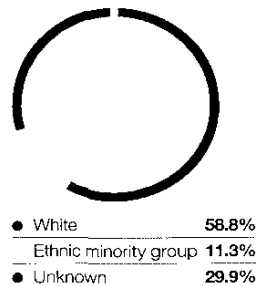
Workforce breakdown

Overall, this year the proportion of women in the Group has increased to 20.8% (2022: 20.3%). The proportion of women in senior management positions has also increased since the last report from 20.5% to 23.5% and 44% of our Board members are women. In terms of ethnicity, 11.1% of our workforce are from an ethnically diverse background (2022: 9.8%) and 2.7% (up from 2022: 0.9%) of our workforce consider themselves as having a disability.

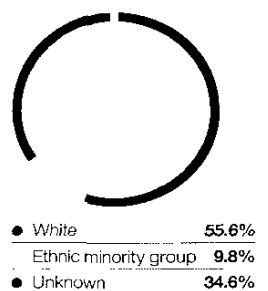
70%

of employees have shared their ethnicity vs 65% in FY 2022

Ethnicity – FY 2023



Ethnicity – FY 2022



Responsible business continued

We recognise the importance data brings in driving progress on our ED&I programmes and we are working hard to encourage our employees to share their personal information with us. First Bus have been conducting a census that is enabling them to get a more accurate view of their workforce. Across the whole of FirstGroup, we now have over 70% of our employees who have shared their ethnicity with us, compared to 51% two years ago. We have also started to ask for more detailed disability information from our colleagues to better understand their requirements and to be able to better accommodate their needs.

Development programmes

We have launched a Senior Women's Leadership programme, which is designed to accelerate the readiness of women for senior leadership roles across FirstGroup by building advanced leadership capabilities and personal confidence. Our 'Step Up/Step Forward' and 'Reach Up/Reach Forward' programmes continue to make a significant contribution in our drive to promote better gender and ethnic minority representation across our senior and middle management populations. Of the current population that have gone through these programmes, 31.3% have either been promoted or given a development move.

Claire Weston of GWR a former attendee of Step Forward said "The Step Forward program has played a really key part in my development. It was a fantastic opportunity to meet some likeminded women from all across FirstGroup and made me reflect on how I could forge the path for myself and shape my career development. In 2021 I made the move over to GWR as the Head of Driver Training and in October 2022 I was promoted into the Head of Drivers position, the role that I had always aspired to achieve. The Step Forward program has achieved everything it set out to and was one of the best courses I have been on. I am looking forward to the Senior Leadership course to help me further progress my career."

Recognition

First Bus won praise from Scottish advocacy organisation Close the Gap in its latest report into gender-equality progress in the workplace, highlighting the actions across recruitment, progression and promotion for women. They have introduced a Gender Balance Inclusion Network and recently launched two programmes to support and accelerate their journey towards gender inclusivity, a reverse mentoring programme and an Intentional Allyship Programme. GWR and the corporate functions have achieved the Bronze standard from Clear Assured, a globally recognised standard awarded to businesses that have shown that diversity and inclusion are reflected across all policies and processes.

At the 2023 Rail Business Awards, TPE won the Diversity and Inclusion award after being recognised for its data-led and evidence-based approach to diversity and inclusion and for demonstrating a full understanding of the issues. SWR were also highly commended in this category and recently received Inclusive Employers Standard silver accreditation, recognising the progress that has been made since launching its first inclusion and diversity strategy in 2021.

Attraction and recruitment

We have been making steady progress on attracting and hiring more women and employees from ethnically diverse backgrounds into the business. For the roles advertised over the last year, we have again increased the proportion of applications from women and ethnic diverse backgrounds and from those hired, 21.6% were women and 20.6% were from an ethnically diverse background.

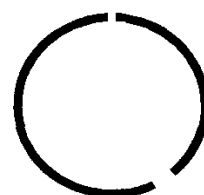
SWR have introduced 'Have a Go Days' for women to experience engineering and driver roles in order to increase the number of internal applications into these roles. Those who have participated have subsequently expressed an interest in applying for roles.

We want to continue to create a diverse pipeline of future applicants, so have launched specific engagement programmes in schools to promote our job opportunities in areas with high ethnic minority populations. We are utilising specialist recruitment portals such as Vercida, who showcase organisations that are looking to recruit diverse talent and we continue to update our careers website and social media channels to showcase examples of colleagues from under-represented groups.

42%

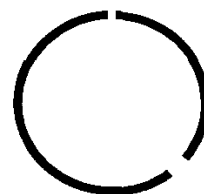
of employees have shared their ability status vs 37.5% in 2022

Disability status
– FY 2023



● Not disabled	39.5%
● Disabled	2.7%
● Unknown	57.8%

Disability status
– FY 2022



● Not disabled	36.6%
● Disabled	0.9%
● Unknown	62.5%



Our gender breakdown

	FY 2023 ¹					FY 2022				
	Women		Men		Total	Women		Men		Total
	Number	%	Number	%		Number	%	Number	%	
Total population	6,540	20.8	24,937	79.2	31,477	6,298	20.3	24,766	79.7	31,064
Senior management ²	12	23.5	39	76.5	51	8	20.5	31	79.5	39
Board	4	44.4	5	55.6	9	4	44.4	5	55.6	9

1 Excludes 28 colleagues who have not disclosed their gender.

2 Hampton-Alexander definition.

A new mural at Euston station

With the aim of encouraging more women to consider working in rail as a career, a mural that commemorates Katie Harrison – one of the UK's first female train drivers, was unveiled at London Euston station. The mural was due to be on display until the end of Avanti West Coast's driver recruitment campaign, but due to its success which has seen record numbers of women applicants it will now remain permanently in place.

Daisy Hawker Wallace, Head of PR at Avanti said "With her feisty determination and impish good humour, Karen Harrison fought for women's rights and the rights of other minorities in rail. But she was no 'poster girl' for the railway. She was willing to be a public figure when others were not, believing in the courage of her convictions.

"At Avanti, we want to embrace equity. Women like me would not have senior positions in rail, if it were not for Karen's achievements paving the way. It's easy to forget how hard this would have been for a woman in the 1970s, but the female experience then was quite different to what it is today.

"By working with Network Rail to ensure the longevity of this mural, not only are we commemorating her legacy, we want to continue to inspire other women to work in rail."



Skills for the future

Each of our divisions provides training to enable our employees to deliver great service for our customers, and invests in the skills we need for the future. The changing nature of transport and mobility, particularly new vehicle technologies and energy transition, requires us to adapt the way we develop, operate and maintain our services. To deliver that change, we need a healthy, engaged, agile and diverse workforce with the skills and expertise for a zero carbon economy, equipped to innovate and deliver mobility for the future.

Our apprenticeship programmes are an important way of growing the engineering and operational skills which are vital to our business. We are running industry leading programmes that are fully integrated into the fabric of our organisation, working in key areas of the business such as Engineering, Human Resources, Customer Service and Business Administration.

This year we have once again increased the number of apprentices in training across First Bus and First Rail to a total of more than 850 as at the end of March 2023, with 32.4% of apprentices recruited over the last year being female, an increase of 0.9% from last year.

In First Bus, our partnership with Reaseheath College, Cheshire entered its second year. There are 82 apprentices currently learning at the UK's first engineering academy for the next generation of zero emission coaches and buses, specialising in mechanical and electrical engineering, coachbuilding and stores.

Earlier this year GWR received gold accreditation as part of the Investors in People 'We invest in Apprentices' programme with one of the apprentices also earning the accolade of Higher Apprentice of the Year from Exeter College.

850

apprentices across bus and rail in FY 2023

Responsible business continued

Commitment to the Schools Engagement Strategy through FY 2024 will continue to promote the rail sector and apprenticeships to younger people and also those from under-represented groups.

Shannon Pilkington on her experiences since joining TPE as apprentice from school: "I'm currently working as a customer information controller in the control team, a role that I have thoroughly enjoyed so far. A highlight of the apprenticeship scheme is the opportunity to learn different skills and build my knowledge to start my career on the railway. There are many different opportunities which I didn't realise before starting the apprenticeship and I'm looking forward to experiencing more of them."

To attract and retain the skills we need, we offer a competitive wage reflecting local market demands and conditions. Avanti, TPE and Tram Operations Ltd. are accredited Living Wage Employers and pay the Real Living Wage (RLW) to employees and to third-party contractors working directly for the company in accordance with the Living Wage Foundation rates of pay. GWR and SWR also pay the RLW to directly employed colleagues. Almost 98% of employees in First Bus, are paid at or over the RLW.

Wellbeing

The wellbeing of our employees remains a key priority for FirstGroup. Our employees have various wellbeing resources available to them through the Wellbeing Hub, accessed through our intranet. We have introduced webinars on neurodiversity and stress awareness, and marked Stress Awareness Month. We continue to offer training for colleagues who may wish to take up a future role as a Mental Health First Aider around the organisation.

GWR along with the DfT, have commissioned the charity Samaritans to lead a new research study on mental health and wellbeing support for the rail industry, in partnership with Mental Health at Work. The study will provide good practice recommendations for mental health provision, so that the industry can raise awareness for their staff and support those experiencing mental illness. It will aim to highlight existing barriers, as well as encourage a culture shift to destigmatise conversations around mental health.

SWR were recognised for building a supportive and inclusive workplace by winning the Wellbeing in Rail award at the 2023 Rail Business Awards. The judges praised their 'very honest' assessment, which has led to the introduction of a diverse range of mental and physical health initiatives. These included the introduction of wellbeing pods which have helped more than 1,600 colleagues, training up 140 colleagues as mental health first aiders and encouraging over 250 colleagues to be more physically active by participating in the Million Metre challenge.

Recognition for our apprentices

Ekaterina Cherkasenko, winner of the Higher Apprentice of the Year award at Exeter College on what the benefits of an apprenticeship

"I chose to do an apprenticeship as it's an opportunity to develop myself personally for the things that I aspire to do as part of my job and hopefully help to better GWR in the future.

"It's an opportunity to speak to some like-minded people at GWR. It's an opportunity to prove so many people wrong and an opportunity to achieve something for yourself, rather than just as part of your job.

"There's a lot of change happening and I want to be as equipped as I can to help people want to stay with GWR. Embrace the change and embrace the opportunity."



In the wake of the ongoing cost of living situation across the UK, First Bus have launched a comprehensive wellbeing guide that has been sent to each colleague within the division helping them be more aware of how to support their own wellbeing. They have also been working with an organisation called Better with Money, offering all First Bus colleagues the opportunity to attend webinars that offer financial support.

Employee engagement

All our businesses carry out regular Your Voice surveys giving employees the opportunity to share their views on the way they are managed, and how likely they are to recommend FirstGroup as an employer. These surveys are anonymous and managed by an external specialist company to encourage candid feedback.

Surveys from across our businesses conducted in 2023 have shown an improvement both in response rates in engagement levels. In February, First Bus conducted their latest survey, this showed a year-on-year increase of 16% in the response rate and an 8% increase in engagement. From the recent surveys conducted in March, within the open access train operators, Hull Trains and Lumo both have engagement levels above 80% and within the corporate functions, engagement was at 90%. The other Train operating companies, will be conducting their surveys later in the year.



Safety

Dedicated to safety, always front of mind – safety is our way of life

Our commitment to the safety of our customers, our employees, and all third parties interacting with our businesses remains unwavering and is articulated through our Dedicated to Safety value which applies in everything we do.

8.7

Employee Lost Time Injury Rate
(per 1,000 employees per year)

12.1

Passenger Injury Rate
(per million miles)

Every day our trains, buses and trams carry more than 1.8 million customers and we are responsible for almost 30,000 employees. By its nature, the transport industry involves safety risk, and therefore we take seriously our duty of care to ensure that our customers and other stakeholders can use our services safely and that our employees have a safe place to work. We continually strive to seek innovative safety mitigations to ensure the wellbeing of our people.

We maintain robust safety management systems throughout the Group, with a clear focus on ensuring compliance with legislation, policies, processes, and procedures.

Alongside this, we continue to invest in sophisticated technology solutions to assist our teams in delivering first class safety, reducing incidents, and monitoring and managing performance. We are proud of the safety culture we have worked hard over many years to establish.

Be Safe

Be Safe is our Group-wide approach to embed safety as a personal core value for all colleagues through the positive reinforcement of safe behaviours.

The principal elements of Be Safe include daily conversations (touchpoints) to reinforce good safety behaviours, as well as reward and recognition for safe working. Leadership set the tone from the top by conducting site safety tours throughout the year and Near Miss reporting is actively encouraged at sites to share learnings that improve workplace safety.

Safety leadership and governance

Strong leadership from the top is a key feature of our safety culture. Our Responsible Business Committee, involving the CEO, members of the Group Executive team, together with First Bus and First Rail senior leadership teams, oversee the Group's safety strategy and the performance, procedures, and practices across all operating companies.



Responsible business continued

First Bus

This year we achieved ISO 45001 certification across the division, and we will be audited every year against this standard by an independent United Kingdom Accreditation Service (UKAS) approved body to ensure we continuously improve our health and safety management system.

We have been aligning with the broader ED&I programme underway in the bus division this year. We have rewritten our safety policies and procedures to ensure they are simpler and more easily applied by our people. We have also partnered with an external provider to translate our documentation into a variety of languages to aid understanding and mirror the diverse nature of our workforce.

We are creating a bespoke qualification for our managers and supervisors which will be accredited by the Institute of Occupational Safety and Health (IOSH). This will be unique and relevant to the road passenger transport sector, and we have redesigned course content to ensure better applicability to road transport incidents as well as more interactive learning through bite size content. Our commitment is to support and equip our employees to offer a safer and more comfortable journey to customers.

Approximately a quarter of our customer and employee injuries happen each when they are getting on or off our buses. Therefore, we strengthened our existing campaign called 'Hold, Look, Land' to encourage safer behaviours to reduce slips, trips and falls, sharing the message with customers through onboard signage and our employees by embedding the message in local campaigns and messaging via the winter guidance documents and employee app.

Bus collisions with low bridges remain a risk and we continue to use learnings from the study we commissioned last year with the Institute of Transport Studies (ITS) at Leeds University. The study highlighted mental workload as a human factor into why bridge strikes might occur, and although technology to alert the driver to low bridge risk using GPS is currently in place, we have an opportunity to look at how we can reduce the mental workload of a driver so they can concentrate more on their awareness of road signs and immediate hazards. We are also exploring route navigation systems to achieve this and are running a trial of such technology in Aberdeen to test the effectiveness of the system and how our drivers feel about it.

Driver recruitment has been a challenge for the bus sector over the past year. Our data shows us that new starter drivers have a higher risk of incidents and therefore need additional support as we welcome them into the organisation. Our support programme called Thru-Care continues to support new drivers through their first year with us. Special rosters to ensure they are not overwhelmed, phasing their learnings, and tracking their performance through

our driving standards database, provides them with support until they gain the relevant experience. This early period is crucial in shaping their driving performance standards, and the support we provide also reduces potential attrition rates.

First Rail

Our approach across each of our rail businesses is firmly dependent upon:

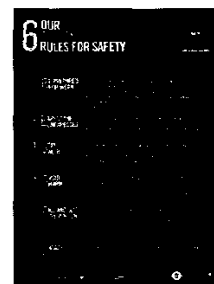
- A comprehensive safety management system focused on risk avoidance that is continually reviewed and updated in light of new legislation, audits and recommendations from accidents and incidents
- A dedication to employee health and safety that is shared through induction, training, communication, briefings, line management, peer review and sharing of best practice
- An internal openness and accountability in identifying health and safety issues, which includes partnership working between employees and trade unions to ensure a safe workplace. Alongside this, we work closely with other rail industry partners to ensure we keep abreast of best practice and lessons learned.

During the year we continued to prioritise reductions in customer injuries on our trains and stations where we know slips, trips and falls are the most common cause of injury. Our station staff are focused on identifying and assisting vulnerable customers where possible. This applies especially for leisure trips and elderly customers and those who travel less frequently. Innovative publicity campaigns were developed that were themed around known risks such as not using handrails, minding gaps between trains and platforms and not rushing.

The elimination of Signals Passed at Danger (SPAD) risk continues to be at the forefront of our safety activities, with monitoring arrangements rigidly applied to both supporting performance metrics and the implementation of safety plans. We have many ongoing workstreams focused on mitigating SPAD incidents such as localised risk reduction plans, driver focused communications, and an engagement campaign called 'Respect the Red'.

Six Golden Rules

We launched our Six Golden Rules awareness campaign during Rail Safety Week in June 2022. The campaign publicised simple safety rules that could be easily and readily adopted by employees across all our rail businesses. A new rule was publicised each month up to December 2022, with topics ranging from situational awareness to communication. The campaign was promoted with videos from leadership teams, animations, posters and social media activities, and garnered positive employee involvement.





Communities

Enduring relationships with local communities

We are proud to support the communities in which we operate. We use our skills, reach and influence to make a positive impact and help those causes that can make a difference, both locally and nationally.

£617,000

invested this year in local communities

2,089

young people from Hull have been supported to travel beyond their local area in partnership with the Hull and East Yorkshire Children's University charity

Strong community engagement is at the heart of what we do. This year we supported hundreds of community causes and charitable organisations through volunteering, corporate donations and gifts in kind. These included donating advertising space and vehicle hires, event sponsorships and providing spaces at our stations.

Supporting local needs

First Bus launched two Go Greener Funds for local communities this year. The campaign was aimed at businesses in York and Bradford, offering ten businesses in each city a £2,000 cash injection to help them make greener, more sustainable choices and to encourage eco-friendly high street spending. Funds were awarded to a wide range of businesses including fashion retail, food and drink, artisan products, community projects and pharmacies.

Avanti has helped a Cumbrian community restore its Post Office with a new pop-up counter at Oxenholme station two years after it was deprived of its only service. The local community now has access to outreach Post Office services on set weekdays. It is believed to be the first of its kind on the West Coast Main Line and one of only a few Post Offices operating at a railway station in the UK.

Two of our rail businesses have been providing discounted rail tickets enabling young people to travel beyond their local areas. Hull Trains has worked with the Hull and East Yorkshire Children's University charity for over ten years. In the past year, 2,089 children and 692 adults have boarded Hull Train services to London. This helps them understand the world that exists outside their community and to build their aspirations and confidence.

Community use spaces

SWR expanded its programme of providing redundant spaces in stations for community use this year. It has spaces such as old waiting rooms and ex-retail units available at 14 different stations along its network and they are being utilised by a variety of community groups. A redundant room at Havant station has become the home of a thriving new community asset, after SWR agreed to hand the space over to local Community Interest Company, Solent Remade. The space is now being used as a hub for resource repair, reduce or reuse projects.

14

stations with community use space



Responsible business continued

Avanti also launched its Feel Good Field Trips initiative this year. The campaign is giving schoolchildren the chance to travel by train to destinations across the West Coast Main Line for hands-on learning, fun and culturally diverse days out. Avanti is partnering with 30 schools to offer up to 5,000 pupils previously unattainable field trip experiences.

New collaborations

SWR and GWR have both become accredited White Ribbon UK organisations and unveiled trains with new livery, as a way of raising awareness about male violence against women both in their business and the wider rail industry. The White Ribbon trains will travel across the GWR and SWR networks spreading the message of their commitment to supporting the education of men and boys to prevent violence against women.

TPE also partnered with the British Transport Police (BTP) to promote the new Railway Guardian app which has been developed by BTP and provides information on what to do if you witness or are a victim of harassment or sexual offences. To support the launch, TPE issued a series of four videos showing real-life situations faced by customers on the network and the difference rail users can make in keeping people safe from problematic behaviour.

Lumo launched a new partnership this year with The People's Kitchen. The charity provides meals for vulnerable people in Newcastle and Lumo plans to deliver volunteering days to support the efforts of the kitchen.

First Bus chose Macmillan as its first ever charity partner through a staff vote and plans to organise a range of fundraising activities across its depots over the next three years.

FirstGroup made a corporate donation to the Turkey-Syria appeal of the Disasters Emergency Committee and match-funded donations made by our employees. In total, FirstGroup and our employees donated £617,000 during FY 2023, as measured by the London Benchmarking Group model for community impact. See page 37 for a more detailed breakdown of our contribution.

For information on how we engage with our communities to improve our services and incorporate their feedback into our decision-making processes, see page 79 and our Section 172 statement on page 81.

Community Rail

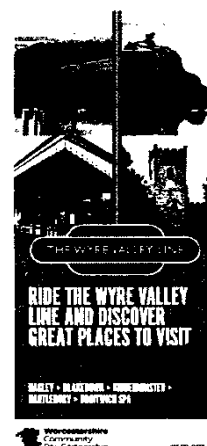
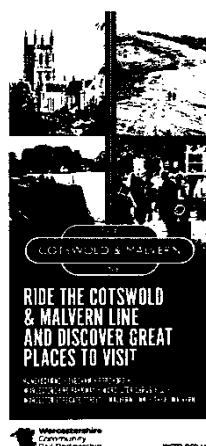
Community Rail Partnerships (CRPs) are not-for-profit organisations that help to further connect the railway with the communities they serve. All over the country, CRPs work with communities to promote social inclusion and sustainable travel, champion economic development and bring stations back to life. These partnerships are attuned to local needs and their work is varied but driven by passionate volunteers. Each partnership has a steering group made up of local stakeholders, who agree on an activity plan of work.

Each year, our franchised rail businesses (Avanti, GWR, SWR, TPE) provide DfT funding to the various CRPs that exist along their networks and their community projects. In FY 2023, we supported over 60 CRPs around the UK and allocated over £1.3m in funding. Our rail businesses are actively involved with each CRP, working in partnership with them to deliver outcomes that benefit as many people locally as possible.

Community rail promotes understanding and confidence around rail and removes barriers to travel, and most community rail partnerships have achieved success in helping to attract passengers. As an example, The Worcestershire CRP work alongside GWR, and local communities to improve stations in the county and encourage rail use. It has produced four 'Line Guides' that showcase great places to visit and developed a set of rail trails that links local walking routes with railway stations.

6

Community Rail Partnerships supported this year





Environmental management

Reducing our impact on the environment

We have a robust framework in place for environmental management that supports continuous improvement.

98%

of operations (by revenue) covered by ISO 14001 Environmental Management System

6,000

solar panels being installed by First Bus to help power 20 of its depots

FirstGroup is committed to environmental protection and compliance, where we strive to reduce our environmental impact across the business. A robust environmental management system allows FirstGroup to consider the environmental impact of our services at the early stages of planning and monitoring. This allows FirstGroup to implement continuous improvement in our approach and operation.

We operate in accordance with BS EN ISO 14001 environmental management systems (EMS) across nearly all of our First Rail and First Bus operations. FirstGroup operates a localised approach to developing and implementing EMS systems. This allows our businesses divisions to adapt EMS systems to their specific needs allowing for a diverse portfolio of transport services.

An EMS allows the business to assess all environmental matters associated with a business, ranging from biodiversity, energy, carbon, water, waste management, circular economy, supply chain and community engagement. FirstGroup's environment policy outlines requirements for the Group and its divisions to reduce the impact of our operations and ensure legal compliance with regards to the environment. Supporting the environmental policy are internal standards for incidents and complaints, internal audit, carbon and energy reporting to provide more clarity on our governance and assurance of environmental management.

The implementation of an EMS has led to several improvements during FY 2023, such as:

- Zero environmental penalties issued to FirstGroup.
- First Bus investing £2.5m in more than 6,000 solar panels to help power 20 of its depots.
- SWR teaming up with the Royal Society for the Protection of Birds to create biodiversity gardens at five of its stations.

Please see our 2023 Environmental Performance Report on our website, which expands upon the information provided in here. It provides key metrics that track our material issues in relation to carbon, energy and our environmental impacts, alongside comprehensive information on our calculation approach.

Across the UK, we are either certified or conform with ISO 14001 across nearly 100% of our activities, and are certified to ISO 50001 in nearly all First Rail operating companies.

Responsible business continued



Ethics

Hold the highest ethical standards

In line with our Values and the expectations of our customers and partners, we are committed to conducting our business in an open and ethical manner, including in all of our interactions with our customers, employees and other stakeholders.

Our Values and ethical commitment shape not only what we do, but also how we do it. We invest time and effort to put in place the right processes, policies, governance structures and Board oversight to ensure we meet these high standards of integrity and professionalism.

Our policy framework

Adhering to an ethical framework is a vital part of our commitment to our customers and stakeholders and helps to ensure that our Vision and Values are at the heart of everything we do at FirstGroup. Our Code of Ethics, which is available at www.firstgroupplc.com/responsibility, makes sure that all of our businesses are performing to the highest ethical standards and are accountable for their performance. The Code of Ethics is supported by detailed policies and procedures which apply across the Group and, along with the Code of Ethics itself, are implemented and managed by the senior management team in each of our divisions, including anti-slavery, anti-fraud and anti-bribery policies, as well as policies on data privacy, competition laws and other areas of legal and ethical compliance.

Human rights

We are committed to recognising human rights on a global basis and recognise that we have a responsibility to ensure that FirstGroup operates in a way that respects, protects and champions the human rights of all those who come into contact with our operations. This includes a commitment to the prevention of modern slavery and human trafficking in all its forms both within our own businesses and in our supply chains. This commitment extends to all business dealings and transactions in which we are involved, regardless of location or sector. We have a zero-tolerance approach

to any violations within our company or by business partners. Our Modern Slavery and Human Trafficking Statement, which is updated annually, sets out our policies and the steps we take to address risks in our business and our supply chains and can be found at www.firstgroupplc.com. In line with our commitment to improving our performance by sharing best practice across the Group, our statement applies to all of our businesses, including those which are not legally required to make a statement under the Modern Slavery Act or equivalent legislation, regardless of their location, size or turnover.

We have a zero-tolerance approach to fraud in any form, including the facilitation of tax evasion and bribery. We never offer or accept any form of payment or incentive intended to improperly influence a business decision. Equally, we support free and open competition, gaining our competitive advantage by providing the highest level of service, not through unethical or illegal business practices. Similarly, we respect and protect the privacy of our customers, employees and stakeholders, and are committed to conducting our business in accordance with all applicable data protection legislation, including the UK's Data Protection Act 2018 and the UK and EU General Data Protection Regulations. We have internal control systems and procedures in place to counter bribery and corruption, and to ensure that we comply with data privacy, competition and trade laws. These systems and procedures are kept under regular review, to ensure that we continue to adopt appropriate defences and mitigations to ethical and legal risks that are faced by our businesses.

We have also mandated centrally a set of minimum requirements for training, testing and policy attestation across a range of ethical and compliance topics, including those referred to above. All non-frontline staff are required to complete an annual attestation confirming that they understand and comply with each of the policies. In addition, senior managers and higher risk individuals are required to complete training and pass tests annually. Compliance with these policy and training requirements is monitored regularly by the senior management team and at Board level. The minimum requirements are reviewed and updated as appropriate to address new or evolving risks.

Divisional management teams are responsible for ensuring that these core requirements are implemented and adhered to within their respective businesses. They are also responsible for assessing whether stricter or additional requirements are appropriate to the particular ethical and legal compliance risks faced by their respective businesses, and implementing such further measures as are deemed necessary to mitigate those risks.

We have an externally managed whistleblowing service for colleagues available across the Group with a helpline (online and phone-based) for the anonymous reporting of suspected wrongdoing or dangers at work. The hotline is actively communicated to colleagues via a number of channels, as well as being available via the Code of Ethics and other policy and training materials. All reported issues or concerns to the hotline are taken seriously and structures are in place to process reports and, where appropriate, investigate concerns and implement necessary mitigating steps, ensuring that confidentiality is respected at all times. The Board also receives reports on the operation of and any matters reported to this whistleblowing hotline.

Climate-related financial disclosures

Our commitments, actions and focus areas

Our ambition is to be the partner of choice for innovative and sustainable transport, accelerating the transition to a zero-carbon world by eliminating carbon emissions from our operations and supporting a modal shift to public transport, while building climate resilience across our business.

We are working towards some ambitious goals. First Bus has a target to operate a zero-emission fleet by 2035. To achieve this, we are focused on replacing existing diesel buses with electric or hydrogen powered vehicles. First Rail is supporting the UK government's target to remove all diesel-only trains from service by 2040 and deliver a net-zero railway network by 2050. Currently, 73% of our First Rail vehicle kilometres are powered by electricity and we are working with key industry partners to drive further electrification and trial alternative technologies to help achieve zero emission rail services.

We were the first UK public transport operator to support the Task force for Climate-related Financial Disclosures (TCFD) and to sign the UN's Business Ambition for 1.5°C pledge to reach net-zero value chain GHG emissions by no later than 2050. As part of this, we have developed a near-term science-based emissions reduction target aligned with a 1.5°C ambition and approved by the Science Based Targets initiative. Our target is to reduce Scope 1 and 2 GHG emissions by 63% by FY 2035 from a FY 2020 base year. We also commit to reduce absolute Scope 3 GHG emissions from fuel and energy related activities by 20% by FY 2028, from a FY 2020 base year, and that 75% of our suppliers by emissions, covering purchased goods and services and capital goods, will have science-based targets by FY 2028.

These goals and activities focus on climate change mitigation – reducing our carbon footprint and supporting the UK's transition to net-zero through modal shift. To ensure the success of our business for the long term, we are equally focused on climate change adaptation and resilience – understanding the physical and transition impacts climate change can have on our business over the short, medium and long term, and taking action to mitigate the risks and capture the opportunities. Climate change is managed and reported as one of our principal risks and has been an integral part of our risk management framework for many years.

Following a qualitative review of climate related risks and opportunities in FY 2021, and a quantitative scenario analysis and financial impact assessment in FY 2022, this year we have worked with key internal functions to build further understanding of climate risks and opportunities, how they are being addressed, and what further actions can be put in place as part of a broader, Group-wide transition plan. We have also completed an extensive assessment of our Scope 3 emissions to improve our understanding of these emissions and strengthen our Scope 3 data.

This TCFD update therefore provides a summary of the key, climate-related risks and opportunities already reported in our ARA 2022 (at www.firstgroupplc.com, pages 62-64), and an overview of what we are doing to continue to reduce our carbon footprint and build climate resilience. We report against the four pillars of TCFD – Governance, Strategy, Risk Management, Metrics & Targets – and the individual requirements underneath (see table on page 58 for the location of relevant disclosures). In line with the UK Listing Rules, we confirm that disclosures are consistent with the TCFD Recommendations. However, we recognise that climate-related risk assessments are subject to data availability, trend projections and underlying business assumptions. It is therefore important to continue to monitor climate-related risks and how they evolve over time, and we will periodically assess the need to update our 2022 impact assessment to account for any significant changes in key parameters.

Finally, we look at our TCFD work not just as a vital mechanism to build long-term business resilience, but also as an important step towards increased transparency around climate as well as broader sustainability-related risks and opportunities, in line with recommendations by the International Sustainability Standards Board. We will continue to be open and transparent with our progress on climate change issues and to publicly disclose decision-useful information. Through this report, we aim to keep stakeholders informed on our progress towards our net-zero goals, as well as our management of climate-related risks and opportunities.

Climate-related financial disclosures continued

TCFD recommendations	Subheading	Page
Governance		
a) Describe the Board's oversight of climate-related risks and opportunities.	Board oversight	59
b) Describe management's role in assessing and managing climate-related risks and opportunities.	Management's role	59
Strategy		
a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	Climate-related risks and opportunities and scenario analysis	60
b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	Impact on strategy and financial planning	61
c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	Strategy resilience	62
Risk management		
a) Describe the organisation's processes for identifying and assessing climate-related risks.	Approach to risk management	63
b) Describe the organisation's processes for managing climate-related risks.	Risk mitigation actions	63
c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	Approach to risk management	63
Metrics and targets		
a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	Metrics and targets	65
b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	Greenhouse gas emissions table	45
c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.	Metrics and targets	65

Governance

TCFD recommendation:
Disclose the organisation's governance
around climate-related risks
and opportunities

Management of climate-related risks is aligned with the robust corporate governance frameworks and processes in place throughout the Group. The Board, Executive Committee and our individual bus and rail divisions regularly review climate-related risks in accordance with the Group's risk management framework and consider broader sustainability matters in line with duties included in the Corporate Governance Code and section 172 (see page 81).

Board oversight

The Board is responsible for promoting the Company's long-term sustainable success for the benefit of its shareholders. This aim extends to the setting of our strategy and approach to climate-related risks and opportunities and our net-zero ambitions, which form a key part of our broader sustainability strategy, 'Mobility Beyond Today', outlined on page 39.

Our Responsible Business Committee of the Board meets four times a year to review the practices and performance of FirstGroup, its companies and joint ventures, with respect to health and safety, our people and communities, the environment and our transition to net-zero. The Committee comprises several Board members with specific climate-related expertise, described in more detail on pages 88-90. At each meeting, the Committee receives a detailed performance update from Bus and Rail against specific commitments and targets, and discusses strategic priorities going forward. Over the last year, the Committee reviewed and guided for example FirstGroup's plans for further embedding the TCFD recommendations across the business and our approach to Scope 3 emissions.

To further support Board level oversight of climate-related matters, in FY 2023 we ran an in-depth briefing session for the Board covering key risks and opportunities for the business, as well as evolving reporting requirements such as the recommendations of the Transition Planning Taskforce (TPT).

In addition, the Audit Committee supports the Board in the management of risk, including climate-related risks, and is responsible for reviewing the effectiveness of risk management and internal control processes. The Audit Committee reviews climate-related risks as relevant in relation to going concern, viability statement and the assessment of impairment. See page 85 for more information on Board Committees and how our Board operates, and page 67 for more detail on how risks are reviewed and considered in strategic business decisions.

Climate-related matters are also embedded into FirstGroup's remuneration approach, with our long-term incentive plan including specific targets driving the electrification of our bus fleet and a reduction in our Scope 1 and 2 carbon emissions (see pages 124-125). Performance against these targets is reviewed half-yearly by the Remuneration Committee of the Board.

Management's role

The Executive Committee provides leadership and direction for the Group on sustainability matters, including climate change, with material issues presented by the Group Corporate Responsibility and Finance teams for discussion and decision-making as they arise throughout the year. Executive responsibility for sustainability matters is held by the CEO. Executive responsibility for climate-related financial risks and opportunities is held by the CFO, who represents these matters at Board level.

At divisional level, First Bus and First Rail have executive management individuals responsible for driving environmental sustainability across the divisions, leading on the development and implementation of decarbonisation strategies and risk mitigation actions. In FY 2023, First Bus appointed a new Chief Sustainability and Compliance Officer to oversee this agenda and set up a cross-functional Decarbonisation Forum that meets monthly to set policy, drive action and review progress. Similarly, First Rail established a new Sustainability Leadership Group, including senior leaders from Finance, Operations and Engineering who meet quarterly to discuss climate-related matters as part of a broader sustainability strategy for Rail. The Executive Committee receives regular divisional updates from the MDs of Bus and Rail.

This year, we have worked with our divisions to run a series of in-depth TCFD and TPT planning workshops with key functions, from Commercial to Engineering, to expand governance around this agenda and facilitate further integration of climate considerations into business processes and decision-making.

To strengthen ownership and accountability, climate related KPIs are embedded into our variable remuneration practices. For example, our Long Term Incentive Plan (LTIP) awards, made to the CEO, CFO and other senior leaders, include two environmental measures – one related to the number of zero emission vehicles in our bus fleet, and one linked to a reduction in our absolute Scope 1 and 2 emissions (see pages 124-125 for more details).

Climate-related financial disclosures continued

Strategy

TCFD recommendation:

Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material

Climate change is managed as one of our principal risks and is a core consideration in business strategy and decision-making. Physical risks include more intense precipitation and extreme temperatures, while transition risks include changes in policy, technology, customer and investor expectations. Alongside potential risks, we view a shift in customer preferences towards lower carbon alternatives and strong governmental and regulatory support for transport decarbonisation and modal shift as key business, environmental and social opportunities.

Climate-related risks and opportunities and scenario analysis

In FY 2022, we worked with a specialist consultancy to model potential physical and transition risks and opportunities to our business over the short, medium, and long term, and to estimate cumulative Enterprise Value at Risk over a five-year period (2022-2027). With no significant change to key business parameters and underlying assumptions since our 2022 assessment, this TCFD update provides a summary of impact areas already reported last year, and an overview of what we are doing to continue to reduce our carbon footprint and build climate resilience across our operations.

Using a digital twin of FirstGroup, we modelled impacts across five different climate scenarios, from a world where there is little to no climate policy in place and global temperatures increase by a catastrophic 4°C, to a world where there is rapid transition to a low carbon economy and global temperature increase is limited to 1.5°C above pre-industrial levels. See Table 1 and refer to our ARA 2022 (at www.firstgroupplc.com, pages 61-63) for more details on individual scenarios.

While in some of our modelling we considered five individual scenarios, this report focuses on the two most extreme ones and the 'Stated Policy' scenario, to consolidate some of the findings, but still illustrate the full range of estimated impacts. Across these scenarios, we looked at potential transition and physical impacts to our business from 2022 until 2027 (short term), 2035 (medium term) and 2050 (long term).

The medium- to long-term scenarios align with First Bus's target of a zero emissions fleet by 2035 and the UK's net-zero goal by 2050.

Transition risks

Our analysis of transition risks considered potential impacts on our business from changes in policy (such as carbon pricing), technology (additional capital expenditure required to meet more stringent environmental standards), brand reputation (customer expectations and FirstGroup's environmental credentials and ability to meet carbon reduction goals), and capital markets (investor expectations and impact on funding access/costs).

Given our industry, we also expect growing opportunities over the coming years to counteract some of these risks, mainly linked to a more rapid modal shift supported by customers' increasing climate consciousness and more stringent climate policy and market incentives. We are working with our Bus and Rail divisions to understand how the pace at which we electrify our fleet and progress towards our net-zero goals could affect our ability to capture these opportunities.

Our modelling work identified impacts from policy, technology, investor and customer behaviour as the most material to our business over the next five years, as outlined in Table 2. It is important to note that these potential impacts focus on direct risks to FirstGroup, recognising that under the current National Rail Contracts some of the wider risks and opportunities for our Rail operations would be shared with or transferred to third parties.

Physical Risks

When looking at physical risks, we considered the potential impacts of acute climate events, such as more frequent and more severe floods, storms, rainfall, heatwaves, and droughts, as well as the impacts of more chronic and long-term changes such as rising sea levels and a global increase in temperatures. Financial impacts from these events range from operational disruptions and asset damage to health and safety risks, insurance costs and revenue loss.

For example, the increased likelihood and severity of flooding could lead to an increased risk of connective infrastructure damage, causing disruption to electricity supply and digital connectivity. It could lead to an increase in vehicle accidents and route closures, and cause health and safety risks to our employees and passengers.

Table 1: Climate scenarios considered in risk modelling

Policy Pathway	No Policy	Current Policy	Stated Policy	Paris Agreement	Paris Aspiration
Global temperature increase	>4°C	3°C	2.5°C	2°C	1.5°C
Global emissions reduction target	0% by 2100	-50% by 2100	-75% by 2100	Net-Zero by 2070	Net-Zero by 2050

Table 2: Transition Risks – potential Enterprise Value at Risk, cumulative over five-year period, assessed against different emissions pathways scenario

Transition risks/opportunities	No Policy	Stated Policy	Paris Aspiration
Policy Action by central government/regulators, including carbon pricing	<ul style="list-style-type: none"> • Low impact <p>Expected carbon price of ~£2 per tonne by 2025 in some regions</p> <p>Low emission zones leading to some route constraints</p>	<ul style="list-style-type: none"> ● Medium impact <p>Expected carbon price of ~£30 per tonne by 2025 across the UK</p> <p>Zero emission zones leading to further route constraints and potential loss of licence to operate</p>	<ul style="list-style-type: none"> ● Medium impact <p>Expected carbon price of ~£65 per tonne by 2025 across the UK</p> <p>Zero emission zones leading to significant route constraints and potential loss of licence to operate</p>
Technology Cost and availability of new technology to support a lower-carbon economy	<ul style="list-style-type: none"> • Low impact <p>Potential impairment of carbon-intensive vehicles</p> <p>Ongoing investment in zero-emission fleet to meet current commitments</p>	<ul style="list-style-type: none"> ● Medium impact <p>Increasing impairment of carbon-intensive vehicles</p> <p>Some investment in zero emission fleet ahead of current schedule</p> <p>Some increase in cost of zero carbon vehicles and green electricity</p>	<ul style="list-style-type: none"> ● High impact <p>Significant investment in zero-emission fleet ahead of schedule</p> <p>Substantial increase in cost of zero carbon vehicles and green electricity, due to demand outstripping supply</p>
Investors Financing influenced by environmental credentials	<ul style="list-style-type: none"> • Low impact <p>Low focus from investors on green credentials</p>	<ul style="list-style-type: none"> ● Medium impact <p>Moderate focus by investors</p> <p>More favourable interest rates for green companies</p>	<ul style="list-style-type: none"> ● High impact <p>Significant focus by investors</p> <p>Expected green covenants in financing</p>
Customers Demand driven by sustainability of products and services, leading to increased modal shift towards public transport	<ul style="list-style-type: none"> • Limited opportunity <p>Small shift to public transport, due to increasing environmental impacts and customers' climate awareness</p> <p>No transport policy to encourage modal shift to public transport</p>	<ul style="list-style-type: none"> ● Medium opportunity <p>Increasing shift to public transport due to customers' growing climate consciousness</p> <p>Some transport policy to encourage modal shift to public transport</p>	<ul style="list-style-type: none"> ● High opportunity <p>Substantial shift to public transport due to customers' high climate consciousness</p> <p>Substantial transport policy to encourage modal shift</p>
<ul style="list-style-type: none"> • Low impact = <£20m ● Medium impact = £20m – £50m ● High impact = >£50m 			
<ul style="list-style-type: none"> • Limited opportunity = <£20m ● Medium opportunity = £20m – £50m ● High opportunity = >£50m 			

It could also damage our depots and vehicles, leading to depreciation and stranded assets, as well as impacting insurance costs and insurability of assets. Similarly, heatwaves could impact on passengers, employees and driver wellbeing and create an increased need for cooling. Other potential impacts include vehicle overheating, service disruption or increased vehicle damage from heat damaged roads and railway networks. These events would not only lead to higher building repair and maintenance costs but could also potentially challenge the implementation of new technologies and negatively affect revenues, due to a disruption in service and a temporary decrease in demand for public transport due to extreme weather conditions.

Our analysis identified flooding as one of our most immediate, material risks and we therefore carried out a separate, in-depth flood modelling exercise covering riverine, surface water and coastal flooding. The model considered the top 240 most critical assets owned, leased or managed by FirstGroup or our subsidiary companies and assessed the maximum metres of flooding expected at these locations over different timeframes. The purpose of this exercise was to identify assets at high risk of flooding, assess potential financial impact and strengthen mitigation measures going forward. The model showed that the majority of FirstGroup owned assets have limited/low

exposure to flood risks in the short term and estimated potential financial impacts, cumulative over the next five years, to range from £20m in a 4°C world to £4m in a 1.5°C world.

Our assessment focused on potential impacts to assets that we own, lease or manage, but our exposure to climate risks critically also depends on assets that are owned and managed by third parties, such as rail tracks owned and managed by Network Rail. In FY 2023, we have therefore connected on this agenda with key stakeholders across the rail industry, as part of a TCFD working group convened by Network Rail, to start sharing our approach to climate risks and facilitate closer collaboration on risk mitigation and climate adaptation.

Impact on strategy and financial planning

As a leading private sector provider of public transport, we create value for a range of stakeholders from our people, customers and communities to government and investors (see pages 12-13 for more details).

First Bus's business strategy focuses on driving year-on-year growth in passenger volume and yield, achieving a 10% margin target for investors and transitioning to a zero-emission bus fleet by 2035, while continuing to actively develop its pipeline of adjacent opportunities and implementing renewable energy solutions across its operations.

Climate-related financial disclosures continued

Given the nature of our business, climate-related risks and opportunities affect all areas of our First Bus strategy, including vehicle and infrastructure investment, operations and service delivery, business development and growth. Transitioning to a 100% zero emission bus fleet involves significant capital expenditure and potential impairment costs, which are both factored into long term business strategy and financial planning cycles of the Group. In addition, our TCFD work highlighted a potential increase in future costs from, for example, new environmental regulatory requirements (such as carbon pricing) or technology and supply chain challenges (such as an increase in the cost of zero emission vehicles and green electricity if demand outstrips supply). These factors are considered in our going concern and viability statement (see pages 76-77).

Further impacts on our financial planning include our sustainability-linked £300m Revolving Credit Facility (RFC), signed in FY 2022, which includes targets around the % of zero emission buses in our fleet and carbon efficiency across both bus and rail operations. We also evaluate climate-related risks associated with potential mergers and acquisitions and the impacts of such activities on our progress towards net-zero.

First Rail's business strategy focuses on delivering services as outlined in National Rail Contracts (NRCs) with local authorities and funded by the Department for Transport (DfT), as well as working with key industry partners to minimise service disruptions and improve passenger journeys. Business growth is expected from open access and additional rail services, while helping to achieve the UK Government's target to remove all diesel-only trains from service by 2040 and deliver a net-zero railway network by 2050.

With most rail service elements and investments mandated as part of our management fee-based contracts with DfT, and rail tracks and infrastructure owned and managed by Network Rail, any exposure to climate-related risks is shared with these third parties. Any approach to mitigation actions therefore requires close industry collaboration as well as funding approval in annual business planning processes with DfT.

Strategy resilience

Our business strategy includes clear decarbonisation goals, from running a 100% zero emission bus fleet by 2035 to reducing our overall Scope 1 and 2 emissions from bus and rail by 63% by the same year (from a 2020 base year and in line with a 1.5°C science-based carbon reduction pathway).

Our year-on-year progress and our roadmaps for achieving these targets, coupled with third party recognition of our decarbonisation efforts (see page 38), all help to build strategy resilience against potential transition risks from for example carbon taxes and sustainability driven customers and investors. In terms of physical risks, these are addressed within our asset management strategy and business continuity plans, with winter and summer preparedness plans in place across the Group and setting out actions and procedures in the case of severe weather events.

To continue building understanding of these risks and strategy resilience across our operations, during FY 2023 we have worked with our divisions to run a series of in-depth TCFD and TPT planning workshops with key functions including Finance, Commercial, Operations, Engineering, Property and Procurement, to facilitate further integration of climate considerations into strategy development, decision-making and financial planning. This forms part of a broader programme of work to pull together divisional decarbonisation strategies and risk mitigation actions into a Group-wide transition plan to net-zero.

Furthermore, considering our business model and some of the critical interdependencies between us as a public transport provider and local authorities, DfT, Network Rail and our supply chain partners, a strong approach to decarbonisation, partnership and advocacy is key in building strategy resilience and future-proofing our business. It enables us to inform policy developments, accelerate decarbonisation efforts, mitigate our exposure to climate-related risks and capture business opportunities as they arise. For example, see page 43 for details on funding secured over the last year by First Bus to accelerate its transitions to a zero carbon fleet.

Our strong approach to partnership also facilitates collaboration across our industry for a more systemic and effective approach to climate change mitigation and adaptation. We work with national, devolved, and local governments, industry bodies, supply chain partners and other key stakeholders to enable the right conditions to drive the net-zero transition. We actively engage with DfT on its Transport Decarbonisation Plan, advocating for more measures to facilitate modal shift to public transport, while highlighting any financial and policy constraints to a rapid decarbonisation of our fleets and infrastructure. We are members of the rail industry Climate Change Adaptation Working Group, seeking to work with industry partners to make the rail network more resilient to climate change. During FY 2023, we also came together with Network Rail and other train operating companies to form a TCFD working group to help align the rail industry's approach to this agenda. See page 41-42 for more information on our partnerships.

Risk management

TCFD recommendation:
Disclose how the organisation identifies, assesses and manages climate-related risks.

Approach to risk management

We take a holistic approach to risk management, first building a picture of the principal risks at divisional level, then consolidating these alongside Group-level risks into a Group-wide view (see page 67). The Board assesses the effectiveness of the Group's risk management system and receives reports on principal risks, including climate change. It also reviews the external risk environment, scrutinises assessment of key risks and determines strategic action points.

The Group's sustainability and public affairs teams provide regular ESG updates and insights on market developments to relevant stakeholders and functions across the Group. Climate change is managed as a principal risk, with the aspects below identified as most material. Further mitigation actions and timelines are being defined as we develop our Group-wide transition plan.

Policy risks

More stringent climate policy could result in increased carbon taxes, road pricing in low-emission zones, policy-driven compliance costs and enhanced emissions reporting requirements. An increase in carbon pricing is expected to drive increases in energy, facility, and material costs. This would be exacerbated by increasing mandates on the carbon intensity of our fleet and a diminishing secondary market for legacy diesel vehicles. At the same time, transport policies such as road pricing could support an accelerated modal shift from private cars to public transport and create key opportunities for our business.

Risk mitigation actions

We have set ambitious decarbonisation goals, including achieving a zero-emission bus fleet and a 1.5°C aligned science-based carbon reduction target for FirstGroup as a whole, with clear progress reported year-on-year. See page 65 for more details.

We continue to work closely with governments, industry bodies and other stakeholder groups to monitor regulatory developments, affect and foresee policy changes, and pro-actively respond to evolving conditions. First Bus regularly liaises with local authority partners to drive increased modal shift towards public transport.

First Rail are strongly represented on the Sustainable Rail Executive, convened by RSSB and including DfT, and also chair RSSB's Sustainable Rail Leadership Group. As part of this engagement, during FY 2023 First Rail has supported the development of the first industry-wide Rail Sustainability Blueprint to provide guidance and drive alignment across the industry.

Technology risks

As we move towards a 'Paris Aspiration' scenario (in which policies are put in place to limit global temperature increase to 1.5°C above pre-industrial levels), the transformation to net-zero operations would have to be significantly accelerated, leading to potential write-offs, asset impairments and/or early retirement of existing fossil fuel-related infrastructure and vehicle assets. There could also be additional supply chain challenges and costs if the transport sector starts competing for the same technology and specialist resources and demand outstrips supply. On the other hand, prices of green hydrogen and battery packs are expected to fall thanks to continuous innovation and increasing economies of scale. In addition, with an increasing number of businesses looking to decarbonise their operations, our investments in EV and charging infrastructure create significant B2B opportunities.

Risk mitigation actions

Careful planning is taking place to ensure an efficient and effective conversion of our existing infrastructure to one powered by electricity and hydrogen. While there is competition for government funding and emerging influence from disruptors in the sector, our experience as a transport operator is unparalleled in the UK, across both bus and rail services, and we have already started a cost competitive transition to net zero. See pages 21-22 for examples of technology innovation in bus and page 25 for rail.

Our property plans, infrastructure investments and increased access to energy supplies for EVs are all key to our fleet decarbonisation strategy. As part of this, during FY 2023 we have installed solar panels at 20 bus depots. We are also focused on capturing new opportunities from the net-zero transition, establishing partnerships to leverage our EV charging infrastructure to support wider community electrification needs.

We are supporting knowledge and skills development for our people to drive this transition, and are working with vehicle manufacturers, energy partners, professional associations and others to create low and zero emission mobility solutions. See page 49 for more details.

Climate-related financial disclosures continued

Customer and investor risks

Growing awareness of climate change amongst the public is expected to drive demand for more sustainable travel options, while climate-related risks and opportunities may increasingly affect investors' priorities and access to capital funds. For our industry, this creates key opportunities to grow our customer base as well as the volume of transport services delivered to our existing customers, subject to the pace of our fleet electrification and the perception of the sustainability of our brand and services in relation to other operators and transport alternatives.

Risk mitigation actions

Our progress towards our public decarbonisation goals and the third-party recognitions achieved over the last year (see page 38), demonstrate our sustainability commitments to customers, investors, and regulators. In addition, we are developing a carbon calculator specific to our rail routes to help passengers understand the carbon savings rail travel can provide versus other modes of transport.

The UK government's plan to fully implement a 'Green Taxonomy' sends a strong signal that capital could become cheaper for companies able to demonstrate clear pathways to net-zero. We anticipate that with the continuing decarbonisation of our bus and rail operations and the critical role we play in helping to reduce carbon emissions through modal shift to public transport, our business will be considered increasingly 'green' under any future taxonomy. We started embedding this into our financing strategy with the signing of a sustainability-linked £300m revolving credit facility in FY 2022.

Physical risks

Acute and chronic weather events can affect our infrastructure and operations. More frequent extreme weather events could increase disruption to our services, affecting customer satisfaction and potentially longer-term customer inclination to use bus or rail services. Potential costs include loss of revenue, compensation for disrupted services, increased asset repair and maintenance costs as well as insurance costs for infrastructure and vehicles. Severe weather events could also pose risks to the health, safety and wellbeing of our employees and customers.

Risk mitigation actions

Robust business continuity plans are in place across the Group to manage the risks from severe weather conditions, including frost and flooding. In addition to our winter preparedness plans, during FY 2023 we have developed summer preparedness plans to set out actions and procedures in the case of heat waves.

In First Bus, while physical risks to assets might be limited and buses can be rerouted to avoid road blockages, extreme weather conditions can significantly increase driver absences due to sickness or inability to reach depots. Our weather preparedness plans therefore include both operational as well as behavioural guidance to help employees stay safe and cope with extreme weather events.

In First Rail, severe weather events such as storms and heat waves can impact the tracks and overhead lines and cause significant service disruption. We work closely with Network Rail, who own and manage the tracks, to resolve disruptions as effectively as possible.

We have also started to carry out site specific impact assessments at individual rail stations to better understand the impacts, physical risks and develop focused mitigation plans.

Metrics and targets

TCFD recommendation:

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

When looking at the results of our 2022 financial impact assessment of climate related risks and opportunities, the key metric used was Enterprise Value at Risk (EVR), as the measure of the total estimated financial impact of a given scenario over a five-year period, discounted to 2022 values. This, in turn, was affected by other metrics such as our greenhouse gas emissions, used to assess our potential exposure to carbon pricing.

We have been measuring and reporting our energy and carbon performance for many years. Please see details of these metrics on pages 45-46, including:

- our absolute carbon footprint and carbon intensity (tCO₂e per £m revenue)
- our energy consumption and the proportion of renewables in our energy mix
- our progress against our target of operating a zero-emission bus fleet by 2035

The above KPIs give an indication of our exposure to policy risks such as carbon taxes, as well as technology risks related to electric vehicles. They also strengthen our sustainability credentials with customers and investors, enabling us to capture opportunities from modal shift and green financing.

To strengthen ownership and accountability, climate-related KPIs are embedded into our variable remuneration practices. For example, our Long Term Incentive Plan (LTIP) awards, made to the CEO, CFO and other senior leaders, include targets linked to the number of zero emission vehicles in our bus fleet and the reduction in our absolute Scope 1 and 2 emissions. See more details on pages 124-125.

During FY 2023, we have developed a near-term science-based emissions reduction target aligned with a 1.5°C ambition and approved by the Science Based Targets initiative. Our target is to reduce Scope 1 and 2 GHG emissions by 63% by FY 2035 from a FY 2020 base year. We also commit to reduce absolute Scope 3 GHG emissions from fuel and energy related activities by 20% by FY 2028, from a FY 2020 base year, and that 75% of our suppliers by emissions, covering purchased goods and services and capital goods, will have science-based targets by FY 2028.

As part of setting our science-based target, we have worked with a specialist consultancy to complete a full Scope 3 emissions assessment and identify all material Scope 3 emissions. This has been recently validated by the SBTi and will enhance our Scope 3 disclosures in FY 2024.

We are modelling 1.5°C trajectories to 2035 to inform our transition plans and interim targets and over the last year have formed a Sustainable Procurement Working Group to develop a more targeted approach to promoting carbon reductions in our value chain.

Our absolute carbon footprint has reduced by 17% from a FY 2020 base year, and emissions per £m revenue have reduced by 29% over the same period. We report our Scope 1, Scope 2 and limited Scope 3 greenhouse gas emissions in line with the GHG Protocol methodology (see page 45). Our Scope 3 emissions currently include rail replacement, business travel, waste disposal, water supply and water treatment, but we are preparing to report on all material Scope 3 categories in FY 2024, in line with our SBT commitments.

Please see our Environmental Performance Report 2023 (at www.firstgroupplc.com) for a more detailed update on our key environmental metrics, performance trends and progress against targets. As we continue to further embed the recommendations of the TCFD and start preparing for disclosures in line with guidance from the Transition Plan Taskforce (TPT), this will inform the development of additional metrics and targets around both climate change mitigation and adaptation.

Non-financial information statement

Introduction

The EU Non-Financial Reporting Directive applies to the Group, and the tables below summarise where further information on each of the key areas of disclosure required by the Directive can be found.

Further disclosures, including our Group policies and non-financial targets and performance data, can be found on our website, and in our Environmental Performance Report 2023, at www.firstgroupplc.com.

Reporting requirement		Relevant section of this report	
1. Description of our business model		■ Our business model – pages 12-13	
2. The main trends and factors likely to affect the future development, performance and position of the Group's business		■ Our markets – pages 10-11 ■ Business review – pages 19-26	
3. Description of the principal risks and any adverse impacts of business activity		■ Principal risks and uncertainties – pages 69-75	
4. Non-financial key performance indicators		■ Customer performance – page 36 ■ Safety – page 36 ■ Greenhouse gas emissions and zero emission buses – page 37 ■ Community investment – page 37	
Reporting requirement	Policies, processes and standards which govern our approach*	Risk management	Embedding, due diligence, and outcomes of our approach, and additional information
5. Environmental matters	<ul style="list-style-type: none"> ■ Group-wide strategic framework for sustainability – page 39 ■ Environmental Policy ■ Environmental management systems around the Group, certified to ISO 14001 standard in much of our UK business ■ Certified ISO 50001 systems in some of our TOCs 	<ul style="list-style-type: none"> ■ Climate-related risk – page 71 ■ Task Force on Climate-related Financial Disclosures (TCFD) – pages 57-65 ■ Regulatory compliance – page 74 	<ul style="list-style-type: none"> ■ Our markets – pages 10-11 ■ Business review – pages 19-26 ■ Group-wide strategic framework for sustainability – page 39 ■ Suppliers – page 80 ■ Greenhouse gas emissions and energy data – pages 45-46
6. Employees	<ul style="list-style-type: none"> ■ HR Policy framework ■ Code of Ethics ■ Gifts and Hospitality Policy ■ Whistleblowing Policy and Procedure ■ Health and Safety Policy ■ Group-wide strategic framework for sustainability – page 39 	<ul style="list-style-type: none"> ■ Human resources risk – page 75 ■ Safety risk – page 73 ■ Task Force on Climate-related Financial Disclosures (TCFD) – pages 57-65 	<ul style="list-style-type: none"> ■ Safety – pages 51-52 ■ Diversity and inclusion – pages 47-49 ■ Employee engagement and representation – page 50 ■ Board-level Employee Directors – page 89 ■ Skills for the future – pages 49-50 ■ Health and wellbeing – page 50
7. Social and community matters	<ul style="list-style-type: none"> ■ Community engagement and community investment frameworks ■ Code of Ethics ■ Payroll Giving ■ Matched Giving Guidelines ■ LBG impact measurement ■ Health and Safety Policy ■ Group-wide strategic framework for sustainability – page 39 	<ul style="list-style-type: none"> ■ Safety risk – page 73 	<ul style="list-style-type: none"> ■ Business review – pages 19-26 ■ Supporting communities – pages 53-54 ■ Safety – pages 51-52 ■ Accessible journeys – page 41 ■ Government engagement – pages 41-42 ■ Working with charities – pages 53-54 ■ Community investment – page 54
8. Human rights	<ul style="list-style-type: none"> ■ Code of Ethics ■ Supplier Code of Conduct ■ Code of Conduct on Anti-Slavery and Human Trafficking Prevention ■ Modern Slavery Statement 2021 ■ Health and Safety Policy 	<ul style="list-style-type: none"> ■ Regulatory compliance – page 74 	<ul style="list-style-type: none"> ■ Safety – pages 51-52 ■ Ethics – page 56
9. Anti-corruption and anti-bribery	<ul style="list-style-type: none"> ■ Anti-Bribery Policy and steering committee ■ Code of Ethics ■ Conflicts of Interest Policy 	<ul style="list-style-type: none"> ■ Regulatory compliance – page 74 	<ul style="list-style-type: none"> ■ Ethics – page 56

* Some policies, processes and standards shown here are not published externally

Risk management

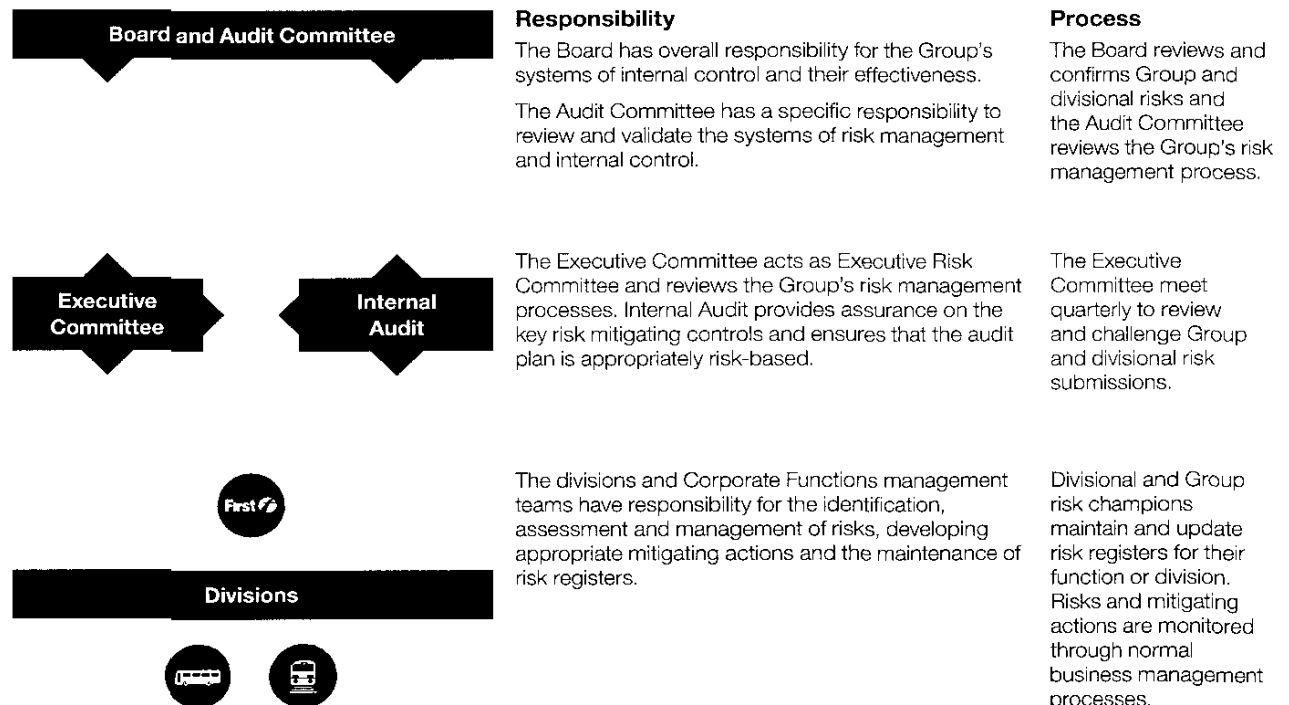
Managing the risks and opportunities our business faces is a crucial part of achieving long-term success.

