

FIRSTGROUP PLC

RESULTS FOR THE YEAR TO 31 MARCH 2018

Overview of the year

- Group revenue +1.0% in constant currency excluding benefit of new SWR franchise and 53rd week
- Adjusted¹ operating profit decreased by 10.4% in constant currency excluding SWR and 53rd week
- Balance sheet strengthened by net cash flow of £199.0m and bond refinancing
- Stable adjusted EPS in constant currency, reflecting lower finance costs and change to US tax rates
- Statutory loss before tax principally reflects non-cash impairment of Greyhound goodwill and onerous contract provision on TransPennine Express (TPE) rail franchise
- Tim O'Toole will be stepping down today from the Board and his position as Chief Executive. Wolfhart Hauser to become Executive Chairman; Matthew Gregory to become interim COO in addition to CFO

Adjusted¹	2018 £m	2017 £m	Change	Change in constant currency ²	SWR- and 53 rd week- adjusted change, in constant currency ³
Revenue	6,398.4	5,653.3	+13.2%	+14.0%	+1.0%
Operating profit	317.0	339.0	(6.5)%	(4.3)%	(10.4)%
Operating profit margin	5.0%	6.0%	(100)bps	(90)bps	
Profit before tax	197.0	207.0	(4.8)%	(1.2)%	
EPS	12.3p	12.4p	(0.8)%	+3.4%	
Net debt ⁴	1,070.3	1,289.9	(17.0)%	(15.5)%	

Statutory	2018 £m	2017 £m	Change
Revenue	6,398.4	5,653.3	+13.2%
Operating (loss)/profit	(196.2)	283.6	n/m ⁶
(Loss)/profit before tax	(326.9)	152.6	n/m ⁶
EPS	(24.6)p	9.3p	n/m ⁶

Financial summary (percentage changes in constant currency unless otherwise stated)

- Group revenue +1.0% excluding the benefit of both the new SWR rail franchise from August 2017 and the 53rd week in the Road divisions; +14.0% including both
- Adjusted¹ operating profit (10.4)% excluding SWR and 53rd week reflects Greyhound long haul challenges, severe weather effects on both sides of the Atlantic in the final quarter and ongoing US driver shortages, partially offset by good performances in UK divisions in the year; (4.3)% including SWR and 53rd week
- Adjusted¹ profit before tax (1.2)% and adjusted¹ EPS +3.4%, reflecting lower finance costs and US tax rates
- Net cash inflow of £110.5m (2017: £147.2m including proceeds from sale of a Greyhound terminal) before First Rail start of franchise cash flows, and £199.0m after SWR start of franchise cash flows of £88.5m
- Reported net debt: EBITDA improved to 1.5 times (2017: 1.9 times); Rail ring-fenced cash adjusted net debt: EBITDA improved to 2.1 times (2017: 2.3 times)
- Statutory loss before tax £326.9m (2017: profit of £152.6m), reflecting £277.3m Greyhound goodwill and other asset impairments, £106.3m TPE onerous contract provision and other adjusting items
- Statutory EPS was (24.6)p (2017: 9.3p)

Divisional performance

- First Student's pricing and cost saving actions offset driver shortage costs; 9.0% adjusted¹ margin reflects severe H2 weather and lower contract retention rate than targeted
- First Transit revenue +2.4% in constant currency excluding 53rd week as net contract wins continue; 5.5% adjusted¹ margin for the year reflects the improved margin performance in the second half as planned
- Greyhound like-for-like⁵ revenue (0.7)%, with +7.7% Express growth insufficient to offset long haul demand challenges from intensifying airline competition; consequential reduction in adjusted¹ margin to 3.6%
- First Bus like-for-like⁵ passenger revenue +1.1% with +0.2% commercial volumes; 140bps adjusted¹ margin improvement to 5.7% driven by actions to tailor network, fares, depot footprint and back office costs
- First Rail like-for-like⁵ passenger revenue +4.1%, and solid divisional profitability, with contributions by Great Western Railway (GWR) and SWR, partially offset by a small loss in TPE in the year

Outlook

- Expecting overall improvement in Road margins and returns, offset by a smaller contribution from the First Rail portfolio, resulting in broadly stable Group earnings in constant currency
- Higher free cash generation after disciplined investment expected from Road divisions offset by a lower cash contribution from Rail in the year ahead

Commenting, Chief Financial Officer and interim Chief Operating Officer Matthew Gregory said:

"In the year, our largest division First Student was broadly stable and First Bus took an encouraging step forward in its margin improvement plans. This was offset by the cost challenges experienced by First Transit in the first half and by Greyhound's inability to overcome the structural shift taking place in its long haul markets, as ultra low cost airlines significantly increase capacity and extend into new markets. In First Rail, although our GWR and SWR rail franchises have operational challenges to overcome, they are both profitable and are adding value to the Group. However our TPE franchise was loss-making, and we have taken the decision to provide for forecasted losses of up to £106.3m over the remaining life of the contract. This does not affect our plans for the remainder of the franchise to increase capacity on the TPE network by more than 80% and create a true intercity railway for the North.

"Looking forward, we expect Group adjusted earnings to be broadly stable, with opportunities to improve the margins, returns and cash generated from our Road divisions, which together represent more than four fifths of the Group's adjusted profit, in a period when we expect the contribution of our Rail portfolio to be positive but smaller while we put in place the passenger capacity and conditions for further profitable growth in the division in future."

Executive Chairman Wolfhart Hauser said:

"The Group delivered stable adjusted earnings per share and sustained cash generation this year, and the balance sheet has been strengthened through the bond refinancing and further deleveraging. FirstGroup's vision and purpose is to provide solutions for an increasingly congested world, keeping people moving and communities prospering, and as such the Group plays a vital role in all of our local areas. It is now a more stable and a more resilient enterprise, with a growing ability to capitalise on the leading positions we have in our markets. However, this year's results fell short of our ambitions – we are disappointed that we did not make the further progress we intended based on the trends we saw at the end of the previous financial year.

"The Board is examining all appropriate means to mobilise the considerable value inherent in the Group. Initial actions from its evaluation are underway, including conducting a full external review of Greyhound's business model and prospects, which will conclude in the coming months. As we do so, we will continue to strengthen the Group by using the sustained cash generated after disciplined investment to reduce leverage further and for targeted growth. Overall, we see considerable opportunity to deliver shareholder value in a sustainable way while enhancing the services we provide to our customers and communities."

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A presentation for investors and analysts will be held at 9:00am today – attendance is by invitation. A live telephone 'listen in' facility is available – for joining details please call +44 (0) 20 7725 3354. A playback facility will be available together with presentation slides and a pdf copy of this report at www.firstgroupplc.com/investors.

Notes

- ¹ 'Adjusted' figures throughout this document are before Greyhound goodwill impairment, TPE onerous contract provision, other intangible asset amortisation charges and certain other items as set out in note 4 to the financial statements.
- ² Changes 'in constant currency' throughout this document are based on retranslating 2017 foreign currency amounts at 2018 rates.
- ³ Growth excluding SWR franchise revenue (which became part of First Rail in August 2017) and the 53rd week in the Road divisions, in constant currency.
- ⁴ Net debt is stated excluding accrued bond interest, as explained on page 17.
- ⁵ 'Like-for-like' revenue adjust for certain factors which distort the period-on-period trends in our passenger revenue businesses, described on page 17.
- ⁶ Not meaningful.

Legal Entity Identifier (LEI): 549300DEJZCPWA4HKM93. Classification as per DTR 6 Annex 1R: 1.1, 2.2. The person responsible for arranging the release of this announcement on behalf of FirstGroup is Michael Hampson, Group General Counsel and Company Secretary.

FirstGroup plc (LSE: FGP.L) is a leading transport operator in the UK and North America. With £6.4 billion in revenue and around 100,000 employees, we transported 2.1 billion passengers last year. Each of our five divisions is a leader in its field: In North America, First Student is the largest provider of student transportation with a fleet of 42,000 yellow school buses, First Transit is one of the largest providers of outsourced transit management and contracting services, while Greyhound is the only nationwide operator of scheduled intercity coaches. In the UK, First Bus is one of Britain's largest bus operators, transporting 1.6 million passengers a day, and First Rail is one of the country's largest and most experienced rail operators, carrying more than 260 million passengers last year.

Our vision is to provide solutions for an increasingly congested world... keeping people moving and communities prospering.

Visit our website at www.firstgroupplc.com and follow us @firstgroupplc on Twitter.

Year in summary

Although we are not satisfied with our progress this year, the Group delivered stable adjusted earnings per share and strong cash flow, despite operating challenges for some of our businesses. We have also strengthened our balance sheet through the bond refinancing and further deleveraging.

Performance in the year

First Student's continued progress from the fourth year of our 'up or out' contract pricing strategy and cost efficiency programmes was offset by continued driver cost inflation and shortages in parts of the US, a lower contract retention rate than targeted and the effects of the severe weather in the second half. We have had an encouraging start to this year's bid season as we continue to factor the driver cost inflation being experienced in many parts of the US into our contract pricing.

First Transit continued to grow and to win net new business, though our shuttle bus operation in the Canadian oil sands did not renew two contracts towards the end of the year, which will have an impact on the margin of the division going forward. The business delivered a 5.5% margin for the year, with a 7% margin in the second half as planned, despite ongoing cost pressure from driver shortages in certain regions, higher medical costs and some costs in relation to certain poorly performing contracts which were resolved during the year.

