Connecting people and communities

New fleets for our train passengers

In the next few years, the majority of First Rail's customers will travel on new trains which we are working hard to introduce. Each of our train operating companies is introducing new trains and refurbishing existing rolling stock. In addition to the long-distance and suburban trains already introduced on GWR, new trains for SWR, TPE and Hull Trains will increase capacity and improve the customer experience.

First Student steps in for vital school link

The William Floyd School District, one of the largest in Long Island, New York, was left without student transportation after a competitor defaulted on the contract just before the start of the school year. The district partnered with First Student as a replacement provider and the team put together a successful short notice start up package, including driver recruitment, to ensure that the vital school bus service was up and running for a safe and successful school year.

Financial statements

Consolidated income statement
For the year ended 31 March

Continuing Operations	Notes	2019 £m	2018 £m
Revenue	3,5	**7,126.9**	6,398.4
Operating costs		**(7,117.1)**	(6,594.6)
Operating profit/(loss)	5,6	**9.8**	(196.2)
Investment income	8	**2.7**	1.3
Finance costs	8	**(110.4)**	(132.0)
Loss before tax		**(97.9)**	(326.9)
Tax	9	**(10.1)**	36.0
Loss for the year		**(108.0)**	(290.9)
Attributable to:			
Equity holders of the parent		**(66.9)**	(296.0)
Non-controlling interests		**(41.1)**	5.1
		(108.0)	(290.9)
Earnings per share			
Basic	10	**(5.5)p**	(24.6)p
Diluted	10	**(5.5)p**	(24.6)p
Adjusted results[1]			
Adjusted operating profit	4	**332.9**	317.0
Adjusted profit before tax	4	**226.3**	197.0
Adjusted EPS	10	**14.4p**	12.3p
Adjusted diluted EPS	10	**14.3p**	12.1p

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

	Note	2019 £m	2018 £m
Loss for the year		**(108.0)**	(290.9)
Items that will not be reclassified subsequently to profit or loss			
Actuarial (losses)/gains on defined benefit pension schemes	36	**(38.7)**	26.6
Deferred tax on actuarial (losses)/gains on defined benefit pension schemes		**7.1**	(6.2)
Deferred tax on defined benefit pension schemes due to US tax reform		**–**	(20.4)
		(31.6)	–
Items that may be reclassified subsequently to profit or loss			
Derivative hedging instrument movements	28	**23.5**	45.1
Deferred tax on derivative hedging instrument movements		**(4.1)**	(9.3)
Deferred tax on derivative hedging instruments due to US tax reform		**–**	(1.4)
Exchange differences on translation of foreign operations		**160.8**	(324.9)
		180.2	(290.5)
Other comprehensive income/(loss) for the year		**148.6**	(290.5)
Total comprehensive income/(loss) for the year		**40.6**	(581.4)
Attributable to:			
Equity holders of the parent		**81.7**	(586.5)
Non-controlling interests		**(41.1)**	5.1
		40.6	(581.4)

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

Financial statements

Consolidated balance sheet
As at 31 March

	Note	2019 £m	2018 £m
Non-current assets			
Goodwill	11	**1,598.1**	1,496.8
Other intangible assets	12	**75.1**	89.8
Property, plant and equipment	13	**2,165.9**	2,090.1
Deferred tax assets	25	**40.6**	37.7
Retirement benefit assets	36	**69.2**	32.5
Derivative financial instruments	24	**20.5**	25.0
Investments	14	**34.1**	31.0
		4,003.5	3,802.9
Current assets			
Inventories	16	**60.2**	56.0
Trade and other receivables	17	**1,141.4**	888.0
Current tax assets		**3.4**	2.9
Cash and cash equivalents	20	**692.9**	555.7
Assets held for sale	18	**31.7**	0.9
Derivative financial instruments	24	**15.5**	27.3
		1,945.1	1,530.8
Total assets		**5,948.6**	5,333.7
Current liabilities			
Trade and other payables	19	**1,547.3**	1,233.7
Tax liabilities – Current tax liabilities		**3.9**	3.8
– Other tax and social security		**29.0**	31.7
Borrowings	21	**84.9**	351.5
Derivative financial instruments	24	**3.4**	6.7
Provisions	26	**265.9**	203.7
		1,934.4	1,831.1
Net current assets/(liabilities)		**10.7**	(300.3)
Non-current liabilities			
Borrowings	21	**1,564.1**	1,339.6
Derivative financial instruments	24	**1.9**	3.0
Retirement benefit liabilities	36	**376.4**	306.2
Deferred tax liabilities	25	**16.5**	22.2
Provisions	26	**532.0**	341.0
		2,490.9	2,012.0
Total liabilities		**4,425.3**	3,843.1
Net assets		**1,523.3**	1,490.6
Equity			
Share capital	27	**60.7**	60.5
Share premium		**684.0**	681.4
Hedging reserve	28	**17.5**	16.5
Other reserves	28	**4.6**	4.6
Own shares	28	**(4.7)**	(6.3)
Translation reserve	29	**544.3**	383.5
Retained earnings		**248.1**	340.6
Equity attributable to equity holders of the parent		**1,554.5**	1,480.8
Non-controlling interests		**(31.2)**	9.8
Total equity		**1,523.3**	1,490.6

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

Matthew Gregory
30 May 2019

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 2017	60.4	678.9	(17.9)	4.6	(1.2)	708.4	621.9	2,055.1	20.8	2,075.9
Loss for the year	–	–	–	–	–	–	(296.0)	(296.0)	5.1	(290.9)
Other comprehensive (loss)/income for the year	–	–	34.4	–	–	(324.9)	–	(290.5)	–	(290.5)
Total comprehensive (loss)/income for the year	–	–	34.4	–	–	(324.9)	(296.0)	(586.5)	5.1	(581.4)
Acquisition of non-controlling interests	–	–	–	–	–	–	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
Balance at 1 April 2018	**60.5**	**681.4**	**16.5**	**4.6**	**(6.3)**	**383.5**	**340.6**	**1,480.8**	**9.8**	**1,490.6**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(66.9)**	**(66.9)**	**(41.1)**	**(108.0)**
Other comprehensive income/(loss) for the year	**–**	**–**	**19.4**	**–**	**–**	**160.8**	**(31.6)**	**148.6**	**–**	**148.6**
Total comprehensive income/(loss) for the year	**–**	**–**	**19.4**	**–**	**–**	**160.8**	**(98.5)**	**81.7**	**(41.1)**	**40.6**
Shares issued	**0.2**	**2.6**	**–**	**–**	**–**	**–**	**–**	**2.8**	**–**	**2.8**
Derivative hedging instrument movements transferred to balance sheet (net of tax)	**–**	**–**	**(18.4)**	**–**	**–**	**–**	**–**	**(18.4)**	**–**	**(18.4)**
Dividends paid/other	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**0.1**	**0.1**
Movement in EBT and treasury shares	**–**	**–**	**–**	**–**	**1.6**	**–**	**(3.1)**	**(1.5)**	**–**	**(1.5)**
Share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**9.1**	**9.1**	**–**	**9.1**
Balance at 31 March 2019	**60.7**	**684.0**	**17.5**	**4.6**	**(4.7)**	**544.3**	**248.1**	**1,554.5**	**(31.2)**	**1,523.3**

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

Consolidated cash flow statement
Year ended 31 March

	Note	2019 £m	2018 £m
Net cash from operating activities	31	**563.7**	636.9
Investing activities			
Interest received		**2.7**	1.3
Proceeds from disposal of property, plant and equipment		**63.5**	11.4
Purchases of property, plant and equipment		**(421.3)**	(395.9)
Purchases of software		**(8.9)**	(26.8)
Acquisition of businesses		**(2.3)**	(2.9)
Net cash used in investing activities		**(366.3)**	(412.9)
Financing activities			
Acquisition of non-controlling interest		**–**	(13.8)
Dividends paid to non-controlling shareholders		**–**	(1.1)
Shares purchased by Employee Benefit Trust		**–**	(11.2)
Shares issued		**2.1**	2.1
Proceeds from senior unsecured loans		**–**	193.3
Repayment of bond		**(250.0)**	(300.0)
Repayment of senior unsecured loans		**–**	(76.5)
Drawdowns from bank facilities		**255.0**	197.0
Repayment of loan notes		**(0.1)**	–
Repayments under HP contracts and finance leases		**(53.1)**	(62.1)
Fees for finance facilities		**(2.2)**	(1.0)
Net cash flow used in financing activities		**(48.3)**	(73.3)
Net increase in cash and cash equivalents before foreign exchange movements		**149.1**	150.7
Cash and cash equivalents at beginning of year		**555.7**	400.9
Foreign exchange movements		**(11.9)**	4.1
Cash and cash equivalents at end of year per consolidated balance sheet	20	**692.9**	555.7

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

	Note	2019 £m	2018 £m
Net increase in cash and cash equivalents in year		**149.1**	150.7
Decrease in debt and finance leases		**48.2**	48.3
Net cash flow		**197.3**	199.0
Foreign exchange movements		**(28.3)**	23.2
Other non-cash movements		**(2.1)**	(2.6)
Movement in net debt in year		**166.9**	219.6
Net debt at beginning of year		**(1,070.3)**	(1,289.9)
Net debt at end of year	32	**(903.4)**	(1,070.3)

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

FirstGroup plc is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is 395 King Street, Aberdeen, AB24 5RP. The nature of the Group's operations and its principal activities are set out in the Strategic report on pages 4 to 50.

These financial statements are presented in pounds Sterling. Foreign operations are included in accordance with the accounting policies set out in note 2.

2 Significant accounting policies

Basis of accounting

The financial statements have been prepared in accordance with IFRSs adopted and endorsed for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments, and on a going concern basis, as described in the going concern statement within the Strategic report on page 50. The principal accounting policies adopted are set out below.

The financial statements for the year ended 31 March 2019, include the results and financial position of the First Rail business for the year ended 31 March 2019 and the results and financial position of all the other businesses for the 52 weeks ended 30 March 2019. The financial statements for the year ended 31 March 2018, include the results and financial position of the First Rail businesses for the year ended 31 March 2018 and the results and financial position of all the other businesses for the 53 weeks ended 31 March 2018.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control exists when the Company has power over an investee entity, exposure to variable returns from its involvement with the entity and the ability to use its power over the entity to affect its returns.

Non-controlling interests in subsidiaries are identified separately from the Group's equity interest therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation, may initially be measured at fair value, or at the non-controlling interests' proportionate share of their fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition by acquisition basis. Other non-controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations

The acquisition of subsidiaries is accounted for using the acquisitions method. The consideration for each acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in the income statement as incurred.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair value at the acquisition date, with the exception of deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements, liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment and non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholder's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Assets held for sale

Assets held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year of the date of classification.

2 Significant accounting policies continued

Goodwill and intangible assets

Goodwill arising on consolidation is recognised as an asset at the date that control is acquired. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGUs) which are tested for impairment annually, or more frequently where there is an indication that the CGU may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the CGU, the impairment loss is allocated to the goodwill of the CGU and then to the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU. An impairment loss recognised for goodwill is not reversed in a subsequent period. On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Computer software is recognised separately as an intangible asset and is carried at cost less accumulated amortisation and accumulated impairment losses. Costs include software licences, website development, costs attributable to the development, design and implementation of the computer software and internal costs directly attributable to the software.

The existing finite life intangible assets have a residual value of nil and are amortised on a straight-line basis over their useful economic lives as follows:

Customer contracts – over the estimated life of the contract (9 to 10 years)
Greyhound brand and trade name – over the estimated life of the brand (20 years)
Franchise agreements – over the initial term of the franchise (2 to 10 years)
Software – over the estimated life of the software (3 to 5 years)

Revenue recognition

Revenue principally comprises revenue from train passenger services, road passenger transport, and certain management and maintenance services in the UK and North America. Where appropriate, amounts are shown net of rebates and sales taxes. An explanation of the types of revenue are set out below:

Passenger revenues

Passenger revenues primarily relate to ticket sales through First Bus, First Rail and Greyhound. Passenger revenue is recognised at both a point in time and over time. Ticket sales for journeys of less than one week's duration are recognised on the first date of travel. Ticket sales for season tickets, travel cards and open-return tickets are initially deferred then recognised over the period covered by the relevant ticket. Concessionary amounts are recognised in the period in which the service is provided.

Contract revenues

Contract revenues mainly relate to First Student school bus contracts and First Transit contracts in North America. Revenues are recognised as the services are provided over the length of the contract and based on a transactional price which is defined in the terms of the contract.

Charter/private hire

Charter and private hire predominantly relates to charter work in First Student for both school districts with extracurricular activities and third parties with general transportation needs. Revenue is recognised over the period in which the charter/private hire is provided to the customer.

Rail franchise subsidy receipts

Revenue in First Rail includes franchise subsidy receipts from the Department for Transport (DfT) and amounts receivable under franchise arrangements including certain funded operational projects. Amounts receivable are set out in the franchise agreement for each year of the franchise. The franchise agreement includes a minimum specification of passenger services to be provided, which is the key performance obligation. Franchise premium payments to the DfT for amounts due under the terms of a franchise are included in operating costs. Revenue also includes amounts attributable to the Train Operating Companies (TOCs), predominantly based on models of route usage, by the Railway Settlement Plan in respect of passenger receipts. Revenue is recognised over time as the performance obligations are met.

Other revenues

Other revenues mainly relate to Greyhound Package Express, non-rail subsidies, revenue arising from ancillary services to other rail and road passenger service providers for maintenance, refuelling and other associated services and to sundry third parties for the use of space at terminals and on-board vehicles for other business activities, e.g. retail outlets, taxi ranks, catering and advertising. Other revenues are recognised at both a point in time and over time.

Interest income is recognised on an accruals basis.

2 Significant accounting policies continued

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases and the rental charges are charged against income on a straight-line basis over the life of the lease.

Assets held under hire purchase contracts and finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below).

Benefits received and receivable as an incentive to enter into an operating lease are spread on a straight-line basis over the lease term.

Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds Sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period, except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised within other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised within other comprehensive income.

In order to hedge its exposure to certain foreign exchange risks, the Group holds currency swaps and borrowings in foreign currencies (see note 24 for details of the Group's policies in respect of foreign exchange risks).

On consolidation, the assets and liabilities of the Group's overseas operations are translated at the closing exchange rates on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising from the average exchange rates used and the period end rate, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Non-GAAP measures and performance

In measuring the Group and divisional adjusted operating performance, additional financial measures derived from the reported results have been used by management in order to eliminate factors which distort year-on-year comparisons. The Group's adjusted performance is used to explain year-on-year changes when the effect of certain items are significant, including restructuring and reorganisation costs, material property gains or losses, aged legal and self-insurance claims, significant adverse loss development factors on insurance provisions, onerous contract provisions, impairment charges and pension settlement gains or losses including GMP equalisation. 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 provides a better understanding of the key performance indicators of the business. See note 4 for the reconciliation to non-GAAP measures and performance.

Subsequent revisions to adjusting items are also recognised as an adjusting item in future periods. In the current year non-GAAP adjusting items principally relate to other intangible asset amortisation charges, onerous contract provision, aged self-insurance claims, significant adverse loss development factors on insurance provisions, restructuring and reorganisation costs, gain on disposal of property and pension settlement losses including GMP equalisation. In the prior year the non-GAAP adjusting items principally related to other intangible asset amortisation charges, onerous contract provision, impairment charges, aged self-insurance claims, restructuring and reorganisation costs, bond 'make whole' interest cost and the impact of the US tax reform.

2 Significant accounting policies continued

Retirement benefit costs

The Group operates or participates in a number of pension schemes, which include both defined benefit schemes and defined contribution schemes.

Payments to defined contribution plans are charged as an expense as they fall due. There is no further obligation to pay contributions into a defined contribution plan once the contributions specified in the plan rules have been paid.

For defined benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial updates being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement and presented in the consolidated statement of comprehensive income.

All past service costs are recognised immediately in the consolidated income statement.

Where changes to the benefits in payment on defined benefit pension schemes require a change in scheme rules or ratification by the Trustees, the change is recognised as a past service charge or credit in the income statement. Where changes in assumptions can be made without changing the Trustee agreement, these are recognised as a change in assumptions in other comprehensive income.

The retirement benefit position recognised in the balance sheet represents the present value of the defined benefit obligation as reduced by the fair value of scheme assets. Any residual asset resulting from this calculation is limited to refunds economically available to the company, in the form of either a public sector payment or the present value of future service costs recognised via suspension of cash contributions.

Various TOCs in the First Rail business participate in the Railways Pension Scheme (RPS), which is an industry-wide defined benefit scheme. The Group is obligated to fund the relevant section of the scheme over the period for which the franchise is held. The full liability is recognised on the balance sheet, which is then reduced by a franchise adjustment so that the net liability reflects the Group's obligations to fund the scheme over the franchise term, subject to any changes in the schedule of contributions following a statutory valuation.