The Group has set its strategic goals around sustainable development and shareholder value. A crucial part to achieving our long-term success is our ability to manage the risks and opportunities our business faces. Our risk management framework holistically considers the impacts of both the changing transport market and our UK-focused operations. We keep ahead of potential risks by scanning the horizon for emerging risks, training our people and investing in awareness campaigns and external advice. Our principal risks and uncertainties are detailed on pages 69 to 75.

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 those principal risks alongside Group risks into a Group view. During the year we introduced regular meetings for the Executive Committee focused entirely on risk. During these sessions outputs from the consolidation of the principal risks, and from the identification and analysis of emerging risks 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 all key risks to the Group are reviewed regularly, are actively monitored, and mitigating controls are put in place to ensure that the risk impact on the organisation is managed within the risk appetite and tolerance levels set by the Board.

🔗 Read more about our risk management processes in the Governance report on page 102



Risk management continued

Our risk management framework and structure

Whilst some risks such as financial resource 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.

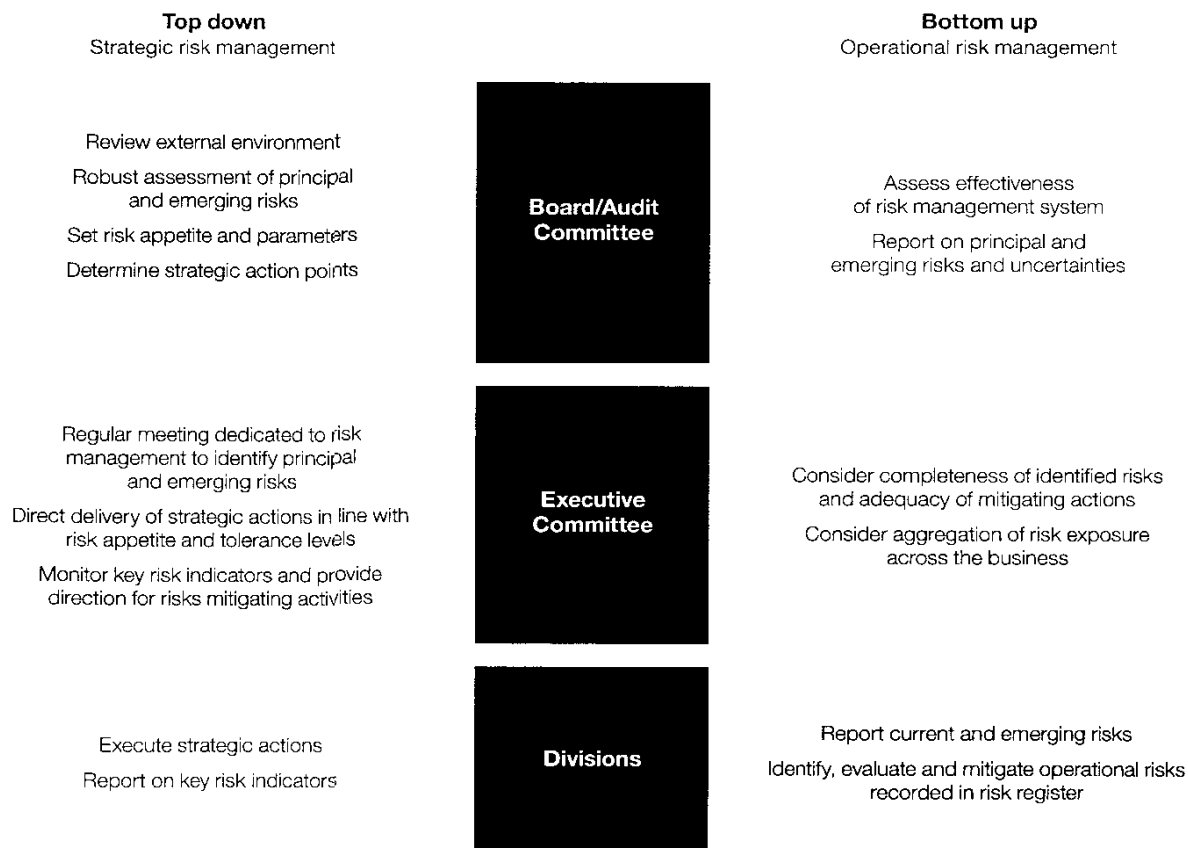
We seek to continue to improve the quality of risk management information generated by our divisions. The Group has developed a risk appetite framework which informs the business about the Board's appetite for certain risks and informs the risk assessment.

Our risk management framework is shown in the below diagram. Our current risk management structure is shown in the opposite table.

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, but 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, run deep dive sessions with risk owners, engage specialists and perform scenario analysis.

Risk management framework



Risks associated with climate change

We continue to disclose our performance against TCFD recommendations, how effectively we are managing climate-related risks and opportunities and how this may affect our operations and delivery of our strategy. We continue to explore the specific impact our business might face from such risks and opportunities, and how the business needs to adapt to ensure we have adequate risk mitigating activities. Through applying our risk management framework, we identify, assess and report climate related risks and opportunities as part of our principal risks. Key activities include:

- Embedding climate change within our risk management framework, both at Group level and within divisional risk registers to ensure that risks are recorded and reported across the business.
- Driving commitment for managing and monitoring climate related risks by aligning our responsible business and sustainability targets with the recommendations of the TCFD and TPT.
- Challenging our strategy to make sure we mitigate risks and maximise opportunities from the transition to a low-carbon economy.

Principal risks and uncertainties

We outline our principal risks below and on the following pages with an overview of the associated existing 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, security 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 impact 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

🕒 Read more about climate-related risks on pages 44, 63 and 71

Principal risks

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

	Key			Severity (Impact x Likelihood x Velocity)	
	◀ FY 2023 risk is stable	▼ FY 2023 risk is decreasing	▲ FY 2023 risk is increasing	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				◀▶	
Regulatory compliance	◀▶				
Data security and consumer privacy, including cyber-security					▲
Human resources				◀▶	

How to use this scale:

During execution of the review and placement of the principal risks on the above table, management considered financial impacts to the divisions and the Group. Specifically, the 'High' end of the scale represents a combination of a catastrophic financial impact of greater than £50m and the 'Low' end considers financial impacts less than £10m.

Risk management continued

Key ◀▶ FY 2023 risk is stable ▼ FY 2023 risk is decreasing ▲ FY 2023 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 which may negatively impact performance through increased costs, changing customer needs, declining passenger demand, reduced operations due to industrial actions and/or reduced opportunities for growth. Globally, the economic outlook is less certain, and the Group specifically has experienced increased industrial relations activity, higher fuel costs due to the macro-economic environment. 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 and is continuing to improve from the impact of the pandemic, there is no certainty of passenger volumes continuing to recover and the funding regimes that apply remain uncertain in the medium term.

- We work with our key stakeholders, Government departments and sector bodies to ensure an acceptable level of passenger services are delivered whilst at the same time designing and running our operations based on current demand levels.
- We continue to be customer-focused and to provide innovative transport solutions, by adapting to market uncertainties and to drive demand.
- We continue to utilise our fuel and energy hedging processes to offset temporary economic impacts driven by inflation and supply chain challenges.
- In First Bus we have commenced a programme to install photovoltaic panels to generate electricity for partially covering depot electricity demands.
- We continue to focus on developing new innovative service offerings to our customers to diversify the business through unstable economic conditions.

Although it is not yet clear the impacts of other macro-economic factors, the Group has continued to hedge exposure to foreign exchange and fuel fluctuations to minimise material cost impacts and fare baskets are normally increased in line with inflation to help offset cost pressures. 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. 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. 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, 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 the conflict in Ukraine and changes in regulations in Europe and UK following Brexit, may impact the Group's commitments to deliver decarbonisation capex 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 portfolio and ensure the Group has the requisite skills and capabilities to leverage national funding.
- The Group deploys hedging techniques to counterbalance potential negative impact on certain costs due to adverse developments in international affairs.

Both national and local governments in the UK continue to support public transport service providers. Passenger volumes and profitability continue to recover, underpinning the investment to strengthen bus networks for the longer term.

Key

◀▶ FY 2023 risk is stable

▼ FY 2023 risk is decreasing

▲ FY 2023 risk is increasing

Risk description

Mitigation

Developments in the risk profile during the year

Climate change ◀▶

Businesses globally continue to come under increasing pressure from all stakeholders, particularly policy makers 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 greenhouse gas emissions by 2050. All companies that operate in the UK or are owned by UK-based companies will be substantially impacted by decarbonisation policies introduced to meet this target. As a result, the Group is under increased pressure and scrutiny from both investors and government bodies to provide evidence of our strategic plans in place to mitigate climate change risks.

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. 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 has been an integral part of our risk management framework for many years and, through our strategic framework for sustainability 'Mobility Beyond Today', has become an integral part of business strategy.
- Our 'Mobility Beyond Today' framework sets out the Group's ambition to be the partner of choice for innovative and sustainable transport.
- 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 FY2023, we completed our submission of a science-based target and had our target formally approved by the SBTi. Our target is to achieve a 63% reduction in our Scope 1 and 2 emissions by FY 2035 from a FY 2020 base year. It also includes the following Scope 3 commitments – to reduce emissions from FERA by 20% by FY 2028, from a FY 2020 base year, and that 75% of our suppliers by emissions covering purchased goods & services and capital goods will have science-based targets by FY 2028.
- We are modelling 1.5°C trajectories to 2035 to inform our transition plans and interim targets, and are developing a supply chain engagement plan to promote carbon reductions in our value chain.
- As part of our decarbonisation goals, First Bus has set a target to operate a zero emissions fleet by 2035. We continue to increase the percentage of zero emission buses in our fleet year on year.
- First Rail is supporting the UK Government's target to remove all diesel-only trains from service by 2040. We continue to work with government and industry partners to support further electrification of Britain's rail network, shift to bi-modes trains where full electrification is not possible, and implement alternative technologies such as battery power to help achieve zero emission trains.
- 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 performance can be found in the non-financial KPI section (page 37), our Mobility Beyond Today update (page 39), our 2023 TCFD report (pages 57 to 65) and Environmental Performance Report (at www.firstgroupplc.com)

The Group recognises the continued pressure and opportunity to create a more sustainable world and maintains our commitment to invest in new technologies and collaborate with partners to 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 continue to build business resilience for the long term. We have also started work on a Group-wide transition plan in line with upcoming TPT recommendations.

While 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.

Risk management continued

Key ◀▶ FY 2023 risk is stable ▼ FY 2023 risk is decreasing ▲ FY 2023 risk is increasing

Risk description

Mitigation

Developments in the risk profile during the year

Strategic risks

Contracted business ▶▶

The Group's contracted 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. Additionally, the ability of the Group to achieve performance targets is dependent on our ability to exceed performance metrics laid out in rail contracts.

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

The rail contract structure is now concession-based with a fixed management fee plus performance incentives resulting in a far better balance of risk and reward.

A National Rail Contract (or 'An NRC') was negotiated and concluded for GWR in June 2022. The SWR NRC was extended on existing terms in February 2023 and now runs until May 2025. The Secretary of State announced on 11 May that the TPE NRC would expire at the end of the core term on 28 May. The West Coast Partnership ERMA arrangement was given two six-month extensions in the year and now runs until October 2023. Negotiations remain ongoing for the WCP National Rail Contract award to commence at the end of the ERMA period based on the DfT's Prior Information Notice which covers the period to 2032.

We have the extensive operational expertise needed to meet requirements for the contract performance incentives. Negotiations with the DfT take place at a First Rail level, and the teams ensure that future and ensure that future commitments to UK rail will have an appropriate balance of potential risks and rewards for shareholders.

In First Bus, there has been an increase in contracted and tendered business in the B2B market, as well as the acquisitions of Ensign Bus and Airporter.

The transition from the previous franchising regime to National Rail Contracts (with only the West Coast partnership now outstanding of FirstGroup's rail businesses) has led to a better 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. As the largest rail operator in the UK by revenue, the Group has the operational structure and expertise to exceed passenger delivery against performance targets and to build on our base business. Additionally, future contracts and are expected to be longer allowing for better financial and portfolio planning, as per the Prior Information Notices allowing for better financial portfolio planning.

Growth within the sector ▶▶

The Group's operational success from both organic and inorganic growth is dependent on effectively responding to customer demand and identifying and executing acquisitions and transactions. The Group faces additional risk of continued industry consolidation, specifically within the bus sector.

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.), negative reputational impacts, and the inability to meet financial goals and obligations.

- The Group actively seeks out and reviews mergers and acquisitions (M&A) opportunities that would be beneficial to our portfolio.
- We continue active dialogue with our shareholders and investors and gather insights from our strategic advisors and contacts within the business to evaluate potential transactions.

General economic and political environment remains uncertain, preventing the risk direction from decreasing.

The Group releases regulatory announcements on material acquisitions and other material transactions. The Group engages with shareholders on significant issues.

Key

◀▶ FY 2023 risk is stable

▼ FY 2023 risk is decreasing

▲ FY 2023 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. 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 £110m and an undrawn £300m committed revolving credit facility that matures in 2026.

The Group maintains strong bank relationships, with good awareness and understanding of debt market trends.

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 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 risks include terrorism, adverse weather, human error and increased traffic/congestion on public roads. A safety incident, or a threat of an incident, could be caused by mechanical failures and/or human error and result in adverse financial impact, reputational damage through reduced public confidence in public transportation and potentially reduce demand for our services.

- In order to promote and maintain our culture of safety, all divisions have extensive safety plans and safety training for our drivers and employees.
- Access to vehicles and trains is controlled to prevent against malicious access.
- Mechanical safety controls (speed monitoring, cameras, etc.) are implemented across our fleet of vehicles and trains.
- Further, 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 Group continues to assess, update and implement safety procedures across our businesses, and mitigating activities to reduce safety incidents from occurring continue to be a focus.

Risk management continued

Key ◀▶ FY 2023 risk is stable ▼ FY 2023 risk is decreasing ▲ FY 2023 risk is increasing

Risk description	Mitigation	Developments in the risk profile during the year
<p>Pension scheme funding ◀▶</p> <p>The Group sponsors or participates in several significant defined benefit pension schemes. Within the schemes, the Group's future cash contributions and funding requirements are dependent on investment performance, movements in discount rates, expectations of future inflation and life expectancy, and relevant regulatory requirements.</p> <p>In order to maintain adequate cash funding and prevent adverse financial impacts or reputational damage, the Group must monitor the performance of our pension fund investments and movements in other contributing factors (e.g. discount rates, life expectancy, etc.).</p>	<ul style="list-style-type: none"> ■ 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 (UK Bus and Group schemes). ■ The Group uses third party experts to advise on investment strategies and liability management, monitor movements in discount rates, mortality and inflation expectations, with increased hedging techniques applied to mitigate these risks. ■ We continue to replace our defined benefit schemes with defined contribution arrangements where possible. ■ We are also focusing on diversifying asset classes and reallocating riskier investments to investments that better match the characteristics of the liabilities as funding levels improve. ■ Under the First Rail contracting arrangements, the Group's train operating companies are not responsible for any residual deficit at the end of a franchise contract with no cost risk during the contract. 	<p>The natural reduction of the size and volatility of the pension funding risk continues, following the Group's closure of most of its defined benefit schemes in its divisions to future accrual several years ago.</p> <p>We continue to maintain a £117m escrow arrangement for the Group and Bus schemes following the sale of the North American business in 2021. The cash in this account could be returned to the Group in certain scenarios depending on the achievement of low dependency funding levels, such as the 2024 and 2030 valuation for the First Bus and FirstGroup schemes respectively.</p>
<p>Regulatory compliance ◀▶</p> <p>The Group's operations are subject to a wide range of legislation and regulation. Complying with such legislation and regulations may increase the Group's operating costs, and non-compliance could lead to financial penalties, investigation expenses, legal costs or reputational damage. The Group's corporate governance, which is recognised by external ESG ratings as strong and well aligned with stakeholder interests, supports our ability to respond to, and prepare for, financial and ESG laws and regulations.</p> <p>The main regulatory compliance risks specific to the Group that are not covered in other principal risks include workplace compliance (employee wages and other terms and conditions of employment etc.), workplace health and safety compliance and competition and anti-bribery legislation.</p>	<ul style="list-style-type: none"> ■ To help the Group comply with all applicable legislative and regulatory requirements, we have an in-house legal function and a number of dedicated subject matter experts, who help to ensure relevant national and international laws and regulations are followed. ■ Our in-house team is supported by external legal experts where necessary. ■ We have a comprehensive suite of Group-wide policies and procedures, which are implemented and managed locally. These include anti-bribery and competition law policies, and are supported by regular training on these and other compliance topics. ■ 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. 	<p>Although our legislative and regulatory environment continues to change, the Group maintains our commitment to assess and adapt not only our insurance structure but also our policies and procedures to detect and prevent non-compliance.</p>

Key

◀▶ FY 2023 risk is stable

▼ FY 2023 risk is decreasing

▲ FY 2023 risk is increasing

Risk description

Mitigation

Developments in the risk profile during the year

Data security and consumer privacy, including cyber-security ▲

The Group continues to see an increase of mobile and internet passenger ticket sales across all divisions. These sales channels gather large amounts of data which require safeguards in order to protect our customer data and comply with applicable data privacy legislation, including the Data Protection Act 2018 and the UK and EU General Data Protection Regulation (GDPR). Customer data is processed by multiple suppliers and vendors of technological solutions used across the Group. The data is also processed by multiple Group business divisions and employees. Suppliers of technology solutions are often targeted by cyber threat actors which can include criminal cartels, whose motivation is financial gain. On the 19 April 2023 the National Cyber Security Centre (NCSC) warned the UK of a heightened alert of a cyber-attack threat from state-aligned groups against 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 impair our ability to protect consumer data, and/or compromise our confidential business information. This may lead to long-term financial and reputational damage with significant costs to recover, including penalties, and an adverse impact on consumer confidence in the Group.

- To protect our data and comply with all data privacy regulations, the Group has implemented IT infrastructure controls across the company.
- The Group administers a training programme to employees, communicating their role in protecting and preventing unauthorised access to sensitive data.
- We have a dedicated compliance officer in each division with responsibility for ensuring the completion of training.
- 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 response to a ransomware attack.
- We have a suite of data protection and information security procedures in place.
- Robust due diligence is performed for new suppliers, with data protection and 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 2022' reported 39% of UK business were subject to a cyber-attack in 2022. 83% of these instances were phishing attacks, and around one in five (21%) of the respondents identified a more sophisticated attack type such as a denial of service, malware, or ransomware attack. A ransomware attack is more business impacting typically than a denial-of-service attack. Businesses who are hit with ransomware often risk regulatory fines if personal data has been compromised in the attack.

We continue to be vigilant and diligent in evaluating and implementing enhanced techniques to protect our systems and data from threats.

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. The costs are impacted 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, reputational and operational impacts.

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

- We continue to focus on improving communication with employees, implementing a new people strategy and investing in employee development through compelling employee value, diversity and inclusion propositions linked with market competitive wages and benefits.
- 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 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.

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 2026 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 69 to 75). The assessment of the available mitigating actions include 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 20% in non-contracted Rail and 50% lower than budgeted performance fees on NRC rail contracts;
- 2) heightened operational and environmental pressures including increased inflation up to 3% higher than budgeted levels, additional Governmental decarbonisation policy of £2m per annum and the loss of a number of First Rail contracts with operating profit impact increasing to £37m per annum in FY 2026;
- 3) one-off safety, regulatory non-compliance or technology incidents leading to short-term reduced revenue and/or additional costs of £15m, and a one-off climate-related event impacting profit by £10m; and
- 4) inability of the Group to negotiate additional new credit facilities on acceptable terms leading to a reduction in facility headroom of £200m from September 2024 and delayed payment of the Transit earn out due in FY 2024.

In making their assessment, the Directors have made the assumption that the Group will retain the £184.2m bond expiring in September 2024, and will 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 disclosures on pages 57 to 65. 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 emission.

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. It 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 2026 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.

Going concern

The Board carried out a review of the Group's financial projections for the 18 months to 30 September 2024 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 a post-pandemic operating environment, including assumptions on passenger volume recovery and government support arrangements.

Base case scenario

The Board considered the annual budget to 31 March 2024 and medium-term plan to be the base case scenario for the purpose of the going concern assessment for the FY 2023 year end. These projections were the subject of a series of executive management reviews and were used to update the base case scenario that was used for the purposes of the going concern assessment at the FY 2023 year end. The base case assumes a continuing recovery in passenger volumes and yields in FY 2024, but that passenger volumes remain below pre-pandemic levels in the going concern assessment period. The base case also reflected the expiry and non-renewal of the TransPennine Express contract in May 2023. The macro projections in the updated base case assume that the UK operates in a recovering coronavirus 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 protracted post-pandemic recovery profile. In First Bus the downside case assumes a reduction in passenger volumes driving a 25% reduction in Bus profitability. In First Rail, the downside case assumes TOC performance fee awards at 50% of expected levels; revenue reduction in Hull Trains and Lumo of 20%; and loss of one National Rail Contract at the end of its current term. The downside scenario also assumes a delay in receipt of final Greyhound property proceeds until after the going concern period; a lower realised value for the First Transit earmout; and a £10m impact of a significant climate-related event.

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 capex spend 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 2024 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.

Our stakeholders

We interact with a huge range of stakeholders every single day. Building strong relationships with them involves listening and working in collaboration.

Engaging with our stakeholders

See page 81 for our Section 172 statement and page 82 for decisions taken by the Board during the year.

1. Customers

The needs of our customers are unique to each journey and requirements constantly evolve. Listening, identifying future needs and being able to respond quickly is critical. Our teams use a variety of channels and approaches to engage with customers and passengers, assessing satisfaction and gathering feedback.

Why we engage them	How we engage with them	Our response to matters raised and key activities
We engage them in order to respond to feedback and improve customer experience and satisfaction. Longer term this enables us to continuously be aware of and adapt to changing customer needs and build long-lasting and trusted relationships.	<ul style="list-style-type: none"> Regular customer and passenger satisfaction surveys to identify what we do well and where we can improve Robust customer feedback processes through online and traditional channels Customer panels and events Ongoing dialogue with customer representative groups Regular customer updates by the Chief Executive Officer to the Board 	<p>Introduced a number of technology enhancements to improve accessibility this year, including new facilities to support disabled, blind and deaf customers</p> <p>Installed 'tap on tap off' payment technology on all our bus fleet, allowing customers to pay by contactless for the journey they make</p> <p>Worked with partners to introduce robust recovery plans in our Avanti and TPE businesses, resulting in a reduction in cancellations compared to summer 2022</p>

2. Investors

We welcome open, meaningful discussion with shareholders on all matters. Being fully aware of the range of views of our shareholders is a key aspect of good corporate governance and supports our commitment to ensuring that we promote the success of the Company for the long-term benefit of our members as a whole. We proactively engage throughout the year with institutional, private and employee shareholders on a range of matters.

Why we engage them	How we engage with them	Our response to matters raised and key activities
We keep investors informed of key business activities and decisions and we listen and respond to concerns and questions in order to build the long-term success of the Group.	<ul style="list-style-type: none"> Presentations from Executive Directors Annual report, website and regulatory statements Ongoing dialogue and individual engagement with shareholders by the Directors, including Chairman Engagement via the Investor Relations function with potential and existing investors and other market participants 	<ul style="list-style-type: none"> Onboarding of new CEO and introduction to investors Consultation with investors following Board's recommendation against unsolicited approach from I Squared Capital Return of value to shareholders by way of £75m on-market share buyback programme following receipt of proceeds of £122m following completion of Greyhound property portfolio sale Investment in growth acquisitions in First Bus and accelerated investment in electrification of bus fleet and infrastructure Declaration and payment of FY 2022 full year and FY 2023 half year dividends

3. Government

Strong engagement with Government at all levels is essential to our businesses to advocate for policy solutions which ensure optimal operation of public transport by private operators. At Group and operational level, we have long-established relationships with local and national Government officials.

Why we engage them	How we engage with them	Our response to matters raised and key activities
<p>We are focused on achieving policy solutions that support sustainable economic growth and social mobility.</p> <p>Engaging with government ensures clear communication and understanding of the consequences of policy decisions at different levels of Government and aids effective delivery of public transport at the operational level.</p>	<ul style="list-style-type: none"> ■ Direct engagement with policymakers ■ Links with national, devolved, regional, and local Governments ■ Regular surveys of political stakeholders ■ Membership of UK and international sector trade bodies, who in turn engage with government and regulators to promote a positive policy environment for private sector public transport 	<ul style="list-style-type: none"> ■ Played a leading role in the Rail Delivery Group and the Confederation of Passenger Transport discussions on the future direction of the rail and bus sectors ■ We engage with, and are members of, a number of business advocacy organisations, lobby groups and public transport campaigns, particularly to raise awareness of sustainability issues

4. Employees Read more about our employees on pages 47 to 50

Many thousands of FirstGroup employees work in depots, stations and offices. They are the face of FirstGroup, delivering great service to our millions of passengers. We have a broad range of mechanisms through which our employees have the opportunity to make their voices heard and inform the direction and governance of our business.

Why we engage them	How we engage with them	Our response to matters raised and key activities
<p>We will achieve success by maximising the benefits of the expertise and experience of our employees in delivering our services and improving customer experience and satisfaction.</p> <p>We engage to ensure our people have the skills and knowledge needed to deliver our services now and in the future; to create a safe and inclusive working environment for all of our employees; and to increase participation and equal opportunities.</p>	<ul style="list-style-type: none"> ■ Regular 'Your Voice' employee engagement surveys ■ Dialogue with employee representatives, including Employee Directors and trade unions ■ Inductions, onboarding sessions and employee handbooks ■ Multiple internal communications channels, including our intranet, briefings, newsletters and our employee mobile apps ■ Individual performance reviews and development discussions ■ Board and Executive Committee visits to operational sites, and opportunities for direct discussions with employees 	<ul style="list-style-type: none"> ■ Established two separate groups to help us drive our equality, diversity and inclusion agenda ■ Established the Responsible Business Committee, a new committee of the Board, and one of its main duties is to review the practices and performance of the Group in supporting our people ■ First Bus are now signatories to the Business in the Community Race at Work Charter and this is the second year that we have voluntarily published our ethnicity pay gap information ■ Further progress on the four gender commitments we set out in 2017. Our aspiration is to have half of all the roles we recruit for, to be filled by women.

5. Communities Read more about our communities on pages 53 to 54

We are at the heart of our communities and we need to understand community needs in order to improve our services. We have well-developed mechanisms in place to help us listen to and understand the needs of our communities, and we incorporate their feedback into our decision-making processes.

Why we engage them	How we engage with them	Our response to matters raised and key activities
<p>We engage with our communities to support social inclusion and respond to local needs.</p>	<ul style="list-style-type: none"> ■ We conduct regular surveys to help us understand a range of views and enhance our engagement activities ■ We also commit our time, skills and resources to help those charitable causes important to our communities, both locally and nationally 	<ul style="list-style-type: none"> ■ FirstGroup and our employees donated £617,000 during FY 2023 as measured by the London Benchmarking Group model for community impact. See page 37 for a more detailed breakdown of our contribution.

Our stakeholders continued

6. Strategic partners and suppliers

We work with more than 4,500 suppliers globally driving innovation, expertise and value for money from our supply chain to provide the goods and services required to meet and exceed the expectations of our customers and shareholders. Our suppliers range from small, independent companies to global corporations, and we have dedicated teams of procurement specialists centrally, and within our divisions, who develop and maintain strong relationships with this supply chain driving value and reducing risk.

Why we engage them	How we engage with them	Our response to matters raised and key activities
Engaging with suppliers and strategic partners builds long-term relationships and enables us to identify, manage and mitigate risks and raise environmental and ethical standards in our supply chain.	<ul style="list-style-type: none"> ■ Key suppliers are engaged through collaborative relationship management systems to provide us with clear, consistently applied processes to track performance and generate additional value ■ Regular supplier relationship meetings and business reviews held to strengthen relationships and identify and manage risks ■ Core principles shared across the entire supply chain in the FirstGroup Supplier Code of Conduct 	<ul style="list-style-type: none"> ■ ISO 44001:2017 certification and Strategic Supplier Management: Continuing to expand the programmes operated under ISO44001 certification as well our in-house developed supplier management approach collaborating on a variety of value improvement projects focused on value delivery to both parties in availability, capacity, customer satisfaction, technology and innovation. ■ Supply chain risk processes continue to be strengthened and developed. Working with internal stakeholders and in collaboration with external partners we continue to expand our insight of compliance and drive sustainable procurement principles. This includes enhanced reporting and capturing, monitoring and mitigating risk increasing supply chain maturity.

Section 172 statement

The Directors are obliged under Section 172 to promote the success of the Company over the long-term for the benefit of shareholders as a whole and having due regard to a range of other key stakeholders. The Directors take their duties under Section 172 of the Companies Act very seriously not only because it is a legal requirement to do so but the obligations make very good business sense. If the decisions taken do not adequately take account of the views of each of the stakeholder groups, the Company is unlikely to be sustainable in the medium to long term.

The details of engagement with key stakeholders is set out on pages 78 to 80.

The Board is mindful of the matters set out in Section 172 of the Companies Act in all of its discussions and decision-making processes including:

The likely consequence of any decision in the long term

The Board realise that the consequence of strategic decisions are likely to impact the long-term future and direction of the Company and the Board had a particular focus on the longer term when considering strategy. The Board was also mindful of the long-term impact of the approach from I Squared as opposed to an immediate realisation of value for shareholders. The long-term investment decisions in zero emission buses and the impact on the environment over time are another example of the long-term time horizons that the Board considers.

Foster business relationships with suppliers, customers and others

The Board through the Responsible Business Committee has a clear understanding of the nature of the relationships with key suppliers and customers. The Head of Procurement presented to the Responsible Business Committee in March 2023 to help ensure that they have a detailed and clear understanding of the different perspectives of suppliers as a backdrop when taking decisions.

Interest of the Company's employees

Ant Green the Group Employee Director helps the Board to understand the views from the front line of our workforce. Ant spends much of his time visiting different parts of the business to understand the views of the workforce and presents a report to the Board on his activities since the last meeting. Ant still continues to drive buses in Essex and on average drives one day each week. This helps him to keep in touch with front line employees who find it easier to approach someone they see as a peer rather than a Board Director. By driving regularly Ant is also in touch with the views of customers and remains close to one of the communities in which we operate.

Impact of the Company's operations on the Community and the environment

The Company provides key services to the Community providing public transport and employment in the communities in which we operate. The Board is mindful of the impact of its operations on local communities and these issues were considered in detail when contemplating the closure of the Company's Bus operations in Southampton.

The environmental impact of the Company's operations are at the forefront of the Board's mind. The capital expenditure decisions to invest in electric buses (with support from the ZEBRA funding) and to install photovoltaic panels (solar panels) on 20 depots significantly reducing the need to draw energy from the grid to power the depot operations.

The desirability of the Company maintaining a reputation for high standards of business conduct

The Company recognises the importance of maintaining high standards of conduct. The Board has oversight of the Company's values and the code of ethics. The Board has oversight of the training programmes led by the legal team covering business ethics which includes anti-bribery policies, gifts and entertainment.

In May and November, matters reported to the confidential whistleblowing hotline together with investigation findings and action taken were presented to the Board.

The need to act fairly between members of the Company

The Executive Directors lead our engagement with shareholders with support from the Investor Relations team. The meetings give investors the opportunity to share their views on the Company's operations, capital allocation policies and strategies. These are important views that are reported to the Board so that they understand the context for the decision-making process. The Chairman and the Committee Chairs are available to meet with shareholders as required from time to time. In FY 2023, the Chairman met a number of shareholders following the publication of the Group's annual results in June 2022.

Decisions made during the year

The following are a number of key decisions made during the year with some commentary demonstrating how the interests of key stakeholders have been considered in the decision-making process

Decision	Commentary	Stakeholders
Recommendation of dividend payments	The Board was keen to return to paying dividends and at the Board meeting in May debated the merits of doing this in either August with a final dividend in respect of FY 2022 or waiting until later in the year and starting with an interim dividend in respect of FY 2023. The Board considered the views of the Company's shareholders and took advice from the Company's brokers recognising that if the decision was made too early or too late it was likely to have a detrimental effect in the long-term. On balance the Board concluded that a final dividend in respect of FY 2022 was the most appropriate course of action.	Investors
Response to unsolicited approach from I Squared Capital	Following the unsolicited approach from I Squared Capital, the Board was required to consider the inevitable impact on all stakeholders had such a transaction been recommended to shareholders. Whilst ultimately a matter for shareholders, the Directors believed the final proposal from I Squared significantly undervalued FirstGroup's continuing operations and its future prospects, and the contingent value did not provide shareholders with sufficient certainty and accordingly, the approach was rejected. Had the offer been at a level where the Board was minded to recommend it to shareholders the Board would have considered in greater detail the impact on employees, customers together with the views of Government.	Investors, Employees, Customers, Government
Launch of share buyback programme	Following the successful sale of the legacy Greyhound property portfolio and subsequent receipt of funds totalling £122m, in line with its balanced capital allocation policy, the Board approved the launch of a £75m on-market share buyback programme. Given the value, and in accordance with the maximum level of share purchases mandated at the Company's 2022 AGM, the buyback programme was identified as the most appropriate and beneficial way to return money to shareholders.	Investors
Investment in First Bus to enhance the business and accelerate electrification	Following the launch of the share buyback programme, the Board also approved the acquisition of Ensign Bus, a high-performing, long established business based in Essex. The Board believed that the acquisition would allow First Bus to both grow its B2B business and enhance its operational footprint in Essex. The business also has an interesting vehicle refurbishment and re-sale operation and a high value depot. The Board also approved the allocation of an additional £35m in the electrification of the First Bus fleet and infrastructure. This followed successful applications made in partnership with local authority partners for £25m of government co-funding. The accelerated electrification programme has a positive impact on the communities we serve who benefit from zero emission busses and cleaner air.	Customers, Government, Communities
Sale of First Bus Scotland East business and closure of Southampton operations	When considering the Company's operations in Scotland East and Southampton in light of evolving customer demand and ensuring the First Bus business has the optimal network, the Board decided that the best approach was to sell the Scotland East business and close its operations in Southampton. The Board were mindful of the impact on employees in Southampton and the opportunities they would have for alternative employment either within the Group or outside and all employees were offered alternative employment within a reasonable commuting distance.	Employees

The Strategic report was approved on behalf of the Board on 8 June 2023.

Graham Sutherland
Chief Executive Officer
8 June 2023
395 King Street, Aberdeen, AB24 5RP

Governance report



Corporate Governance report



David Martin
Chairman

Dear Shareholder,

I am delighted to introduce the corporate governance report for FY 2023.

In my Chairman's statement starting on page 06 I have commented on a number of significant developments and events during the year. This report focuses on governance and makes reference to those key events and how they were addressed from a governance perspective.

Your Board has been very busy this year considering the approach from I Squared Capital Advisors (UK) LLP 'I Squared', managing the tail end of the disposal of our North American businesses and returning some of those proceeds to shareholders. *The executive team have performed very well, and the Board members have been busy providing oversight for all stakeholders.*

The report is set out below and on the pages that follow you will find an introductory letter from the Chair of each of the Board Committees followed by the report on that Committee.

I welcome your comments on this Corporate Governance Report and on the 2023 Annual report more generally.

I'd like to thank my colleagues on the Board and all the employees of FirstGroup for their ongoing commitment and for their achievements in the past year.

David Martin
Chairman
8 June 2023

Governance

We have complied with the Provisions of the UK Corporate Governance Code (the 'Code') throughout the year with the following exceptions:

- Provision 9 – The role of the Chairman and Chief Executive was not split from 1 April 2022 until 16 May 2022.
- Provision 21 – The Board conducted an internal rather than an external evaluation review notwithstanding it was three years since the last external review.

Regarding Provision 9, as explained last year when Matthew Gregory stepped down from the Board in September 2021 it was agreed that David Martin would become Interim Executive Chairman pending the appointment of a new Chief Executive Officer. The explanation regarding the decision on Provision 21 is set out on page 95.

Compliance with the UK Corporate Governance Code

In this Annual Report we have introduced commentary in grey boxes running throughout the Governance Report that summarises how we have complied with the UK Corporate Governance Code and guides shareholders to sections of the report to help access information quickly. The Principles are represented by letters and the Provisions by numbers. Both the Principles and the Provisions are paraphrased in the interests of space – full details of each can be found on the Financial Reporting Council's website at www.frc.org.

A Led by an effective Board

The Board's effectiveness review (details of which are set out on page 95) indicate that the Board has operated effectively during the period under review.

B Purpose, values and strategy

This is covered throughout the Strategic report. The Values are on the website and are set out in the Culture section of this Corporate Governance report.

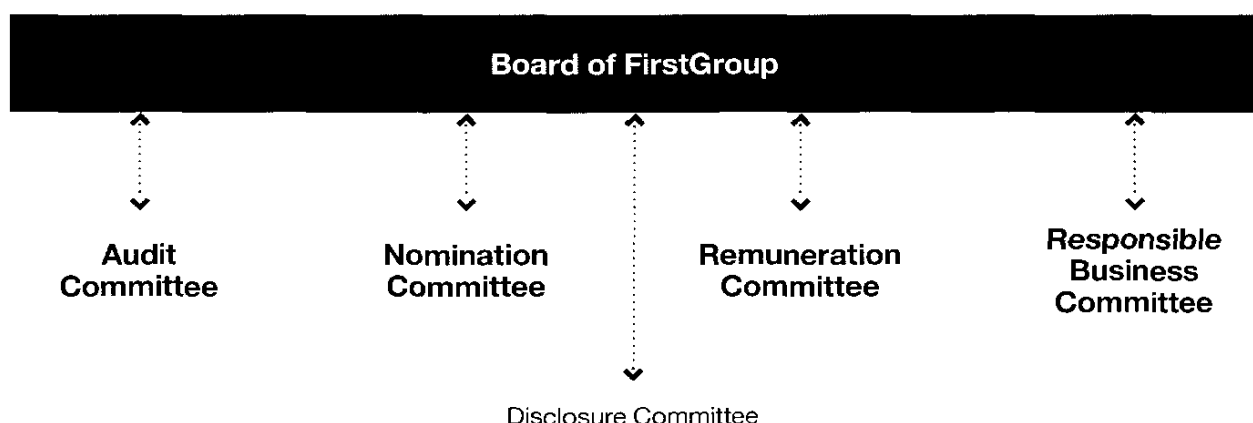
Governance at a glance

Overview

The illustration below shows the Board level governance structure and the primary standing committees that have been established to effectively run the business in compliance with the UK Corporate Governance Code.

Corporate governance framework

The corporate governance framework, comprising clearly defined responsibilities and accountabilities, is set out below:



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

The matters reserved to the Board are set out in writing and cover the most important decisions that will be taken within the Group. These include strategy, capital structure/allocation, financial reporting and controls, risk appetite and risk management, stakeholder engagement, board membership, remuneration, corporate governance and key policies. The Board Committees assist by reviewing certain matters before recommendations are put to the Board for approval.

The Board of FirstGroup is led by its Chairman, David Martin who also chairs the Nomination Committee, Jane Lodge chairs the Audit Committee, Claire Hawkings chairs the Responsible Business Committee and Sally Cabrini is Chair of the Remuneration Committee. There is a separate report covering the work of each of these committees on the pages that follow. The terms of reference of these four committees are available on the Group's website.

In addition to these four committees the Board has a Disclosure Committee to identify inside information and to oversee the timely and accurate disclosures when required.

The Board may delegate other matters to an ad hoc committee established for a specific purpose.

The matters not reserved to the Board are delegated to the Chief Executive Officer with the Board retaining responsibility for oversight and holding management to account.

The split of responsibilities between the Chairman and Chief Executive Officer are set out in writing.

The Chief Executive Officer has formed an Executive Committee, which is not a Board Committee, to assist him in the day-to-day running of the Company. The Executive Committee meets monthly and, its main responsibilities include:

- Developing, implementing and monitoring operational plans
- Reviewing financial performance, forecasts and targets
- Prioritising initiatives and allocating resources
- Developing strategy for submission to the Board
- Overseeing risk management including identifying risks and developing risk mitigation strategies
- Developing and monitoring the internal control strategies
- Leading the Group's culture and safety programme.

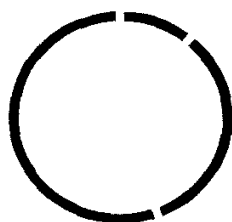
Members of the Executive Committee are set out on page 90.

Governance at a glance continued

Board composition

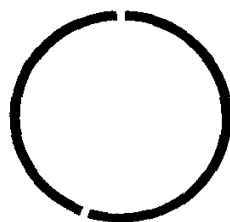
As shareholders can see from the biographies on pages 88 to 90, we have diverse experiences on the Board which always gives rise to interesting and informative discussions on Board business.

Independence



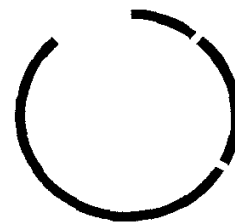
● Chairman	1
● Non-independent	3
● Independent	5

Gender



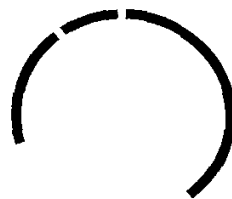
● Male	5
● Female	3

Board balance



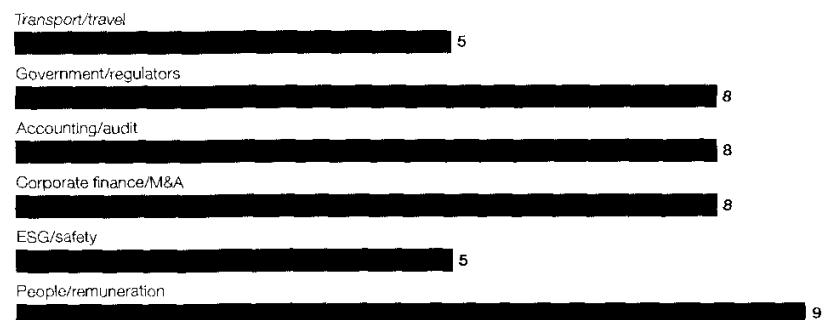
● Chairman	5
● Executive Directors	4
● Non-Executive Directors	5
● Group Employee Director	1

How the Board spends its time



● Strategy and Strategic Transactions	40%
● Business Monitoring and Updates	30%
● Stakeholders	20%
● Governance/other	10%

Board skills



Board and Committee attendance

Director	Chairman		Non-Executive Directors				Employee Director	Executive Directors	
	David Martin	Sally Cabrini	Myrtle Dawes	Claire Hawkings	Jane Lodge	Peter Lynas	Ant Green	Graham Sutherland	Ryan Mangold
Board	6/6	6/6	6/6	6/6	6/6	6/6	6/6	6/6	6/6
Short-notice Board	4/4	3/4	3/4	4/4	4/4	4/4	3/4	4/4	4/4
Audit	–	–	–	4/4	4/4	4/4	–	–	–
Remuneration	–	4/4	–	4/4	4/4	4/4	–	–	–
Nomination	3/3	2/2	2/2	2/2	2/2	3/3	2/2	–	–
Responsible Business	–	3/4	4/4	4/4	–	4/4	4/4	–	–
Overall	13/13	18/20	15/16	24/24	20/20	25/25	15/16	10/10	10/10

David Martin served as Executive Chairman from September 2021 until 30 June 2022.

Warwick Brady and Julia Steyn served as Directors until the AGM on 27 July 2022 and attended two out of two and one out of two scheduled meetings respectively.

Roles and responsibilities

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

Chairman David Martin	<ul style="list-style-type: none"> ■ Leads and manages the business of the Board ■ Provides advice, support and constructive challenge to the Chief Executive Officer ■ Provides direction and focus and ensures sufficient time is allocated to promote effective debate and sound decision-making ■ Promotes the highest standards of integrity and probity and ensures effective governance 	<ul style="list-style-type: none"> ■ Manages Board composition, performance and succession planning ■ Maintains effective communication with shareholders and ensures their views are understood by the Board ■ Facilitates effective and constructive relationships and communications between Executive and Non-Executive Directors
Chief Executive Officer Graham Sutherland	<ul style="list-style-type: none"> ■ Provides leadership to the executive and senior management team in the day-to-day running of the Group's businesses ■ Develops the Group's objectives and strategy for consideration and approval by the Board, taking in to account the interests of shareholders and stakeholders 	<ul style="list-style-type: none"> ■ Implements the agreed strategy ■ Promotes a safe working environment and a safety-focused culture across the Group ■ Maintains an active dialogue with shareholders and other stakeholders ■ Responsible for implementing effective internal controls and ensuring risk management systems are in place
Chief Financial Officer Ryan Mangold	<ul style="list-style-type: none"> ■ Responsible for the financial stewardship of the Group's resources ■ Responsible for the Group's finance, tax, treasury, insurance, risk management and internal control functions 	<ul style="list-style-type: none"> ■ Supports the Chief Executive Officer in providing executive leadership and developing strategy ■ Supports the Chief Executive Officer to implement the agreed strategy ■ Reports to the Board on operational and financial performance of the businesses
Senior Independent Director Peter Lynas	<ul style="list-style-type: none"> ■ Acts as an additional point of contact for shareholders to discuss matters of concern ■ Provides a sounding board for the Chairman and serves as an intermediary for the other Directors 	<ul style="list-style-type: none"> ■ Leads the annual review of the Chairman's performance taking in to account the views of the Non-Executive Directors and Executive Directors
Group Employee Director Anthony Green	<ul style="list-style-type: none"> ■ Brings insight into employee engagement and perspectives from the front line to Board deliberations ■ Chairs the Employee Director's Forum 	<ul style="list-style-type: none"> ■ Promotes employee involvement and participation in the affairs of the Group through share ownership, employee surveys and other means of employee involvement ■ Promotes the Group's policies and procedures amongst employees, in particular those related to safety, diversity and inclusion, and business ethics
Non-Executive Directors (NEDs) Sally Cabrini Myrtle Dawes Claire Hawkings Jane Lodge Peter Lynas	<ul style="list-style-type: none"> ■ Provide a strong independent element to the Board and collectively provide a broad range of experience, knowledge and individual expertise ■ Constructively support and challenge management 	<ul style="list-style-type: none"> ■ Review management's performance in meeting agreed objectives and deliverables ■ Review the integrity of financial information and determine whether internal controls and systems of risk management are robust
Company Secretary David Blizzard (not a Board member)	<ul style="list-style-type: none"> ■ Provides advice and support to the Board, its Committees, the Chairman and other Directors individually as required, primarily in relation to legal and corporate governance matters 	<ul style="list-style-type: none"> ■ Responsible, with the Chairman, for setting the agenda for Board and Committee meetings and for high quality and timely information and communication between the Board and its Committees and the Executive Directors and senior management

Board



David Martin  
Chairman

Appointed: 15 August 2019

Key areas of expertise: Surface Transportation, Business Turnaround, Performance improvement, International Transport Contract Businesses, Strategic Transactions

Skills and experience: David is the former Chief Executive of Arriva, which he joined in 1998 as board member responsible for international development before taking over the leadership of the company in 2006. During his tenure, Arriva was transformed into a multinational transport services group through a number of key strategic mergers and acquisitions. In September 2010 the company was purchased by Deutsche Bahn, one of the world's leading passenger transport and logistics companies. David remained as Chief Executive throughout this period, before stepping down in January 2016. He remained on the Arriva Board advising on a range of issues until May 2017. He was formerly a Non-Executive Director at Ladbroke's plc and previously held roles at British Bus plc, where he was responsible for development of strategy and M&A, at shipping company Holyhead Group and at business services group Initial Services PLC. David is a chartered management accountant.

External appointments: Member of the advisory board at Nottingham Business School; member of the steering committee at Nottingham Trent University.

Nationality: British



Graham Sutherland 
Chief Executive Officer

Appointed: 16 May 2022

Key areas of expertise: Business Strategy, Performance Improvement, Government Contracting, Engineering and Infrastructure, Digital Transformation, Corporate Finance/ M&A, Governance

Skills and experience: Graham has a strong track record in the delivery of critical services and in creating value for shareholders in rapidly evolving regulatory and technological environments. Previously he was Chief Executive Officer of KCOM Group plc, a LSE-listed telecommunications company. Prior to this, Graham held a number of senior executive roles within BT Group PLC over twelve years. These included as Chief Executive Officer of the BT Business and Public Sector division, where he was responsible for profitable growth and led the integration of EE's Business unit, creating a division with £4.6bn in annual revenues and 13,000 employees. Graham was also Chief Executive of BT Ireland where he was responsible for all consumer, business and network activities. Prior to that he was Chief Executive of NTL Ireland and has also held senior financial roles including at Bombardier. Graham has an established record in strategic development, as well as delivering enhanced financial and operational performance and engaging a diverse range of stakeholders including consumer, business and public sector customers.

Nationality: British



Ryan Mangold 
Chief Financial Officer

Appointed: 31 May 2019

Key areas of expertise: Corporate Finance/M&A, Turnaround, Pensions, Governance

Skills and experience: Ryan was appointed as CFO in May 2019, having previously been Group Finance Director of Taylor Wimpey Plc for eight years. Ryan has a strong track record of building financial discipline in the organisations he has worked at. During his time at Taylor Wimpey, Ryan played a leading and integral role in strengthening the balance sheet, driving operational improvements, rebuilding the business post the financial crisis (to become a constituent of the FTSE 100), the sale of the North American business and the improvement of its pensions position. Ryan was previously at the Anglo American group of companies, where he was Group Financial Controller at Mondi and played a significant role in its demerger from Anglo American in 2007. Ryan is a chartered accountant and has recent and relevant financial experience.

Nationality: South African/British

Key

 Audit Committee

 Remuneration Committee

 Nomination Committee

 Responsible Business Committee

 Executive Committee

 Chair



Sally Cabrini  
Independent Non-Executive Director

Appointed: 24 January 2020

Key areas of expertise: HR, IT, Transformation

Skills and experience: Sally brings valuable experience of a number of sectors including UK regulated utilities, services and manufacturing. She has expertise in delivering significant business transformation programmes often including internal restructuring or divestment, pension changes and both cultural and significant technological changes. As Transformation, IT and People Director at Interserve Group Limited she had a strong focus on effective operational delivery and led a major transformation programme which had significant financial and strategic challenges and prior to that she was a senior executive at FTSE 100 constituent United Utilities for nine years, including four years as Business Services Director with responsibility for information technology, cyber security and human resources in a regulated CNI environment. Sally was also a Non-Executive Director and Chair of the Remuneration Committee at Lookers plc from January 2016 to 2020.

Sally is a fellow of the Chartered Institute of Personnel and Development.

Nationality: British



Myrtle Dawes  
Independent Non-Executive Director

Appointed: 1 April 2022

Key areas of expertise: Engineering, Safety, Technology and Digital Transformation, Project Management and Energy Transition

Skills and experience: Myrtle is an established leader with extensive experience in the energy sector both in the UK and internationally. A chartered Chemical Engineer, she has held a number of senior safety and engineering project management roles in the offshore oil and gas industry, including for BP and BHP Petroleum. Moving to Centrica in 2009, Myrtle performed a number of senior executive roles encompassing engineering, project management, technology and digital transformation including leading the team responsible for safety-critical, customer-facing residential assignments. She holds a Masters in Chemical Engineering and Chemical Technology from Imperial College.

External appointments: Solution Centre Director for the Net-Zero Technology Centre; Non-executive board member of the Centre for Process Innovation; member of the Technology Leadership Board; Fellow of the Institution of Chemical Engineers, the Energy Institute, the Forward Institute and Honorary Fellow of the Association for Project Management.

Nationality: British



Anthony Green  
Group Employee Director

Appointed: 15 September 2020

Key areas of expertise: Transportation, Employee Engagement, Safety, Learning and Development

Skills and experience: Ant is a bus driver and a trainer for First Bus. He has been the Employee Director of First Essex Buses Ltd since 2014, a company he joined in 2009. In 2015, he was seconded to roll out Be Safe the Group's safety behavioural change programme. Since then Ant has trained more than 1,900 colleagues and coached leaders on the implementation of successful safety techniques. Prior to joining First Essex, he worked at retailer Homebase for 16 years including in several managerial positions, and also volunteered at St John Ambulance.

Nationality: British

Board continued



Claire Hawkings   
Independent Non-Executive Director

Appointed: 21 January 2022

Key areas of expertise: Sustainability Strategy, Business Transformation, Governance, Commercial Transactions, Performance Management and Energy Transition

Skills and experience: Claire has more than 30 years' business experience, principally in the energy sector, and has held UK and international leadership positions, most recently with Tullow Oil plc, and prior to that with BG Group plc and British Gas plc. Claire is an environmental scientist and an experienced environmental, social and governance (ESG) professional and holds a degree in Environmental Studies awarded by Northumbria University and an MBA from Imperial College Management School. She is also a Fellow of the Energy Institute.

External appointments: Non-Executive Director and Chair of the ESG Committee of Istock plc, a Non-Executive Director of James Fisher and Sons plc and a Non-Executive Director of Defence Equipment and Support, a bespoke trading entity and arm's length body of the Ministry of Defence.

Nationality: British



Jane Lodge   
Independent Non-Executive Director

Appointed: 30 June 2021

Key areas of expertise: Transportation/Travel/Engineering and Infrastructure, Corporate Finance/M&A, Governance

Skills and experience: Jane spent her executive career with Deloitte, where she spent more than 25 years advising multinational companies including businesses in transport, leisure, consumer and technology sectors. Since 2012 she has served as a non-executive director and audit committee chair at several UK public companies in a range of sectors. Previous roles include non-executive director of Sirius Minerals plc (2015-2020, when the company was acquired by Anglo American plc), Costain Group plc and of Devro plc (2012-2020) and non-executive director and audit committee chair of DCC plc (2012-2022). In addition to broad international experience in a range of sectors, Jane brings substantial audit, risk and audit committee expertise to the Board.

External appointments: Non-executive director and audit committee chair of Bakkavor Group plc; Non-executive director and remuneration committee chair of Glanbia plc; Non-executive director and audit committee chair of TI Fluid Systems plc.

Nationality: British



Peter Lynas    
Senior Independent Non-Executive Director

Appointed: 30 June 2021

Key areas of expertise: Defence and Aerospace, Government Contracting, Turnaround, Corporate Finance/M&A, Pensions, Governance

Skills and experience: Peter was group finance director of BAE Systems plc (and a director of BAE Systems, Inc.) from 2011 until his retirement in 2020, having previously served in increasingly senior financial and M&A roles since joining the company in 1999. Peter's early career was spent at De La Rue Systems, which he joined as a trainee accountant, and then GEC Marconi from 1985 to 1999, where he became finance director of Marconi Electric Systems. In addition to his strong strategic and financial background Peter brings to the Board extensive experience in heavily regulated industries with significant contractual relationships with government.

External appointments: Non-executive director and audit committee chair of SSE plc since 2014.

Nationality: British

Former Directors who served for part of the year:

Warwick Brady
Independent Non-Executive Director

Julia Steyn
Independent Non-Executive Director

Warwick and Julia stepped down from the Board following the AGM on 27 July 2022.

Executive Committee members

Graham Sutherland
Chief Executive Officer

Ryan Mangold
Chief Financial Officer

Janette Bell
Managing Director, First Bus

Steve Montgomery
Managing Director, First Rail

David Blizzard
Group Company Secretary

Rachael Borthwick¹
Group Corporate Services Director

¹ Stepped down from Executive Committee at the end of July 2022.

Directors

Myrtle Dawes joined the Company as a Non-Executive Director on 1 April 2022 and Graham Sutherland joined as Chief Executive on 16 May 2022. Having been Executive Chairman since September of 2021 and, after a short handover of the executive responsibilities to Graham, I was very pleased to return to my role as (non-executive) Chairman.

Warwick Brady and Julia Steyn stepped down from the Board at the AGM on 27 July 2022 and I would formally like to record my thanks to both Warwick and Julia on behalf of shareholders for their support and counsel throughout their time on the Board.

The Company has formal procedures to review and if appropriate authorise conflicts of interest and these have operated effectively throughout the year.

The Board carries out an annual review of the independence of its Non-Executive Directors. All the Non-Executive Directors are considered to have the appropriate skills, knowledge, experience and character to bring independent and objective judgment and valuable insights to the Board's deliberations. The Chairman was considered to be independent on appointment.

Ant Green has served as an Employee Director throughout the year and has continued to act as an effective channel to put the voice and sentiment of the workforce into the Boardroom. Ant Green and the Executive Directors are not considered to be independent.

The biographies of all the current Board members are set out starting on page 88.

Following a recommendation from the Nomination Committee the Board recommends that all Directors are reappointed at the AGM where they will offer themselves for re-election.

As noted above, the Board has documented a split of responsibilities between the Chairman and the Chief Executive Officer, and we have agreed responsibilities for the Committee chairs, Senior Independent Director and Non-Executive Directors. The Board reviewed and reconfirmed these arrangements in March 2023 and they are summarised on page 87 and available in full on our website.

Commitment

All Directors are expected to attend each Board meeting and each Committee meeting for which they are members, unless there are exceptional reasons preventing them from attending. The attendance levels were excellent in FY 2023.

The Nomination Committee adopted an over-boarding policy in early 2022 to make sure Directors had sufficient time to fulfil their obligations and has applied this when reviewing additional appointments for existing Board members. All Directors are within the limits set by the policy. Further detail is provided below in the report of the Nomination Committee.

Culture

FirstGroup is Values-based and has five values:

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

These Values underpin decisions taken at all levels of the organisation and are wholly consistent with the duties of Directors. The Board monitors culture in a variety of ways receiving information from many sources to enable them to understand and monitor the culture of the organisation. The primary sources are:

- Regular updates from the CEO and CFO within their reports to the Board
- The reports from the Group Employee Director
- The results from engagement surveys
- Review of calls to the confidential whistleblowing hotline
- People sections of reports to Responsible Business Committee
- Meeting people when the Board visits the Group's operating locations

Additionally, the Board receives updates on adherence with the Ethics and Compliance training programmes that require employees to complete a regular programme of training that is relevant to their role and includes IT Security training, Anti-bribery, modern slavery and competition law training.

We formed the Responsible Business Committee at the start of FY 2023, the Committee has met four times and considered a range of very important topics. The Committee has covered employee welfare, environmental matters and community engagement. We are pleased to have set a science-based emissions reduction target, consistent with limiting global warming to 1.5°C, that has recently been approved by the SBTi. Read more about this on page 43. The Committee has had oversight of the matters set out in the Responsible business section of the Strategic report starting on page 38. The governance of the Responsible Business Committee is within this Report on page 106.