Greyhound's significant short haul and Express growth was more than offset by declines in long haul demand as a result of intensifying competition from the ultra low cost airlines, which are bringing significant additional aircraft capacity into operation while also connecting to a growing number of secondary airports. The growth in these businesses represents a meaningful shift in US travel patterns. Our ability to mitigate these revenue challenges through further cost efficiencies is limited by ongoing increases in fleet maintenance and driver costs, resulting in a significant reduction in Greyhound's margin. We are currently investing to support Greyhound's growth opportunities while continuing to trim our timetables, and the Group is conducting a full external review of Greyhound's business model and prospects to help determine the most appropriate response to this long term structural challenge. We have also updated our view of the carrying value of the division's goodwill and other assets in light of these issues, impairing them by a total of \$387.3m or £277.3m accordingly.

We are encouraged that like-for-like passenger revenue growth in **First Bus** accelerated in each quarter of the financial year, though market conditions for the industry remain uncertain and vary by local market. We would have had an even better outturn for the year had several of our local businesses not been forced to shut down for several days in the face of the severe weather conditions in the final quarter of the year. We are pleased that stabilising volumes, the cumulative effect of our actions to tailor our network, fares, depot footprint and other costs and a fuel tailwind have resulted in a significant improvement in our margin. We shall maintain this momentum in order to meet our ambitions to catch up with the most efficient in the industry.

Although **First Rail's** like-for-like passenger revenue growth accelerated over the course of the year, we must acknowledge the slower rate of overall industry growth that currently prevails. The overall financial result from our Rail division was solid in the year, with contributions from GWR and SWR (which we began operating in August 2017). However TPE's like-for-like passenger revenue growth, though very substantial at 10.0%, is lower than our projections at the time of the bid, resulting in an operating loss of £6.5m for the year to March 2018. Our plans to increase capacity by more than 80% and create a true intercity railway for the North over the remainder of the franchise are the right ones for our passengers and communities, and we are confident that they will drive a considerable acceleration in TPE's annual patronage and revenue growth over time. However our assessment is that this growth will be short of our bid assumptions due to current market conditions, and we have therefore taken the decision to provide for forecast losses of up to £106.3m over the remaining life of the TPE contract.

Overall the mixed performance in our divisions resulted in +1.0% **Group** revenue growth and a reduction in adjusted operating profit of 10.4% in constant currency (before SWR and the 53rd week in the Road divisions), with lower finance and tax charges resulting in an increase in adjusted EPS of 3.4% in constant currency. Principally as a result of the Greyhound goodwill and other asset impairments and the TPE onerous contract provision, the **Group** reported a statutory loss before tax of £326.9m (2017: profit of £152.6m) and EPS of (24.6)p (2017: 9.3p).

We are however encouraged that we were able to sustain a strong cash flow performance of £110.5m (2017: £147.2m including proceeds from sale of a Greyhound terminal). This excludes the £88.5m of start of SWR franchise cash flows; taken together we generated £199.0m of free cash flow, helping to reduce our net debt: EBITDA ratio from 1.9 times to 1.5 times in the year, or from 2.3 times to 2.1 times on a Rail ring-fenced cash adjusted basis.

Balance sheet

In the year we reached an important milestone with our long-dated bond portfolio beginning to mature, allowing us to significantly reduce our future interest burden by starting to refinance and rebalance the Group's debt. We are pleased by the support shown in the credit market for our improved resilience and financial profile. We raised \$275m in February 2018 at a weighted average cost of 4.25%, and in March we used the proceeds and other monies to redeem the £300m 8.125% coupon bond due September 2018. This action will generate interest savings of an estimated £14m per year from next financial year.

Investing in our passengers' needs

We have continued to invest in passenger convenience including initiatives to promote contactless payment, online and mobile ticketing and travel information improvements and other technology to streamline and enhance our operations and responsiveness to customers and other stakeholders. Meanwhile our commitment to the safety of our passengers, our employees and all third parties interacting with our businesses remains unwavering. Our approach to safety is a combination of innovative technology, external assurance and our behavioural change programme, Be Safe, all of which have made further progress in the year towards ensuring we are always operating to the highest standards. With increasing focus on local air quality and emissions we are constantly striving to improve the performance of our vehicles and introduce even cleaner engines.

Business priorities

The Board is examining all appropriate means to mobilise the considerable value inherent in the Group. Initial actions from its evaluation are underway, including conducting a full external review of Greyhound's business model and prospects, which will conclude in the coming months. As we do so, we will continue to strengthen the Group by using the sustained cash generated after disciplined investment in our services to reduce leverage further and for targeted growth. Although our balance sheet is less of a constraint on our structural options than previously, our pension deficit clearly remains an important consideration for the risk profile of the Group, and we continue to actively manage it. Overall, we see considerable opportunity to create shareholder value in a sustainable way while enhancing the services we provide to our customers and communities.

Group outlook

Overall, we expect Group earnings in constant currency to be broadly stable in the year ahead. The Group is expecting an overall improvement in the Road divisions' margins and returns, underpinned by the momentum in the First Bus turnaround and First Student's growth plans in the year ahead. We expect First Transit's continuing growth to be tempered by the loss of high margin Canadian oil sands business, and that sustaining Greyhound's earnings will be challenging given the changes in the long haul competitive environment. The overall progress of the Road divisions is however expected to be offset by a smaller contribution from our First Rail portfolio in the year ahead, reflecting the slower rate of industry growth and the rebasing of our margins under new contract terms. We also expect higher free cash generation from the Road divisions after the disciplined investment required to support our passengers' needs, offset by a lower contribution from Rail in the year ahead.

Operating and financial review

Reported Group revenue in the year increased by 13.2% including the new SWR franchise from 20 August 2017, the 53rd week in the Road divisions and the translation of our US Dollar-based businesses into pounds Sterling at stronger rates than the prior year. Adjusting for these factors, Group revenue increased by 1.0% with growth in First Rail, First Transit and First Bus partly offset by flat revenues in Greyhound and a small reduction in First Student revenues.

Group adjusted operating profit in constant currency decreased by 10.4% excluding the contribution from the new SWR franchise and the 53rd week in the Road divisions, with growth in First Bus and First Rail more than offset by reductions in the other divisions. Group adjusted operating profit margin in constant currency decreased by 90bps to 5.0%, reflecting a 50bps reduction for the Road divisions and the expected rebasing of the Rail margin. In reported currency adjusted operating profit decreased by 6.5% to £317.0m (2017: £339.0m).

	Year to 31 March 2018			Year to 31 March 2017		
	Revenue £m	Operating profit ¹ £m	Operating margin ¹ %	Revenue £m	Operating profit ¹ £m	Operating margin ¹ %
First Student	1,771.1	156.5	8.8	1,780.3	171.1	9.6
First Transit	1,072.7	58.2	5.4	1,042.0	73.3	7.0
Greyhound	690.2	25.5	3.7	684.7	42.6	6.2
First Bus	879.4	50.2	5.7	861.7	37.0	4.3
Group items ²	16.2	(31.2)		15.8	(38.8)	
Road divisions	4,429.6	259.2	5.9	4,384.5	285.2	6.5
First Rail	1,968.8	57.8	2.9	1,268.8	53.8	4.2
Total Group	6,398.4	317.0	5.0	5,653.3	339.0	6.0
North America in USD	\$m	\$m	%	\$m	\$m	%
First Student	2,350.6	210.4	9.0	2,323.3	222.0	9.6
First Transit	1,420.4	77.8	5.5	1,358.9	95.2	7.0
Greyhound	912.7	32.8	3.6	894.0	55.2	6.2
Total North America	4,683.7	321.0	6.9	4,576.2	372.4	8.1

¹ Adjusted.

² Tramlink operations, central management and other items.

Net finance costs before bond 'make whole' costs decreased to £120.0m (2017: £132.0m), resulting in adjusted profit before tax of £197.0m (2017: £207.0m), a decrease of 4.8%. Adjusted profit attributable to ordinary shareholders was £147.7m (2017: £149.4m), with the lower adjusted profit partly offset by a lower effective tax rate. Adjusted EPS decreased by 0.8% to 12.3p (2017: 12.4p). In constant currency, adjusted EPS increased by 3.4%. EBITDA increased by 0.6% to £690.6m (2017: £686.6m).

Statutory operating loss of £196.2m (2017: profit of £283.6m) and statutory loss before tax of £326.9m (2017: profit of £152.6m), principally reflected Greyhound goodwill and other asset impairments, the onerous contract provision for the TPE rail franchise, non-recurrence of the gain on disposal of a Greyhound terminal in prior year, adverse developments in aged North American insurance claims, bond 'make whole' costs relating to redemption of the September 2018 bond, and higher intangible asset amortisation and restructuring and reorganisation costs than prior year. Statutory EPS was (24.6)p (2017: 9.3p) in the year.

Net cash inflow (before First Rail start of franchise cash flows) was £110.5m (2017: £147.2m including proceeds from sale of a Greyhound terminal). This cash inflow, combined principally with First Rail start of franchise cash flows of £88.5m and movements in debt due to foreign exchange, resulted in a decrease in net debt of £219.6m (2017: £120.3m). As at 31 March 2018, the net debt: EBITDA ratio was 1.5 times (2017: 1.9 times). Adjusting for cash ring-fenced in the First Rail division, net debt: EBITDA improved to 2.1 times (2017: 2.3 times).