Tax

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date and includes an estimate of the tax which could be payable as a result of differing interpretation of tax laws.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill, or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised and is based on the estimated tax consequences of items that are subject to differing interpretations of tax laws. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income or directly to equity, in which case the deferred tax is also dealt within other comprehensive income or directly in equity respectively.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2 Significant accounting policies continued

Property, plant and equipment

Properties for provision of services or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Passenger carrying vehicles and other plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost of assets, other than freehold land, the land element of long leasehold properties or on assets in the course of construction, over their estimated useful lives, using the straight-line method, on the following bases:

Freehold buildings	50 years straight-line
Long leasehold buildings	50 years straight-line
Short leasehold properties	period of lease
Passenger carrying vehicles	7 to 17 years straight-line
Other plant and equipment	3 to 25 years straight-line

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Capital grants

Capital grants relating to property, plant and equipment are held in other payables and released to the income statement over the expected useful lives of the assets concerned. Capital grants are not recognised until there is a reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or CGU in prior years. A reversal of an impairment loss is recognised as income immediately except in the case of goodwill, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Where the purchase of inventory was the hedged item in a cash flow hedge relationship, the initial carrying amount of the recognised inventory is adjusted by the associated hedging gain or loss transferred from the hedging reserve (a basis adjustment).

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

Financial assets can be measured at amortised cost, fair value through profit or loss or fair value through other comprehensive income. The measurement basis is determined by reference to both the business model for managing the financial asset and the contractual cash flow characteristics of the financial asset.

Financial assets are classified into one of three primary categories:

2 Significant accounting policies continued

Financial assets at amortised cost
Financial assets at amortised costs are non-derivative financial assets held for collection of contractual cashflows where those cashflows represent solely payments of principal and interest. Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Fair value through profit and loss
Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the Income Statement within finance costs. Transaction costs arising on initial recognition are expensed in the Income Statement.

Fair value through other comprehensive income
The Group does not have any financial assets held at fair value through other comprehensive income.

Financial liabilities and equity instruments
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received net of direct issue costs.

Financial liabilities
Bank borrowings
Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs.

Bonds and loan notes
These are measured either on an amortised cost basis or at fair value, if designated.

Trade payables
Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Derivative financial instruments and hedge accounting
The Group uses derivative financial instruments to hedge its exposure to foreign exchange, interest rate and commodity risks. Use of such financial instruments is governed by policies and delegated authorities approved by the Board. The Group does not hold or issue derivative financial instruments for trading purposes. The main derivative financial instruments used by the Group are interest rate swaps, fuel swaps, and cross currency interest rate swaps. Such instruments are initially recognised at fair value and subsequently remeasured to fair value at the reported balance sheet date. The fair values are calculated by reference to market exchange rates, interest rates and fuel prices at the period end, and supported by counterparty confirmations. Where derivatives do not qualify for hedge accounting, any gains or losses on re-measurement are immediately recognised in the Group income statement. Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge relationship and the item being hedged. At inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge, the nature of the risks being hedged and the economic relationship between the item being hedged and the hedging instrument.

Fair value hedging: The fair value change on qualifying hedging instruments is recognised in profit or loss. The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in profit or loss.

Cash flow hedging: The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non financial item such as inventory, the gains and losses previously recognised in other comprehensive income and accumulated in equity are removed from equity and included as a basis adjustment in the initial measurement of the cost of that item. This transfer does not affect other comprehensive income, however the hedging gains and losses that will subsequently be transferred as basis adjustments are categorised as amounts that may be reclassified subsequently to profit or loss, as such a reclassification may occur in the event that the hedged transaction is no longer expected to occur. Furthermore, if the Group expects that some or all of the loss accumulated in the cash flow hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

Net investment hedging: Derivative financial instruments are classified as net investment hedges when they hedge the Group's net investment in an overseas operation. The effective element of any foreign exchange gain or loss from remeasuring the derivative instrument is recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Any ineffective element is recognised immediately in the Group income statement. Gains and losses accumulated in the foreign currency translation reserve are included in the Group income statement on the disposal or partial disposal of the foreign operation.

2 Significant accounting policies continued

Debt

Debt is initially stated at the amount of the net proceeds after the deduction of issue costs. The carrying amount is increased by the amortisation of debt issuance fees in respect of the accounting period and reduced by repayments made in the period.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material.

Self-insurance

The Group's policy is to self-insure high frequency, low value claims within the businesses. In addition there are typically a smaller number of major claims during a financial year for which cover is obtained through third-party insurance policies subject to an insurance deductible. Provision is made under IAS 37 Provisions, Contingent Liabilities and Contingent Assets for the estimated cost of settling uninsured claims for incidents occurring prior to the balance sheet date. The provision is discounted to appropriately reflect the timing of future cash claims settlements.

Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and is adjusted for the effects of non-market-based vesting conditions.

Fair value is measured by use of a Black-Scholes or other appropriate valuation models. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

Adoption of new and revised standards

The accounting policies adopted are consistent with those of the previous financial year except for the changes arising from new standards and amendments to existing Standards which have been adopted in the current year.

IFRS 9 and IFRS 15 came into effect on 1 January 2018 and have been applied by the Group for the first time in the current year. The nature and effect of the changes from adopting these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in the current year, but their adoption has not had any significant impact on the amounts reported in these financial statements.

IFRS 9 Financial Instruments

This standard replaces IAS 39 with effect from accounting periods commencing 1 January 2018. The new standard covers three distinct areas: the classification and measurement of financial assets and liabilities; the impairment of financial assets; and new hedging requirements designed to give increased flexibility in relation to hedge effectiveness.

There are no changes in classification and measurement for the Group's financial assets or financial liabilities. The Group continued measuring at fair value all financial assets previously held at fair value under IAS 39.

The new general hedge accounting requirements retain the three types of hedge accounting which were available under IAS 39: fair value hedges, cash flow hedges and net investment hedges. However, the effectiveness testing requirements have been simplified. The Group has applied the IFRS 9 hedge accounting requirements prospectively from the date of initial application of 1 April 2018. All existing hedging relationships are eligible, and continued to be effective, under IFRS 9. Further details on the application of IFRS 9 in relation to financial instruments can be found in note 24.

IFRS 9 requires a new impairment model with impairment provisions based on expected credit losses rather than incurred credit losses under IAS 39. The simplified approach has been applied to trade receivables to determine expected credit losses. The transitional increase/decrease in the impairment allowance as a result of this change in accounting policy is immaterial.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 introduced a new revenue recognition model that recognises revenue either at a point in time or over time. It is based on the principle that revenue is recognised when control of a good or service transfers to the customer and is based on the fulfilment of performance obligations.

The adoption of IFRS 15 has not had a material impact on Group revenue recognition, and there have been no adjustments required to opening retained earnings.

As the Group has the right to consideration corresponding directly with the value of performance completed to date, customer contract revenue is recognised consistent with the amount that the Group has a right to invoice. The Group is therefore exercising the practical expedient not to explain transaction prices allocated to unsatisfied performance obligations at the end of the reporting period.

The Group has applied the new rules prospectively from 1 April 2018, having performed a detailed assessment of the effects of applying the new standard. Note 5 sets out a numerical disaggregation of revenue in accordance with the disclosure requirements of the new standard. An explanation of the types of revenue included in the note is set out in Revenue Recognition on page 110.

2 Significant accounting policies continued

New standards and interpretations not applied

At the date of authorisation of these Financial Statements, the Group has not applied the following standards that have been issued but are not yet effective:

IFRS 16 Leases

IFRS 16 Leases replaces IAS 17 with effect from accounting periods commencing 1 January 2019. The new standard eliminates the operating lease classification and therefore on the balance sheet the lessees will be required to recognise an asset (the right to use the leased item) and lease liabilities for all leases unless they have a remaining term of less than twelve months or are of low value. On the income statement, the operating lease expense will be replaced by a combination of depreciation and interest.

The Group has performed a detailed impact assessment of IFRS 16. This assessment focused on the Group's existing lease portfolio, as well as considering wider contractual arrangements to determine if they constituted a lease under the definitions of the new standard.

As at 31 March 2019, the Group holds a significant number of operating leases that are expensed over the lease term. Management are finalising the assessment of the potential impact of this standard on the financial statements for the year ending 31 March 2020, and it is anticipated that the transition to IFRS 16 will have a material impact on the value of lease assets and liabilities recognised in the consolidated balance sheet.

As at the reporting date, the Group has non-cancellable operating lease commitments of £3.0bn. However, of these commitments, £1.0bn relates to track, station and depot access charges within the First Rail business which does not meet the definition of a lease under IFRS 16. This reflects the fact that either no identified asset exists or that the Group does not have the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use, or that Network Rail, not the Group, directs how and for what purpose the assets are used. Furthermore, the Group has entered into a number of leases where the commencement date falls after 1 April 2019. As such, lease commitments of £0.5bn have not been included in the IFRS 16 lease liability. Some leases include components which do not meet the definition of a lease under IFRS 16 as they relate to the ongoing maintenance of assets. As a result lease commitments of £0.2bn have not been included in the IFRS 16 lease liability.

In addition, approximately £12m of commitments relate to low value leases and £30m of commitments relate to leases where the lease term ends within 12 months from the date of initial application which the Group will elect to exempt and continue to expense through the income statement.

Based on the assessment performed to date, we anticipate that for the remaining lease commitments, discounted to present value, as at 1 April 2019 the Group expects to recognise right-of-use assets and lease liabilities of approximately £1.1bn, comprising approximately £0.8bn for First Rail and around £0.3bn for the Road divisions.

Our review of other contractual arrangements across the Group is substantially complete, and no further arrangements have been identified that meet the definition of a lease under IFRS 16.

IFRS 16 will be adopted on 1 April 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 April 2019, with no restatement of comparative information.

The following amended standards and interpretations are not expected to have a significant impact on the Group's Consolidated Financial Statements:

IFRIC 23 uncertainty over tax treatments

Amendments to IFRS 9 – Prepayment features with negative compensation

Amendments to IAS 28 – Long-term interests in associates and joint ventures

Amendments to IAS 19 – Plan amendment, curtailment or settlement

Amendments to references to conceptual framework in IFRS standards

IFRS 17 insurance contracts

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge, actual results may ultimately differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

No areas of critical accounting judgements or key sources of estimation uncertainty have been identified in relation to Brexit.

2 Significant accounting policies continued

i) Critical accounting judgements

The following are the critical judgements, apart from those involving estimations (which are presented separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Defined benefit pension arrangements

The Group currently sponsors five sections of the Railways Pension Scheme (RPS), relating to its franchising obligations for its TOCs, and a further section for Hull Trains, its Open Access operator. RPS is a defined benefit pension scheme which covers the whole of the UK rail industry. In contrast to the pension schemes operated by most businesses the RPS is a shared cost scheme which means that costs are formally shared 60% employer 40% employee. The Group only recognises amounts in relation to its share of costs in the income statement. The RPS is partitioned into sections and the Group is responsible for the funding of these sections whilst it operates the relevant franchise.

At the end of the franchise term, responsibility for funding the relevant section of the scheme, and consequentially any deficit or surplus existing at that date, is passed to the next franchisee. At each balance sheet date a franchise adjustment is recognised against the IAS 19 net pension asset or liability to reflect that portion expected to pass to the next franchisee.

The Directors view this arrangement as analogous to the circumstances described in paragraphs 92-94 of IAS19 (Revised) with a third party taking on the obligation for future contributions. As there is no requirement to make contributions to fund the current deficit, it is assumed that all of the current deficit will be funded by another party and hence none of that deficit is attributable to the current franchisee. In respect of the future service costs, there is currently no pension obligation in respect of those costs. When the costs are recognised in the income statement, the extent to which the committed contributions fall short determines the amount that is to be covered by contributions of another party in future, which is recognised as an adjustment to service cost in the income statement. Under circumstances where contributions are renegotiated, such as following a statutory valuation, an adjustment will be recognised in the Income Statement, whilst changes in actuarial assumptions continue to be recognised through Other Comprehensive Income.

The Directors consider this to be the most appropriate interpretation of IAS19 to reflect the specific circumstances of the RPS where the franchise commitment is only to pay contributions during the period in which we run the franchise. An alternative approach would involve not limiting the measurement of the service cost through the recognition of an income statement franchise adjustment, but recognising all changes in the franchise adjustment as a reimbursement right in OCI. For the year ended 31 March 2019 the impact of this alternative approach would be an increase in costs of £49.6m (2018: £39.0m) in the income statement and a credit to OCI of £65.9m (2018: £45.4m). In addition, the balance sheet would reflect a surplus of £48.7m (2018: £32.4m). Since the franchise contract only refers to the contribution requirements during the franchise term, and not any reimbursement rights, in the Directors' view contributions are shared with the next franchisee and therefore the treatment of the arrangement as contribution-sharing is considered the most appropriate.

The UK schemes retirement benefit obligations are discounted at a rate set by reference to market yields at the end of the reporting period on high-quality corporate bonds. Significant judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded. Management follows actuarial advice from a third party when determining these judgements. Another key judgement is the longevity of members. We take specialist advice on this from our actuarial advisors which aims to consider the likely experience taking into account each scheme's characteristics. Our approach is to review these assumptions following completion of their funding valuations, and more frequently only if appropriate to do so.

The Pension Regulator (TPR) has been in discussions with the Railways Pension Scheme (the Scheme) regarding the long term funding strategy of the Scheme. Whilst TPR believes that a higher level funding is required in the long term, it is not possible at this stage to determine the impact to ongoing contribution requirements.

The carrying amount of the Group's retirement benefit obligations at 31 March 2019 was a liability of £307.2m (2018: £273.7m). Further details and sensitivities are set out in note 36.

ii) Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below.

Impairment of assets in Greyhound CGU

Determining whether assets are impaired in Greyhound requires an estimation of the value in use based on future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value. At the year end the value in use of Greyhound exceeded the carrying value of £295.4m by £85.2m. The Greyhound margin would need to fall by 0.8% or more or growth rates would need to fall below 1.5% for there to be an impairment on this CGU. An increase in the discount rate of 134 basis points or more would lead to the value in use of the CGU being less than the carrying value. A reduction in the margin of 1.0% in all years, including the terminal margin, would result in an impairment charge of approximately £32.5m. A reduction in the growth rate of 2.0% in all years, including the terminal growth rate, would result in an impairment charge of approximately £35.2m.

The Group prepares cash flow forecasts derived from the most recent budget for 2019/20 and Three Year Plan projections up to 2021/22 which take account of both past performance and expectations for future developments. Cash flows beyond the plan period are extrapolated using estimated growth rates of 2.8% (2018: 2.8%) 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 8.3% (2018: 8.2%) 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.

2 Significant accounting policies continued

Contract and franchise accounting

Estimates are made on an ongoing basis with regards to the recoverability of amounts due and the carrying value of related assets and liabilities arising from franchises and long term service contracts. Regular forecasts are compiled on the outcome of these types of franchises and contracts, which require assessments and estimates relating to the expected levels of profitability and, in cases where options exist, the life of the contract or franchise.

The useful economic lives of assets are determined by reference to the length of a franchise and matched to the franchise end date. The residual value of assets is determined by their condition at the franchise end date and by the amount of maintenance that has been carried out during the period of operation.

In particular, First Rail has a number of contractual relationships including those with the DfT and Network Rail which given their complexity and duration can be sensitive to changes in future assumptions. Due to the regulated nature of the rail industry, disputes and claims typically arise with such bodies as well as other TOCs where one or more TOCs have access to common infrastructure such as railway lines. Management is required to estimate the amounts receivable and also payable taking account of the information available at the time. Due to the complex nature of these matters there is a significant risk that a material change could be required to the carrying value of receivables and payables in respect of these items in the next financial year.

Onerous contracts

The Group has a number of contractual commitments most notably in respect of its rail franchises and First Student and First Transit businesses. IAS 37 requires a provision to be made for an onerous contract where it is probable that the future economic benefits to be derived from the contract are less than the unavoidable costs under the contract. In order to determine the amount of any contract provision it is necessary to forecast future financial performance and then apply an appropriate discount rate to determine a net present value. The estimation of both the forecasts and the discount rate involves a significant degree of judgement. Actual results can differ from those assumed in the forecasts and there can be no absolute assurance that the assumptions used will hold true.

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 revenue growth rate assumption would increase or decrease the onerous contract provision required by approximately £24m. The maximum unavoidable loss under the Franchise Agreement is £193.8m.

The SWR onerous contract provision is sensitive to a change in the assumptions used most notably to passenger revenue growth and amounts recoverable for strike amelioration. The onerous contract provision of £145.9m is the maximum unavoidable loss under the Franchise Agreement. These factors make it impractical to provide sensitivity analysis on one single measure and its impact on the onerous contract provision.