Compliance with the UK Corporate Governance Code

1 Basis on which the company generates and preserves value

This is covered in the Strategic report on pages 03 to 82.

2 The Board should assess and monitor culture

As set out on this page the Board monitors culture through a variety of sources throughout the year.

3 Engagement with major shareholders

The regular engagement with shareholders is led by Executive Directors and regular roadshow events with our larger shareholders following the publication of results.

The Chairman, Committee chairs and the Senior Independent Director are available to shareholders on request and if there is a matter requiring shareholder input the most appropriate Director will engage with shareholders.

4 Action if 20% of shareholders vote against a proposal

Not applicable in FY 2023 – all proposals at the 2022 AGM received over 80% support from shareholders. If this had not been the case then the Board would expect to engage with shareholders and provide the necessary explanations as required under the Code.

5 Views of key stakeholders and S172 statement

A comprehensive section 172 statement is set out on page 81 within the Strategic Report. The Company has appointed Ant Green, a Director from the workforce who updates his fellow Directors on the views from the workforce to each Board meeting.

Board continued

Board meetings

Board meetings focus on strategy and financial and business performance. The key matters considered by the Board during the scheduled meetings are set out below.

May	Board evaluation
	Year-end matters – approval of annual report
	Review of whistleblowing incidents and procedures
	Review of Risk disclosures in the Annual Report
July	Progress on the discussions with I Squared
	Views of shareholders following the roadshow conducted with larger shareholders following the publication of the annual results
September	Strategy Reviews
	Modern Slavery Statement and Actions
November	Half year results
	Update on Strategy and Capital Allocation
January (in Glasgow)	Strategic updates
	Budget Assumptions
	Investor relations and communications update
March	Customer experience
	Budget review and approval

At each meeting the Board receives an update from any of the Board Committee meetings that have been held since the last meeting together with a presentation from the CEO, the CFO, the Head of the rail Division, the Head of the bus Division, the Group Employee Director and the Company Secretary.

In addition to the scheduled meetings there were four additional Board meetings arranged for the Board to review the offer from I Squared for the Company, the bid for the first tranche of bus franchise arrangements in Manchester, matters connected with the buyback launched in December 2022 and the operational challenges within the Rail division.

Furthermore, the Board appointed a number of Committees to consider specific transactions or matters that had been discussed by the Board.

In January 2023, the Board met in Glasgow and had the opportunity to visit two bus depots to observe the operations and meet colleagues working at these sites. The Board intends to hold two meetings at operating sites in FY 2024.

Unsolicited offer for the Company

As shareholders will be aware we received a number of unsolicited proposals from I Squared.

Following the approach from I Squared the Board decided to appoint a committee to consider matters relating to the approach. All Board members were invited to attend meetings of the Committee. This Committee met six times between April and August 2022.

As announced on 16 August 2022 the unsolicited offers received from I Squared resulted in a final proposal (the 'Proposal') on 15 August 2022 of 135p per FirstGroup share (comprising 133.9p plus the 1.1p final dividend that was paid on 19 August 2022) together with further contingent value from the First Transit earnout. The Board carefully evaluated the Proposal, together with its advisers, and concluded that the cash component significantly undervalued FirstGroup's continuing operations and its future prospects, and the contingent value did not provide shareholders with sufficient certainty.

Compliance with the Corporate Governance Code

C Necessary resources and control framework

The Board has delegated the day-to-day running of the Company to the Chief Executive Officer who, with the Executive Committee, will ensure that their teams have the necessary resources in place to meet their objectives. The Board, via the Nomination Committee reviewed the talent and succession planning to help ensure the Company has the right teams to deliver on the Group's objectives.

6 Workforce concerns (known as whistleblowing)

The Board routinely reviews all concerns raised by the workforce twice each year. If a serious concern were to be raised between the reviews, it would be escalated to the Board rather than waiting until the next report was due.

D Responsibilities and engagement with shareholders and stakeholders

There is a comprehensive programme to engage with shareholders and stakeholders. The engagement with the different stakeholders is set out in the Strategic report with the relevant section starting on page 78.

E Workforce policies and practices

The Group has a comprehensive framework of policies and practices that are aligned with the values and the long-term success of the Company and examples of the practices are set out within the 'Supporting our People' section of the Strategic Report that starts on page 47. The relevant policies are owned by the Human Resources teams and cover the full range of employment issues expected for a diverse workforce.

Induction

On appointment all new Directors receive a comprehensive induction that is tailored to their experience, background and areas of focus. Both Claire Hawkings and Myrtle Dawes completed a tailored induction programme during the year.

The programme is designed to help the new Director become fully effective in their role as quickly as possible with a good understanding of the Group's businesses, key drivers of operational and financial performance, the role of the Board and its committees, the approach to corporate governance and the duties and responsibilities of being a Director of a publicly listed company.

Continuing professional development

Following discussions during the first part of the year two separate training sessions were organised for the Board. One covered an update on the UK Regulatory Compliance regime with a focus on internal controls and the second covered TCFD reporting obligations and net-zero considerations.

In addition to the sessions above, from time to time the Directors attend seminars and round table discussions aligned to their areas of responsibility or interest.

Shareholder engagement

Primary responsibility for shareholder engagement sits with the Executive Directors.

The Executive Directors meet with larger shareholders twice each year, normally shortly after publication of the annual or interim results and at other times if required. During the financial year a number of other more detailed teach-in sessions on the operations of the two divisions took place with Janette Bell and Steve Montgomery joining the Executive Directors for the meetings.

Compliance with the Corporate Governance Code

F Chairman leads the Board and is responsible for its effectiveness

The Chairman is responsible for leading the Board and its effectiveness. The duties are set out in a document published on the Company's website. The effectiveness of the Chairman is reviewed annually as an important part of the Board evaluation process led by the Senior Independent Director.

G Appropriate combination of Executive and Non-Executive Directors

There is an appropriate division of responsibilities between the Executives and Non-Executives. The matters reserved to the Board are clearly defined and all significant transactions would come before the Board.

H Non-Executives have sufficient time to meet responsibilities

The Non-Executives have sufficient time to meet their responsibilities – this is supported by the high attendance levels at the additional Board and Committee meetings that have been arranged during the year. The over boarding policy adopted by the Nomination Committee in 2022 helps ensure that Directors are not too busy to effectively discharge their responsibilities.

7 Conflicts of interest

The Board reviews all Directors' external appointments twice each year to confirm that they do not create a conflict of interest. If a Director had a conflict in respect of a particular contract or arrangement being considered by the Board, there is a process for the Director to declare that conflict and the Board would decide whether or not it was appropriate for the Director to be involved in discussion on that matter.

8 Concerns held by a NED on resignation

No such concerns have been raised during the period under review.

9 Chairman independent on appointment

David Martin was independent on appointment. The Board recognises that Mr Martin served as executive chairman from September 2021 until 30 June 2022.

10 Identification of independent NEDs

The Board has concluded that Sally Cabrini, Myrtle Dawes, Claire Hawkings, Jane Lodge and Peter Lynas are independent in character and judgment.

11 At least half the Board is independent

Five of the nine Directors are independent and are considered by the Board to be independent. In the first part of the year seven of the eleven Directors were independent.

12 Appointment of senior independent director and review of Chairman

Peter Lynas was appointed as the Senior Independent Director on 30 June 2021. Mr Lynas led the Non-Executive Directors' review of the Chairman's performance and he discussed the feedback with the Chairman.

13 Non-Executives' role

The Non-Executives hold Executive Directors to account and regularly meet, normally at the conclusion of each Board meeting, without any members of the executive team.

14 Roles of Chairman, Chief Executive and Senior Independent Director and Committee terms of reference

The responsibilities for these roles are set out in writing and following the Board's review in March 2023 the document has been publicly available on the Company's website. Each Committee reviewed their terms of reference in March 2023 and recommended changes were approved by the Board. The updated terms of reference for the Committees are available on the Company's website.

15 - See page 98

I The Board supported by the Company Secretary should ensure that it has resources to function

16 Access to and appointment of the Company Secretary

The appointment or removal of the Company Secretary is reserved to the Board. Since appointment on 1 April 2022, David Blizzard has worked with the Chairman and Committee Chairs to support them to discharge their responsibilities.

All Directors have direct access to the Company Secretary and governance matters are raised with the Board as they arise.

Board continued

Diversity and inclusion

We believe that a diverse workforce that represents the communities in which we operate is vital to the Group's success. We value the differences each colleague brings to their role, making the Group stronger and better able to meet the needs of our customers and the communities in which we operate.

Board diversity

The Group has selected 25 March 2023 as the reference date for the data provided below. Throughout the period under review and on the selected reference date the Company has complied with the requirements that at least 40% of the Board are women and also at least one

member of the board is from a minority ethnic background. The Company has not complied with the external target that at least one of the senior board positions (Chair, Chief Executive Officer, Senior Independent Director or Chief Financial Officer) is a woman.

The Audit Committee, the Remuneration Committee and the Responsible Business Committee are all chaired by women. The Nomination Committee is committed to a meritocratic appointment process and as and when one of these roles becomes available it will ensure a diverse long-list of candidates.

There have been no changes to the composition of the Board since 25 March 2023. All Directors and members of the executive management team are based in the UK and have been willing to freely disclose the information required for the disclosures below. Our approach to collecting the data has been to ask the relevant people for the information.

The required tables reporting on sex/gender and ethnic representation are set out below.

The diversity data for levels below the Board is set out in the Supporting our people section starting on page 47.

Reporting table on sex / gender representation

	FirstGroup plc Board of Directors		Specified Senior Positions	Executive Management (defined as the Executive Committee)	
	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in executive management	Percentage of the executive management
Men	5	55.6%	4	4	80%
Women	4	44.4%	0	1	20%
Overall Not specified prefer not to say	—	—	—	—	—

Reporting table on ethnicity representation

	FirstGroup plc Board of Directors		Specified Senior Positions	Executive Management (defined as the Executive Committee)	
	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in executive management	Percentage of the executive management
White British or other White (including minority-white groups)	8	88.9%	4	5	100%
Mixed/Multiple Ethnic Groups	—	—	—	—	—
Asian/Asian British	—	—	—	—	—
Black/African/ Caribbean/Black British	1	11.1%	—	—	—
Other ethnic group including Arab	—	—	—	—	—
Not specified prefer not to say	—	—	—	—	—

Board evaluation

The Board recognises that to comply with the UK Code on Corporate Governance it would have been obliged to conduct an externally facilitated review in FY 2023. Following the changes to the Board in the first half of the year, the Board concluded that it would be preferable to allow the new working relationships and patterns to develop further before conducting an external review. The Board felt that better value would be obtained by conducting an external review in FY 2024.

The Company Secretary was asked to facilitate the internal review which involved the completion of a questionnaire for the Board and each of its Committees. The outputs from the questionnaires were consolidated into a Board paper for discussion. The

quantitative results for the Board were an average score of 4.1 against a maximum of 5. The average score in FY 2022 was 4.0. The scale used for the Committees was changed for FY 2023 and whilst not directly comparable the quantitative scores were broadly similar to those in FY 2022. The review of the Chairman was conducted by the Senior Independent Director who held meetings with the Non-Executive and Executive Directors and provided feedback to the Chairman.

The Board reviewed and discussed the results, noting progress made in the areas of focus from the evaluation conducted in March 2022 and agreeing the new areas of focus for the coming year. The progress and new areas of focus are set out in tabular form below.

Actions and progress from the Board Evaluation conducted in March 2022

Area of focus	Progress
Board composition and dynamics Create opportunities for the Board to spend more time together outside Board meetings and to meet a broader group of the management team	The return to physical meetings enabled the Board to spend more time together. The meetings held in Glasgow in January provided a good chance to meet a number of members of the management team of the business in Scotland.
Board and Committee Support Company Secretarial team to improve the service to the Board, its committees, and the Group	The results of the FY 2023 exercise reflected a significant improvement in this area.
Effectiveness of the meetings Quality of Board papers to be further enhanced with more focused papers to be provided to Directors	Improvements made and the new CEO has redesigned the key performance indicators provided to the Board.
Talent and succession A detailed view of the Company's talent and succession plans to be presented to the Board during the year	This was delegated to the Nomination Committee (attended by all Board members) and a detailed presentation was received in November.
Stakeholders Improve the Board's understanding of the views of customers, suppliers and the communities served	Some significant steps through the work of the Responsible Business Committee.

Actions from Board Evaluation conducted in March 2023

Area of focus	Action
Board composition and dynamics	Create opportunities for the Board to meet a wider group of senior leaders both within the Boardroom and other settings
Conduct of meetings / Board Support	Quality of Board reporting to be enhanced with more focused papers using executive summaries, signposting and reduce repetition
Stakeholders	Continue to improve the Board's understanding of the views of customers, suppliers and communities served
Talent and succession	Build on improvements made in FY 2022 The first action above will also support the Board's work in this area of focus

Compliance with the Corporate Governance Code

L Annual evaluation process

21 Formal and rigorous annual evaluation

The Board and its Committees conduct an annual evaluation process that addresses a broad range of topics including the Board composition and effective working practices.

The Company secretary was asked to lead the review. The explanation for this deviation from the Code provision is set out in the section above dealing with the Board Evaluation.

22 Act on results of evaluation

The Board agreed actions following the 2022 evaluation and acted upon the findings and has reported against them this year. The actions from the 2023 review are also set out in the report and the Board intends to report on progress in the Annual Report next year.

Nomination Committee report



David Martin
Chair, Nomination Committee

Main responsibilities

The primary role of the Nomination Committee is to ensure that the Board has the appropriate skills, knowledge, experience and diversity to operate effectively and deliver strategy. The Committee is responsible for identifying the skills required and leading the Director appointment process and considering succession planning for Directors and other Senior Executives.

The terms of reference are available on the Group's website.

Committee members:

David Martin (Chair)
Sally Cabrini
Myrtle Dawes
Ant Green
Claire Hawkings
Jane Lodge
Peter Lynas

Warwick Brady (until 27 July 2022)

Dear Shareholder,

The Nomination Committee had a quieter year given the number of changes completed in the previous financial year and the progress that had been made regarding the appointment of a new Chief Executive Officer last year.

Following feedback from the Board effectiveness review conducted around the last year end we increased the membership of the Nomination Committee to include all the Non-Executive Directors. This change meant that we had broader range of views for this year's meetings which was particularly beneficial as the focus of the work was on talent and succession planning for the Executive Directors, the Executive Committee, and the levels below.

David Martin
Chairman
8 June 2023

Compliance with the UK Corporate Governance Code

17 Establish a nomination committee

The Board has established a nomination committee and its membership complies with the Code requirements.

18 Annual re-election of all directors

Following the year-end and having reviewed the output from the Board effectiveness review it was agreed that all Directors would stand for re-election at the Company's AGM in July 2023.

19 Chairman's tenure less than nine years

The Chairman was appointed to the Board in August 2019 and his tenure is well within the limit set by the Code.

Activities during the year

At the start of the year the Committee completed the final part of the process to recommend to the Board that Graham Sutherland be appointed as CEO. The Committee engaged Sam Allen Associates Limited as executive search consultant for this role.

The Non-Executive Directors are relatively new to their roles on the Board and the Committee did not consider that any further changes to the Board were required during the year. The tenure of the current Directors is shown in the table below.

In July, the Committee considered the composition of the Board Committees with the impending departures of Warwick Brady and Julia Steyn and the Board approved the Committee changes put forward by the Nomination Committee. These changes were to appoint all the Non-Executive Directors to the Nomination Committee and to appoint Claire Hawkings to the Remuneration Committee. These changes were effective from 27 July 2022.

The Nomination Committee reviewed a presentation from the executive team in November looking at the policies and processes applied throughout the Group to talent and succession planning. The Committee reviewed the succession plans for senior roles in the Group functions, the bus and rail divisions and the primary operating companies in the two divisions.

The Committee reviewed the continuing professional development plans for the Directors and additional briefing sessions were organised on TCFD and Internal control frameworks.

The Executive Directors and the Divisional Managing Directors attend meetings by invitation of the Chairman and during the year attended to present the talent and succession plans for their areas of responsibility. The Committee is supported by the Company Secretary who has attended all meetings during the year.

Policy on appointments to the Board

The Committee recognises the value that individuals from diverse backgrounds can bring to Board deliberations. The Committee considers diversity in its wider sense including gender, length of tenure and nationalities. In line with the Committee's diversity policy when considering the appointment of a new Director the Committee adopts a formal, rigorous and transparent procedure and due regard is given to ensuring fairness and diversity through the consideration of skills, experience, competencies, sector knowledge, independence and individual characteristics. Prior to any appointment the Committee evaluates the composition of the Board and, in light of that evaluation, prepares a full description of the role and capabilities required. In identifying suitable candidates, the Committee:

- uses open advertising or the services of external advisers to facilitate the search;
- considers candidates on merit and against objective criteria ensuring appointees have sufficient time to fulfil their Board and Committee responsibilities (giving due consideration to the Company's overboarding policy described above); and
- considers candidates from a wide range of backgrounds.

Compliance with the UK Corporate Governance Code

J Appointments subject to a formal, rigorous and transparent process. An effective succession plan should be maintained for the Board and senior management

During the year as set out above the committee undertook a review of succession plans for the senior roles in the organisation.

K Board and committees have combination of skills experience and knowledge

The Board effectiveness reviews confirmed that the Board and Committees felt they had an appropriate combination of skills, experience and knowledge to discharge their functions.

20 Open advertising/search consultancy for NED roles

An external search consultancy was used for the NED appointments made during 2022 and as reported last year used ISP to lead the searches. The Nomination Committee anticipates that this approach would be adopted for future appointments.

L, 21 and 22 see page 95

23 Work of the Nomination Committee

The work of the Nomination Committee is set out in this report

Nomination Committee report continued

Over-boarding policy

The policy adopted in 2022 and has been applied when reviewing additional external appointments and will be applied to appointments to the Board. Under the policy Directors may hold five mandates on publicly listed companies. For the purposes of calculating this limit:

- a non-executive directorship counts as one mandate;
- a non-executive chair counts as two mandates; and
- a position as executive director (or a comparable role) is counted as three mandates.

The Company will consider the nature and scope of the various appointments and the companies concerned, and if any exceptional circumstances exist.

The table below shows tenure and total mandates held by the current Directors including their appointment to the FirstGroup Board.

Position	Members	Appointment date	End of current 3-year term	Mandates held ¹
Chairman	David Martin	15 August 2019	August 2025	2
	Sally Cabrini	24 January 2020	January 2026	1
	Myrtle Dawes	1 April 2022	April 2025	4
Non-Executive Directors	Claire Hawkins	1 January 2022	January 2025	3
	Jane Lodge	30 June 2021	June 2024	4
	Peter Lynas	30 June 2021	June 2024	2
Employee Director	Ant Green	15 September 2020	September 2023	1
Executive Directors	Graham Sutherland	16 May 2022	n/a	3
	Ryan Mangold	31 May 2019	n/a	3

¹ A non-executive directorship on a listed company counts as one mandate; a chairman of a listed company counts as two mandates and a position as an executive director counts as three mandates

Compliance with the UK Corporate Governance Code

15 Time demands considered on new appointments

The over-boarding policy provides guidance which means these issues can be considered consistently and objectively. The table on this page demonstrates that all Directors are in compliance with the policy.

Audit Committee report



Jane Lodge
Chair, Audit Committee

Main responsibilities

The primary role of the Audit Committee is to review and monitor the integrity of the financial reporting by the Company, to review the Group's internal control and risk management systems, to oversee the Group's Internal Audit function, to oversee the relationship with the external auditor and to report to shareholders on its activities.

The terms of reference are available on the Group's website.

Committee members:

Jane Lodge (Chair)
Claire Hawkings
Peter Lynas

Warwick Brady (until 27 July 2022)
Julia Steyn (until 27 July 2022)

Dear Shareholder,

I am delighted to introduce the report from the Audit Committee for the 52 weeks ended 25 March 2023.

The report provides an overview of the activities undertaken by the Committee during the year and explains the significant issues and judgments that the Committee considered during the year and, in particular, when approving this Annual Report.

The Audit Committee has a key governance role and, on behalf of the Board and shareholders, reviews important matters relating to financial reporting, internal controls, risk management and compliance with regulations and legislation.

This report provides an overview of the Committee's principal activities and areas of focus during the year together with the priorities for the year ahead. As part of the half-year reporting process the Committee carefully considered, amongst other things, the valuation of the First Transit earn out, assumptions around the valuation of the pension schemes and distributable reserves.

The primary issues considered at the year-end are set out in a table on page 101.

The work on internal controls to improve risk and financial management across the Group that was a priority for this year has progressed well. The work is ongoing as the new governance regulations are yet to be published. We will continue to work on this in the coming year.

Jane Lodge
Chair, Audit Committee
8 June 2023

Compliance with the Corporate Governance Code

24 Establish an Audit Committee

The Board has established an Audit Committee, currently it has three members, all of whom are independent directors, two (Jane Lodge and Peter Lynas) have recent and relevant financial experience and the requisite competence in accounting to meet the Code requirements. The Committee has sufficient sector-relevant competence to discharge its duties.

25 Committee's role

The Committee's role is summarised in the report that follows. The terms of reference are on the Company's website. The Committee is comfortable that its role meets the Code requirements.

26 Annual Report to describe work of committee

This Report discharges this Code Provision.

Audit Committee report continued

Composition and Committee attendance

The membership of the Committee is shown on page 99 and attendance is set out on page 86. Jane Lodge and Peter Lynas have recent and relevant financial experience and the requisite competence in accounting. Claire Hawkings, the other member of the Committee, has the necessary skills and financial literacy to discharge her responsibilities.

The Chairman of the Board, the Chief Executive Officer, the Chief Financial Officer, the Company Secretary, the Director of Finance, the Head of Internal Audit, the Group Head of Financial Reporting and the External Audit partner routinely attend meetings of the Committee. In addition, others are invited to attend all or parts of meetings as required to provide the Committee with additional insight on relevant matters. Other members of the Board have an open invitation to attend Committee meetings and they did so on a number of occasions during the year under review. The Committee holds private sessions without management present and regularly meets with the Internal and External Auditors (again without management present).

Summary of Committee activities throughout the year

The Committee has an extensive agenda of items of business focusing on financial reporting, internal control, risk management, internal and external audit, in addition to certain standing matters that the Committee considers at each meeting as well as any specific topical items that arise during the course of the year.

During the year, the Committee fully discharged its responsibilities under the terms of reference and these broadly fall under three areas:

Accounting, tax and financial reporting

- reviewed and approved the half year and annual results considering the significant accounting policies, principal estimates and accounting judgments used in their preparation, the transparency and clarity of disclosures and compliance with financial reporting standards
- reviewed the basis for preparing the half and full year accounts on a going concern basis with input from the external auditors
- considered and approved management's assessment of the Group's prospects and longer-term viability contained within the Annual Report
- received reports from management and the external auditors on accounting, financial reporting regulation and tax issues
- reviewed and assessed whether the Annual Report taken as a whole was fair, balanced and understandable
- reviewed the Non-Audit Services Policy, Tax Strategy, Treasury Policy and the application of the Adjusted Items Policy
- reviewed the assumptions such as future growth rates, cash flows and discount rate used in the impairment models and the output from the impairment review
- reviewed the non-GAAP measures in the Company's reporting
- reviewed the accounting treatment of the disposal proceeds from the North American property sale
- reviewed assumptions of the fair value calculation for the First Transit earnout
- reviewed the assumptions used to calculate the pension liabilities

Internal control, risk management and internal audit

- reviewed the structure and effectiveness of the Group's system of risk management and the related disclosures in the Annual Report and financial statements
- 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 and emerging risks and review the risk appetite statement, developed by management, for recommendation to the Board
- approved the annual internal audit plan and reviewed reports from the internal audit team relating to control matters, monitored progress against the plan and any deviations were agreed
- monitored the Group's insurance arrangements, insured and uninsured claims and material litigation
- reviewed plans and progress to enhance the internal control environment ahead of expected regulatory and legislative changes

External audit

- considered and approved the scope, audit plan, terms of engagement and fees for the external audit work to be undertaken in respect of FY 2023
- received reports from the external auditor on their findings during the half-year review and the full-year audit
- considered the objectivity and independence of the external auditor and the effectiveness of the external audit process, taking into account their policies to maintain independence, non-audit work undertaken by the auditor and compliance with the Company's Policy on the provision of non-audit services and applicable regulations
- considered and approved the letters of representation to the external auditors
- considered and recommended to the Board the reappointment of the external auditor at the AGM

Key accounting judgments reviewed during the year/Significant issues

The matters the Committee considers to be significant for the FY 2023 Annual Report and Financial Statements are as follows:

Significant issues and judgments

How the Audit Committee addressed these issues

Pension assumptions and funding

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 particularly sensitive to changes in the underlying assumptions. Scheme valuations were conducted during the year and changes were made to the assumptions which were considered to be in acceptable ranges.

Management engaged with external experts and the Committee considered and challenged the assumptions used for estimating the liabilities. Sensitivity analysis was performed on the key assumptions: inflation, discount rate and mortality. The overall liabilities were assessed for reasonableness. Further detail on pensions is provided in note 37 in the consolidated financial statements.

Recovery of investments in subsidiaries (parent company only)

Investments held by the parent company in subsidiary undertakings were tested for recoverability. Management assessed discounted cash flows in the Bus division based on the final Three-Year Plan to March 2026 adjusted for debt and debt like items. The financial impact of climate change risks was a key consideration. The investments were considered to be recoverable.

The Committee received reports from the management team and the external auditors on the recoverability of the parent company's investments in subsidiaries and concluded that the assessments were reasonable.

Going concern and viability

The Group regularly prepares an assessment detailing available resources to support the going concern assumption and the long-term viability statements. Management concluded that the financial statements should be prepared on a going concern basis and there were no material uncertainties which require disclosure. We continue to provide essential services to our customers and the communities we serve and anticipate doing so for the foreseeable future.

The Committee reviewed and challenged management's funding forecasts and sensitivity analysis and the impact of various possible downside scenarios, which took into account the pace of improving operating margins in the Bus division, changes to the contract portfolio and the level of performance fees in the Rail Division, and ESG related risks including climate change. Following the review, which the Committee carried out at its meeting in June 2023, the Committee recommended to the Board the adoption of both the going concern and viability assessment, and the related statements for inclusion in this report.

Audit Committee report continued

Internal control framework/assurance

The Board is responsible for establishing a framework of prudent and effective controls, which enable risk to be assessed and managed. Periodic review and ongoing monitoring of risk management and internal control frameworks are essential components of any sound system of risk management and internal control.

The Committee monitors the Company's risk management and internal control systems and, in addition to periodic reviews by the Committee the Board undertakes an annual in-depth review of the effectiveness of internal controls including the operation of financial, operational and compliance controls.

The Committee also guides the Board on the nature and extent of the principal and emerging risks the Company may be willing to take in order to achieve its long-term strategic objectives. The output from this system is the Company's risk appetite policy, which is subsequently reviewed by the Board.

The process the Committee applied in reviewing the effectiveness of the system of risk management and internal control is set out below, together with a summary of the actions that have been or are being taken to improve the overall control environment.

Internal controls

The Committee receives regular updates on the Group's system of internal control including progress made to the overall programme and conclusions on the design and effectiveness of key controls, mitigating financial, operational and compliance risk. Management intends to continue to improve the standardisation, documentation and testing of internal controls to give the Committee greater comfort around the effectiveness of the control environment.

Overall, the Committee is satisfied that the Group's internal control framework was operating effectively as at the year end.

The Group has initiated a project in anticipation of the UK Government's corporate reform changes. Management with support of external advisors have completed assessments of financial statement risks, fraud risk and non-financial reporting readiness. Key business processes and IT controls have been documented and control improvements are in the process of being identified with gaps to be remediated during the forthcoming financial year.

A target operating model has been designed with an independent 'second line of defence' team to begin testing controls towards the end of the 31 March 2024 financial year.

The Committee will continue to oversee the improvement programme that has been put in place to enhance the internal control framework.

Risk management

The Board, through the Committee, 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. The Committee oversees 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 and emerging risks. The 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 Committee assessed the Group's risk management methodology, which is used to identify and manage the principal and emerging risks, as well as the reporting and categorisation of Group risks, and made recommendations for improvement. Changes were implemented with the Committee's oversight. See the Risk management section of the Strategic report starting on page 67 for further information on the Group's risk management system.

The Committee also reviewed the process for assessing the principal and emerging 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 76 and considered the appropriate period for which the Company was viable.

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 and electricity prices, can be found in note 25 to the consolidated financial statements.

Compliance with the Corporate Governance Code

M See page 104

N Fair balanced and understandable assessment of prospects

27 The report is fair balanced and understandable

The Committee, on behalf of the Board, reviews the report to confirm that they believe it to be fair, balanced and understandable. In addition to their own knowledge and assessment, the Committee takes comfort from the reviews conducted by the Executive Committee particularly in respect of fairness and balance. The external reviews as part of the preparation and sign off process give comfort in respect of understandability.

The Board reviewed the Annual Report and each Director confirmed to the best of his or her knowledge that 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.

O Procedures to oversee internal control framework and identification of principal risks

The procedures are described in the columns to the left.

28 Assessment of emerging and principal risks

The emerging and principal risks are disclosed in the Risk management section of the Strategic Report starting on page 67 and the assessment process is also set out in detail in that part of the annual report. The Audit Committee reviews the detailed outputs from the work completed by the executive team.

29 Monitor risk management and internal control

The monitoring of risks and a description of the internal control system is set out in the strategic report and also within the report from the Audit Committee.

Key elements of the Group's risk management framework that operated throughout the year are:

- divisions identifying and reviewing their *principal and emerging risks and controls* for monitoring and managing risks, which are reviewed by senior executive management supported by the Internal Audit function. The updated divisional and Group risk profiles, which are reviewed by the Chief Executive Officer and Chief Financial Officer, are presented to the Executive Committee on a regular basis
- an agreed methodology for ranking the level of risk in each of its business operations and the principal and emerging risks
- implementation of appropriate strategies to mitigate principal and emerging risks, including careful internal monitoring and ensuring external specialists are consulted where necessary
- a centrally coordinated 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
- 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 assessment of the principal and emerging 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.

Financial and business reporting

The Board recognises its responsibility to present a fair, balanced and understandable assessment of the Group's position and *prospects in its reporting to shareholders*. This responsibility encompasses all published information including, but not limited to the half-yearly and full year financial statements, regulatory news announcements and other publicly disclosed information.

The quality of the Company's reporting is ensured by having procedures in place for the review of information by management. There are also strict procedures to determine who has authority to release information. A statement of the Directors' responsibilities for preparing the financial statements can be found on page 138.

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.

Reviews of internal controls within operating units by internal audit have sometimes highlighted control weaknesses, which are discussed with management and, where appropriate, the 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.

Compliance with the Corporate Governance Code

30 Going concern basis of accounting

The going concern basis of accounting statement complies with the Code provision and is set out on page 77.

31 Assessment of the current position and principal risks/Viability Statement

The principal risks are set out in the Strategic report on pages 67-75 together with a description of the processes in place.

The Viability Statement complies with the Code provision and is set out on page 76.

Audit Committee report continued

The Committee, in conjunction with executive management, regularly reviews and develops the internal control environment to make continual improvements. No significant internal control failings were identified during the year. Where any gaps were identified, processes were put in place to address them and these are monitored. In addition, as stated above, management intends to continue to improve the standardisation, documentation and testing of internal controls to give the Committee greater comfort around the effectiveness of the control environment.

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

Internal audit

The internal audit function 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. It provides objective assurance on risk and controls to senior management, the Committee and the Board. Internal audit's work is focused on the Group's principal and emerging risks. The mandate and programme of work of the internal audit function is considered and approved by the Committee annually and includes a number of internal audits and health checks across the Group's divisions. Findings are reported to relevant operational management and to the Committee. The internal audit function follows up on the implementation of recommendations and reports on progress to senior management and to the Committee at each meeting.

The internal audit function is primarily outsourced. The Head of Internal Audit reports functionally to the Chair of the Committee and administratively to the CFO.

The effectiveness of the internal audit function's work is continually monitored using a variety of inputs including the ongoing audit reports received, the Committee's interaction with the function's head, an annual review of the function's internal quality assurance report, a quarterly summary dashboard providing a snapshot of the progress against the internal audit plan tabled at each Committee meeting as well as any other ad-hoc quality reporting requested.

Taking all these elements into account, the Committee concluded that the internal audit function was an effective provider of assurance over the Company's risks and controls and appropriate resources were available as required.

External audit

External auditor independence and objectivity

PwC were appointed the Company's external auditor following a competitive tender process in 2020 and they undertook the FY 2021 audit. Matthew Mullins is the Senior Statutory Auditor.

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. PwC's independence and objectivity are safeguarded by a number of control measures including:

- limiting the nature of non-audit services performed by the external auditor
- the external auditor's own internal processes to vet and approve any requests for any non-audit work to be performed by the external auditor
- monitoring changes in legislation related to auditor independence and objectivity to assist the Company to remain compliant
- the rotation of the lead audit partner after five years
- independent reporting lines from the external auditor to the Committee and ensuring the external auditor is afforded the opportunity for in camera sessions with the Committee
- placing restrictions on the employment by the Group of certain employees of the external auditor
- 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
- an annual review by the Committee of the policy in place to ensure the objectivity and independence of the external auditor is maintained.

Assessing the effectiveness of the external audit process

The Committee, other Board members, senior management in both the corporate functions and within the operations and the internal audit team evaluated PwC's performance and the effectiveness of the external audit process during FY 2023. The Committee also considered the independence and objectivity of PwC. The following factors were considered:

- the quality of the interactions between the audit team and the Committee, other Board members, management and those involved in the preparation of the accounts
- whether the scope of the audit and the planning process were appropriate for the delivery of an effective audit
- the external auditor's progress achieved against the agreed audit plan and communication of any changes to the plan, including changes in perceived audit risks
- the competence with which the external auditor handled the key accounting and audit judgments and communication of the same with management and the Committee
- the external auditor's compliance with relevant regulatory, ethical and professional guidance on the rotation of partners
- the expertise and resources of the external audit team conducting the audit
- whether the statutory audit contributed to the integrity of the Group's financial reporting.

Taking into account the above factors and feedback from management, members of the Committee and the Board, the Committee concluded that the external audit process and services provided by PwC were satisfactory. The feedback will be shared with PwC and any opportunities for improvement will be considered and agreed.

Compliance with the Corporate Governance Code

M Formal transparent policies to ensure independence of audit

The auditors policies and the Company's Non-Audit Services Policy that are regularly reviewed by the Committee helps ensure the independence of the Auditor.

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 and those that are prohibited. The policy requires that the external auditor will only be used for non-audit services where regulation permits, the Group benefits in a cost-effective manner and the external auditor maintains the necessary degree of independence and objectivity. The policy provides for a cap on fees for non-audit work of 70% of the average of fees paid to the audit firm over the previous three years for audit services.

The Committee receives regular reports on all non-audit assignments awarded to the external auditor and a breakdown of non-audit fees incurred. The Committee is satisfied that the Company was compliant during the year with both the Code and the FRC's Ethical Standard in respect of the scope and maximum permitted level of fees incurred for non-audit services provided by PwC. Details of amounts paid to the external auditor for audit and non-audit services for the 52 weeks ended 25 March 2023 are set out in note 6 to the consolidated financial statements.

Tax strategy

We believe we have a responsibility to manage our tax affairs in a way that sustainably benefits the customers and communities 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. Further information on our tax strategy, which was reviewed by the Committee and subsequently approved by the Board in September 2022, is available on our website. The tax strategy is reviewed annually by the Committee.

Compliance with the Competition and Markets Authority Order

Pursuant to Article 7.1 of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014, the Company confirms that it has complied with the provisions during FY 2023, including Part 5 in relation to the role of the Committee.

Responsible Business Committee report



Claire Hawkings
Chair, Responsible Business Committee

Main responsibilities

The Committee has taken on the responsibilities of the Board Safety Committee that ceased to exist from April 2022 and in addition to Safety the Committee has oversight of the People Strategy, Environmental Impact of the Group's activities, Sustainability and Community engagement.

The terms of reference are available on the Group's website.

Membership

Claire Hawkings (Chair)
Sally Cabrini
Myrtle Dawes
Ant Green
Peter Lynas

Dear Shareholder,

Sustainability is at the heart of our strategy as presented in our Mobility Beyond Today Strategy, and our Responsible Business Committee supports and oversees the ambition and drive to deliver this strategy.

The Committee was formed in early 2022, with our first meeting in May. The Committee's remit is broad, with specific focus on safety, climate impact and environment, social issues (people, communities and our broader stakeholder group) as well as governance and disclosures.

The Committee ensures our Responsible Business activities are supported by robust plans and performance metrics. Performance reports are shared with the Committee at each meeting and have provided an essential mechanism for understanding progress and taking action.

This Report focuses on the governance of the Responsible Business Committee and the key governance matters are set out in the paragraphs below.

I look forward to working with the Executive Team in the coming year as we continue not implement our ambitious strategy.

Claire Hawkings

Chair, Responsible Business Committee
8 June 2023

Membership and attendance

The Committee membership is set out in the column to the left and the attendance records are shown on page 86.

The Company Secretary attended all meetings during the year and at the invitation of the committee Chair the Chairman, the Chief Executive Officer, the Group HR Director, the Director of Corporate Responsibility, the Divisional Heads, the Group Legal Director, the Head of Internal Audit attended relevant sections of meetings to support the work of the Committee with inputs on their areas of responsibility or expertise.

Meetings during the year

The Responsible Business Committee met on four occasions and in each meeting received a report from the Chief Executive on Safety matters. Senior representatives from the rail and bus divisions attended each presented progress in four areas: Safety, People, Environment and Community.

There has been a focus on safety performance across the Group with positive trends in the key indicators and the Committee oversees the executive's relentless focus on safety. The Committee received reports on significant safety matters and reviewed the root cause investigations in respect of significant incidents that occurred during the year.

In addition, when the Committee met in May they reviewed the ESG and Safety disclosures in the Annual Report for 2022.

In May, the Committee received a report on the approach to the Group's Science Based Targets and TCFD reporting. The Committee also reviewed the Group's Social Value Report that had been prepared by the Centre for Economics and Business Research and discussed the approach to charitable giving and nominating charities.

In September, the Committee received an update on the Science Based Targets and the Group's ethnic and gender pay gap reporting. The Committee also reviewed the external recognition from external bodies and areas in which to focus effort to improve any such ratings.

In January 2023, the Committee met in Glasgow and had the opportunity to tour two bus depots including the charging infrastructure for electric buses at the Caledonia depot. The formal meeting covered a further update on science-based targets and TCFD reporting. The Committee also reviewed ED&I targets.

In March 2023, the Committee reviewed and approved Safety targets for FY 2024 and received a report on procurement and supplier engagement. The Committee also supported the Board training on TCFD Reporting.

Throughout the year the Committee has worked with the Remuneration Committee to oversee the development and performance against key performance measures that form part of the variable remuneration of the executive team.

FY 2024

At the meeting in June 2023 the Committee reviewed the Responsible Business disclosures and the TCFD reporting.

During FY 2024, the Committee will be continue to provide oversight on safety, people strategy, environmental impact of the Group's activities and our community engagement.

Remuneration Committee report



Sally Cabrini
Chair, Remuneration Committee

Main responsibilities

The Remuneration Committee is primarily responsible for determining the policy for Executive Director remuneration and setting the remuneration for the Chairman, the Executive Directors and senior management.

The Committee also reviews wider workforce remuneration and related policies and the alignment of incentives and rewards with culture, taking these into account when setting the policy for Executive Director remuneration.

The terms of reference are available on the Group's website.

Membership

Sally Cabrini (Chair)
Claire Hawkings
Jane Lodge
Peter Lynas

Julia Steyn (until 27 July 2022)

Dear Shareholder,

I am pleased to present the Directors' Remuneration Report for the financial year ended 25 March 2023.

The Remuneration Report covers the required regulatory information and provides further context and insight into our pay arrangements for Directors and other Group employees. We set out our key decisions since last year, the assessment of FY 2023 performance and determination of pay, and our approach to ensuring executive pay outcomes are fair in the context of wider employee pay.

FY 2023 was a year of strong financial performance for the Group, particularly driven by growth in First Bus and First Rail open access operations. Despite challenging economic pressures and continuing industrial relation challenges Group adjusted attributable profit more than doubled to £82.1m (FY 2022: £36.2m).

Passenger volumes in First Bus increased 20% compared to last year's levels, which resulted in total passenger revenue of £660.0m (FY 2022: £570.0m). Our strong cash position has also allowed us to accelerate our investment in decarbonisation of our First Bus fleet.

In First Rail, open access operations performance was ahead of expectations largely as a result of leisure travel returning strongly post-pandemic. In its first year of operations more than a million customers used Lumo to travel between London and Edinburgh. We are also pleased that the WCP, GWR and SWR rail contracts have been extended to October 2023, June 2025 and May 2025, respectively.

We have made significant overall financial progress and we now have a strong balance sheet. Our strong balance sheet puts us in a good position to grow and create value for our shareholders. This is underpinned by supportive governments, social policies and investment.

Principles

The principles that underpin the Committee's approach to executive remuneration are set out in the 'Directors' Remuneration Policy' that can be found on the FirstGroup plc website. The Committee considered the provisions of the UK Corporate Governance code, and has sought to reflect the principles of clarity, simplicity, risk management, predictability, proportionality, and alignment to culture in deciding FY 2023 pay outcomes and developing FY 2024 policy.

Overview of financial performance, operating achievements, and strategic progress.

FY 2023 has been a year of strong financial performance.

- Group adjusted attributable profit more than doubled to £82.1m (FY 2022: £36.2m)
- FY 2023 final dividend of 2.9p recommended in line with the progressive dividend policy
- Completed the sale of all but two remaining Greyhound US properties for net proceeds of £122m
- Launched share buyback programme to purchase up to £75m of ordinary shares. Proposed an additional share buyback programme of £115m, subject to approval at the AGM
- Our strong balance sheet puts us in a good position to grow and create value for our shareholders
- Revenue and profits from Open Access rail businesses exceeded expectations

The transformed Group has delivered strong financial performance, with operating profit and cash generation exceeding the outlook for the year. As a Committee we believe it is imperative to strike the right balance between incentivising the management team, rewarding strong performance and being equitable in the broader context, taking into account the experience of our wider stakeholders, including our employees and shareholders.

Industry-wide industrial relations action had a significant impact on our rail businesses in FY 2023, particularly at Avanti and TPE. The Board received regular updates on the management teams' plans to address the issues they faced and progress against their agreed plans to restore services to the levels that our passengers rightly expect. The Committee noted that performance at Avanti at the year-end was much improved and is on a positive trajectory with the number of services increasing by more than 40% compared to last summer.

Remuneration Committee report continued

The decline in TPE's service levels was due to circumstances largely out of our control, mainly the challenging industrial relations environment including the withdrawal of longstanding industry standard overtime arrangements when TPE was undertaking unprecedented driver training requirements due to infrastructure upgrades. Our management team worked extremely hard to improve services and to successfully recruit and train more drivers than ever before. We worked closely with the DfT and Transport for the North on an agreed recovery plan, which led to a c.40% reduction in cancellations in May 2023. Nevertheless, subsequent to the year-end, we were disappointed to learn of the DfT's recent decision to not extend our NRC for TPE in May 2023.

Due to the impact on service levels during FY 2023, no payments under the annual bonus scheme were made to any participant for operational performance in TPE. The impact of the DfT decision to not extend the TPE NRC (which occurred after the FY 2023 year-end) will be factored into the FY 2024 EABP for the Executive Directors. The financial targets for the FY 2024 EABP had already been set prior to the DfT's decision, and these included a full year earnings and cashflow contribution from TPE. The Committee has decided not to revisit these targets and as such, the management team will have to recover these earnings elsewhere, making them harder to achieve.

FY 2023 EABP: The FY 2023 EABP was based 70% on financial metrics (60% EBIT, 10% cash flow) and 30% on non-financial metrics (individual performance).

The Committee carefully considered performance against each of the financial and non-financial targets and then a broader consideration of overall performance. Achievement of EBIT and cash flow both exceeded maximum. In respect of individual performance, the Committee awarded both Graham Sutherland and Ryan Mangold 80% of maximum.

The formulaic EABP award for the Executive Directors resulted in awards of 94% of maximum for Graham Sutherland and Ryan Mangold. The Committee reviewed the overall outcome in the context of the Group's underlying performance and were satisfied with this level of payout.

Full details of targets and performance achieved are set out on pages 119-122.

2020 LTIP: As disclosed previously, the Committee delayed the grant and target setting of the 2020 LTIP to allow adequate time to better understand the impact of Covid-19 on our business and the wider economy. This meant that the share price at grant was c.44% higher than the share price after the initial post-COVID decline in March 2020. The vesting of the LTIP granted in 2020 was subject to two performance measures:

- 80% relative Total Shareholder Return (TSR) vs comparator group

- 20% relative TSR vs FTSE 250

See pages 122-123 for further details.

Performance against the 2020 measures is as follows:

- relative TSR vs comparator group performance was at the 78th percentile versus the peer group, resulting in 100% vesting under this element (80% of the overall award)

- relative TSR vs FTSE 250 performance was at the 72nd percentile versus the peer group, resulting in 90.9% vesting under this element (18.2% of the overall award)

The formulaic vesting of the 2020 LTIP award was 98.2%. The Committee carefully reviewed the overall formulaic vesting outcome in the context of the Group's underlying financial performance, share price performance on both an absolute and relative basis, and wider decisions on remuneration over the period. The Committee was also mindful of our commitment to take into account the potential for 'windfall gains' when determining the final vesting outcome.

After careful consideration, the Committee decided that although the formulaic vesting outcome represented genuine outperformance against both peer groups, was underpinned by strong underlying financial performance and resulted directly from the positive actions of the management team over the three year performance period, a downwards adjustment of 10% would be appropriate to reflect the potential for windfall gains. When determining this, the Committee took into account a number of reference points when determining what the appropriate level of adjustment should be. These included the share price used to determine previous awards, share price performance before and through the pandemic as well as underlying financial performance. It also recognised that management actions have played a clear and demonstrable role in the Company's share price performance. The Committee decided to use its discretion and apply a downward adjustment resulting in an overall reduction of 10% of the award resulting in a final vesting outcome of 88.4% of maximum, which the Committee considered to be a reasonable final vesting outcome, aligned with the Company's performance and circumstances over the period.

Full details, including the factors the Committee considered in making a windfall gains adjustment are set out on page 122. The shares will be held for an additional two years to provide alignment with our shareholders.

2022 LTIP: The Committee determined that the 2022 LTIP award made to the CEO, CFO and other senior leaders would be measured against EPS, Relative TSR and for the second year, a Sustainability Scorecard (comprising two environmental measures), over a three-year period.

Full details of targets are set out on pages 124-125.

Directorate changes

As we disclosed previously, Graham Sutherland was appointed as Chief Executive Officer on 16 May 2022. Upon appointment, Graham's remuneration package was agreed in line with our agreed Remuneration Policy and commensurate with a Group now focused on UK public transport operations:

- base salary of £550,000
- pension allowance of 5% of salary
- maximum EABP opportunity of 150% of salary
- maximum LTIP opportunity of 200% of salary
- shareholding requirement of 200% of salary

David Martin resumed the role of Non-Executive Chairman on 1 July 2022. For the period he was interim Executive Chairman (13 September 2021 to 1 July 2022) he was paid an additional fee for increased scope and responsibilities associated with this role. Full details are set out in the Non-Executive Directors' and Chairman's fees section on page 127.

Remuneration for FY 2024

The Committee carefully considered base salary increases for the Executive Directors holistically, taking into account FY 2024 base salary increases applied to the wider workforce and investor guidance that base salary increases for Executive Directors should be lower than those provided to the wider workforce. Therefore, the Committee approved an increase of 3% for Graham Sutherland and Ryan Mangold, effective 1 April 2023. The increase for the Executive Directors is lower than the increases applied to the wider workforce, which allowed us to focus our salary increase budget on our lower paid employees, who are most likely to feel the effects of the cost of living crisis, see page 115 for more information.

The Committee considers the forward-looking annual bonus targets to be commercially sensitive but full disclosure of targets and performance outcome will be set out in next year's Annual Report on Remuneration setting out the bonus outcome. At least half will be based on the financial performance of the Group in line with our Policy. The maximum award levels will be in line with our shareholder-approved Policy and implementation over recent years.

It is the Committee's intention to make awards under the LTIP this year and it is anticipated that the approach regarding metrics will be similar to the 2022 LTIP, which is, 50% EPS, 35% Relative TSR and 15% on a Sustainability Scorecard. The targets for these awards are set out on page 128.

Remuneration fairness

As a Remuneration Committee we take our responsibility to consider senior team pay in the context of wider workforce pay, policies and practices and a number of items are tabled at Committee meetings every year to ensure the approach throughout the Group is fair, particularly during the current cost of living crisis.

The 'Remuneration in Context' section of the report on pages 115-117 provides a summary of the items and the factors that the Committee considers when making executive reward decisions as well as support we have provided to our employees during the current cost of living crisis.

What the Remuneration Committee has looked at in the last 12 months

The Committee has:

- approved FY 2023 EABP payout for Executive Directors and other senior employees
- determined the vesting of the 2020 LTIP
- reviewed and approved the FY 2022 Directors' Remuneration Report
- approved the 2022 LTIP awards
- agreed FY 2024 EABP approach
- reviewed the 2022 Gender and Ethnic Pay Gap reporting ahead of publication
- reviewed wider workforce remuneration and related policies
- reviewed its Terms of Reference

Governance

The Committee actively monitors developments in corporate governance and the guidelines produced by shareholders and their representative bodies.

Our Group Employee Director is encouraged to attend all Committee meetings, and regularly does so. I also periodically attend meetings of the Employee Directors' Forum to hear directly from our network of Employee Directors. In these meetings I explain how executive remuneration aligns with wider workforce pay and also provides an opportunity for Employee Directors the opportunity to ask questions about last year's Directors' Remuneration Report.

We have provided further details on our approach to pay throughout the Group on pages 115-117.

In conclusion

We will continue to monitor governance developments and are committed to maintaining an open and transparent dialogue with our shareholders on executive remuneration. We consider ongoing engagement to be vital in ensuring that our approach to remuneration continues to be aligned with the long-term interests of the Group's shareholders and wider stakeholders.

We welcome the feedback received during the year and hope to receive your support at our upcoming AGM.

Sally Cabrini

Chair, Remuneration Committee

Remuneration at a glance

FY 2023 EABP – Financial Metrics

Adjusted Operating Profit (pre-IFRS16)
£119m

Adjusted Cash Generation
£160m

2020 LTIP – Financial Metrics

Relative TSR vs Comparator Group
78th percentile

Relative TSR vs FTSE 250
72nd percentile

This section summarises the pay that our Executive Directors received in respect of their FY 2023 performance, and the proposed rates for FY 2024. Further details are set out on pages 118-128.

FY 2023

Fixed pay and shareholding

Base Salary

£483,635	£461,300
Graham Sutherland CEO	Ryan Mangold CFO
Since appointment on 16 May 2022.	2.5% increase on 1 Apr 2022.
Annual base salary upon appointment was £550,000.	

Benefits

Medical and life insurance	Car allowance, medical and life insurance
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Pension

The CEO and CFO receive a pension allowance of 5% and 15% of base salary, respectively.

Shareholding

200%	200%
CEO	CFO
Actual levels, % of base salary as at 25 March 2023	
38.9%	172.5%
CEO	CFO

Malus and clawback apply to all incentive awards.

Executive Annual Bonus Plan

FY 2023 EABP

£681,926	£650,433
CLO	CFO

Pro rata award for time served on the Board in FY 2023.

FY 2022 EABP

n/a	£654,750
CEO	CFO

FY 2023 bonus targets outcome

94%	94%
CEO	CFO

Long-Term Incentive Plan

2020 LTIP Outcome

n/a	£1,877,592
CEO	CFO

2019 LTIP Outcome

n/a	£732,599
CEO	CFO

2020 LTIP Vesting outcome (% of max)

Measures	Outcome	Vesting
Relative TSR vs Comparator Group	78th percentile	100%
Relative TSR vs FTSE 250	72nd percentile	90.9%
Formulaic vesting outcome		98.2%
Adjusted vesting outcome		88.4%

The LTIP outcome includes dividend equivalents received. Shares are subject to a two-year holding period that extends beyond the Executive Director's tenure. Full details and targets are set out on page 122-123.

FY 2024

Fixed pay and shareholding

Base Salary

£566,500	£475,200
Graham Sutherland CEO	Ryan Mangold CFO
3% increase	3% increase

Pension

The CEO and CFO receive a pension allowance of 5% and 15% of base salary, respectively.

Benefits

Medical and life insurance	Car allowance, medical and life insurance
----------------------------	---

Shareholding

Target levels, % of base salary	
200%	200%
CEO	CFO

Executive Annual Bonus Plan

Target % of salary

150%	150%
CEO	CFO

Long-Term Incentive Plan

Maximum % of salary

200%	175%
CEO	CFO

2023 LTIP Measures

Measures	Weighting
EPS Growth	50%
Relative TSR	35%

Sustainability Scorecard

Zero emission fleet transformation	7.5%
Emissions reduction	7.5%

Remuneration Policy summary

The full Policy, which was approved at the 2021 Annual General Meeting on 13 September 2021, can be found on the FirstGroup plc website at www.firstgroupplc.com/investors/information-for-shareholders and on pages 132-141 in the FY 2021 Directors' Remuneration Report.

The following table sets out how the agreed Remuneration Policy addresses the factors set out in Provision 40 of the UK Corporate Governance Code:

Clarity	The Committee considers that FirstGroup's remuneration structures are transparent and welcomes open and frequent dialogue with shareholders on its approach to remuneration. Major shareholders have been consulted on the Committee's approach to remuneration.
Simplicity	The overall Remuneration Policy is designed to be comprehensive without becoming overcomplicated and to encourage the Executive Directors to concentrate on providing easy and convenient mobility, improving quality of life by connecting people and communities, and delivering ongoing shareholder value through an attractive annual dividend.
Risk	<p>One of the Committee's principles is that the majority of the reward opportunity for Executive Directors should be provided through performance-related incentives linked to the Group's strategic goals and taking account of the Group's attitude to risk. Reward under these incentives is linked to both individual and Group performance. The Committee is satisfied that the structures of the incentive arrangements do not encourage inappropriate risk taking.</p> <p>In addition, the following, best-practice, measures are in place to minimise risks:</p> <ul style="list-style-type: none"> ■ EABP deferral, the LTIP holding period and shareholding requirement, including post-cessation provisions, provide a clear link to the Group's ongoing performance and shareholder experience ■ the Committee has discretion to adjust the formulaic incentive outcomes if it considers that they are not reflective of the underlying performance of the Group or any individual, and has demonstrated in recent years that it is prepared to use its discretion to reduce a formula driven outcome where this does not reflect broader Company performance or the shareholder experience ■ malus and clawback provisions apply to EABP and LTIP awards
Predictability	The table on page 112 sets out four illustrations of the application of the Remuneration Policy including potential opportunity levels resulting from threshold, target and maximum performance under the EABP and LTIP.
Proportionality	Performance measures and target ranges under the EABP and LTIP are designed to be sufficiently stretching in order to ensure outturns are fully aligned with Group performance. As above, the Committee has discretion, and has demonstrated in recent years that it is prepared to use its discretion, to override formulaic outcomes in order to ensure performance is reflective of FirstGroup's underlying performance.
Alignment to culture	The Committee believes in an approach to executive pay that is commensurate with value creation for shareholders. The Remuneration Policy and the Company's incentive schemes have been designed to drive appropriate behaviours consistent with FirstGroup's purpose, values and strategy and are aligned to wider workforce policies and practice.

The Company's Policy remains to attract, retain and motivate its leaders and to ensure they are focused on delivering business priorities within a framework designed to promote the long-term success of FirstGroup and align with shareholder interests.

Remuneration Policy summary continued

The diagram below illustrates the balance of pay and time period of each element of the Policy for Executive Directors.

Total pay over five years	Year 1	Year 2	Year 3	Year 4	Year 5
Fixed Pay	Salary				
Fixed Pay	Benefits, Pension				
EABP (Malus and clawback provisions apply)	Up to 150% of salary				
	50% in cash	50% in shares. Three-year deferral period No further performance conditions			
LTIP (Malus and clawback provisions apply)					

Total remuneration opportunity at various levels of performance

The graphs and tables below provide an indication of the reward opportunity for each Executive Director under the policy as at 1 April 2023.

Graham Sutherland, Chief Executive Officer

Total remuneration (£'000s)

Minimum	597	
On-target	597	425
Maximum	597	850
Maximum with share price appreciation	597	850

● Fixed ● EABP ● LTIP

Composition of package %	Fixed	EABP	LTIP	Total
Minimum	100%			100%
On-target	48%	34%	18%	100%
Maximum	23%	33%	44%	100%
Maximum with share price appreciation	19%	27%	54%	100%

Value of package (£'000)	Fixed	EABP	LTIP	Total
Minimum	597			597
On-target	597	425	227	1,248
Maximum	597	850	1,133	2,580
Maximum with share price appreciation	597	850	1,700	3,146

Ryan Mangold, Chief Financial Officer

Total remuneration (£'000s)

Minimum	560	
On-target	560	356
Maximum	560	713
Maximum with share price appreciation	560	713

● Fixed ● EABP ● LTIP

Composition of package %	Fixed	EABP	LTIP	Total
Minimum	100%			100%
On-target	52%	33%	15%	100%
Maximum	27%	34%	40%	100%
Maximum with share price appreciation	22%	28%	49%	100%

Value of package (£'000)	Fixed	EABP	LTIP	Total
Minimum	560			560
On-target	560	356	166	1,083
Maximum	560	713	832	2,105
Maximum with share price appreciation	560	713	1,247	2,521

The basis of calculation and key assumptions used to complete the charts are as follows:

Minimum – Only fixed pay is payable, i.e., base salary, benefits and pension or cash in lieu of pension. No bonus is payable, and no vesting achieved under the LTIP. The Executive Directors' pension benefit is included at 5% of salary for the CEO and 15% of salary for the CFO.

On-target – Fixed pay plus 50% of maximum annual bonus payout and 20% vesting under the LTIP.

Maximum – Fixed pay plus 100% of maximum annual bonus payout and 100% vesting under the LTIP.

Maximum + 50% share price growth – A maximum scenario showing maximum plus 50% share price growth has been included. For the minimum, on-target and maximum scenarios, it is assumed that the share price will remain unaltered.

The table below sets out an overview of the key areas of the Policy and summarises how the Committee applied the Policy in FY 2023, together with details of how the Committee intends to implement the Policy in FY 2024.