Liquidity within the Group has remained strong; as at the year end there was £766.4m (2017: £941.1m) of headroom on committed facilities and free cash, being £603.0m (2017: £800.0m) of committed headroom and £163.4m (2017: £141.1m) of free cash. In February 2018 the Group placed \$275m in long term US private placement notes with a weighted average fixed coupon of 4.25%. The notes were placed in two tranches, with \$100m due in March 2025 and \$175m due in March 2028, attracting interest costs of 4.17% and 4.29% respectively. In March the Group redeemed the £300m 8.125% coupon bond due September 2018 in full using the proceeds from the new notes, other cash on hand and our committed bank facility. These refinancing activities incurred a 'make whole' cost of £10.7m in the current financial year and will result in interest savings

of an estimated £14m per year from the next financial year. Our average debt maturity increased to 4.1 years (2017: 3.6 years) following the refinancing activities in the year.

During the year, gross capital investment of £439.5m (2017: £365.6m) was invested in our business, with Road divisions capital expenditure broadly flat and Rail increasing significantly as expected.

ROCE increased to 9.5% (2017: 7.9% at constant exchange rates and 7.3% as reported).

First Student

Year to 31 March	\$m		£m		Change in constant currency ¹
	2018	2017	2018	2017	
Revenue	2,350.6	2,323.3	1,771.1	1,780.3	+0.9%
Adjusted operating profit	210.4	222.0	156.5	171.1	(5.3)%
Adjusted operating margin	9.0%	9.6%	8.8%	9.6%	(60)bps

¹ Based on retranslating 2017 foreign currency amounts at 2018 rates.

First Student's revenue was \$2,350.6m (2017: \$2,323.3m), with increases from the fourth year of our contract pricing strategy, some organic growth and indexation on existing contracts offset by contracts not renewed. The business operated for a similar number of days overall in the year, with the additional operating days in the 53rd week offset by the timing of Easter. In constant currency and excluding the 53rd week, revenue decreased by 1.1%. Reported revenue was £1,771.1m (2017: £1,780.3m).

Adjusted operating profit decreased by 5.3% to \$210.4m (2017: \$222.0m) in constant currency, an adjusted operating margin of 9.0% (2017: 9.6%). Contract portfolio pricing improvements and cost efficiency savings were offset by ongoing driver shortage costs and other inflation, lower contract retention rates than we had targeted and the impact of the severe weather experienced in the second half. The net impact from bad weather was made up of a relatively high number of weather make up days in the first half (reflecting the severe winter in 2017), largely offset by an unusually high number of days lost to bad weather in the last quarter, some of which we expect to get back in the 2018/19 financial year as schools add them to the end of their academic calendar. In reported currency, adjusted operating profit decreased 8.5% to £156.5m (2017: £171.1m) and the division reported a statutory profit of £88.4m (2017: £119.0m).

Focused and disciplined bidding

During the summer 2017 bid season we continued to focus our bidding strategy on only retaining or bidding for contracts at prices that reflect an appropriate return on the capital we invest. With a substantial proportion of the portfolio already benefiting from this strategy in previous years, the moderating 5.3% average price increase on 'at risk' business was largely as expected, as was the higher 'at risk' retention rate of 83% compared with the prior year (equivalent to 94% of the entire fleet). Combined with a modest level of organic growth and some conversions from in-house to private provision, we are operating a bus fleet of approximately 42,000 vehicles for the balance of this school year.

Continuous improvement in operating and financial performance

First Student delivered further cost efficiencies, including from changes to our engineering practices using the expertise of First Transit's vehicle maintenance services segment, and from our ongoing focus on best practice sharing and standardised processes within the division. These initiatives have delivered recurring cost savings of approximately \$13m in the year. These initiatives have been delivered despite the ongoing challenge of finding and retaining drivers in some locations due to the strong US employment market. We continue to invest in our recruitment marketing, onboarding and retention programmes to contain the resulting driver cost inflation. Despite driver shortages, our non-school charter bus offering, which benefits our asset utilisation rates, grew revenues by 7.1% on a per bus basis.

Prudent investment in our key assets

We have sustained our investment in systems and processes that differentiate our offering and enhance our customer service levels and safety performance. Our FirstView smartphone app, which provides real-time bus location tracking for parents and school boards, now covers 140,000 students with 22,000 registered users to date; additional functionality for school districts has recently been added to the system. We have sustained our investment in the fleet and continue to improve our approach to cascading buses around our operations, which is a significant competitive advantage of our scale. Our average fleet age reduced slightly to 7.1 years.

During the year we completed a small acquisition in the Chicago area, which is performing in line with our plans, and we are building up our pipeline of potential bolt-on acquisition targets for the future.

Responsible partnerships with our customers and communities

We are entrusted with the safety and security of millions of children every day, and we take that responsibility extremely seriously. We maintained our safety track record during the year and are investing to improve our performance further. We also maintained our already high customer service scores and increased our likelihood to recommend scores. We have also begun a partnership with the US School Superintendents' Association to support the National Superintendent of the Year Program as part of our commitment to support our communities.

First Student priorities and outlook

In the year ahead our focus is increasingly on profitable growth. We have had an encouraging start to the bid season with improved retention rates and some major new contracts already secured. In addition to improving contract retention and our ongoing pricing strategy, we intend to strengthen our charter proposition, increase promotion of our nascent managed services offering to school boards who provide home-to-school services in-house, and will more actively consider inorganic sources of growth such as small bolt-on acquisitions. We will continue to improve our cost efficiency through initiatives such as enhanced on-board technology that will enhance daily operations and driver management, the full roll out of an employee smartphone app which is transforming our ability to communicate with our workforce and is specifically aimed at helping boost driver retention, and the ongoing integration of our maintenance organisation and practices with First Transit.

First Transit

Year to 31 March	\$m		£m		Change in constant currency ¹
	2018	2017	2018	2017	
Revenue	1,420.4	1,358.9	1,072.7	1,042.0	+4.2%
Adjusted operating profit	77.8	95.2	58.2	73.3	(18.9)%
Adjusted operating margin	5.5%	7.0%	5.4%	7.0%	(160)bps

¹ Based on retranslating 2017 foreign currency amounts at 2018 rates.

First Transit's revenue was \$1,420.4m (2017: \$1,358.9m), an increase of 2.4% in constant currency and excluding the 53rd week. As expected, contract awards and organic growth in the rest of the division was partially offset by lower shuttle bus activity in the Canadian oil sands region compared with the prior year. Reported revenue increased to £1,072.7m (2017: £1,042.0m).

Adjusted operating profit was \$77.8m (2017: \$95.2m), representing an adjusted operating margin of 5.5% (2017: 7.0%). A disappointing first half margin principally reflected higher costs in relation to certain poorly performing contracts; First Transit succeeded in improving its second half margin as forecasted, reflecting the reversal of a provision against receivables made in light of the hurricanes which devastated Puerto Rico in the first half and despite higher medical costs and continued cost pressure from driver shortages in certain regions. In reported currency, adjusted operating profit decreased 20.6% to £58.2m (2017: £73.3m) and the division reported a statutory profit of £34.3m (2017: £71.3m).

Focused and disciplined bidding

Our shuttle business successfully renewed several university campus and airport contracts in the year; however, two of our contracts in the Canadian oil sands region were not, resulting in a £5.4m restructuring charge in the year; the loss of these high margin contracts will have an impact on the division's margin going forward.

In addition to the oil sands contracts, we also completed work on the two relatively large poorly performing contracts discussed at the half year stage, where we had bid significantly higher prices and lost, resulting in our retention rate on 'at risk' contracts of 82% during the year. First Transit did however have a good year for new business, with 33 new contracts including major paratransit and fixed route wins from the Vancouver and Los Angeles authorities, respectively. We were pleased to retain or extend a number of significant pieces of business during the year, such as our Greater Richmond paratransit contract where we initially fulfilled a short term emergency contract that we have now extended into a multi-year relationship, and our City of Phoenix fixed route contract which we have operated for over a decade. We are taking a measured approach to applying our expertise to new geographies and services to secure additional sources of growth. In the year, we extended our successful Panama contract by an additional two-and-a-half years, participated in significant North American commuter rail and light rail competitions, and are working to establish a solid footprint in the Indian market.

Continuous improvement in operating and financial performance

We continue to develop our technology infrastructure, management expertise and national service platform to help to sustain First Transit's performance in highly competitive markets. We also upgraded our recruitment, retention and training systems and processes to ensure we maintain the necessary capability in what remains

a tight US employment market. In the year we had some success initiating a programme to recruit unemployed Puerto Rican drivers to take on roles on the mainland in response to the driver shortages we are experiencing in some areas.

Prudent investment in our key assets

In the majority of our contracts we operate or manage services on behalf of our clients rather than providing vehicles. We have maintained our investment in the latest driver management, predictive analytics and routing technology. We are also investing in autonomous vehicle (AV) technology, and now have six AV operational partnerships underway, including our first vehicle on public streets scheduled to start in June 2018. Additionally we have established teaming agreements with several leading AV manufacturers to provide new growth opportunities in this market.

Responsible partnerships with our customers and communities

We remain committed to offering the best value package to our customers and the communities we serve, which means our professionalism, technical and operational expertise and safety standards are as important as our cost effectiveness in winning or retaining business. We have completed the roll out of our safety behavioural change programme, which has had a positive impact on our safety performance, and we were pleased to have further increased our already strong customer satisfaction score during the year.

