Underlying Group revenue increased by 5.7%, and underlying adjusted operating profit increased by 10.5%.

Nick Chevis
Interim Chief Financial Officer

Summary of the year

Reported Group revenue in the year increased by 11.4% including a full year of the SWR franchise and the translation of our US dollar-based businesses into pounds Sterling at stronger rates than the prior year, partly offset by the 53rd week in the Road divisions last year. Adjusting for these factors, Group revenue increased by 5.7% with growth in all our divisions apart from Greyhound, where revenues reflected the ongoing challenges in its long haul markets and withdrawal of services in Western Canada.

Group adjusted operating profit in constant currency increased by 4.0% or by 10.5% adjusting for SWR and the 53rd week in the Road divisions last year, reflecting progress in First Rail, First Bus and First Student partly offset by Greyhound and First Transit. Group adjusted operating profit margin in constant currency decreased by 30bps to 4.7%, with the Road divisions reduced by 10bps and the expected rebasing of the Rail margin. In reported currency, adjusted operating profit increased by 5.0% to £332.9m (2018: £317.0m).

Net finance costs decreased to £106.6m (2018: £120.0m before bond 'make whole' costs), resulting in adjusted profit before tax of £226.3m (2018: £197.0m), an increase of 14.9%. Adjusted profit attributable to ordinary shareholders was £173.6m (2018: £147.7m), reflecting the higher adjusted profit and lower net finance costs. Adjusted EPS increased by 17.1% to 14.4p (2018: 12.3p). In constant currency, adjusted EPS increased by 15.2%. EBITDA decreased by 2.9% to £670.3m (2018: £690.6m).

Statutory operating profit of £9.8m (2018: loss of £196.2m) and statutory loss before tax of £97.9m (2018: loss of £326.9m), principally reflected the non-recurrence of Greyhound goodwill and other asset impairments, onerous contract provision for the TPE rail franchise and the bond 'make whole' costs relating to redemption of the September 2018 bond from prior year, together with the current year gain on disposal of a Greyhound facility and lower intangible asset amortisation. These were partly offset by the North America self-insurance reserve charge of £94.8m, the SWR onerous contract provision of £145.9m in total of which FirstGroup's 70% share is therefore £102.1m, past service charge for the guaranteed minimum pensions and the loss on disposal and impairments in First Bus. Statutory EPS was (5.5)p (2018: (24.6)p) in the year.

The net cash inflow for the year was £197.3m (2018: £199.0m including £88.5m in First Rail start of franchise cash flows), which combined with movements in debt due to foreign exchange, resulted in a decrease in net debt of £166.9m (2018: £219.6m). The cash inflow from First Rail was particularly significant this year, though this reflects the phasing of approximately £90m in working capital, grant and other funding inflows, which we expect to reverse in the 2019/20 financial year. As at 31 March 2019, the net debt: EBITDA ratio was 1.3 times (2018: 1.5 times). Adjusting for cash ring-fenced in the First Rail division, net debt: EBITDA was 2.1 times (2018: 2.1 times).

Liquidity within the Group has remained strong; as at the year end there was £520.6m (2018: £766.4m) of headroom on committed facilities and free cash, being £353.3m (2018: £603.0m) of committed headroom and £167.3m (2018: £163.4m) of free cash. Our average debt maturity increased to 4.3 years (2018: 4.1 years), reflecting the Group's agreement in November 2018 to amend and extend our main revolving bank facilities to November 2023, and the repayment of the £250m bond using free cash and drawings from our revolving bank facilities in January 2019.

During the year, gross capital investment of £459.1m (2018: £309.9m) was invested in our Road divisions, including operating leases with a capital value of £127.1m (2018: £6.0m). The increase in the Road divisions' gross capital expenditure was driven principally by the higher retention rates and new business wins achieved in First Student's summer 2018 bid season.

ROCE increased to 10.5% (2018: 8.9% at constant exchange rates and 9.5% as reported).

Finance costs and investment income

Net finance costs before adjustments were £106.6m (2018: £120.0m) with the decrease principally reflecting lower bond interest due to the early bond redemption in March 2018 partly offset by the interest on the new senior unsecured loan notes.