Operation	Opportunity	How we implemented the Policy in FY 2023	How we plan to implement the Policy in FY 2024
Fixed Pay			
To attract and maintain high-calibre executives with the attributes, skills and experience required to deliver the Group's strategy.			
Salaries are normally reviewed annually on 1 April, and take account of individual performance, experience and contribution, Company performance and affordability, developments in the relevant employment market, the wider economic environment, and internal relativities.	<p>Any increases (in percentage terms) will normally be within the range for those of Group employees. However, a higher increase may be proposed in the event of a role change or promotion, or other exceptional circumstances.</p> <p>The Committee has the flexibility to set the salary of a new hire at a discount to the market level initially and to realign it over the following years as the individual gains experience in the role.</p>	<p>An increase of 2.5% was applied to the CFO from 1 April 2022. This was the first increase to base salary for the CFO since being hired in 2019. This increase was aligned to the general non-collectively bargained employee salary increase.</p> <p>The base salary for the new CEO was not reviewed in FY 2023.</p>	<p>An increase of 3% was applied to the CEO and CFO from 1 April 2023. This is below the increase for the wider workforce, see page 115 for more information.</p>
Benefits and Pension			
To provide competitive benefits in the market to enable the recruitment and retention of Executive Directors.			
<p>Benefits may include car allowance, private medical insurance, life assurance, health screening and other incidental benefits and expenses. In addition, Executive Directors are eligible to participate in all-employee share plans on the same terms as other eligible employees.</p> <p>A payment may be made into a pension scheme or delivered as a cash allowance.</p>	<p>The value of benefits is based on the cost to the Company and there is no pre-determined maximum limit. The range and value of the benefits offered are reviewed periodically.</p> <p>A maximum contribution or allowance of 15% in line with the average value of employee pension benefits.</p>	<p>Normal Company benefit provision.</p> <p>The CEO receives a pension contribution or allowance of 5% of base salary.</p> <p>The pension contribution or allowance for the CFO remains at 15% of base salary.</p>	<p>No change to FY 2023.</p>
Executive Annual Bonus Plan			
To focus on the delivery of annual goals, strive for superior performance and achieve specific targets that support the strategy. The deferred share element of our EABP encourages retention and provides a link between the bonus and share price growth.			
<p>Bonuses are awarded annually. 0% of maximum may be payable at threshold, with 100% vesting at maximum. At least half of the bonus award will be deferred into shares, normally for three years. The EABP is reviewed annually to ensure performance measures and targets are appropriate and support the strategy.</p> <p>Malus and clawback provisions apply.</p>	<p>The maximum bonus opportunity is 150% of base salary for Executive Directors.</p>	<p>Performance measures (as a % of maximum):</p> <ul style="list-style-type: none"> EBIT – 60% Cash flow – 10% Personal objectives – 30% <p>Bonuses awarded of:</p> <p>The FY 2023 EABP award was 141% of base salary (94% of maximum) for both the CEO and CFO. The CEO's FY 2023 EABP has been pro-rated based on the date he was appointed to the Board. 50% of all bonuses are deferred into shares for three years.</p> <p>See pages 119-122 for further details on outcomes.</p>	<p>No change to the maximum opportunity or payment mechanisms of bonuses.</p> <p>Performance measures will be disclosed in next year's Report with at least half being based on the financial performance of the Group in line with our Policy.</p>

Remuneration Policy summary continued

Operation	Opportunity	How we implemented the Policy in FY 2023	How we plan to implement the Policy in FY 2024
Long-Term Incentive Plan			
Incentivises the execution of strategy and drives long-term value creation and alignment with longer term returns to shareholders.			
Awards are conditional rights to shares or nil-cost options over shares, subject to continued employment or good leaver status and one or more performance conditions.	Normal award policy is for a maximum award opportunity of 200% of base salary for the CEO and 175% for other Executive Directors.	Performance measures (as a % of maximum): 50% EPS, 35% Relative TSR and 15% Sustainability Scorecard.	No change to maximum LTIP opportunities or the performance conditions.
20% of maximum may be payable at threshold, with 100% vesting at maximum. Targets are measured over three financial years from the year of award. Shares that vest are subject to an additional two-year holding period following the three-year performance period.	In exceptional circumstances, awards of up to 300% of base salary may be made, such as to aid recruitment.	Grant levels: CEO – 200% of salary CFO – 175% of salary	See page 128 for detail on LTIP awards to be granted.
Awards are subject to malus and clawback.		The 2020 LTIP had a formulaic vesting outcome of 98.2%. Ultimately, after applying a discretionary 10% reduction, the 2020 LTIP vested at 88.4%. See pages 122-123 for further details. See pages 124-125 for details of the targets for the 2022 LTIP awards granted in the year.	
Shareholding Guidelines			
To ensure that Executive Directors' interests are aligned with those of shareholders over a longer-term time period.			
Executive Directors are expected to hold shares to the value of 200% of base salary within a five-year period from their date of appointment.		CEO – 200% of salary CFO – 200% of salary	No change to requirements.
Post-employment		See pages 129-130 for further details on shareholding requirements and outstanding share awards.	
Following cessation, Executive Directors are normally expected to hold the in-employment guideline (or full actual holding if lower) for the first year following cessation of employment and 50% of the in-employment guideline (or full actual holding if lower) for the second year following cessation of employment.			

Remuneration in context

In setting the Remuneration Policy for Executive Directors, the Committee takes account of the overall approach to rewarding other employees in the Group. Due to the varied nature of the operations of our divisions and their respective employment markets, we have a range of remuneration practices across the organisation. These are designed to be relevant to each individual market. Almost 85% of our employees are covered by collective bargaining arrangements.

A number of items are tabled at Committee meetings each year to ensure the approach throughout the organisation is consistent and fair:

- report summarising wider workforce pay policies and practices with updates provided on a regular basis
- Gender and Ethnicity Pay Gap Reports including statistics from each UK reporting entity
- actions management are taking to improve diversity in the workforce and close pay gaps where they exist
- CEO pay ratio and underlying statistics

The diagram on page 117 (Wider workforce remuneration) summarises the FirstGroup approach to pay. The main difference between the structure of our most senior employees' remuneration and that of the wider workforce is that senior employee's remuneration is more heavily weighted to variable pay, that is linked to business performance.

Treating our people fairly

In light of the current cost of living crisis we have directed a greater proportion of our salary increase budget to those who are lower paid across the Group and who are more likely to feel the impact most heavily.

The approach for non-collectively bargained employees in First Bus has been to apply a flat increase to base salary in order to have a greater impact on lower earners for FY 2023. For FY 2024 non-collectively bargained colleagues in First Bus received an increase of 3% + £800, for an average base salary increase of c.5.2%. For the collectively bargained population, average increases in FY 2023 were over 7%.

In First Rail, offers have been made to the majority of our population for pay increases for FY 2023 and FY 2024 of 9% (i.e. 5% for FY 2022/23 (minimum of £1,750 increase and maximum increase of £5,000) and 4% for FY 2024). These increases have been implemented for our non-collectively bargained population and collectively bargained populations where an agreement has been reached. At the time of publication the leadership of RMT and Aslef have not put their respective pay offers to their members, but we remain open and willing to engage in national level talks to resolve the dispute.

We also offer other benefits to our employees to support them through the cost-of-living crisis, including extensive retail discounts through our shopping portal, including 4-7% discounts at several large supermarkets. In 2022, employees saved over £450,000 on their shopping bills.

TOCs provide free travel for employees and their families across their own network. First Bus provides employees and their families with free travel on the First Bus network. All employees, regardless of employer, receive discounted rail travel across our network. All employees have access to our Employee Assistance Programme, which among other things, provides free, individual and confidential financial advice.

In FY 2023, First Bus ran a series of Financial Wellbeing webinars to offer support around the cost of living crisis. We have also introduced two new healthcare benefit schemes that are available to all of our First Bus colleagues. The SimplyHealth scheme allows First Bus colleagues to claim back healthcare costs, including optical, dental, and muscular health as well as contributions for health diagnostics. The SmartHealth scheme is a free app that provides access to a number of services, including GP appointments, mental health support, second medical opinion, nutrition advice, fitness plans and health checks.

Employee engagement

While the Committee does not formally consult with employees on Executive Director remuneration, a number of different mechanisms are in place to gather feedback and insights from employees across a range of issues.

Information on how we engage our employees is set out on pages 79.

The Group also engages with its workforce through our Employee Directors and the Group Employee Director is invited to attend all of the Committee's meetings, and regularly does so. Our Committee Chair, Sally Cabrini, will also periodically attend the Employee Director forum meetings to explain how executive remuneration aligns with wider workforce pay and answer questions on last years' Directors' Remuneration Report. More information on the role of our Group Employee Director is set out on page 87.

The Committee believes that it is important for our employees to understand how the remuneration of our Executive Directors is determined and utilises the different communication channels operating across the Group to ensure our employees are aware of the information available in the Directors' Remuneration Report.

Remuneration in context continued

CEO pay ratio

In line with reporting requirements, the table below sets out the ratio at the median, 25th and 75th percentiles of the total remuneration received by the Chief Executive Officer, compared to the total remuneration received by our UK employees. The Company has calculated the ratios in accordance with the Option B methodology laid out in the pay gap regulations that were deemed the most reasonable and practical approach given the collation of data exercise required for Gender Pay Gap reporting. There has been no departure from this methodology and no pay has been omitted. It should be noted that the pay ratio may vary year-on-year and the incentive outcomes for the Chief Executive Officer can impact the results significantly. We will provide an explanation in each year's Report around the change in the ratio as well as any additional context, where helpful, to understand variance. The UK employees at the lower quartile, median and upper quartiles were identified as at 5 April 2022 and their salary and total remuneration were calculated in respect of the 52 weeks ended 25 March 2023.

The Committee is satisfied that these pay ratios are consistent with our pay, reward and progression policies and that these colleagues are representative of the relevant percentiles across the organisation, as they represent frontline workers in our First Bus and First Rail divisions, i.e., the large majority of our UK workforce receiving basic pay, overtime, holiday pay and employers pension contributions. The figures also include sick pay (where relevant).

There has been a decrease in the CEO pay ratio between FY 2023 and FY 2022. This is largely due to the appointment of a new CEO in May 2022 and therefore the CEO did not have any long-term incentive awards vesting in FY 2023, compared to FY 2022 where the former CEO's 2019 LTIP award vested at 88.5% of maximum (177% of base salary).

The Committee is satisfied that the data included in the CEO Pay Ratio table reflect the goals of the Group's Remuneration Policy to support colleagues in the performance of their roles in collectively delivering the Group's strategy. In particular, the Committee notes that factors such as the Company's philosophy to pay the going market rates of pay, to operate a performance-based framework that rewards employees for their individual efforts and the performance of the Company, and to structure pay in a simple and transparent manner, have been applied consistently.

Year	Method	CEO Total Remuneration	Population	25th percentile	Median	75th percentile
FY 2023	Option B	£1,190,865	Employee total remuneration ¹	£35,189	£40,145	£54,283
			CEO to employee ratio	34:1	30:1	22:1
FY 2022	Option B	£2,246,181	Employee total remuneration	£33,073	£36,395	£55,051
			CEO to employee ratio	68:1	62:1	41:1
FY 2021	Option B	£839,822	Employee total remuneration	£27,560	£34,002	£53,437
			CEO to employee ratio	30:1	25:1	16:1
FY 2020	Option B	£788,400	Employee total remuneration	£24,600	£32,000	£45,400
			CEO to employee ratio	32:1	25:1	17:1

1 FY 2023 basic salary for the employee at the 25th, 50th and 75th percentile in FY 2023 were £23,018, £27,592 and £46,518, respectively.

Wider workforce remuneration

Eligibility	Element	Definition
All employees (c.30,000)	Base salary	<ul style="list-style-type: none"> Base salaries are reviewed annually. When considering salary for Executive Directors and Executive Committee members, the Committee considers increases available to the wider workforce.
	Pension	<ul style="list-style-type: none"> We are committed to helping our colleagues save for retirement through a variety of company pension arrangements, designed in line with market practice. We operate a number of different pension plans that reflect the history and requirements of our various businesses. See page 118 for more information on the average pension contribution.
	All employee share scheme	<ul style="list-style-type: none"> All employees with at least six months of service are eligible to participate in an all employee share plan and become shareholders in the Company.
	Benefits	<ul style="list-style-type: none"> Our Employee Assistance Programme offers all employees access to free, 24/7 confidential telephone, online and face-to-face advice for problems they may be experiencing at home or work. Other benefits include discounted travel on our rail and bus services, discounts on shopping, entertainment and eating out. Our larger businesses have dedicated in-house Occupational Health teams and our other businesses use external specialist advisers to support employees with health problems that may affect performance. All divisions run workplace health and wellbeing programmes to support employees in staying fit and healthy.
Senior executives and management (c. 1,100)	Annual bonus	<ul style="list-style-type: none"> Senior executives and management population – incentivises successful execution of our business strategy and operational goals with participants including both corporate centre and divisional roles. Our train operating companies businesses also offer commission schemes for Customer Hosts, Guards and Revenue Protection staff to drive revenue.
Senior executives (c. 140)	LTIP	<ul style="list-style-type: none"> Senior executives with sufficient line of sight to drive long-term sustained value creation for our shareholders.
Executive Committee and Executive Directors (5)	Shareholding guidelines	<ul style="list-style-type: none"> Senior executives ensuring alignment with the shareholder experience.

Alignment of remuneration with our KPIs

The table below sets out how the performance measures in our incentive plans are aligned to our KPIs. See pages 35-37 for more information on our KPIs.

	Measure	Direct link to our KPIs	Indirect link to our KPIs
EABP	EBIT	●	
	Cash	●	
	Individual Performance		●
	Safety ¹	●	
LTIP	EPS	●	
	Relative TSR		●
	Sustainability Scorecard	●	

¹ The Remuneration Committee makes a holistic safety assessment at year-end which can reduce the formulaic outcome to reflect any safety concerns.

Annual report on remuneration

The annual report on remuneration sets out

- Directors' remuneration for FY 2023, pages 118-127
- the statement of the planned implementation of policy in FY 2024, page 128

This part of the Directors' Remuneration Report has been prepared in accordance with Part 3 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) and Rule 9.8.6 of the Listing Rules. The annual report on remuneration and Chair's statement will be put to an advisory shareholder vote at the 2023 AGM.

Single total figure of remuneration for Executive Directors (audited)

	Graham Sutherland		Ryan Mangold	
	CEO ¹	CEO	CFO	CFO
£'000s	FY 2023	FY 2022	FY 2023	FY 2022
Salaries	484	—	461	450
Taxable Benefits	1	—	14	14
Pension	24	—	69	68
Total fixed remuneration	509	—	544	532
Annual Bonus cash	341	—	325	327
Annual Bonus value of deferred shares	341	—	325	327
LTIP ^{2,3}	—	—	1,878	733
Total variable remuneration	682	—	2,528	1,387
Total remuneration	1,191	—	3,072	1,919

- Graham Sutherland was appointed to the Board as CEO on 16 May 2022 with an annual base salary of £550,000. Graham Sutherland did not receive any payments in relation to recruitment remuneration, including any buyout awards. Graham Sutherland's FY 2023 bonus has been pro-rated based on the date he was appointed to the Board.
- The value for 2022 relates to the 2020 LTIP which has a three-year performance period ending 25 March 2023. As a result of the downwards adjustment of 10%, as disclosed in the description on pages 122-123, 88.4% of the award will vest in June 2023. The value of the 2020 LTIP at vesting was calculated using the average share price over the last 3 months of FY 2023 (106.3p). In line with the requirements under the UK Companies (Miscellaneous Reporting) Regulations 2018, the LTIP values include dividend equivalent amounts of £34,681 for the CFO, £1,146,999 of the value for the CEO at vesting is attributed to share price growth as the share price at award was 40.13p in 2020.
- The value of the 2019 LTIP reported in last year's report (£697,156) was an estimate based on the average share price over the last three months of 2021/22 (102.95p). The actual value of the 2019 LTIP, on the 19 August 2022 vesting date was £732,599 (based on an adjusted closing share price of 107.1p), this includes dividend equivalents of £7,449.

More detail can be found on pages 118-126.

Benefits (audited)

Benefits for Executive Directors include the provision of a company car allowance, family private medical cover, life assurance and advisory fees. Graham Sutherland's benefits for the year comprised £1,122 for UK private medical insurance. Ryan Mangold's benefits for the year comprised a £12,000 car allowance and £1,870 for UK private medical insurance.

Pension (audited)

Graham Sutherland received a pension allowance of 5% of his base salary, £24,182 upon appointment to the Board on 16 May 2022.

Ryan Mangold received a pension allowance of 15% of his base salary, £69,195. The average pension benefit for the wider workforce is in excess of 15% of base salary⁴.

No Director has a prospective benefit under a defined benefit pension.

⁴ We operate a number of different pension arrangements across the Group including defined benefit pensions in our rail operating companies. Over 60% of our UK workforce are in a defined benefit pension (either the Railway Pension Scheme or UK Bus and former local government defined benefit schemes). The cost to the Company on an accounting basis for these plans is c. 27% of salary. The remainder of our UK population are in defined contribution schemes – the largest cohort of which get an employer contribution of 5%. We then have a small number of employees eligible for a 15% employer contribution. Averaging all of these out gets to an average UK employee pension contribution of c.18%, although for the majority of our employees this would be c.27%.

FY 2023 performance and reward decisions

As a Committee, we believe it is imperative to strike the right balance between incentivising the management team, rewarding strong performance, and being equitable in the broader context.

When assessing the performance of the Executive Directors, the Remuneration Committee takes a broad view of financial performance delivered, the shareholder experience and the outcome for the Company's stakeholders, including customers, employees and the communities in which we operate. When considering remuneration outcomes, the Committee takes into account performance against specific metrics on safety, including workplace fatalities and injuries, and customer satisfaction, as well as environmental, social, and governance matters such as significant environmental incidents, large or serial fines or sanctions from regulatory bodies, and significant adverse legal judgments or settlements. The Committee has broad discretion to ensure incentive outcomes are appropriate.

FY 2023 Executive Directors' annual bonus

For FY 2023, the annual bonus maximum opportunity was 150% of salary for both Executive Directors. As in previous years, the EABP aimed to incentivise improved performance against a range of financial and non-financial metrics. The structure of the bonus was weighted so that 70% was based on financial metrics and 30% on non-financial metrics. The Committee retains overriding discretion to adjust the overall bonus outturn (including to £nil) if a serious safety failing or deterioration is identified.

The chart below sets out the targets, performance achieved and corresponding bonus outturns on a formulaic basis against the financial and qualitative targets.

FY 2023 annual bonus outcome (audited)

Measure	Weighting	Threshold	Maximum	Actual Result	Bonus Achievement	Payout %
Adjusted Group EBIT (Pre-IFRS 16 basis)	60%	£92.2m	£112.6m	£119.0m	100%	60%
Adjusted Group cash flow	10%	£44.9m	£64.9m	£160.0m	100%	10%
Personal objectives	30%	n/a	n/a	See below	80%	24%

Graham Sutherland

Objectives	Performance Assessment
Oversee the execution of disposal of residual US assets and completion of Canada closure and all necessary de-risking.	<p>Greyhound US property portfolio disposal completed in December 2022 for £122m (above fair value at point of Greyhound disposal to FlixMobility).</p> <p>The legacy Greyhound assets and liabilities are now at materially lower levels than FY 2022 and largely de-risked.</p> <p>First Transit earnout expected in early FY 2024 given agreed sale by EQT to Transdev North America which was announced in October 2022.</p>
Develop relationships with key investors with a view to holding a Capital Markets Day by end of year.	<p>We have actively engaged with all key shareholders, further developed our roadshow performance/reach, and introduced a new engagement method with First Rail and First Bus teach-ins which take place between results announcements. This has given a number of investors wider access to the FirstGroup management team and raised confidence in the equity story and our delivery of financial performance.</p> <p>Investor feedback from both financial results roadshows and other meetings has been increasingly positive. Higher levels of trust have been backed up by the positive news flow in the second half of FY 2023, primarily, the £75m share buyback launched in December 2022 and the March 2023 trading update on the improving FY 2023 outlook.</p>
Evaluate and recommend commercial opportunities apparent from Bus electrification and upstream energy viability.	<p>We have assessed and selected 20 First Bus sites for solar panels, and they are in the process of being installed. Estimated savings of c.£1m a year in FY 2024 electricity costs which represents c.35% of related depot energy consumption.</p>

Annual report on remuneration continued

<p>Consolidate delivery of NRCs and monitor and develop non-TOC activities.</p>	<p>Good progress on GWR and SWR with contract extensions granted during the year, securing £35m of annualised EBIT.</p> <p>In First Rail, we experienced significant industrial relations challenges in some of our rail operations, most notably at Avanti and TPE. In March we agreed an extension of the current contractual arrangements for WCP with the DfT, to 15 October 2023. The agreement to extend the contract has allowed our team to continue their focus on delivering their robust plans to enhance services for our customers, including further progress on our train upgrade and refurbishment programme. AWC extended for six months. Post year-end it was announced that the TPE contract would not be extended.</p> <p>Excellent progress on open access rail with strong performance in both Lumo and Hull Trains. Yield management improved consistently through the year as we were also able to maintain high volumes and utilisation. Profit performance achieved at c.£15m+ for FY 2023.</p> <p>Strong performances in both Mistral and First Customer Contact. In FY 2023 the centre supported customers, processing delay repay claims and passenger assistance bookings, with quick turnaround times. The shared passenger service centre operates at a lower cost than our previous outsourcing arrangements and provides a single service for customer queries across several First Rail operations.</p>
<p>Establish an Executive Committee and appropriate organisation structure as a priority.</p> <p>Demonstrate personal leadership of action to protect customers and employees from health and safety risks and continue to improve our health and safety culture.</p>	<p>Revised Group management structure which led to reduced costs and flatter structure. FY run rate savings delivered of c.£5m.</p> <p>Implemented an additional governance checkpoint where the CEO meets with the First Rail and First Bus safety leads on a monthly basis.</p> <p>Overall Group safety performance has remained positive with the majority of KPIs showing improvement in FY 2023 over FY 2022.</p> <p>At First Rail, five of the six key safety KPIs on staff injury, assaults and lost time have improved in FY 2023 when compared to FY 2022. SPADs and all passenger and third-party injury KPIs have improved materially in FY 2023 when compared to FY 2022. Only SPAS have deteriorated in FY 2023. It is worth noting that SPADs are 52% better/lower than the UK industry.</p> <p>At First Bus we have seen improvement over FY 2022 in Lost Time Injuries, Collisions with major injury, Third Party Injuries and Bridge Strikes but a deterioration in Collisions, All Injuries and Assaults. The majority of First Bus KPIs show improvement over the pre Covid KPI performance. FY 2023 to be seen as a new baseline as we have been encouraging employees to report all injuries, even if minor.</p>
<p>Develop and integrate formal targets on ESG (TCFD) and Diversity and inclusion as a matter of priority.</p>	<p>TCFD targets in place for Scope 3 emissions agreed at the Responsible Business Committee. We are committed that 75% of our suppliers by emissions, covering purchased goods and services and capital goods, will have science-based targets by 2028. We also committed to reduce absolute GHG emissions by 20% from fuel and energy-related services activities.</p> <p>ED&I targets for the Group have also been set at the Responsible Business Committee.</p>
<p>Bonus Achievement for Graham Sutherland</p> <p>Payout % for Graham Sutherland</p>	<p>80%</p> <p>24%</p>

Ryan Mangold

Objectives

Exit of Greyhound US real estate portfolio and ensure the collection of CARES and ARP attributable to the Group as covered under the sales and purchase agreement with FlixBus.

Complete Greyhound legacy liability management strategy, including embarking on annuitising the Greyhound retirement plan in the USA, merger of the Greyhound Canada pension schemes and put in place steps to complete the ultimate de-risking of the legacy pensions exposure.

Facilitate the transition of GWR and WCP onto NRCs at acceptable contractual arrangements and support further growth in affiliate contracts.

Investigate and support M&A growth opportunities and if successful to integrate these targets into the Group.

Complete the detailed due diligence in upstream energy generation and progress the implementation of the proof of concepts at five sites.

Progress the Group and UK Bus pension scheme merger to facilitate operating efficiencies and reduce costs.

Maintain investment grade rating and move from 'negative outlook' with S&P and Fitch.

Introduce a new consolidation platform and deliver material improvement in financial controls and increase operational efficiency and accuracy of financial reporting.

Demonstrate personal leadership of action to protect customers and employees from health and safety risks and continue to improve our health and safety culture.

Bed down the new finance and corporate structure following the completion of the restructuring of the corporate centre, including improving the D&I of the finance team.

Performance Assessment

Completed the disposal of the USA real estate portfolio in December 2022 above fair value at the time the Group disposed Greyhound to FlixBus.

Launched the £75m share buyback programme in December 2022 with proceeds from the sale.

Continued to collect CARES and ARP through FY 2023, collecting \$27m in FY 2023, with the final total to be in line or slightly ahead of the \$41m assumed at the point of sale of Greyhound in October 2021.

Vast majority of the insurance exposure in USA has been de-risked.

Agreed with the Office of the Superintendent of Financial Institutions the merger of the Canadian pension schemes and have commenced the closure and wind up of the scheme. Launched the process to annuitize the Greyhound retirement plan in the USA.

GWR NRC agreed for three years, with a possibility for a further three years. Agreed two-year NRC extension for SWR. WCP extended for six months to October 2023.

Acquisition of Ensign and Airporter completed in First Bus.

Diligence in the potential opportunity of upstream energy generation completed. 20 sites selected for solar panels where installation is being implemented. Estimated saving of c.£500k in electricity costs in FY 2024 representing c.35% of depot energy consumption.

Merger project formally launched with the Trustee.

Investment grade rating maintained throughout the year and removed negative outlook from both rating agencies and now both are on stable.

OneStream implemented in First Bus and currently being rolled out in First Rail and at the Corporate centre. Go-live after the FY 2023 is finalised and consolidation on the new platform from Period 3 onwards.

No compromise in systems and processes for health and safety. Key focus on this in Business Review Meetings and other forums in reviewing Health, Safety and Environment to reinforce the importance in this area.

Finance team now fully in place with a materially improved D&I with female and ethnic minority representation at all levels.

Bonus Achievement for Ryan Mangold

80%

Payout % for Ryan Mangold

24%

As noted in the Chief Executive Officer's review, performance on the financial measures was strong for the Group as a whole, primarily due to performance in First Rail, where revenue and profit from our open access businesses, particularly Lumo, exceeded expectations and growth in First Bus in the second half of the year. There was also strong performance in respect of the non-financial measures (as detailed above).

The Committee determined that Graham and Ryan had delivered their personal objectives to a high standard. The Committee accordingly awarded them both 24% out of a possible 30% for their personal objectives.

Taking into account the above outcomes, the formulaic EABP award for Graham Sutherland and Ryan Mangold resulted in a potential award of 94% of the maximum. The Committee considered this formulaic performance in the context of the Group's wider performance and decided that it did not need to exercise any discretion to reduce this outcome. Under the approved Policy, 50% of the award is normally paid in cash with 50% deferred into shares (deferred share awards vest after three years, subject to continued employment, and are not subject to any further performance conditions).

Annual report on remuneration continued

The overall bonus payout for FY 2023 was therefore as follows:

	Graham Sutherland ¹	Ryan Mangold
Maximum EABP opportunity (% of salary)	150%	150%
EABP Achieved (as % of maximum)	94%	94%
EABP (% of salary)	141%	141%
Total EABP	£681,926	£650,433
EABP – Cash	£340,963	£325,217
EABP – Deferred Shares	£340,963	£325,217

¹ Graham Sutherland's FY 2023 EABP has been pro-rated based on the portion of the year he served on the Board as CEO.

Long-Term Incentive Plan

The vesting of 2020 LTIP awards was subject to achieving the following performance conditions over a three-year performance period from 1 April 2020 to 31 March 2023.

Vesting of 2020 Long-Term Incentive Awards (audited)

Metrics	Weighting	Outturn	0%	Threshold: 20%	Maximum: 100%	% of award which vested
Relative TSR vs Comparator Group ¹	80%	78th percentile	<Median	Median	Upper Quartile	100%
Relative TSR vs FTSE 250	20%	72nd percentile	<Median	Median	Upper Quartile	90.9%
Total (formulaic outcome)						98.2%
Downwards adjustment to the formulaic outcome						10%
Final outcome						88.4%

¹ TSR performance was measured against a comparator group of 27 companies of comparable scale, complexity and activity to FirstGroup.

As disclosed in the 2020 and 2021 ARA, the Committee decided to delay 2020 LTIP grants and target setting to allow adequate time to better understand the impact of Covid-19 on the wider economy and our business. The approach to delay setting of targets was in-line with advice from main investor bodies and proxy voting agencies, such as the Investment Association and Glass Lewis as well as further progression of our disposal of the North American divisions. The uncertainties presented by Covid-19, as well as the significant period of strategic change that the Company was undergoing, presented significant challenges in setting three-year targets for Group EPS. It would have been difficult and complicated to measure Group EPS with the disposals happening at different times throughout the performance period (First Student and First Transit in July 2021 and Greyhound in October 2021) and would require multiple adjustments to in-flight awards.

Therefore, the Committee determined that the most appropriate approach for the 2020 awards would be to assess performance based on relative TSR over a three-year period (previously the LTIP was based on 40% Group EPS, 40% relative TSR, 20% Road ROCE). Relative TSR avoids the difficulties of setting a profit-related performance target and aligns with the strategy to realise superior returns for our shareholders through the execution of portfolio rationalisation.

Awards were made in September 2020 and the performance targets were fully disclosed at this point. The awards are subject to a two-year holding period following the three-year performance period as well as malus and clawback. Before an award vests, the Committee must be satisfied that the underlying performance of the Group is satisfactory. The Committee has the ability to amend the formulaic vesting outcome if they believe this is appropriate. The Committee believes that having a performance override is an important feature of the plan as it mitigates the risk of unwarranted vesting outcomes.

Consideration of potential windfall gains

When the 2020 LTIP was awarded, as is our usual approach, we committed to review the vesting levels to ensure they are appropriate in the context of underlying financial performance and the experience of our wider stakeholders while also being mindful of the guidance from the governance community about 'windfall gains'.

The Committee has demonstrated significant restraint over recent years with actions taken including a reduction to Executive Directors' salaries when the pandemic first hit, no salary increases for two consecutive years and the exercise of downwards discretion on bonus outturns for two consecutive years. At all times we consider the experience of our wider stakeholders when determining the pay for our executives and the Committee has continued to do this when assessing the appropriateness of 2020 LTIP vesting levels.

Background

The Committee considered in detail number of factors when deciding whether the level of vesting is appropriate including share price performance (on both an absolute and relative basis), underlying financial performance and the experience of our shareholders, with further detail provided below:

Share price used to determine grant – As disclosed above we delayed setting targets for and granting the 2020 LTIP until September 2020 when we had greater clarity over the impact of Covid-19 on our business, the transport sector and the wider economy. We also were at the beginning of a period of significant strategic change as we had made plans to divest of our North American businesses. This meant that the share price at grant (40.13p) was c.44% higher than the share price after the initial post-Covid decline in March 2020 (c.28p) resulting in c.31% fewer shares granted to the former CEO and CFO than if the award had been made when the share price was at its lowest. While the FTSE 250 returned to pre-Covid levels in early 2021, given the impact on FirstGroup's sector the recovery took longer demonstrating that the share price used to determine the grant was not a short-term low point.

Underlying financial performance – There were a number of actions taken by management that resulted in strong underlying financial performance over the period as detailed below.

Responding to the impact of the pandemic:

The management team made a decisive impact in leading the business through the pandemic by:

- Focusing on cash generation and cost management initiatives;
- Ensuring sufficient liquidity was in place; and
- Recovering payments from our customers, including securing payment when schools were shut in the US and funds under federal grants.

Since FY 2020 (1 April 2019 – 31 March 2020), a year that was almost entirely pre-Covid-19, revenue from continuing operations has increased by 18% (from £4,040m to £4,755m). Adjusted Operating Profit (on a pre-IFRS 16 basis) from continuing operations has increased by 47% (from £81m to £119m). Adjusted EPS from continuing operations (on a pre-IFRS 16 basis) increased from -1.8p to 12.0p.

Experience of our shareholders – FirstGroup's TSR outperformed both our comparator group and the FTSE 250 over the three-year performance period with performance at the 78th and 72nd percentiles, respectively. Performance against our sector peer group was above upper quartile and just below upper quartile against the wider FTSE 250. The Committee is comfortable that this demonstrates that share price performance does not solely reflect a general market recovery and represents outperformance.

The management team was instrumental in the sale of our North American businesses for a full strategic value of \$4.6bn in FY 2022, following which we returned £500m to shareholders through a tender offer and strengthened the balance sheet by repaying or de-risking £2.3bn in debt and other liabilities (including significantly strengthened the funding position of our UK pension schemes with payments of £337m). Additionally, as a direct result of the work undertaken by management to stabilize our balance sheet we were able to pay our first dividend in ten years in August 2022, and return further value to shareholders through the £75m share buyback scheme (announced in December 2022).

Conclusion

Taking into consideration the factors outlined above, the Committee decided that although the formulaic vesting outcome represented genuine out-performance against both peer groups, was underpinned by strong underlying financial performance and had been achieved as a direct result of positive actions of the management team over the three year performance period, an adjustment would be appropriate to reflect the potential for windfall gains. When determining the level of adjustment the Committee took into account a number of reference points including the share price used to determine previous awards, share price performance before and through the pandemic as well as underlying financial performance. It also recognised that management actions have played a clear and demonstrable role in the Company's share price performance. The Committee decided to use its discretion and apply a downward adjustment resulting in an overall reduction of 10% of the award. Therefore, the final vesting outcome for the 2020 LTIP was 88.4%, which the Committee considered to be aligned with the Company's performance and circumstances over the period.

As a result of this outcome, awards vested as follows:

Executive Director	Total number of shares granted	Proportion of award vesting (% max)	Face value of shares vesting (£'000) ¹	Value attributable to share price movement (£'000) ²	Value of dividend equivalents due (£'000)	Value of resultant award (£'000)
CFO	1,962,274	88.4%	£1,843	£1,147	£35	£1,878

¹ The face value of the 2020 LTIP at vesting has been calculated based on the average share price over the last three months of FY 2023 (106.3p).

² £1,147 of the value for the CFO at vesting is attributed to share price growth as the share price at award was 40.13p in 2020. See pages 122-123 for more information on what the Committee considered when determining whether the increase in share price was a result of windfall gains.

Annual report on remuneration continued

Long-Term Incentive Awards made during the year

The Committee determined that the 2022 awards would be measured against EPS, Relative TSR and a Sustainability Scorecard (comprising two environmental measures), over a three-year period.

The measures of the 2022 LTIP are consistent with the 2021 LTIP with the only difference being to align the emissions reduction measure with the Science Based Targets (SBT), set during FY 2022, for a reduction in our Scope 1 and 2 emissions.

Emissions reduction aligned to our SBT will become the main emissions metric that we report on and a key performance indicator for the Group. In addition, we consider that using an absolute carbon reduction metric is ultimately more appropriate than a carbon intensity measure, on the basis that the latter is affected by changes in revenue as well as carbon performance. As was the case with the previous measure, the Scope 1 and 2 emissions reduction targets are quantifiable, capable of being independently verified and are closely aligned with our strategy and investment case.

Both of our sustainability measures will be tracked, measured and reported to our banking partners as part of the Company's sustainability-linked Revolving Credit Facility.

Awards were made in August 2022 and are subject to a two-year holding period following the three-year performance period as well as malus and clawback. Before an award vests, the Committee must be satisfied that the underlying performance of the Group is satisfactory and has the ability to amend the formulaic vesting outcome if they believe this is appropriate. The Committee believes that having a performance override is an important feature of the plan, as it mitigates the risk of unwarranted vesting outcomes.

Details of the performance metrics, targets and comparator group for the 2022 LTIP awards are set out below.

2022 Long-Term Incentive Plan performance metrics (audited)

	Adjusted EPS (50%) ²	Relative TSR vs FTSE250	Sustainability Scorecard	
			Additional ZE ⁴ buses in service/ on order by 31 March 2025	Emissions Reduction: Scope 1&2 emissions (tCO ₂ e) reduction
Weighting	50%	35%	7.5%	1.5%
Threshold (20% vesting) ¹	9.4p	Median	340	1,030,000tCO ₂ e
Maximum (100% vesting)	13.6p	Upper quartile	550	990,000tCO ₂ e

1 Vesting will be on a straight-line basis between threshold and maximum.

2 EPS will be assessed on a pre-IFRS 16 basis as this aligns with how performance is measured internally and is most readily understood by management teams (EBIT in the EABP is measured on a pre-IFRS 16 basis for the same reason). A reconciliation from IAS17 to post-IFRS 16 EPS will be included in the FY 2025 Directors' Remuneration Report so to provide clarity between the LTIP targets and achievement relative to the reported EPS on a statutory basis.

3 Relative TSR will be assessed against the FTSE 250 Index.

4 Zero emission.

5 Tonnes of carbon dioxide equivalent (tCO₂e) per £1m of revenue.

An LTIP award of 200% and 175% of salary were granted to Graham Sutherland and Ryan Mangold, respectively, on 18 August 2022.

2022 Long-Term Incentive Plan grants (audited)

Details of Graham Sutherland's and Ryan Mangold's awards (granted in the form of conditional share awards) are set out below:

Executive Director	Share price at date of grant ¹	Face value (% of base salary)	Number of shares awarded	Face value of award	% of award which vests at threshold	Performance Period
Graham Sutherland	113.10p	200%	972,590	£1,100,000	20%	1.4.22 - 31.3.25
Ryan Mangold	113.10p	175%	713,770	£ 807,275	20%	1.4.22 - 31.3.25

1 The share price at grant for the LTIP awards is closing mid-market share price for the day preceding the grant date.

As is normal practice, the Committee will ensure that any vesting is appropriate in the context of underlying financial performance and the experience of our wider stakeholders. The Committee retains the ability to apply discretion in the event that the value at vesting is considered to be an unjustified windfall gain taking into account the performance of the Group.

Directorate changes

Graham Sutherland was appointed as CEO on 16 May 2022. After a period of transition, David Martin stepped down as Interim Executive Chairman and resumed the role of Non-Executive Chairman on 1 July 2022.

All Executive Directors are on a rolling contract terminable by either party on 12 months' notice.

Payments for loss of office (audited)

No payments for loss of office were made during FY 2023.

Payments to past Directors (audited)

As disclosed in the 2022 ARA, from the period he stepped down as Chief Executive Officer on 13 September 2021 until the date his notice expired on 27 July 2022, Matthew Gregory had been available to provide assistance in relation to ongoing projects and to work closely with David Martin and Graham Sutherland, as required, to ensure a smooth transition.

In line with Matthew Gregory's service contract and the shareholder approved Remuneration Policy, his salary, pension and benefits continued to be paid as usual during this period. If the termination date had been brought forward from 27 July 2022, then any payments made in respect of the unexpired notice period would have been made in instalments, and subject to mitigation and reduction in the event Matthew Gregory took up alternative employment.

Amounts paid in FY 2023 after Matthew Gregory stepped down from the Board are set out below.

Executive Director	Salary £000s	Benefits ¹ £000s	Pension £000s	LTIP ² £000s	Total £000s
Matthew Gregory	205	4	29	2,355	2,593

1 Benefits include car allowance and medical insurance.

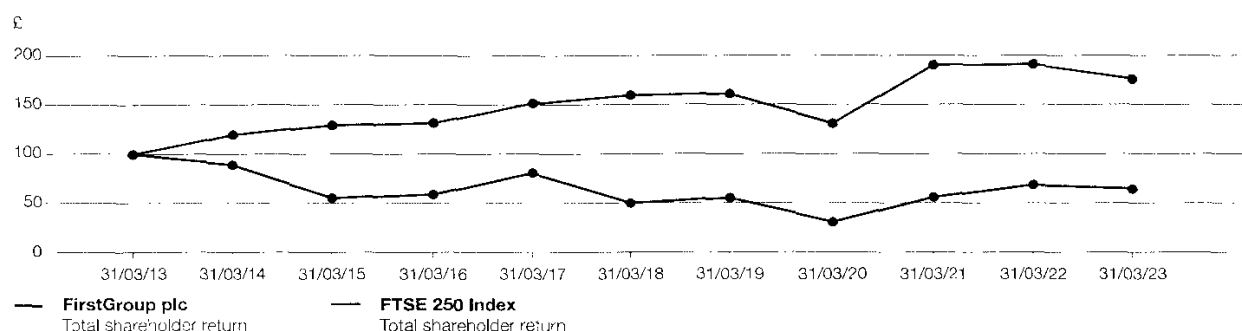
2 The value of the 2020 LTIP at vesting has been calculated based on the average share price over the last three months of FY 2023 (106.3p). The value of the LTIP includes dividend equivalents of £43,501.

As disclosed in the FY 2022 remuneration report, Matthew Gregory's unvested awards under the 2020 LTIP (in relation to 3,164,556 shares) would not lapse by reason of his leaving employment, and remained eligible to vest on the normal vesting date in accordance with the rules of the LTIP and subject to the satisfaction of performance conditions and pro-rating for his period of employment. As disclosed in the 'Vesting of 2020 Long-Term Incentive Awards' section on pages 122-123, the formulaic vesting outcome was 98.2% of maximum, however, the Committee determined that a 10% reduction to this was appropriate, resulting in a final vesting outcome of 88.4%. After application of pro-ration for his period of employment and application of the performance, 2,175,064 shares will vest on 8 June 2023. Vested shares are subject to a further two-year holding period following the end of the performance period. No further LTIP awards were made to Matthew Gregory.

Annual report on remuneration continued

Performance graphs

The graph below shows the TSR performance of £100 invested in FirstGroup plc shares over the past ten-years compared to an equivalent investment in the FTSE 250. The FTSE 250 Index has been selected as it provides an established and broad-based index, of which the Company is a constituent.



Source: Thomson Reuters Datastream

TSR is measured according to a return index calculated by Thomson Reuters Datastream on the basis that all the Company's dividends are reinvested in the Company's shares. The return is the percentage increase in the Company's index over the ten-year period.

Remuneration of the Chief Executive Officer

The table below shows the total remuneration figure for the Chief Executive Officer, during each of the past ten-years. The total remuneration figure includes the annual bonus and LTIP awards that vested based on performance in those years. The annual bonus percentages show the payout for each year as a percentage of the maximum.

	2014	2015	2016	2017	2018	2019 (Tim O'Toole)	2019 (Wolfhart Hauser)	2019 (Matthew Gregory)	2020	2021	2022 (Matthew Gregory)	2022 (David Martin)	2023 (David Martin)	2023 (Graham Sutherland)
Total remuneration (£000s)	1,986	1,647	1,243	1,267	1,100	175 ¹	266 ⁴	422 ⁵	788	840	2,246 ⁶	320 ⁷	134 ⁸	1,191 ⁹
EABP (% of maximum potential)	59.1	57	15.9	— ²	— ²	—	n/a	33.4	—	—	97	n/a	n/a	94
LTIP vesting (% of maximum potential)	—	—	—	16.3	—	—	n/a	12.5	12	14.6	88.5	n/a	n/a	—

1 An EABP was not paid to Tim O'Toole in 2017 and instead he received a conditional deferred share award.

2 No EABP was paid to Tim O'Toole in 2018.

3 Remuneration for Tim O'Toole until he stepped down as CEO on 31 May 2018. Tim O'Toole was not eligible for an annual bonus or LTIP awards.

4 Remuneration for Wolfhart Hauser for his period as Executive Chairman, 1 June to 12 November 2018. Wolfhart Hauser was not eligible for EABP or LTIP awards.

5 Remuneration for Matthew Gregory as Chief Executive from 13 November 2018 to 31 March 2019.

6 Remuneration for Matthew Gregory as Chief Executive from 1 April 2021 to 13 September 2021.

7 Remuneration for David Martin for his period as Interim Executive Chairman from 13 September 2021. David Martin was not eligible for EABP or LTIP awards.

8 Remuneration for David Martin for his period as Interim Executive Chairman until 30 June 2022. David Martin was not eligible for EABP or LTIP awards.

9 Remuneration of Graham Sutherland from his appointment as Chief Executive Officer on 16 May 2022, salary and EABP have been pro-rated for time served.

Non-Executive Directors' (NEDs) and Chairman's fees (audited)

No changes were made to NEDs' fees in FY 2023. These remained at £58,000 p.a. with additional fees of £12,000 p.a. payable to the Senior Independent Director and the Chairs of the Audit, Board Safety/Responsible Business, and Remuneration Committees.

During the period 13 September 2021 to 1 July 2022, David Martin took on the interim role of Executive Chairman, while a new Chief Executive Officer was being recruited. To recognise the additional time commitment associated with this, the Committee agreed a temporary increase in fees to £535,000 p.a.

£'000	FY 2023					FY 2022				
	Basic Fee	Committee Chair	SID	Taxable Benefits ¹	Total	Basic Fee	Committee Chair	SID	Taxable Benefits ¹	Total
David Martin ²	366	–	–	52	418	435	–	–	33	468
Warwick Brady ³	19	–	–	1	20	58	–	–	–	58
Sally Cabrini	58	12	–	1	71	58	12	–	2	72
Myrtle Dawes	58	–	–	6	64	–	–	–	–	–
Claire Hawkins ⁴	58	12	–	3	73	11	2	–	–	13
Jane Lodge ⁵	58	12	–	2	72	44	9	–	2	55
Peter Lynas ⁵	58	–	12	2	72	44	7	9	1	61
Julia Steyn ⁶	19	–	–	1	20	58	–	–	2	60
Ant Green ⁷	58	–	–	–	58	58	–	–	–	58

1 The Company meets all reasonable travel, subsistence, accommodation, and other expenses, including any tax where such expenses are deemed taxable, incurred by the Chairman and NEDs in the course of performing their duties.

2 David Martin became Executive Chairman on 13 September 2021 and resumed the role of Non-Executive Chairman on 1 July 2022. For the period he was Executive Chairman he was paid an additional fee of £225,000 p.a., bringing his total fees to £535,000 p.a. When he returned to the role of Non-Executive Chairman his fee returned to £310,000 p.a.

3 Warwick Brady stepped down from the Board on 27 July 2022 and his fees were pro-rated.

4 Claire Hawkins was appointed as a NED on 21 January 2022 and her fees for FY 2022 were pro-rated.

5 Jane Lodge and Peter Lynas were appointed as NEDs on 30 June 2021 and their fees for FY 2022 were pro-rated.

6 Julia Steyn stepped down from the Board on 27 July 2022 and her fees for FY 2022 were pro-rated.

7 Anthony Green was appointed as Group Employee Director on 15 September 2020. In addition to his fee as Group Employee Director, Anthony received earnings from the Group as an employee amounting to £25,398 in FY 2022 and £24,898 in FY 2023.

Annual report on remuneration continued

Implementation of Remuneration Policy for FY 2024

Annual base salary

The Committee carefully considered base salary increases for the Executive Directors holistically, taking into account FY 2024 base salary increases applied to the wider workforce (see page 115 for more information), investor guidance that base salary increases for Executive Directors should be lower than those provided to the wider workforce, the Group's strong performance in FY 2023 as well as the macroeconomic environment, including high rates of inflation experienced during 2023.

The Committee decided it would be appropriate to award a lower percentage increase to the Executive Directors so that greater focus could be on lower paid employees across the Group. Therefore, the Committee decided it was appropriate to award a base salary increase of 3% for Graham Sutherland and Ryan Mangold, increasing their base salary to £566,500 and £475,200, respectively, from 1 April 2023.

FY 2024 Executive Directors' annual bonus

For FY 2024, the EABP will continue to incentivise improved performance against a range of financial and non-financial metrics. The financial targets are set by the Committee based on a number of factors such as the Group's business plan, individual business unit level performance, consensus, and expectations for FY 2024. The performance measures and targets for FY 2023 will be disclosed in next year's report when they are no longer commercially sensitive, however at least 50% of the bonus will be based on financial measures in line with the approved shareholder Remuneration Policy.

The FY 2024 annual bonus maximum and threshold levels of bonus as a percentage of base salary will be as follows:

Executive Director	Maximum	Threshold
Graham Sutherland	150%	0%
Ryan Mangold	150%	0%

All payouts will be subject to the Committee's discretion as well as malus and clawback provisions. 50% of any bonus earned will be deferred into the Company's shares for three years, conditional upon continued employment. The Committee has demonstrated in assessing bonus outcomes, including in respect of FY 2021 and FY 2020, that it is prepared to set aside the formulaic outcome and reduce awards or introduce a further condition, to ensure that business performance or the impact of a significant event is properly reflected.

2023 Long-Term Incentive Awards

It is the Committee's intention to make awards under the LTIP this year. Awards of 200% and 175% of salary will be made to the Chief Executive Officer and Chief Financial Officer, respectively.

The measures of the 2023 LTIP will be consistent with the 2022 LTIP with the only difference being to how we present our emissions reduction target. In the 2022 LTIP our emissions reduction targets are presented as an absolute emissions figure, however, for the 2023 LTIP, we present this as a percentage reduction from our SBT base year (FY 2020).

Details of the performance metrics, targets and comparator group for the 2023 LTIP awards are set out below.

	Sustainability Scorecard			
	Adjusted EPS (50%) ¹	Relative TSR vs FTSE250 ²	Additional ZE buses in service/ on order by 31 March 2026	Emissions Reduction: Scope 1&2 emissions tCO ₂ e ³ reduction from SBT base year 2020
Weighting	50%	35%	7.5%	7.5%
Threshold (20% vesting) ¹	12.1p	Median	600	12% reduction
Maximum (100% vesting)	15.7p	Upper quartile	850	15% reduction

1 Vesting will be on a straight-line basis between threshold and maximum.

2 EPS will be assessed on a pre-IFRS 16 basis as this aligns with how performance is measured internally and is most readily understood by management; teams (EBIT in the EABP is measured on a pre-IFRS 16 basis for the same reason). A reconciliation from IAS17 to post-IFRS 16 EPS will be included in the FY 2026 Directors' Remuneration Report so to provide clarity between the LTIP targets and achievement relative to the reported EPS on a statutory basis.

3 Relative TSR will be assessed against the FTSE250 Index.

4 Zero emission.

5 Tonnes of carbon dioxide equivalent (tCO₂e).

Directors' interests in share awards (audited)

The outstanding LTIP, deferred share bonus awards of Directors are set out in the table below. There have been no changes to the terms of any share awards granted to Directors.

Director	Plan ¹	Date of grant	Number of shares under award as at 27.03.22	During year			Number of shares under award as at 25.03.23	Exercise price (£)	Face value of awards (£)	Date on which awards vest/ become exercisable ⁴	Expiry date
				Awards granted	Awards exercised	Awards lapsed					
Graham Sutherland	LTIP	18.08.22	–	972,590	–	–	972,590	nil	1,100,000	18.08.25	18.08.28
Ryan Mangold	LTIP	19.08.19	765,175	–	677,179 ⁵	87,996	–	nil	917,139	19.08.22	19.08.25
		24.09.20	1,962,274	–	–	–	1,962,274	nil	762,736	02.04.23	02.04.24
		02.08.21	934,274	–	–	–	934,274	nil	787,500	02.08.24	02.08.25
		18.08.22	–	713,770	–	–	713,770	nil	807,275	18.08.25	18.08.28
	Deferred bonus shares	18.08.22	–	289,456	–	–	289,456	nil	327,375	18.08.25	18.08.32

- 1 LTIP – granted in the form of nil cost options or conditional share awards granted under the Long-Term Incentive Plan. Awards prior to FY 2023 were typically made in the form of nil cost options. From FY 2023 awards were made as conditional share awards. Awards are subject to clawback and malus and subject to an additional two-year holding period.
Deferred bonus shares – granted in the form of nil cost options or conditional share awards under the EABP. Awards are subject to clawback and malus. Participants are entitled to receive accrued dividends and dividend equivalents under the LTIP and EABP pro-rated in proportion to the amount of the award that vests.
- 2 The table above shows the maximum number of shares that could be released if awards were to vest in full. In respect of LTIP and deferred bonus awards, participants are entitled to receive dividends or dividend equivalent amounts, once the share awards have vested.
- 3 The face value of LTIP and deferred bonus awards made has been calculated by multiplying the maximum number of shares that could vest by the average closing mid-market share price for the five days preceding the grant date for awards made prior to FY 2023. For awards made in FY 2023 the face value of LTIP and deferred bonus awards has been calculated by multiplying the maximum number of shares that could vest by the average closing mid-market share price on the day preceding the grant date, £1.1310.
- 4 LTIP awards will not vest until the date the Committee determines whether performance conditions have been met, or if later, the date specified above. If dealing restrictions apply on the date of vesting then vesting will occur on the first date after dealing restrictions cease to apply.
- 5 The market share price on the date of exercise, 22 August 2022, was £1.09 for a total market value of £738,125.

Annual report on remuneration continued

Directors' shareholding, shareholding guidelines and summary of outstanding share interests (audited)

Under the terms of the Policy approved by shareholders at the 2021 AGM, Executive Directors are expected to hold shares, or rights to shares in the Company, equivalent to a minimum of 200% of base salary within a five-year period from their date of appointment to create greater alignment of the Executive Directors' interests with those of shareholders. This represents an increase for the CFO from 150%. The Policy approved at the 2021 AGM also introduced post-cessation shareholding guidelines where Executive Directors are normally expected to hold the in-employment guideline (or full actual holding if lower) in the first year following cessation of employment and 50% (or full actual holding if lower) in the second year following cessation of employment.

The Committee reserves the right to relax or waive the application of such guidelines in certain circumstances, including the impending retirement of an Executive Director.

The table below sets out the shareholdings of the Executive Directors and their connected persons' shareholdings (including beneficial interests) and a summary of outstanding and unvested share awards as at 25 March 2023. It shows that Graham Sutherland's current shareholding is 38.9% of his base salary and Ryan Mangold's current shareholding is 172.5% of his base salary.

The Committee believes that it is an essential part of the Policy that Executive Directors build significant shareholdings. The retention and build-up of equity is important in a long-term business such as FirstGroup, as it encourages decisions to be made on a long-term, sustainable basis for the benefit of customers and shareholders.

There has been no change in the Directors' interests in the ordinary share capital of the Company between those set out below and the date of approval of this report. The beneficial interests of Directors who served during the year ending 25 March 2023 and their connected persons in the shares of the Company as at that date and 27 March 2022 are shown below.

Ordinary shares beneficially owned									
Directors	Date of appointment	at 28.03.22 or appointment date if later	at 25.03.23	Unvested Annual Bonus/ SIP Shares ¹	Unvested LTIP Shares ²	Vested but not exercised Annual Bonus/ LTIP awards ³	Shareholding requirement as % of salary	Current shareholding as % of salary ^{4,5}	% shareholding requirement achieved
Executive Directors									
Graham Sutherland	16 May 22	—	211,181	n/a	972,590	n/a	200%	38.9%	19.4%
Ryan Mangold	31 May 19	280,634	632,113	290,170	3,610,318	n/a	200%	172.5%	86.2%
Non-Executive Directors⁹									
David Martin	15 Aug 19	—	—	—	—	—	—	—	—
Warwick Brady ¹⁰	24 Jun 14	108,701	108,701	—	—	—	—	—	—
Sally Cabrini	24 Jan 20	—	10,000	—	—	—	—	—	—
Myrtle Dawes	1 Apr 22	—	—	—	—	—	—	—	—
Anthony Green	15 Sep 20	1,542	1,570	—	—	—	—	—	—
Claire Hawkings	21 Jan 22	—	10,000	—	—	—	—	—	—
Jane Lodge	30 June 21	15,000	15,000	—	—	—	—	—	—
Peter Lynas	30 June 21	60,000	80,000	—	—	—	—	—	—
Julia Steyn ¹⁰	2 May 19	—	—	—	—	—	—	—	—

¹ Ryan Mangold participates in the all employee Share Incentive Plan (SIP). His Partnership Shares are held in trust and are not at risk of forfeiture. Ryan Mangold acquired an additional 140 Partnership Shares between 26 March 2023 and the date of approval of this Report.

² Annual bonus shares are deferred shares that are subject to continued employment, but not subject to further performance conditions.

³ SIP Matching Shares awarded to Ryan Mangold are held in trust and are at risk of forfeiture if the corresponding Partnership Shares are withdrawn from trust within three-years. Ryan Mangold was awarded an additional 18 Matching Shares between 26 March 2023 and the date of approval of this Report.

⁴ LTIP awards are conditional share awards and nil cost options subject to ongoing performance conditions.

⁵ Based on the closing mid-market share price on 26 March 2023 (£1.012).

⁶ Graham Sutherland has until 16 May 2027 to meet his current shareholding guideline.

⁷ Ryan Mangold has until 31 May 2024 to meet his current shareholding guideline.

⁸ The % shown includes the after-tax value of vested but unexercised awards and the after-tax value of unvested EABP awards that are subject to continued employment.

⁹ Shares for Non-Executive Directors are held outright with no attaching performance conditions.

¹⁰ Warwick Brady and Julia Steyn stepped down from the Board on 27 July 2022.

Dilution

The Company ensures that the level of shares granted under the Company's share plans and the means of satisfying such awards remains within best practice guidelines, so that dilution from employee share awards does not exceed 10% of the Company's issued share capital for all share plans and 5% in respect of executive share plans in any ten-year rolling period. The Committee monitors dilution levels at least once a year. At 25 March 2023, 3.03% of the Company's issued share capital had been issued for the purpose of the SAYE, BAYE, and LTIP over a ten-year period.

Employee Benefit Trust (EBT)

The FirstGroup EBT has been established to acquire ordinary shares in the Company, by subscription or purchase, from funds provided by the Group to satisfy rights to shares arising on the exercise or vesting of awards under the Group's share-based incentive plans. As at 25 March 2023, 13,176,653 shares were held by the EBT to hedge outstanding awards of 27,216,152. This means that the EBT holds sufficient shares to satisfy approximately 48.4% of outstanding awards.

External board appointments

Where Board approval is given for an Executive Director to accept an outside non-executive directorship, the Director is entitled to retain any fees received, unless the appointment is in connection with the business of the Group. None of the Executive Directors currently sit on any other external company boards.

Percentage change in remuneration levels

The table below shows the movement in the salary, benefits, and annual bonus for all Directors between the current and previous financial year compared to that for the average UK employee (First Bus and First Rail, but excluding the Corporate centre). For the benefits and bonus per employee, the figures are based on those employees eligible to participate in such schemes.

		Executive Directors			Non-Executive Directors								
		Average UK employees ¹	GS ³	RM ⁴	DM ^{1,2}	WB ⁷	SC ⁸	MD ⁶	CH ⁹	JL ³	PL ^{10,7}	JS ^{10,7}	AG ⁵
% change to FY 2023	Salary/Fees	5.9%	n/a	2.4%	0.0%	0.0%	0.0%	n/a	0.0%	0.0%	(14.6%)	0.0%	0.0%
	Benefits	(7.3%)	n/a	0.0%	56.5%	n/a	(41.8%)	n/a	n/a	24.0%	116.2%	(72.1%)	0.0%
	Annual Bonus	(32.3%)	n/a	(0.7%)	—	—	—	—	—	—	—	—	—
% change to FY 2022	Salary/Fees ¹	11.1%	n/a	7.1%	7.1%	7.1%	6.1%	n/a	n/a	n/a	n/a	7.1%	0.0%
	Benefits	4.2%	n/a	0.0%	n/a	0.0%	n/a	n/a	n/a	n/a	n/a	n/a	0.0%
	Annual Bonus	576.6%	n/a	n/a	—	—	—	—	—	—	—	—	—
% change to FY 2021	Salary/Fees ¹	(2.4%)	n/a	(6.7%)	(6.7%)	(6.7%)	(5.7%)	n/a	n/a	n/a	n/a	(6.7%)	n/a
	Benefits	9.4%	n/a	0.0%	(100.0%)	0.0%	0.0%	n/a	n/a	n/a	n/a	(100.0%)	0.0%
	Annual Bonus	(66.2%)	n/a	n/a	—	—	—	—	—	—	—	—	—
% change to FY 2020	Salary/Fees	6.1%	n/a	n/a	n/a	0.0%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	Benefits	(4.8%)	n/a	n/a	n/a	0.0%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	Annual Bonus	37.2%	n/a	n/a	—	—	—	—	—	—	—	—	—

1 Directors' salary/fee figures for FY 2021 reflect the voluntary 20% reduction between April to July 2020. There have been no changes to NED fees since 2019.

2 Pay increases for the majority of UK employees in First Bus and First Rail are collectively bargained with trade unions in individual operating companies in First Bus and First Rail. Some of these agreements are multi-year deals. The increase in Benefits in FY 2021 reflects the inclusion of Avanti employees for a full year. The decrease in annual bonus in FY 2021 reflects no management bonuses paid in the Rail business in FY 2021.

3 Graham Sutherland was appointed to the Board as CEO on 16 May 2022, as such, no comparison to FY 2022 is available.

4 Ryan Mangold was appointed to the Board as CFO on 31 May 2019, therefore, his FY 2020 pay has been annualised for comparison purposes. Bonuses were not paid in FY 2020 or FY 2021, therefore, the percentage change in annual bonus to FY 2022 is 'n/a', meaning that the year-on-year change cannot be calculated.

5 David Martin, Sally Cabrini, Julia Steyn and Ant Green were appointed to the board in FY 2020. FY 2020 fees have been annualised for comparison purposes.

6 David Martin was appointed Interim Executive Chairman on 13 September 2021, as such he received a temporary fee increase to £535,000 per annum. David Martin resumed the role of Non-Executive Chairman from 1 July 2022 and his fees returned to £310,000 per annum. For comparison purposes FY 2022 and FY 2023 fees relate to the fees he receives as Non-Executive Chairman. David Martin did not have any taxable benefits relating to FY 2021, therefore, the percentage change in benefits to FY 2022 is 'n/a', meaning that the year on year change cannot be calculated.

7 Warwick Brady and Julia Steyn resigned from the Board on 27 July 2022. FY 2023 fees have been annualised for comparison purposes.

8 Myrtle Dawes was appointed to the Board on 1 April 2022, as such, no comparison to FY 2022 is available.

9 Claire Hawkings, Jane Lodge and Peter Lynas were appointed to the Board in FY 2022. FY 2022 fees have been annualised for comparison purposes.

10 Peter Lynas served as Chair of Board Safety Committee from September 2021 to March 2022, for comparison purposes the fee he received as Chair has been annualised. Peter Lynas' fees decreased in FY 2023 compared to FY 2022 as he no longer served as Chair of a Committee.

Annual report on remuneration continued

Relative importance of spend on pay

The table below illustrates the Company's expenditure on pay in comparison to adjusted operating profit and distributions to shareholders by way of dividend payments.