First Transit priorities and outlook

First Transit continues to develop our diversified platform of sector expertise and exceptional management strength in North American transit markets through continuous investment in our people and technology. We see opportunities for further growth in our core markets, particularly in shuttle and in vehicle services, increasingly for corporate as well as public clients. We also expect to have opportunities in adjacent markets where we have now established our credentials – such as light rail, commuter rail and bus rapid transit (BRT) – to become increasingly significant for our business. We continue to develop partnerships with ridesharing companies to provide Americans with Disabilities Act-compliant transportation.

We remain confident that our services are a compelling option for both local authorities and private customers to outsource their transportation management needs. We will therefore keep bidding for contracts offering good margins with modest capital investment, while seeking to replenish and grow our portfolio of contracts both within our core markets and by piloting new business models.

Greyhound

Year to 31 March	\$m		£m		Change in constant currency ¹
	2018	2017	2018	2017	
Revenue	912.7	894.0	690.2	684.7	+1.7%
Adjusted operating profit	32.8	55.2	25.5	42.6	(39.0)%
Adjusted operating margin	3.6%	6.2%	3.7%	6.2%	(250)bps

¹ Based on retranslating 2017 foreign currency amounts at 2018 rates.

Greyhound's revenue was \$912.7m (2017: \$894.0m), with like-for-like revenue decreasing by 0.7%. This reflects short haul growth including 7.7% like-for-like growth achieved by Greyhound Express being more than offset by declines in long haul demand, where competition from ultra low cost airlines in particular is intensifying. These competitors are bringing significant additional aircraft capacity into operation while also connecting to a growing number of secondary airports. We have also experienced reductions in traffic in the southern border regions due to tighter immigration and law enforcement. Including the 53rd week and reflecting stronger translation rates into pounds Sterling, reported revenue increased by 0.8% to £690.2m (2017: £684.7m).

Adjusted operating profit was \$32.8m (2017: \$55.2m), representing an adjusted operating margin of 3.6% (2017: 6.2%), with our ability to mitigate the revenue challenges noted above through further cost efficiencies limited by the ongoing increases in fleet maintenance and driver costs previously highlighted. Greyhound was also affected by this year's difficult weather conditions in some of the busiest parts of our network. Recognising the difficult trading conditions in the year and the outlook, we have impaired the carrying value of the division's goodwill and other assets by \$387.3m or £277.3m. Adjusted operating profit in reported currency decreased 40.1% to £25.5m (2017: £42.6m) and the division reported a statutory loss of £266.3m (2017: £53.7m profit).

Driving growth through attractive commercial propositions

Greyhound is a unique business thanks to its iconic brand and access to by far the largest intercity coach network in North America. Over recent years we have taken major steps to transform all areas of the customer experience throughout the business. With the trends in different parts of our business diverging, we are adapting our business in response. Our point-to-point Greyhound Express and BoltBus brands, which offer

higher density timetables between popular city pair destinations, have successfully grown since their introduction and we aim to convert more of the traditional network to run similar schedules. These have been strong beneficiaries of the transformation in Greyhound's business systems in recent years; and since February our entire network is now benefiting from real-time pricing and yield management. We are further developing our relationship management systems to offer benefits for customers and deployed modest marketing spend during the year to promote awareness of these changes through targeted online advertising. We are continuing to upgrade our online offerings, building on the well-received mobile app we introduced in 2016/17, with the majority of our customers now buying tickets using this app or online. Throughout the US network e-tickets and bus-side scanning have now been rolled out, streamlining the boarding process. We have also strengthened our punctuality processes and systems, and have recently updated and standardised our customer pledges on service delivery whilst upgrading our terminals where needed to improve the passenger experience.

Continuous improvement in operating and financial performance

Greyhound ended its long-standing pool arrangements with Peter Pan Lines in the US North East during the year, allowing us to develop our own separate offering in the region, providing customers with all of the benefits available to our passengers elsewhere. We are also taking action to improve the efficiency of our fleet management with the development of a new specialised centre in Brownsville, Texas.

Our Canadian operations (15% of Greyhound revenue) remain loss-making. Despite a range of cost-reduction and efficiency measures over several years, we continue to experience demand challenges. In the year we applied to eliminate services on the majority of our routes in British Columbia which will take effect from 1 June 2018.

Prudent investment in our key assets

Following a number of years where the business required few additional vehicles, this year our fleet renewal plan saw the introduction of 88 new buses into our fleet with high-quality amenities as standard including free Wi-Fi, leather seats and generous legroom. We regularly review opportunities to move to intermodal transport hubs or new facilities tailored to our needs, and during the year we relocated to the new Intercity Bus Terminal at the Jacksonville Regional Transportation Center in Florida, as well as two renovated terminals at the Amtrak station in Salem, Oregon and Union Station in Springfield, Missouri. We now occupy a new intermodal terminal in Baltimore, Maryland. July will mark the third anniversary of providing international links to and domestic services within Mexico, where we provide options for customers connecting from Monterrey to Nuevo Laredo and major hubs in Texas. We will make further modest investments to deliver on the opportunities available to us in this market.

Responsible partnerships with our customers and communities

Further customer service training was undertaken in the year, focusing on allowing our employees to take advantage of the improved ticket data and service information now available throughout the business.

Greyhound priorities and outlook

The strategic challenge for Greyhound is that our unique network across North America is a significant competitive advantage versus other coach companies but intensifying low cost airline competition is putting increasing pressure on the long haul segment. The business review that is underway is directed at determining the most appropriate response for the Group to this change in the market conditions faced by Greyhound. In the near term we continue to invest to support Greyhound's growth opportunities while adjusting the current network and timetables, though maintaining the division's earnings will be challenging given the changes in the long haul competitive environment.

First Bus

Year to 31 March	£m		Change in constant currency ¹
	2018	2017	
Revenue	879.4	861.7	+1.9%
Adjusted operating profit	50.2	37.0	+34.6%
Adjusted operating margin	5.7%	4.3%	+140bps

¹ Based on retranslating 2017 foreign currency amounts at 2018 rates.

First Bus reported revenue of £879.4m (2017: £861.7m) for the year, an increase of 2.1%. Divisional like-for-like passenger revenue growth was 1.1%, and we are encouraged that it accelerated in each quarter of the financial year, though market conditions for the industry remain uncertain and vary by local market. High street retail footfall trends, worsening congestion in several localities, and general UK macroeconomic uncertainty all affect passenger demand in different ways. Like-for-like commercial passenger volumes increased by 0.2% in the year, though overall like-for-like volumes fell by 0.7%, reflecting further reductions in concessions

volumes due to changes in bus pass entitlement and funding. Our contract and tendered revenue increased by 1.1%.

Adjusted operating profit was £50.2m (2017: £37.0m), or an adjusted margin of 5.7% (2017: 4.3%). Adjusted margin increased by 140bps, reflecting stabilised passenger volumes, the cumulative effect of our actions to tailor our network, fares, depot footprints and other costs to become more efficient and a fuel tailwind. Widespread service suspensions due to the severe snowstorms in February and March had a negative impact on revenues and profit, while the impact of the 53rd week was muted because the year included two Easter weekends, when commuter and school patronage is lower. Principally reflecting restructuring and reorganisation costs, the division reported a statutory profit of £29.3m (2017: £26.1m).

Driving growth through attractive commercial propositions

We continue to improve the simplicity and convenience of our offering for passengers, particularly in ticketing. Around 80% of our fleet has now been fitted with contactless payment card readers and we will complete the nationwide roll out by summer 2018, making us the first national UK bus company to do so. Cashless ticketing now accounts for half of our sales in some areas. In many markets, we are growing our mobile channel by differentiating between cash and digital fares, reducing the volume of cash transactions and accelerating bus boarding times. In April 2017 we launched our upgraded passenger app which provides door-to-door journey planning and our previously separate mobile ticketing system was integrated during the year.

In the contract tender market, we are an industry leader in managing Park & Ride services, winning or retaining several contracts in the year including the country's largest such operation in York. Our airport and university shuttle portfolio also increased and we delivered services for high profile events such as the UEFA Champions League final in Cardiff in June 2017.

Continuous improvement in operating and financial performance

We continue to take action to enhance our cost efficiency. At the beginning of the year we consolidated from six to four depots serving the Greater Manchester area and transferred our Galashiels-based Borders network to West Coast Motors. We have also optimised our networks in many areas to save cost and raise reliability and punctuality for passengers. Our IT investments have allowed us to standardise many of our processes, including location tracking and revenue collection, to increase the availability of accurate real-time data and plan our services more accurately. Where possible we are centralising shared functions to realise efficiencies.

Prudent investment in our key assets

As previously noted, we are investing in the First Bus fleet at lower levels than the prior year, as we focus our capital budget only on those markets where the local stakeholders recognise the importance of bus services in responding to the problems of congestion, air quality, parking and issues of social exclusion. We took delivery of 93 new Euro VI emissions standard vehicles in the year. We also operate vehicles powered by a number of alternative fuels, and alongside our hydrogen fleet in Aberdeen and electric fleet in York, we have now introduced biomethane buses to Bristol. We are also the lead partner on the first trial of autonomous vehicles on UK roads, a 30 month project at Milton Park business and science hub near Didcot.

Responsible partnerships with our customers and communities

Buses play a key role in keeping people moving and communities prospering, with more passengers taking buses daily than any other form of public transport. In addition, they are fundamental to delivering Clean Air or Low Emissions Zones in partnership with local and regional authorities. In February, the Department for Transport (DfT) announced that 20 councils are to share a £40m fund to 'retro-fit' buses with cleaner engines. We worked with several of our local authority partners to access to this funding.