Profit before tax

Adjusted profit before tax as set out in note 4 to the financial statements was £226.3m (2018: £197.0m), with the increase due principally to higher adjusted operating profit and lower net finance costs. An overall charge of £324.2m (2018: £523.9m) for adjustments including other intangible asset amortisation charges of £29.9m (2018: £70.9m) resulted in statutory loss before tax of £97.9m (2018: loss of £326.9m).

Tax

The tax charge, on adjusted profit before tax, for the year was £50.9m (2018: £44.2m) representing an effective tax rate of 22.5% (2018: 22.4%). There was also a tax credit of £40.8m (2018: £55.6m) relating to intangible asset amortisation charges and other adjustments of £324.2m (2018: £523.9m). In 2018 the US corporate income tax rate reduced from 35% to 21% under the US Tax Cuts and Jobs Act and this change also resulted in the re-measurement of brought forward deferred tax balances giving rise to a one-off tax credit in the income statement last year of £24.6m. The total tax charge was £10.1m (2018: credit £36.0m) representing an effective tax rate on the statutory loss before tax of (10.3)% (2018: 11.0%). This rate is different from the effective tax rate on adjusted profits primarily because the potential tax credit on the losses carried forward in SWR is not recognised. 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 £7.5m (2018: £12.2m) and differs from the tax charge of £10.1m primarily because of capital allowances in excess of depreciation and the utilisation of carried forward tax assets.

EPS

Adjusted EPS increased 17.1% to 14.4p (2018: 12.3p) and basic EPS was (5.5)p (2018: (24.6)p).

Shares in issue

As at 31 March 2019 there were 1,208.6m shares in issue (2018: 1,203.1m), excluding treasury shares and own shares held in trust for employees, which decreased in the year to 5.3m (2018: 7.7m). 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 1,205.9m (2018: 1,205.1m).

Reconciliation to non-GAAP measures and performance

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

Other intangible asset amortisation charges

The amortisation charge for the year was £29.9m (2018: £70.9m) with the reduction due to a number of customer contract intangibles which have now been fully amortised.

SWR onerous contract provision

Management have prepared updated financial forecasts for the SWR franchise until the initial franchise end date of 17 August 2024, which are based on a number of assumptions, most significantly passenger revenue growth and the impact of the Central London Employment and Gross Domestic Product revenue protection mechanisms, as well as the impact of changes in timetables, capacity, aging infrastructure and rolling stock. There is considerable uncertainty about the level of passenger revenue growth and future impact of the industrial action in addition to uncertainty as to the level of strike amelioration recoverable from the DfT, and we remain in negotiations with them. Progress has been made and we continue to be engaged in discussions with the DfT to agree potential commercial and contractual remedies but, at the current time, there is a range of potential outcomes. Based on these forecasts the Group has concluded that it has an onerous contract, the value of which is estimated to be £145.9m in total, which is the maximum unavoidable loss under the Franchise Agreement. Accordingly, this amount has been charged to the income statement. FirstGroup's 70% share is therefore £102.1m.

Revenue and adjusted operating profit

Revenue and adjusted operating profit by division is set out below. For more information on divisional operating performance see the business review on pages 14 to 24.

	Year to 31 March 2019			Year to 31 March 2018		
	Revenue £m	Operating profit[1] £m	Operating margin[1] %	Revenue £m	Operating profit[1] £m	Operating margin[1] %
First Student	**1,845.9**	**173.5**	**9.4**	1,771.1	156.5	8.8
First Transit	**1,075.8**	**51.5**	**4.8**	1,072.7	58.2	5.4
Greyhound	**645.1**	**11.4**	**1.8**	690.2	25.5	3.7
First Bus	**876.1**	**65.8**	**7.5**	879.4	50.2	5.7
Group items[2]	**17.3**	**(41.6)**		16.2	(31.2)	
Road divisions	**4,460.2**	**260.6**	**5.8**	4,429.6	259.2	5.9
First Rail	**2,666.7**	**72.3**	**2.7**	1,968.8	57.8	2.9
Total Group	**7,126.9**	**332.9**	**4.7**	6,398.4	317.0	5.0
North America in US Dollars	**$m**	**$m**	**%**	$m	$m	%
First Student	**2,424.9**	**230.0**	**9.5**	2,350.6	210.4	9.0
First Transit	**1,411.4**	**67.7**	**4.8**	1,420.4	77.8	5.5
Greyhound	**846.7**	**14.2**	**1.7**	912.7	32.8	3.6
Total North America	**4,683.0**	**311.9**	**6.7**	4,683.7	321.0	6.9

1 Adjusted. The statutory operating profit for the year was £9.8m (2018: loss of £196.2m) as set out in note 5 to the accounts.