	FY 2023 £m	FY 2022 £m	% change
Adjusted operating profit ¹	154.4	226.8	(32)%
Distributions to shareholders ²	45.9	500	(91)%
Total employee pay ³	1,520.3	2,154.2	(29)%

1 Group adjusted operating profit has been used as a comparison as it is a key financial metric that the Board considers when assessing Company performance.

2 Distributions to shareholders of £45.9m in FY 2023, which consists of £14.8m in dividends and £31.1m share buyback (£36.1m including related costs).

3 Total employee pay is the total pay for all Group employees, including pension and social security costs. The average monthly number of employees in FY 2023 was 29,983 (FY 2022: 53,323). The decrease in total employee pay and average monthly number of employees from FY 2023 to FY 2022 is a result of the sale of our North American businesses in FY 2022.

Committee membership and attendance

The membership of the Committee is shown on page 107 and attendance is set out on page 86. After each meeting, the Chair of the Committee presents a report on its activities to the Board. The Chairman, Chief Executive Officer, Group HR Director, and Company Secretary will normally attend meetings by invitation, to provide advice and respond to specific questions. Other attendees may include the Chief Financial Officer, the Group Corporate Services Director, the Group Head of Reward, the Employee Director and the Committee's external remuneration adviser. Attendees are not involved in any decisions and are specifically excluded from any matter concerning their own remuneration. The Deputy Company Secretary acts as secretary to the Committee.

Who supports the Committee?

The Committee continues to receive advice from independent external remuneration advisers, Willis Towers Watson (WTW). The Committee appointed WTW in FY 2020, following a competitive tender process led by the Chair of the Committee. The Committee is solely responsible for their appointment, retention and termination and for approval of the basis of their fees and other terms. The Chair of the Committee agrees the protocols under which WTW provide advice.

WTW is a member of the Remuneration Consultants Group Code of Conduct and adheres to this Code in its dealings with the Committee. The Committee reviews the appointment of its advisers annually and is satisfied that the advice it receives is objective and independent.

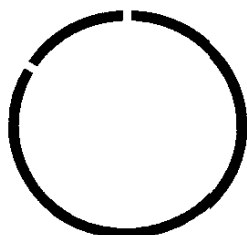
During the course of the year, WTW provided independent advice and commentary on a range of topics including Directors' remuneration reporting, discretionary share plans, corporate governance and executive remuneration trends and shareholder consultation. WTW fees for advice provided to the Committee were £77,954 (FY 2022: £115,500), charged on a time-spent basis. WTW provides remuneration advice, including the provision of benchmark data, to the Company.

Shareholder voting on remuneration

At the 2021 AGM, shareholders approved the Directors' Remuneration Report and Directors' Remuneration Policy which were published in the FY 2021 Annual Report and Accounts. The results of these votes are shown below, together with the result of previous shareholder votes on remuneration resolutions since 2015.

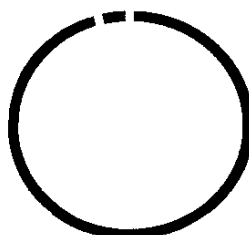
To approve the Directors' Remuneration Report at the 2022 AGM

2022 AGM voting



To approve the Directors' Remuneration Policy at the 2021 AGM

2021 AGM voting



● Votes for **478,167,186**
 ● Votes against **90,005,515**
 Votes withheld **1,319,750**

● Votes for **943,536,831**
 ● Votes against **40,940,117**
 Votes withheld **3,531,863**

* Note: A 'Vote withheld' is not a vote in law and is not counted in the calculation of the votes 'For' and 'Against' a resolution.

To approve the relevant Directors' Remuneration Report	Votes For	Votes Against
2022 AGM	84.16%	15.84%
2021 AGM	98.43%	1.57%
2020 AGM	99.99%	0.01%
2019 AGM	76.32%	23.68%
2018 AGM	96.37%	3.63%
2017 AGM	91.32%	8.68%
2016 AGM	96.53%	3.47%

To approve the Directors' Remuneration Policy	Votes For	Votes Against
2021 AGM	95.84%	4.16%
2018 AGM	84.52%	15.48%
2015 AGM	92.82%	7.18%

Further engagement

The Committee values its continued dialogue with shareholders and engages directly with them and their representative bodies at the earliest opportunity. Shareholder feedback received in relation to the AGM, as well as any additional feedback and guidance received during the year, is considered by the Committee as it develops the Company's remuneration framework and practices.

In line with Provision 3 of the Code, the Committee Chair welcomes questions from shareholders on the Committee's activities.

Sally Cabrini

Chair, Remuneration Committee
 8 June 2023

Annual report on remuneration continued

Compliance with the Corporate Governance Code

P Remuneration policies and practices designed to support strategy

The Directors' Remuneration Policy, approved at the 2021 AGM, was designed with consideration of the UK Corporate Governance Code. The majority of the Executive Directors' remuneration is through performance-related incentives linked to the Group's strategic goals. Half of any Executive Directors' annual bonus that vests under the EABP is deferred into shares that vest after three years. Any awards that vest under the LTIP are subject to a further two-year holding period. Additionally, the Executive Directors' have a shareholding guidelines and post-cessation shareholding guidelines provide a clear link to the Group's ongoing performance and shareholder experience. See pages 132-141 of the FY 2021 Annual Report and Accounts for the full remuneration policy.

Q Formal and transparent procedure for developing policy on executive remuneration

FirstGroup welcomes open and frequent dialogue with shareholders on its approach to remuneration. Major shareholders have been consulted on the Committee's approach to remuneration.

R Directors to exercise independent judgment and discretion when authorising remuneration outcomes

The remuneration policy allows for the use of discretion to adjust the formulaic incentive outcomes if they are not reflective of underlying performance of the Group. As noted under Provision 37, discretion has been applied to reduce formulaic outcomes under the EABP in FY 2020 and FY 2021, resulting in no bonus being awarded in either year.

32 Establish a remuneration committee

The Company has a Remuneration Committee in accordance with the requirements of the Code.

33 Delegation of responsibilities and review of workforce remuneration and related policies

When determining senior team pay the Committee considers it in the context of wider workforce pay, policies and practices. Each year, a number of items are tabled at Committee meetings to ensure the approach throughout the Group is fair. See pages 115-117 for further information.

34 Non-executive director remuneration

The Company's NEDs each receive an annual fee reflecting the time commitment for their roles. An additional fee is paid to the Senior Independent Director and Chairs of the Audit, Remuneration and Responsible Business Committees to reflect the additional time commitment associated with these roles. The NEDs do not receive any performance-related pay or equity awards. NEDs are permitted to buy shares in the Company, subject to the Company's share dealing code. See page 127 for fees paid to NEDs and the Chairman.

35 Consultants appointed by the committee

Willis Towers Watson was appointed by the Committee in FY 2020.

36 Remuneration schemes should promote long-term holdings by executive directors

Executive Directors are required to hold shares to the value of 200% of base salary within five-years of appointment. Post-cessation, Executive Directors must maintain 100% of their in-employment shareholding guideline in the first year following employment, dropping to 50% in the second year (or the full actual holding if lower).

37 Use of discretion

As noted in Principle R, the Committee has the ability to use discretion to override formulaic outcomes.

The Committee most recently used their discretion to reduce formulaic outcomes under the FY 2020 and FY 2021 EABP, resulting in no payout in both years, to ensure performance is reflective of the Company's underlying performance and aligned with the shareholder experience. Additionally, malus and clawback provisions apply to both the EABP and LTIP.

38 Only basic salary to be pensionable

The Company complies with this provision and pension contributions are aligned with the wider workforce. See page 118 for further information.

39 Notice and contractual periods

The notice and contractual periods for the Executive Directors are for one year.

40 Matters to be addressed by the committee when determining remuneration

The current remuneration structures address the principles of clarity, simplicity, risk, predictability, proportionality and alignment to culture. See page 111 for further detail on how the agreed Remuneration Policy addresses these factors.

41 Report on the work of the committee and reporting requirements

The strategic rationale for our Executive Director remuneration policies and structures is set out in the Remuneration Committee Chair's letter on pages 107-109 and in the Annual Report on Remuneration on pages 118-133. The Committee is satisfied that the remuneration outcomes are appropriate, considering internal and external measures and the wider workforce pay.

We encourage an open dialogue with shareholders on executive remuneration matters.

In developing the Remuneration Policy we consider alignment with the wider workforce pay policies. The Remuneration Committee Chair regularly attends Employee Director Forums and answers questions about executive remuneration.

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 52 weeks ended 25 March 2023. Information required to be disclosed in the Directors' report may be found below and are incorporated into the Directors' Report by cross reference to the following sections of the Annual Report and Financial Statements in accordance with the Companies Act 2006 (the 2006 Act) and Listing Rule 9.8.4R of the Financial Conduct Authority.

Information	Page
Sustainability governance	38
Greenhouse gas emissions	45
Likely future developments in the business	18
Risk factors and principal risks; going concern and viability statements	67-77
Governance arrangements; human rights and anti-corruption and bribery matters	56
Long-term incentive schemes	114
Financial instruments and related market transactions	162-163

Directors

The Directors of the Company who served during the year, and those appointed after the end of the financial year, are shown on pages 88-90. Warwick Brady and Julia Steyn stepped down following the 2022 AGM on 27 July 2022. Myrtle Dawes and Graham Sutherland were appointed to the Board with effect from 1 April 2022 and 16 May 2022 respectively.

Details of the Directors' interests in shares can be found in the Directors' remuneration report on page 130.

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 the extent permitted by law to each of the Directors, the Company Secretary and a number of other executives and senior managers. 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 of the Company or any of its associated companies. Neither the indemnity, nor insurance cover provides cover in the event a Director or Officer is proved to have acted fraudulently or dishonestly. The indemnity is categorised as a 'qualifying third-party indemnity' for the purposes of the Companies Act 2006 and will continue in force for the benefit of Directors and Officers on an ongoing basis.

Conflicts of interest

The Directors have a statutory duty under the Companies Act 2006 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. In line with the Companies Act 2006, 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 and will do so at the AGM on 21 July this year.

Disclosure of information to the external auditor

Each of the Directors who held office at the date of approval of this report confirm that, so far as they 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 Companies Act 2006.

Share capital

As at 25 March 2023, the Company's issued share capital was 750,596,762 ordinary shares of 5 pence, each credited as fully paid and the Company held 30,306,435 of these shares in treasury, and the issued share capital of the Company which carries voting rights of one vote per share comprised 720,290,327 ordinary shares. Given the ongoing buyback programme these figures continue to change – announcements are made to the market each day that shares are repurchased. Further details of the Company's issued share capital are shown in note 28 to the Company's financial statements.

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

Directors' report and additional disclosures continued

Substantial shareholdings

As at 25 March 2023, the Company had been notified under the FCA's Disclosure, Guidance and Transparency Rule of the following interests in its total voting rights of 3% or more:

Name of shareholder	Number of ordinary shares	% of total voting rights	Date of notification
Schroders Plc	102,087,662	13.86	8 February 2023
Ameriprise Financial, Inc. ¹	112,529,975	14.99	29 November 2022
Coast Capital Management LP	25,169,383	3.35	20 May 2022
Aberforth Partners LLP	49,386,172	6.61	3 December 2021
Majedie Asset Management Limited	60,915,714	4.99	3 February 2021
Lombard Odier Asset Management Limited	55,461,667	4.54	16 December 2020

Between 25 March 2023 and the date of this report:

1 Ameriprise Financial, Inc. notified the Company on 30 May 2023 that their holding had decreased to 98,672,583 shares which represented 13.99% of total voting rights as at the date of notification.

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 Companies Act 2006. 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.

Dividend rights

Shareholders may by ordinary resolution declare dividends but the amount of the dividend may not exceed the amount recommended by the Board.

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.

Going concern and viability

Directors are required to consider if it is appropriate to adopt the going concern basis of accounting. Disclosure of the Directors' deliberations to determine whether it is appropriate to adopt the going concern basis of accounting in addition to consideration of the material uncertainties which may affect the Group's ability to continue to adopt this basis can be found in the Going Concern statement on page 77, the Audit Committee report on page 101 and in note 2 to the financial statements. In summary, the Directors have concluded that it is appropriate to prepare the financial statements on a going concern basis.

Directors are also required to provide a broader assessment of viability over a longer period, which can be found on page 76.

Employee share plans

The Company operates a number of employee share plans, details of which are set out in note 36 and in the Directors' Remuneration Report that starts on page 107.

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.

Employment of disabled persons

Applicants with disabilities are given full and fair consideration during recruitment processes. We are committed to supporting employees with disabilities with regard to training, career development and promotion. Our policies on employee consultation and on equal opportunities for all employees can be found on page 47-50.

Employee engagement

We remain committed to employee involvement throughout the Group. Employees are kept well informed of the performance and strategy of the Group and other matters of concern through a variety of means including personal briefings, regular meetings, email and broadcasts by the Group Chief Executive and other senior managers. Refer to page 50 for further information.

Stakeholder engagement

The Board has determined that the Group's stakeholders are customers, investors, government, employees, communities and our strategic partners and suppliers. The Board is aware that its actions and decisions impact our stakeholders. Effective engagement with stakeholders is important to the Board as it strengthens the business and helps to deliver a positive result for all our stakeholder groups. In order to comply with Section 172 of the Companies Act, the Board is required to take into consideration the interests of stakeholders and include a statement setting out the way in which Directors have discharged this duty during the year. The Group's stakeholders are identified on pages 78-80 of the Strategic report and the statement of compliance with Section 172 is set out on page 81. Further information on workforce engagement can also be found on page 50.

Purchase of own shares

At the AGM of the Company in 2022 authority was granted for the Company to purchase up to 10% of its ordinary shares. The Company announced a buyback programme on 16 December 2022 under the authority granted at the 2022 AGM. The Company anticipates seeking authority to purchase up to 14.99% of its ordinary shares at the AGM in 2023.

Political donations

At the 2022 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 2022 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 covered. 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 UK or EU political organisations, nor to incur other political expenditure in the UK or EU.

No political donations nor expenditure was incurred by the Company and its subsidiaries during FY 2023.

Change of control – significant agreements

Financing agreements

As at 25 March 2023, the Group had a £300m multi-currency revolving credit and guarantee facility between, amongst others, the Company and The Royal Bank of Scotland plc dated 27 August 2021, maturing in August 2026, which refinanced the Group's existing revolving credit and guarantee facilities. 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 outstanding £184.3m 6.875% bonds due 2024 issued by the Company may also be affected by a change of control of the Company. 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.

First Rail

The Group's contracted passenger rail operators, First TransPennine Express Limited, First Greater Western Limited, First MTR South Western Trains Limited (jointly owned with MTR Corporation) and First Trenitalia West Coast Rail Limited (jointly owned with Trenitalia) are each party to a contractual agreement with the Secretary of State for Transport. These agreements are subject to termination clauses which may apply on a change of control. First MTR South Western Trains Limited, First Greater Western Limited, First Trenitalia West Coast Rail Limited and the Group's non-contracted rail operators, Hull Trains Company Limited and East Coast Trains 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, Rock Rail Limited, Beacon Rail Limited, 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 transport contracts in the UK and 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 SWR rail operator and with Trenitalia in relation to the West Coast Partnership rail operator. As is customary, these agreements include provisions addressing change of control.

Post balance sheet events

Information on material events that occurred from 25 March 2023 to the date of this report can be found on page 220 and in note 39.

Branch disclosure

The Group has a branch in France (First Travel Solutions Ltd), which was established on 28 March 2019.

Streamlined Energy and Carbon Reporting (SECR) compliance

In compliance with the SECR requirements, our GHG emissions and our energy consumption and energy and emissions reduction initiatives are reported on page 45.

Management report

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

The Directors' report was approved on behalf of the Board on 8 June 2023.

David Blizzard

Company Secretary
8 June 2023
395 King Street, Aberdeen AB24 5RP

Directors' responsibility statement

Statement of Directors' responsibilities in respect of the Financial Statements

The Directors are responsible for preparing the Annual Report and Accounts 2023 and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the group financial statements in accordance with UK-adopted international accounting standards and the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law, 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 Group and Company and of the profit or loss of the group for that period. In preparing the financial statements, the Directors are required to:

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

The Directors are responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

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

Directors' confirmations

The Directors consider that the Annual Report and Accounts 2023, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and Company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed in Board of Directors confirm that, to the best of their knowledge:

- the group financial statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- the company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities and financial position of the Company; and
- the Strategic report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the Directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the Group's and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information.

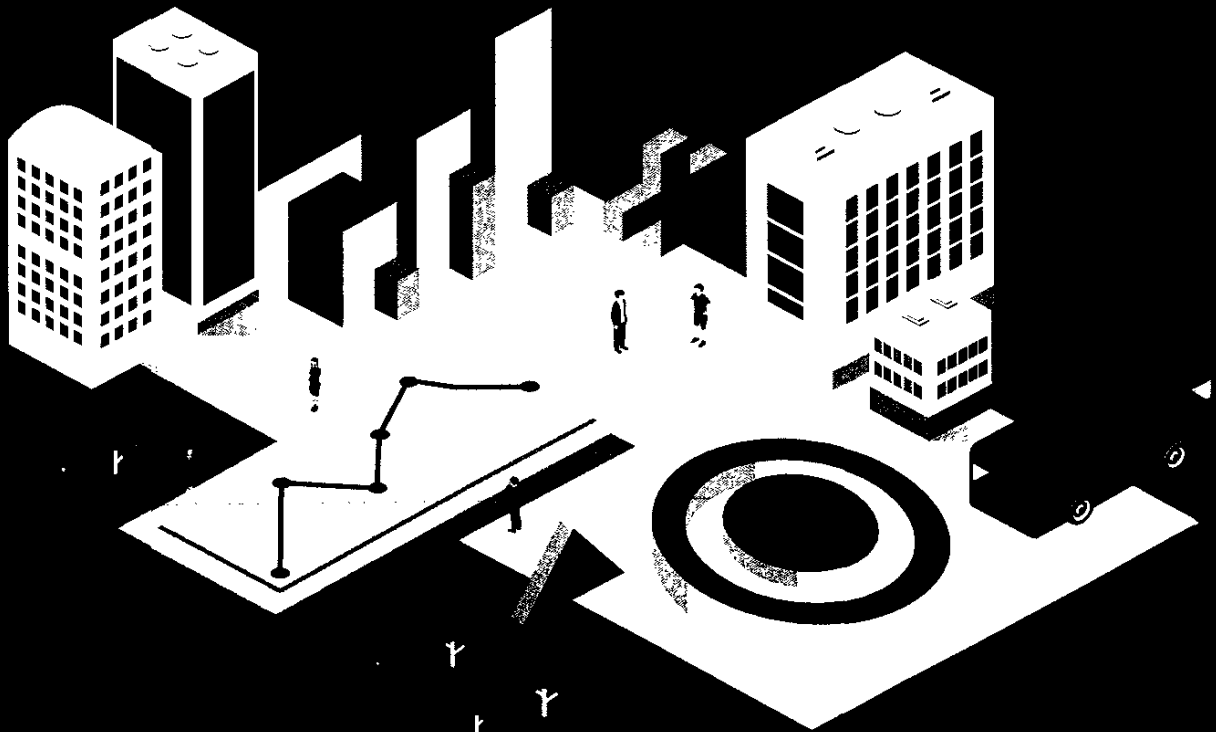
Ryan Mangold

Chief Financial Officer

8 June 2023

395 King Street, Aberdeen AB24 5RP

Financial statements



Independent auditors' report to the members of FirstGroup plc

Report on the audit of the financial statements

Opinion

In our opinion:

- FirstGroup plc's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 25 March 2023 and of the group's profit and the group's cash flows for the 52 week period then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts 2023 (the "Annual Report"), which comprise: the Consolidated balance sheet and the Company balance sheet as at 25 March 2023; the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated statement of changes in equity, the Company statement of changes in equity, and the Consolidated cash flow statement for the period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 6, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Context

The Group now operates in the UK only after the sale of their US divisions in the prior year. The Group consists of two main divisions, Rail and Bus. In the Rail division, all train operating companies have continued to be operating under contracts with the Department for Transport ("DfT") for FY23, with TransPennine Express (TPE), Great Western Railway (GWR) and South Western Railway (SWR) on National Rail Contracts and Avanti West Coast (AWC) under an Emergency Recovery Measures Agreement (ERMA), which has meant a fixed management fee was received to operate at agreed service levels, as well as a performance-based fee element. At the date of reporting TPE has ceased operating as no extension was granted to their existing NRC which expired on 28 May 2023. The structure of the contracts within the Rail division has reduced the revenue and cost risk compared to the previous franchise arrangements. Outside of the TOCs the Rail Division also consists of Hull Trains and East Coast Trains which continue to perform strongly and have experienced growth year on year. First Bus continued to receive government support in the way of Business Recovery Grants (BRG) in England, Bus Emergency Scheme (BES) in Wales and Bus Service Operators Grant (BSOG) in Scotland throughout the year which requires the business to operate a certain level of service and reimburses based on pre-covid revenue levels to compensate for slower return of passenger levels. In addition the introduction of the £2 bus fare cap in England has provided further government revenue support in the Bus division with the announcement in May that this will be extended until October 2024. The Bus division continues to expand its contractual business. There is one change to our key audit matters this year, as explained later in the report, in relation to the Valuation of the Transit Earn Out. The Group has continued to realise value from retained assets from the sale of Greyhound, including the sale of a number of properties that provided material profit on disposal. This year we have also specifically set out our consideration of the impact of climate change on the audit which is further explained below.

Overview

Audit scope

- The scope of our audit determines where we go and what we do, the best types of audit evidence to obtain, the right areas of operations to focus on and the resources needed to deliver this. As group auditors we are required to obtain sufficient audit evidence from the components of the group. We have determined there are five components for group reporting purposes
- Each Rail Train Operating Company (TOC) is a separate component, and the three largest TOCs are in scope for group reporting, being Great Western Railway (GWR), South Western Railway (SWR), and Avanti West Coast (AWC)
- UK Bus

Key audit matters

- Valuation of pension liabilities driven by salary increase, mortality, discount rate and inflation levels assumptions (group)
- Valuation of complex investments within the pension assets (group)
- Recoverability of the company's investments in subsidiary undertakings (parent)

Materiality

- Overall group materiality: £20,000,000 (2022: £9,750,000) based on 0.42% of revenue from continuing operations.
- Overall company materiality: £16,200,000 (2022: £27,128,000) based on 1% of total assets.
- Performance materiality: £15,000,000 (2022: £7,300,000) (group) and £12,150,000 (2022: £20,346,000) (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Valuation of Transit Earn Out (group), which was a key audit matter last year, is no longer included because of a completed sale of the Transit business by EQT which has reduced the level of management judgment required to estimate the fair value of the contingent consideration receivable. Otherwise, the key audit matters below are consistent with last year.

Independent auditors' report to the members of FirstGroup plc continued

Key audit matter

Valuation of pension liabilities driven by salary increase, mortality, discount rate and inflation levels assumptions (group)

The group has gross defined benefit obligations in the UK and US totalling £6,156.5m at 25 March 2023 (2022: £8,046.5m), excluding agent arrangements. The valuation of pension plan liabilities requires estimation in determining appropriate assumptions such as salary increases, mortality rates, discount rates and inflation levels.

Movement in these assumptions can have a material impact on the determination of the liability. Management uses external actuaries to assist in determining these assumptions, and this is considered to be the significant audit risk. In addition, there are restrictions under IAS19 and IFRIC 14 as to when a net pension surplus should be recognised, as well as balance sheet adjustments in respect of First Rail due to the Rail contracts. Refer note 37 and the Critical accounting judgements and key sources of estimation uncertainty section in note 2. Refer to the Audit Committee report on page 101 for a description of its assessment of this significant judgement.

How our audit addressed the key audit matter

We used our actuarial experts to assess whether the assumptions used in calculating the defined benefit liabilities for the UK, US and Canadian Schemes were reasonable and in line with accounting standards. We assessed whether mortality rate assumptions were appropriate for each plan and, where applicable, incorporated considerations of relevant national actuarial data. We also assessed whether the discount rate and inflation rates were consistent with our internally developed benchmarks and in line with market information. We examined the salary increase assumptions to consider whether they represent management's best estimate. In addition to our significant risk areas, we reviewed the trust deeds and statutory legislation relevant to each plan where applicable, and concur with management's view that the surplus in the Local Government Pension Schemes cannot be recognised in full on the balance sheet. We tested the IFRIC 14 adjustments in respect of these plans, agreed the value of the restrictions and found them to be reasonable, based on the specifics of each plan. We also assessed management's judgement with regard to the rail franchise adjustment and found no exceptions. We evaluated the calculations prepared by the external actuaries to assess the consistency of the assumptions used. Where there has been updated Funding Valuations, we have performed completeness checks and reviewed movements in the census data for each scheme by reference to the latest Funding Valuation performed. In addition we performed two-way testing of the listings of active members back to the scheme administrator records, or alternate procedures where appropriate. We have reviewed the controls report of the administrators where available and identified no exceptions relating to members' data. Based on procedures performed we consider that the assumptions used to value the pension obligation are within an acceptable range other than a trivial difference. We assessed the appropriateness of the related disclosures in note 37 of the group financial statements and consider them to be materially appropriate.

Key audit matter

Valuation of complex investments within the pension assets (group)

As set out in note 37, the group has gross defined benefit plan assets in the UK and US totalling £6,220.0m at 25 March 2023 (2022: £7,133.1m) from continuing operations (excluding agent arrangements). The pension schemes in which the Group participates hold unquoted plan assets in private equity, infrastructure and property funds. There is significant estimation uncertainty in determining the valuation of these investments which are based on inputs that are not directly observable. The funds where the valuation requires significant judgement across the group total £467m (2022: £531m). The funds are present in the FirstGroup UK Bus Pension Scheme. There is a potential range of reasonable outcomes to the valuations of these assets greater than our materiality for the financial statements as a whole.

How our audit addressed the key audit matter

We obtained pricing confirmations directly from investment managers and custodians as primary sources of evidence. We also performed additional procedures on investments that are more complex in nature to evaluate whether there is any contradictory evidence suggesting that the pricing confirmations do not reflect an appropriate valuation as at the balance sheet date. For investments considered more complex these procedures included one or more of the following: Obtained third party controls assurance reports and bridging letters on the valuations procedures and investment managers' operations for the current financial year; Reviewed the pricing of transactions taking place close to the balance sheet date; Performed look back testing of previous valuations provided by investment managers to audited financial statements of the underlying funds; Performed independent internet based searches for information suggesting any doubts in the investment managers' capability of pricing; and/or Reviewed investment contributions and distributions between the valuation date and the balance sheet date and obtained affirmations from investment managers that the price taken is the latest price available where the valuation date is different to the balance sheet date. Based on the procedures performed we have no findings to report.

Recoverability of the company's investments in subsidiary undertakings (parent)

As set out in note 5 to the Company financial statements, investments in subsidiaries are £740.7m (2022: £2,147.9m). Of this balance, £659.3m relates to the direct and indirect ownership of the Bus division. The investments are accounted for at cost less provision for impairment in the Company balance sheet at 25 March 2023. The carrying value of the investment in Bus is supported by the recoverable amount which has been calculated on a value in use basis. Investments are tested for impairment if impairment indicators exist. If such indicators exist, the recoverable amounts of the investments in subsidiaries are estimated in order to determine the extent of any impairment loss. Consideration is also given to whether there are indications that impairments previously booked should be reversed. Management have prepared a value in use model which shows headroom compared to the carrying value of the investment. This is considered a significant audit risk. Judgement is required in this area, particularly in assessing whether the carrying value of an asset can be supported by the recoverable value, being the higher of fair value less cost of disposal or the net present value of future cash flows which are estimated based on the continued use of the asset in the business. Refer to note 5 in the Plc company accounts and the Critical accounting judgements and key sources of estimation uncertainty section in note 1.

The recoverable value of the investment in First Bus subsidiaries was determined from the discounted future cash flows of the Bus division. We obtained management's value in use impairment assessment and ensured the calculations were mathematically accurate. We evaluated the inputs in the value in use calculation and challenged the key assumptions including:

- The operating margins forecast to be achieved, noting that the margins in the terminal year are consistent with those achieved in the industry pre-covid;
- Using our internal valuation experts to calculate an independent WACC rate range, with reference to comparable businesses;
- With the support of internal valuation experts assessing the long term growth rate applied. We evaluated the extent to which the considerations of climate change, such as capital expenditure on battery, electric and hydrogen fuel cell vehicle fleets had been reflected in the underlying cash flows. We recalculated management's own sensitivity analysis of key assumptions used in the value in use assessment and also performed our own independent sensitivity testing to include the application of reasonable alternative individual and combined risk scenarios in order to assess for any potential material impairment under such conditions. Based on our procedures we did not identify any matters indicating that management's model was inappropriate. We have assessed the disclosures provided and consider them to be appropriate. For non-Bus investments we have assessed the value of the US investment to the cash that is expected to be received in relation to the Earn Out which provides sufficient support.

Independent auditors' report to the members of FirstGroup plc continued

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

Following the disposal of First Student, First Transit and Greyhound in the prior year, the Group is organised into two operating divisions, First Bus and First Rail. There are 123 reporting units within the consolidation, the majority of which are inactive although there is some trading activity in nine reporting units in addition to those included in Group reporting scope. We have defined a component as a business unit where legal entities have been grouped together based on the fact they have the same management, the same control environment and also considering the way the component reports to the group. We have determined there are four components required for Group reporting as follows: SWR, GWR, AWC and UK Bus.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the process management on climate change adopted to assess the extent of the potential impact of climate risk on the Group's financial statements and support the disclosures made within the Note 2 and Note 11.

In addition to enquiries with management, we also:

- Read the governance processes in place to assess climate risk
- Read additional reporting made by the entity on climate including its Environmental Performance Report 2023

We challenged the completeness of management's climate risk assessment by:

- Reading external reporting made by management including the Carbon Disclosure Project submissions
- Reading the entity's website /communications for details of climate related impacts

Management have made commitments to operate a fully zero emission Bus fleet by 2035. Management considers the impact of climate risk does give rise to a potential material financial statement impact.

The key areas of the financial statements where management evaluated that climate risk has a potential significant impact are disclosures relating to impairment assessment of goodwill and carrying value of investments in subsidiaries.

Using our knowledge of the business we evaluated management's risk assessment, its estimates as set out in note 2 of the financial statements and resulting disclosures where significant. We considered the following areas that could potentially be materially impacted by climate risk and consequently we focused our audit work in these areas:

- Valuation of goodwill
- Carrying value of investment in subsidiaries

To respond to the audit risks identified in these areas we tailored our audit approach to address these, in particular, we:

- Challenged management on how the impact of climate commitments made by the Group would impact the assumptions within the discounted cash flows prepared by management that are used in the Group's impairment analysis.
- Evaluated whether the impact of both physical and transition risks arising due to climate risk had been appropriately included in the recoverable value of the Group's assets.
- Challenged whether the impact of climate risk in the Directors' assessments and disclosures of going concern and viability were consistent with management's climate impact assessment.

We also considered the consistency of the disclosures in relation to climate change (including the disclosures in the Task Force on Climate-related Financial Disclosures (TCFD) section) within the Annual Report with the financial statements and our knowledge obtained from our audit.

Our procedures did not identify any material impact in the context of our audit of the financial statements as a whole, or our key audit matters for the period ended 25 March 2023.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

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

	Financial statements – group	Financial statements – company
Overall materiality	£20,000,000 (2022: £9,750,000).	£16,200,000 (2022: £27,128,000).
How we determined it	Based on 0.42% of revenue from continuing operations	1% of total assets
Rationale for benchmark applied	Revenue is considered to be the most appropriate benchmark for the financial year. In the engagement leader's judgement £20 million is an appropriate materiality for a group of the scale and size of FirstGroup plc.	The entity is a holding company of the rest of the Group and is not a trading entity. Therefore an asset based measure is considered appropriate.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £13,500,000 and £19,000,000. Certain components are audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2022: 75%) of overall materiality, amounting to £15,000,000 (2022: £7,300,000) for the group financial statements and £12,150,000 (2022: £20,346,000) for the company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1,000,000 (group audit) (2022: £470,000) and £1,000,000 (company audit) (2022: £470,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Independent auditors' report to the members of FirstGroup plc continued

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- obtaining and agreeing management's going concern assessment to the business's board approved plan and ensuring that the base case scenario indicates that the business generates sufficient cash flows to meet its obligations within the going concern assessment period while complying with covenant arrangements;
- considering the extent to which the group's and company's future cash flows might be adversely affected by the long term impacts of COVID-19 and the impact of the cost of living crisis; reviewing management's cash flow forecasts, assessing the existing sources of finance and considering the overall impact on liquidity;
- ensuring the mathematical accuracy of management's models;
- evaluating management's severe but plausible scenario and ensuring this is appropriately modelled through the cash flows;
- considering the risk of breach of the covenant arrangements in place for external borrowings under the severe but plausible scenario;
- evaluating whether the cashflows in the going concern period include the costs associated with achieving the group's climate change goals such as capital expenditure on battery, electric and hydrogen fuel cell vehicle fleet;
- performing further sensitivity analysis on the severe but plausible scenario;
- considering the adequacy of the disclosures in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information, which includes reporting based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the period ended 25 March 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Directors' Remuneration

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

Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the group's and company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the group and company was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Independent auditors' report to the members of FirstGroup plc continued

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities in respect of the Financial Statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to employment laws and regulations and health and safety legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as Companies Act 2006 and UK tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries including those to increase revenue and management bias within accounting estimates. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- Enquiries of management at the Group and divisional levels;
- Enquiries of the Group and Rail legal teams;
- Enquiries with component auditors;
- Review of internal audit reports in so far as they related to the financial statements;
- Identifying and testing journal entries, in particular certain journal entries posted with unusual account combinations which result in an impact to revenue; and
- Challenging estimates and judgements made by management in determining significant accounting estimates, in particular in relation to valuation of pensions liabilities, valuation of complex investments within the pension assets and recoverability of investments held by the parent.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting**Companies Act 2006 exception reporting**

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

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements and the part of the Annual report on remuneration to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 5 November 2020 to audit the financial statements for the year ended 27 March 2021 and subsequent financial periods. The period of total uninterrupted engagement is three years, covering the periods ended 27 March 2021 to 25 March 2023.

Other matter

As required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

Matthew Mullins (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Watford
8 June 2023

Consolidated income statement

For the 52 weeks ended 25 March

Continuing Operations	Notes	2023 £m	2022 £m
Revenue	3,5	4,755.0	4,591.1
Operating costs	6	(4,601.1)	(4,468.3)
Operating profit	5,6	153.9	122.8
Investment income	8	12.3	1.1
Finance costs	8	(69.1)	(141.6)
Profit/(loss) before tax		97.1	(17.7)
Tax	9	(10.4)	11.9
Profit/(loss) from continuing operations		86.7	(5.8)
Profit from discontinued operations	21	8.6	647.8
Profit for the year		95.3	642.0
Attributable to:			
Equity holders of the parent		87.1	636.4
Non-controlling interests		8.2	5.6
		95.3	642.0

Earnings per share

Earnings per share for profit/(loss) from continuing operations attributable to the ordinary equity holders of the Company

Basic earnings per share		10.6p	(1.1)p
Diluted earnings per share		10.3p	(1.1)p

Earnings per share for profit attributable to the ordinary equity holders of the Company

Basic earnings per share	10	11.8p	60.2p
Diluted earnings per share	10	11.4p	60.2p

Adjusted results (from continuing operations)¹

Adjusted operating profit	4	161.0	106.7
Adjusted profit before tax		104.2	24.8
Adjusted EPS	10	10.6p	1.6p
Adjusted diluted EPS		10.3p	1.5p

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

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

Consolidated statement of comprehensive income

For the 52 weeks ended 25 March

	Notes	2023 £m	2022 £m
Profit for the year		95.3	642.0
Items that will not be reclassified subsequently to profit or loss			
Actuarial (losses)/gains on defined benefit pension schemes	37	(150.9)	122.3
Deferred tax on actuarial losses/(gains) on defined benefit pension schemes		37.2	(22.1)
		(113.7)	100.2
Items that may be reclassified subsequently to profit or loss			
Derivative hedging instrument movements	29	(6.3)	43.9
Deferred tax on derivative hedging instrument movements		(1.3)	(10.8)
Cumulative loss on hedging instruments reclassified to the income statement		10.9	–
Exchange differences on translation of foreign operations – continuing operations		0.9	(5.6)
Exchange differences on translation of foreign operations – discontinued operations		6.8	0.3
Non-controlling interests share of loan waived		–	35.4
Reclassification of foreign currency translation reserve on discontinued operations (see note 21)		–	(543.4)
		11.0	(480.2)
Other comprehensive loss for the year		(102.7)	(380.0)
Total comprehensive (loss)/income for the year		(7.4)	262.0
Attributable to:			
Equity holders of the parent		(15.6)	221.0
Non-controlling interests		8.2	41.0
		(7.4)	262.0
Total comprehensive (loss)/income for the year attributable to owners of FirstGroup plc arises from:			
Attributable to:			
Continuing operations		(22.6)	149.1
Discontinued operations		15.2	112.9
		(7.4)	262.0

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

Consolidated balance sheet

As at 25 March

	Notes	2023 £m	2022 £m
Non-current assets			
Goodwill	11	99.6	93.5
Other intangible assets	12	10.8	12.4
Property, plant and equipment	13	2,329.7	1,692.7
Contingent consideration receivable	17	–	106.1
Deferred tax assets	26	47.0	36.1
Retirement benefit assets	37	44.6	203.0
Derivative financial instruments	25	0.1	4.2
Financial assets	26	117.6	117.0
Investments	14	2.5	2.2
		2,651.9	2,267.2
Current assets			
Inventories	16	26.0	28.9
Trade and other receivables	17	848.3	682.3
Contingent consideration receivable	17	72.3	–
Current tax assets		–	3.1
Cash and cash equivalents	20	791.4	787.7
Derivative financial instruments	25	7.4	26.2
		1,745.4	1,528.2
Assets held for sale – continuing operations	18	8.3	–
Assets held for sale – discontinued operations	18,21	0.6	38.5
Total assets		4,406.2	3,833.9
Current liabilities			
Trade and other payables	19	1,314.4	1,245.1
Tax liabilities – Current tax liabilities		0.3	–
– Other tax and social security		41.4	38.3
Borrowings	22	554.7	677.0
Derivative financial instruments	25	2.6	–
Provisions	27	85.9	114.6
Current liabilities		1,999.3	2,075.0
Net current liabilities		(253.9)	(546.8)
Non-current liabilities			
Borrowings	22	1,512.3	736.8
Derivative financial instruments	25	1.9	–
Retirement benefit liabilities	37	16.7	16.3
Provisions	27	125.2	120.7
		1,656.1	873.8
Total liabilities		3,655.4	2,948.8
Net assets		750.8	885.1
Equity			
Share capital	28	37.5	37.5
Share premium		693.2	692.8
Hedging reserve	29	(0.7)	19.3
Other reserves	29	22.4	22.4
Own shares	29	(15.4)	(9.0)
Translation reserve	30	(16.3)	(24.0)
Retained earnings		19.5	137.6
Equity attributable to equity holders of the parent		740.2	876.6
Non-controlling interests		10.6	8.5
Total equity		750.8	885.1

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

Ryan Mangold

8 June 2023

Consolidated statement of changes in equity

For the 52 weeks ended 25 March

	Share capital (note 28) £m	Share premium £m	Hedging reserve (note 29) £m	Other reserves (note 29) £m	Own shares (note 29) £m	Translation reserve (note 30) £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
Balance at 28 March 2021	61.1	689.6	(3.4)	4.6	(9.0)	524.7	(89.6)	1,178.0	(23.9)	1,154.1
Profit for the year	–	–	–	–	–	–	636.4	636.4	5.6	642.0
Other comprehensive income/(loss) for the year	–	–	33.1	–	–	(548.7)	100.2	(415.4)	35.4	(380.0)
Total comprehensive income/(loss) for the year	–	–	33.1	–	–	(548.7)	736.6	221.0	41.0	262.0
Derivative hedging instrument movements transferred to balance sheet (net of tax)	–	–	(10.4)	–	–	–	–	(10.4)	–	(10.4)
Transactions with owners in their capacity as owners										
Shares issued	0.2	3.2	–	–	–	–	–	3.4	–	3.4
Shares bought back and cancelled	(23.8)	–	–	17.8	–	–	(500.0)	(506.0)	–	(506.0)
Disposal of non-controlling interest in First Transit	–	–	–	–	–	–	–	–	(0.7)	(0.7)
Dividends paid/other	–	–	–	–	–	–	2.0	2.0	(7.9)	(5.9)
Movement in EBT and treasury shares	–	–	–	–	–	–	(16.8)	(16.8)	–	(16.8)
Share-based payments	–	–	–	–	–	–	5.4	5.4	–	5.4
Balance at 26 March 2022	37.5	692.8	19.3	22.4	(9.0)	(24.0)	137.6	876.6	8.5	885.1
Balance at 27 March 2022	37.5	692.8	19.3	22.4	(9.0)	(24.0)	137.6	876.6	8.5	885.1
Profit for the year	–	–	–	–	–	–	87.1	87.1	8.2	95.3
Other comprehensive income/(loss) for the year	–	–	3.3	–	–	7.7	(113.7)	(102.7)	–	(102.7)
Total comprehensive income/(loss) for the year	–	–	3.3	–	–	7.7	(26.6)	(15.6)	8.2	(7.4)
Derivative hedging instrument movements transferred to balance sheet (net of tax)	–	–	(23.3)	–	–	–	–	(23.3)	–	(23.3)
Transactions with owners in their capacity as owners										
Shares issued	0.0	0.4	–	–	–	–	–	0.4	–	0.4
Shares bought back but not yet cancelled	–	–	–	–	–	–	(31.6)	(31.6)	–	(31.6)
Liability for shares not yet bought back	–	–	–	–	–	–	(43.9)	(43.9)	–	(43.9)
Dividends paid	–	–	–	–	–	–	(14.7)	(14.7)	(6.1)	(20.8)
Movement in EBT and treasury shares	–	–	–	–	(6.4)	–	(8.6)	(15.0)	–	(15.0)
Share-based payments	–	–	–	–	–	–	6.4	6.4	–	6.4
Deferred tax on share-based payments	–	–	–	–	–	–	0.9	0.9	–	0.9
Balance at 25 March 2023	37.5	693.2	(0.7)	22.4	(15.4)	(16.3)	19.5	740.2	10.6	750.8

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

Consolidated cash flow statement

For the 52 weeks ended 25 March

	Notes	2023 £m	2022 restated £m
Cash generated by operations	32	644.8	185.8
Tax paid		(1.0)	(21.4)
Interest paid		(70.0)	(176.6)
Net cash from operating activities	32	573.8	(12.2)
Investing activities			
Interest received		6.4	1.4
Proceeds from disposal of property, plant and equipment		147.8	23.1
Purchases of property, plant and equipment		(173.7)	(241.9)
Purchases of software		(4.2)	(9.7)
Proceeds from capital grant funding		144.2	77.6
Net proceeds from disposal of subsidiaries (net of cash disposed) ¹		2.0	2,320.0
Settlement of foreign exchange hedge		(12.5)	–
Acquisition of businesses	31	(30.6)	(11.3)
Net cash used in investing activities		79.4	2,159.2
Financing activities			
Shares purchased by Employee Benefit Trust		(15.3)	(23.5)
Treasury shares purchased via share buyback scheme and directly associated costs (2022: tender offer)		(31.6)	(506.0)
External dividends paid		(14.7)	–
Dividends paid to non-controlling shareholders		(6.1)	–
Shares issued		–	2.9
Repayment of CCFF		–	(298.2)
Repayment of bond issues		(15.7)	(674.4)
Repayment of senior unsecured loans		–	(200.0)
Repayment of bank facilities		–	(579.3)
Repayment of lease liabilities		(546.9)	(600.4)
Repayment of asset backed financial liabilities		(10.6)	(9.4)
Fees for finance facilities		–	(1.7)
Net cash flow used in financing activities		(640.9)	(2,890.0)
Net increase/(decrease) in cash and cash equivalents before foreign exchange movements		12.3	(743.0)
Cash and cash equivalents at beginning of year		700.2	1,443.4
Foreign exchange movements		(4.0)	(0.2)
Cash and cash equivalents at end of year		708.5	700.2

1 2023 amount of £2.0m comprises cash consideration received of £7.2m less cash and cash equivalent sold of £5.2m (2022: £2,320.0m comprises cash consideration of £2,478.7m less cash and cash equivalents sold of £158.7m per Note 21 (b) and (c)).

Cash flows of discontinued operations are shown in note 21.

	Notes	2023 £m	2022 £m
Reconciliation to cash flow statement			
Cash and cash equivalents – Balance Sheet	20	791.4	787.7
Bank overdraft	22	(82.9)	(87.5)
Cash and cash equivalents at end of year per consolidated balance sheet		708.5	700.2

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

	Notes	2023 £m	2022 £m
Net increase/(decrease) in cash and cash equivalents in year		12.3	(743.0)
Decrease in debt excluding leases		15.7	1,751.9
Adjusted cash flow		28.0	1,008.9
Payment of lease liabilities		557.5	609.8
(Inception)/termination of leases		(1,231.8)	184.1
Foreign exchange movements		(4.0)	(3.8)
Other non-cash movements		0.2	207.8
Movement in net debt in year		(650.1)	2,006.8
Net debt at beginning of year		(619.0)	(2,625.8)
Net debt at end of year	33	(1,269.1)	(619.0)

Other non-cash movements consist of movements in supplier financing of £nil (2022: £159.2m), transfer of asset backed financial liabilities of £nil (2022: £61.0m) on sale of disposal First Student and First Transit, amortisation of debt issue fees of £(0.6)m (2022: £(12.4)m) and other non-cash movements of £0.8m (2022: £nil).

Management considers that adjusted cash flow is an appropriate measure for assessing the Group cash flow as it is the measure that is used to assess both Group and divisional cash performance against budgets and forecasts. Adjusted cash flow is stated prior to cash flows in relation to debt excluding leases.

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

Notes to the consolidated financial statements

1 General information

FirstGroup plc is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is 395 King Street, Aberdeen, Scotland, United Kingdom AB24 5RP. The nature of the Group's operations and its principal activities are set out in the Strategic report on pages 04-82.

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

2 Significant accounting policies

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) in conformity with the requirements of the Companies Act 2006 (IFRS) and the applicable legal requirements of the Companies Act 2006, in addition to complying with international accounting standards in conformity with requirements of the Companies Act 2006.

The consolidated financial statements of FirstGroup plc comply with UK-adopted international accounting standards and with the requirements of the Companies Act 2006. These financial statements are also prepared in accordance with IFRSs as issued by the IASB, including interpretations issued by the IFRS Interpretations Committee, as there are no applicable differences from IFRSs as issued by the IASB for the periods presented. There were no unendorsed standards effective for the period ended 25 March 2023 affecting these consolidated and separate financial statements.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments, and on a going concern basis as described in the going concern statement within the Strategic report on page 77.

As set out on page 77, the Group has undertaken detailed reviews of a range of severe but plausible financial and operational scenarios using financial outlook modelling. Based on their review of the financial forecasts and having regard to the risks and uncertainties to which the Group is exposed, the Directors believe that the Company and the Group have adequate resources to continue in operational existence for at least a 12-month period from the date on which the financial statements were approved. Accordingly, the financial statements have been prepared on a going concern basis.

The financial statements for the 52 weeks ended 25 March 2023 include the results and financial position of the First Rail business for the year ended 31 March 2023 and the results and financial position of all the other businesses for the 52 weeks ended 25 March 2023. The financial statements for the 52 weeks ended 26 March 2022 include the results and financial position of the First Rail businesses for the year ended 31 March 2022 and the results and financial position of all the other businesses for the 52 weeks ended 26 March 2022.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control exists when the Company has power over an investee entity, exposure to variable returns from its involvement with the entity and the ability to use its power over the entity to affect its returns.

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

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

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

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

Restatements

During the year, management reassessed the classification of cash flows in relation to capital grants received from the Department for Transport (DfT) and Transport Scotland, which had previously been reported within net cash from operating activities. As these grants typically relate to the funding of capital investment by the Group, management concluded that these cash flows represented investing activities, rather than operating activities, and accordingly have classified them as such in the FY 2023 financial statements and restated the FY 2022 presentation. The consolidated cash flow statement and the net cash from operating activities note (note 32) have been updated to reclassify the capital grant funding. In the FY 2022 restatement, an inflow of £77.6m was reclassified from operating activities to investing activities.

2 Significant accounting policies continued

Business combinations

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

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair value at the acquisition date.

Assets and disposal groups held for sale and discontinued operations

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year of the date of classification.

Such assets, or disposal groups, are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognised in profit or loss.

A disposal group qualifies as a discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations; or
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the income statement.

Goodwill and intangible assets

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

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

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

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

- Customer contracts – over the estimated life of the contract (nine to ten years)
- Franchise agreements – over the initial term of the franchise (two to ten years)
- Software – over the estimated life of the software (three to five years)

Revenue recognition

Under IFRS 15 revenue is recognised when control of a good or service transfers to the customer. The point at which goods and services are transferred to the customer is based on the fulfilment of performance obligations.

As the Group has the right to consideration corresponding directly with the value of performance completed to date, customer contract revenue is recognised consistent with the amount that the Group has a right to invoice. The Group is therefore exercising the practical expedient not to explain transaction prices allocated to unsatisfied performance obligations at the end of the reporting period.

Revenue principally comprises revenue from train passenger services, road passenger transport, and certain management and maintenance services in the UK. Where appropriate, amounts are shown net of rebates and sales taxes. An explanation of the types of revenue is set out below.

Note that revenues include contractual and direct fiscal support as a result of coronavirus, including post-pandemic recovery funding. This is covered in more detail further on in this note.

Notes to the consolidated financial statements continued

2 Significant accounting policies continued

Passenger revenues

Passenger revenues primarily relate to ticket sales through First Bus and First Rail. Passenger revenue is recognised at both a point in time and over time. Ticket sales for journeys of less than one week's duration are recognised on the first date of travel. Ticket sales for season tickets, travel cards and open-return tickets are initially deferred then recognised over the period covered by the relevant ticket. Concessionary amounts are recognised in the period in which the service is provided.

Contract revenues

Contract revenues mainly relate to tenders in First Bus, and in the prior year to First Student school bus contracts and First Transit contracts in North America. Revenues are recognised as the services are provided over the length of the contract and based on a transaction price which is defined in the terms of the contract.

Charter/private hire

Charter and private hire predominantly related to charter work in First Student (generated before the sale of the division in the prior year) for both school districts with extracurricular activities and third parties with general transportation needs. Revenue was recognised over the period in which the charter/private hire was provided to the customer.

Rail contract subsidy receipts

Revenue in First Rail includes subsidy receipts from the Department for Transport (DfT) for Emergency Measures Agreements (EMA), Emergency Recovery Measures Agreements (ERMA), National Rail Contracts (NRC) and amounts receivable under these arrangements including certain funded operational projects. Revenue also includes amounts attributable to the Train Operating Companies (TOCs), predominantly based on models of route usage, by the Railway Settlement Plan in respect of passenger receipts. Revenue is recognised over time as the performance obligations are met as agreed between the individual TOCs and the DfT.

Other revenues

Other revenues mainly relate to non-rail subsidies, revenue arising from ancillary services to other rail and road passenger service providers for maintenance, refuelling and other associated services and to sundry third parties for the use of space at terminals and on-board vehicles for other business activities, e.g. retail outlets, taxi ranks, catering and advertising. Other revenues are recognised at both a point in time and over time.

Contractual and direct fiscal support

The principal direct fiscal support recognised during the year comprised £848.8m (2022: £1,635.6m) of EMA/ERMA/NRC funding in First Rail, and £76.3m (2022: £190.2m) of BRG, NSG+, BES, concessions and other funding (including the £2 fare cap in England) in First Bus. These are recognised within revenue in accordance with IFRS 15 when control of the good or service is transferred to the customer and the Group is entitled to the consideration.

In the legacy North America business (discontinued operations), there were £nil (2022: £10.7m) of CARES Act employee retention credits accounted for through operating costs. These amounts were recognised as an offset to the related costs when conditions were met and expenses were incurred.

The main direct fiscal support recognised in revenue over time for each division has been as follows:

First Bus

Funding schemes were in place across the vast majority of the operation (BRG-E in England, NSG+ in Scotland, and BES2.0 and BES3.0 in Wales). BRG-E was the extension to the BRG scheme that was in place in FY 2022 and ran from the start of the year providing operators with a fixed monthly payment to enable them to maintain a higher level of commercial mileage than the current passenger levels would allow. NSG+ also ran throughout FY 2023 replacing the less commercially orientated CSG-R scheme and provided operators across Scotland with a fixed payment per kilometre operated again to enable a higher level of commercial mileage to be maintained. Both BRG-E and NSG+ contain profitability clauses meaning that any profits over a certain threshold should be shared or returned to the relevant authority, up to the total value of the funding provided. BES2.0 was in place from the start of the year before being replaced by BES 3.0 and takes the form of a grant payable to operators to offset any losses incurred from running an agreed level of mileage. In England, the £2 fare cap, underpinned by UK Government support, was announced by the Department for Transport in December 2022.

First Rail

The Emergency Measures Agreements (EMAs), the Emergency Recovery Measures Agreement (ERMAs) and the National Rail Contracts (NRCs) transferred substantially all revenue and substantially all cost risk to the government and for the full period our First Rail contracts were operated under the terms of these arrangements.

- EMA in respect of GWR up to 26 June 2022, whereupon GWR transitioned to a new, three-year NRC with an option for the DfT to extend by a further three years to June 2028
- ERMA in respect of WCP / Avanti up to 16 October 2022, where the existing arrangement was extended by a further six months by the DfT to March 2023. On 20 March 2023, the existing arrangement was again extended, to 15 October 2023

2 Significant accounting policies continued

■ NRCs for SWR and TPE throughout the year. On 10 February 2023, the DfT exercised its option to continue SWR's NRC for a full two-year extension period, to run to 25 May 2025. On 11 May 2023, the DfT confirmed that it would not exercise its option to extend the existing arrangements for FirstGroup's TransPennine Express (TPE) National Rail Contract, which was due to expire on 28 May 2023. On that date the DfT appointed its Operator of Last Resort to take over delivery of passenger services on the TPE network.

Under the arrangements, our franchised TOCs are paid a fixed management fee to continue to operate the rail network at a service level agreed with the government. Net DfT funding including the management and performance fee is recognised as revenue in Rail contracts subsidy receipts, in line with the revenue recognition policy for contract subsidy receipts from the DfT.

Greyhound

Subsidy funding was made available under section 5311(f) of the terms of the US CARES Act and under the American Rescue Plan Act. These Acts allow Greyhound to claim for losses made from operating intercity bus services in the US after 20 January 2020. In the prior year and up to the date that the business was divested, the subsidy funding receivable was recognised as other revenue in the period in which the services were provided and the operational costs were incurred.

Disaggregated revenue by operating segment is set out in note 4.

First Bus pandemic-related grants

First Bus has received coronavirus related grants which are government grants receivable in light of the pandemic. The amounts principally reflect grants receivable under the Bus Recovery Grant – Extension (BRG-E), the Bus Emergency Scheme (BES) for Wales and the Network Support Grant Plus (NSG+) with all grants being disclosed in revenue. Under the BRG-E, NSG+ and BES schemes, grant income may be claimed by operators of local bus services to close the shortfall of revenue earned by them during the period affected by coronavirus and the costs incurred by them in that period. The extent to which certain costs are eligible for inclusion in claiming bus support grant income and how certain costs should be determined for the purposes of the schemes remains subject to reconciliation processes. Income is recognised in the income statement in the same period in which the related shortfall of revenue over costs is incurred to the extent there is reasonable certainty that: (a) the Group will comply with the conditions attaching to the grant and (b) the grant will be received and retained by the Group, taking account of the potential adjustments to grant payments as a result of any reconciliation process.

Leasing

Lease identification

At inception of a contract, the Group shall assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Right of use asset

At the commencement date, the right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, less any incentives received, plus any initial direct costs incurred and an estimate of costs to be incurred by the Group to dismantle and remove the underlying asset or restore the underlying asset or the site on which it is located.

The right of use asset is depreciated on a straight-line basis over the shorter of the estimated useful life of the asset, the lease term or current contract terms for rail TOCs. In addition, the right of use asset is periodically reduced by impairment losses, if applicable, and adjusted for certain remeasurements of the lease liability.

Lease liability

At the commencement date of the lease, the lease liability is initially measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid by the Group under residual value guarantees. The lease payments also include the exercise price of a purchase option if the Group is reasonably certain to exercise that option. Payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate the lease, are also included. The payments are discounted at the incremental borrowing rate since the rates implicit in the leases are not readily available.

The lease liability is measured by increasing the carrying amount to reflect the interest on the lease liability and reducing the carrying amount to reflect the lease payments made. The carrying value is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to selected leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option and where it is not reasonably certain that the lease term will be extended. It also applies the low-value assets recognition exemption to leases of assets of low value based on the value of the asset when it is new, regardless of the age of the asset being leased. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

On the balance sheet, right of use assets have been included in property, plant and equipment and lease liabilities have been included in borrowings.

Notes to the consolidated financial statements continued

2 Significant accounting policies continued

Foreign currencies

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

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

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

In order to hedge its exposure to certain foreign exchange risks, the Group holds currency swaps and borrowings in foreign currencies (see note 25 for details of the Group's policies in respect of foreign exchange risks).

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

Borrowing costs

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

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

Non-GAAP measures and performance

In measuring the Group and divisional adjusted operating performance, additional financial measures derived from the reported results have been used by management in order to eliminate factors which distort year-on-year comparisons. The Group's adjusted performance is used to explain year-on-year changes when the effect of certain items is significant, including strategic items (including material M&A and group restructuring projects), costs of acquisitions including aborted acquisitions, and impairment of assets. Other items below £5.0m would not normally be considered as adjusting items unless part of a larger strategic project, but items which distort year-on-year comparisons that exceed this amount could potentially be classified as an adjusting item and are assessed on a case-by-case basis. Such potential adjusting other items may include: restructuring and reorganisation costs; property gains or losses; aged legal and self-insurance claims; movements on insurance discount rates; onerous contract provisions; pension settlement gains or losses; and other items which management has determined as not being relevant to an understanding of the Group's underlying business performance. Subsequent remeasurements of adjusting items are also recognised as an adjusting item in the future period in which the remeasurement occurs.

In addition, management assess divisional performance before other intangible asset amortisation charges, as these are typically a result of Group decisions and therefore the divisions have little or no control over these charges. Management considers that this overall basis supports year-on-year business performance comparisons, to underpin planning and decision-making on resource allocation. The Group does not consider the non-GAAP measures to be more important than, or superior to, IFRS measures. See note 4 for the reconciliation to non-GAAP measures and performance.

Retirement benefit costs

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

Payments to defined contribution plans are charged as an expense as they fall due. There is no further obligation to pay contributions into a defined contribution plan once the contributions specified in the plan rules have been paid.

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

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

2 Significant accounting policies continued

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

The retirement benefit position recognised in the balance sheet represents the present value of the defined benefit obligation as reduced by the fair value of scheme assets. Any residual asset resulting from this calculation is limited to refunds economically available to the Company, in the form of either a public sector payment or the present value of future service costs recognised via suspension of cash contributions.

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

Certain Transit Management contracts have defined benefit pension arrangements that are fully indemnified by the authority to which the contract relates. The gross assets and liabilities are recognised along with an amount recoverable from the contracting authorities on the basis that there is limited risk of default and which is also limited to the period of the contract.

Retirement benefits are also covered in the Key sources of estimation uncertainty section of note 2 below.

Tax

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

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

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

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

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

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

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

The Group follows IFRIC 23 Uncertainty over Income Tax Treatments. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The interpretation requires the Group to determine whether uncertain tax positions are assessed separately or as a Group; and

- Assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
 - If yes, the Group should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
 - If no, the Group should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

Notes to the consolidated financial statements continued

2 Significant accounting policies continued

Property, plant and equipment

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

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

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

Freehold buildings	50 years straight-line
Passenger carrying vehicles	seven to 17 years straight-line
Other plant and equipment	three to 25 years straight-line

Assets specific to Train Operating Companies are depreciated over the lesser of their estimated useful lives or the rail contract term.

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

Capital grants

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

Impairment of tangible and intangible assets excluding goodwill

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

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or CGU in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories of spare parts and consumables are stated at the lower of cost and net realisable value, after making appropriate allowances for obsolete and slow-moving items. Cost comprises direct materials and, where applicable, those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost method. Where the purchase of inventory was the hedged item in a cash flow hedge relationship, the initial carrying amount of the recognised inventory is adjusted by the associated hedging gain or loss transferred from the hedging reserve (a basis adjustment). There are no material inventory allowances.