In many areas, congestion prevents us from running reliable bus routes. Local authorities are key to solving this, through measures such as bus priority and traffic segregation, meaning that strong partnerships with councils are vital. We are encouraged that last year's Bus Services Act recognises the importance of such partnerships. We are working with Bristol City Council and the West of England Combined Authority on the Metrobus priority route network which launched in May 2018 and is designed to improve the bus offering in the city and attract new users. We also continue to work closely with Leeds City Council; together we are aiming to double patronage by 2025, supported by a £173.5m public funding package over four years to develop new bus-friendly schemes, whilst First Bus is committed to investing in a fully ultra-low emissions fleet by 2020 in the city.

First Bus priorities and outlook

Our focus remains on enhancing our ability to deliver efficient, cost effective and passenger-focused services. In the year ahead we expect to sustain the volume growth and margin improvement momentum we have delivered in the 2017/18 year. We are targeting our investment plans to that end by focusing on local markets

where, by working closely in partnership with local authorities, we can deliver compelling and sustainable transport solutions.

First Rail

Year to 31 March	£m		Change
	2018	2017	
Revenue	1,968.8	1,268.8	+55.2%
Adjusted operating profit	57.8	53.8	+7.4%
Adjusted operating margin	2.9%	4.2%	(130)bps

In the year our First Rail division revenue increased to £1,968.8m (2017: £1,268.8m), principally reflecting the inclusion of the SWR franchise since August 2017. Like-for-like passenger revenue growth was 4.1% and passenger volume growth was 1.4%, in part reflecting a shift away from season ticket purchases and the way these are recorded by the industry in volume statistics. Industry studies suggest the main drivers for recent slowing in growth across the sector include UK macroeconomic uncertainty, modal shift due to sustained lower fuel prices and working practices, and the effect of rail infrastructure upgrade works taking place across the country. The latter is particularly relevant to GWR, although like-for-like passenger revenue growth of 2.7% in the franchise accelerated during the year, benefiting in part from the additional capacity generated by the introduction into service of the Intercity Express Trains (IETs). SWR's operational performance and revenue growth has been affected by the Waterloo upgrades and other infrastructure work which will permit the introduction of additional capacity by the end of 2020. TPE delivered like-for-like passenger revenue growth of 10.0%, with even greater growth required as new fleets start to be introduced into service from Autumn 2018.

Adjusted operating profit of £57.8m (2017: £53.8m) represents a margin of 2.9% (2017: 4.2%), Divisional profitability was driven by GWR and a solid part-year contribution (despite its operating challenges) from SWR, partially offset by an operating loss of £6.5m at TPE in the year, while our open access operator Hull Trains performed well despite also experiencing some operational challenges in the year. We have taken the decision to provide for forecast losses of up to £106.3m over the remaining life of the TPE contract, based on analysis of the impact of the ongoing industry-wide slowdown in growth on the financial assumptions we made in our bid. As a result, the Rail division reported a statutory loss of £50.6m (2017: £53.5m profit) for the year.

Focused and disciplined bidding

GWR currently operates under a direct award which runs to the end of March 2020 following the DfT's decision in the year to exercise an extension option. We are shortlisted as bidders for the upcoming West Coast Partnership franchise competition in partnership with Trenitalia. Outside franchising, we continue to develop our plans for a new single-class open access service between London, north east England and Edinburgh from 2021.

Continuous improvement in operating and financial performance

We have a strong track record in close partnership working with Network Rail, the DfT and all industry partners to deliver infrastructure upgrade projects whilst minimising disruption for passengers. Completion of these projects typically permits the introduction into service of additional train capacity or more intense timetables, which in turn generates the patronage growth that drives the franchise business plans and consequentially the premium payments to the government.

Network Rail's electrification work continues on the Great Western mainline, albeit at a slower rate than originally envisaged, and we are working with our industry partners to reflect the impact of these delays in the level of our franchise commitments and model. Our rail franchises cover a period during which there is significant change (major infrastructure work, electrification and resignalling, and introduction of new trains). These changes require careful planning, management and negotiation with industry partners, in particular where delays can impact the delivery of franchise assumptions. Failure to manage these risks adequately could result in financial and reputational impacts to the Group.

With the line electrified as far as Didcot, the move of suburban electric trains to run between London and Didcot under a new timetable was able to be completed by January 2018, providing more capacity. In turn, we have also begun cascading the London suburban Turbo trains to Bristol and the West Country where they will provide more seats for the network there. We began introducing the new higher capacity IETs on longer distances from last October. When this fleet is fully operational it will enable a 40% increase in seat numbers compared to 2015, with quicker journey times and more frequent services.

We also adjust our own operating plans to take changing timescales into account and to find alternative ways to deliver our improvements for customers as soon as possible, as has been the case in TPE this year in respect of the Bolton-Preston line. In all, more than £500m is being invested in our TPE franchise to transform

the operation into the true intercity network for the North, with 13 million more seats across the operation. 220 new carriages are being introduced from later this year, comprising a mix of Hitachi IET-type trains and a further intercity fleet from CAF.

We began operation of the SWR franchise in the middle of the extensive upgrade to London Waterloo station over the summer, when several platforms were extended for longer trains. This has led to subsequent unplanned infrastructure works with a disappointing impact on punctuality and other performance metrics. However the outcome of this improvement work, and the reopening of the former international platforms later in 2018, will deliver the infrastructure needed to support our future capacity growth plans. These include the introduction of 90 new trains manufactured by Bombardier, providing a 46% increase in peak capacity on the suburban routes into Waterloo.

In December 2017 the Rail Accident Investigation Branch (RAIB) released their report into the tragic incident which took place the previous year on the tram network in Croydon. We are grateful for their recommendations for improvements to the tram system in Croydon and across the UK. Amongst its findings, the RAIB concluded in respect of our subsidiary Tram Operations Limited (TOL) that management of fatigue was not a factor in the incident, nor was there evidence of a speeding culture contributing to it. Nevertheless, over the past year from prior to the final RAIB report, TOL has taken a series of actions, working closely with Transport for London (TfL) on whose behalf it operates the tram services, to implement additional measures including enhanced speed monitoring and restrictions, improved signage and renewed guidance on fatigue management. TOL has learned from the RAIB's analysis and its own internal reviews and will continue working hard, alongside TfL, to follow the RAIB's recommendations and make further improvements where necessary.

Prudent investment in our key assets

As noted, we continue to deliver new trains for all of our rail companies. By 2020, 90% of our customers will be travelling on a train less than five years old. Passenger benefits from these new trains include more seats and space, Wi-Fi and onboard entertainment options. We are also completely refurbishing other fleets throughout our business with similar amenities. Our redesigned passenger app has now rolled out across all our train companies, allowing customers to purchase tickets and reserve seats as well as plan door-to-door journeys.

Responsible partnerships with our customers and communities

GWR were awarded the titles of Rail Operator of the Year and Rail Business of the Year during the period, recognising the introduction of new fleets and their highest ever National Rail Passenger Survey customer satisfaction figures in 2016.

Our franchise commitments for SWR included more generous delay repay compensation which was introduced a few days after the franchise began.

During the year an agreement with Heathrow Airport was reached for GWR to run the operational aspects of Heathrow Express including the introduction of a dedicated fleet of trains by December 2019. GWR also worked with TfL and industry partners to prepare for the launch of the Elizabeth Line, with suburban stations transferred to TfL Rail operation in early 2018.

Following the success of the Customer and Communities Improvement Funds at GWR and TPE, a similar scheme is being launched by SWR this year, which will work with community organisations across the network.

First Rail priorities and outlook

We remain focused on working with our industry partners to deliver our plans for more capacity and better customer experiences, which will in turn drive patronage growth over time.

Our current Rail portfolio as a whole has and will continue to generate good returns for the Group. Our decision to provide for forecast losses of up to £106.3m over the remaining life of the TPE contract does not affect our plans for the remainder of the franchise to increase capacity on the TPE network by more than 80% and create a true intercity railway for the North, in conjunction with our industry partners. The balance of the rail portfolio – GWR, SWR and Hull Trains – is expected to generate satisfactory returns. The payments associated with network unavailability due to infrastructure improvements and repairs will continue to cause swings in period-to-period profits.

Finance costs and investment income

Net finance costs before adjustments were £120.0m (2017: £132.0m) with the decrease principally reflecting lower level of net debt and lower interest rates.

Profit before tax

Adjusted profit before tax as set out in note 4 to the financial statements was £197.0m (2017: £207.0m), with the decrease due principally to lower adjusted operating profit partly offset by lower net finance costs. An overall charge of £523.9m (2017: £54.4m) for adjustments including other intangible asset amortisation charges of £70.9m (2017: £60.2m) resulted in statutory loss before tax of £326.9m (2017: profit of £152.6m).

Tax

The tax charge, on adjusted profit before tax, for the year was £44.2m (2017: £53.8m) representing an effective tax rate of 22.4% (2017: 26.0%). This reduction is primarily due to the US Corporate income tax rate reducing from 35% to 21% under the US Tax Cuts and Jobs Act which was signed into law on 22 December 2017. This change also resulted in the remeasurement of brought forward deferred tax balances giving rise to a one-off tax credit in the income statement of £24.6m (and a one-time tax debit through Other Comprehensive Income of £21.8m). There was also a tax credit of £55.6m (2017: £17.3m) relating to intangible asset amortisation charges and other adjustments of £523.9m (2017: £54.4m). The total tax credit was £36.0m (2017: charge £36.5m) representing an effective tax rate on the statutory loss before tax of 11.0% (2017: 23.9%). This rate is lower than the effective tax rate on adjusted profits primarily because no tax credit arises on the impairment of Greyhound goodwill. The Group's effective tax rate is sensitive to the geographic mix of profits including tax rates in the US and Canada (including state taxes) that are higher than in the UK and to changes in tax law and rates in the jurisdictions in which it operates.