Self-insurance

Provision is made for all known incidents for which there is self-insurance using management's best estimate of the likely settlement of these incidents. The estimated settlement is reviewed on a regular basis with independent actuarial advice and the amount provided (including IBNR) is adjusted as required. Given the diversity of claim types, their size, the range of possible outcomes and the time involved in settling these claims, there is a significant risk that a material change could be required to the carrying value of claims provisions in the next financial year. These factors also make it impractical to provide sensitivity analysis on one single measure and its potential impact on overall insurance provisions. The Group's total self-insurance provisions as at the balance sheet date were £471.8m (2018: £368.8m) as set out in note 26. Of this £408.9m relates to North America where the actuarial range is £342.9m to £438.8m (2018: £313.6m and actuarial range £271.4m to £347.1m).

Uncertain tax positions

Uncertainties exist in relation to differing interpretations of complex tax law in the jurisdictions in which the Group operates. It may take several years to determine the final tax consequences of certain transactions in some jurisdictions. The tax liabilities and assets recognised by the Group are based on estimates made by management on the application of tax laws and management's estimate of the future amounts that will be agreed with tax authorities. Further details on the tax on profit on ordinary activities are set out in note 9.

There is a risk that the amounts eventually agreed with tax authorities may differ from the amounts recognised by the Group and would lead to future adjustments to tax assets and liabilities currently recognised, impacting future tax charges.

3 Revenue

	2019 £m	2018 £m
Services rendered	**6,933.1**	6,398.4
First Rail franchise subsidy receipts	**193.8**	–
Revenue	**7,126.9**	6,398.4

Disaggregated revenue by operating segment is set out in note 5.

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, material property gains or losses, aged legal and self-insurance claims, significant adverse development factors on insurance provisions, onerous contract provisions, impairment charges and pension settlement gains or losses including GMP equalisation. 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 provides a better understanding of the key performance indicators of the business.

Reconciliation of operating profit/(loss) to adjusted operating profit	Year to 31 March 2019 £m	Year to 31 March 2018 £m
Operating profit/(loss)	**9.8**	(196.2)
Adjustments for:		
Other intangible asset amortisation charges	**29.9**	70.9
Restructuring and reorganisation costs	**24.1**	26.0
North America insurance provisions	**94.8**	32.7
SWR onerous contract provision	**145.9**	–
Gain on disposal of property	**(9.3)**	–
Guaranteed minimum pensions charge	**21.5**	–
Loss on disposal/impairment charges	**16.2**	–
Greyhound impairment charges	**–**	277.3
TPE onerous contract provision	**–**	106.3
Total operating profit adjustments	**323.1**	513.2
Adjusted operating profit (note 5)	**332.9**	317.0

Reconciliation of loss before tax to adjusted profit before tax and adjusted earnings	31 March Year to 2019 £m	31 March Year to 2018 £m
Loss before tax	**(97.9)**	(326.9)
Operating profit adjustments (see table above)	**323.1**	513.2
Notional interest on TPE onerous contract provision	**1.1**	–
Bond 'make whole' interest cost	**–**	10.7
Adjusted profit before tax	**226.3**	197.0
Adjusted tax charge (see below)	**(50.9)**	(44.2)
Adjusted non-controlling interests[1]	**(1.8)**	(5.1)
Adjusted earnings	**173.6**	147.7

1 Statutory non-controlling interests of £41.1m credit comprise a £1.8m charge in respect of the results for the year and a £42.9m credit on the SWR onerous contract provision.

Reconciliation of tax charge/(credit) to adjusted tax charge	Year to 31 March 2019 £m	31 March Year to 2018 £m
Tax charge/(credit) (note 9)	**10.1**	(36.0)
Tax effect of adjusting items (note 10)	**40.8**	55.6
Tax effect of US tax reform (note 9)	**–**	24.6
Adjusted tax charge	**50.9**	44.2

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.

4 Reconciliation to non-GAAP measures and performance continued

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, net of a £8.8m gain on disposal relating to the initial property disposals completed in the region.

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).

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 have based our reserve on the levels recommended by our actuarial advisors.

Following adverse settlements and developments on a number of aged insurance and incurred but not received claims, and against a backdrop of a hardening of the wider motor claims environment and market, this has led to increasing specific case reserves and deterioration in long term development factors.

Once this trend was identified, we initiated an independent actuarial review of the expected 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 expected level of settlements and loss factors. This revised position has resulted in a requirement to increase the provision, in respect of claims from prior years, to reflect the costs of meeting existing claims in the current environment.

This change in accounting estimate has resulted in the Group recording an adjusting charge of £94.8m ($125.0m), to increase the self-insurance provisions to a position approximately at the mid-point of the increased 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).

The charge to the income statement 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 it is one of our five values, and risk mitigation in this area will continue to be an area of focus for the Group. It is expected that the majority of these claims will be settled within the next five years.

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.

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 members. As a result of this there is an increase in liabilities for the First Bus and Group pension schemes.

Loss on disposal/impairment charges

During the year the FirstBus Queens Road depot and operations were agreed to be sold to Go-Ahead. 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.

4 Reconciliation to non-GAAP measures and performance continued

Reconciliation of underlying[1] adjusted[2]	Year to 31 March 2019 Reported £m	 SWR franchise £m	 SWR Adjusted £m	Year to 31 March 2018 Reported £m	 Impact of 53rd Week £m	 Effect of foreign exchange £m	 Adjusted Constant Currency £m	% change
Revenue	**7,126.9**	**(425.1)**	**6,701.8**	6,398.4	(80.5)	24.8	6,342.7	**+5.7%**
Operating profit	**332.9**	**8.9**	**341.8**	317.0	(10.7)	3.1	309.4	**+10.5%**

Reconciliation of constant currency[3]	Year to 31 March 2019 £m	Year to 31 March 2018 Reported £m	 Effect of foreign exchange £m	 Constant Currency £m	% change
Revenue	**7,126.9**	6,398.4	24.8	6,423.2	**+11.0%**
Operating profit	**332.9**	317.0	3.1	320.1	**+4.0%**
Adjusted profit before tax	**226.3**	197.0	3.1	200.1	**+13.1%**
Adjusted EPS	**14.4p**	12.3p	0.2p	12.5p	**+15.2%**
Net debt	**903.4**	1,070.3	20.9	1,091.2	**(17.2%)**

1 Growth excluding SWR franchise (which became part of First Rail in August 2017) and the 53rd week in the Road divisions in constant currency.

2 'Adjusted' figures throughout this document are before self-insurance reserve charge, the SWR onerous contract provision, restructuring and reorganisation costs, other intangible asset amortisation charges and certain other items as set out in note 4 to the financial statements.

3 Changes 'in constant currency' throughout this document are based on retranslating 2018 foreign currency amounts at 2019 rates.

5 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 2019 are as follows:

	First Student £m	First Transit £m	Greyhound[1] £m	First Bus £m	First Rail £m	Group items[2] £m	Total £m
Passenger revenue	–	–	571.3	796.3	2,300.0	–	3,667.6
Contract revenue	1,680.0	947.7	–	68.3	–	17.1	2,713.1
Charter/private hire	153.2	4.9	3.3	–	–	–	161.4
Rail franchise subsidy receipts	–	–	–	–	193.8	–	193.8
Other	12.7	123.2	70.5	11.5	172.9	0.2	391.0
Revenue	1,845.9	1,075.8	645.1	876.1	2,666.7	17.3	7,126.9
EBITDA[3]	352.3	71.4	38.6	119.7	127.4	(39.1)	670.3
Depreciation	(178.8)	(19.9)	(27.7)	(56.1)	(81.0)	(2.5)	(366.0)
Capital grant amortisation	–	–	0.5	2.2	25.9	–	28.6
Segment results	173.5	51.5	11.4	65.8	72.3	(41.6)	332.9
Other intangible asset amortisation charges	(10.9)	(2.2)	(12.0)	(0.7)	(3.5)	(0.6)	(29.9)
Other adjustments (note 4)	(47.3)	(26.2)	(33.2)	(37.7)	(145.9)	(2.9)	(293.2)
Operating profit/(loss)[4]	115.3	23.1	(33.8)	27.4	(77.1)	(45.1)	9.8
Investment income							2.7
Finance costs							(110.4)
Loss before tax							(97.9)
Tax							(10.1)
Loss after tax							(108.0)

Other information	First Student £m	First Transit £m	Greyhound £m	First Bus £m	First Rail £m	Group items[2] £m	Total £m
Capital additions	257.8	27.3	28.0	17.9	112.0	1.0	444.0

Balance sheet[5]	Total assets £m	Total liabilities £m	Net assets/ (liabilities) £m
First Student	2,837.7	(461.5)	2,376.2
First Transit	596.8	(192.7)	404.1
Greyhound	337.1	(319.3)	17.8
First Bus	678.0	(354.6)	323.4
First Rail	625.4	(1,331.4)	(706.0)
	5,075.0	(2,659.5)	2,415.5
Group items[2]	136.7	(120.1)	16.6
Net debt	692.9	(1,596.3)	(903.4)
Taxation	44.0	(49.4)	(5.4)
Total	5,948.6	(4,425.3)	1,523.3

1 Greyhound segment results contains £8.4m of property gains on the disposal of four properties.

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

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

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

5 Segment assets and liabilities are determined by identifying the assets and liabilities that relate to the business of each segment but excluding intercompany balances, net debt and taxation.

5 Business segments and geographical information continued

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
Passenger revenue	–	–	597.2	795.5	1,825.0	–	3,217.7
Contract revenue	1,604.0	943.7	–	67.3	–	16.2	2,631.2
Charter/private hire	154.6	4.5	5.4	3.2	–	–	167.7
Other	12.5	124.5	87.6	13.4	143.8	–	381.8
Revenue	1,771.1	1,072.7	690.2	879.4	1,968.8	16.2	6,398.4
EBITDA[2]	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 results	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)/profit[3]	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)

Other information	First Student £m	First Transit £m	Greyhound £m	First Bus £m	First Rail £m	Group items[1] £m	Total £m
Capital additions	205.1	28.5	44.4	20.9	129.6	5.0	433.5

Balance sheet[4]	Total assets £m	Total liabilities £m	Net assets/ (liabilities) £m
First Student	2,544.1	(376.2)	2,167.9
First Transit	539.4	(140.1)	399.3
Greyhound	365.9	(328.1)	37.8
First Bus	717.0	(296.8)	420.2
First Rail	454.8	(909.0)	(454.2)
	4,621.2	(2,050.2)	2,571.0
Group items[1]	116.2	(109.2)	7.0
Net debt	555.7	(1,626.0)	(1,070.3)
Taxation	40.6	(57.7)	(17.1)
Total	5,333.7	(3,843.1)	1,490.6

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 (loss)/profit by operating division is also disclosed for completeness.

4 Segment assets and liabilities are determined by identifying the assets and liabilities that relate to the business of each segment but excluding intercompany balances, net debt and taxation.

5 Business segments and geographical information continued

Geographical information

The Group's operations are located predominantly in the United Kingdom, United States of America and Canada. The following table provides an analysis of the Group's revenue by geographical market:

Revenue	2019 £m	2018 £m
United Kingdom	**3,560.1**	2,864.4
United States of America	**3,226.4**	3,130.1
Canada	**340.4**	403.9
	7,126.9	6,398.4

The following is an analysis of non-current assets excluding financial instruments, deferred tax and pensions, the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

	Non-current assets excluding financial instruments deferred tax and pensions		Additions to property, plant and equipment and intangible assets		Carrying amount of segment total assets	
	2019 £m	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
United Kingdom	**741.1**	795.3	**130.9**	155.5	**2,113.1**	1,821.7
United States of America	**2,813.1**	2,620.6	**262.3**	256.8	**3,410.2**	3,124.2
Canada	**319.0**	291.8	**50.8**	21.2	**381.3**	347.2
Unallocated corporate items	**–**	–	**–**	–	**44.0**	40.6
	3,873.2	3,707.7	**444.0**	433.5	**5,948.6**	5,333.7

6 Operating profit/(loss)

Operating profit/(loss) has been arrived at after charging/(crediting):

	2019 £m	2018 £m
Depreciation of property, plant and equipment (note 13)	**366.0**	389.6
Operating lease charges (note 34)	**971.9**	522.6
Other intangible asset amortisation charges (note 12)	**29.9**	70.9
Capital grant amortisation	**(28.6)**	(16.0)
Cost of inventories recognised as an expense	**575.0**	575.1
Employee costs (note 7)	**3,355.2**	3,162.5
(Profit)/loss on disposal of property, plant and equipment	**(23.5)**	8.3
Impairment charges	**13.0**	284.8
SWR onerous contract provision	**145.9**	–
TPE onerous contract provision	**(0.5)**	106.3
North America insurance provisions (note 4)	**94.8**	32.7
Auditor's remuneration (see below)	**2.9**	2.3
Rail franchise payments	**293.3**	226.9
Other operating costs[1]	**1,321.8**	1,228.6
	7,117.1	6,594.6

1 Includes £63.6m (2018: £63.5m) received or receivable from government bodies in respect of bus service operator grants and fuel duty rebates.

6 Operating profit/(loss) continued

Amounts payable to Deloitte LLP and its associates by the Company and its subsidiary undertakings in respect of audit and non-audit services are shown below:

	2019 £m	2018 £m
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**0.1**	0.1
Fees payable to the Company's auditor and its associates for the audit of the Company's subsidiaries pursuant to legislation	**2.5**	2.0
Total audit fees	**2.6**	2.1
Audit-related assurance services	**0.3**	0.2
Total non-audit fees	**0.3**	0.2

Fees payable to Deloitte LLP and its associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

Details of the Group's policy on the use of auditors for non-audit services, the reasons why the auditor was used rather than another supplier and how the auditor's independence and objectivity was safeguarded are set out in the Corporate governance report on pages 70 to 72. No services were provided pursuant to contingent fee arrangements.

Non-audit services principally reflect the review of the half yearly financial information, non-statutory audits and agreed upon assurance procedures.

7 Employee costs

The average monthly number of employees (including Executive Directors) was:

	2019 Number	2018 Number
Operational	**96,182**	94,225
Administration	**5,879**	5,821
	102,061	100,046

The aggregate remuneration (including Executive Directors) comprised:

	2019 £m	2018 £m
Wages and salaries	**2,935.6**	2,768.2
Social security costs	**323.1**	306.8
Pension costs (note 36)	**96.5**	87.5
	3,355.2	3,162.5

Wages and salaries include a charge in respect of share-based payments of £9.1m (2018: £8.9m).

Disclosures on Directors' remuneration, share options, long term incentive schemes and pension entitlements required by the Companies Act 2006 and those specified for audit by the Financial Conduct Authority are contained in the tables/notes within the Directors' remuneration report on pages 76 to 97. Directors' emoluments in aggregate were £2.0m (2018: £2.5m).

8 Investment income and finance costs

	2019 £m	2018 £m
Investment income		
Bank interest receivable	**(2.7)**	(1.3)
Finance costs		
Bonds	**59.9**	84.3
Bank borrowings	**14.0**	8.8
Senior unsecured loan notes	**8.9**	1.3
Loan notes	**1.1**	1.1
Finance charges payable in respect of HP contracts and finance leases	**2.7**	4.6
Notional interest on long term provisions	**14.6**	11.0
Notional interest on pensions	**8.1**	10.2
Finance costs before adjustments	**109.3**	121.3
Notional interest on TPE onerous contract provision	**1.1**	–
Bond 'make whole' cost[1]	**–**	10.7
Total finance costs	**110.4**	132.0
Finance costs before adjustments	**109.3**	121.3
Investment income	**(2.7)**	(1.3)
Net finance cost before adjustments	**106.6**	120.0

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

Finance costs are stated after charging fee expenses of £2.1m (2018: £2.7m). There was no interest capitalised into qualifying assets in either the year ended 31 March 2019 or 31 March 2018.

9 Tax on loss on ordinary activities

	2019 £m	2018 £m
Current tax	**8.1**	8.9
Adjustments with respect to prior years	**0.1**	–
Total current tax charge	**8.2**	8.9
Origination and reversal of temporary differences	**4.8**	(14.1)
Adjustments with respect to prior years	**(2.9)**	(6.2)
Adjustments attributable to changes in tax rates and laws	**–**	(24.6)
Total deferred tax charge/(credit) (note 25)	**1.9**	(44.9)
Total tax charge/(credit)	**10.1**	(36.0)

The adjustments with respect to prior years includes the release of tax provisions.

UK corporation tax is calculated at 19% (2018: 19%) of the estimated assessable profit for the year. Tax for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

9 Tax on loss on ordinary activities continued

As the Group's parent company is domiciled and listed in the UK the Group uses the UK corporation tax rate to reconcile its effective tax rate. The tax charge/(credit) for the year can be reconciled to the UK corporation tax rate as follows:

	2019 £m	2019 %	2018 £m	2018 %
Loss before tax	**(97.9)**	**100.0**	(326.9)	100.0
Tax at the UK corporation tax rate of 19% (2018: 19%)	**(18.6)**	**19.0**	(62.1)	19.0
Non deductible expenditure	**1.7**	**(1.7)**	2.3	(0.7)
Non taxable income	**(1.4)**	**1.4**	–	–
Tax rates outside of the UK	**(0.5)**	**0.5**	2.5	(0.8)
Unrecognised losses	**8.1**	**(8.3)**	3.2	(1.0)
Reduction in tax provisions for uncertain tax positions relating to prior years	**(2.5)**	**2.6**	(3.2)	1.0
Other adjustments in relation to prior years	**(0.3)**	**0.3**	(3.0)	0.9
Unrecognised losses on SWR onerous contract provision	**24.3**	**(24.8)**	–	–
Goodwill impairment	**–**	**–**	49.5	(15.1)
Reduced deferred tax rates on current year temporary differences	**(0.7)**	**0.7**	(0.6)	0.2
US tax reform	**–**	**–**	(24.6)	7.5
Tax charge/(credit) and effective tax rate for the year	**10.1**	**(10.3)**	(36.0)	11.0

The SWR onerous contract provision has resulted in losses carried forward that have not been recognised because it is not probable that there will be sufficient profits available in the future that can be offset by these additional losses.