Financial instruments

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

Financial assets

Financial assets can be measured at amortised cost, fair value through profit or loss or fair value through other comprehensive income. The measurement basis is determined by reference to both the business model for managing the financial asset and the contractual cash flow characteristics of the financial asset.

2 Significant accounting policies continued

Financial assets are classified into one of three primary categories:

Financial assets at amortised cost

Financial assets at amortised costs are non-derivative financial assets held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Fair value through profit and loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the income statement within finance costs. Transaction costs arising on initial recognition are expensed in the income statement.

Fair value through other comprehensive income

The Group does not have any financial assets held at fair value through other comprehensive income.

Financial liabilities and equity instruments

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

Financial liabilities

Bank borrowings

Interest-bearing bank loans and overdrafts are measured on an amortised cost basis.

Bonds and loan notes

These are measured either on an amortised cost basis or at fair value, if designated.

Trade payables

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

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments to hedge its exposure to foreign exchange, interest rate and commodity risks. Use of such financial instruments is governed by policies and delegated authorities approved by the Board. The Group does not hold or issue derivative financial instruments for trading purposes. The main derivative financial instruments used by the Group are interest rate swaps, fuel swaps, and cross currency interest rate swaps. Such instruments are initially recognised at fair value and subsequently remeasured to fair value at the reported balance sheet date. The fair values are calculated by reference to market exchange rates, interest rates and fuel prices at the period end, and supported by counterparty confirmations. Where derivatives do not qualify for hedge accounting, any gains or losses on re-measurement are immediately recognised in the Group income statement. Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge relationship and the item being hedged. At inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge, the nature of the risks being hedged and the economic relationship between the item being hedged and the hedging instrument.

Fair value hedging: The fair value change on qualifying hedging instruments is recognised in profit or loss. The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in profit or loss.

Cash flow hedging: The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial item such as inventory, the gains and losses previously recognised in other comprehensive income and accumulated in equity are removed from equity and included as a basis adjustment in the initial measurement of the cost of that item. This transfer does not affect other comprehensive income, however the hedging gains and losses that will subsequently be transferred as basis adjustments are categorised as amounts that may be reclassified subsequently to profit or loss, as such a reclassification may occur in the event that the hedged transaction is no longer expected to occur. Furthermore, if the Group expects that some or all of the loss accumulated in the cash flow hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

Notes to the consolidated financial statements continued

2 Significant accounting policies continued

Net investment hedging: Derivative financial instruments are classified as net investment hedges when they hedge the Group's net investment in an overseas operation. The effective element of any foreign exchange gain or loss from remeasuring the derivative instrument is recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Any ineffective element is recognised immediately in the Group income statement. Gains and losses accumulated in the foreign currency translation reserve are included in the Group income statement on the disposal or partial disposal of the foreign operation.

Provisions

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

Self-insurance

The Group's policy is to self-insure high frequency, low value claims within the businesses. In addition there are typically a smaller number of major claims during a financial year for which cover is obtained through third-party insurance policies subject to an insurance deductible. Where the Group holds legacy self-insurance exposures related to disposed businesses, insurance and re-insurance policies have been purchased to de-risk this exposure. Provision is made under IAS 37 Provisions, Contingent Liabilities and Contingent Assets for the estimated cost of settling uninsured claims for incidents occurring prior to the balance sheet date. The provision is discounted to appropriately reflect the timing of future cash claims settlements. Self-insurance is also covered in the key sources of estimation uncertainty section of note 2 below.

Share-based payments

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

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

Dividend distributions

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

Adoption of new and revised standards

The accounting policies adopted are consistent with those of the previous financial year except for the changes arising from new standards and amendments to existing standards which have been adopted in the current year.

The following amended standards and interpretations were adopted by the Group during the year:

- Property, plant and equipment: Proceeds before Intended Use (Amendments to IAS 16)
- Reference to the Conceptual Framework (Amendments to IFRS 3)
- Onerous contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Annual improvements to IFRS Standards 2018-2020

There has been no material change as a result of applying these amendments and no significant impact is expected from any of the future standards and amendments that are visible.

Key sources of estimation uncertainty and significant judgements

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

The following are the critical estimates and judgements that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

First Transit earnout valuation

On 26 October 2022, EQT Infrastructure announced its agreement to sell First Transit to Transdev North America, Inc. As part of the First Transit disposal to EQT Infrastructure, FirstGroup is entitled to an earnout consideration. The Group currently estimates the earnout consideration to be c.\$89m (£72.3m). While the earnout is considered to have crystallised following the sale, with proceeds anticipated in the first half of FY 2024, there remains a degree of estimation uncertainty regarding the amount to be received, depending on the finalisation of customary closing transaction adjustments.

2 Significant accounting policies continued

Impairment of assets in CGUs

The key sources of estimation uncertainty in relation to the potential risk of impairment of assets in CGUs relate to the cash flow forecasts including significant judgements in deciding what assumptions to make regarding the future financial performance of the CGU in a post-pandemic environment, the ongoing macroeconomic uncertainty, and the Group's future climate-related targets and ambitions. This is covered in more detail in note 11.

Defined benefit pension arrangements

Railway Pension Scheme

The Group sponsors six sections of the Railway Pension Scheme (RPS) in the current year, relating to its obligations for its contracted-TOCs, and a further section for Hull Trains, its Open Access operator. RPS is a defined benefit pension scheme which covers the whole of the UK rail industry. In contrast to the pension schemes operated by most businesses the RPS is a shared cost scheme which means that costs are formally shared 60% employer and 40% employee. The Group only recognises amounts in relation to its share of costs in the income statement. The RPS is partitioned into sections and, for the sections that relate to contracts, the Group is responsible for the funding of these sections only while it operates the relevant contract.

At the end of the contract term, responsibility for funding the relevant section of the scheme, and consequentially any deficit or surplus existing at that date, is passed to the next contractor. At each balance sheet date a contract adjustment is recognised against the IAS 19 net pension asset or liability to reflect that portion expected to pass to the next contractor.

The Directors view this arrangement as analogous to the circumstances described in paragraphs 92-94 of IAS 19 (Revised) with a third party taking on the obligation for future contributions. As there is no requirement to make contributions to fund the current deficit, it is assumed that all of the current deficit will be funded by another party and hence none of that deficit is attributable to the current contractor. In respect of the future service costs, there is currently no pension obligation in respect of those costs. When the costs are recognised in the income statement, the extent to which the committed contributions fall short determines the amount that is to be covered by contributions of another party in future, which is recognised as an adjustment to service cost in the income statement. Under circumstances where contributions are *renegotiated, such as following a statutory valuation, an adjustment will be recognised in the income statement, whilst changes in actuarial assumptions continue to be recognised through other comprehensive income.*

The Directors consider this judgement to be the most appropriate interpretation of IAS 19 to reflect the specific circumstances of the RPS where the contract commitment is only to pay contributions during the period in which we run the contract. An alternative approach would involve not limiting the measurement of the service cost through the recognition of an income statement contract adjustment but recognising all changes in the contract adjustment as a reimbursement right in Other Comprehensive Income (OCI).

For illustrative purposes, for the year ended 31 March 2023 the impact of this alternative approach would be an increase in costs of £102.9m (2022: £102.7m) in the income statement and a credit to OCI of £113.1m (2022: credit of £70.9m). In addition, the balance sheet would reflect a surplus of £35.2m (2022: surplus of £25.0m). Since the contract only refers to the contribution requirements during its term, and not any reimbursement rights, in the Directors' view contributions are shared with the next contractor and therefore the treatment of the arrangement as contribution-sharing is considered the most appropriate.

Actuarial assumptions

The UK schemes retirement benefit obligations are discounted at a rate set by reference to market yields at the end of the reporting period on high-quality corporate bonds. Significant judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded. Management follows actuarial advice from a third party when determining these judgements. Another key estimate is the longevity of members. We take specialist advice on this from our actuarial advisers which aims to consider the likely experience taking into account each scheme's characteristics. Our approach is to review these assumptions for each scheme following completion of their funding valuations, and more frequently only if appropriate to do so. Given pay increases for employees in the Rail division are under negotiation, the gross figures for the contract Rail pensions disclosures may be under- or overstated, but there will be nil impact on the balance sheet as a result of the contract adjustment. Additionally, in terms of the value of the assets held by one of the Local Government Pension Scheme funds, around £200m is held co-mingled with a considerably larger pool of assets held for the interests of the local authority and a significant number of other admitted employers. This means that the value attributable to the Company's share of the overall fund requires a degree of estimation, allowing for returns and outgo. Management review the approach, taking consideration and advice from actuarial and other professional advisors.

The Pension Regulator (TPR) has been in discussions with the RPS (the Scheme) regarding the long-term funding strategy of the Scheme. Whilst TPR believes that the Scheme should be funded on a more prudent basis, it is not possible at this stage to determine the impact to ongoing contribution requirements.

The carrying amount of the Group's continuing retirement benefit arrangements at 31 March 2023 was an asset of £27.8m (2022: asset of £186.7m). Further details and sensitivities are set out in note 37.

Notes to the consolidated financial statements continued

2 Significant accounting policies continued

Self-insurance

Provision is made for all known incidents for which there is self-insurance using management's best estimate of the likely settlement of these incidents. The estimated settlement is reviewed on a regular basis with independent actuarial advice and the amount provided (including the Incurred But Not Reported (IBNR) element) is adjusted as required. Given the diversity of claim types, their size, the range of possible outcomes and the time involved in settling these claims, a material change could be required to the carrying value of claims provisions in the next financial year. These factors also make it impractical to provide sensitivity analysis on one single measure and its potential impact on overall insurance provisions. The Group's total self-insurance provisions as at the balance sheet date were £129.9m (2022: £148.0m) as set out in note 27. Of this £79.1m relates to North America of which £73.3m is de-risked with insurance, leaving £5.8m where the actuarial range is £5.1m to £5.8m (2022: £9.6m and actuarial range £8.6m to £9.5m). A receivable matching the value of the de-risked provision of £73.3m is recorded within Other receivables to account for the recovery from the third-party insurer.

Determining the incremental borrowing rate used to measure lease liabilities

The Group is required to determine its incremental borrowing rate (IBR) to measure its lease liabilities. Judgement is required to determine the components of the IBR used for each lease, including risk-free rates, credit risk and any lease specific adjustments.

IBRs applied to new (or modified) leases are determined quarterly or at the time of a new franchise. They depend on the term, country and start and end date of the lease. They are estimated based on several factors which include the risk-free rate based on government bond rates, a country-specific adjustment and a credit risk adjustment based on the average credit spread of entities with similar ratings to the Group.

Climate change

In the preparation of the Group's consolidated financial statements, management has considered the potential impact of climate change, particularly in the context of the disclosures included in the Strategic Report (including the Task Force for Climate-related Disclosures), and the Group's own climate-related ambitions and targets. This includes an assessment of how the Group's accounting estimates and judgements are impacted by the Group's pathway to achieving its stated ambitions and targets, as well as by climate-related risks and opportunities for the Group.

Actions required to drive the Group's climate-related ambitions and targets, including their financial impacts, are factored into the longer-term business planning cycles of the Group. The following areas of estimation have been considered as part of these planning cycles, in addition to those detailed in the 'Key sources of estimation uncertainty' section below. Management do not believe that these areas will have a material impact on financial reporting estimates and judgements in the next year. Owing to the inherent medium/longer-term uncertainty with regard to climate-related risks and opportunities, it is not currently possible to assess whether in the future, these areas of estimation and judgement may have a more material impact on carrying values of assets and liabilities. Management will continue to regularly assess climate-related risks in the context of the estimates and judgements made in the preparation of the Group's financial statements.

Going concern and viability

There may be a risk of increased future costs and capital investment requirements to ensure compliance with environmental regulatory requirements (for example carbon taxes/charges, or other emissions-related restrictions), and to achieve the Group's stated sustainability targets and ambitions. However, the Group believes that there is likely to be an increasing modal shift towards public transport, as awareness grows among customers of climate-related issues, and with governmental support for transport decarbonisation, which could create new opportunities for the Group.

Carrying value of non-current assets

Environmental regulatory requirements, in parallel with the Group's climate-related targets and ambitions, may further accelerate the transition to electrification of vehicle fleets. Transitional risks relating to the evolution of climate-related technologies may alter the expected obsolescence profile of existing vehicle fleets. These factors may impact the Group's estimates of the useful lives of existing assets, their residual values, and the risk of asset impairment. The Group monitors closely the accounting estimates in relation to its vehicle fleets to ensure they remain reasonable.

Provisions

Climate-related legislative and regulatory changes may, in future, require the Group to assess whether environmental provisions are necessary, for example the potential introduction of carbon taxes/charges. In parallel with the work towards achieving its climate-related ambitions and targets, the Group tracks such legislative changes to ensure the impact on the business is well understood and managed effectively.

Going concern

The Board carried out a review of the Group's financial projections for the 18 months to 30 September 2024 and 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.

2 Significant accounting policies continued

Divisional management teams prepared detailed, bottom-up projections for their businesses reflecting the impact of the post-pandemic operating environment, including assumptions on passenger volume recovery and government support, as well as the impact of actions required to address the Group's climate-related targets and ambitions.

Base case scenario

The Board considered the annual budget to 31 March 2024 and medium-term plan to be the base case scenario for the purpose of the going concern assessment for the FY 2023 year end. These projections were the subject of a series of executive management reviews and were used to update the base case scenario that was used for the purposes of the going concern assessment at the 2023 year end. The base case assumes a continuing recovery in passenger volumes and yields in FY 2024, but that passenger volumes remain below pre-pandemic levels in the going concern assessment period. The base case also reflects the expiry and non-renewal of the TransPennine Express rail contract in May 2023. The macro projections in the updated base case assume that the UK operates in a recovering coronavirus 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 protracted post-pandemic recovery profile. In First Bus the downside case assumes a reduction in passenger volumes driving a 25% reduction in Bus profitability. In First Rail, the downside case assumes TOC performance fee awards at 50% of expected levels; revenue reduction in Hull Trains and Lumo of 20%; and loss of one National Rail Contract at the end of its current term. The downside scenario also assumes a delay in receipt of final Greyhound property proceeds until after the going concern period; a lower realised value for the First Transit earnout; and a £10m impact of a significant climate-related event.

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 capex spend 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 2024 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, including compliance with banking covenants under both the base case and downside scenarios. Accordingly, they continue to adopt a going concern basis of accounting in preparing the consolidated financial statements in this full year report.

3 Revenue

	2023 £m	2022 £m
Services rendered	3,483.0	2,537.0
First Rail contract subsidy receipts	893.0	1,662.1
Other revenues	379.0	392.0
Revenue from continuing operations	4,755.0	4,591.1
Discontinued operations	4.0	996.9
Revenue	4,759.0	5,588.0

Disaggregated revenue by operating segment is set out in note 5.

Other revenues principally represent post-pandemic funding mechanisms in First Bus and First Rail.

Notes to the consolidated financial statements continued

4 Reconciliation to non-GAAP measures and performance

In measuring the Group and divisional adjusted operating performance, additional financial measures derived from the reported results have been used by management in order to eliminate factors which distort year-on-year comparisons. The Group's adjusted performance is used to explain year-on-year changes when the effect of certain items is significant, including strategic items (including material M&A and group restructuring projects), costs of acquisitions including aborted acquisitions, and impairment of assets. Other items below £5.0m would not normally be considered as adjusting items unless part of a larger strategic project, but items which distort year-on-year comparisons that exceed this amount could potentially be classified as an adjusting item and are assessed on a case-by-case basis. Such potential adjusting other items may include: restructuring and reorganisation costs; property gains or losses; aged legal and self-insurance claims; movements on insurance discount rates; onerous contract provisions; pension settlement gains or losses; and other items which management has determined as not being relevant to an understanding of the Group's underlying business performance. Subsequent remeasurements of adjusting items are also recognised as an adjusting item in the future period in which the remeasurement occurs.

Reconciliation of operating profit to adjusted operating profit on a continuing basis	2023 £m	2022 £m
Operating profit on a continuing basis	153.9	122.8
Adjustments for:		
First Bus divisional restructuring costs	7.0	-
Strategic items	(1.4)	-
Greyhound Canada	1.5	1.7
Rail termination sums net of impairment reversal	-	(4.0)
Gain on disposal of properties	-	(13.8)
Total operating profit adjustments on a continuing basis	7.1	(16.1)
Adjusted operating profit on a continuing basis (note 5)	161.0	106.7

Reconciliation of operating profit/(loss) to adjusted operating profit on a discontinued basis	2023 £m	2022 £m
Operating profit from discontinued operations	31.3	683.3
Gain on sale of First Student and First Transit	-	(501.1)
Gain on sale of Greyhound	-	(109.0)
Operating profit from discontinued operations (excluding gain on sale of First Student, First Transit and Greyhound)	31.3	73.2
Adjustments for:		
Transit earnout charge	33.8	-
Gain on disposal of Greyhound properties	(71.4)	(6.5)
Strategy costs	(0.3)	-
Other intangible asset amortisation charges	-	0.4
Other costs associated with the disposal of First Student and First Transit	-	32.7
Other costs associated with the disposal of Greyhound	-	11.1
Greyhound insurance de-risking	-	19.3
Employment taxes relating to First Student and First Transit	-	6.6
Partial reversal of prior year impairments of Greyhound	-	(55.4)
Impairment of land and buildings	-	7.2
North America insurance provisions	-	31.5
Total operating profit adjustments from discontinued operations (excluding gain on sale of First Student, First Transit and Greyhound)	(37.9)	46.9
Adjusted operating (loss)/profit from discontinued operations	(6.6)	120.1

4 Reconciliation to non-GAAP measures and performance continued

	2023 £m	2022 £m
Reconciliation of profit/(loss) before tax to adjusted profit before tax and adjusted earnings		
Profit before tax (including discontinued operations)	128.7	854.1
Adjusting operating profit adjustments – continuing operations	7.1	(16.1)
Adjusting operating profit adjustments – discontinued operations excluding gain on sale	(37.9)	46.9
Gain on sale of First Student and First Transit	–	(501.1)
Gain on sale of Greyhound	–	(109.0)
Operating profit adjustments – total operations	(30.8)	(579.3)
Adjusting finance cost items – continuing operations	–	58.6
Adjusted profit before tax including discontinued operations	97.9	133.4
Adjusted tax charge	(20.7)	(20.4)
Non-controlling interests ¹	(5.1)	(5.6)
Adjusted earnings including discontinued operations	72.1	107.4

1 Statutory non-controlling interests in 2023 and 2022 principally reflect Avanti West Coast and South Western Railway.

	2023 £m	2022 £m
Reconciliation of tax charge to adjusted tax charge		
Tax charge (note 9)	33.4	12.1
Tax effect of adjusting items (note 10)	(12.7)	21.8
Adjustments attributable to changes in tax rates and laws	1.4	1.4
Write back of previously unrecognised deferred tax assets (note 9)	–	25.7
Write down of previously recognised deferred tax assets (note 9)	(1.4)	(40.6)
Adjusted tax charge (including discontinued)	20.7	20.4

Adjusted tax charge – continuing operations	20.4	2.7
Adjusted tax charge – discontinued operations	0.3	17.7

Adjusting items – 2023

The principal adjusting items in the year are as follows:

First Bus restructuring

As part of the restructuring of the First Bus division to exit loss-making markets and to align networks with post-pandemic demand, the Group completed the sale of its First Scotland East business in September 2022, realising a loss on disposal of £(3.7)m, and closed the Southampton depot resulting in closure costs and a release of prior impairment for a net credit of £2.3m. In line with this transition plan, the Group also incurred costs of £(5.6)m relating to surplus vehicle write-downs and other reorganisation charges in the division.

Strategic items

A final net credit of £1.4m was recognised, being costs incurred in relation to the Group's central functions as part of its ongoing cost efficiency initiatives following the exit from North America, offset by the release of accruals following the disposal of North America and the execution of the strategy.

Greyhound Canada

Net restructuring and closure costs of £(1.5)m relating to the continued winding down of Greyhound Canada operations were incurred during the year.

Adjusting items – discontinued operations

First Transit earnout

Following the announcement on 26 October 2022 of EQT Infrastructure's agreement to sell First Transit to Transdev North America, Inc., the Group now estimates its earnout consideration to be around \$88.5m (£72.3m) based on the information received on the sale by EQT. This gives rise to a non-cash, adjusting charge of £33.8m relative to the carrying value of the earnout of £106.1m as at 26 March 2022.

Gain on disposal of properties

A gain of £71.4m arose on the completion of the sale of the majority of the remaining Greyhound US properties in December 2022.

Adjusting items – 2022

The principal adjusting items in relation to the continuing business for 2022 were as follows:

Notes to the consolidated financial statements continued

4 Reconciliation to non-GAAP measures and performance continued

Gain on disposal of properties

An overall gain of £13.8m was realised in the prior year on the disposal of Greyhound Canadian properties.

Greyhound Canada closure

£1.7m in relation to Greyhound Canada restructuring and closure costs were incurred during the prior year.

First Rail termination sums net of impairment reversal

A £4.0m credit was recognised in the prior year, representing final adjustments of residual matters regarding the TPE and SWR termination sums.

The principal adjusting items in relation to the discontinued operations for 2022 were as follows:

Other intangible asset amortisation charges

The amortisation charge for the prior year was £0.4m.

Gain on sale of First Student and First Transit

As a result of the disposal of First Student and First Transit, a gain on sale of £501.1m was realised in the prior year.

Other costs associated with the disposal of First Student and First Transit

£32.7m of costs were incurred in the prior year associated with the disposal of First Student and First Transit that were not directly attributable to the sale and were therefore not included in the gain on disposal calculation.

Gain on sale and partial reversal of prior year impairments of Greyhound

As a result of the terms of the disposal of the Greyhound US business, there was a gain on disposal in the prior year of £109.0m and a credit of £55.4m representing the partial reversal of the prior years' impairment charges.

Other costs associated with the disposal of Greyhound

There was a charge of £11.1m in the prior year principally comprising legal and professional costs.

Employment taxes relating to First Student and First Transit

There was a charge of £6.6m during the prior year for a one-off charge for accelerated state and federal employment taxes.

North American insurance provisions and Greyhound insurance de-risking

There was a prior year charge of £31.5m for insurance costs due to deteriorations in respect of prior years' claims, and for the de-risking of legacy Greyhound insurance liabilities.

Gain on disposal of properties and impairment of land and buildings

An overall gain on disposal of Greyhound US properties of £6.5m was realised in the prior year. There was also an impairment charge of £7.2m for properties where market value was less than the book value.

The adjusting items in relation to finance cost adjustments – continuing operations for 2022 were as follows:

Total make-whole costs (bonds and facilities)

Costs of £50.0m in the prior year comprised a charge of £30.4m for the early repayment of the \$275m US Private Placement (USPP) and a charge of £19.6m for the early repayment of the £325m 2022 bond.

4 Reconciliation to non-GAAP measures and performance continued

Write-off of unamortised bridge, bond and facility costs

There was a charge of £8.6m in the prior year for unamortised fees for various facilities which were cancelled on completion of the sale of First Student and First Transit.

Other measures

First Bus EBITDA comprises:

	2023 £m	2022 £m
Pre-IFRS 16 EBITDA	105.0	87.6
IFRS 16 adjustments ¹	15.9	16.8
First Bus adjusted EBITDA per segmental results table above	120.9	104.4

First Rail EBITDA comprises:

Non-management fees-based TOCs pre-IFRS 16 EBITDA	32.5	(9.7)
Group's share of management fee income available for dividends (net of tax and minority interest)	38.7	45.5
Tax on management fee income	10.2	12.0
Minority interest at management fee TOCs	5.1	5.8
Other adjustments	–	3.0
IFRS 16 adjustments ¹	574.5	593.3
First Rail adjusted EBITDA per segmental results table above	661.0	849.9

Group items EBITDA comprises:

Pre-IFRS 16 EBITDA	(21.2)	(24.8)
IFRS 16 adjustments ¹	1.7	1.7
Group items adjusted EBITDA per segmental results table above	(19.5)	(23.1)

First Rail adjusted operating profit comprises:

Non-management fees based TOCs	31.5	(9.7)
Group's share of management fee income available for dividends (net of tax and minority interest)	38.7	45.5
Tax on management fee income	10.2	12.0
Minority interest at management fee TOCs	5.1	5.8
IFRS 16 adjustments/other ¹	39.3	34.2
First Rail adjusted operating profit per segmental results table above	124.8	87.8

Group adjusted attributable profit comprises:

First Bus operating profit	58.4	45.2
Attributable net income from First Rail management fee-based operations	38.7	45.5
First Rail adjusted operating profit from open access and additional services	31.5	(9.7)
Group central costs (operating profit basis)	(22.2)	(26.3)
Treasury interest ²	(14.1)	(20.7)
Tax ³	(10.2)	2.2
Group adjusted attributable profit	82.1	36.2

1 IFRS 16 adjustments to EBITDA principally reflect the add back of operating lease rental costs charged to the income statement before the adoption of IFRS 16. IFRS 16 adjustments to operating profit reflect operating lease rental costs less depreciation charges on Right of Use Assets.

2 Interest charge excluding notional interest and IFRS 16 lease interest.

3 Pro forma taxation at 19%.

Notes to the consolidated financial statements continued

5 Business segments and geographical information

For management purposes, the Group was organised into five operating divisions – First Bus, First Rail, First Student, First Transit and Greyhound. First Student and First Transit were categorised as Discontinued Operations at 27 March 2021 and the sale of these completed on 21 July 2021. Greyhound US and Mexico were categorised as Discontinued Operations at 25 September 2021 and the sale of this completed on 21 October 2021. The properties relating to the retained Greyhound US business were classified as held for sale and treated as discontinued up to their disposal in December 2022. Greyhound Canada was retained and was categorised as a Continuing Operation however, trading operations have ceased. The divisions are managed separately in line with the differing services that they provide and the geographical markets which they operate in. There is a clear distinction between each division and no judgement is required to identify each reportable segment.

The segment results for the 52 weeks ended 25 March 2023 are as follows:

	Continuing Operations					Discontinued Operations		Total £m
	First Bus £m	First Rail £m	Greyhound £m	Group items¹ £m	Intra-group elimination £m	Continuing Operations £m	Greyhound £m	Group items¹ £m
Passenger revenue	660.0	2,713.8	–	–	–	3,373.8	–	–
Contract revenue	149.9	–	–	–	(40.7)	109.2	–	–
Rail contract subsidy receipts	–	893.0	–	–	–	893.0	–	–
Other revenues	92.6	286.4	–	–	–	379.0	4.0	–
Revenue	902.5	3,893.2	–	–	(40.7)	4,755.0	4.0	–
EBITDA²	120.9	661.0	–	(19.5)	–	762.4	(6.6)	–
Depreciation	(68.6)	(651.2)	–	(2.1)	–	(721.9)	–	–
Software amortisation	(1.7)	(6.3)	–	(0.6)	–	(8.6)	–	–
Capital grant amortisation	7.8	121.3	–	–	–	129.1	–	–
Segment results	58.4	124.8	–	(22.2)	–	161.0	(6.6)	–
Other adjustments (note 4)	(7.0)	–	(1.5)	1.4	–	(7.1)	71.7	(33.8)
Operating profit/(loss)³	51.4	124.8	(1.5)	(20.8)	–	153.9	65.1	(33.8)
Investment income	–	2.0	–	10.3	–	12.3	0.5	–
Finance costs	(2.5)	(49.4)	–	(17.2)	–	(69.1)	(0.2)	–
Profit before tax	48.9	77.4	(1.5)	(27.7)	–	97.1	65.4	(33.8)
Tax								
Profit after tax								95.3

	Continuing Operations					Discontinued Operations				Total £m
	First Bus £m	First Rail £m	Greyhound £m	Group items¹ £m	Continuing Operations £m	First Student £m	First Transit £m	Greyhound £m	Group items¹ £m	
Capital additions	150.1	56.7	–	1.1	207.9	–	–	–	–	207.9

Capital additions comprises of intangible asset additions and acquisitions (note 12) and property plant and equipment acquisitions, additions and transfers from right of use assets (note 13).

5 Business segments and geographical information continued

Balance sheet ¹	Total assets £m	Total liabilities £m	Net assets/ (liabilities) £m
Greyhound retained	79.8	(101.6)	(21.8)
First Bus	775.5	(263.6)	511.9
First Rail	2,460.4	(1,092.1)	1,368.3
	3,315.7	(1,457.3)	1,858.4
Group items	251.5	(89.4)	162.1
Borrowings and cash	791.4	(2,067.0)	(1,275.6)
Taxation	47.0	(41.7)	5.3
Total	4,405.6	(3,655.4)	750.2
Greyhound (held for sale)	0.6	-	0.6
Total	4,406.2	(3,655.4)	750.8

1 Group items comprise central management and other items.

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

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

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

The segment results for the 52 weeks ended 26 March 2022 are as follows:

	Continuing Operations					Discontinued Operations				Total £m
	First Bus £m	First Rail £m	Greyhound £m	Group items ¹ £m	Continuing Operations £m	First Student £m	First Transit £m	Greyhound £m	Group items ¹ £m	
Passenger revenue	570.0	1,886.4	-	-	2,456.4	-	-	150.4	-	2,606.8
Contract revenue	80.6	-	-	-	80.6	450.3	203.2	-	-	734.1
Charter/private hire	-	-	-	-	-	21.8	0.1	0.9	-	22.8
Rail contract subsidy receipts	-	1,662.1	-	-	1,662.1	-	-	-	-	1,662.1
Other revenues	139.3	252.7	-	-	392.0	7.4	96.4	66.4	-	562.2
Revenue	789.9	3,801.2	-	-	4,591.1	479.5	299.7	217.7	-	5,588.0
EBITDA²	104.4	649.9	-	(23.1)	731.2	88.2	15.6	27.1	-	862.1
Depreciation	(63.3)	(669.5)	-	(2.6)	(735.4)	-	-	(11.0)	-	(746.4)
Software amortisation	(1.6)	(2.1)	-	(0.6)	(4.3)	-	-	(0.4)	-	(4.7)
Capital grant amortisation	5.7	109.5	-	-	115.2	-	-	0.6	-	115.8
Segment results	45.2	87.8	-	(26.3)	106.7	88.2	15.6	16.3	-	226.8
Other intangible asset amortisation charges	-	-	-	-	-	-	-	(0.4)	-	(0.4)
Other adjustments (note 4)	-	4.0	12.1	-	16.1	(14.8)	(6.5)	28.7	556.2	579.7
Operating profit/(loss)³	45.2	91.8	12.1	(26.3)	122.8	73.4	9.1	44.6	556.2	806.1
Investment income	-	0.6	-	0.5	1.1	-	-	0.4	-	1.5
Finance costs	(2.8)	(37.6)	(1.1)	(100.1)	(141.6)	(7.5)	(0.7)	(3.7)	-	(153.5)
Profit before tax	42.4	54.8	11.0	(125.9)	(17.7)	65.9	8.4	41.3	556.2	654.1
Tax	-	-	-	-	-	-	-	-	-	(12.1)
Profit after tax										642.0

	Continuing Operations					Discontinued Operations				Total £m
	First Bus £m	First Rail £m	Greyhound £m	Group items ¹ £m	Continuing Operations £m	First Student £m	First Transit £m	Greyhound £m	Group items ¹ £m	
Capital additions	113.8	52.6	-	5.1	171.5	87.7	12.2	37.1	-	308.5

Capital additions comprises of intangible asset additions and acquisitions (note 12) and property plant and equipment acquisitions, additions and transfers from right of use assets (note 13).

Notes to the consolidated financial statements continued

5 Business segments and geographical information continued

Balance sheet ¹	Total assets £m	Total liabilities £m	Net assets/ (liabilities) £m
Greyhound retained	170.7	(137.0)	33.7
First Bus	806.0	(179.6)	626.4
First Rail	1,659.9	(1,062.6)	597.3
	2,636.6	(1,379.2)	1,257.4
Group items	370.4	(124.6)	245.8
Borrowings and cash	787.7	(1,406.7)	(619.0)
Taxation	39.2	(38.3)	0.9
Total	3,833.9	(2,948.8)	885.1

1 Group items comprise central management and other items.

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

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

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

Geographical information

The Group's operations are located predominantly in the United Kingdom, with the prior year also including United States of America and Canada until the point of disposal of those businesses. The following table provides an analysis of the Group's revenue by geographical market:

Revenue	2023 £m	2022 £m
United Kingdom	4,755.0	4,591.1
Total continuing operations	4,755.0	4,591.1
United States of America – discontinued operations	4.0	908.2
Canada – discontinued operations	–	88.7
Total discontinued operations	4.0	996.9
Total revenue	4,759.0	5,588.0

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

	Non-current assets excluding financial instruments deferred tax and pensions		Additions to property, plant and equipment and intangible assets		Carrying amount of segment total assets	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
United Kingdom	2,557.6	2,021.7	207.9	171.5	4,278.8	3,613.2
United States of America – continuing operations	–	–	–	–	–	179.3
Canada – continuing operations	–	–	–	–	0.7	2.2
Unallocated corporate items	–	–	–	–	47.0	39.2
Total – continuing operations	2,557.6	2,021.7	207.9	171.5	4,326.5	3,833.9
United States of America – discontinued operations	2.6	2.2	–	128.6	79.7	–
Canada – discontinued operations	–	–	–	8.4	–	–
Unallocated corporate items	–	–	–	–	–	–
Total – discontinued operations	2.6	2.2	–	137.0	79.7	–
	2,560.2	2,023.9	207.9	308.5	4,406.2	3,833.9

6 Operating profit

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

	2023 £m	2022 £m
Depreciation – owned assets	171.4	157.1
Depreciation – right of use assets	550.5	578.3
Operating commitments	516.2	483.3
Other intangible asset amortisation charges	8.6	4.3
Capital grant amortisation	(129.1)	(115.2)
Cost of inventories recognised as an expense	268.1	236.6
Employee costs (note 7)	1,517.9	1,469.4
Gain on disposal of property, plant and equipment	(0.7)	(13.8)
Rail termination sums net of impairment reversal (note 4)	–	(4.0)
Impairment charges	13.6	–
Reversal of impairment	(4.3)	–
Auditor's remuneration (see below)	3.4	4.7
Rail franchise payments	3.4	24.6
Foreign exchange	(0.4)	(1.0)
Other operating costs ¹	1,682.5	1,644.0
Operating costs – continuing operations	4,601.1	4,468.3
Operating (income)/costs – discontinued operations	(27.3)	313.6
Operating costs – continuing and discontinued operations	4,573.8	4,781.9

1 Other operating costs includes £32.6m (2022: £48.0m) received or receivable from Government bodies in respect of bus service operator grants and fuel duty rebates.

2 Discontinued operations' operating income in 2023 consists primarily of the Greyhound US property gains on disposal (£71.4m), partly offset by the First Transit earnout charge (£33.8m). See note 4 for more details.

Amounts payable to PricewaterhouseCoopers LLP and its associates by the Company and its subsidiary undertakings for continuing and discontinued operations in respect of audit and non-audit services are shown below:

	2023 £m	2022 £m
Fees payable to the Company's auditor for the audit of the Company's annual accounts	0.2	0.2
Fees payable to the Company's auditor and its associates for the audit of the Company's subsidiaries pursuant to legislation	3.0	3.4
Total audit fees	3.2	3.6
Audit-related assurance services	0.1	0.5
Other non-audit services	0.1	0.6
Total non-audit fees	0.2	1.1

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

Details of the Group's policy on the use of auditors for non-audit services, the reasons why the auditor was used rather than another supplier and how the auditor's independence and objectivity were safeguarded are set out in the Corporate Governance report on page 104. No services were provided pursuant to contingent fee arrangements.

Non-audit services principally reflect the review of the half yearly financial information and other regulatory reporting.

Notes to the consolidated financial statements continued

7 Employee costs

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

	2023 Number	2022 Number
Operational	26,708	49,162
Administration	3,275	4,161
	29,983	53,323
Less -- discontinued operations	–	(22,513)
	29,983	30,810

The aggregate remuneration including discontinued operations (including Executive Directors) comprised:

	2023 £m	2022 £m
Wages and salaries	1,296.8	1,946.8
Employee retention credits ¹	–	(69.9)
Social security costs	137.1	186.6
Pension costs (note 37)	86.4	90.7
	1,520.3	2,154.2
Less -- discontinued operations	(2.4)	(684.8)
	1,517.9	1,469.4

1 £nil (2022: £61.1m) of these credits were in First Student, First Transit and Greyhound as part of the coronavirus temporary relief measures through the CARES Act in the US and the Canada Emergency Wage Subsidy (CEWS) in Canada. In addition, £nil (2022: £8.8m) relates to relief in First Bus from the Coronavirus Job Retention Scheme (CJRS).

Wages and salaries include a charge in respect of share-based payments of £6.4m (2022: £5.4m).

Disclosures on Directors' remuneration, share options, long-term incentive schemes and pension entitlements required by the Companies Act 2006 and those specified for audit by the Financial Conduct Authority (FCA) are contained in the tables/notes within the Annual report on remuneration on pages 118-133. Directors' emoluments in aggregate were £5.1m (2022: £5.1m).

8 Investment income and finance costs

	2023 £m	2022 £m
Investment income		
Bank interest receivable	(6.3)	(1.5)
Interest on pensions	(6.5)	–
Total investment income (including discontinued operations)	(12.8)	(1.5)
Finance costs		
Bonds	13.5	22.2
Bank borrowings	3.5	14.1
Total make-whole costs (bonds and facilities)	–	50.0
Write off of unamortised bridge, bond and facility costs	–	8.6
CCFF funding	–	0.7
Supplier financing	–	1.5
Senior unsecured loan notes	–	3.2
Finance charges payable in respect of lease liabilities	50.6	41.0
Finance charges payable in respect of asset backed financial liabilities	1.5	2.3
Interest on long-term provisions	0.2	4.9
Interest on pensions	–	2.6
Interest – other	–	2.4
Total finance costs (including discontinued operations)	69.3	153.5
Finance costs before adjustments	69.3	153.5
Investment income	(12.8)	(1.5)
Net finance cost before adjustments	56.5	152.0
<i>Split:</i>		
Adjusted net finance costs	56.5	93.4
Other adjustments (note 4)	–	58.6
	56.5	152.0

Finance costs are stated after charging fee expenses of £0.6m (2022: £4.2m). There was no interest capitalised into qualifying assets in either the 52 weeks ending 25 March 2023 or 26 March 2022.

Investment income of £0.5m (2022: £0.4m) and finance costs of £0.2m (2022: £11.9m) relate to discontinued operations (note 21).

Notes to the consolidated financial statements continued

9 Tax on profit/(loss) on ordinary activities

	2023 £m	2022 £m
Current tax	1.1	2.9
Adjustments with respect to prior years	1.7	1.2
Total current tax charge (including discontinued operations)	2.8	4.1
Origination and reversal of temporary differences	40.9	5.2
Adjustment in respect of prior years	(10.3)	(10.7)
Adjustments attributable to changes in tax rates and laws	(1.4)	(1.4)
Writing down of previously recognised deferred tax assets	1.4	40.6
Write back of previously unrecognised deferred tax assets	–	(25.7)
Total deferred tax charge (note 26)	30.6	8.0
Total tax charge (including discontinued operations)	33.4	12.1
Tax charge attributable to:		
Profit from continuing operations	10.4	(11.9)
Profit from discontinued operations	23.0	24.0

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

UK corporation tax is calculated at 19% (2022: 19%) of the estimated assessable profit for the year. Tax for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. From 1 April 2023 the corporation tax rate will increase to 25% and deferred tax has been provided at 25% on temporary differences at the balance sheet date.

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

	2023 £m	2023 %	2022 £m	2022 %
Profit/(loss) from continuing operations before income tax expense	97.1	n/a	(17.7)	n/a
Profit from discontinued operations before income tax expense	31.6	n/a	871.8	n/a
Profit from total operations	128.7	100.0	654.1	100.0
Tax at the UK corporation tax rate of 19% (2022: 19%)	24.5	19.0	124.3	19.0
Non deductible expenditure	7.6	5.9	8.7	1.3
Non taxable income	–	–	(3.2)	(0.5)
Capital expenditure super deduction	(1.9)	(1.5)	(1.6)	(0.2)
Tax rates outside of the UK	6.7	5.2	(2.8)	(0.4)
Unrecognised losses	1.2	1.0	(0.9)	(0.1)
Non taxable income statement effects of the disposals of US businesses	–	–	(104.3)	(16.0)
Other adjustments in relation to prior years	(8.6)	(6.7)	(9.5)	(1.5)
Reversal of previously unrecognised deferred tax assets on Greyhound	–	–	(11.6)	(1.8)
Writing down of previously recognised deferred tax assets	1.4	1.1	40.6	6.2
Write back of previously unrecognised deferred tax assets	–	–	(25.7)	(3.9)
Increased deferred tax rates on current year temporary differences	3.9	3.1	(0.5)	(0.1)
Adjustments attributable to changes in tax rates and laws	(1.4)	(1.1)	(1.4)	(0.2)
Tax charge and effective tax rate for the year	33.4	26.0	12.1	1.8

Future years' tax charges would be impacted if the final liability for currently open years is different from the amount currently provided for. The future tax charge may also be affected by the levels and mix of profits in the countries in which we operate including differing foreign exchange rates that apply to those profits. Changes to the prevailing tax rates and tax rules in any of the countries in which we operate may also impact future tax charges. From 1 April 2023 the UK corporation tax rate will increase from 19% to 25%.

In addition to the amount charged/(credited) to the income statement, deferred tax relating to actuarial losses on defined benefit pension schemes £(37.2)m (2022: £(22.1)m) and cash flow hedges £1.3m (2022: £10.8m) have been charged/(credited) to comprehensive income together with a further £(7.8)m (2022: £(5.0)m) on cash flow hedges and £(0.9)m (2022: £nil) on share-based payments taken directly to equity. These amount to a total charge/(credit) of £(44.6)m (2022: £27.9m) recognised in other comprehensive income and equity.

10 Earnings per share (EPS)

EPS is calculated by dividing the profit attributable to equity shareholders of £87.1m (2022: profit £636.4m) by the weighted average number of ordinary shares of 739.5m (2022: 1,057.5m). The number of ordinary shares used for the basic and diluted calculations are shown in the table below.

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

	2023 Number m	2022 Number m
Weighted average number of shares used in basic calculation	739.5	1,057.5
Executive share options	24.0	35.6
Weighted average number of shares used in the diluted calculation	763.5	1,093.1

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

	2023		2022	
	£m	EPS (pence)	£m	EPS (pence)
Basic profit/EPS	87.1	11.8	636.4	60.2
Amortisation charges (note 4)	–	–	0.4	–
Other adjustments (note 4)	(30.8)	(4.2)	(579.7)	(54.7)
Non-controlling interest on SWR	3.1	0.4	–	–
Adjusting finance costs (note 4)	–	–	58.6	5.5
Tax effect of above adjustments	12.7	1.7	(21.8)	(2.1)
Adjustments attributable to changes in tax rates and laws	(1.4)	(0.2)	(1.4)	(0.1)
Write down of previously recognised deferred tax assets	1.4	0.2	40.6	3.8
Write back of previously unrecognised deferred tax assets	–	–	(25.7)	(2.4)
Adjusted profit and EPS attributable to the ordinary equity holders of the Company	72.1	9.7	107.4	10.2
Adjusted (loss)/profit/EPS from discontinued operations	(6.6)	(0.9)	90.9	8.6
Adjusted profit/EPS from continuing operations	78.7	10.6	16.5	1.6
			2023 pence	2022 pence
Diluted EPS			11.4	60.2
Adjusted diluted EPS			9.4	9.8

Notes to the consolidated financial statements continued

10 Earnings per share (EPS) continued

The adjusted EPS on a continuing basis is set out below:

	2023		2022	
	£m	EPS (pence)	£m	EPS (pence)
Basic profit/(loss)/EPS	78.5	10.6	(11.4)	(1.1)
Other adjustments (note 4)	7.1	1.0	(16.1)	(1.4)
NCI on SWR	3.1	0.4	–	–
Adjusting finance costs (note 4)	–	–	58.6	5.5
Tax effect of above adjustments	(10.0)	(1.4)	(7.1)	(0.7)
Adjustments attributable to changes in tax rates and laws	(1.4)	(0.2)	(1.4)	(0.1)
Write back of previously unrecognised deferred tax assets	1.4	0.2	(6.1)	(0.6)
Adjusted profit/(loss)/EPS from continuing operations	78.7	10.6	16.5	1.6
			2023	2022
			pence	pence
Diluted EPS			10.3	(1.1)
Adjusted diluted EPS			10.3	1.5

11 Goodwill

	2023 £m
Cost	
At 27 March 2022	93.5
Additions ¹	6.1
At 25 March 2023	99.6
Accumulated impairment losses	
At 27 March 2022	–
At 25 March 2023	–
Carrying amount	
At 25 March 2023	99.6
At 26 March 2022	93.5

¹ Additions of £4.3m relate to goodwill on the acquisition of Ensign Bus Company Ltd and £1.8m relates to goodwill on the acquisition of Airporter Ltd.

Goodwill in the above table primarily relates to First Bus.

Impairment testing

At the year end, the carrying value of goodwill was reviewed for impairment in accordance with IAS 36 Impairment of Assets.

In carrying out this review, climate-related impacts were considered, in line with the TCFD disclosures. This work assessed FirstGroup's potential exposure to climate-related transition and physical risks, across different climate scenarios, over the short, medium and long term, and estimated cumulative Enterprise Value at Risk over the period FY 2024 to FY 2028.

Transition risks included potential impacts from increased carbon prices and route constraints due to new zero-emission zones, as well as technology costs from an accelerated shift to a zero-emission fleet and the impairment of carbon-intensive vehicles. Physical risks concentrated mainly on flooding as the most material impact. Key findings are outlined on pages 63-64 of this report and focus on direct risks to FirstGroup, recognising that under the current National Rail Contracts some of the wider risks and opportunities would be shared with/transferred to third parties.

For impairment calculations, the 2.5°C ('Stated Policy') scenario modelled by Marsh was used, which identified technology risks as 'medium impact' and flooding risks as 'low impact' over the next five years.

11 Goodwill continued

Full detailed impairment testing has been performed on a value in use basis on First Bus. The value of the Franchised TOC asset base is protected by the passthrough and termination arrangements of the respective EMA/ERMAs or NRCs, such that no impairment is expected to arise on these assets.

The Group prepares cash flow forecasts derived from the Board approved plan for 2023/24 to 2025/26 which takes account of both past performance and expectations for future developments. Cash flows beyond the plan period are extrapolated using estimated long-term growth rates which do not exceed the long-term average growth rate for the market. Cash flows are discounted using a pre-tax discount rate derived from a market participant's weighted average cost of capital, benchmarked to externally available data.

Impairment testing – First Bus

First Bus value in use has been assessed based on the projected cash flows for 2023/24 to 2025/26 from the Board-approved forecasts. These have been extrapolated to perpetuity cash flows and discounted to a net present value based on the following assumptions.

First Bus has £496m of positive headroom at 25 March 2023 (26 March 2022: £628m) based on a 10.0% discount rate (2022: 9.3%) and 11.2% terminal margin (2022: 10.6%), which reflects the impact of expected future passenger volumes and yields, as well as planned resizing of the network.

Break-even would arise at:

15.5% discount rate (with a 11.2% terminal margin),

4.9% terminal margin (applying the cap to just the final year/terminal value) using a 10.0% discount rate, or

6.4% terminal margin throughout the forecast period and terminal margin (applying the cap in all years at 6.4%, not just in the terminal years) using a 10.0% discount rate.

As the break-even points lie outside management's range of reasonable expectation, no impairment of First Bus is proposed.

Notes to the consolidated financial statements continued

12 Other intangible assets

	Greyhound brand and trade name £m	Software £m	Total £m
Cost			
Cost			
At 27 March 2021	68.4	60.1	128.5
Acquisitions (note 31)	–	0.2	0.2
Additions	–	9.7	9.7
Transfers to held for sale – discontinued operations	(57.7)	(39.4)	(97.1)
Disposals	(14.0)	(0.3)	(14.3)
Foreign exchange movements	3.3	1.7	5.0
At 26 March 2022	–	32.0	32.0
At 27 March 2022	–	32.0	32.0
Additions	–	4.2	4.2
Transfers from property, plant and equipment	–	3.6	3.6
At 25 March 2023	–	39.8	39.8
Accumulated amortisation and impairment			
At 27 March 2021	60.8	51.5	112.3
Charge for year	0.3	6.1	6.4
Impairment ¹	1.6	–	1.6
Impairment reversal ²	(3.4)	(0.8)	(4.2)
Transfers to held for sale – discontinued operations	(48.2)	(38.7)	(86.9)
Disposals	(14.0)	(0.3)	(14.3)
Foreign exchange movements	2.9	1.8	4.7
At 26 March 2022	–	19.6	19.6
At 27 March 2022	–	19.6	19.6
Charge for year	–	8.6	8.6
Transfers from property, plant and equipment	–	0.8	0.8
At 25 March 2023	–	29.0	29.0
Carrying amount			
At 25 March 2023	–	10.8	10.8
At 26 March 2022	–	12.4	12.4

1. Impairment relates to the closure of the Greyhound business in Canada.

2. The impairment reversal of £4.2m relates to Greyhound prior to disposal.

13 Property, plant and equipment

Owned assets

	Land and buildings £m	Passenger carrying vehicle fleet £m	Other plant and equipment £m	Total £m
Cost				
At 28 March 2021	275.4	1,026.9	634.6	1,936.9
Additions	3.7	92.6	51.7	148.0
Transfers from right of use assets	–	50.8	–	50.8
Disposals	(5.4)	(42.2)	(6.8)	(54.4)
Reclassified as assets held for sale	(47.6)	(10.3)	–	(57.9)
Transfers	10.3	–	16.8	27.1
Transferred to held for sale - discontinued operations	(36.7)	(326.9)	(36.6)	(400.2)
Foreign exchange movements	3.9	8.2	3.1	15.2
At 26 March 2022	203.6	799.1	662.8	1,665.5
At 27 March 2022	203.6	799.1	662.8	1,665.5
Acquisitions ²	20.2	7.6	0.5	28.3
Additions	16.1	80.1	79.2	175.4
Disposals	(8.2)	(134.0)	(23.8)	(166.0)
Reclassified as assets held for sale	(18.4)	–	(2.7)	(21.1)
Transfers	(0.2)	0.7	(4.4)	(3.9)
At 25 March 2023	213.1	753.5	711.6	1,678.2
Accumulated depreciation and impairment				
At 28 March 2021	77.5	720.2	389.9	1,187.6
Charge for year	6.0	44.2	106.6	156.8
Transfers from right of use assets	–	6.3	–	6.3
Disposals	(2.5)	(42.5)	(4.0)	(49.0)
Impairment ¹	7.3	(34.8)	(2.6)	(30.1)
Reclassified as assets held for sale	(9.5)	(10.3)	–	(19.8)
Transfers	2.6	–	16.5	19.1
Transferred to held for sale – discontinued operations	(5.8)	(209.6)	(60.3)	(275.7)
Foreign exchange movements	1.3	10.7	1.9	13.9
At 26 March 2022	76.9	484.2	448.0	1,009.1
At 27 March 2022	76.9	484.2	448.0	1,009.1
Charge for year	3.6	48.3	119.5	171.4
Disposals	(2.4)	(104.1)	(22.9)	(129.4)
Impairment ¹	(4.3)	4.5	2.0	2.2
Reclassified as assets held for sale	(11.3)	–	(1.6)	(12.9)
Transfers	(2.0)	–	1.1	(0.9)
At 25 March 2023	60.5	432.9	546.1	1,039.5
Carrying amount				
At 25 March 2023	152.6	320.6	165.5	638.7
At 26 March 2022	126.7	314.9	214.8	656.4

1 The impairment reversal of £4.3m relates to Southampton properties, which were subsequently transferred to assets held for sale (2022: impairment reversal of £37.4m relating to Greyhound). The impairment charge of £6.5m primarily relates to the write down of passenger carrying vehicles as a result of fleet resizing (2022: £7.3m relating to retained Greyhound properties, which were subsequently transferred to assets held for sale).

2 Acquisitions of £28.3m relate to continuing operations (see note 31).

Notes to the consolidated financial statements continued

13 Property, plant and equipment continued

An amount of £0.8m (2022: £0.8m) in respect of assets under construction is included in the carrying amount of land and buildings, plant and equipment.

At 25 March 2023/31 March 2023 the Group had entered into contractual capital commitments amounting to £125.0m (2022: £32.2m), principally representing purchase of PCVs, electrical infrastructure and TOC commitments.

Right of use assets

	Rolling stock £m	Land and buildings £m	Passenger carrying vehicle fleet £m	Other plant and equipment £m	Total £m
Cost					
At 28 March 2021	2,597.5	115.7	145.0	6.9	2,865.1
Additions	93.1	3.2	9.4	1.0	106.7
Transfer to owned assets	–	–	(50.8)	–	(50.8)
Disposals	(105.0)	(3.7)	(1.9)	–	(110.6)
Transferred to held for sale – discontinued operations	–	(62.2)	(42.2)	(0.4)	(104.8)
Foreign exchange movements	–	2.9	0.7	–	3.6
At 26 March 2022	2,585.6	55.9	60.2	7.5	2,709.2
At 27 March 2022	2,585.6	55.9	60.2	7.5	2,709.2
Additions	1,200.2	16.2	1.3	1.3	1,219.0
Disposals	(4.1)	(0.9)	(9.8)	(0.3)	(15.1)
Foreign exchange movements	–	0.2	–	–	0.2
At 25 March 2023	3,781.7	71.4	51.7	8.5	3,913.3
Accumulated depreciation and impairment					
At 28 March 2021	1,059.6	61.4	45.8	3.9	1,170.7
Transfer to owned assets ¹	–	–	(6.3)	–	(6.3)
Charge for period	553.2	10.9	17.0	1.6	582.7
Impairment ²	–	(10.4)	(3.4)	–	(13.8)
Disposals	(3.1)	(1.8)	(1.0)	–	(5.7)
Transferred to held for sale – discontinued operations	–	(39.9)	(17.3)	(0.4)	(57.6)
Foreign exchange movements	–	2.1	0.8	–	2.9
At 26 March 2022	1,609.7	22.5	35.6	5.1	1,672.9
At 27 March 2022	1,609.7	22.5	35.6	5.1	1,672.9
Charge for period	528.7	8.5	11.8	1.5	550.5
Lease impairment ²	7.1	–	–	–	7.1
Disposals	(0.8)	(0.3)	(7.1)	(0.2)	(8.4)
Foreign exchange movements	–	0.2	–	–	0.2
At 25 March 2023	2,144.7	30.9	40.3	6.4	2,222.3
Carrying amount					
At 25 March 2023	1,637.0	40.5	11.4	2.1	1,691.0
At 26 March 2022	975.9	33.4	24.6	2.4	1,036.3

¹ Transfers to owned assets represents lease buyouts.

² The impairment of £7.1m relates to GWR (2022, reversal of £13.8m relating to Greyhound).

The discounted lease liability relating to the right of use assets included above is shown in note 23.

13 Property, plant and equipment continued

Owned assets and right of use assets	Rolling stock £m	Land and buildings £m	Passenger carrying vehicle fleet £m	Other plant and equipment £m	Total £m
Carrying amount:					
At 25 March 2023	1,637.0	193.1	332.0	167.6	2,329.7
At 26 March 2022	975.9	160.1	339.5	217.2	1,692.7

The maturity analysis of lease liabilities is presented in note 23.

Amounts recognised in income statement (including discontinued operations)	2023 £m	2022 £m
Depreciation expense on right of use assets	550.5	582.7
Interest expense on lease liabilities	50.6	41.0
Impairment charge	7.1	—
Expense relating to short-term leases	2.0	—
Expense relating to leases of low value assets	2.1	3.4
	612.3	627.1

14 Investments

	2023 £m	2022 £m
Other investments	2.5	2.2

Notes to the consolidated financial statements continued

15 Subsidiaries and non-controlling interests

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

A full list of subsidiaries, joint ventures and associates is disclosed in note 40.

The non-controlling interests of the Group are First Trenitalia West Coast Limited (70% ownership and voting rights), First MTR South Western Trains Limited (70% ownership and voting rights) and Leicester CityBus Limited (94% ownership and voting rights). The registered addresses are disclosed in note 40. The non-controlling interest share of profit for the financial year is a profit of £2.5m which relates to First Trenitalia West Coast Limited and £5.7m which relates to MTR South Western Trains Limited.

UK and Ireland local bus and coach operators	Rail companies
Ensign Bus Company Limited	First Greater Western Limited
First Aberdeen Limited ¹	First TransPennine Express Limited
First Beeline Buses Limited	Hull Trains Company Limited
First Cymru Buses Limited	First Trenitalia West Coast Limited (70%)
First Eastern Counties Buses Limited	First MTR South Western Trains Limited (70%)
First Essex Buses Limited	East Coast Trains Limited
First Glasgow (No. 1) Limited ¹	
First Glasgow (No. 2) Limited ¹	
First Hampshire and Dorset Limited	
First Manchester Limited	
First Midland Red Buses Limited	
First Potteries Limited	
First South West Limited	
First South Yorkshire Limited	
First West of England Limited	
First West Yorkshire Limited	
First York Limited	
Last Passive Limited ²	
Leicester CityBus Limited (94%)	
Somerset Passenger Solutions Limited	

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

1. Registered in Scotland.
2. Incorporated in the Republic of Ireland.

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

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

16 Inventories

	2023 £m	2022 £m
Spare parts and consumables from continuing operations	26.0	28.9

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

17 Trade and other receivables

	2023 £m	2022 £m
<i>Amounts due within one year (from discontinued operations)</i>		
Contingent consideration receivable	72.3	–
<i>Amounts due after more than one year (from discontinued operations)</i>		
Contingent consideration receivable	–	106.1
	2023 £m	2022 ¹ restated £m
<i>Amounts due within one year (from continuing operations)</i>		
Trade receivables	386.1	295.2
Loss allowance	(49.0)	(15.2)
Trade receivables net	337.1	280.0
Other receivables	210.3	194.7
Amounts recoverable on contracts	22.5	22.5
Prepayments	90.8	69.4
Accrued income	187.6	115.7
	848.3	682.3
	2023 £m	2022 £m
<i>Movement in accrued income:</i>		
Balance as at 26 March 2022/27 March 2021	115.7	199.2
Additions	119.4	569.4
Accrued income invoiced during the year	(47.5)	(652.9)
Foreign exchange movements	–	–
Balance as at 25 March 2023/26 March 2022	187.6	115.7

1. The prior year comparatives for trade receivables, amounts recoverable on contracts and accrued income have been amended for a more accurate presentation of comparative data.

The loss allowance relates solely to credit loss allowances arising from contracts with customers.

Other receivables includes £67.1m (2022: £35.9m) of VAT receivables, £8.6m (2022: £4.3m) of receivables from government bodies for fuel duty rebates, and £73.3m (2022: £88.5m) of insurance recoveries.

Amounts recoverable on contracts relates to amounts due from governmental and similar bodies for agreed contractual changes.

Accrued income principally comprises amounts relating to contracts with customers billed each month. Any amount previously recognised as accrued income is reclassified to trade receivables at the point at which it is invoiced to the customer.

Credit risk

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

Credit risk exists in relation to the Group's financial assets, which comprise trade receivables, amounts recoverable on contracts and accrued income of £596.2m (2022: £433.1m), cash and cash equivalents of £791.4m (2022: £787.7m) and derivative financial instruments of £7.5m (2022: £30.4m).

The Group's maximum exposure to credit risk for all financial assets at the balance sheet date was £1,395.1m (2022: £1,261.2m). The exposure is spread over a large number of unconnected counterparties and the maximum single concentration with any one counterparty was £286.0m (2022: £246.0m) at the balance sheet date.

The Group's credit risk is primarily attributable to its trade receivables, amounts recoverable on contracts and accrued income. The amounts presented in the balance sheet are net of credit loss allowances, estimated by the Group's management based on prior experience and their assessment of the current economic environment. The credit loss allowance at the balance sheet date was £49.0m (2022: £15.2m).

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

The counterparties for bank balances and derivative financial instruments are mainly represented by lending banks and large banks with a minimum of 'A' credit ratings assigned by international credit rating agencies. These counterparties are subject to approval by the Board. Group treasury policy limits the maximum deposit with any one counterparty to £150.0m and limits the maximum term to three months.

Notes to the consolidated financial statements continued

17 Trade and other receivables continued

Impairment of trade receivables amounts recoverable on contracts and accrued income

The Group applies the IFRS 9 simplified approach to measuring expected credit losses for all trade receivables, amounts recoverable on contracts and accrued income at each reporting date.