2 Tramlink operations, central management and other items.

North America insurance provisions

The legal climate in North America, particularly in the US, continues to deliver judgements which are unpredictable, increasingly in favour of plaintiffs and punitive in certain regions. This is a complex and judgemental area, and we continue to base our reserve on the levels recommended by our actuarial advisors.

Following adverse settlements and developments on a number of aged insurance claims, and against a backdrop of a hardening of the wider motor claims environment and market, this has led to increasing our estimate of specific case reserves and adverse development factors.

Once this trend was identified, we initiated an additional independent actuarial review of the estimated risk position, including the claims handler's reserve position. This also confirmed a deterioration in the claims environment and market and therefore an increase in the estimated value of expected settlements. This has resulted in a decision to increase the provision to reflect the costs of meeting existing claims in the current environment.

This change in accounting estimate has resulted in the Group recording a charge of £94.8m ($125.0m), to increase the self-insurance reserve to a position towards the mid-point of the actuarial assessments undertaken. The charge relates to First Student £47.3m ($62.3m), First Transit £26.2m ($34.5m) and Greyhound £21.3m ($28.2m). This charge has been highlighted as an adjusted item. It is expected that the majority of these claims will be settled over the next five years.

The charge to the operating profit for the current financial year reflects this revised environment. For the 2019/20 financial year, the self-insurance charge is expected to increase in line with the level of revenue growth in the business, plus inflation.

The Group has a strong focus on safety, and risk mitigation in this area will continue to be an area of focus for the Group.

Restructuring and reorganisation costs

During the year there was a charge of £24.1m for restructuring and reorganisation costs principally relating to Greyhound's accelerated withdrawal of services in Western Canada. The £26.0m charge in 2018 was for the 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).

Gain on disposal of property

During the year the sale of a Greyhound facility in Chicago was completed which resulted in a gain on sale of £9.3m (2018: £nil).

Guaranteed minimum pensions charge

A high court judgement in 2018 ruled that guaranteed minimum pensions should be equalised between male and female scheme members. As a result of this there is an increase in liabilities of £21.5m for the First Bus and Group pension schemes.

Loss on disposal/impairment charges

During the year the First Bus Queens Road depot and operations were agreed to be sold to the Go-Ahead Group. This disposal, along with asset impairments on the remaining Manchester depots to bring these to their likely recoverable amounts, resulted in an overall charge of £16.2m.

Notional interest on TPE onerous contract provision

There was a charge of £1.1m (2018: £nil) in the year for notional interest on the unwinding of the TPE onerous contract provision.

Capital expenditure

Cash capital expenditure in the Road divisions was £322.3m (2018: £299.4m) . It comprised First Student £232.3m (2018: £186.0m), First Transit £32.2m (2018: £19.0m), Greyhound £31.7m (2018: £46.6m), First Bus £25.1m (2018: £42.8m) and Group items £1.0m (2018: £5.0m). In addition, during the year we entered into operating leases for passenger carrying vehicles with capital values in First Bus of £61.9m, First Student of £27.0m, Greyhound of £34.8m and First Transit £3.4m (2018: First Bus £6.0m) and we expect our use of operating leases to increase going forward. First Rail cash capital expenditure is typically matched by franchise receipts, capital grants or other funding from third parties.

Gross capital investment was £571.1m (2018: £439.5m) of which £459.1m (2018: £309.9m) related to the Road divisions. It comprised First Student £284.8m (2018: £205.1m), First Transit £30.7m (2018: £28.5m), Greyhound £62.8m