The actual tax paid during the year was £12.2m (2017: £10.2m) and differs from the tax credit of £36.0m primarily because no cash benefit arises in respect of the one-off tax credit for the US tax reform and the tax credit on the TPE onerous contract provision.

EPS

Adjusted EPS decreased 0.8% to 12.3p (2017: 12.4p) and basic EPS decreased to (24.6)p (2017: 9.3p).

Shares in issue

As at 31 March 2018 there were 1,203.1m shares in issue (2017: 1,207.3m), excluding treasury shares and own shares held in trust for employees, which increased in the year to 7.7m (2017: 0.4m) reflecting a new policy to spread the purchase of own shares for employee share schemes across the year. 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) was 1,205.1m (2017: 1,204.8m).

Reconciliation to non-GAAP measures and performance

Note 4 to the financial statements sets out the reconciliations of operating (loss)/profit and (loss)/profit before tax to their adjusted equivalents. The adjusting items are as follows:

Greyhound goodwill and other asset impairment

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

Following their review of these cash flow estimates, the Directors concluded that there should be an impairment charge of £277.3m on the Greyhound CGU. This is reflected in the financial statements as an impairment in full of the carrying value of Greyhound goodwill of £260.6m, as well as impairment charges of £12.3m on Greyhound's property, plant and equipment, £2.5m on the brand and trade name and £1.9m on software.

TPE onerous contract provision

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

Other intangible asset amortisation charges

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

North America insurance reserves

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

Restructuring and reorganisation costs

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

Bond 'make whole' costs

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

Capital expenditure

Cash capital expenditure was £425.6m (2017: £404.3m), of which £299.4m (2017: £323.9m) was in the Road divisions. It comprised First Student £186.0m (2017: £198.7m), First Transit £19.0m (2017: £17.8m), Greyhound £46.6m (2017: £30.1m), First Bus £42.8m (2017: £74.4m), First Rail £126.2m (2017: £80.4m) and Group items £5.0m (2017: £2.9m). First Rail capital expenditure is typically matched by franchise receipts or other funding. In addition, during the year we entered into operating leases for passenger carrying vehicles with capital values in First Bus of £6.0m (2017: First Transit £8.0m), and we expect our use of operating leases to increase going forward.

Gross capital investment was £439.5m (2017: £365.6m) and comprised First Student £205.1m (2017: £165.9m), First Transit £28.5m (2017: £25.8m), Greyhound £44.4m (2017: £31.7m), First Bus £26.9m (2017: £63.9m), First Rail £129.6m (2017: £75.4m) and Group items £5.0m (2017: £2.9m). The balance between cash capital expenditure and gross capital investment represents creditor movements in the year.

Cash flow

The net cash inflow (before First Rail start of franchise cash flows) was £110.5m (2017: £147.2m) with the reduction driven by lower proceeds from the disposal of property plant and equipment primarily due to the sale of a Greyhound terminal last year and higher interest payments as a result of the early bond redemption partly offset by the timing of certain working capital flows. Net cash flow including the First Rail start of franchise cash flows of £88.5m (2017: £nil) was £199.0m (2017: £147.2m) and this, combined with movements in debt due to foreign exchange, resulted in a decrease in net debt of £219.6m (2017: £120.3m) as detailed below.

	2018 £m	2017 £m
EBITDA	690.6	686.6
Other non-cash income statement charges/(credits)	17.2	(6.2)
Working capital excluding First Rail start of franchise cash flows	36.9	23.9
Movement in other provisions	(10.5)	(30.6)
Pension payments in excess of income statement charge	(47.9)	(37.6)
Cash generated by operations excluding First Rail start of franchise cash flows	686.3	636.1
Capital expenditure and acquisitions	(425.6)	(404.3)
Proceeds from disposal of property, plant and equipment	11.4	43.0
Interest and tax	(137.6)	(116.3)
Acquisition of non-controlling interest	(13.8)	-
Dividends paid to non-controlling minority shareholders	(1.1)	(11.9)
Other	(9.1)	0.6
Net cash inflow before First Rail start of franchise cash flows	110.5	147.2
First Rail start of franchise cash flows	88.5	-
Net cash inflow after First Rail start of franchise cash flows	199.0	147.2
Foreign exchange movements	23.2	(26.5)
Other non-cash movements	(2.6)	(0.4)
Movement in net debt in the year	219.6	120.3

Balance sheet

Net assets have decreased by £585.3m since the start of the year. The principal reasons for this are the unfavourable translation reserve movements of £324.9m and the retained loss for the year of £290.9m partly offset by favourable after tax hedging reserve movements of £34.4m.

Goodwill

The carrying value (net assets including goodwill but excluding intercompany balances) of each cash generating unit (CGU) was tested for impairment during the year by reference to their projected value in use and following their review of these projections, the Directors concluded that there should be an impairment charge of £277.3m on the Greyhound CGU. This is reflected in the financial statements as an impairment in full of the carrying value of Greyhound goodwill of £260.6m, as well as impairment charges of £12.3m on Greyhound's property, plant and equipment (note 10), £2.5m on the brand and trade name and £1.9m on software (note 9). Apart from Greyhound, there continues to be sufficient headroom in all other CGUs.

Funding and risk management

Liquidity within the Group has remained strong. At the year end there was £766.4m (2017: £941.1m) of headroom on committed facilities and free cash, being £603.0m (2017: £800.0m) of committed headroom and £163.4m (2017: £141.1m) of free cash. Largely due to the seasonality of First Student, committed headroom typically reduces during the financial year up to October and increases thereafter. Treasury policy requires a minimum of £150m of committed headroom at all times. Our average debt maturity was 4.1 years (2017: 3.6 years). The Group does not enter into speculative financial transactions and uses only authorised financial instruments for certain risk management purposes.

Fuel price risk

We use a progressive forward hedging programme to manage commodity risk. In 2017/18 in the UK, 89% of our 'at risk' crude requirements (1.9m barrels p.a.) were hedged at an average rate of \$60 per barrel. We have hedged 82% of our 'at risk' UK crude requirements for the year to 31 March 2019 at \$58 per barrel and 57% of our requirements for the year to 31 March 2020 at \$63 per barrel.

In North America 63% of 2017/18 'at risk' crude oil volumes (1.4m barrels p.a.) were hedged at an average rate of \$56 per barrel. We have hedged 53% of the volumes for the year to 31 March 2019 at \$55 per barrel and 28% of our volumes for the year to 31 March 2020 at \$53 per barrel.

Interest rate risk

We seek to reduce our exposure by using a combination of fixed rate debt and interest rate derivatives to achieve an overall fixed rate position over the medium term of at least 50% of net debt.

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. 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.

Net debt

The Group's net debt at 31 March 2018 was £1,070.3m (2017: £1,289.9m) and comprised:

Analysis of net debt	31 March 2018			31 March 2017
	Fixed £m	Variable £m	Total £m	Total £m
Sterling bond (2018)	-	-	-	298.8
Sterling bond (2019)	-	249.9	249.9	249.8
Sterling bond (2021)	-	348.3	348.3	348.3
Sterling bond (2022)	321.6	-	321.6	321.1
Sterling bond (2024)	199.8	-	199.8	199.6
Sterling bank loans	-	197.0	197.0	-
HP contracts and finance leases	104.7	-	104.7	183.7
Senior unsecured loan notes	195.2	-	195.2	80.0
Loan notes	8.7	0.8	9.5	9.5
Gross debt excluding accrued interest	830.0	796.0	1,626.0	1,690.8
Cash			(163.4)	(141.1)
First Rail ring-fenced cash and deposits			(391.5)	(255.8)
Other ring-fenced cash and deposits			(0.8)	(4.0)
Net debt excluding accrued interest			1,070.3	1,289.9

Under the terms of the First Rail franchise agreements, 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. 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.

Foreign exchange

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

	Year to 31 March 2018		Year to 31 March 2017	
	Closing rate	Effective rate	Closing rate	Effective rate
US Dollar	1.40	1.34	1.25	1.29
Canadian Dollar	1.81	1.75	1.67	1.74

Pensions

In the year we successfully consolidated assets in three UK local government pension schemes into one and on 1 April 2018 both of the main UK defined benefit schemes were closed to defined benefit accrual. We have updated our pension assumptions as at 31 March 2018 for the defined benefit schemes in the UK and North America. The net pension deficit of £358.5m at the beginning of the year has decreased to £273.7m at the end of the year principally due to better asset returns together with favourable foreign exchange movements. The main factors that influence the balance sheet position for pensions and the sensitivities to their movement at 31 March 2018 are set out below:

	Movement	Impact
Discount rate	+0.1%	Reduce deficit by £30.0m
Inflation	+0.1%	Increase deficit by £25.0m

Contingent liabilities

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

Forward-looking statements

Certain statements included or incorporated by reference within this document may constitute 'forward-looking statements' with respect to the business, strategy and plans of the Group and our current goals, assumptions and expectations relating to our future financial condition, performance and results. By their nature, forward-looking statements involve known and unknown risks, assumptions, uncertainties and other factors that cause actual results, performance or achievements of the Group to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Shareholders are cautioned not to place undue reliance on the forward-looking statements. Except as required by the UK Listing

Rules and applicable law, the Group does not undertake any obligation to update or change any forward-looking statements to reflect events occurring after the date of this document.