Provision matrices are used to measure expected losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns, such as geographical region, service type, and customer type and rating. The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Trade receivables, amounts recoverable on contracts and accrued income are written off when there is no reasonable expectation of recovery.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

The majority of the Group's customers are governmental or similar bodies and hence there is not considered to be any issues with the recoverability of these receivables. Further there has not been any significant issues with the recoverability of non-governmental receivables. In 2023, the credit loss allowance increased as a result of amounts transferred from liquidated damages.

The gross carrying amount of trade receivables, amounts recoverable on contracts and accrued income for which the loss allowance is measured at an amount equal to the lifetime expected credit losses under the simplified method, is analysed below:

	Carrying amount £m	Current £m	Days past due: 2023			
			Less than 30 days £m	30-90 days £m	90-180 days £m	Over 180 days £m
Expected credit loss rate	8.2%	0.7%	6.6%	42.7%	88.7%	60.2%
Gross carrying amount of trade receivables, amounts recoverable on contracts and accrued income	596.2	494.2	29.0	24.1	14.2	34.7
Loss allowance (from continuing operations)	49.0	3.3	1.9	10.3	12.6	20.9

	Carrying amount £m	Current £m	Days past due: 2022			
			Less than 30 days £m	30-90 days £m	90-180 days £m	Over 180 days £m
Expected credit loss rate	3.5%	—	14.3%	1.4%	3.0%	63.9%
Gross carrying amount of trade receivables, amounts recoverable on contracts and accrued income	433.4	328.2	37.0	22.1	32.8	13.3
Loss allowance (from continuing operations)	15.2	0.1	5.3	0.3	1.0	8.5

The table above is an aggregation of different provision matrices for each of the customer segment groupings, as outlined above. The expected loss rate for each ageing category is the weighted average loss rate across these groupings. The 'current' category consist primarily of receivables from groupings for which, based on historical losses and both the current and forecast economic conditions, the expected credit losses are negligible, resulting in the application of a close to 0% loss rate.

	2023 £m	2022 £m
Movement in the loss allowance for trade receivables		
At 26 March 2022/27 March 2021	15.2	7.3
Amounts written off during the year	(3.2)	(0.7)
Increase in allowance recognised in the income statement	1.2	9.0
Amounts recovered during the year	(8.2)	(0.4)
Amounts transferred from liquidated damages	44.0	—
At 25 March 2023/26 March 2022	49.0	15.2

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

18 Assets held for sale

	2023 £m	2022 £m
Assets held for sale	8.9	38.5

Assets held for sale relate primarily to properties in First Bus (2022: properties in Greyhound discontinuing business).

Movement in assets held for sale	£m
At 26 March 2022	38.5
Net book value of additions	8.3
Net book value of disposals	(41.3)
Foreign exchange movements	3.4
At 25 March 2023	8.9

19 Trade and other payables

Amounts falling due within one year (from continuing operations)	2023 £m	2022 £m
Trade payables	338.8	253.3
Other payables	210.8	165.9
Accruals	621.6	703.2
Deferred income	125.5	109.8
Season ticket deferred income	17.7	12.9
	1,314.4	1,245.1

Movement in deferred income	2023 £m	2022 £m
Balance as at 26 March 2022/27 March 2021	109.8	112.8
Additions	131.5	296.6
Recognised as revenue during the period	(115.8)	(295.9)
Transferred to held for sale – discontinued operations	–	(3.7)
Balance as at 25 March 2023/26 March 2022	125.5	109.8

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. Deferred income and season ticket deferred income principally comprises amounts relating to contracts with customers.

Other payables includes £15.2m (2022: £12.1m) for the purchase of property, plant and equipment where increased payment terms have been agreed with the supplier due to the nature of the payable. Other payables also include deferred capital grants from government or other public bodies of £116.1m (2022: £101.0m).

The average credit period taken for trade purchases is 36 days (2022: 30 days). The Group has controls in place to ensure that all payments are paid within the appropriate credit timeframe. The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

Notes to the consolidated financial statements continued

20 Cash and cash equivalents

	2023 £m	2022 £m
Cash and cash equivalents from continuing operations	791.4	787.7

The fair value of cash and cash equivalents approximates to the carrying value. Cash and cash equivalents includes ring-fenced cash of £369.6m (2022: £468.1m). Ring-fenced cash is cash held in the Group which has restrictions around its use or distribution. The most significant ring-fenced cash balances are held by the Group's First Rail subsidiaries. All non-distributable cash in franchised Rail subsidiaries is considered ring-fenced under the terms of either the National Rail Contract, Emergency Measures Agreement or Emergency Recovery Measures Agreement. Ring-fenced cash balances of £5.4m (2022: £27.8m) are held outside the First Rail subsidiaries. These other ring-fenced cash balances include three elements: (1) loss escrow funds of £nil (2022: £3.8m) maintained by various third-party administrators, the purpose of which is to provide a source of funds for use by the administrators for payment of the self-insurance liability for losses and loss adjustment expenses in accordance with agreements between the administrators and the Business, (2) balances of £1.3m (2022: £8.4m) within former First Transit subsidiaries which were retained by the Group following the sale of First Transit, where those subsidiaries act as a disbursement agent on the behalf of their customers and the cash is only allowed to be used to settle customer liabilities, and (3) funds of £4.1m (2022: £15.6m) withheld from the de-risking insurer as permitted under the de-risking agreement.

21 Discontinued operations

First Student and First Transit

The sale of First Student and First Transit was approved by a shareholder majority on 27 May 2021 and was reported as a discontinued operation in the financial statements for the 52 weeks ended 26 March 2022 for the period to the sale completion on 21 July 2021. Financial information relating to the discontinued operation for the period to the date of the disposal is set out below in (a).

Greyhound

The disposal of Greyhound Lines, Inc to a wholly owned subsidiary of FlixBus GmbH was announced and completed on 21 October 2021. Greyhound US was therefore reported as a discontinued operation for the period to the sale completion in the financial statements for the 52 weeks to 26 March 2022. The properties relating to the Greyhound US business were classified as held for sale at 26 March 2022, and in 2023 were treated as discontinued for the period to their disposal in December 2022.

(a) Financial performance and cash flow information

The financial performance and cash flow information presented are for the 52 weeks ending 25 March 2023, and the prior year information includes the results of First Student and First Transit to the period before disposal on 21 July 2021, and the results of Greyhound US to the period before disposal on 21 October 2021.

	2023 £m	2022 £m
Discontinued operations		
Revenue	4.0	996.9
Operating income/(costs)	27.3	(313.6)
Operating profit	31.3	683.3
Investment income	0.5	0.4
Finance costs	(0.2)	(11.9)
Profit before tax	31.6	671.8
Tax	(23.0)	(24.0)
Profit for the year after tax	8.6	647.8
Attributable to:		
Equity holders of the parent	8.6	647.8
Non-controlling interests	-	-
	8.6	647.8
EPS	2023 pence	2022 pence
Basic EPS	1.2	61.3
Diluted EPS	1.1	61.3

21 Discontinued operations continued

	2023 £m	2022 £m
Cash flow		
Net cash (outflow)/inflow from operating activities	(139.7)	233.4
Net cash inflow/(outflow) from investing activities	126.9	(286.6)
Net cash outflow from financing activities	-	(20.3)
Net decrease in cash generated	(12.8)	(73.5)

Other comprehensive income/loss

	2023 £m	2022 £m
Actuarial gains on defined benefit pension schemes	0.2	12.1
Hedging instrument movements	(0.4)	2.7
Deferred tax on hedging instrument movements	-	(0.7)
Exchange differences on translation of discontinued operations	6.8	(5.6)
Total	6.6	8.5

(b) Details of the sale of First Student and First Transit

	2023 £m	2022 £m
Consideration received or receivable:		
Cash	-	2,377.3
Direct transaction costs/fees	-	(54.0)
Fair value of contingent consideration	-	101.8
Total net disposal consideration	-	2,425.1
Carrying amount of net assets sold	-	(2,374.6)
Gain on sale before tax and reclassification of foreign currency translation reserve	-	50.5
Reclassification of foreign currency translation reserve	-	450.6
Gain on sale of the division before tax	-	501.1
Tax on gain	-	-
Gain on sale of the divisions after tax	-	501.1

As part of the disposal of First Transit, FirstGroup were entitled to an earnout consideration of up to \$290m (c. £220m). The earnout was for a period of three years from 21 July 2021 and calculated as a percentage of the Realised Equity Value.

Notes to the consolidated financial statements continued

21 Discontinued operations continued

On 26 October 2022, EQT Infrastructure announced its agreement to sell First Transit to Transdev North America, Inc. As a result of this agreement, the Group estimates the earnout consideration to be around \$88.5m (£72.3m) at 25 March 2023. This gives rise to a non-cash adjusting charge of £(33.8)m relative to the carrying value of the earnout of £106.1m at 26 March 2022.

(c) Details of the sale of Greyhound

	2023 £m	2022 £m
Consideration received or receivable:		
Cash	–	101.4
Direct transaction costs/fees	–	(17.0)
Fair value of contingent consideration	–	23.3
Total net disposal consideration	–	107.7
Carrying amount of net assets sold	–	(91.5)
Gain on sale before tax and reclassification of foreign currency translation reserve	–	16.2
Reclassification of foreign currency translation reserve	–	92.8
Gain on sale of the division before tax	–	109.0
Tax on gain	–	–
Gain on sale of the division after tax	–	109.0

In December 2022, the Group completed the sale of the majority of its remaining Greyhound US properties for net proceeds of £122m, and therefore recognised an adjusting, discontinued gain of £71.4m in the year.

22 Borrowings

	2023 £m	2022 £m
On demand or within one year		
Lease liabilities (note 23) ^{2,3}	447.4	573.4
Asset backed financial liabilities (note 23) ³	17.3	9.0
Bank overdraft	82.9	87.5
Loan notes (note 24)	0.6	–
Bond 6.875% (repayable 2024) ¹	6.5	7.1
Total current liabilities	554.7	677.0
Within one to two years		
Lease liabilities (note 23) ^{2,3}	381.6	167.8
Asset backed financial liabilities (note 23) ³	5.9	15.7
Loan notes (note 24)	–	0.6
Bond 6.875% (repayable 2024)	184.2	–
	571.7	184.1
Within two to five years		
Lease liabilities (note 23) ^{2,3}	825.9	294.4
Asset backed financial liabilities (note 23) ³	12.1	10.5
Bond 6.875% (repayable 2024)	–	199.9
	838.0	504.8
Over five years		
Lease liabilities (note 23) ^{2,3}	93.7	47.6
Asset backed financial liabilities (note 23) ³	8.9	0.3
	102.6	47.9
Total non-current liabilities at amortised cost	1,512.3	736.8

1 Includes accrued interest only.

2 The right of use assets relating to lease liabilities are shown in note 13.

3 The maturity analysis of lease liabilities and asset backed financial liabilities is presented in note 23.

Fair value of bonds issued

	Par value £m	Interest payable	Month	2023 Fair value £m	2022 Fair value £m
Bond 6.875% (repayable 2024)	184.3	Annually	September	192.2	225.8

The fair value of the bond is inclusive of accrued interest. The fair value is calculated by discounting the future cash flow that will arise under the contracts.

Effective interest rates

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

	2023	Maturity	2022	Maturity
Bank overdraft	LIBOR + 1%	–	LIBOR + 1%	–
Syndicated loan facilities	LIBOR + 0.73%	August 2026	LIBOR + 0.97%	August 2025
Bond 2024	6.93%	September 2024	6.93%	September 2021
	Average fixed rate of 3.3%		Average fixed rate of 3.1%	
HP contracts and finance leases		Various		Various
Loan notes	LIBOR + 0.5%	March 2024	LIBOR + 0.5%	March 2024
	2023 £m		2022 £m	
Pounds Sterling	2,066.9		1,413.0	
Euro	–		0.1	
Canadian Dollar	0.1		0.7	
	2,067.0		1,413.8	

Notes to the consolidated financial statements continued

22 Borrowings continued

Borrowing facilities

The Group had £300.0m (2022: £300.0m) of undrawn committed borrowing facilities as at year end. Total bank borrowing facilities at year end stood at £316.5m (2022: £316.1m) of which £300.0m (2022: £300.0m) was committed and £16.5m (2022: £16.1m) was uncommitted.

Capital management

The Group aims to maintain an investment grade credit rating and appropriate balance sheet liquidity headroom. The Group has a net debt to EBITDA ratio of 1.7 times as at March 2023 for the continuing Group (2022: 0.8 times).

Liquidity within the Group has remained strong. At year end there was £638.9m (2022: £532.1m) of committed headroom and free cash. The Group's Treasury policy requires a minimum of £250m of committed headroom at the year end and half year for the budget year, and £200m for year two of the three-year plan. The Group's net debt, excluding accrued bond interest, at 25 March 2023, was £1,269.1m (2022: £619.0m) as set out in the Financial review on page 32.

The Group's primary objectives of capital management is to ensure that the Group is able to continue as a going concern, to maintain an optimal capital structure and adequate liquidity headroom to deliver on shareholder and stakeholder expectations. The Group's capital structure consists of equity and net debt. The Group actively manages its capital structure and will adjust it when appropriate should economic conditions change. The Group's debt is monitored on the basis of a gearing ratio, being net debt divided by EBITDA, further details of which are provided in the Chief Financial Officer's review.

23 Lease liabilities and asset backed financial liabilities

The Group had the following lease liabilities and asset backed financial liabilities at the balance sheet dates, excluding liabilities relating to the discontinued operations:

	Lease liabilities		Asset backed financial liabilities	
	2023 £m	2022 £m	2023 £m	2022 £m
<i>Maturity analysis</i>				
Due in less than one year	503.1	593.0	17.9	9.3
Due in more than one year but not more than two years	421.5	179.4	6.3	16.6
Due in more than two years but not more than five years	878.8	304.4	13.7	11.9
Due in more than five years	105.0	59.8	10.9	0.5
	1,908.4	1,136.6	48.8	38.3
Less future financing charges	(159.8)	(53.4)	(4.6)	(2.8)
	1,748.6	1,083.2	44.2	35.5

Lease liabilities have a fair value of £1,748.6m and asset backed financial liabilities have a fair value of £43.3m (2022: lease liabilities £1,083.2m, asset backed financial liabilities £36.4m).

The total cash outflow for the lease liabilities and asset backed financial liabilities recorded on the balance sheet amounted to £546.9m and £10.6m respectively (2022: £600.4m and £9.4m).

The right of use assets related to the lease liabilities is presented in note 13.

24 Loan notes

The Group had the following loan notes issued as at the balance sheet dates relating to continuing operations:

	2023 £m	2022 £m
Due in less than one year	0.6	-
Due in more than one year but not more than two years	-	0.6
	0.6	0.6

The loan notes have an average effective borrowing rate of 2.6% (2022: 1.7%) and an average remaining term of one year (2022: two years) assuming that the holders do not request redemption.

25 Financial instruments

Non-derivative financial instruments

	2023 £m	2022 £m
Total non-derivatives		
Total non-current assets	117.6	117.0
Total assets	117.6	117.0

Certain pension partnership structures were implemented during 2022. These structures involved the creation of special purpose vehicles (SPVs) to hold cash to fund the Bus and Group pension schemes if required based on a designated funding mechanism. Management have concluded that these amounts represent financial assets under IAS 32.

Derivative financial instruments

	2023 £m	2022 £m
Total derivatives		
Total non-current assets	0.1	4.2
Total current assets	7.4	26.2
Total assets from continuing operations	7.5	30.4
Total current liabilities	2.6	—
Total non-current liabilities	1.9	—
Total liabilities from continuing operations	4.5	—

Derivatives designated and effective as hedging instruments carried at fair value

Non-current assets

Fuel derivatives (cash flow hedge)	—	4.0
Currency forwards (cash flow hedge)	0.1	0.2
	0.1	4.2

Current assets

Fuel derivatives (cash flow hedge)	3.3	25.6
Currency forwards (cash flow hedge)	4.1	0.6
	7.4	26.2

Current liabilities

Fuel derivatives (cash flow hedge)	2.6	—
	2.6	—

Non-current liabilities

Currency forwards (cash flow hedge)	0.1	—
Fuel derivatives (cash flow hedge)	1.8	—
	1.9	—

The Group enters into derivative transactions under International Swaps and Derivatives Association Master Agreements that allow for the related amounts to be set-off in certain circumstances. The amounts set out as Fuel Derivatives and Currency forwards in the table above represent the derivative financial assets and liabilities of the Group that may be subject to the above arrangements and are presented on a gross basis. Derivative liabilities of £nil (2022: £nil) were subject to netting arrangements.

Total cash flow hedges are an asset of £3.0m (2022: £30.4m asset).

Notes to the consolidated financial statements continued

25 Financial instruments continued

The following (profits) were transferred from equity into inventory as basis adjustments during the year:

	2023 £m	2022 £m
Operating (profits)	(31.2)	(13.8)

Fair value of the Group's financial assets and financial liabilities (including trade and other receivables and trade and other payables) on a continuing basis:

	2023				
	Fair value				Carrying value
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Total £m
Financial assets and derivatives					
Contingent consideration receivable	–	72.3	–	72.3	72.3
Trade and other receivables	–	596.2	–	596.2	596.2
Derivative financial instruments	–	7.5	–	7.5	7.5
Financial liabilities and derivatives					
Borrowings ¹	0.6	1,984.1	–	1,984.7	1,984.1
Trade and other payables	–	1,198.3	–	1,198.3	1,198.3
Derivative financial instruments	–	4.5	–	4.5	4.5

¹ Includes lease liabilities and asset backed financial liabilities as set out in note 23.

The estimated fair value of cash and cash equivalents, financial assets and bank overdrafts are a reasonable approximation to the carrying value of these items.

	2022				
	Fair value				Carrying value
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Total £m
Financial assets and derivatives					
Contingent consideration receivable	–	–	106.1	106.1	106.1
Trade and other receivables	–	433.4	–	433.4	433.4
Derivative financial instruments	–	30.4	–	30.4	30.4
Financial liabilities and derivatives					
Borrowings ¹	10.6	1,345.4	–	1,356.0	1,326.3
Trade and other payables	–	1,144.1	–	1,144.1	1,144.1

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

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

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

There were no transfers between Level 1 and Level 2 during the current or prior year. The announcement of EQT Infrastructure's agreement to sell First Transit to Transdev North America, Inc, means that the Group's valuation of the earnout now reflects an observable market value, and the contingent consideration receivable has therefore been reclassified from Level 3 to Level 2 at 25 March 2023.

The estimated fair value of cash and cash equivalents and bank overdrafts are a reasonable approximation to the carrying value of these items.

25 Financial instruments continued

Financial assets/(liabilities)	Fair values at 25 March 2023 £m	Fair values at 26 March 2022 £m	Fair value hierarchy	Valuation technique(s) and key inputs
Derivative contracts				
1) Fuel derivatives	(1.1)	29.6	Level 2	Discounted cash flow; future cash flows are estimated based on forward fuel prices and contract rates and then discounted at a rate that reflects the credit risk of the various counterparties.
2) Currency forwards	4.1	0.8	Level 2	Discounted cash flow; future cash flows are estimated based on forward foreign exchange rates and contract rates and then discounted at a rate that reflects the credit risk of the various counterparties.

The following table illustrates the carrying value of all financial assets and liabilities held by the Group on a continuing basis.

Classification of financial instruments	2023			Total £m
	Assets and liabilities at amortised costs £m	At fair value through profit and loss £m	At fair value through OCI £m	
Financial assets and derivatives				
Cash and cash equivalents	791.4	–	–	791.4
Trade and other receivables	596.2	–	–	596.2
Non-derivative financial instruments	117.6	–	–	117.6
Derivative financial instruments	–	–	7.5	7.5
	1,505.2	–	7.5	1,512.7
Financial liabilities and derivatives				
Interest bearing loans and borrowings ¹	2,067.0	–	–	2,067.0
Trade and other payables	1,198.3	–	–	1,198.3
Derivative financial instruments	–	–	4.5	4.5
	3,265.3	–	4.5	3,269.8

¹ Includes lease liabilities and asset backed financial liabilities as set out in note 23.

Notes to the consolidated financial statements continued

25 Financial instruments continued

	2022			
Classification of financial instruments	Assets and liabilities at amortised costs £m	At fair value through profit and loss £m	At fair value through OCI £m	Total £m
Financial assets and derivatives				
Cash and cash equivalents	787.7	–	–	787.7
Trade and other receivables	433.4	–	–	433.4
Non-derivative financial instruments	117.0	–	–	117.0
Derivative financial instruments	–	–	30.4	30.4
	1,338.1	–	30.4	1,368.5
Financial liabilities and derivatives				
Interest bearing loans and borrowings	1,413.8	–	–	1,413.8
Trade and other payables	1,144.1	–	–	1,144.1
	2,557.9	–	–	2,557.9

	Cash flow hedges		
As at 25 March 2023	Commodity price risk	Electricity price risk	Foreign exchange price risk
Nominal amount of hedging	0.57m bbls	30,720 MWh	\$63.0m
< 1 year	0.39m bbls	17,568 MWh	\$40.8m
1 – 2 years	0.18m bbls	13,152 MWh	\$22.2m
2 – 5 years	–	–	–
> 5 years	–	–	–
Average hedged rate	\$95.11/bbl	£167/MWh	1.2628
Maturity	Apr23-Mar25	Apr23-Mar25	Apr23-Mar25
Carrying amount of hedging instruments			
Assets – Derivatives (£m)	3.3	–	4.2
Liabilities – Derivatives (£m)	(3.2)	(1.2)	(0.1)
(Liabilities – Borrowings (£m))	–	–	–
Carrying amount of hedged item			
Liabilities – Borrowings (£m)	–	–	–
Accumulated amount of fair value hedging adjustments included in carrying amount of hedged item			
Liabilities – Borrowings (£m)	–	–	–
Changes in fair value of hedged item used for calculating hedge effectiveness	(2.0)	1.2	7.1
Changes in fair value of hedging instrument used in calculating hedge effectiveness	2.0	(1.2)	(7.1)
Changes in fair value of hedging instrument accumulated in cash flow hedge reserve	(19.3)	(0.9)	0.6

No gains and losses on derivatives designated for hedge accounting have been charged through the consolidated income statement in either the current or prior year.

Financial risk management

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

25 Financial instruments continued

Liquidity risk

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

The Group's Treasury policy requires a minimum of £250m of committed headroom at the year end and half year for the budget year, and £200m for year two of the three-year plan. At year end, the total amount of these facilities stood at £300.0m (2022: £300.0m), and committed headroom was £300.0m (2022: £300.0m), in addition to free cash balances of £338.9m (2022: £232.1m). The next material contractual expiry of revolver bank facilities is in August 2026.

The average duration of net debt (excluding ring-fenced cash) at 25 March 2023 was 2.7 years (2022: 3.0 years).

The following tables detail, on a continuing basis, the Group's expected maturity of payables for its borrowings, derivative financial instruments and trade and other payables. The amounts shown in these tables are prepared on an undiscounted cash flow basis and include future interest payments in the years in which they fall due for payment.

	2023				
	< 1 year £m	1-2 years £m	2-5 years £m	> 5 years £m	Total £m
Borrowings ¹	563.1	578.1	839.5	104.6	2,085.3
Fuel derivatives	(2.6)	(1.8)	–	–	(4.4)
FX forwards	–	(0.1)	–	–	(0.1)
Trade and other payables	1,198.3	–	–	–	1,198.3
	1,758.8	576.2	839.5	104.6	3,279.1
	2022				
	< 1 year £m	1-2 years £m	2-5 years £m	> 5 years £m	Total £m
Borrowings ¹	683.6	197.3	516.8	45.8	1,443.5
Trade and other payables	1,144.1	–	–	–	1,144.1
	1,827.7	197.3	516.8	45.8	2,587.6

¹ Includes lease liabilities and asset backed financial liabilities as set out in note 23.

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

Currency risk

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

The Group's principal operations outside the UK were previously in the US and Canada, with the US having been the most significant and the principal currency risk related to movements in the US Dollar to pounds Sterling. Following the disposal of Student, Transit and Greyhound, this exposure has been significantly reduced, with the only balance of note being the US Dollar-denominated earnout asset relating to First Transit.

'Certain' and 'highly probable' foreign currency transaction exposures may be hedged at the time the exposure arises for up to two years at specified levels, or longer if there is a very high degree of certainty. The Group is also exposed to currency risk relating to its UK fuel costs which are denominated in USD. This is hedged through entering a series of average rate forward contracts on a similar profile to our fuel hedging programme. Forward currency risk is designated in the cash flow hedges, however valuation movements arising from changes in currency-basis spreads are excluded from the relationships as costs of hedging. At the balance sheet date the value to be recorded in a separate component of equity was immaterial, and as such no separate reserve has been shown within the primary financial statements.

Notes to the consolidated financial statements continued

25 Financial instruments continued

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

	2023 £m	2022 £m
Impact on profit after tax	0.2	3.9
Impact on hedging reserve	(0.1)	(1.8)

Interest rate risk

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

At 25 March 2023, 99% (2022: 99%) of gross debt (pre IFRS 16) was fixed. This fixed rate protection had an average duration of 1.8 years (2022: 2.4 years).

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

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

	2023 £m	2022 £m
Impact on profit after tax	5.7	4.1

Diesel fuel price risk

The Group purchases its fuel on a floating price basis and is therefore exposed to changes in diesel prices, primarily in relation to First Bus operations. The Group's policy objective is to maintain a significant degree of fixed price protection in the short term with lower levels of protection in the medium term, so that the businesses affected are protected from any sudden and significant increases and have time to prepare for potentially higher costs, whilst retaining some access for potentially lower costs over the medium term. To achieve this the Group operates a progressive hedging policy. The policy hedge target levels differ by division but are monitored monthly and appropriate actions taken to maintain satisfactory hedge levels. Gasoil derivatives are used to hedge UK exposure. Risk component hedging has been adopted under IFRS 9, meaning that the hedged price risk component of the purchased diesel matches that of the underlying derivative commodity. The hedged risk component is considered to be separately identifiable and reliably measurable. Gasoil is considered to be the core risk component of the fuel grade ultimately purchased and there is a very strong correlation between the movements in the prices of the derivative underlying and the purchased fuel. Variances in pricing of the derivative commodities and the purchased fuel are primarily driven by further refinement of the fuel or the associated transportation costs which were excluded from the hedge relationship. Currently First Bus diesel exposure is hedged 85% to March 2024 and 55% to March 2025.

25 Financial instruments continued

The Group has entered into swaps for periods from April 2023 to March 2025 with the majority of these swaps relating to the 53 weeks ending 30 March 2024. The swaps give rise to monthly cash flow exchanges with counterparties to offset the underlying settlement of floating price costs, except where they have a deferred start date. Gains or losses on fuel derivatives are recycled from equity into inventory on qualifying hedges to achieve fixed rate fuel costs within operating results.

The following analysis details the Group's sensitivity on profit after tax and equity if the price of diesel fuel had been \$10 per barrel higher during the 52 weeks ending 25 March 2023 and at the year end:

	2023 £m	2022 £m
Impact on profit after tax	(0.3)	(4.9)
Impact on hedging reserve	3.5	4.5

Electricity price risk

The Group purchases electricity on a floating price basis and is therefore exposed to changes in electricity prices, primarily in relation to First Bus and Group operations. The Group's policy objective is to maintain a significant degree of fixed price protection in the short term, so that the businesses affected have time to prepare for prices after the current hedge period expires. To achieve this the Group uses cash flow hedge financial instruments to achieve significant fixed price certainty.

The Group did not have any hedges in place for the year to 25 March 2023. It has entered into swaps for periods from April 2023 to March 2025. The swaps give rise to monthly cashflow exchanges with counterparties to offset the underlying settlement of floating price costs, except where they have a deferred start date. Gains or losses on electricity derivatives will be recycled from equity to the income statement on qualifying hedges to achieve fixed rate electricity costs within operating results.

The following analysis details the Group's sensitivity on profit after tax and equity if the price of electricity had been £50 per MWh higher during the 52 weeks ending 25 March 2023 and at the year end:

	2023 £m	2022 £m
Impact on profit after tax	(1.0)	–
Impact on hedging reserve	1.2	–

26 Deferred tax

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

	Accelerated tax depreciation £m	Retirement benefit schemes £m	Other temporary differences £m	Tax losses £m	Total £m
At 27 March 2021	10.7	(32.4)	(13.3)	–	(35.0)
Charge/(credit) to income statement	1.2	39.0	(39.7)	7.5	8.0
Charge to other comprehensive income and equity	–	22.1	5.8	–	27.9
Transferred to held for sale – discontinued operations	(16.6)	20.6	1.3	(43.0)	(37.7)
Foreign exchange and other movements	(1.4)	(0.7)	1.0	1.8	0.7
At 26 March 2022	(6.1)	48.6	(44.9)	(33.7)	(36.1)
Charge/(credit) to income statement	28.0	(2.8)	10.6	(5.2)	30.6
Credit to other comprehensive income and equity	–	(37.2)	(7.4)	–	(44.6)
Acquisitions and disposals of subsidiaries	4.7	–	0.3	–	5.0
Foreign exchange and other movements	(1.9)	–	–	–	(1.9)
At 25 March 2023	24.7	8.6	(41.4)	(38.9)	(47.0)

With respect to the total net deferred tax asset of £47.0m, UK net deferred tax assets of £46.1m have been recognised as the Group forecasts sufficient taxable profits in future periods and a deferred tax asset of £0.9m relating to the US is recognised because it is probable that book gains will arise on the remaining US property portfolio.

No deferred tax has been recognised on deductible temporary differences of £1.3m (2022: £105.1m) and tax losses of £460.8m (2022: £95.6m) as there are insufficient future profits forecast in North America and some UK entities may cease to trade before their tax losses can be utilised.

Notes to the consolidated financial statements continued

27 Provisions

	Insurance claims £m	Legal and other £m	Pensions £m	Total £m
At 26 March 2022	148.0	86.0	1.3	235.3
Charged to the income statement	11.6	20.4	(1.3)	30.7
Utilised in the year	(37.1)	(26.8)	–	(63.9)
Notional interest	0.2	–	–	0.2
Foreign exchange movements	7.2	1.6	–	8.8
At 25 March 2023	129.9	81.2	–	211.1
Current liabilities	45.5	40.4	–	85.9
Non-current liabilities	84.4	40.8	–	125.2
At 25 March 2023	129.9	81.2	–	211.1
Current liabilities	51.8	62.7	0.1	114.6
Non-current liabilities	96.2	23.3	1.2	120.7
At 26 March 2022	148.0	86.0	1.3	235.3

The insurance claims provision arises from estimated exposures for incidents occurring prior to the balance sheet date. It is anticipated that the majority of such claims will be settled within the next four years although certain liabilities in respect of lifetime obligations of £1.3m (2022: £8.9m) can extend for more than 25 years. The utilisation of £37.1m (2022: £43.0m) represents payments made against the current liability of the preceding year as well as the settlement of certain large aged claims.

The insurance claims provisions, of which £78.6m (2022: £96.0m) relates to legacy Greyhound claims, includes £73.3m (2022: £88.5m) which is recoverable from insurance companies and a receivable is included within other receivables in note 17.

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

The pensions provision related to unfunded obligations that arose on the acquisition of certain First Bus companies.

28 Called up share capital

	Number of shares million	2023 £m
Allotted, called up and fully paid (ordinary shares of 5p each)		
Balance as at 27 March 2022	750.2	37.5
SAYE/BAYE exercises	0.4	–
Balance as at 25 March 2023 (ordinary shares of 5p each)	750.6	37.5

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

In December 2022, the Company announced a share buyback programme to purchase up to £75m of ordinary shares, and at 25 March 2023, the Company had repurchased 29,515,396 shares for an amount of £31.6m, including transaction costs of £0.3m. As at 25 March 2023, £75.5m has been deducted from retained earnings in respect of the shares already purchased and remaining commitment to purchase up to £75m of ordinary shares.

During the year 0.4m shares were issued to satisfy principally SAYE and BAYE exercises.

29 Reserves

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

The hedging reserve includes £1.2m in relation to the cost of hedging and records the movement on designated hedging items.

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

Hedging reserve

The movements in the hedging reserve were as follows:

	2023 £m	2022 £m
Balance at 26 March 2022/27 March 2021	19.3	(3.4)
Transfer to hedging reserve through consolidated statement of comprehensive income		
Fuel derivatives	0.8	42.3
Currency forwards	(7.1)	1.6
	(6.3)	43.9
Tax on derivative hedging instrument movements through statement of comprehensive income	(1.3)	(10.8)
Transfer from hedging reserve to the balance sheet:		
Fuel derivatives	(27.7)	(14.6)
Currency forwards	(3.4)	0.7
	(31.1)	(13.9)
Tax on derivative hedging instrument movements to the balance sheet	7.8	3.5
	(11.6)	19.3
Cumulative loss on hedging instruments reclassified to the income statement	10.9	—
Balance at 25 March 2023/26 March 2022	(0.7)	19.3

Own shares

The number of own shares held by the Group at the end of the year was 42,774,044 (2022: 9,472,372) FirstGroup plc ordinary shares of 5p each. Of these, 13,068,899 (2022: 9,282,623) were held by the FirstGroup plc Employee Benefit Trust, 32,520 (2022: 32,520) by the FirstGroup plc Qualifying Employee Share Ownership Trust and 157,229 (2022: 157,229) were held as treasury shares, with a further 29,515,396 held as treasury shares as part of the share buyback programme which commenced on 19 December 2022. Both trusts and treasury shares have waived the rights to dividend income from the FirstGroup plc ordinary shares. The market value of the shares at 25 March 2023 was £43.3m (2022: £10.2m).

	Capital redemption reserve £m	Capital reserve £m	Total other reserves £m
Balance at 25 March 2023/26 March 2022	19.7	2.7	22.4

The capital redemption reserve represents the cumulative par value of all shares bought back and cancelled, less the associated transaction costs and stamp duty. The capital reserve arose on acquisitions made in 2000. Neither reserve is distributable.

30 Translation reserve

	2023 £m	2022 £m
At 26 March 2022/27 March 2021	(24.0)	524.7
Reclassification of foreign currency translation reserve on discontinued operations (see note 21)	—	(543.4)
Movement for the financial year	7.7	(5.3)
At 25 March 2023/26 March 2022	(16.3)	(24.0)

The translation reserve records exchange differences arising from the translation of the balance sheets of foreign currency denominated subsidiaries offset by movements on loans used to hedge the net investment in those foreign subsidiaries. Reclassification of foreign currency translation reserve on discontinued operations in 2022 relates to the sale of First Student and First Transit (£450.6m) and Greyhound (£92.8m).

Notes to the consolidated financial statements continued

31 Acquisition of businesses and subsidiary undertakings

	2023 £m	2022 £m
Provisional fair value of net assets acquired:		
Property, plant and equipment	28.3	1.4
Other intangible assets	–	0.2
Current assets	11.8	4.7
Other liabilities	(8.0)	(4.2)
	32.1	2.1
Goodwill	6.1	11.0
Satisfied by cash paid and payable	38.2	13.1

Acquisitions in 52 weeks to 25 March 2023

On 9 March 2023, the Group completed the acquisition of Ensign Bus Company Ltd, which has strong positions in business-to-business and regional commercial bus operations in Essex, as well as a vehicle refurbishment and re-sale operation.

The total consideration of £35.7m represents £34.7m paid during the period and £1.0m to be paid in future periods, and includes cash acquired of £6.6m included in current assets.

The business acquired during the year contributed £1.2m to Group revenue from continuing operations and £0.1m profit to Group operating profit from continuing operations from the date of acquisition.

If the acquisition of the business had been completed on the first day of the financial year, Group revenue from the acquisition for the year would have been £28.4m and Group operating profit would have been £3.0m.

On 26 October 2022, the Group completed the acquisition of Airporter Ltd, a provider of bus services and supplier of coaches, mini buses and private vehicles for hire.

The total consideration of £2.5m was fully paid in the year.

The business acquired during the year contributed £0.3m to Group revenue from continuing operations and £0.2m profit to Group operating profit from continuing operations from the date of acquisition.

If the acquisition of the business had been completed on the first day of the financial year, Group revenue from the acquisition for the year would have been £1.8m and Group operating profit would have been £1.0m.

Acquisitions in 52 weeks to 26 March 2022

On 1 June 2021 the Group completed the acquisition of Mid State School Bus Inc, a provider of school transportation services in Nebraska, United States of America. The total consideration of £2.9m represented £2.7m cash paid during the year and £0.2m deferred to be paid in future periods. The business was subsequently disposed of as part of the sale of First Transit on 21 July 2021 and therefore did not contribute to the Group's revenue from continuing operations or operating profit from continuing operations.

On 30 September 2021 the Group completed the acquisition of Somerset Passenger Solutions Ltd, a company which serves the passenger transport needs of the Hinkley Point C construction project in Somerset, England. Prior to the date of acquisition the company was operated as a joint venture between the Group and JJP Holdings (South West) Ltd. with both parties holding a 50% share.

The total consideration of £10.2m represented £8.6m cash paid during the year and £1.6m deferred to be paid in future periods.

The business acquired during 2022 contributed £14.6m to Group revenue from continuing operations and £1.4m profit to Group operating profit from continuing operations from the date of acquisition to 26 March 2022.

If the acquisition of the business acquired during the year had been completed on the first day of the financial year, Group revenue from continuing operations from the acquisition for the year would have been £30.9m and the Group operating profit from continuing operations from this acquisition would have been £3.2m.

32 Net cash from operating activities

	2023 £m	2022 restated £m
Operating profit from:		
Continuing operations	153.9	122.8
Discontinued operations	31.3	683.3
Total operations	185.2	806.1
Adjustments for:		
Depreciation charges	721.9	746.4
Capital grant amortisation	(129.1)	(115.8)
Software amortisation charges	8.6	4.7
Other intangible asset amortisation charges	–	0.4
Loss/(gain) on disposal of subsidiaries and businesses	3.7	(66.7)
Recycling of translation reserve	–	(543.4)
Impairment	13.6	–
Reversal of impairment	(4.3)	(48.1)
Share-based payments	6.4	5.4
Profit on disposal of property, plant and equipment	(71.7)	(22.1)
Operating cash flows before working capital and pensions	734.3	766.9
Decrease/(increase) in inventories	2.9	(6.4)
(Increase)/decrease in receivables	(159.4)	95.5
Increase/(decrease) in payables due within one year	53.8	(130.0)
Increase in financial assets	–	(117.0)
Decrease/(increase) in contingent consideration receivable	33.8	(106.1)
(Decrease)/increase in provisions due within one year	(31.8)	36.5
Decrease in provisions due over one year	(1.2)	(13.2)
Settlement of foreign exchange hedge	(1.2)	–
Local Government Pension Scheme refund	11.8	–
Defined benefit pension payments in excess of income statement charge	1.8	(340.4)
Cash generated by operations	644.8	185.8
Tax paid	(1.0)	(21.4)
Interest paid ¹	(70.0)	(176.6)
Net cash from operating activities²	573.8	(12.2)

1 Interest paid includes £50.6m relating to lease liabilities (2022: £41.0m).

2 Net cash from operating activities is stated after an inflow of £35.1m (2022: inflow of £9.1m) in relation to financial derivative settlements.

33 Analysis of changes in net debt

	At 26 March 2022 £m	Cash flow £m	Foreign exchange movements £m	Other £m	At 25 March 2023 £m
Components of financing activities:					
Bonds	(199.9)	15.7	–	–	(184.2)
Lease liabilities ¹	(1,083.2)	546.9	–	(1,212.3)	(1,748.6)
Asset backed financial liabilities	(35.5)	10.6	–	(19.3)	(44.2)
Other debt	(0.6)	–	–	–	(0.6)
Total components of financing activities	(1,319.2)	573.2	–	(1,231.6)	(1,977.6)
Cash	319.6	106.2	(4.0)	–	421.8
Bank overdrafts	(87.5)	4.9	–	(0.3)	(82.9)
Ring-fenced cash	468.1	(98.5)	–	–	369.6
Cash and cash equivalents	700.2	12.6	(4.0)	(0.3)	708.5
Net debt (including held for sale – discontinued operations)	(619.0)	585.8	(4.0)	(1,231.9)	(1,269.1)

1 Lease liabilities 'other' includes £1,212.3m net inception of new leases. This comprises £1,219.0m inception of new leases, being £1,200.2m of rolling stock leases, £1.3m of PCV leases and £17.5m of property and other leases, offset by £6.7m termination of leases. Termination of leases includes £3.3m in relation to rolling stock leases, £2.7m in relation to PCV leases and £0.7m relating to property and other leases.

Notes to the consolidated financial statements continued

33 Analysis of changes in net debt continued

	At 28 March 2021 £m	Cash flow £m	Foreign exchange movements £m	Other £m	At 26 March 2022 £m
Components of financing activities:					
Bank loans	(566.3)	579.3	(2.4)	(10.6)	–
Bonds	(873.1)	674.4	–	(1.2)	(199.9)
Senior unsecured loan notes	(198.8)	200.0	(0.6)	(0.6)	–
CCFF	(298.2)	298.2	–	–	–
Supplier financing ¹	(159.2)	–	–	159.2	–
Lease liabilities ²	(1,850.0)	600.4	(1.0)	167.4	(1,083.2)
Asset backed financial liabilities	(122.9)	9.4	0.3	11.7	(35.5)
Other debt	(0.7)	–	–	0.1	(0.6)
Total components of financing activities	(4,069.2)	2,361.7	(3.7)	392.0	(1,319.2)
Cash	834.3	(514.5)	(0.2)	–	319.6
Bank overdrafts	(53.8)	(33.7)	–	–	(87.5)
Ring-fenced cash	662.9	(194.8)	–	–	468.1
Cash and cash equivalents	1,443.4	(743.0)	(0.2)	–	700.2
Net debt (including held for sale – discontinued operations)	(2,625.8)	1,618.7	(3.9)	392.0	(619.0)

1 Supplier financing related wholly to First Student.

2 Lease liabilities 'other' includes £167.4m net inception of new leases. This comprises £116.9m inception of new leases, being £9.4m of PCV leases, £93.1m of rolling stock leases and £14.4m of property and other leases, offset by £284.3m termination of leases. Termination of leases includes £101.9m in relation to rolling stock leases, £31.8m in relation to PCV leases and £150.6m relating to property and other leases.

Accrued interest of £6.5m (2022: £7.1m) is excluded from the values above and derivative valuations are presented as the clean values.

34 Contingent liabilities

To support subsidiary undertakings in their normal course of business, FirstGroup plc and certain subsidiaries have indemnified certain banks and insurance companies who have issued performance bonds for £55.0m (2022: £69.4m) and letters of credit for £169.9m (2022: £219.7m). The performance bonds primarily relate to First Rail franchise operations of £51.8m and residual North American obligations of £3.2m. The letters of credit relate substantially to insurance arrangements in the UK and North America. The parent company has committed further support facilities of up to £98.5m to First Rail Train Operating Companies of which £73.6m remains undrawn. Following the sale of Greyhound, the majority of the surety bonds were cancelled, with a residual amount of £3.2m remaining as noted above. Letters of credit remain in place to provide collateral for legacy Greyhound insurance and pension obligations.

The Group is party to certain unsecured guarantees granted to banks for overdraft and cash management facilities provided to itself and subsidiary undertakings. The Company has given certain unsecured guarantees for the liabilities of its subsidiary undertakings arising under certain HP contracts, finance leases, operating leases and certain pension scheme arrangements. It also provides unsecured cross guarantees to certain subsidiary undertakings as required by VAT legislation. First Bus subsidiaries have provided unsecured guarantees on a joint and several basis to the Trustee of The First Bus Pension Scheme. Two of the Company's North American subsidiaries participated in multi-employer pension plans in which their contributions were pooled with the contributions of other contributing employers. The funding of those plans is reliant on the ongoing involvement of third parties.

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

The Group's operations are required to comply with a wide range of regulations, including environmental and emissions regulations. Failure to comply with a particular regulation could result in a fine or penalty being imposed on that business, as well as potential ancillary claims rooted in non-compliance.

34 Contingent liabilities continued

The inquest relating to the death of seven passengers in the Croydon tram incident in November 2016 concluded in July 2021. The tram was operated by Tram Operations Limited ('TOL'), a subsidiary of the Group, under a contract with a Transport for London ('TfL') subsidiary. TOL provides the drivers and management to operate the tram services, whereas the infrastructure and trams are owned and maintained by a TfL subsidiary. The Office of Rail & Road ('ORR') announced in March 2022 that it had taken the decision to prosecute TfL, the driver of the tram and TOL for breaches of Health and Safety law. While TOL has indicated a guilty plea to the charge laid against it, the Company cannot yet accurately determine the quantum or timing of any financial penalties or related costs which may arise from these proceedings. TfL has also indicated a guilty plea. The driver has pleaded not guilty – his trial started in mid-May 2023.

First MTR South Western Trains Limited ('FSWT'), a subsidiary of the Company and the operator of the South Western railway contract, is a defendant to collective proceedings before the UK Competition Appeal Tribunal (the 'CAT') in respect of alleged breaches of UK competition law. Stagecoach South Western Trains Limited ('SSWT') (the former operator of the South Western network) is also a defendant to these proceedings. Separate sets of proceedings have been issued against London & South Eastern Railway Limited and related entities ('LSER') and, more recently, against Govia Thameslink Railway Limited and related entities ('GTR') in respect of the operation of other rail services. The three sets of proceedings are being heard together. The class representative ('CR') alleges that FSWT, SSWT, LSER and GTR breached their obligations under UK competition law by not making boundary fares sufficiently available for sale, and/or by failing to ensure that customers were aware of the existence of boundary fares and/or bought an appropriate fare in order to avoid being charged twice for part of a journey. A collective proceedings order ('CPO') was made by the CAT in January 2022 in respect of the FSWT/SSWT and LSER proceedings and, following an unsuccessful appeal by the defendants, the proceedings are continuing alongside the GTR proceedings in respect of which the CAT issued a judgment setting out its reasons for granting a CPO in March 2023. The Secretary of State for Transport served a written statement of intervention in all three proceedings in April 2023. A trial date has not yet been set. In March 2022, FSWT, the Company and the CR executed an undertaking under which the Company has agreed to pay to the CR any sum of damages and/or costs which FSWT fails to pay, and which FSWT is legally liable to pay to the CR in respect of the claims (pursuant to any judgment, order or award of a court or tribunal), including any sum in relation to any settlement of the claims. At present the Company cannot accurately determine the likelihood, quantum or timing of any damages and costs which may arise from these proceedings.

35 Operating commitments

	2023 £m	2022 £m
Minimum payments made under contractual terms recognised in the income statement for the year:		
Plant and machinery	6.9	3.8
Track and station access	492.7	475.3
Hire of rolling stock	1.0	1.9
Other assets	15.6	2.3
Discontinued operations	–	2.3
	516.2	485.6

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

	2023 £m	2022 £m
Within one year	481.1	511.0
In the second to fifth years inclusive	1,135.8	420.9
After five years	0.5	0.3
	1,617.4	932.2

Included in the above commitments are contracts held by the First Rail businesses with Network Rail for access to the railway infrastructure, track, stations and depots of £1,573.9m (2022: £922.9m).

Notes to the consolidated financial statements continued

36 Share-based payments

Equity-settled share option plans

The Group recognised total expenses of £6.4m (2022: £5.4m) related to equity-settled share-based payment transactions.

(a) Save as you earn (SAYE)

The Group operates an HMRC approved savings-related share option scheme. No grants were made during the period. The scheme is based on eligible employees being granted options and their agreement to opening a sharesave account with a nominated savings carrier and to save weekly or monthly over a specified period. Sharesave accounts are held with Computershare. The right to exercise the option is at the employee's discretion at the end of the period previously chosen for a period of six months.

	SAYE Dec 2018 Options Number
Outstanding at the beginning of the year	1,621,686
Exercised during the year	(1,019,311)
Lapsed during the year	(602,375)
Outstanding at the end of the year	-
Exercisable at the end of the year	Nil
Weighted average exercise price (pence)	70.0
Weighted average share price at date of exercise (pence)	123.2

(b) Deferred bonus shares (DBS)

DBS awards vest over a three-year period following the financial year that they relate to and are typically settled by equity.

	DBS 2012 Options Number	DBS 2013 Options Number	DBS 2014 Options Number	DBS 2015 Options Number
Outstanding at the beginning of the year	52,646	124,309	136,733	124,662
Exercised during the year	(22,109)	(18,215)	(28,695)	(16,475)
Lapsed during the year	(30,537)	-	-	-
Outstanding at the end of the year	-	106,094	108,038	108,187
Exercisable at the end of the year	Nil	106,094	108,038	108,187
Weighted average share price at date of exercise (pence)	110.6	107.5	114.6	118.6

	DBS 2016 Options Number	DBS 2017 Options Number	DBS 2018 Options Number	DBS 2019 Options Number	DBS 2020 Options Number	DBS 2021 Options Number
Outstanding at the beginning of the year	130,141	35,741	62,424	1,271,965	787,709	1,124,496
Granted during the year	-	-	-	-	-	-
Forfeited during the year	-	-	-	-	-	-
Lapsed during the year	(2,539)	(4,086)	(24,556)	(8,091)	(81,974)	(95,338)
Exercised during the year	(65,934)	(6,299)	(13,220)	(913,569)	(198,362)	(141,803)
Outstanding at the end of the year	61,668	25,356	24,648	350,305	507,373	887,555
Exercisable at the end of the year	61,668	25,356	24,648	350,305	265,320	98,748
Weighted average share price at date of exercise (pence)	114.8	118.6	118.5	118.9	113.1	111.0

36 Share-based payments continued

(c) Buy As You Earn (BAYE)

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

At 25 March 2023 there were 5,667 (2022: 4,570) participants in the BAYE scheme. Scheme participants have cumulatively purchased 32,563,932 (2022: 30,574,677) shares with the Company contributing 10,436,402 (2022: 9,843,232) matching shares on a cumulative basis.

(d) Long-Term Incentive Plan (LTIP)

LTIP awards have TSR, ROCE and EPS targets and vest over a three-year period following the financial year that they relate to and are settled by equity where an award exceeds a performance target.

	LTIP 2019 Options Number	LTIP 2020 Options Number	LTIP 2021 Options Number
Outstanding at the beginning of the year	3,304,805	5,839,948	3,293,642
Granted during the year	–	–	–
Forfeited during the year	–	–	–
Lapsed during the year	(380,058)	(703,235)	(704,944)
Exercised during the year	(2,412,111)	–	–
Outstanding at the end of the year	512,636	5,136,713	2,588,698
Exercisable at the end of the year	512,636	–	–
Weighted average share price at date of exercise (pence)	110.1	N/A	N/A

(e) Executive Share Plan (ESP)

ESP awards vest over a three-year period following the financial year that they relate to and are typically settled by equity.

	ESP 2015 Options Number	ESP 2016 Options Number	ESP 2017 Options Number	ESP 2018 Options Number	ESP 2019 Options Number	ESP 2020 Options Number	ESP 2021 Options Number
Outstanding at the beginning of the year	101,572	86,960	262,242	593,290	4,353,501	2,352,827	2,975,111
Granted during the year	–	–	–	–	–	–	–
Forfeited during the year	–	–	–	–	–	–	–
Lapsed during the year	(19,359)	(20,959)	(15,044)	(25,352)	(26,341)	(292,123)	(255,630)
Exercised during the year	–	(18,756)	(66,023)	(172,226)	(2,912,481)	(834,301)	(450,687)
Outstanding at the end of the year	82,213	47,245	181,175	395,712	1,414,679	1,226,403	2,268,794
Exercisable at the end of the year	82,213	47,245	181,175	395,712	1,414,679	554,499	515,776
Weighted average exercise price (pence)	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Weighted average share price at date of exercise (pence)	N/A	121.8	117.4	116.9	123.1	104.8	110.1

(f) Conditional awards

In FY 2023 the equity share awards were granted as conditional awards rather than options. There is no impact on the economic values for either the Company or participants resulting from this change.

The conditional awards outstanding under each scheme are shown below:

	Deferred Bonus 2022 Number	ESP Awards 2022 Number	LTIP Awards 2022 Number
Outstanding at the beginning of the year	–	–	–
Granted during the year	2,121,738	263,045	8,839,303
Lapsed during the year	(19,589)	(6,432)	(162,629)
Outstanding at the end of the year	2,102,149	256,613	8,676,674

One award of 10,038 granted under the ESP 2022 Plan is permitted to vest. No other awards in the table above have vested.

Notes to the consolidated financial statements continued

36 Share-based payments continued

The fair values of the options granted during the last two years were measured using a Black-Scholes model except for the TSR element of the LTIPs which were measured using a Monte Carlo model. The inputs into the models were as follows:

	2023	2022
Weighted average share price at grant date (pence)		
– DBS	110.6	85.7
– LTIP	112.8	84.3
– ESP	99.9	93.4
Weighted average exercise price at grant date (pence)		
– DBS	–	–
– LTIP	–	–
– ESP	–	–
Expected volatility (%)		
– DBS	N/A	N/A
– LTIP	60	59
– ESP	N/A	N/A
Expected life (years)		
– DBS	3.0	3.0
– SAYE schemes	N/A	3.0
– LTIP	2.62	2.66
– ESP	3.0	3.0
Rate of interest (%)		
– DBS	N/A	N/A
– LTIP	–	–
– ESP	–	–
Expected dividend yield (%)		
– DBS	–	–
– LTIP	–	–
– ESP	–	–

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

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

The Group used the inputs noted above to measure the fair value of the new conditional awards (FY 2022: share options).

	2023 pence	2022 pence
Weighted average fair value of options at grant date		
– DBS	105.4	85.7
– LTIP	84.9	71.8
– ESP	99.9	93.4

37 Retirement benefit schemes

The Group supports defined contribution and defined benefit schemes for the benefit of employees across the following business areas:

First Bus and Group – including The First UK Bus Pension Scheme, The FirstGroup Pension Scheme and two Local Government Pension Schemes

North America – legacy schemes from operations which have now been sold

Rail – sponsoring six sections of the Railways Pension Scheme (RPS) relating to the Group's obligations for its TOCs, with an additional section for its Open Access Hull Trains business. Since the obligations to the TOC arrangements are considered to be limited to contributions during the period of the contract, these are fundamentally different to the obligations to the other pension arrangements. *Details for these arrangements have therefore been shown separately.*

Overall, the duration of the Company's obligations is approximately 16 years although the durations of the individual schemes tend to vary with the UK exposures tending to be of longer duration and the North American exposures tending to be of shorter duration.

All of the pension schemes are operated independently of the Group by the relevant pension scheme's manager or trustee, and the assets of each pension scheme are held separately from FirstGroup's assets. The managers or trustees (as appropriate) of the pension schemes are responsible for the investment policy, although the sponsor is consulted.

At their last valuations, the defined benefit schemes had funding levels between 74% and 114% (2022: 82% and 114%). The market value of the assets as at 25 March 2023 for all non-contract rail operation defined benefit schemes totalled £2,534m (2022: £3,343m).

(a) First Bus and Group (including open access rail operators)

Defined contribution plans (shown on a continuing basis)

Payments to defined contribution plans are charged as an expense as they fall due. There is no further obligation to pay contributions into a defined contribution plan once the contributions specified in the plan rules have been paid. The total expense recognised in the consolidated income statement of £28.1m (2022: £21.6m) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

The Group operates defined contribution plans for all Group and First Bus employees (with the exception of a small number of employees who remain active in a Local Government Pension Scheme) and First Rail employees who are not eligible to join a defined benefit arrangement. They receive a company match to their contributions, which varies by salary and/or service.

Defined benefit plans (shown on a continuing basis)

The Group has full responsibility for the retirement benefits for former and current employees of Group, First Bus and Hull Trains who are members of the schemes described in the following paragraphs, bearing all the risks and responsibilities of management and sponsorship of these schemes. These comprise five funded defined benefit plans across its First Bus and Group operations (including Hull Trains which, unlike the majority of First Rail operations, is operated under open access), covering approximately 35,500 former and current employees. With the exception of Hull Trains, all of these schemes are closed to new entrants.

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

Surplus after benefits have been paid/secured, can be repaid to the employer, in line with the rules of the schemes.

The First UK Bus Pension Scheme

This provides pension benefits to employees in First Bus. Historically it provided salary related benefits on a shared cost basis, but from April 2013, all new members have been enrolled in the defined contribution section. The scheme closed to defined benefit accrual on 5 April 2018.

A smaller FirstGroup Pension Scheme provides defined benefit pensions to Group employees in addition to certain First Bus employees. This scheme closed to defined benefit accrual on 5 April 2018.

The rules governing both these schemes grant the employer influence over the allocation of any residual surplus once the beneficiaries' rights have been secured. Accordingly, the net surplus/deficit is recognised in full for these schemes.

Local Government Pension Schemes

The Group participates in two Local Government Pension Schemes (LGPS), one in England and one in Scotland, which provide salary related benefits. These differ from trust-based schemes in that their benefits and governance are prescribed by specific legislation, and they are administered by local authorities. New members have not been admitted to the LGPS for several years, although benefit accrual continues for a small number of existing members.

Contribution rates are agreed for the three-year period until the next valuation. The balance sheet position in respect of the LGPS funds is restricted per the requirements of IFRIC14.

Notes to the consolidated financial statements continued

37 Retirement benefit schemes continued

The Hull Trains Shared Cost Section of the Railways Pension Scheme

Hull Trains participates in its own Section of the Railways Pension Scheme. This scheme, which remains open to new entrants, provides salary-related benefits. Costs relating to accrual and to any deficit are shared with members.

The table below is set out to show the movements in the fair value of schemes' assets (Assets) along with the movements in the present value of Defined benefit obligations (DBO) (Liabilities) for the Bus and Group and Hull Trains Defined Benefit schemes:

	2023		2022	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
At beginning of period	2,930.1	2,571.7	2,732.4	2,792.8
Income statement				
Operating				
– Current service cost	–	8.5	–	8.3
– Past service gain including curtailments and settlements	–	–	–	–
Total operating	–	8.5	–	8.3
Interest income/cost	84.0	72.5	57.3	56.0
Total income statement	84.0	81.0	57.3	64.3
Amounts paid to/(from) scheme				
Employer contributions	(7.5)	–	245.5	–
Employee contributions	1.2	1.2	1.3	1.3
Benefits paid	(121.6)	(121.6)	(118.5)	(118.5)
Total	(127.9)	(120.4)	128.3	(117.2)
Expected closing position	2,886.2	2,532.3	2,918.0	2,739.9
Change in financial assumptions	–	(632.8)	–	(220.6)
Change in demographic assumptions	–	(43.6)	–	7.9
Employee share of changes	0.2	(1.6)	0.3	(0.7)
Return on assets in excess of discount rate	(719.5)	–	11.8	–
Experience	–	118.2	–	45.2
Total	(719.3)	(559.8)	12.1	(168.2)
At end of period	2,166.9	1,972.5	2,930.1	2,571.7
Surplus/(deficit) before adjustment		194.4		358.4
Impact of shared cost		(0.3)		1.4
Adjustment for irrecoverable surplus ¹		(156.7)		(162.3)
Surplus in schemes		37.4		197.5
The amount is presented in the consolidated balance sheet as follows:				
Non-current assets		44.6		203.0
Non-current liabilities		(7.2)		(5.5)
		37.4		197.5

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

Adjustment for First Bus irrecoverable surplus

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

	2023 £m	2022 £m
At beginning of period	(162.3)	(108.7)
Interest on irrecoverable surplus	(4.7)	(2.2)
Actuarial gain/(loss) on irrecoverable surplus	10.3	(51.4)
At end of period	(156.7)	(162.3)

37 Retirement benefit schemes continued

Asset Allocation

	Quoted £m	Unquoted £m	Total £m
At March 2023			
Equity	145.9	164.4	310.3
Other return seeking assets	22.0	56.8	78.8
Real estate	–	21.9	21.9
Fixed income/liability driven	1,428.2	145.9	1,574.1
Other income generating	–	1.1	1.1
Annuities	–	129.6	129.6
Cash and cash equivalents	51.1	–	51.1
	1,647.2	519.7	2,166.9
At March 2022			
Equity	318.2	157.5	475.7
Other return seeking assets	–	78.9	78.9
Real estate	19.4	7.9	27.3
Fixed income/liability driven	1,664.5	(41.7)	1,622.8
Other income generating	197.8	255.2	453.0
Annuities	–	160.6	160.6
Cash and cash equivalents ¹	111.8	–	111.8
	2,311.7	618.4	2,930.1

(b) North America

Greyhound pension arrangements

Following the sales of all of the businesses which the Group owned in North America, the Group retained certain responsibilities for the provision of retirement benefits for a number of legacy schemes. These arrangements are described in the following paragraphs.

The Group operates a single legacy defined benefit arrangement in the US (2022: one), while in Canada, there is one funded legacy plan (2022: three) and a small unfunded supplementary executive retirement plan. Following the merger of three legacy plans, the Company has given notice of its intention to terminate the Canadian plan.

All the North American plans are valued annually, to identify the funding positions in order to determine the statutory funding requirements.