The Group recognises provisions for transactions and events in its open tax returns and its ongoing tax audits whose treatment for tax purposes is uncertain, in respect of multiple years. These uncertainties exist due to differing interpretations of local tax laws and decisions by tax authorities. When calculating the carrying amounts management make assumptions relating to the estimated tax which could be payable. The Group maintains engagement with tax authorities and engagement with peer groups that may have similar issues. We engage advisers to obtain opinion on tax legislation and we monitor proposed changes in legislation.

The reduction in tax provisions for uncertain tax positions relating to prior years arises from the closure of earlier tax years due to the passage of time and from the closure of tax audits. Should certain tax returns be closed from the passage of time in the next financial year then the amount required to be provided in deferred tax could reduce by up to £3m.

Future years' tax charges would be impacted if the final liability for currently open years is different from the amount currently provided for. The future tax charge may also be affected by the levels and mix of profits in the countries in which we operate including differing foreign exchange rates that apply to those profits. Changes to the prevailing tax rates and tax rules in any of the countries in which we operate may also impact future tax charges. The UK corporation tax rate is to reduce to 17% from 1 April 2020.

The goodwill impairment in the prior year attracted no tax benefit and the above reconciling item was calculated at the UK tax rate of 19%. The prior year saw the enactment of the US Tax Cuts and Jobs Act which included a reduction in the federal corporate income tax rate from 35% to 21%. As a result of these US tax law changes in the prior year there was a net tax credit of £24.6m in the income statement and charges to other comprehensive income of £20.4m in respect of pensions and £1.4m in respect of cash flow hedges.

In addition to the amount charged/(credited) to the income statement, deferred tax relating to actuarial (losses)/gains on defined benefit pension schemes £(7.1)m (2018: £6.2m) and cash flow hedges £4.1m (2018: £9.3m) have been charged/(credited) to comprehensive income together with a further £(4.7)m (2018: £nil) taken directly to equity on cash flow hedges. These amount to a total charge/(credit) of £(7.7)m (2018: £37.3m) recognised in other comprehensive income and equity. The prior year charge also included the charge in relation to the US Tax Cuts and Job Act of £21.8m.

10 Earnings per share (EPS)

EPS is calculated by dividing the loss attributable to equity shareholders of £66.9m (2018: loss £296.0m) by the weighted average number of ordinary shares of 1,205.9m (2018: 1,205.1m). 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.

	2019 Number m	2018 Number m
Weighted average number of shares used in basic calculation	**1,205.9**	1,205.1
Executive share options	**8.1**	17.9
Weighted average number of shares used in the diluted calculation	**1,214.0**	1,223.0

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

		2019		2018
	£m	EPS (p)	£m	EPS (p)
Basic loss/EPS	**(66.9)**	**(5.5)**	(296.0)	(24.6)
Amortisation charges (note 12)	**29.9**	**2.5**	70.9	5.9
Notional interest on TPE onerous contract provision	**1.1**	**0.1**	–	–
Bond 'make whole' cost	**–**	**–**	10.7	0.9
Other adjustments (note 4)	**293.2**	**24.3**	442.3	36.7
Non-controlling interest share of the SWR onerous contract provision	**(42.9)**	**(3.6)**	–	–
Tax effect of above adjustments	**(40.8)**	**(3.4)**	(55.6)	(4.6)
Tax effect of change in US tax legislation	**–**	**–**	(24.6)	(2.0)
Adjusted profit/EPS	**173.6**	**14.4**	147.7	12.3

Diluted EPS	2019 pence	2018 pence
Diluted EPS	**(5.5)**	(24.6)
Adjusted diluted EPS	**14.3**	12.1

11 Goodwill

	2019 £m	2018 £m
Cost		
At 1 April	**1,761.4**	1,960.1
Additions (note 30)	**0.6**	1.2
Foreign exchange movements	**100.7**	(199.9)
At 31 March	**1,862.7**	1,761.4
Accumulated impairment losses		
At 1 April	**264.6**	4.0
Impairment	**–**	260.6
At 31 March	**264.6**	264.6
Carrying amount		
At 31 March	**1,598.1**	1,496.8

11 Goodwill continued

Goodwill acquired in a business combination is allocated, at acquisition, to the CGUs that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated as follows:

	2019 £m	2018 £m
Carrying amount		
First Student	**1,218.5**	1,137.6
First Transit	**296.1**	275.4
First Bus	**77.9**	78.2
First Rail	**5.6**	5.6
	1,598.1	1,496.8

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 2019/20 and Three Year Plan projections up to 2021/22 which take account of both past performance and expectations for future developments. Cash flows beyond the plan period are extrapolated using estimated growth rates of 2.5% (2018: 2.5%) for the United Kingdom and 2.8% (2018: 2.8%) 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 7.8% (2018: 7.3%) for the United Kingdom CGUs and 8.3% (2018: 8.2%) 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 Student, First Bus and First Rail divisions.

The value in use of the Greyhound division exceeds its carrying amount of £295.4m (2018: £590.4m) by £85.2m (2018: £(277.3)m shortfall). Sensitivity analysis indicates that the Greyhound margin would need to fall by 0.8% or more or growth rates would need to fall below 1.5% for there to be an impairment on this CGU. An increase in the discount rate of 134 basis points or more would lead to the value in use of the CGU being less than the carrying value. A reduction in the margin of 1.0% in all years, including the terminal margin, would result in an impairment charge of approximately £32.5m. A reduction in the growth rate of 2.0% in all years, including the terminal growth rate, would result in an impairment charge of approximately £35.2m.

Following their review of goodwill, the Directors have concluded that there is no impairment of goodwill in any of the CGUs.

12 Other intangible assets

	Customer contracts £m	Greyhound brand and trade name £m	Software £m	Total £m
Cost				
At 1 April 2017	491.0	74.7	42.9	608.6
Acquisitions (note 30)	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
Acquisitions (note 30)	0.7	–	–	0.7
Additions	–	–	8.9	8.9
Transfers	–	–	1.9	1.9
Disposals	–	–	(1.6)	(1.6)
Foreign exchange movements	31.0	4.6	3.9	39.5
At 31 March 2019	**471.4**	**71.5**	**76.2**	**619.1**
Accumulated amortisation and impairment				
At 1 April 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
Charge for year	8.6	3.2	18.1	29.9
Transfers	–	–	0.1	0.1
Foreign exchange movements	30.0	2.7	1.4	34.1
At 31 March 2019	**460.3**	**43.7**	**40.0**	**544.0**
Carrying amount				
At 31 March 2019	**11.1**	**27.8**	**36.2**	**75.1**
At 31 March 2018	18.0	29.1	42.7	89.8

Intangible assets include customer contracts, the Greyhound brand and trade name which were acquired through the purchases of businesses and subsidiary undertakings and software. These are being amortised over their useful economic lives as shown in note 2 to the consolidated financial statements.

13 Property, plant and equipment

	Land and buildings £m	Passenger carrying vehicle fleet £m	Other plant and equipment £m	Total £m
Cost				
At 1 April 2017	522.1	3,469.3	777.9	4,769.3
Acquisitions (note 30)	–	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
Acquisitions (note 30)	–	1.5	–	1.5
Additions in the year	13.8	283.2	136.0	433.0
Transfers	–	–	(1.9)	(1.9)
Disposals	(39.8)	(87.9)	(58.9)	(186.6)
Reclassified as held for sale	(22.4)	(202.1)	(8.8)	(233.3)
Foreign exchange movements	19.5	165.3	22.0	206.8
At 31 March 2019	**463.9**	**3,384.6**	**866.9**	**4,715.4**
Accumulated depreciation and impairment				
At 1 April 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
Charge for year	15.4	235.8	114.8	366.0
Transfers	–	–	(0.1)	(0.1)
Disposals	(12.8)	(82.5)	(57.8)	(153.1)
Impairment[1]	–	10.7	2.3	13.0
Reclassified as held for sale	(8.8)	(176.0)	(7.9)	(192.7)
Foreign exchange movements	4.7	87.7	18.2	110.6
At 31 March 2019	**101.0**	**1,780.0**	**668.5**	**2,549.5**
Carrying amount				
At 31 March 2019	**362.9**	**1,604.6**	**198.4**	**2,165.9**
At 31 March 2018	390.3	1,520.3	179.5	2,090.1

1 The impairment charge of £13.0m in 2019 relates to assets associated with First Bus (£10.3m) and Greyhound (£2.7m).

An amount of £0.1m (2018: £0.1m) in respect of assets under construction is included in the carrying amount of land and buildings, plant and equipment.

At 31 March 2019 the Group had entered into contractual capital commitments amounting to £196.7m (2018: £216.8m), principally representing buses ordered in the United Kingdom and North America and commitments under the Great Western Railway and South Western Railway franchises.

On adoption of IFRS 16, based on the assessment performed to date the Group expects to recognise right-of-use assets of approximately £1.1bn.

13 Property, plant and equipment continued

Property, plant and equipment held under HP contracts and finance leases are analysed as follows:

	2019 £m	2018 £m
Passenger carrying vehicle fleet – cost	**222.3**	291.4
– depreciation	**(109.7)**	(138.0)
Carrying amount	**112.6**	153.4

The title to the assets under HP contracts and finance leases is held by the lenders.

14 Investments

	2019 £m	2018 £m
US deferred compensation plan assets	**31.7**	28.6
Other investments	**2.4**	2.4
	34.1	31.0

15 Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given below.

A full list of subsidiaries, joint ventures and associates is disclosed in note 38.

UK local bus and coach operators

First Aberdeen Limited[1]
First Beeline Buses Limited
First Cymru Buses Limited
First Eastern Counties Buses Limited
First Essex Buses Limited
First Glasgow (No. 1) Limited[1]
First Glasgow (No. 2) Limited[1]
First Hampshire and Dorset Limited
First Manchester Limited
First Midland Red Buses Limited
First Potteries Limited
First Scotland East Limited[1]
First West of England Limited
First South West Limited
First South Yorkshire Limited
First West Yorkshire Limited
First York Limited
Leicester CityBus Limited (94%)
Midland Bluebird Limited[1]

Rail companies

First Greater Western Limited
First TransPennine Express Limited
Hull Trains Company Limited
First MTR South Western Trains Limited (70%)

North American school bus operators

First Canada ULC[2]
First Student, Inc[3]

Transit contracting and fleet maintenance

First Transit, Inc[3]
First Vehicle Services, Inc[3]

North American coach operators

Americanos USA, LLC[3]
Greyhound Lines, Inc[3]
Greyhound Canada Transportation ULC[2]

All subsidiary undertakings are wholly owned by FirstGroup plc at the end of the year except where percentage of ownership is shown above. All these companies above are incorporated in United Kingdom and registered in England and Wales except those:

1 Registered in Scotland.
2 Registered in Canada.
3 Incorporated in the United States of America.

All shares held in subsidiary undertakings are ordinary shares, with the exception of Leicester CityBus Limited where the Group owns 100% of its redeemable cumulative preference shares, as well as 94% of its ordinary shares.

All of these subsidiary undertakings are owned via intermediate holding companies.

16 Inventories

	2019 £m	2018 £m
Spare parts and consumables	**60.2**	56.0

In the opinion of the Directors there is no material difference between the balance sheet value of inventories and their replacement cost. There was no material write-down of inventories during the current or prior year.

17 Trade and other receivables

Amounts due within one year	2019 £m	2018 £m
Trade receivables	**617.9**	482.2
Loss allowance	**(3.6)**	(4.3)
Trade receivables net	**614.3**	477.9
Other receivables	**84.9**	106.8
Amounts recoverable on contracts	**43.3**	–
Prepayments	**164.0**	103.7
Accrued income	**234.9**	199.6
	1,141.4	888.0

Loss allowance relates solely to credit loss allowances arising from contracts with customers.

Other receivables includes £46.3m (2018: £60.3m) of VAT receivables, £15.5m (2018: £10.3m) of receivables from government bodies for fuel duty rebates and £21.5m (2018: £15.5m) of insurance recoveries.

Accrued income principally comprises amounts relating to contracts with customers.

Credit risk

Credit risk is the risk that financial loss arises from failure by a customer or counterparty to meet its obligations under a contract.

Credit risk exists in relation to the Group's financial assets, which comprise trade and other receivables of £894.1m (2018: £698.2m), cash and cash equivalents of £692.9m (2018: £555.7m) and derivative financial instruments of £36.0m (2018: £52.3m).

The Group's maximum exposure to credit risk for all financial assets at the balance sheet date was £1,623.0m (2018: £1,306.2m). The exposure is spread over a large number of unconnected counterparties and the maximum single concentration with any one counterparty was £120.0m (2018: £73.0m) at the balance sheet date.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment. The provision for doubtful receivables at the balance sheet date was £3.6m (2018: £4.3m).

Most trade receivables are with public or quasi public bodies, principally the DfT, Network Rail and city councils in the UK and school bus boards and city municipal authorities in North America. The Group does not consider any of these counterparties to be a significant risk. Each division within the Group has a policy governing credit risk management on trade receivables.

The counterparties for bank balances and derivative financial instruments are mainly represented by lending banks and large banks with a minimum of 'A' credit ratings assigned by international credit rating agencies. These counterparties are subject to approval by the Board. Group treasury policy limits the maximum deposit with any one counterparty to £125m, and limits the maximum term to three months.

Impairment of trade receivables

The Group applies the IFRS 9 simplified approach to measuring expected credit losses for all trade receivables at each reporting date.

Provision matrices are used to measure expected losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns, such as geographical region, service type, and customer type and rating. The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model in accordance with IAS 39. Trade receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet been identified.

Trade receivables are written-off when there is no reasonable expectation of recovery.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written-off are credited against the same line item.

17 Trade and other receivables continued

The gross carrying amount of trade receivables, for which the loss allowance is measured at an amount equal to the lifetime expected credit losses under the simplified method, is analysed below:

			Days past due			
	Carrying amount £m	Current £m	Less than 30 days £m	30 - 90 days £m	90 – 180 days £m	Over 180 days £m
Expected credit loss rate	**0.6%**	**–**	**–**	**1.9%**	**0.8%**	**26.6%**
Gross carrying amount of trade receivables	**617.9**	**403.5**	**173.7**	**16.2**	**12.5**	**12.0**
Loss allowance	**3.6**	**–**	**–**	**0.3**	**0.1**	**3.2**

The table above is an aggregation of different provision matrices for each of the customer segment groupings, as outlined above. The expected loss rate for each aging bucket is the weighted average loss rate across these groupings. The 'Current' and 'Less than 30 days' buckets consist primarily of receivables from groupings for which, based on historical losses and both the current and forecast economic conditions, the expected credit losses are negligible, resulting in the application of a 0% loss rate.

Movement in the loss allowance for trade receivables	2019 £m	2018 £m
At 1 April	**4.3**	4.2
Amounts written off during the year	**(4.4)**	(4.3)
Amounts recovered during the year	**(0.4)**	(0.6)
Increase in allowance recognised in the income statement	**3.8**	5.4
Foreign exchange movements	**0.3**	(0.4)
At 31 March	**3.6**	4.3

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

18 Assets held for sale

	2019 £m	2018 £m
Assets held for sale	**31.7**	0.9

Included in the above are £26.2m of assets associated with the First Bus Queens Road depot disposal and the remaining Manchester depots (see note 4).

The remainder of the balance primarily relates to certain North American properties and First Student yellow school buses which are surplus to requirements and are being actively marketed on the Internet. Gains or losses arising on the disposal of such assets are included in arriving at operating profit in the income statement. The Group expects to sell such yellow school buses within 12 months of them going onto the 'for sale' list. The value at each balance sheet date represents management's best estimate of their resale value less cost of disposal. There are no liabilities associated with these held for sale assets at the balance sheet date.

Movement in assets held for sale	£m
At 1 April 2018	0.9
Net book value of additions	40.6
Net book value of disposals	(9.9)
Foreign exchange movements	0.1
At 31 March 2019	**31.7**

19 Trade and other payables

Amounts falling due within one year	2019 £m	2018 £m
Trade payables	**278.7**	248.8
Other payables	**299.8**	230.2
Accruals	**710.3**	581.9
Deferred income	**167.8**	83.6
Season ticket deferred income	**90.7**	89.2
	1,547.3	1,233.7

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. Deferred income and season ticket deferred income principally comprises amounts relating to contracts with customers.