Definitions

Unless otherwise stated, all figures for the year to 31 March 2018 (the 'year' or '2018') include the results and financial position of First Rail for the year to 31 March 2018 and the results and financial position of all the other businesses for the 53 weeks ended 31 March 2018. The figures for the year to 31 March 2017 (the 'prior year' or '2017') include the results and financial position of the First Rail division for the year to 31 March 2017 and the results and financial position of all the other businesses for the 52 weeks ended 25 March 2017.

All references to 'adjusted' figures throughout this document are before Greyhound goodwill impairment, TPE onerous contract provision, other intangible asset amortisation charges and certain other items as set out in note 4 to the financial statements.

References to the 'Road' divisions combine First Student, First Transit, Greyhound, First Bus and Group items.

'ROCE' or 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.

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

'Net debt' is the value of Group external borrowings excluding the fair value adjustment for coupon swaps designated against certain bonds, excluding accrued interest, less cash balances.

References to 'like-for-like' revenue adjust for changes in the composition of the divisional portfolio, holiday timing, 53rd week, severe weather and other factors, for example engineering possessions in First Rail, that distort the period-on-period trends in our passenger revenue businesses.

Going concern

The Group has established a strong balanced portfolio of businesses with approximately 50% of Group revenues secured under medium term contracts with government agencies and other large organisations in the UK and North America.

The Group has a diversified funding structure with average debt duration at 31 March 2018 of 4.1 years (2017: 3.6 years) and which is largely represented by medium term unsecured bank facilities and long term unsecured bond debt. The Group has an £800m committed revolving banking facility of which £603m (2017: £800m) was undrawn at the year end. This facility has a maturity of July 2021.

The Directors have carried out a detailed review of the Group's budget for the year to 31 March 2019 and medium term plans, with due regard for the risks and uncertainties to which the Group is exposed, the uncertain economic climate and the impact that this could have on trading performance. Based on this review, the Directors believe that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

Tim O'Toole
Chief Executive
 31 May 2018

Matthew Gregory
Chief Financial Officer and interim Chief Operating Officer
 31 May 2018

Consolidated income statement

For the year ended 31 March

	Notes	2018 £m	2017 £m
Continuing Operations			
Revenue	2	6,398.4	5,653.3
Operating costs		(6,594.6)	(5,369.7)
Operating (loss)/profit		(196.2)	283.6
Investment income	5	1.3	1.2
Finance costs	5	(132.0)	(132.2)
(Loss)/profit before tax		(326.9)	152.6
Tax	6	36.0	(36.5)
(Loss)/profit for the year		(290.9)	116.1
Attributable to:			
Equity holders of the parent		(296.0)	112.3
Non-controlling interests		5.1	3.8
		(290.9)	116.1
Earnings per share			
Basic	7	(24.6)p	9.3p
Diluted	7	(24.2)p	9.2p
Adjusted results¹			
Adjusted operating profit	4	317.0	339.0
Adjusted profit before tax	4	197.0	207.0
Adjusted EPS	7	12.3p	12.4p

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

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

Consolidated statement of comprehensive income

Year ended 31 March

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

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

Consolidated balance sheet

As at 31 March

	Note	2018 £m	2017 £m
Non-current assets			
Goodwill	8	1,496.8	1,956.1
Other intangible assets	9	89.8	150.6
Property, plant and equipment	10	2,090.1	2,276.5
Deferred tax assets	18	37.7	25.8
Retirement benefit assets		32.5	34.0
Derivative financial instruments	17	25.0	48.6
Investments		31.0	33.3
		3,802.9	4,524.9
Current assets			
Inventories	11	56.0	64.5
Trade and other receivables	12	888.0	790.9
Current tax assets		2.9	0.7
Cash and cash equivalents		555.7	400.9
Assets held for sale		0.9	2.9
Derivative financial instruments	17	27.3	1.7
		1,530.8	1,261.6
Total assets		5,333.7	5,786.5
Current liabilities			
Trade and other payables	13	1,437.4	1,155.3
Tax liabilities – Current tax liabilities		3.8	5.1
– Other tax and social security		31.7	20.3
Borrowings	14	351.5	204.4
Derivative financial instruments	17	6.7	29.5
		1,831.1	1,414.6
Net current liabilities		300.3	153.0
Non-current liabilities			
Borrowings	14	1,339.6	1,586.4
Derivative financial instruments	17	3.0	8.6
Retirement benefit liabilities		306.2	392.5
Deferred tax liabilities	18	22.2	24.3
Provisions	19	341.0	284.2
		2,012.0	2,296.0
Total liabilities		3,843.1	3,710.6
Net assets		1,490.6	2,075.9
Equity			
Share capital	20	60.5	60.4
Share premium		681.4	678.9
Hedging reserve		16.5	(17.9)
Other reserves		4.6	4.6
Own shares		(6.3)	(1.2)
Translation reserve		383.5	708.4
Retained earnings		340.6	621.9
Equity attributable to equity holders of the parent		1,480.8	2,055.1
Non-controlling interests		9.8	20.8
Total equity		1,490.6	2,075.9

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

Tim O'Toole
Chief Executive
31 May 2018

Matthew Gregory
Chief Financial Officer and interim Chief Operating Officer
31 May 2018

Consolidated statement of changes in equity

Year ended 31 March

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

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

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

Consolidated cash flow statement

Year ended 31 March

	Note	2018 £m	2017 £m
Net cash from operating activities	21	636.9	520.4
Investing activities			
Interest received		1.3	1.2
Proceeds from disposal of property, plant and equipment		11.4	43.0
Purchases of property, plant and equipment		(395.9)	(374.1)
Purchases of software		(26.8)	(30.2)
Acquisition of businesses		(2.9)	–
Acquisition of non-controlling interest		(13.8)	–
Net cash used in investing activities		(426.7)	(360.1)
Financing activities			
Dividends paid to non-controlling shareholders		(1.1)	(11.9)
Shares purchased by Employee Benefit Trust		(11.2)	(1.5)
Shares issued		2.1	2.1
Proceeds from senior unsecured loans		193.3	–
Repayment of bond		(300.0)	–
Repayment of senior unsecured loans		(76.5)	(41.0)
Drawdowns from bank facilities		197.0	–
Repayment of loan notes		–	(0.1)
Repayments under HP contracts and finance leases		(62.1)	(75.0)
Fees for finance facilities		(1.0)	(1.8)
Net cash flow used in financing activities		(59.5)	(129.2)
Net increase in cash and cash equivalents before foreign exchange movements		150.7	31.1
Cash and cash equivalents at beginning of year		400.9	360.1
Foreign exchange movements		4.1	9.7
Cash and cash equivalents at end of year per consolidated balance sheet		555.7	400.9

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

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

Year ended 31 March	2018 £m	2017 £m
Net increase in cash and cash equivalents in year	150.7	31.1
Decrease in debt and finance leases	48.3	116.1
Net cash flow	199.0	147.2
Foreign exchange movements	23.2	(26.5)
Other non-cash movements	(2.6)	(0.4)
Movement in net debt in year	219.6	120.3
Net debt at beginning of year	(1,289.9)	(1,410.2)
Net debt at end of year	(1,070.3)	(1,289.9)

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

Net debt excludes all accrued interest.

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

Notes to the consolidated financial statements

1 General information

The financial information set out above does not constitute the Company's Statutory Accounts for the year ended 31 March 2018 or 2017, but is derived from those accounts. Statutory Accounts for 2017 have been delivered to the Registrar of Companies and those for 2018 will be delivered following the Company's Annual General Meeting. The auditors have reported on both sets of account; their reports were unqualified and did not contain statements under section 498 (2) or (3) of the Companies Act 2006.

Whilst the financial information included in this preliminary announcement has been computed in accordance with International Financial Reporting Standards (IFRSs), this announcement does not in itself contain sufficient information to comply with IFRSs. The Company expects to publish full financial statements that comply with IFRSs in June 2018. Copies of the Statutory Accounts for the year ended 31 March 2018 will be available to all shareholders in June and will also be available thereafter at the Registered Office of the Company at 395 King Street, Aberdeen, AB24 5RP.