Cash flow

	2019 £m	2018 £m
EBITDA	**670.3**	690.6
Other non-cash income statement charges	**3.7**	17.2
Working capital excluding First Rail start of franchise cash flows	**53.8**	36.9
Movement in other provisions	**(24.8)**	(10.5)
Pension payments in excess of income statement charge	**(47.8)**	(47.9)
Cash generated by operations excluding First Rail start of franchise cash flows	**655.2**	686.3
Capital expenditure and acquisitions	**(432.5)**	(425.6)
Proceeds from disposal of property, plant and equipment	**63.5**	11.4
Interest and tax	**(88.8)**	(137.6)
Acquisition of non-controlling interest	**–**	(13.8)
Dividends paid to non-controlling minority shareholders	**–**	(1.1)
Other	**(0.1)**	(9.1)
Net cash inflow before First Rail start of franchise cash flows	**197.3**	110.5
First Rail start of franchise cash flows	**–**	88.5
Net cash inflow after First Rail start of franchise cash flows	**197.3**	199.0
Foreign exchange movements	**(28.3)**	23.2
Other non-cash movements	**(2.1)**	(2.6)
Movement in net debt in the year	**166.9**	219.6

(2018: £44.4m), First Bus £79.8m (2018: £26.9m) and Group items £1.0m (2018: £5.0m). The balance between cash capital expenditure and gross capital investment represents new operating leases and creditor movements in the year.

Cash flow

The net cash inflow was £197.3m (2018: £110.5m before First Rail start of franchise cash flows) with the increase driven by higher proceeds from the disposal of property, plant and equipment primarily due to the sale of a Greyhound facility this year and lower interest payments as a result of the refinancing in March 2018 and the timing of certain working capital flows. Net cash inflow of £197.3m (2018: £199.0m including the First Rail start of franchise cash flows of £88.5m), combined with movements in debt due to foreign exchange, resulted in a decrease in net debt of £166.9m (2018: £219.6m) as detailed below.

Balance sheet

Net assets have increased by £32.7m since the start of the year. The principal reasons for this are the favourable translation reserve movements of £160.8m partly offset by the retained loss for the year of £108.0m and actuarial losses on defined benefit pension schemes (net of deferred tax) of £31.6m.

CGU carrying value

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 continues to be sufficient headroom in all of the CGUs such that no reasonably possible changes in the assumptions would cause the carrying amount of the CGUs to exceed their recoverable amounts in respect of First Student, First Transit, First Bus and First Rail. Sensitivities on Greyhound are set out in note 11.

Funding and risk management

Liquidity within the Group has remained strong. At the year end there was £520.6m (2018: £766.4m) of headroom on committed facilities and free cash, being £353.3m (2018: £603.0m) of committed headroom and £167.3m (2018: £163.4m) 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 level of committed headroom is maintained at all times. Our average debt maturity was 4.3 years (2018: 4.1 years). The Group's main revolving bank facilities require renewal in November 2023 following a two and a half year amendment and extension agreed in November 2018. The Group does not enter into speculative financial transactions and uses only authorised financial instruments for certain financial risk management purposes.

Fuel price risk

We use a progressive forward hedging programme to manage commodity risk. In 2018/19 in the UK, 90% of our 'at risk' crude requirements (1.9m barrels p.a.) were hedged at an average rate of $60 per barrel. We have hedged 84% of our 'at risk' UK crude requirements for the year to 31 March 2020 at $65 per barrel and 45% of our requirements for the year to 31 March 2021 at $65 per barrel.

In North America 64% of 2018/19 'at risk' crude oil volumes (1.3m barrels p.a.) were hedged at an average rate of $58 per barrel. We have hedged 52% of the volumes for the year to 31 March 2020 at $62 per barrel and 22% of our volumes for the year to 31 March 2021 at $66 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 2019 was £903.4m (2018: £1,070.3m) and comprised:

Analysis of net debt	31 March 2019 Fixed £m	31 March 2019 Variable £m	31 March 2019 Total £m	31 March 2018 Total £m
Sterling bond (2019)	–	–	–	249.9
Sterling bond (2021)	–	348.4	348.4	348.3
Sterling bond (2022)	322.1	–	322.1	321.6
Sterling bond (2024)	199.8	–	199.8	199.8
Bank loans	–	446.7	446.7	197.0
HP contracts and finance leases	59.9	–	59.9	104.7
Senior unsecured loan notes	210.0	–	210.0	195.2
Loan notes	8.7	0.7	9.4	9.5
Gross debt excluding accrued interest	800.5	795.8	1,596.3	1,626.0
Cash			(167.3)	(163.4)
First Rail ring-fenced cash and deposits			(524.7)	(391.5)
Other ring-fenced cash and deposits			(0.9)	(0.8)
Net debt excluding accrued interest			903.4	1,070.3

Under the terms of the First Rail franchise agreements, cash can only be distributed by the Train Operating Companies (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. First Rail ring-fenced cash increased by £133.2m in the period principally due to working capital inflows at all three franchises.