Other payables includes £81.5m (2018: £70.9m) for the purchase of property, plant and equipment where increased payment terms have been agreed with the supplier due to the nature of the payable. Other payables also includes deferred capital grants from government or other public bodies of £116.4m (2018: £64.6m).

The average credit period taken for trade purchases is 31 days (2018: 29 days). The Group has controls in place to ensure that all payments are paid within the appropriate credit timeframe. The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

20 Cash and cash equivalents

	2019 £m	2018 £m
Cash and cash equivalents	**692.9**	555.7

The fair value of cash and cash equivalents approximates to the carrying value. Cash and cash equivalents includes ring-fenced cash of £525.6m (2018: £392.3m). The most significant ring-fenced cash balances are held by the Group's First Rail subsidiaries. Under the terms of the rail franchise agreements, cash can only be distributed by these subsidiaries up to the lower of the amount of their retained profits or the amount determined by prescribed liquidity ratios. The ring-fenced cash represents cash which is not available for distribution and any additional amounts required to satisfy the liquidity ratios at the balance sheet date. Ring-fenced cash balances of £0.9m (2018: £0.8m) are held outside the First Rail subsidiaries.

21 Borrowings

	2019 £m	2018 £m
On demand or within 1 year		
Finance leases (note 22)	**41.5**	47.1
Bond 6.125% (repayable 2019)[1]	**–**	261.3
Bond 8.75% (repayable 2021)[2]	**30.4**	30.1
Bond 5.25% (repayable 2022)[2]	**5.8**	5.8
Bond 6.875% (repayable 2024)[2]	**7.2**	7.2
Total current liabilities	**84.9**	351.5
Within 1-2 years		
Finance leases (note 22)	**18.1**	39.5
Loan notes (note 23)	**9.4**	9.5
	27.5	49.0
Within 2-5 years		
Syndicated loan facilities	**446.7**	197.0
Finance leases (note 22)	**0.2**	18.0
Bond 8.75% (repayable 2021)	**357.7**	358.9
Bond 5.25% (repayable 2022)	**322.1**	321.6
	1,126.7	895.5
Over 5 years		
Finance leases (note 22)	**0.1**	0.1
Senior unsecured loan notes	**210.0**	195.2
Bond 6.875% (repayable 2024)	**199.8**	199.8
	409.9	395.1
Total non-current liabilities at amortised cost	**1,564.1**	1,339.6

1 The Bond 6.125% (repayble 2019) comparative of £261.3m includes £3.0m of accrued interest.

2 Relates to accrued interest.

Fair value of bonds and senior unsecured loan notes issued

	Par value £m	Interest payable	Month	2019 Fair value £m	2018 Fair value £m
Bond 6.125% (repayable 2019)	250.0	Annually	January	**–**	262.2
Bond 8.75% (repayable 2021)	350.0	Annually	April	**423.0**	448.0
Bond 5.25% (repayable 2022)	325.0	Annually	November	**355.0**	373.4
Bond 6.875% (repayable 2024)	200.0	Annually	September	**240.1**	255.2
	$m			**£m**	£m
Senior unsecured loan notes	275.0	Semi-annually	March & September	**208.3**	194.8

The fair value of the bonds and senior unsecured loan notes are inclusive of accrued interest. The fair values are calculated by discounting the future cash flow that will arise under the contracts.

There is no material difference between the fair value of the syndicated loan facilities and their carrying value due to their short term and floating rate nature.

21 Borrowings continued

Effective interest rates

The effective interest rates at the balance sheet dates were as follows:

	2019	Maturity	2018	Maturity
Bank overdraft	**LIBOR + 1%**	**–**	LIBOR + 1%	–
Syndicated loan facilities	**LIBOR + 0.5%**	**November 2023**	LIBOR + 0.5%	July 2021
Bond 2019[1]	**–**	**–**	6.18%	January 2019
Bond 2021[1]	**8.87%**	**April 2021**	8.87%	April 2021
Bond 2022	**5.49%**	**November 2022**	5.49%	November 2022
Bond 2024	**6.95%**	**September 2024**	6.95%	September 2024
Senior unsecured loan notes	**4.37%**	**March 2025 / March 2028**	4.37%	March 2025/ March 2028
HP contracts and finance leases	**Average fixed rate of 4.2%**	**Various**	LIBOR + 0.6% up to average fixed rate of 4.2%	Various
Loan notes	**LIBOR + 1.0% up to total fixed rate of 11.0%**	**Various**	LIBOR + 1.0% up to total fixed rate of 11.0%	Various

1 The 2019 and 2021 bonds have been swapped to floating rates and hence have a lower effective rate net of these swaps.

Carrying amount of gross borrowings by currency	2019 £m	2018 £m
Pounds Sterling	**1,078.1**	1,392.4
US Dollar	**516.4**	291.7
Canadian Dollar	**54.5**	7.0
	1,649.0	1,691.1

Borrowing facilities

The Group had £353.3m (2018: £603.0m) of undrawn committed borrowing facilities as at year end. Total bank borrowing facilities at year end stood at £816.1m (2018: £815.7m) of which £800.0m (2018: £800.0m) was committed and £16.1m (2018: £15.7m) was uncommitted.

Capital management

We aim to maintain an investment grade credit rating and appropriate balance sheet liquidity headroom. The Group has net debt:EBITDA of 1.3 times as at March 2019 (2018: 1.5 times).

Liquidity within the Group has remained strong. At year end there was £520.6m (2018: £766.4m) of committed headroom and free cash. Largely due to seasonality in the North American school bus business, committed headroom typically reduces during the financial year up to October and increases thereafter. The Group's Treasury policy requires a minimum of £150m of committed headroom at all times. The Group's net debt, excluding accrued bond interest at 31 March 2019, was £903.4m (2018: £1,070.3m) as set out on page 28 of the Financial review.

22 HP contracts and finance leases

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

	2019 Minimum payments £m	2019 Present value of payments £m	2018 Minimum payments £m	2018 Present value of payments £m
Due in less than one year	**42.7**	**41.5**	48.3	47.1
Due in more than one year but not more than two years	**19.0**	**18.1**	41.6	39.5
Due in more than two years but not more than five years	**0.3**	**0.2**	19.6	18.0
Due in more than five years	**0.1**	**0.1**	0.1	0.1
	62.1	**59.9**	109.6	104.7
Less future financing charges	**(2.2)**	**–**	(4.9)	–
	59.9	**59.9**	104.7	104.7

HP lease obligations

Pounds Sterling denominated fixed rate leases	2019	2018
Pounds Sterling fixed rate leases	**–**	£1.2m
Average remaining lives	**–**	1 years
Effective borrowing rate	**–**	3.68%

US Dollar denominated fixed rate leases	2019	2018
US Dollar fixed rate leases	**£57.1m**	£96.5m
Average remaining lives	**1 year**	2 years
Effective borrowing rate	**2.69%**	2.50%

Canadian Dollar denominated fixed rate leases	2019	2018
Canadian Dollar fixed rate leases	**£2.8m**	£7.0m
Average remaining lives	**1 year**	2 years
Effective borrowing rate	**5.15%**	4.27%

The Group considers there to be no material difference between the fair values of the Pounds Sterling and Canadian Dollar finance leases and the carrying amount in the balance sheet. The US Dollar finance leases have a fair value of £55.3m (2018: £93.8m). The fair value is calculated by discounting future cash flows that will arise under the lease agreements.

23 Loan notes

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

	2019 £m	2018 £m
Due in more than one year but not more than two years	**9.4**	9.5

The loan notes have been classified by reference to the earliest date on which the loan note holder can request redemption. Loan notes of £8.7m (2018: £8.7m) are supported by unsecured bank guarantees.

The loan notes have an average effective borrowing rate of 10.2% (2018: 10.1%) and an average remaining term of 1 year (2018: 2 years) assuming that the holders do not request redemption. The fair value of the loan notes has been determined to be £10.4m (2018: £11.2m). This has been calculated by discounting future cash flows that will arise under the loan notes.

24 Financial instruments

Derivative financial instruments

	2019 £m	2018 £m
Total derivatives		
Total non-current assets	20.5	25.0
Total current assets	15.5	27.3
Total assets	36.0	52.3
Total current liabilities	3.4	6.7
Total non-current liabilities	1.9	3.0
Total liabilities	5.3	9.7

Derivatives designated and effective as hedging instruments carried at fair value		
Non-current assets		
Coupon swaps (fair value hedge)	16.2	17.6
Fuel derivatives (cash flow hedge)	2.7	7.4
Currency forwards (cash flow hedge)	1.6	–
	20.5	25.0
Current assets		
Coupon swaps (fair value hedge)	–	11.4
Fuel derivatives (cash flow hedge)	11.3	15.9
Currency forwards (cash flow hedge)	4.2	–
	15.5	27.3
Current liabilities		
Fuel derivatives (cash flow hedge)	3.4	1.4
Currency forwards (cash flow hedge)	–	5.3
	3.4	6.7
Non-current liabilities		
Currency forwards (cash flow hedge)	–	2.9
Fuel derivatives (cash flow hedge)	1.9	0.1
	1.9	3.0

The Group enters into derivative transactions under International Swaps and Derivatives Association Master Agreements that allow for the related amounts to be set-off in certain circumstances. The amounts set out as Fuel Derivatives and Currency forwards in the table above represent the derivative financial assets and liabilities of the Group that may be subject to the above arrangements and are presented on a gross basis. Derivative liabilities of £5.3m (2018: £1.5m) were subject to netting arrangements.

Total cash flow hedges are an asset of £14.5m (2018: £13.6m asset). Total fair value hedges are an asset of £16.2m (2018: £29.0m).

During the year £23.5m was credited to the hedging reserve in respect of cash flow hedges (2018: £33.7m credited).

The following profit/(losses) were transferred from equity into inventory as basis adjustments during the year:

	2019 £m	2018 £m
Operating profit/(losses)	23.1	(11.4)

Financial statements

24 Financial instruments continued

Fair value of the Group's financial assets and financial liabilities (including cash, trade and other receivables, trade and other payables):

					2019
				Fair value	Carrying value
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Total £m
Financial assets and derivatives					
Cash and cash equivalents	**692.9**	**–**	**–**	**692.9**	**692.9**
Trade and other receivables	**–**	**894.1**	**–**	**894.1**	**894.1**
Derivative financial instruments	**–**	**36.0**	**–**	**36.0**	**36.0**
Financial liabilities and derivatives					
Borrowings	**446.7**	**1,294.9**	**–**	**1,741.6**	**1,649.0**
Trade and other payables	**–**	**1,430.9**	**–**	**1,430.9**	**1,430.9**
Derivative financial instruments	**–**	**5.3**	**–**	**5.3**	**5.3**

					2018[1]
				Fair value	Carrying value
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Total £m
Financial assets and derivatives					
Cash and cash equivalents	555.7	–	–	555.7	555.7
Trade and other receivables	–	698.2	–	698.2	698.2
Derivative financial instruments	–	52.3	–	52.3	52.3
Financial liabilities and derivatives					
Borrowings	197.0	1,652.1	–	1,849.1	1,691.1
Trade and other payables	–	1,169.1	–	1,169.1	1,169.1
Derivative financial instruments	–	9.7	–	9.7	9.7

1 The 2018 comparatives have been restated to exclude non-financial instruments.

Level 1: Quoted prices in active markets for identical assets and liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly.

Level 3: Inputs for the asset or liability that are not based on observable market data.

There were no transfers between Level 1 and Level 2 during the current or prior year.

Financial assets/(liabilities)	**Fair values at 31 March 2019 £m**	Fair values at 31 March 2018 £m	Fair value hierarchy	Valuation technique(s) and key inputs
Derivative contracts				
1) Coupon swaps	**16.2**	29.0	Level 2	Discounted cash flow; future cash flows are estimated based on forward interest rates and contract interest rates and then discounted at a rate that reflects the credit risk of the various counterparties.
2) Fuel derivatives	**8.7**	21.8	Level 2	Discounted cash flow; future cash flows are estimated based on forward fuel prices and contract rates and then discounted at a rate that reflects the credit risk of the various counterparties.
3) Currency forwards	**5.8**	(8.2)	Level 2	Discounted cash flow; future cash flows are estimated based on forward foreign exchange rates and contract rates and then discounted at a rate that reflects the credit risk of the various counterparties.
4) Trade and other receivables	**894.1**	698.2	Level 2	Carried at amortised cost using the effective interest rate method.
5) Trade and other payables	**1,430.9**	1,169.1	Level 2	Initially measured at fair value, and are subsequently measured at amortised cost using the effective interest rate method.
6) Borrowings	**1,741.6**	1,849.1	Level 1&2	Measured either on an amortised cost basis or at fair value. The fair values are calculated by discounting the future cash flows that will arise under the contracts.

24 Financial instruments continued

The following table illustrates the carrying value of all financial assets and liabilities held by the Group.

Classification of financial instruments	Assets and liabilities at amortised costs £m	At fair value through profit and loss £m	Derivatives used for cash flow hedging £m	Total £m
				2019
Financial assets and derivatives				
Cash and cash equivalents	**692.9**	**–**	**–**	**692.9**
Trade and other receivables	**894.1**	**–**	**–**	**894.1**
Derivative financial instruments	**–**	**16.2**	**19.8**	**36.0**
	1,587.0	**16.2**	**19.8**	**1,623.0**
Financial liabilities and derivatives				
Interest bearing loans and borrowings	**1,649.0**	**–**	**–**	**1,649.0**
Trade and other payables	**1,430.9**	**–**	**–**	**1,430.9**
Derivative financial instruments	**–**	**–**	**5.3**	**5.3**
	3,079.9	**–**	**5.3**	**3,085.2**

Classification of financial instruments	Assets and liabilities at amortised costs £m	At fair value through profit and loss £m	Derivatives used for cash flow hedging £m	Total £m
				2018[1]
Financial assets and derivatives				
Cash and cash equivalents	555.7	–	–	555.7
Trade and other receivables	698.2	–	–	698.2
Derivative financial instruments	–	29.0	23.3	52.3
	1,253.9	29.0	23.3	1,306.2
Financial liabilities and derivatives				
Interest bearing loans and borrowings	1,691.1	–	–	1,691.1
Trade and other payables	1,169.1	–	–	1,169.1
Derivative financial instruments	–	–	9.7	9.7
	2,860.2	–	9.7	2,869.9

1 The 2018 comparatives have been restated to exclude non-financial instruments.

24 Financial instruments continued

As at 31 March 2019	Cashflow hedges: Commodity price risk	Cashflow hedges: Foreign exchange price risk	Fair value hedges: Interest rate risk (2021 Bond)	Net investment hedges: Foreign exchange risk
Nominal amount of hedging	**3.2m bbls**	**$187.8m**	**£350m**	**$600m**
< 1 year	2.1m bbls	$123.3m	–	–
1 – 2 years	0.8m bbls	$47.7m	–	–
2 – 5 years	0.3m bbls	$16.8m	£350m	$325m
> 5 years	–	–	–	$275m
Average hedged rate	**$79.43/bbl**	**$1.378**	**3m LIBOR +2.21%**	**$1.3609**
Maturity	**April 19 to March 22**	**April 19 to March 22**	**April 21**	**N/A**
Carrying amount of hedging instruments				
Assets - Derivatives (£m)	**14.0**	**5.8**	**16.2**	**–**
Liabilities - Derivatives (£m)	**(5.3)**	**–**	**–**	**–**
Liabilities - Borrowings (£m)	**–**	**–**	**–**	**(459.3)**
Carrying amount of hedged item				
Liabilities - Borrowings (£m)	**N/A**	**N/A**	**(348.3)**	**N/A**
Accumulated amount of fair value hedging adjustments included in carrying amount of hedged item				
Liabilities - Borrowings (£m)	**N/A**	**N/A**	**(9.4)**	**N/A**
Changes in fair value of hedged item used for calculating hedge effectiveness	**(7.5)**	**(16.0)**	**1.1**	**(10.7)**
Changes in fair value of hedging instrument used in calculating hedge effectiveness	**7.5**	**16.0**	**(1.1)**	**10.7**
Changes in fair value of hedging instrument accumulated in cash flow hedge reserve	**6.3**	**4.6**	**N/A**	**N/A**

The following gains and losses on derivatives designated for hedge accounting have been charged through the consolidated income statement in the year:

	2019 £m	2018 £m
Losses on hedging instruments in fair value hedges	**(9.6)**	(21.6)
Gains on hedged item attributable to hedged risk fair value hedges	**9.6**	21.9
Change in the fair value of derivatives classified as held for trading	**–**	(0.4)
	–	(0.1)

Financial risk management

The Group is exposed to financial risks including liquidity risk, credit risk and certain market-based risks principally being the effects of changes in foreign exchange rates, interest rates and fuel prices. The Group manages these risks within the context of a set of formal policies established by the Board. Certain risk management responsibilities are formally delegated by the Board, principally to a sub-committee of the Board and to the Chief Financial Officer and to the Treasury Committee. The Treasury Committee comprises the Chief Financial Officer and certain senior finance employees and is responsible for approving hedging transactions permitted under Board approved policies, monitoring compliance against policy and recommending changes to existing policies.

Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulty in meeting obligations associated with financial liabilities. The objective of the Group's liquidity risk management is to ensure sufficient committed liquidity resources exist. The Group has a diversified debt structure largely represented by medium term unsecured syndicated committed bank facilities, medium to long term unsecured bond debt and finance leases. It is a policy requirement that debt obligations must be addressed well in advance of their due dates.

Group treasury policy requires a minimum of £150m of committed liquidity headroom at all times within medium term bank facilities and such facilities must be renewed or replaced well before their expiry dates. At year end, the total amount of these facilities stood at £800.0m (2018: £800.0m), and committed headroom was £353.3m (2018: £603.0m), in addition to free cash balances of £167.3m (2018: £163.4m). The next material contractual expiry of revolver bank facilities is in November 2023. Largely due to the seasonality of the First Student school bus business, headroom tends to reduce from March to October and increases again by the following March.

The average duration of net debt (excluding ring-fenced cash) at 31 March 2019 was 4.3 years (2018: 4.1 years).

24 Financial instruments continued

The following tables detail the Group's expected maturity of payables for its borrowings, derivative financial instruments and trade and other payables. The amounts shown in these tables are prepared on an undiscounted cash flow basis and include future interest payments in the years in which they fall due for payment.

2019	< 1 year £m	1-2 years £m	2-5 years £m	> 5 years £m	Total £m
Borrowings	**565.6**	**97.4**	**808.4**	**451.7**	**1,923.1**
Fuel derivatives	**3.4**	**1.1**	**0.8**	**–**	**5.3**
Currency forwards	**–**	**–**	**–**	**–**	**–**
Trade and other payables	**1,430.9**	**–**	**–**	**–**	**1,430.9**
	1,999.9	**98.5**	**809.2**	**451.7**	**3,359.3**

2018[1]	< 1 year £m	1-2 years £m	2-5 years £m	> 5 years £m	Total £m
Borrowings	585.3	111.3	881.6	457.2	2,035.4
Fuel derivatives	1.4	–	–	–	1.4
Currency forwards	5.3	2.4	0.5	–	8.2
Trade and other payables	1,169.1	–	–	–	1,169.1
	1,761.1	113.7	882.1	457.2	3,214.1

1 The 2018 comparatives have been restated to include Borrowings which include lease liabilities. Derivative assets that were previously disclosed are no longer included in the above disclosure. The restatement has no impact on the consolidated income statement or consolidated balance sheet.

No derivative financial instruments had collateral requirements or were due on demand in any of the years. Derivative financial instruments are net settled.

Currency risk

Currency risk is the risk of financial loss to foreign currency net assets, earnings and cash flows reported in pounds Sterling due to movements in exchange rates.

The Group's principal operations outside the UK are in the US and Canada, with the US being the most significant. Consequently, the principal currency risk relates to movements in the US Dollar to pounds Sterling.

'Certain' and 'highly probable' foreign currency transaction exposures may be hedged at the time the exposure arises for up to two years at specified levels, or longer if there is a very high degree of certainty. The Group is also exposed to currency risk relating to its UK fuel costs which are denominated in USD. This is hedged through entering a series of average rate forward contracts on a similar profile to our fuel hedging program. The currency derivatives are utilised as cash flow hedging instruments in aggregate exposure hedges under IFRS 9, with the combination fuel purchase and associated fuel derivative representing the aggregate-exposure hedged item. Forward currency risk is designated in the cash flow hedges, however valuation movements arising from changes in currency-basis spreads are excluded from the relationships as costs of hedging. These costs of hedging are recorded in a separate component of equity until the hedged fuel inventory is recognised, at which time they are removed from that separate component of equity and included as part of the basis adjustment to the initial cost of the inventory. At both transition date and the balance sheet date the value to be recorded in a separate component of equity was immaterial, and as such no separate reserve has been shown within the primary financial statements. 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 Company 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. US dollar debt balances are designated as a net investment hedge of US investments.

IFRS 7 requires the Group to show the impact on profit after tax and hedging reserve on financial instruments from a movement in exchange rates. The following analysis details the Group's sensitivity to a 10% strengthening in pounds Sterling against the US Dollar. The analysis has been prepared based on the change taking place at the beginning of the financial year and being held constant throughout the reporting period. A positive number indicates an increase in earnings or equity where pounds Sterling strengthens against the US Dollar.

	2019 £m	2018 £m
Impact on profit after tax	**0.5**	0.7
Impact on hedging reserve	**(1.0)**	(0.8)

24 Financial instruments continued

Interest rate risk

The Group has variable rate debt and cash and therefore net income is exposed to the effects of changes to interest rates. The Group treasury policy objective is to maintain fixed interest rates at a minimum of 50% of on-balance sheet net debt over the medium term, so that volatility is substantially reduced year-on-year to EPS. The policy objective is primarily achieved through fixed rate debt. The main floating rate benchmarks on variable rate debt are US Dollar LIBOR and pounds Sterling LIBOR.

At 31 March 2019, 89% (2018: 78%) of net debt was fixed. This fixed rate protection had an average duration of 5.0 years (2018: 5.7 years).

Interest rate risk within operating leases is hedged 100% by agreeing fixed rentals with the lessors prior to inception of the lease contracts.

Fair value changes in the £350.0m 2021 Sterling bonds relating to the LIBOR element are hedged with coupon swaps. These swaps offset the fair value movements in the bond in the income statement and have the same term as the bonds.

The following sensitivity analysis details the Group's sensitivity to a 100 basis points (1%) increase in interest rates throughout the reporting period with all other variables held constant.

	2019 £m	2018 £m
Impact on profit after tax	**(1.4)**	(1.8)

Interest rate hedges

The following table details the notional amounts of interest rate swap contracts designated as a cash flow or fair value hedge which were outstanding at the reporting date, the average fixed rate payable or receivable under these swaps and their fair value. The average interest rate is based on the outstanding balances at the reporting date. The fair value of interest rate swaps is determined by discounting the future cash flows.

The interest rate swaps settle on a quarterly or semi-annual basis. The differences between the fixed and floating rates are settled on a net basis.

	Average fixed rate		Notional principal amount		Fair value asset	
Fair value hedges	**2019 %**	2018 %	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Less than one year	**–**	6.13	**–**	250	**–**	8.4
One to two years	**–**	–	**–**	–	**–**	–
Two to five years	**2.21**	2.21	**350**	350	**9.4**	10.5

Fuel price risk

The Group consumes approximately 2.9m bbls of diesel fuel each year for which it is at risk. The Group purchases its fuel on a floating price basis in its First Bus, First Rail, US and Canadian bus operations and is therefore exposed to changes in diesel prices. The Group's policy objective is to maintain a significant degree of fixed price protection in the short term with lower levels of protection in the medium term, so that the businesses affected are protected from any sudden and significant increases and have time to prepare for potentially higher costs, whilst retaining some access for potentially lower costs over the medium term. To achieve this the Group operates a progressive hedging policy. The policy hedge target levels differ by division but are monitored monthly and appropriate actions taken to maintain satisfactory hedge levels. Gasoil derivatives are used to hedge UK exposure and Nymex Heating Oil derivatives used to hedge North American exposure. Risk component hedging has been adopted under IFRS 9, meaning that the hedged price risk component of the purchased diesel matches that of the underlying derivative commodity. The hedged risk component is considered to be separately identifiable and reliably measurable. Gasoil and Nymex Heating Oil are considered to be risk components of the fuel grade ultimately purchased and there is a very strong correlation between the movements in the prices of the derivative underlying and the purchased fuel. Variances in pricing of the derivative commodities and the purchased fuel are primarily driven by further refinement of the fuel or the associated transportation costs which were excluded from the hedge relationship. Currently the Group is hedged 84% to March 2020 and 45% to March 2021 for UK diesel price risk exposure and 52% to March 2020 and 22% to March 2021 for US diesel price risk exposure.

The Group has entered into swaps for periods from April 2019 to March 2022 with the majority of these swaps relating to the year to 31 March 2020. The swaps give rise to monthly cash flow exchanges with counterparties to offset the underlying settlement of floating price costs, except where they have a deferred start date. Gains or losses on fuel derivatives are recycled from equity into inventory on qualifying hedges to achieve fixed rate fuel costs within operating results.

The following analysis details the Group's sensitivity on profit after tax and equity if the price of diesel fuel had been $10 per barrel higher at the year end:

	2019 £m	2018 £m
Impact on profit after tax	**(3.8)**	(3.4)
Impact on hedging reserve	**18.2**	21.5

Volume at risk for the year to 31 March 2020 is 2.9m (year to 31 March 2019: 3.2m) barrels for which 73% is hedged to diesel price risk.

25 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 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)
Charge/(credit) to income statement	2.8	3.5	10.3	(14.7)	1.9
Credit to other comprehensive income and equity	–	(7.1)	(0.6)	–	(7.7)
Foreign exchange and other movements	11.7	(2.6)	7.1	(19.0)	(2.8)
At 31 March 2019	**188.9**	**(60.0)**	**102.7**	**(255.7)**	**(24.1)**

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

	2019 £m	2018 £m
Deferred tax assets	**(40.6)**	(37.7)
Deferred tax liabilities	**16.5**	22.2
	(24.1)	(15.5)

The deferred tax asset relates to the UK and is recognised despite there being a loss in the current and prior year caused respectively by the SWR and TPE onerous contract provisions because the remainder of the Group in the UK is profitable. However additional carried forward losses of £128.0m created by the SWR provision are not recognised because it is not probable that there will be sufficient profits that can be offset by these additional losses.

No deferred tax has been recognised on deductible temporary differences of £46.7m (2018: £52.5m) and tax losses of £299.3m (2018: £141.9m). The earliest period in which some of the unrecognised assets will expire is year ended 31 March 2027.

No deferred tax asset has been recognised in respect of £2.9m (2018: £2.4m) of capital losses.

26 Provisions

	2019 £m	2018 £m
Insurance claims	**292.7**	231.7
Legal and other	**35.5**	28.1
TPE onerous contract	**76.6**	79.2
SWR onerous contract	**125.5**	–
Pensions	**1.7**	2.0
Non-current liabilities	**532.0**	341.0

	Insurance claims £m	Legal and other £m	TPE onerous contract £m	SWR onerous contract £m	Pensions £m	Total £m
At 1 April 2018	368.8	67.6	106.3	–	2.0	544.7
Charged to the income statement	278.5	39.1	–	145.9	–	463.5
Utilised in the year	(210.0)	(40.5)	(0.5)	–	(0.3)	(251.3)
Notional interest	11.0	3.6	1.1	–	–	15.7
Foreign exchange movements	23.5	1.8	–	–	–	25.3
At 31 March 2019	**471.8**	**71.6**	**106.9**	**145.9**	**1.7**	**797.9**
Current liabilities	**179.1**	**36.1**	**30.3**	**20.4**	**–**	**265.9**
Non-current liabilities	**292.7**	**35.5**	**76.6**	**125.5**	**1.7**	**532.0**
At 31 March 2019	**471.8**	**71.6**	**106.9**	**145.9**	**1.7**	**797.9**
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

The insurance claims provision arises from estimated exposures for incidents occurring prior to the balance sheet date. It is anticipated that the majority of such claims will be settled within the next five years although certain liabilities in respect of lifetime obligations of £27.9m (2018: £22.2m) can extend for up to 30 years. The utilisation of £210.0m (2018: £192.7m) represents payments made against the current liability of the preceding year as well as the settlement of certain large aged claims.

The insurance claims provisions contains £21.5m (2018: £15.5m) which is recoverable from insurance companies and is included within other receivables in note 17.

Legal and other provisions relate to estimated exposures for cases filed or thought highly likely to be filed for incidents that occurred prior to the balance sheet date. It is anticipated that most of these items will be settled within 10 years. Also included are provisions in respect of costs anticipated on the exit of surplus properties which are expected to be settled over the remaining terms of the respective leases and dilapidation, other provisions in respect of contractual obligations under rail franchises and restructuring costs. The dilapidation provisions are expected to be settled at the end of the respective franchise.

The 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 2025. 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. Whilst the onerous contract provision is based upon management's current best estimate, there can be no certainty that actual results will be consistent with those forecasts. The TPE onerous contract provision is sensitive to a change in the assumptions used, most notably to passenger revenue growth and the outcome of commercial negotiation with industry bodies. 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 approximately £24m. The provisions are expected to be fully utilised within six years.

The onerous contract provision in respect of SWR has been calculated based on updated financial forecasts for this franchise until the initial franchise end date of 17 August 2024. The updated forecasts 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 mechanisms, as well as the impact of changes in timetables, capacity and rolling stock. In addition, the effects of infrastructure performance and the ongoing effect from industrial action during the year continue. There is considerable uncertainty about the future impact of the industrial action and the level of strike amelioration recoverable from the DfT, and we remain in discussions with the DfT. Whilst the onerous contract provision is based on management's current best estimate, there can be no certainty that actual results will be consistent with those forecast. The SWR onerous contract is sensitive to the underlying assumptions, most notably to passenger revenue growth and to the extent or timing of impacts from strikes and the recovery of amelioration from the DfT. The £145.9m provision comprises £87.4m parent company support, £15.0m performance bond, £30.0m agreed funding commitments and £13.5m of retained earnings which represents the maximum exposure. These factors make it impractical to provide a sensitivity analysis on one single measure and its impact on the onerous contract provision. The provision is expected to be fully utilised within six years although the timing is highly sensitive to the underlying assumptions.

The pensions provision relates to unfunded obligations that arose on the acquisition of certain First Bus companies. It is anticipated that this will be utilised over approximately five years.

27 Called up share capital

	2019 £m	2018 £m
Allotted, called up and fully paid		
1,213.9m (2018: 1,210.8m) ordinary shares of 5p each	**60.7**	60.5

The Company has one class of ordinary shares which carries no right to fixed income.

During the year 3.1m shares were issued to satisfy principally SAYE exercises.

28 Reserves

The hedging reserve records the movement on designated hedging items.

The share premium account represents the premium on shares issued since 1999 and arose principally on the rights issue on the Ryder acquisition in 1999 and the share placings in 2007 and 2008. The reserve is non-distributable.

The own shares reserve represents the cost of shares in FirstGroup plc purchased in the market and either held as treasury shares or held in trust to satisfy the exercise of share options.

Hedging reserve

The movements in the hedging reserve were as follows:

	2019 £m	2018 £m
Balance at 1 April	**16.5**	(17.9)
Transfer to hedging reserve through consolidated statement of comprehensive income		
Fuel derivatives	**7.5**	46.5
Currency forwards	**16.0**	(12.8)
	23.5	33.7
Transfer from hedging reserve through consolidated statement of comprehensive income:		
Fuel derivatives	**–**	7.4
Currency forwards	**–**	4.0
	–	11.4
Tax on derivative hedging instrument movements through statement of comprehensive income	**(4.1)**	(10.7)
Transfer from hedging reserve to the balance sheet:		
Fuel derivatives	**(20.8)**	–
Currency forwards	**(2.3)**	–
	(23.1)	–
Tax on derivative hedging instrument movements to the balance sheet	**4.7**	–
Balance at 31 March	**17.5**	16.5

Own shares

The number of own shares held by the Group at the end of the year was 5,310,593 (2018: 7,653,968) FirstGroup plc ordinary shares of 5p each. Of these, 5,120,844 (2018: 7,464,219) were held by the FirstGroup plc Employee Benefit Trust, 32,520 (2018: 32,520) by the FirstGroup plc Qualifying Employee Share Ownership Trust and 157,229 (2018: 157,229) were held as treasury shares. Both trusts and treasury shares have waived the rights to dividend income from the FirstGroup plc ordinary shares. The market value of the shares at 31 March 2019 was £4.8m (2018: £6.3m).

Other reserves	Capital redemption reserve £m	Capital reserve £m	Total other reserves £m
At 31 March 2019 and 31 March 2018	**1.9**	**2.7**	**4.6**

There have been no movements on the capital redemption reserve or capital reserve during the year ended 31 March 2019. The capital redemption reserve represents the cumulative par value of all shares bought back and cancelled. The capital reserve arose on acquisitions in 2000. Neither reserve is distributable.

29 Translation reserve

	2019 £m	2018 £m
At 1 April	**383.5**	708.4
Movement for the financial year	**160.8**	(324.9)
At 31 March	**544.3**	383.5

The translation reserve records exchange differences arising from the translation of the balance sheets of foreign currency denominated subsidiaries offset by movements on loans used to hedge the net investment in those foreign subsidiaries. The movement in the year includes £(10.7)m (2018: £5.1m) in relation to movements on loans used to hedge the net investment in foreign subsidiaries. The cumulative movement on loans used to hedge the net investment in foreign subsidiaries is £(471.4)m (2018: £(460.7)m).