2 Revenue

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

3 Business segments and geographical information

For management purposes, the Group is organised into five operating divisions – First Student, First Transit, Greyhound, First Bus and First Rail. These divisions are managed separately in line with the differing services that they provide and the geographical markets which they operate in. The principal activities of these divisions are described in the Strategic report. The segment results for the year to 31 March 2018 are as follows:

	First Student £m	First Transit £m	Greyhound £m	First Bus £m	First Rail £m	Group items ¹ £m	Total £m
Revenue	1,771.1	1,072.7	690.2	879.4	1,968.8	16.2	6,398.4
EBITDA²	335.2	79.8	58.8	116.3	129.4	(28.9)	690.6
Depreciation	(178.7)	(21.6)	(33.3)	(66.1)	(87.6)	(2.3)	(389.6)
Capital grant amortisation	–	–	–	–	16.0	–	16.0
Segment results³	156.5	58.2	25.5	50.2	57.8	(31.2)	317.0
Other intangible asset amortisation charges	(54.7)	(2.8)	(11.0)	(0.2)	(2.1)	(0.1)	(70.9)
Other adjustments (note 4)	(13.4)	(21.1)	(280.8)	(20.7)	(106.3)	–	(442.3)
Operating (loss)/profit³	88.4	34.3	(266.3)	29.3	(50.6)	(31.3)	(196.2)
Investment income							1.3
Finance costs							(132.0)
Loss before tax							(326.9)
Tax							36.0
Loss after tax							(290.9)

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

	First Student £m	First Transit £m	Greyhound £m	First Bus £m	First Rail £m	Group items ¹ £m	Total £m
Revenue	1,780.3	1,042.0	684.7	861.7	1,268.8	15.8	5,653.3
EBITDA²	348.7	91.9	79.4	104.5	98.8	(36.7)	686.6
Depreciation	(177.6)	(18.6)	(36.8)	(67.5)	(50.3)	(2.1)	(352.9)
Capital grant amortisation	–	–	–	–	5.3	–	5.3
Segment results³	171.1	73.3	42.6	37.0	53.8	(38.8)	339.0
Other intangible asset amortisation charges	(49.6)	(1.8)	(8.5)	–	(0.3)	–	(60.2)
Other adjustments (note 4)	(2.5)	(0.2)	19.6	(10.9)	–	(1.2)	4.8
Operating profit³	119.0	71.3	53.7	26.1	53.5	(40.0)	283.6
Investment income							1.2
Finance costs							(132.2)
Profit before tax							152.6
Tax							(36.5)
Profit after tax							116.1

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

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

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

4 Reconciliation to non-GAAP measures and performance

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

	2018 £m	2017 £m
Reconciliation of operating (loss)/profit to adjusted operating profit		
Operating (loss)/profit	(196.2)	283.6
Adjustments for:		
Other intangible asset amortisation charges	70.9	60.2
Greyhound impairment charges	277.3	–
TPE onerous contract provision	106.3	–
Restructuring and reorganisation costs	26.0	16.8
North America insurance reserves	32.7	–
Gain on disposal of property	–	(21.6)
Total operating profit adjustments	513.2	55.4
Adjusted operating profit (note 3)	317.0	339.0

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

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

The adjusting items are as follows:

Other intangible asset amortisation charges

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

Greyhound impairment

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

Following their review of these cash flow estimates, the Directors concluded that there should be an impairment charge of £277.3m on the Greyhound CGU. This is reflected in the financial statements as an impairment in full of the carrying value of Greyhound goodwill of £260.6m (see note 8), as well as impairment charges of £12.3m on Greyhound's property, plant and equipment (note 10), £2.5m on the brand and trade name and £1.9m on software (note 9). After these impairments, the carrying value of Greyhound is £313.1m (\$438.8m).

TPE onerous contract provision

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

North America insurance reserves

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

Restructuring and reorganisation costs

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

Bond 'make whole' costs

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

5 Investment income and finance costs

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

6 Tax on (loss)/profit on ordinary activities

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

7 Earnings per share (EPS)

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

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

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

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

	2018		2017	
	£m	EPS (p)	£m	EPS (p)
Basic (loss)/profit/EPS	(296.0)	(24.6)	112.3	9.3
Amortisation charges (note 9)	70.9	5.9	60.2	5.0
Ineffectiveness on financial derivatives	–	–	(1.0)	(0.1)
Bond 'make whole' cost	10.7	0.9	–	–
Other adjustments (note 4)	442.3	36.7	(4.8)	(0.4)
Tax effect of above adjustments	(55.6)	(4.6)	(17.3)	(1.4)
Tax effect of change in US tax legislation	(24.6)	(2.0)	–	–
Adjusted profit/EPS	147.7	12.3	149.4	12.4
			2018	2017
			pence	pence
Diluted EPS			(24.2)	9.2
Adjusted diluted EPS			12.1	12.3

8 Goodwill

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

Impairment testing

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

The Group prepares cash flow forecasts derived from the most recent budget for 2018/19 and Three-Year Plan projections up to 2020/21 (2017: Three-Year Plan projections up to 2019/20) which take account of both past performance and expectations for future market developments. The projections for First Student assume the incremental benefits of the existing recovery plan, the programme to address contract portfolio pricing together with an economic recovery. Cash flows beyond the plan period are extrapolated using estimated growth rates of 2.5% (2017: 2.5%) for the United Kingdom and 2.8% (2017: 3.0%) for North America which do not exceed the long term average growth rate for the market. Cash flows are discounted using a pre-tax discount rate of 7.3% (2017: 7.3%) for the United Kingdom CGUs and 8.2% (2017: 8.7%) for the North American CGUs to arrive at the value in use. The pre-tax discount rates applied are derived from a market participant's weighted average cost of capital. The assumptions used in the calculation of the Group's weighted average cost of capital are benchmarked to externally available data.

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

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

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

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

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

Following their review of these cash flow estimates, the Directors concluded that there should be an impairment charge of £277.3m on the Greyhound CGU. This is reflected in the financial statements as an impairment in full of the carrying value of Greyhound goodwill of £260.6m, as well as impairment charges of £12.3m on Greyhound's property, plant and equipment (note 10), £2.5m on the brand and trade name and £1.9m on software (note 9). After these impairments, the carrying value of Greyhound is £313.1m (\$438.8m).

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

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

9 Other intangible assets

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

10 Property, plant and equipment

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

11 Inventories

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

12 Trade and other receivables

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

13 Trade and other payables

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

14 Borrowings

	2018 £m	2017 £m
On demand or within 1 year		
Finance leases (note 15)	47.1	65.3
Senior unsecured loan notes	–	80.0
Bond 8.125% (repayable 2018) ¹	–	12.9
Bond 6.125% (repayable 2019)	261.3	3.0
Bond 8.75% (repayable 2021) ¹	30.1	30.2
Bond 5.25% (repayable 2022) ¹	5.8	5.8
Bond 6.875% (repayable 2024) ¹	7.2	7.2
Total current liabilities	351.5	204.4
Within 1–2 years		
Finance leases (note 15)	39.5	53.5
Loan notes (note 16)	9.5	9.5
Bond 8.125% (repayable 2018)	–	298.8
Bond 6.125% (repayable 2019)	–	270.0
	49.0	631.8
Within 2–5 years		
Syndicated loan facilities	197.0	–
Finance leases (note 15)	18.0	64.8
Bond 8.75% (repayable 2021)	358.9	369.0
Bond 5.25% (repayable 2022)	321.6	–
	895.5	433.8
Over 5 years		
Finance leases (note 15)	0.1	0.1
Senior unsecured loan notes	195.2	–
Bond 5.25% (repayable 2022)	–	321.1
Bond 6.875% (repayable 2024)	199.8	199.6
	395.1	520.8
Total non-current liabilities at amortised cost	1,339.6	1,586.4

¹Relates to accrued interest.

15 HP contracts and finance leases

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

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

16 Loan notes

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

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

17 Derivative financial instruments

	2018 £m	2017 £m
Total derivatives		
Total non-current assets	25.0	48.6
Total current assets	27.3	1.7
Total assets	52.3	50.3
Total current liabilities	6.7	29.5
Total non-current liabilities	3.0	8.6
Total liabilities	9.7	38.1

Derivatives designated and effective as hedging instruments carried at fair value**Non-current assets**

Coupon swaps (fair value hedge)	17.6	48.6
Fuel derivatives (cash flow hedge)	7.4	–
	25.0	48.6

Current assets

Coupon swaps (fair value hedge)	11.4	–
Fuel derivatives (cash flow hedge)	15.9	0.6
Currency forwards (cash flow hedge)	–	0.7
	27.3	1.3

Current liabilities

Fuel derivatives (cash flow hedge)	1.4	29.4
Currency forwards (cash flow hedge)	5.3	0.1
	6.7	29.5

Non-current liabilities

Currency forwards (cash flow hedge)	2.9	–
Fuel derivatives (cash flow hedge)	0.1	8.6
	3.0	8.6

Derivatives classified as held for trading**Current assets**

Currency forwards	–	0.4
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18 Deferred tax

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

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

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

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

19 Provisions

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

	Insurance claims £m	Legal and other £m	TPE onerous contract £m	Pensions £m	Total £m
At 1 April 2017	391.0	60.4	–	2.4	453.8
Charged to the income statement	196.5	27.4	106.3	–	330.2
Utilised in the year	(192.7)	(17.3)	–	(0.4)	(210.4)
Notional interest	11.0	–	–	–	11.0
Foreign exchange movements	(37.0)	(2.9)	–	–	(39.9)
At 31 March 2018	368.8	67.6	106.3	2.0	544.7

Current liabilities	137.1	39.5	27.1	–	203.7
Non-current liabilities	231.7	28.1	79.2	2.0	341.0
At 31 March 2018	368.8	67.6	106.3	2.0	544.7

Current liabilities	154.9	14.7	–	–	169.6
Non-current liabilities	236.1	45.7	–	2.4	284.2
At 31 March 2017	391.0	60.4	–	2.4	453.8

TPE onerous contract provision

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

20 Called up share capital

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

The Company has one class of ordinary shares which carries no right to fixed income. During the year 3.1m (2017: 2.8m) shares were issued to satisfy principally SAYE exercises.

21 Net cash from operating activities

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

Responsibility Statement of the Directors on the Annual Report

The responsibility statement below has been prepared in connection with the Group's full annual report for the year ending 31 March 2018. Certain parts thereof are not included within the announcement.

We confirm to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole
- the Management Report, which is incorporated into the Directors' Report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.
- The Directors consider that the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide information necessary for the shareholders to assess the Company's and the Group's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors and is signed on its behalf by:

Tim O'Toole
Chief Executive
31 May 2018

Matthew Gregory
Chief Financial Officer and interim Chief Operating Officer
31 May 2018