Foreign exchange

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

	Year to 31 March 2019		Year to 31 March 2018	
	Closing rate	**Effective rate**	Closing rate	Effective rate
US Dollar	**1.30**	**1.32**	1.40	1.34
Canadian Dollar	**1.74**	**1.74**	1.81	1.75

Pensions

We have updated our pension assumptions as at 31 March 2019 for the defined benefit schemes in the UK and North America. The net pension deficit of £273.7m at the beginning of the year has increased to £307.2m at the end of the year principally due to lower real discount rates and unfavourable foreign exchange movements partly offset by better asset returns and guaranteed minimum pension equalisation. Based on the most recent actuarial valuations as at 5 April 2016 and 5 April 2015 respectively, the combined funding deficit of the First Bus and Group defined benefit schemes in the UK, taking into account funding guarantees provided by FirstGroup plc, is approximately £250m higher than the balance sheet position on an accounting basis. The main factors that influence the balance sheet position for pensions and the principal sensitivities to their movement at 31 March 2019 are set out below:

	Movement	Impact
Discount rate	**+0.1%**	Reduce deficit by £28m
Inflation	**+0.1%**	Increase deficit by £23m

Seasonality

First Student generates lower revenues and profits in the first half of the financial year than in the second half of the year as the school summer holidays fall into the first half.

Dividends

The Board recognises that dividends are an important component of total shareholder return for many investors and remains committed to reinstating a sustainable dividend at the appropriate time, having regard to the Group's financial performance, balance sheet and outlook. The Board is not proposing to pay a dividend in respect of the year to 31 March 2019 but will continue to review the appropriate timing for restarting dividend payments.

Impact of new accounting standards

IFRS 16 Leases replaces IAS 17 with effect from accounting periods commencing 1 January 2019. The Group has performed a detailed impact assessment of IFRS 16, which is described further in Note 2 to the Accounts on pages 109-118.

Contingent liabilities

The Group's operations are required to comply with a wide range of regulations, including environmental and emissions regulations. Failure to comply with a particular regulation could result in a fine or penalty being imposed on that business, as well as potential ancillary claims rooted in non-compliance.

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. Management continue to monitor developments. To date, no proceedings have been commenced and, as such, it is not possible to assess whether any financial penalties or related costs could be incurred.

On 14 November 2017, Reading Borough Council served First Greater Western Limited (GWR), a subsidiary of the Group, and Network Rail Infrastructure Limited (a third party) with a noise abatement notice in respect of the operations at the Reading railway depot. The serving of the notice has been appealed and the related court hearing is currently anticipated to take place in early 2020 (unless the matter is settled between the parties before that date). It is not possible at this stage to quantify the implications for the GWR operations, if any, if they are not ultimately successful with respect to this appeal.

On 26 February 2019, class action proceedings were commenced in the UK Competition Appeal Tribunal (CAT) against First MTR South Western Trains Limited (SWR). Equivalent claims have been brought against Stagecoach South Western Trains Limited and London & South Eastern Railway. It is alleged that SWR and the other defendants breached their obligations under competition law, by (i) failing to make available, or (ii) restricting the practical availability of, boundary fares for TfL Travelcard holders wishing to travel outside TfL fare zones. The first substantive hearing, at which the CAT will decide whether or not to certify the class action, is scheduled to take place in November 2019. It is not possible at this stage to determine accurately the likelihood or quantum of damages and costs, if any, or timing of such damages and costs, which may arise from the proceedings.

The Pensions Regulator (TPR) has been in discussion with the Railways Pension Scheme (the Scheme) regarding the long term funding strategy of the Scheme. The Scheme is an industry-wide arrangement, and the Group, together with other owning groups, has been participating in a review of scheme funding led by the Rail Delivery Group. Whilst the review is still ongoing, changes to the current funding strategy are not expected in the short term. Whilst TPR believes that a higher level of funding is required in the long term, it is not possible at this stage to determine the impact to ongoing contribution requirements.