30 Acquisition of businesses and subsidiary undertakings

	2019 £m	2018 £m
Provisional fair value of net assets acquired:		
Property, plant and equipment	**1.5**	1.6
Other intangible assets	**0.7**	0.7
Other liabilities	**(0.2)**	(0.3)
	2.0	2.0
Goodwill	**0.6**	1.2
Satisfied by cash paid and payable	**2.6**	3.2

On 1 August 2018, the Group completed the acquisition of CG Pearson Bus Lines, an Ontario-based provider of school and charter transportation services. The £2.6m consideration represent £2.3m cash paid in the period and £0.3m of deferred consideration.

The business acquired during the year contributed £1.6m (2018: £3.2m) to Group revenue and £0.5m (2018: £0.3m) to Group operating loss from date of acquisition to 31 March 2019.

If the acquisitions of the business acquired during the year had been completed on the first day of the financial year, Group revenue from this acquisition for the period would have been £2.2m (2018: £4.8m) and the Group operating profit from this acquisition attributable to equity holders of the parent would have been £0.7m (2018: £0.5m).

31 Net cash from operating activities

	2019 £m	2018 £m
Operating profit/(loss)	**9.8**	(196.2)
Adjustments for:		
Depreciation charges	**366.0**	389.6
Capital grant amortisation	**(28.6)**	(16.0)
Amortisation charges	**29.9**	70.9
Impairment charges	**13.0**	284.8
Share-based payments	**9.1**	8.9
(Profit)/loss on disposal of property, plant and equipment	**(23.5)**	8.3
Operating cash flows before working capital and pensions	**375.7**	550.3
(Increase)/decrease in inventories	**(2.0)**	4.6
Increase in receivables	**(209.4)**	(168.7)
Increase in payables and provisions due within one year	**332.5**	341.7
SWR onerous contract provision	**145.9**	–
TPE onerous contract provision	**(0.5)**	106.3
Increase/(decrease) in other provisions	**37.3**	(10.5)
Defined benefit pension payments in excess of income statement charge	**(24.3)**	(47.9)
Cash generated by operations	**655.2**	775.8
Tax paid	**(7.5)**	(12.2)
Interest paid	**(81.3)**	(122.1)
Interest element of HP contracts and finance leases	**(2.7)**	(4.6)
Net cash from operating activities[1]	**563.7**	636.9

1 Net cash from operating activities is stated after an inflow of £40.0m (2018: inflow of £4.0m) in relation to financial derivative settlements.

32 Analysis of changes in net debt

	At 1 April 2018 £m	Cash flow £m	Foreign Exchange Movements £m	Other £m	At 31 March 2019 £m
Components of financing activities:					
Bank loans	**(197.0)**	**(255.0)**	**5.4**	**(0.1)**	**(446.7)**
Bonds	**(1,138.6)**	**250.0**	**–**	**8.9**	**(879.7)**
Fair value of interest rate coupon swaps	**19.0**	**–**	**–**	**(9.6)**	**9.4**
Senior unsecured loan notes	**(195.2)**	**–**	**(14.8)**	**–**	**(210.0)**
Finance lease obligations	**(104.7)**	**53.1**	**(7.0)**	**(1.3)**	**(59.9)**
Other debt	**(9.5)**	**0.1**	**–**	**–**	**(9.4)**
Total components of financing activities	**(1,626.0)**	**48.2**	**(16.4)**	**(2.1)**	**(1,596.3)**
Cash	**163.4**	**15.8**	**(11.9)**	**–**	**167.3**
Ring-fenced cash	**392.3**	**133.3**	**–**	**–**	**525.6**
Cash and cash equivalents	**555.7**	**149.1**	**(11.9)**	**–**	**692.9**
Net debt	**(1,070.3)**	**197.3**	**(28.3)**	**(2.1)**	**(903.4)**

	At 1 April 2017 £m	Cash flow £m	Foreign Exchange Movements £m	Other £m	At 31 March 2018 £m
Components of financing activities:					
Bank loans	–	(197.0)	–	–	(197.0)
Bonds	(1,458.5)	300.0	–	19.9	(1,138.6)
Fair value of interest rate coupon swaps	40.9	–	–	(21.9)	19.0
Senior unsecured loan notes	(80.0)	(116.8)	0.6	1.0	(195.2)
Finance lease obligations	(183.7)	62.1	15.5	1.4	(104.7)
Other debt	(9.5)	–	3.0	(3.0)	(9.5)
Total components of financing activities	(1,690.8)	48.3	19.1	(2.6)	(1,626.0)
Cash	141.1	18.2	4.1	–	163.4
Ring-fenced cash	259.8	132.5	–	–	392.3
Cash and cash equivalents	400.9	150.7	4.1	–	555.7
Net debt	(1,289.9)	199.0	23.2	(2.6)	(1,070.3)

All values above exclude accrued interest and derivative valuations are presented as the clean values.

33 Contingent liabilities

To support subsidiary undertakings in their normal course of business, the Company and certain subsidiaries have indemnified certain banks and insurance companies who have issued performance bonds for £806.5m (2018: £783.1m) and letters of credit for £369.2m (2018: £327.7m). The performance bonds relate to the North American businesses of £570.8m (2018: £544.6m) and the First Rail franchise operations of £235.7m (2018: £238.5m). The letters of credit relate substantially to insurance arrangements in the UK and North America. The parent company has committed further support facilities of up to £30.0m to First Rail Train Operating Companies.

The Company is party to certain unsecured guarantees granted to banks for overdraft and cash management facilities provided to itself and subsidiary undertakings. The Company has given certain unsecured guarantees for the liabilities of its subsidiary undertakings arising under certain loan notes, HP contracts, finance leases, operating leases and certain pension scheme arrangements. It also provides unsecured cross guarantees to certain subsidiary undertakings as required by VAT legislation. First Bus subsidiaries have provided unsecured guarantees on a joint and several basis to the Trustees of the First Bus Pension Scheme.

In its normal course of business First Rail has ongoing contractual negotiations with government and other organisations.

The Group is party to legal proceedings and claims which arise in the normal course of business, including but not limited to employment and safety claims. The Group takes legal advice as to the likelihood of success of claims and counterclaims. No provision is made where due to inherent uncertainties, no accurate quantification of any cost, or timing of such cost, which may arise from any of the legal proceedings can be determined.

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

Investigations into the Croydon tram incident in November 2016 are ongoing and it is uncertain when they will be concluded. The tram was 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 any damages and costs, 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.

34 Operating lease arrangements

	2019 £m	2018 £m
Minimum lease payments made under operating leases recognised in the income statement for the year:		
Plant and machinery	**24.5**	23.7
Track and station access	**269.6**	154.4
Hire of rolling stock	**591.1**	255.3
Other assets	**86.7**	89.2
	971.9	522.6

At the balance sheet dates, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2019 £m	2018 £m
Within one year	**1,054.4**	955.6
In the second to fifth years inclusive	**1,690.7**	2,158.7
After five years	**207.7**	507.8
	2,952.8	3,622.1

Included in the above commitments are contracts held by the First Rail businesses with Network Rail for access to the railway infrastructure track, stations and depots of £997.0m (2018: £1,027.6m). They also have contracts under which they lease rolling stock of £1,571.5m (2018: £2,223.6m).

35 Share-based payments

Equity-settled share option plans

The Group recognised total expenses of £9.1m (2018: £8.9m) related to equity-settled share-based payment transactions.

(a) Save as you earn (SAYE)

The Group operates an HMRC approved savings related share option scheme. Grants were made as set out below. The scheme is based on eligible employees being granted options and their agreement to opening a sharesave account with a nominated savings carrier and to save weekly or monthly over a specified period. Sharesave accounts are held with Computershare. The right to exercise the option is at the employee's discretion at the end of the period previously chosen for a period of six months.

	SAYE Dec 2014 Options Number	SAYE Dec 2015 Options Number	SAYE Dec 2016 Options Number	SAYE Dec 2017 Options Number	SAYE Dec 2018 Options Number
Outstanding at the beginning of the year	3,975,222	5,879,409	6,706,329	9,755,113	–
Awarded during the year	–	–	–	–	9,989,051
Exercised during the year	(622,682)	(1,696,268)	(19,455)	(3,565)	–
Lapsed during the year	(3,346,421)	(882,278)	(938,031)	(1,149,731)	(145,528)
Outstanding at the end of the year	**6,119**	**3,300,863**	**5,748,843**	**8,601,817**	**9,843,523**
Exercisable at the end of the year	6,119	3,300,863	–	–	–
Weighted average exercise price (pence)	97.0	85.0	86.0	83.0	70.0
Weighted average share price at date of exercise (pence)	110.4	93.2	95.3	93.9	N/A

(b) Deferred bonus shares (DBS)

DBS awards vest over a thee year period following the financial year that they relate to and are typically settled by equity.

	DBS 2007 Options Number	DBS 2008 Options Number	DBS 2009 Options Number	DBS 2010 Options Number	DBS 2011 Options Number	DBS 2012 Options Number
Outstanding at the beginning of the year	1,574	27,996	27,493	55,122	88,490	118,992
Exercised during the year	(1,574)	(27,996)	(3,274)	(5,218)	(11,596)	(25,147)
Outstanding at the end of the year	**–**	**–**	**24,219**	**49,904**	**76,894**	**93,845**
Exercisable at the end of the year	–	–	24,219	49,904	76,894	93,845
Weighted average exercise price (pence)	Nil	Nil	Nil	Nil	Nil	Nil
Weighted average share price at date of exercise (pence)	85.6	102.1	101.0	93.0	102.9	96.9

	DBS 2013 Options Number	DBS 2014 Options Number	DBS 2015 Options Number	DBS 2016 Options Number	DBS 2017 Options Number	DBS 2018 Options Number
Outstanding at the beginning of the year	406,558	362,215	2,298,179	1,534,578	2,099,093	–
Granted during the year	–	–	–	–	–	861,747
Lapsed during the year	–	–	(13,700)	(102,410)	(130,116)	(57,054)
Exercised during the year	(125,872)	(138,350)	(1,648,415)	(106,467)	(196,472)	–
Outstanding at the end of the year	**280,686**	**223,865**	**636,064**	**1,325,701**	**1,772,505**	**804,693**
Exercisable at the end of the year	280,686	223,865	636,064	–	73,868	–
Weighted average exercise price (pence)	Nil	Nil	Nil	Nil	Nil	Nil
Weighted average share price at date of exercise (pence)	99.9	98.7	94.0	81.5	83.4	N/A

35 Share-based payments continued

(c) Buy As You Earn (BAYE)

BAYE enables eligible employees to purchase shares from their gross income. The Company provides two matching shares for every three shares bought by employees, subject to a maximum Company contribution of shares to the value of £20 per employee per month. If the shares are held in trust for five years or more, no income tax and national insurance will be payable. The matching shares will be forfeited if the corresponding partnership shares are removed from trust within three years of award.

At 31 March 2019 there were 5,871 (2018: 6,263) participants in the BAYE scheme who have cumulatively purchased 21,698,965 (2018: 18,817,893) shares with the Company contributing 7,125,644 (2018: 6,218,455) matching shares on a cumulative basis.

(d) Long-Term Incentive Plan (LTIP)

LTIP awards have TSR, ROCE and EPS targets and vest over a thee year period following the financial year that they relate to and, where an award exceeds a performance target, are typically settled by equity.

	LTIP 2014 Options Number	LTIP 2015 Options Number	LTIP 2016 Options Number	LTIP 2017 Options Number	LTIP 2018 Options Number
Outstanding at the beginning of the year	4,046	3,332,468	3,545,805	6,965,893	–
Granted during the year	–	–	–	–	7,850,345
Lapsed during the year	(4,046)	(3,332,468)	(1,148,449)	(1,269,197)	–
Outstanding at the end of the year	**–**	**–**	**2,397,356**	**5,696,696**	**7,850,345**
Exercisable at the end of the year	–	–	–	–	–
Weighted average share price at date of exercise (pence)	Nil	Nil	Nil	Nil	Nil

(e) Divisional Incentive Plan (DIP)

The DIP was a one-off award which vests over the period 16 December 2015 to 16 June 2019 and are typically settled by equity.

	DIP Options Number
Outstanding at the beginning of the year	1,100,644
Lapsed during the year	(75,143)
Exercised during the year	(432,997)
Outstanding at the end of the year	**592,504**
Exercisable at the end of the year	97,336
Weighted average exercise price (pence)	Nil
Weighted average share price at date of exercise (pence)	86.5

(f) Executive Share Plan (ESP)

ESP awards vest over a thee year period following the financial year that they relate to and are typically settled by equity.

	ESP 2015 Options Number	ESP 2016 Options Number	ESP 2017 Options Number	ESP 2018 Options Number
Outstanding at the beginning of the year	659,240	1,239,588	3,244,123	–
Granted during the year	–	–	–	4,880,936
Lapsed during the year	(3,744)	(35,841)	–	(246,777)
Exercised during the year	(304,773)	(537,943)	(781,994)	–
Outstanding at the end of the year	**350,723**	**665,804**	**2,462,129**	**4,634,159**
Exercisable at the end of the year	350,723	273,485	404,451	–
Weighted average exercise price (pence)	Nil	Nil	Nil	Nil
Weighted average share price at date of exercise (pence)	86.6	90.7	87.5	N/A

35 Share-based payments continued

The fair values of the options granted during the last two years were measured using a Black-Scholes model except for the TSR element of the LTIPs which were measured using a Monte Carlo model. The inputs into the models were as follows:

	2019	2018
Weighted average share price at grant date (pence)		
– DBS	**84.2**	140.1
– SAYE December 2017	**–**	108.0
– SAYE December 2018	**86.4**	–
– LTIP	**84.1**	104.7
– ESP	**84.2**	104.7
Weighted average exercise price at grant date (pence)		
– DBS	**–**	–
– SAYE December 2017	**–**	83.0
– SAYE December 2018	**70.0**	–
– LTIP	**–**	–
– ESP	**–**	–
Expected volatility (%)		
– DBS	**N/A**	N/A
– SAYE December 2017	**–**	35
– SAYE December 2018	**31**	–
– LTIP	**31**	32
– ESP	**N/A**	N/A
Expected life (years)		
– DBS	**3.0**	3.0
– SAYE schemes	**3.0**	3.0
– LTIP	**2.75**	2.35
– ESP	**3.0**	3.0
Rate of interest (%)		
– DBS	**N/A**	N/A
– SAYE December 2017	**–**	0.5
– SAYE December 2018	**0.75**	–
– LTIP	**–**	–
– ESP	**–**	–
Expected dividend yield (%)		
– DBS	**–**	–
– SAYE December 2017	**–**	–
– SAYE December 2018	**–**	–
– LTIP	**–**	–
– ESP	**–**	–

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous five years. The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Allowances have been made for the SAYE schemes for the fact that, amongst a group of recipients some are expected to leave before an entitlement vests. The accounting charge is then adjusted over the vesting period to take account of actual forfeitures, so although the total charge is unaffected by the pre-vesting forfeiture assumption, the timing of the recognition of the expense will be sensitive to it. Fair values for the SAYE include a 10% per annum pre-vesting leaver assumption whereas the Executive, LTIP and deferred share plans exclude any allowance for pre-vesting forfeitures.

The Group used the inputs noted above to measure the fair value of the new share options.

	2019 pence	2018 pence
Weighted average fair value of options at grant date		
– DBS	**84.2**	140.1
– SAYE December 2017	**–**	38.0
– SAYE December 2018	**27.0**	–
– LTIP	**84.1**	70.7
– ESP	**84.2**	104.7

36 Retirement benefit schemes

Non-Rail

Defined contribution plans

Payments to defined contribution plans are charged as an expense as they fall due. There is no further obligation to pay contributions into a defined contribution plan once the contributions specified in the plan rules have been paid. The main defined contribution arrangements are summarised below. The total expense recognised in the consolidated income statement of £38.0m (2018: £23.9m) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

UK

The Group operates defined contribution plans for all Group and First Bus employees who have joined a pension arrangement since April 2013. They receive a company match to their contributions, which varies by salary and/or service.

North America

Employees in the US have been able to join a defined contribution arrangement for many years. They receive a company match which varies by employment status.

All new employees in Canada join a defined contribution arrangement. Union employees join the Eastern plan, whilst managers and supervisors join the Supervisory plan. They receive a company contribution dependent on their personal contribution and the plan they are in.

Defined benefit plans

The Group sponsors 10 funded defined benefit plans across its non-rail operations, covering approximately 50,000 former and current employees. All of the Group's defined benefit arrangements are closed to new entrants. The main defined benefit plans are summarised below. Overall, the duration of the company's obligations is approximately 19 years although the durations of the individual schemes to ends to vary with the UK exposures tending to be of longer duration and the North American exposures tending to be of shorter durations.