Notes to the consolidated financial statements continued

37 Retirement benefit schemes continued

The table below is set out to show the movements in the fair value of schemes' assets (Assets) along with the movements in the present value of Defined benefit obligations (DBO) (Liabilities) for the North American Defined benefit schemes:

	2023		2022	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
At beginning of period (including held for sale)	412.4	408.7	437.8	567.2
Income statement				
Operating				
– Current service cost	–	2.1	–	3.0
– Past service gain including curtailments and settlements	–	–	(81.1)	(109.7)
Total operating	–	2.1	(81.1)	(106.7)
Interest income/cost	16.5	16.2	11.9	13.6
Total income statement	16.5	18.3	(69.2)	(93.1)
Amounts paid to/(from) scheme				
Employer contributions	4.5	–	102.0	–
Employee contributions	–	–	–	–
Benefits paid	(46.9)	(46.9)	(61.9)	(61.9)
Total	(42.4)	(46.9)	40.1	(61.9)
Expected closing position	386.5	380.1	408.7	412.2
Change in financial assumptions	–	(27.2)	–	(34.6)
Change in demographic assumptions	–	–	–	1.1
Employee share of change in DBO	–	–	–	–
Return on assets in excess of discount rate	(33.9)	–	(16.4)	–
Experience	–	1.6	–	9.2
Total	(33.9)	(25.6)	(16.4)	(24.2)
Currency gain/loss	14.2	15.0	20.1	20.7
At end of period	366.8	369.5	412.4	408.7
Surplus/(deficit)				
Calculated as at 25 March		(2.7)		3.7
Opening irrecoverable surplus		(14.6)		
Change in irrecoverable surplus		7.0		(13.8)
Currency gain/(loss) on irrecoverable surplus		0.8		(0.8)
Presented in the consolidated balance sheet as Non-current liabilities		(9.5)		(10.9)

Asset Allocation

	Quoted £m	Unquoted £m	Total £m
At March 2023			
Fixed income/liability driven	336.2	(27.2)	309.0
Cash and cash equivalents	57.5	0.3	57.8
	393.7	(26.9)	366.8
At March 2022	Quoted £m	Unquoted £m	Total £m
Equity	17.4	–	17.4
Real estate	–	24.9	24.9
Fixed income/liability driven	206.5	115.2	321.7
Cash and cash equivalents	49.6	(1.3)	48.3
	273.5	138.8	412.3

37 Retirement benefit schemes continued

First Transit management contracts

The Group retained ten First Transit Management Contracts following the sale of First Transit in 2021. As at the balance sheet date, the Group's First Transit subsidiary companies sponsored a total of three single-employer pension arrangements (2022: five). The Group is indemnified against any pension liabilities by the relevant transit authorities, and pension costs are reimbursed as they fall due. The Group will not retain any pension liability upon expiry of the contract or if the contracts are reassigned.

Details of the assets and liabilities of these schemes is as follows:

	2023 £m	2022 £m
Assets	14.0	281.6
Liabilities	(21.8)	(322.1)
Deficits in schemes	(7.8)	(40.5)
Amounts recoverable from contracting authorities	7.8	40.5
Net deficits in schemes	—	—

(c) Rail contracts

The Railways Pension Scheme (RPS)

The Group is responsible for collecting and paying contributions for a number of sections of the Railways Pension Scheme (RPS) as part of its obligations under the contracts which it holds for its TOCs. These responsibilities continue for the periods of the TOCs and are passed to future contract holders when those TOCs terminate. Management of the RPS is not the responsibility of the Group, nor is it liable to benefit from any future surplus or fund any deficit of those funds.

As at the balance sheet date, the Group sponsored six sections of the RPS, relating to its contracting obligations for its TOCs. The RPS is managed by the Railways Pension Trustee Company Limited and is subject to regulation from the Pensions Regulator and relevant UK legislation.

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

For the TOC sections, under the contractual arrangements with the DfT, the employer's responsibility is to pay the contributions following triennial funding valuations while it operates the contracted services. These contributions are subject to change on consideration of future statutory valuations. At the end of the contract, any deficit or surplus in the scheme section passes to the subsequent train operating company with no compensating payments from or to the outgoing TOC.

The statutory funding valuations of the various Rail Pension Scheme sections in which the Group is involved (last finalised with an effective date of 31 December 2013) and the IAS 19 actuarial valuations are carried out for different purposes and may result in materially different results. The IAS 19 valuation is set out in the disclosures below.

The accounting treatment for the time-based risk-sharing feature of the Group's participation in the RPS is not explicitly considered by IAS 19 Employee Benefits (Revised). The contributions currently committed to being paid to each TOC section are lower than the share of the service cost (for current and future service) that would normally be calculated under IAS 19 (Revised) and the Group does not account for uncommitted contributions towards the sections' current or expected future deficits. Therefore, the Group does not need to reflect any deficit on its balance sheet. A TOC adjustment (asset) exists that exactly offsets any section deficit that would otherwise remain after reflecting the cost sharing with the members. This reflects the legal position that some of the existing deficit and some of the service costs in the current year will be funded in future years beyond the term of the current contract and committed contributions. The TOC adjustment on the balance sheet date reflects the extent to which the Group is not currently committed to fund the deficit.

Movements in the TOC contract adjustment in a period arise from and are accounted for as follows:

Any service cost for the period for which the contribution schedule requires no contributions from the entity are reflected as an adjustment to the service cost in the income statement, which is considered to be in line with paragraphs 92-94 of IAS 19 (Revised).

Under circumstances where contributions are renegotiated, such as following a statutory valuation, any adjustment necessary to reflect an obligation to fund past service cost will be recognised in the income statement.

At the previous year end, we noted that The Pensions Regulator (TPR) had been in discussion with the RPS (the Scheme) regarding the assumptions used to determine the Scheme's funding requirements. Discussions are ongoing, and the possibility remains of changes to contributions that could impact all rail operators sponsoring this industry-wide scheme.

Notes to the consolidated financial statements continued

37 Retirement benefit schemes continued

TPR and the DfT had requested that the RDG co-ordinate the Train Operators' involvement in an industry-wide review of Scheme's funding. The RDG, comprising participants from each of the large owning groups, has been seeking to develop a framework which meets TPR, DfT, RPS and RDG objectives. There has been continuing engagement between the key parties during the year, and efforts to develop a framework to take forward to a formal consultation are ongoing.

Management continues to believe that the protections contained within current contractual agreements with the DfT will allow the Scheme to continue with its current funding strategy in the short term. Nevertheless, TPR believes that a higher level of funding is required in the longer term, and the Group has been engaged with the industry-wide project to consider the funding of the Scheme.

Management continues to believe that an approach that meets TPRs key objectives while maintaining stability and fairness, and retaining protection against unacceptable risk, for both operators and scheme members, is achievable.

Management do not believe that the current EMAs and NRCs have impacted the position in relation to the Group's funding obligations towards the RPS sections and no allowance has therefore been made within the disclosures for these Agreements.

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

	Assets £m	Liabilities £m	Adjustment for employee share of RPS deficits (40%) £m	Contract adjustment £m	Net £m
At 1 April 2022	3,790.6	(5,066.1)	510.2	765.3	–
Income statement					
Operating					
– Service cost	–	(236.7)	94.6	89.2	(52.9)
– Admin cost	–	(10.4)	4.2	–	(6.2)
Total operating	–	(247.1)	98.8	89.2	(59.1)
Financing	108.2	(138.1)	12.0	17.9	–
Total income statement	108.2	(385.2)	110.8	107.1	(59.1)
Amounts paid to/(from) scheme					
Employer contributions	59.1	–	(23.6)	23.6	59.1
Employee contributions	39.4	–	(15.8)	(23.6)	–
Benefits paid	(140.8)	140.8	–	–	–
Total	(42.3)	140.8	(39.4)	–	59.1
Expected closing position	3,856.6	(5,310.5)	581.6	872.3	–
Change in financial assumptions	–	1,840.2	(736.1)	(1,104.1)	–
Return on assets in excess of discount rate	(172.3)	–	68.9	103.4	–
Experience	–	(344.2)	137.7	206.5	–
Total	(172.3)	1,496.0	(529.5)	(794.2)	–
At 31 March 2023	3,684.3	(3,814.5)	52.1	78.1	–

37 Retirement benefit schemes continued

	Assets £m	Liabilities £m	Adjustment for employee share of RPS deficits (40%) £m	Contract adjustment £m	Net £m
At 1 April 2021	3,370.6	(5,318.6)	779.2	1,168.8	–
Income statement					
Operating					
– Service cost	–	(253.4)	101.4	100.8	(51.2)
– Admin cost	–	(11.1)	4.4	–	(6.7)
Total operating	–	(264.5)	105.8	100.8	(57.9)
Financing	69.4	(105.1)	14.3	21.5	–
Total income statement	69.4	(369.6)	120.1	122.3	(57.9)
Amounts paid to/(from) scheme					
Employer contributions	57.9	–	(23.1)	23.1	57.9
Employee contributions	37.9	–	(15.2)	(22.7)	–
Benefits paid	(129.5)	129.5	–	–	–
Total	(33.8)	129.5	(38.3)	0.4	57.9
Expected closing position	3,406.2	(5,558.6)	861.0	1,291.4	–
Change in financial assumptions	–	510.0	(204.0)	(306.0)	–
Return on assets in excess of discount rate	384.4	–	(153.8)	(230.7)	–
Experience	–	(17.5)	7.0	10.5	–
Total	384.4	492.5	(350.8)	(526.1)	–
At 31 March 2022	3,790.6	(5,066.1)	510.2	765.3	–

During the year £10.4m (2022: £11.1m) of gross administrative expenses were incurred, included in benefits paid above.

Finance costs above include interest income of £64.9m (2022: £41.6m) and employee share of interest on assets of £43.3m (2022: £27.8m)

Income statement charges on liabilities above of £385.2m (2022: £369.6m) represent:

	2023 £m	2022 £m
Current service costs	148.2	158.6
Interest costs	82.9	63.1
Employee share of change in DBO (not attributable to contract adjustment)	154.1	147.9
	385.2	369.6

Notes to the consolidated financial statements continued

37 Retirement benefit schemes continued

Asset Allocation

	Quoted £m	Unquoted £m	Total £m
At 25 March 2023/31 March 2023			
Equity	–	2,069.3	2,069.3
Other return seeking assets	–	1,177.8	1,177.8
Real estate	–	426.5	426.5
Cash and cash equivalents	10.7	–	10.7
	10.7	3,673.6	3,684.3
At 26 March 2022/31 March 2022			
Equity	–	2,241.9	2,241.9
Other return seeking assets	–	1,089.7	1,089.7
Real estate	–	450.8	450.8
Cash and cash equivalents	8.2	–	8.2
	8.2	3,782.4	3,790.6

The Rail contracts' assets are invested in pooled funds created specifically for the Rail schemes. As such, these assets have been categorised as unquoted.

(d) Valuation assumptions

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

	First Bus 2023 %	First Rail 2023 %	North America 2023 %	First Bus 2022 %	First Rail 2022 %	North America 2022 %
Key assumptions used:						
Discount rate	4.67 – 4.69	4.80	4.66 – 4.92	2.91 – 2.97	2.83	3.72 – 4.19
Expected rate of salary increases	3.51	3.22	n/a	4.01	3.43	n/a
Inflation – CPI	2.51 – 2.56	2.72	2.0	2.89 – 3.01	2.93	2.0
Future pension increases	2.53 ²	2.72	n/a	2.68 ²	2.93	n/a
Post-retirement mortality (life expectancy in years) ¹						
Current pensioners at 65:	19.4	20.7	19.7 – 21.6	19.9	20.6	19.7 – 21.5
Future pensioners at 65 aged 45 now:	19.8	22.2	21.3 – 22.6	21.4	22.1	21.2 – 22.6

1 Life expectancies reflect the largest underlying plans in each region.

2 Weighted average for principal scheme.

The Group reviews its longevity assumptions for each scheme following completion of funding valuations. The assumptions adopted reflect recent scheme experience and views on future longevity which may include industry specific adjustment where appropriate. The Group obtains specialist actuarial advice before agreeing longevity assumptions.

(e) Sensitivity of retirement benefit obligations to changes in assumptions

The method used to derive the sensitivities is the same as that used to calculate the main disclosures. The exception is longevity where we have instead applied a general rule that one year's extra life expectancy adds c.3% to the defined benefit obligation (with resultant impacts on rail and irrecoverable surplus adjustments). This is consistent with the method applied to deriving last year's sensitivities.

A 1.0% movement in the discount rate would impact the balance sheet position by approximately £218m. A 0.5% movement in the inflation rate would impact the balance sheet position by approximately £67m. A one-year movement in life expectancy would impact the balance sheet position by approximately £52m.

Management considers that the figures provide a suitable indication of the potential impact of reasonably possible changes in the financial assumptions and one-year change in the mortality assumption. No allowance has been made for any consequent change in the value of assets held.

37 Retirement benefit schemes continued

(f) Consolidated statement of comprehensive income

Amounts presented in the consolidated statement of comprehensive income comprise:

	2023 £m	2022 £m
Actuarial gain on DBO	2,079.7	684.3
Actuarial (loss)/gain on assets	(925.7)	380.1
Actuarial (loss) on contract adjustments	(1,323.7)	(876.9)
Adjustment for irrecoverable surplus	18.8	(65.2)
Actuarial (losses)/gains on defined benefit schemes	(150.9)	122.3

(g) Cash contributions

The estimated amounts of employer contributions expected to be paid to the defined benefit schemes during the 53 weeks ending 30 March 2024 is £64m based on current contributions schedules in force (25 March 2023: £70m).

(h) Risks associated with defined benefit plans:

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

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

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

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

Risk	Description	Mitigation
Asset volatility	The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The assets held in the defined benefit arrangements are intended to meet the long-term funding objectives of those arrangements, and therefore results in some risk in the short term and has the potential for material adverse movements relative to the liabilities as valued for accounting purposes.	Asset liability modelling has been undertaken to ensure that any risks taken are expected to be rewarded and, in relation to the Company's largest pension exposures, further work is being undertaken to ensure that the investment strategy remains the most appropriate.
Inflation risk	A significant proportion of the UK benefit obligations are linked to inflation and higher inflation will lead to higher liabilities.	Investment strategy reviews have led to increased inflation hedging, mainly through swaps or holding Index Linked Gilts in the UK schemes.
Uncertainty over level of future contributions	Contributions to defined benefit schemes can be unpredictable and volatile as a result of changes in the funding level revealed at each valuation.	The Group engages with the trustees and plan managers to consider how contribution requirements can be made more stable. The level of volatility and the Group's ability to control contribution levels varies between arrangements.
Life expectancy	The majority of the scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.	Linking retirement age to State Pension Age (as in The First Bus Pension Scheme and LGPS) has mitigated this risk to some extent. An annuity buy-in has further mitigated this risk in one of the LGPS arrangements.
Legislative risk	Future legislative changes are uncertain. In the past these have led to increases in obligations, through introducing pension increases, vesting of deferred pensions, equalisation of certain benefits for men and women or reduced investment return through the ability to reclaim Advance Corporation Tax.	The Group receives professional advice on the impact of legislative changes.

Notes to the consolidated financial statements continued

38 Related party transactions

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

Remuneration of key management personnel

The remuneration of the Directors, which comprise the plc Board who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual Directors is provided in the Annual report on remuneration on pages 118-133.

	2023 £m	2022 £m
Basic salaries ¹	1.7	1.6
Benefits in kind	–	–
Fees	0.8	0.9
Share-based payment	2.5	2.6
	5.0	5.1

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

39 Events after the reporting period

- On 11 May 2023, the Department for Transport (DfT) confirmed that it would not exercise its option to extend the existing arrangements for FirstGroup's TransPennine Express (TPE) National Rail Contract, which was due to expire on 28 May 2023. On that date the DfT appointed its Operator of Last Resort to take over delivery of passenger services on the TPE network.
- The sale of the Bus division's depot at Empress Road, Southampton, which was disclosed as held for sale at 25 March 2023, completed on 3 April 2023 with proceeds in line with the held for sale valuation.
- First Transit earnout crystallised following completion of the sale of the First Transit business by EQT Infrastructure in March 2023, with estimated proceeds of c.\$89m anticipated in H1 FY 2024.
- In May 2023, the DfT announced a two-year funding settlement for bus operators in England which includes £300m of further funding to protect bus services until 2025, and £200m funding to extend the £2 fare cap until the end of October 2023 and then at £2.50 until November 2024.

40 Information about related undertakings

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiaries and equity accounted investments as at 25 March 2023 is disclosed below. Unless otherwise stated, the Group's shareholding represents ordinary shares held indirectly by FirstGroup plc, the entities are unlisted, and have one type of ordinary share capital, the year end is 25 March. The Group's interest in the voting share capital is 100% unless otherwise stated. No subsidiary undertakings have been excluded from the consolidation:

Subsidiaries – wholly owned and incorporated in the United Kingdom

A E & F R Brewer Limited,^{4,5} Heol Gwrysydd, Penlan, Swansea, SA5 7BN

Airport Buses Limited,⁵ Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Airport Coaches Limited,⁵ Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Airporter Limited,^{3,7} 21 Arthur Street, Belfast, BT1 4GA

Butler Woodhouse Limited,⁵ Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Cawlett Limited,⁴ Enterprise House, Easton Road, Bristol, BS5 0DZ

CCB Holdings Limited (03128545),⁴ 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

CentreWest Limited (02844270),⁵ 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

CentreWest London Buses Limited,⁵ 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

CentreWest ESOP Trustee (UK) Limited,⁵ 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

Chester City Transport Limited,⁵ Bus Depot, Wallshaw Street, Oldham, OL1 3TR

Crosville Limited,⁵ Bus Depot, Wallshaw Street, Oldham, OL1 3TR

Don Valley Buses Limited,⁵ Olive Grove, Sheffield, South Yorkshire, S2 3GA

East Coast Trains Limited,^{7,9} 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

East West Rail Limited,^{5,9} 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

ECOC (Holdings) Limited,⁵ Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Ensign Bus Company Limited,⁷ The Rifle Range, Juliette Close, Purfleet Industrial Park, Aveley, South Ockendon, Essex, RM15 4YF

Evolutionary Rail Limited,^{5,9} 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

FB Canada Holdings Limited (SC356482),^{3,4} 395 King Street, Aberdeen, AB24 5RP

FG Canada Investments Limited (SC356484),^{3,4} 395 King Street, Aberdeen, AB24 5RP

FG Properties Limited,^{3,8} 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

FGI Canada Holdings Limited (SC356485),^{3,4} 395 King Street, Aberdeen, AB24 5RP

First Aberdeen Limited,^{3,7} 395 King Street, Aberdeen, AB24 5RP

First Beeline Buses Limited,^{3,7} Hoeford, Gosport Road, Fareham, Hampshire, PO16 0ST

First Bus Central Services Limited,^{3,8} 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

First Bus Pension GP Limited,⁴ 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

First Caledonian Sleeper Limited,^{5,9} 395 King Street, Aberdeen, AB24 5RP

First Capital Connect Limited,^{3,5,9} 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

First Capital East Limited,⁵ Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

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

First CentreWest Buses Limited,⁵ 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

First City Line Ltd,⁵ 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

First Coaches Limited,⁵ Enterprise House, Easton Road, Bristol, BS5 0DZ

First Customer Contact Limited,^{8,9} 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

First Cymru Buses Limited,^{3,7} Heol Gwrysydd, Penlan, Swansea, SA5 7BN

First Dublin Metro Limited,^{5,9} 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

First Eastern Counties Buses Limited,⁷ Davey House, 7b Castle Meadow, Norwich, Norfolk, NR1 3DE

First Essex Buses Limited,⁷ Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

First European Holdings Limited (05113697),^{1,3,5} 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

First Games Transport Limited,⁵ 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

First Glasgow Limited,^{1,5} 100 Cathcart Road, Glasgow, G42 7BI

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

First Glasgow (No.2) Limited,^{3,7} 100 Cathcart Road, Glasgow, G42 7BH

First Great Western Limited,^{5,9} 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

First Great Western Trains Limited,^{5,9} 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

First Greater Western Limited,^{7,9} 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

First Hampshire & Dorset Limited,⁷ Hoeford, Gosport Road, Fareham, Hampshire, PO16 0ST

First Information Services Limited (SC288178),^{1,3,8} 395 King Street, Aberdeen, AB24 5RP

First International (Holdings) Limited (08743641),^{1,3,4} 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

First International No.1 Limited (08746564),^{3,5} 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

First Manchester Limited,^{3,7} Wallshaw Street, Oldham, OL1 3TR

Notes to the consolidated financial statements continued

40 Information about related undertakings continued

First Merging Pension Schemes Limited,⁵ 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

First Metro Limited,^{5,9} 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

First Midland Red Buses Limited,^{3,7} Abbey Lane, Leicester, England, LE4 0DA

First North West Limited (02862042),^{3,4} Wallshaw Street, Oldham, OL1 3TR

First Northern Ireland Limited,^{3,7} 21 Arthur Street, Belfast, BT1 4GA

First Pioneer Bus Limited,^{3,5} Wallshaw Street, Oldham, OL1 3TR

First Potteries Limited,^{3,7} Abbey Lane, Leicester, England, LE4 0DA

First Provincial Buses Limited,⁴ 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

First Rail Holdings Limited,^{1,4,9} 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

First Rail Procurement Limited,^{1,3,9,9} 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

First Rail Support Limited,⁴ 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

First ScotRail Limited,^{3,5,9} 395 King Street, Aberdeen, AB24 5RP

First ScotRail Railways Limited,^{5,9} 395 King Street, Aberdeen, AB24 5RP

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

First South West Limited,^{3,7} Union Street, Camborne, Cornwall, TR14 8HF

First South Yorkshire Limited,⁷ Olive Grove, Sheffield, South Yorkshire, S2 3GA

First Student UK Limited,⁵ 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

First Thameslink Limited,⁵ 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

First Trains Limited,^{5,9} 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

First TransPennine Express Limited,^{7,9} 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

First Travel Solutions Limited,⁷ Unit 5 Petre Court, Petre Road Clayton Business Park, Clayton Le Moors, Accrington, BB5 5HY

First Wessex National Limited,⁵ Enterprise House, Easton Road, Bristol, BS5 0DZ

First West of England Limited,⁷ Enterprise House, Easton Road, Bristol, BS5 0DZ

First West Yorkshire Limited,⁷ Hunslet Park Depot, Donisthorpe Street, Leeds, West Yorkshire, LS10 1PL

First York Limited,^{3,7} Hunslet Park Depot, Donisthorpe Street, Leeds, West Yorkshire, LS10 1PL

FirstBus (North) Limited,^{1,3,4} 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

FirstBus (South) Limited,^{1,3,4} 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

FirstBus Group Limited,⁴ 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

FirstBus Investments Limited (02205797),^{1,3,4} 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

FirstGroup American Investments (SC330038),^{3,4} 395 King Street, Aberdeen, AB24 5RP

FirstGroup Canadian Finance Limited (03486937),^{1,3,6} 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

FirstGroup Construction Limited,⁵ 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

FirstGroup Holdings Limited,^{1,8} 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

FirstGroup Pension GP Limited,⁴ 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

FirstGroup (QUEST) Trustees Limited,^{1,5,9} 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

FirstGroup US Finance Limited (SC330060),^{1,3,6} 395 King Street, Aberdeen, AB24 5RP

FirstGroup US Holdings (SC330054),^{3,4} 395 King Street, Aberdeen, AB24 5RP

Fleetrisk Management Limited,⁵ Olive Grove, Sheffield, South Yorkshire, S2 3GA

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

G.A.G. Limited,^{1,4} Enterprise House, Easton Road, Bristol, BS5 0DZ

GB Railways Group Limited,^{1,3,4,9} 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

Great Western Trustees Limited,^{5,9} Milford House, 1 Milford Street, Swindon, SN1 1HL

Grenville Motors Limited,⁵ 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

Greyhound Limited,⁵ 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

GRT Bus Group Limited (SC114203),^{1,3,4} 395 King Street, Aberdeen, AB24 5RP

Gurna Limited,⁵ Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Halesworth Transit Limited,⁵ Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Hampshire Books Limited,⁵ 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

Hull Trains Company Limited,^{7,9} The Point, 8th Floor, 37 North Wharf Road, London, England, W2 1AF

Indexbegin Limited,⁵ Hunslet Park Depot, Donisthorpe Street, Leeds, West Yorkshire, LS10 1PL

KCB Limited,⁵ 100 Cathcart Road, Glasgow, G42 7BH

Kelvin Central Buses Limited,⁵ 100 Cathcart Road, Glasgow, G42 7BH

Kelvin Scottish Omnibuses Limited,⁵ 100 Cathcart Road, Glasgow, G42 7BH

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

Lynton Bus and Coach Limited,⁵ Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Lynton Company Services Limited,⁵ Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Mainline Partnership Limited,^{1,4} Olive Grove, Sheffield, South Yorkshire, S2 3GA

40 Information about related undertakings continued

Midland Travellers Limited,⁵

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

Mistral Data Limited,^{8,9}

The Point, 37 North Wharf Road, London,
W2 1AF

North Devon Limited,⁵

The Point, 37 North Wharf Road, London,
W2 1AF

Northampton Transport Limited,⁵

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

Project Coral Limited,⁴

The Point, 37 North Wharf Road, London,
W2 1AF

Quickstep Travel Ltd,⁵

Depot, Donisthorpe Street, Leeds,
West Yorkshire, LS10 1PL

Reiver Ventures Properties Limited,⁴

Carmuir House, 300 Stirling Road, Larbert,
Stirlingshire, FK5 3NJ

Reiver Ventures Limited,⁵

Carmuir House, 300 Stirling Road, Larbert,
Stirlingshire, FK5 3NJ

Reynard Buses Limited,⁵

Depot, Donisthorpe Street, Leeds, West
Yorkshire, LS10 1PL

Rider Holdings Limited (02272577),^{3,4}

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

Rider Travel Limited,⁵

Depot, Donisthorpe Street, Leeds, West Yorkshire,
LS10 1PL

Scott's Hospitality Limited,⁵

The Point, 37 North Wharf Road, London,
W2 1AF

Sheafline (S.U.T.) Limited,⁵

Olive Grove, Sheffield, South Yorkshire, S2 3GA

Sheffield & District Traction Company

Limited,⁵ Olive Grove, Sheffield,
South Yorkshire, S2 3GA

Sheffield United Transport Limited,⁵

Olive Grove, Sheffield, South Yorkshire,
S2 3GA

Skillplace Training Limited,⁵

Heol Gwyrosydd, Penlan, Swansea, SA5 7BN

Smiths of Portland Limited,⁵

Enterprise House, Easton Road, Bristol, BS5 0DZ

SMT Omnibuses Limited,⁵

Carmuir House, 300 Stirling Road, Larbert,
Stirlingshire, FK5 3NJ

Somerset Passenger Solutions Ltd,^{3,7}

J24 Hinkley Point C, Park and Ride,
Huntworth Business Park, Bridgwater,
IA6 6LS

Southampton CityBus Limited,^{3,4}

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

Southampton City Transport

Company Limited,⁴ 8th Floor, The Point,
37 North Wharf Road, London, W2 1AF

Strathclyde Buses Limited,⁵

100 Cathcart Road, Glasgow, G42 7BH

Streamline Buses (Bath) Limited,^{1,5}

Enterprise House, Easton Road, Bristol,
BS5 0DZ

Taylor's Coaches Limited,⁵

Enterprise House, Easton Road, Bristol, BS5 0DZ

The FirstGroup Pension Scheme

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

The First UK Bus Pension Scheme

Trustee Limited,⁵ 8th Floor, The Point,
37 North Wharf Road, London, W2 1AF

TotalJourney Limited,^{1,5,9}

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

Tram Operations Limited,^{7,9}

Tramlink Depot, Coomber Way, Croydon, CR0 4TQ

Transportation Claims Limited,⁹

Aquis House, 49-51 Blagrove Street,
Reading, RG1 1PL

Truronian Limited,^{3,5}

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

West Dorset Coaches Limited,⁴

Enterprise House, Easton Road, Bristol,
BS5 0DZ

Western National Holdings Limited,⁴

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

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

Durham City Transit Company,⁷ 600 Vine
Street, Suite 1400, Cincinnati, Ohio 45202

FirstGroup Management,⁵ Inc. 600 Vine
Street, Suite 1400, Cincinnati, Ohio 45202

FirstGroup Services,⁵ Inc. 600 Vine Street,
Suite 1400, Cincinnati, Ohio 45202

Laidlaw Transportation Holdings,⁵

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

Transit Management of Dutchess

County,⁷ Inc. 600 Vine Street, Suite 1400,
Cincinnati, Ohio 45202

Transit Management of Racine,⁷

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

Transit Management of St Joseph,⁷

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

Notes to the consolidated financial statements continued

40 Information about related undertakings continued

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

Transportation Realty Income Partners LP (50%),⁷ 600 Vine Street Suite 1400, Cincinnati, Ohio 45202

Subsidiaries – wholly owned and incorporated in Ireland

Aeroporto Limited,⁴ 25-28 North Wall Quay, Dublin

Last Passive Limited,⁷ 25-28 North Wall Quay, Dublin

Subsidiaries – wholly owned and incorporated in Panama

First Transit de Panama, Inc.⁵
Morgan & Morgan, Costa del Este,
MMG Tower, 23rd Floor, Panama City

Subsidiaries – wholly owned and incorporated in Canada

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

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

Greyhound Canada Transportation ULC,⁷ Blake, Cassels & Graydon LLP, 595 Burrard Street, P.O. Box 49314, Suite 2600, Three Bentall Centre, Vancouver, British Columbia V7X 1L3

Subsidiary not wholly owned but incorporated in Canada

GACCTO Limited (50%),⁵ 130 King Street West, #1600, Toronto, Ontario M5X 1J5

Subsidiaries not wholly owned but incorporated in the United Kingdom

Careroute Limited (80%),⁵ 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

First/Keolis Holdings Limited (55%),^{1,3,5,9} 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

First/Keolis TransPennine Holdings Limited (55%),^{3,4,9} 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

First/Keolis TransPennine Limited (55%),^{3,5,9} 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

First MTR South Western Trains Limited (70%),^{7,9} 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

First Trenitalia East Midlands Rail Limited (70%),^{5,9} 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

First Trenitalia West Coast Rail Limited (70%),^{7,9} 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF

Leicester CityBus Benefits Limited (94%),⁵ Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Leicester CityBus Limited (94%),^{2,3,7} Abbey Lane, Leicester, England, LE4 0DA

LCB Engineering Limited (94%),⁵ Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Subsidiary not wholly owned but incorporated in India

Transit Operations Private Limited (99.95%),⁷ Lentin Chambers, 2nd Floor, Dalal Street, Fort Mumbai, 400023

1 Directly owned by FirstGroup plc.

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

3 For the year ending 25 March 2023 these subsidiaries are exempt from audit of individual accounts under S479A of the UK Companies Act 2006.

4 Primary business is a holding company

5 Primary business is a dormant company

6 Primary business is an intragroup financing company

7 Primary business is the provision of transportation services

8 Primary business is an administrative or support services company

9 Rail companies with 31 March year end

Certain pension partnership structures (FirstBus Pension Limited Partnership and FirstGroup Pension Limited Partnership) were implemented during the 52 weeks ending 26 March 2022. These structures involved the creation of special purpose vehicles (SPVs) to hold cash to fund the Bus and Group pension schemes if required, based on a designated funding mechanism. The first accounting period end for these SPVs was 31 March 2023. The SPVs are consolidated into FirstGroup plc's consolidated accounts, and therefore under Partnership (Accounts) Regulations 2008, Regulation 7, the SPVs are exempt from the requirement to prepare individual entity annual accounts.

Group financial summary

Unaudited

	2023 £m	2022 £m	2021 £m	2020 £m	2019 £m
Consolidated income statement (includes discontinued operations)					
Group revenue	4,759.0	5,588.0	6,844.8	7,754.6	7,126.9
Operating profit before amortisation charges and other adjustments	154.4	226.8	220.4	256.8	314.8
Amortisation charges		(0.4)	(4.1)	(4.9)	(11.8)
Other adjustments	30.8	579.7	69.7	(404.6)	(293.2)
Operating profit/(loss)	185.2	806.1	285.8	(152.7)	9.8
Finance costs	(69.3)	(153.5)	(172.0)	(146.9)	(107.7)
Investment income	12.8	1.5	2.0	-	-
Profit/(loss) before tax	128.7	654.1	115.8	(299.6)	(97.9)
Tax	(33.4)	(12.1)	(24.7)	(25.0)	(10.1)
Profit/(loss) for the year	95.3	642.0	91.1	(324.6)	(108.0)
EBITDA	755.8	862.1	1,178.9	1,108.9	670.3
Per share measures					
	pence	pence	pence	pence	pence
Adjusted continuing EPS	10.6	1.6	(3.5)	6.8	13.3
Basic EPS	11.8	60.2	6.5	(27.0)	(5.5)
Dividend per share	3.8	1.1	-	-	-
Consolidated balance sheet					
	£m	£m	£m	£m	£m
Non-current assets	2,651.9	2,267.2	2,641.2	6,225.1	4,003.5
Net current (liabilities)/assets	(253.9)	(546.8)	(876.8)	(701.9)	10.7
Non-current liabilities	(1,530.9)	(753.1)	(2,817.7)	(3,927.5)	(1,958.9)
Held for sale – continuing operations	8.3	-	-	-	-
Held for sale – discontinued operations	0.6	38.5	2,342.9	-	-
Non-current provisions	(125.2)	(120.7)	(135.5)	(419.0)	(532.0)
Net assets	750.8	885.1	1,154.1	1,176.7	1,523.3
Share data					
	millions	millions	millions	millions	millions
Number of shares in issue					
At year end	750.6	750.2	1,221.8	1,219.5	1,213.9
Average (excluding treasury shares and shares in trusts)	739.5	1,057.5	1,203.6	1,210.9	1,205.9
Share price					
	pence	pence	pence	pence	pence
At year end	101	107	92	50	91
High	140	107	95	138	117
Low	94	73	31	28	79
Market capitalisation					
	£m	£m	£m	£m	£m
At year end	760	803	1,124	610	1,105
Continuing operations					
	2023 £m	2022 £m	2021 £m	2020 £m	2019 £m
Revenue	4,755.0	4,591.1	4,318.8	4,039.6	3,506.1
Adjusted operating profit	161.0	106.7	112.2	81.3	91.7
Operating profit/(loss)	153.9	122.8	171.0	38.2	(94.8)
EBITDA	762.4	731.2	782.8	623.3	208.0
First Bus					
	2023 £m	2022 £m	2021 £m	2020 £m	2019 £m
Revenue	902.5	789.9	698.9	835.9	876.1
Adjusted operating profit	58.4	45.2	36.6	46.1	65.1
Operating profit/(loss)	51.4	45.2	30.8	32.4	27.4
EBITDA	120.9	104.4	100.8	113.2	119.7
First Rail					
Revenue	3,893.2	3,801.2	3,619.9	3,203.7	2,666.7
Adjusted operating profit	124.8	87.8	108.1	70.4	68.8
Operating profit/(loss)	124.8	91.8	203.8	69.3	(77.1)
EBITDA	661.0	649.9	711.1	540.3	127.4

Company balance sheet

As at 25 March

	Note	2023 £m	2022 £m
Non-current assets			
Trade and other receivables	3	506.9	376.4
Derivative financial instruments	4	0.1	0.2
Investments	5	740.7	2,147.9
		1,247.7	2,524.5
Current assets			
Cash and cash equivalents		371.4	186.8
Trade and other receivables	3	2.7	0.9
Derivative financial instruments	4	4.1	0.6
		378.2	188.3
Total assets		1,625.9	2,712.8
Current liabilities			
Trade and other payables	7	313.3	1,518.4
Derivative financial instruments	4	0.1	–
		313.4	1,518.4
Net current assets/(liabilities)		64.8	(1,330.1)
Non-current liabilities			
Trade and other payables	7	184.2	199.9
		184.2	199.9
Total liabilities		497.6	1,718.3
Net assets		1,128.3	994.5
Equity			
Share capital	8	37.5	37.5
Share premium		693.2	692.8
Other reserves		117.2	167.3
Own shares	9	(15.4)	(9.0)
Retained earnings		295.8	105.9
Total equity		1,128.3	994.5

The Company reported a profit for the 52 weeks ending 25 March 2023 of £232.3m (2022: loss of £150.8m).

Ryan Mangold

8 June 2023

Company number SC157176

Company statement of changes in equity

For the 52 weeks ended 25 March

	Share capital £m	Share premium £m	Own shares £m	Hedging reserve £m	Merger reserve £m	Capital reserve £m	Capital Redemption reserve £m	Retained earnings £m	Total equity £m
Balance at 28 March 2021	61.1	689.6	(9.0)	(10.0)	64.0	93.8	1.9	761.9	1,653.3
Loss for the year	–	–	–	–	–	–	–	(150.8)	(150.8)
Other comprehensive (loss)/income for the year	–	–	–	(0.2)	–	–	–	6.2	6.0
Total comprehensive loss for the year	–	–	–	(0.2)	–	–	–	(144.6)	(144.8)
Transactions with owners in their capacity as owners									
Shares issued	0.2	3.2	–	–	–	–	–	–	3.4
Shares bought back and cancelled	(23.8)	–	–	–	–	–	17.8	(500.0)	(506.0)
Movement in EBT and treasury shares	–	–	–	–	–	–	–	(16.8)	(16.8)
Share-based payments	–	–	–	–	–	–	–	5.4	5.4
Balance at 26 March 2022	37.5	692.8	(9.0)	(10.2)	64.0	93.8	19.7	105.9	994.5
Balance at 27 March 2022	37.5	692.8	(9.0)	(10.2)	64.0	93.8	19.7	105.9	994.5
Profit/(loss) for the year	–	–	–	–	–	–	–	232.3	232.3
Other comprehensive (loss)/income for the year	–	–	–	0.0	–	–	–	–	0.0
Total comprehensive gain/(loss) for the year	–	–	–	0.0	–	–	–	232.3	232.3
Transactions with owners in their capacity as owners									
Shares issued	–	0.4	–	–	–	–	–	–	0.4
Shares bought back but not yet cancelled	–	–	–	–	–	–	–	(31.6)	(31.6)
Liability for shares not yet bought back	–	–	–	–	–	–	–	(43.9)	(43.9)
Movement in EBT and treasury shares	–	–	(6.4)	–	–	–	–	(8.6)	(15.0)
Share-based payments	–	–	–	–	–	–	–	6.4	6.4
Dividends paid	–	–	–	–	–	–	–	(14.8)	(14.8)
Reclassification to retained earnings	–	–	–	–	(50.1)	–	–	50.1	–
Balance at 25 March 2023	37.5	693.2	(15.4)	(10.2)	13.9	93.8	19.7	295.8	1,128.3

Merger reserves relating to disposal of investments for qualifying consideration and those relating to the extent related investments are impaired are considered realised and transferred to retained earnings.

The non-distributable portion of retained earnings is £32.7m (2022 £35.0m).

Notes to the Company financial statements

1 Significant accounting policies

Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006. The financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial instruments and on a going concern basis as described in the going concern statement within the Strategic report on pages 04-82.

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

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payment, financial instruments, capital management, presentation of a cash flow statement, certain related party transactions and the requirement to present a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of its financial statements.

The financial statements for the 52 weeks ending 25 March 2023 include the results and financial position of the Company for the 52 weeks ending 25 March 2023. The financial statements for the 52 weeks ending 26 March 2022 include the results and financial position of the Company for the 52 weeks ending 26 March 2022.

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

Investments

Investments in subsidiaries and associates are shown at cost less provision for impairment. For investments in subsidiaries acquired for consideration in the form of shares, including the issue of shares qualifying for merger relief, cost is measured by reference to the fair value only of the shares issued.

Dividend distribution

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

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

Key sources of estimation uncertainty

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

Investment in subsidiaries

Estimation is required in relation to the recoverability of the investments and are sensitive to changes in cash flow forecasts supporting the recoverable amount. There is a significant risk that material adjustment to the carrying amounts of the investments and receivables could be required within the next financial year, including the reversal of prior year impairments. The carrying value of investments at 25 March 2023 is £740.7m (2022: £2,147.9m).

2 Profit for the year

As permitted by section 408 of the Companies Act 2006, the Company has elected not to present its own income statement for the year. The Company reported a profit for the financial year ended 25 March 2023 of £232.3m (2022: loss of £150.8m).

Fees payable to the Company's auditors for the audit of the Company's annual financial statements are disclosed in note 6 of the Group accounts. The Company had no employees in the current or preceding financial year.

3 Trade and other receivables

	2023 £m	2022 £m
Amounts due within one year		
Prepayments	2.7	0.9
	2.7	0.9

3 Trade and other receivables continued

	2023 £m	2022 £m
Amounts due after more than one year		
Amounts due from subsidiary undertakings	472.9	345.8
Loss allowance	(0.9)	(0.7)
Net amounts due from subsidiary undertakings	472.0	345.1
Deferred tax asset (note 6)	34.9	31.3
	506.9	376.4

4 Derivative financial instruments

	2023 £m	2022 £m
Total derivatives		
Total assets – due after more than one year	0.1	0.2
Total assets – due within one year	4.1	0.6
Total assets	4.2	0.8
Total creditors – amounts falling due within one year	0.1	–
Total creditors	0.1	–

Derivatives designated and effective as hedging instruments carried at fair value

Non-current assets		
Cross currency swaps (net investment hedge)	–	–
Total assets	–	–

Current liabilities		
Currency forwards (net investment hedge)	0.1	–
Total liabilities	0.1	–

Derivatives classified as held for trading

Non-current assets		
Currency forwards (cash flow hedge)	0.1	0.2
Current assets		
Currency forwards (net investment hedge)	–	–
Currency forwards (cash flow hedge)	4.1	0.6
Total assets	4.1	0.6
Total assets	4.2	0.8

Current liabilities		
Fuel derivatives (cash flow hedge)	–	–
Non-current liabilities		
Fuel derivatives (cash flow hedge)	–	–
Total liabilities	–	–

Full details of the Group's financial risk management objectives and procedures can be found in note 25 of the Group accounts. As the holding company for the Group, the Company faces similar risks over foreign currency and interest rate movements.

Notes to the Company financial statements continued

5 Investments in subsidiary undertakings

	Unlisted subsidiary undertakings £m
Cost	
At 26 March 2022	2,717.8
Additions	6.4
Write-off of investment	(42.0)
Return of investment	(1,497.8)
At 25 March 2023	1,184.4
Provision for impairment	
At 26 March 2022	569.9
Impairment	6.4
Return of investment	(132.6)
At 25 March 2023	443.7
Carrying amount	
At 25 March 2023	740.7
At 26 March 2022	2,147.9

The carrying value of the investment in subsidiary undertakings is reviewed for impairment on an annual basis. The recoverable amount is the higher of fair value less cost of disposal or the net present value of future cash flows which are estimated based on the continued use of the asset in the business. The investments of £740.7m principally relate to an investment in the Group's former North American divisions and holding companies of £78.9m and the First Bus business of £659.3m.

The First Bus value in use requires the determination of appropriate assumptions (which are sources of estimation uncertainty) in relation to the cash flow forecasts, the long term growth rate to be applied and the discount rate used to discount the estimated cash flows to present value.

The return of investment during the year relates to the distribution of net assets from subsidiary companies.

There was no reversal of impairment during the year.

The additions in the year relate to IFRS 2 share-based charges, which have subsequently been fully written down.

The investments in First Bus would break even using a discount rate of 12.3% or a reduction of terminal margin to 9.0%.

A full list of subsidiaries and investments can be found in note 40 to the Group accounts.

6 Deferred tax

The deferred tax asset/liability recognised by the Company and the movements thereon during the current and prior reporting periods are as follows:

	Other temporary differences £m
At 26 March 2022	(31.3)
(Credit)/charge to income statement	(3.8)
(Credit)/charge to reserves	0.2
At 25 March 2023	(34.9)

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2023 £m	2022 £m
Deferred tax (asset)/liability due after more than one year	(34.9)	(31.3)

7 Creditors

	2023 £m	2022 £m
Amounts falling due within one year		
Bank overdraft	82.9	87.5
£200m Sterling bond – 6.875% 2024	6.5	7.1
Amounts due to subsidiary undertakings	170.0	1,415.6
Accruals and deferred income	53.9	8.2
	313.3	1,518.4
Amounts falling due after more than one year		
£200m Sterling bond – 6.875% 2024	184.2	199.9
	184.2	199.9

Borrowing facilities

The maturity profile of the Company's undrawn committed borrowing facilities is as follows:

	2023 £m	2022 £m
Facilities maturing:		
Due in more than two years	300.0	300.0

Details of the Company's borrowing facilities are given in note 22 to the Group accounts.

8 Called up share capital

	Number of shares million	2023 £m
Allotted, called up and fully paid (ordinary shares of 5p each)		
Balance as at 27 March 2022	750.2	37.5
SAYE/BAYE exercises	0.4	–
Balance as at 25 March 2023 (ordinary shares of 5p each)	750.6	37.5

In December 2022, the Company announced a share buyback programme to purchase up to £75m of ordinary shares, and at 25 March 2023, the Company had repurchased 29,515,396 shares for an amount of £31.6m, including transaction costs of £0.3m. As at 25 March 2023, £75.5m has been deducted from retained earnings in respect of the shares already purchased and remaining commitment to purchase up to £75m of ordinary shares.

The number of ordinary shares of 5p in issue, excluding treasury shares held in trust for employees, at the end of the period was 737.3m (2022: 740.7m). At the end of the period 42.8m shares (2022: 9.5m shares) were being held as treasury shares and own shares held in trust for employees.

9 Own shares

	Own shares £m
At 27 March 2022	(9.0)
Movement in EBT, QUEST and treasury shares during the year	(6.4)
At 25 March 2023	(15.4)

The number of own shares held by the Group at the end of the year was 42,774,044 (2022: 9,472,372) FirstGroup plc ordinary shares of 5p each. Of these, 13,068,899 (2022: 9,282,623) were held by the FirstGroup plc Employee Benefit Trust, 32,520 (2022: 32,520) by the FirstGroup plc Qualifying Employee Share Ownership Trust and 157,229 (2022: 157,229) were held as treasury shares, with a further 29,515,396 held as treasury shares as part of the share buyback programme which commenced on 19 December 2022. Both trusts and treasury shares have waived the rights to dividend income from the FirstGroup plc ordinary shares. The market value of the shares at 25 March 2023 was £43.3m (2022: £10.2m).

Notes to the Company financial statements continued

10 Contingent liabilities

To support subsidiary undertakings in their normal course of business, FirstGroup plc and certain subsidiaries have indemnified certain banks and insurance companies who have issued performance bonds for £55.0m (2022: £69.4m) and letters of credit for £169.9m (2022: £219.7m). The performance bonds primarily relate to First Rail franchise operations of £51.8m and residual North American obligations of £3.2m. The letters of credit relate substantially to insurance arrangements in the UK and North America. The parent company has committed further support facilities of up to £98.5m to First Rail Train Operating Companies of which £73.6m remains undrawn. Following the sale of Greyhound, the majority of the surety bonds were cancelled, with a residual amount of £3.2m remaining as noted above. Letters of credit remain in place to provide collateral for legacy Greyhound insurance and pension obligations.

The Group is party to certain unsecured guarantees granted to banks for overdraft and cash management facilities provided to itself and subsidiary undertakings. The Company has given certain unsecured guarantees for the liabilities of its subsidiary undertakings arising under certain HP contracts, finance leases, operating leases and certain pension scheme arrangements. It also provides unsecured cross guarantees to certain subsidiary undertakings as required by VAT legislation. First Bus subsidiaries have provided unsecured guarantees on a joint and several basis to the Trustee of The First Bus Pension Scheme. Two of the Company's North American subsidiaries participated in multi-employer pension plans in which their contributions were pooled with the contributions of other contributing employers. The funding of those plans is reliant on the ongoing involvement of third parties.

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

The Group's operations are required to comply with a wide range of regulations, including environmental and emissions regulations. Failure to comply with a particular regulation could result in a fine or penalty being imposed on that business, as well as potential ancillary claims rooted in non-compliance.

The inquest relating to the death of seven passengers in the Croydon tram incident in November 2016 concluded in July 2021. The tram was operated by Tram Operations Limited ('TOL'), a subsidiary of the Group, under a contract with a Transport for London ('TfL') subsidiary. TOL provides the drivers and management to operate the tram services, whereas the infrastructure and trams are owned and maintained by a TfL subsidiary. The Office of Rail & Road ('ORR') announced in March 2022 that it had taken the decision to prosecute TfL, the driver of the tram and TOL for breaches of Health and Safety law. While TOL has indicated a guilty plea to the charge laid against it, the Company cannot yet accurately determine the quantum or timing of any financial penalties or related costs which may arise from these proceedings. TfL has also indicated a guilty plea. The driver has pleaded not guilty – his trial started in mid-May 2023.

First MTR South Western Trains Limited ('FSWT'), a subsidiary of the Company and the operator of the South Western railway contract, is a defendant to collective proceedings before the UK Competition Appeal Tribunal (the 'CAT') in respect of alleged breaches of UK competition law. Stagecoach South Western Trains Limited ('SSWT') (the former operator of the South Western network) is also a defendant to these proceedings. Separate sets of proceedings have been issued against London & South Eastern Railway Limited and related entities ('LSER') and, more recently, against Govia Thameslink Railway Limited and related entities ('GTR') in respect of the operation of other rail services. The three sets of proceedings are being heard together. The class representative ('CR') alleges that FSWT, SSWT, LSER and GTR breached their obligations under UK competition law by not making boundary fares sufficiently available for sale, and/or by failing to ensure that customers were aware of the existence of boundary fares and/or bought an appropriate fare in order to avoid being charged twice for part of a journey. A collective proceedings order ('CPO') was made by the CAT in January 2022 in respect of the FSWT/SSWT and LSER proceedings and, following an unsuccessful appeal by the defendants, the proceedings are continuing alongside the GTR proceedings in respect of which the CAT issued a judgment setting out its reasons for granting a CPO in March 2023. The Secretary of State for Transport served a written statement of intervention in all three proceedings in April 2023. A trial date has not yet been set. In March 2022, FSWT, the Company and the CR executed an undertaking under which the Company has agreed to pay to the CR any sum of damages and/or costs which FSWT fails to pay, and which FSWT is legally liable to pay to the CR in respect of the claims (pursuant to any judgment, order or award of a court or tribunal), including any sum in relation to any settlement of the claims. At present the Company cannot accurately determine the likelihood, quantum or timing of any damages and costs which may arise from these proceedings.

Shareholder information

Annual General Meeting

The AGM will be held on 21 July 2023 at Queen Elizabeth II Centre, Broad Sanctuary, Westminster, London, SW1P 3EE.

The Notice of AGM is available on the Company's website and will have been posted to you if you have chosen to receive hard copy communications from the Company. Either a Form of Proxy or online Voting Card has been posted to all shareholders registered on the Company's register of members.

We are intending to hold the AGM as a physical meeting. Any changes to the arrangements will be communicated to shareholders before the meeting through our website and, where appropriate, by RIS announcement.

Shareholders are encouraged to submit proxies for the 2023 AGM electronically by logging on to www.sharevote.co.uk. Electronic proxy appointments must be received by the Company's Registrar, Equiniti, no later than 48 hours, excluding non-business days, before the time fixed for the AGM.

Shareholders who wish to ask questions relating to the business of the AGM are encouraged to do so by submitting questions in advance of the AGM by email to companysecretariat@firstgroup.co.uk, or by post for the attention of the Company Secretary (see addresses on the next page). We will consider all questions received and, to the extent practicable, answers will also be published on the Company's website. For all other queries regarding the AGM, please contact the Company Secretary.

Website and shareholder communications

A wide range of information on FirstGroup is available at the Company's website including:

- financial information – annual and half-yearly reports as well as trading updates
- share price information – current trading details and historical charts
- shareholder information – AGM results, details of the Company's advisers and frequently asked questions
- news releases – current and historical.

FirstGroup uses its website as its primary means of communication with its shareholders provided that the shareholder has agreed or is deemed to have agreed that communications may be sent or supplied in that manner. Electronic communications allow shareholders to access information instantly as well as helping FirstGroup to reduce its costs and its impact on the environment. Shareholders that have consented or are deemed to have consented to electronic communications can revoke their consent at any time by contacting Equiniti.

Shareholders can sign up for electronic communications online by registering with Shareview, the internet-based platform provided by Equiniti. In addition to enabling shareholders to register to receive communications by email, Shareview provides a facility for shareholders to manage their shareholding online by allowing them to:

- receive trading updates by email
- view their shareholdings
- update their records, including change of address
- view payment and tax information
- vote in advance of Company general meetings.

To find out more information about the services offered by Shareview, please visit www.shareview.co.uk.

Shareholder enquiries

The Company's share register is maintained by Equiniti. Shareholders with queries relating to their shareholding should contact Equiniti directly using one of the methods listed below:

Registrar

Equiniti Limited
Aspect House
Spencer Road
Lancing, West Sussex
BN99 6DA

Tel: 0371 384 2046*

(or from overseas on
Tel: +44 (0)371 384 2046)

Online: help.shareview.co.uk (from here, you will be able to email Equiniti securely with your enquiry).

* Telephone lines are open from 8.30am to 5.30pm, Monday to Friday.

If you receive more than one copy of the Company's mailings this may indicate that more than one account is held in your name on the register. This happens when the registration details of separate transactions differ slightly. If you believe more than one account exists in your name, please contact Equiniti to request that the accounts are combined. There is no charge for this service.

Equiniti also offers a postal dealing facility for buying and selling FirstGroup plc ordinary shares; please write to them at the address shown above or telephone 0371 384 2248. They also offer a telephone and internet dealing service which provides a simple and convenient way of dealing in FirstGroup shares. For telephone dealing call 0345 603 7037 between 8.30am and 4.30pm, Monday to Friday, and for internet dealing log on to www.shareview.co.uk/dealing.

Shareholder information continued

ShareGift

If shareholders have a small number of shares and the dealing costs or the minimum fee make it uneconomical to sell them, it is possible to donate these to ShareGift, a registered charity, which provides a free service to enable you to dispose charitably of such shares. More information on this service can be found at www.sharegift.org or by calling +44 (0)20 7930 3737. A ShareGift transfer form can also be obtained from Equiniti.

FirstGroup's policy on discounts for shareholders

The Group does not offer travel or other discounts to shareholders.

Unsolicited advice on the Company's shares

Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount, or offers of free reports about the Company. These are typically from overseas-based 'brokers' who target US or UK shareholders, offering to sell them what often turn out to be worthless or high risk shares. These operations are commonly known as 'boiler rooms' and the 'brokers' can be very persistent and extremely persuasive.

Shareholders are advised to deal only with financial services firms that are authorised by the FCA. You can check a firm is properly authorised by the FCA before getting involved by visiting www.fca.org.uk/register. If you do deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme if anything goes wrong. For more detailed information on how you can protect yourself from an investment scam, or to report a scam, go to www.fca.org.uk/consumers/scams/report-scam or call 0800 111 6768.

Half-yearly results

The half-yearly results, normally announced to the market in November, will continue to be available on the Company's website in the form of a press release and not issued to shareholders in hard copy.

Contact information

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(trading as RBC Capital Markets)
100 Bishopsgate
London
EC2N 4AA

Liberum Capital Limited

Ropemaker Place
25 Ropemaker Street
London
EC2Y 9LY

External auditor

PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

Glossary

Set out below is a guide to commonly used financial, industry and Group related terms in the Annual Report and Accounts. These are not precise definitions and are included to provide readers with a guide to the general meaning of the terms.

Adjusted cash flow

Adjusted cash flow is described in the table shown on page 31 of the Financial review

Adjusted net debt/(cash)

Net debt excluding ring-fenced cash and IFRS 16 lease liabilities

Adjusted measures (other)

References to 'adjusted operating profit', 'adjusted profit before tax', and 'adjusted EPS' throughout this document are before items which management has determined as not being relevant to an understanding of the Group's underlying business performance, as set out in note 4 to the financial statements

AGM

Annual General Meeting

ARP

American Rescue Plan

Avanti

Avanti West Coast, a train operating company

BAYE

Buy As You Earn

The Board

The Board of Directors of the Company

BRG

Bus Recovery Grant

CARES Act

Coronavirus Aid, Relief, and Economic Security Act; the US economic relief package signed into law on 27 March 2020

CBSSG and CBSSG-R

COVID-19 Bus Service Support Grant, a UK Government measure to secure continuity of service on crucial bus routes which may otherwise have ceased during the pandemic. CBSSG-Restart (CBSSG-R) was a successor scheme

CCFF

Covid Corporate Financing Facility, a UK Government commercial paper lending facility

CDP

An international non-profit organisation that helps companies and cities disclose their environmental impact

CGU

Cash Generating Unit

tCO₂(e)

Tonnes of Carbon dioxide equivalent, allowing other volumes of greenhouse gas emissions to be expressed in terms of carbon dioxide based on their relative global warming potential. Usually expressed as per kilometre or per passenger kilometre

Company

FirstGroup plc, a company registered in Scotland with number SC157176 whose registered office is at 395 King Street, Aberdeen AB24 5RP

'Cont' or the 'Continuing operations'

Refer to First Bus, First Rail and Group items

CPI

Consumer price index, an inflation measure that excludes certain housing-related costs

Defra

Department for Environment, Food and Rural Affairs (UK Government)

DfT

Department for Transport (UK Government)

'Disc' or the 'Discontinued' operations

Refer to First Student, First Transit and Greyhound US

Dividend

Amount payable per ordinary share on an interim and final basis

EABP

Executive Annual Bonus Plan

EBITDA

Earnings before interest, tax, depreciation and amortisation, calculated as adjusted operating profit less capital grant amortisation plus depreciation

EBITDA adjusted for First Rail management fees

First Bus and First Rail EBITDA from open access and additional services, plus First Rail attributable net income from management fee-based operations, minus central costs

EBT

Employee benefit trust

EDF

Employee Directors' Forum

ED&I

Equality, diversity and inclusion

EMA/ERMA

Emergency Measures Agreements and Emergency Recovery Measures Agreements were introduced by the DfT to ensure that rail services could continue to operate during the pandemic

EPS

Earnings per share

ESG

Environmental, social and governance

EV

electrical vehicle

GED

Group Employee Director

GHG

Greenhouse gas emissions

Group

FirstGroup plc and its subsidiaries

Glossary continued

Group adjusted attributable profit

First Bus and First Rail adjusted operating profit from open access and additional services, plus First Rail attributable net income from management fee-based operations, minus central costs, minus treasury interest, minus tax

GWR

Great Western Railway, a train operating company

IAS

International Accounting Standards

IFRS

International Financial Reporting Standards

KPIs

Key performance indicators, financial and non-financial metrics used to define and measure progress towards our strategic objectives

LBG

London Benchmarking Group, an organisation that has created a framework for measuring community impact

LGPS

Local Government Pension Scheme

Local authority

Local government organisations in the UK, including unitary, metropolitan, district and county councils

LTIP

Long-Term Incentive Plan

M&A

Mergers and acquisitions

NBS

National Bus Strategy, announced by UK Government in March 2021

NRC

National Rail Contract

Net debt

The value of Group external borrowings excluding the fair value adjustment for coupon swaps designated against certain bonds, excluding accrued interest, less cash balances

Network Rail

Owner and operator of Britain's rail infrastructure, a UK public sector company that operates as a regulated monopoly

Ordinary shares

FirstGroup plc ordinary shares of 5p each

ORR

Office of Rail and Road

PLC

Public limited company

PPM

The UK rail industry's Public Performance Measure (punctuality and reliability). Trains are punctual if they arrive at their destination, having made all timetabled stops, within five minutes of scheduled time for London and South East and regional/commuter services and ten minutes for long distance trains

RCF

Revolving credit facility

RDG

Rail Delivery Group, the UK rail industry membership body that brings together passenger and freight rail companies, Network Rail and HS2

ROCE

Return on capital employed is a measure of capital efficiency and is calculated by dividing adjusted operating profit after tax by all year end assets and liabilities excluding debt items

RSSB

Rail Safety and Standards Board

SAYE

Save As You Earn

SBT

Science-based target for reducing greenhouse gas emissions

ScotZeb

Scottish Zero Emission Bus challenge fund

SECR

Streamlined Energy and Carbon Reporting regulations, which took effect on 1 April 2019

SWR

South Western Railway, a train operating company

S&P

S&P Global Rating Agency

TCFD

Task Force on Climate-Related Financial Disclosures

TfL

Transport for London, the transport authority responsible for most aspects of London's transport system

TOC

Train operating company

TPE

TransPennine Express, a train operating company

TSR

Total shareholder return, the growth in value of a shareholding over a specified period assuming that dividends are reinvested to purchase additional shares

USPP

The US Private Placement market is a US private bond market which is available to both US and non-US companies

ZEBRA

Zero Emission Bus Regional Areas funding scheme

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www.brunswickgroup.com

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