UK

The majority of defined benefit provision is through trust-based schemes. The assets of the trust-based schemes are invested separately from those of the Group, and the schemes are run independently of the Group by trustee boards. There is a requirement for the trustee boards to have some member representation, with the other trustee directors being company appointed. The Trustee is responsible for the investment policy in respect of the assets of the fund, although the employer must be consulted on this, and typically has some input into the investment decisions.

Triennial valuations assess the cost of future service and the funding position. The employer and Trustee are required to agree on assumptions for the valuations and to agree the contributions that result from these. Deficit recovery contributions may be required in addition to future service contributions. In agreeing contribution rates, reference must be made to the affordability of contributions by the employer.

Surplus after benefits have been paid/secured, can be repaid to the employer.

On 26 October 2018, the High Court issued a ruling requiring all occupational pension schemes to equalise Guaranteed Minimum Pension benefits ('GMP' – effectively a substitute for certain State pension benefits payable through contracted-out occupational pension arrangements) between men and women. The Group is required to reflect an estimated cost of equalisation through our Income Statement as a past service charge. This has resulted in an estimated £23m cost across all affected schemes. The actual cost will only be known once the exercise has been completed; the Group expects any subsequent changes to be recognised in Other Comprehensive Income. This issue is not unique to the company and the Group expects similar treatment to be applied by any entities with GMP exposures.

The First Bus Pension Scheme

This provides pension benefits to employees in First Bus. Historically it provided salary related benefits on a shared cost basis, but from April 2013, all new members have been enrolled in the defined contribution section. The scheme closed to defined benefit accrual on 5 April 2018.

A smaller Group scheme provides defined benefit pensions to Group employees. This scheme closed to defined benefit accrual on 5 April 2018.

The rules governing both these schemes grant the employer influence over the allocation of any residual surplus once the beneficiaries' rights have been secured. Accordingly, the net surplus/deficit is recognised in full for these schemes.

Local Government Pension Schemes

The Group participates in three Local Government Pension Schemes (LGPS), one in England and two in Scotland, which provide salary related benefits. These differ from trust-based schemes in that their benefits and governance are prescribed by specific legislation, and they are administered by local authorities. New members have not been admitted to the LGPS for several years, although benefit accrual continues for existing members.

Contribution rates are agreed for the three-year period until the next valuation. The balance sheet position in respect of the LGPS funds is restricted per the requirements of IFRIC14. During the year, the LGPS regulations changed, effectively creating a constructive obligation from the fund to pay assets in excess of the fund's cessation charge to the employer when a cessation event is triggered. This has resulted in additional surplus being recognisable in the Strathclyde Fund compared to the previous year end, although the funding of the other LGPS arrangements is such that no equivalent adjustment is required.

36 Retirement benefit schemes continued

North America

US

The Group operates two defined benefit arrangements in the US although benefit accrual ceased some years ago. The plans are valued annually, when the funding position and minimum and maximum contributions are established. Deficits are paid off as required by legislation.

Greyhound Canada

There are three plans, relating to Eastern, Western and Supervisory employees. All the plans are closed to new members, although benefit accrual continues for existing members.

The plans are valued annually, when the cost of future service and the funding position are identified. Future service costs are shared between the members and the Company, with deficit contributions being met entirely by the Company.

Valuations

At their last valuations, the defined benefit schemes had funding levels between 71% and 114% (2018: 71% and 108%). The market value of the assets at 31 March 2019 for all non-rail operation defined benefit schemes totalled £3,161m (2018: £3,077m).

Rail

The Railways Pension Scheme (RPS)

The Group currently sponsors five sections of the RPS, relating to its franchising obligations for its TOCs, and a further section for Hull Trains, its Open Access operator.

The RPS is governed by the Railways Pension Trustee Company Limited, and is subject to regulation from the Pensions Regulator and relevant UK legislation.

The RPS is a shared cost arrangement. All costs, and any deficit or surplus, are shared 60% by the employer and 40% by the members.

For the TOC sections, under the franchising obligations, the employer's responsibility is to pay the contributions requested by the Trustee, whilst it operates the franchise. These contributions are subject to change on consideration of future statutory valuations. In addition, at the end of the franchise, any deficit or surplus in the scheme section passes to the subsequent franchisee with no compensating payments from or to the outgoing franchise holder.

The latest triennial statutory valuation of the various Rail Pension Scheme sections in which the Group is involved, carried out with an effective date of 31 December 2013 (31 December 2016 for Hull Trains) and the IAS19 actuarial valuations are carried out for different purposes and may result in materially different outcomes. There are ongoing funding deficits across the RPS scheme sections in which FirstGroup plc participates and the IAS19 valuation is set out in the disclosures below.

The accounting treatment for the time-based risk-sharing feature of the Group's participation in the RPS is not explicitly considered by IAS 19 'Employee Benefits (Revised)'. The contributions currently committed to being paid to each TOC section are lower than the share of the service cost (for current and future service) that would normally be calculated under IAS 19 (Revised) and the Group does not account for uncommitted contributions towards the sections' current or expected future deficits. Therefore, the Group does not need to reflect any deficit on its balance sheet. A franchise adjustment (asset) exists that exactly offsets any section deficit that would otherwise remain after reflecting the cost sharing with the members. This reflects the legal position that some of the existing deficit and some of the service costs in the current year will be funded in future years beyond the term of the current franchise and committed contributions. The franchise adjustment on the balance sheet date reflects the extent to which the Group is not currently committed to fund the deficit.

Movements in the franchise adjustment in a period arise from and are accounted for as follows:

Any service cost for the period for which the contribution schedule requires no contributions from the entity are reflected as a franchise adjustment to the service cost in the income statement, which is considered to be in line with paragraphs 92-94 of IAS19 (Revised).

Under circumstances where contributions are renegotiated, such as following a statutory valuation, any adjustment necessary to reflect an obligation to fund past service cost will be recognised in the Income Statement.

At the previous year-end, we noted that The Pensions Regulator (TPR) had been in discussion with the Railways Pension Scheme (the Scheme) regarding the assumptions used to determine the Scheme's funding requirements. Discussions are ongoing, and the possibility remains of changes to contributions that could impact all rail operators sponsoring this industry-wide scheme.

TPR and the Department for Transport (DfT) had requested that the Rail Delivery Group (RDG) co-ordinate the Train Operators' involvement in an industry-wide review of Scheme funding. The RDG, comprising participants from each of the large owning groups, has been seeking to develop a framework which meets TPR, DfT, RPS and RDG objectives. There has been continuing engagement between the key parties during the year, and efforts to develop a framework to take forward to a formal consultation are ongoing.

Management continues to believe that the protections contained within current franchise agreements will allow the Scheme to continue with its current funding strategy in the short-term. Nevertheless, TPR believes that a higher level of funding is required in the longer-term, and the Group has been engaged with the industry-wide project to consider the funding of the Scheme.

Management continues to believe that an approach that meets TPRs key objectives whilst maintaining stability and fairness, and retaining protection against unacceptable risk, for both operators and scheme members, is achievable.

36 Retirement benefit schemes continued

Valuation assumptions

The valuation assumptions used for accounting purposes have been made uniform to Group standards, as appropriate, when each scheme is actuarially valued.

	First Bus 2019 %	First Rail 2019 %	North America 2019 %	First Bus 2018 %	First Rail 2018 %	North America 2018 %
Key assumptions used:						
Discount rate	**2.40**	**2.40**	**3.50**	2.70	2.70	3.70
Expected rate of salary increases	**2.15**	**3.40**	**2.50**	2.05	3.30	2.50
Inflation – CPI	**2.15**	**2.15**	**2.00**	2.05	2.05	2.00
Future pension increases	**2.15**	**2.15**	**–**	2.05	2.05	–
Post retirement mortality (life expectancy in years)[1]						
Current pensioners at 65:	**19.1**	**21.1**	**18.2**	19.8	20.6	18.1
Future pensioners at 65 aged 45 now:	**20.6**	**22.3**	**19.4**	21.3	21.9	19.3

1 Life expectancies are weighted averages, reflecting the different underlying plans.

The Group reviews its longevity assumptions for each scheme following completion of funding valuations. The assumptions adopted reflect recent scheme experience and views on future longevity which may include industry specific adjustment where appropriate. The Group obtains specialist actuarial advice before agreeing longevity assumptions.

Sensitivity of retirement benefit obligations to changes in assumptions

The method used to derive the sensitivities is the same as that used to calculate the main disclosures. The exception is longevity where we have instead applied a general rule that one year's extra life expectancy adds c.4% to the defined benefit obligation (with resultant impacts on rail and irrecoverable surplus adjustments). This is consistent with the method applied to deriving last year's sensitivities.

A 0.1% movement in the discount rate would impact the 2018/19 balance sheet position by approximately £28m. A 0.1% movement in the inflation rate would impact the 2018/19 balance sheet position by approximately £23m. A one year movement in life expectancy would impact the balance sheet position by approximately £94m.

Management considers that, while greater variation might also be reasonably possible, the figures provide a suitable indication of the potential impact of each 0.1% change in the financial assumptions and one year change in the mortality assumption.

(a) Income statement

Amounts (charged)/credited to the income statement in respect of these defined benefit schemes are as follows:

Year to 31 March 2019	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
Current service cost	**(12.5)**	**(9.1)**	**(21.6)**	**(87.7)**	**(109.3)**
Impact of franchise adjustment on operating cost	**–**	**–**	**–**	**50.8**	**50.8**
Past service loss including curtailments and settlements	**(22.3)**	**(2.0)**	**(24.3)**	**(1.8)**	**(26.1)**
Net interest cost	**(2.4)**	**(5.6)**	**(8.0)**	**(16.8)**	**(24.8)**
Impact of franchise adjustment on net interest cost	**–**	**–**	**–**	**16.7**	**16.7**
	(37.2)	**(16.7)**	**(53.9)**	**(38.8)**	**(92.7)**

Year to 31 March 2018	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
Current service cost	(21.5)	(10.0)	(31.5)	(72.5)	(104.0)
Impact of franchise adjustment on operating cost	–	–	–	40.7	40.7
Past service loss including curtailments and settlements	–	(0.3)	(0.3)	–	(0.3)
Net interest cost	(3.0)	(7.1)	(10.1)	(11.4)	(21.5)
Impact of franchise adjustment on net interest cost	–	–	–	11.4	11.4
	(24.5)	(17.4)	(41.9)	(31.8)	(73.7)

36 Retirement benefit schemes continued

Net interest comprises:

	2019 £m	2018 £m
Interest cost (table (c))	**(137.6)**	(131.6)
Interest income on assets (table (d))	**117.1**	114.8
Interest on irrecoverable surplus (table (h))	**(4.3)**	(4.7)
	(24.8)	(21.5)

During the year £24.6m (2018: £17.8m) of gross administrative expenses were incurred. Net administration expenses were £20.1m (2018: £15.4m).

(b) Balance sheet

The amounts included in the balance sheet arising from the Group's obligations in respect of its defined benefit pension schemes are as follows:

At 31 March 2019	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
Fair value of schemes' assets	**2,693.4**	**468.0**	**3,161.4**	**2,077.9**	**5,239.3**
Present value of defined benefit obligations	**(2,644.9)**	**(632.4)**	**(3,277.3)**	**(3,451.2)**	**(6,728.5)**
(Deficit)/surplus before adjustments	**48.5**	**(164.4)**	**(115.9)**	**(1,373.3)**	**(1,489.2)**
Adjustment for irrecoverable surplus[1] (table (h))	**(188.2)**	**–**	**(188.2)**	**–**	**(188.2)**
First Rail franchise adjustment (table (f)) (60%)	**–**	**–**	**–**	**820.9**	**820.9**
Adjustment for employee share of RPS deficits (40%)	**–**	**–**	**–**	**549.3**	**549.3**
Deficit in schemes	**(139.7)**	**(164.4)**	**(304.1)**	**(3.1)**	**(307.2)**
Liability recognised in the balance sheet	**(139.7)**	**(164.4)**	**(304.1)**	**(3.1)**	**(307.2)**
The amount is presented in the consolidated balance sheet as follows:					
Non-current assets	**69.2**	**–**	**69.2**	**–**	**69.2**
Non-current liabilities	**(208.9)**	**(164.4)**	**(373.3)**	**(3.1)**	**(376.4)**
	(139.7)	**(164.4)**	**(304.1)**	**(3.1)**	**(307.2)**

At 31 March 2018	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
Fair value of schemes' assets	2,622.6	454.8	3,077.4	1,866.0	4,943.4
Present value of defined benefit obligations	(2,570.6)	(617.5)	(3,188.1)	(2,951.1)	(6,139.2)
(Deficit)/surplus before adjustments	52.0	(162.7)	(110.7)	(1,085.1)	(1,195.8)
Adjustment for irrecoverable surplus[1] (table (h))	(160.4)	–	(160.4)	–	(160.4)
First Rail franchise adjustment (table (f)) (60%)	–	–	–	648.4	648.4
Adjustment for employee share of RPS deficits (40%)	–	–	–	434.1	434.1
Deficit in schemes	(108.4)	(162.7)	(271.1)	(2.6)	(273.7)
Liability recognised in the balance sheet	(108.4)	(162.7)	(271.1)	(2.6)	(273.7)
The amount is presented in the consolidated balance sheet as follows:					
Non-current assets	32.5	–	32.5	–	32.5
Non-current liabilities	(140.9)	(162.7)	(303.6)	(2.6)	(306.2)
	(108.4)	(162.7)	(271.1)	(2.6)	(273.7)

1 The irrecoverable surplus represents the amount of the surplus that the Group could not recover through reducing future Company contributions to LGPS.

36 Retirement benefit schemes continued

(c) Defined benefit obligations (DBO)

Movements in the present value of DBO were as follows:

	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
At 1 April 2018	**2,570.6**	**617.5**	**3,188.1**	**2,951.1**	**6,139.2**
Current service cost	**12.5**	**9.1**	**21.6**	**87.7**	**109.3**
Past service costs and curtailments	**22.3**	**(1.3)**	**21.0**	**1.8**	**22.8**
Effect of settlements	**–**	**(22.5)**	**(22.5)**	**–**	**(22.5)**
Interest cost	**68.0**	**22.7**	**90.7**	**46.9**	**137.6**
Employee share of change in DBO (not attributable to franchise adjustment)	**1.0**	**1.0**	**2.0**	**91.0**	**93.0**
Experience loss/(gain) on DBO	**(19.6)**	**21.5**	**1.9**	**10.7**	**12.6**
Loss/(gain) on change of assumptions (demographic)	**(33.7)**	**(0.7)**	**(34.4)**	**58.1**	**23.7**
Loss on change of assumptions (financial)	**147.2**	**12.2**	**159.4**	**286.9**	**446.3**
Benefit payments	**(123.4)**	**(64.2)**	**(187.6)**	**(83.0)**	**(270.6)**
Currency loss	**–**	**37.1**	**37.1**	**–**	**37.1**
At 31 March 2019	**2,644.9**	**632.4**	**3,277.3**	**3,451.2**	**6,728.5**

	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
At 1 April 2017	2,586.6	725.4	3,312.0	1,519.9	4,831.9
New SWR franchise	–	–	–	1,246.4	1,246.4
Current service cost	21.5	10.0	31.5	72.5	104.0
Effect of settlements	–	(4.5)	(4.5)	–	(4.5)
Interest cost	70.8	24.1	94.9	36.7	131.6
Employee share of change in DBO (not attributable to franchise adjustment)	10.8	1.1	11.9	68.8	80.7
Experience (gain)/loss on DBO	(33.8)	(3.0)	(36.8)	27.3	(9.5)
Gain on change of assumptions (demographic)	(17.1)	(3.0)	(20.1)	–	(20.1)
Loss/(gain) on change of assumptions (financial)	52.2	(0.5)	51.7	31.8	83.5
Benefit payments	(120.4)	(63.3)	(183.7)	(52.3)	(236.0)
Currency gain	–	(68.8)	(68.8)	–	(68.8)
At 31 March 2018	2,570.6	617.5	3,188.1	2,951.1	6,139.2

During the year, there was a restructuring of the Group's Greyhound business in Canada which resulted in a settlement charge. Only a proportion of the benefit payments expected in respect of this settlement had been made at the year-end date. The income statement and closing DBO reflect the amounts settled and the change in IAS19 obligation already experienced. We anticipate that both assets and DBO will be reduced by future lump sum payments of £20.8m.

36 Retirement benefit schemes continued

(d) Fair value of schemes' assets

Movements in the fair value of schemes' assets were as follows:

	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
At 1 April 2018	**2,622.6**	**454.8**	**3,077.4**	**1,866.0**	**4,943.4**
Settlement impact on assets	**–**	**(25.9)**	**(25.9)**	**–**	**(25.9)**
Interest income on assets	**69.9**	**17.1**	**87.0**	**30.1**	**117.1**
Company contributions	**43.1**	**27.2**	**70.3**	**38.6**	**108.9**
Employee contributions	**1.0**	**1.0**	**2.0**	**25.2**	**27.2**
Employee share of return on assets	**–**	**–**	**–**	**20.1**	**20.1**
Actuarial gain on assets	**80.3**	**31.7**	**112.0**	**181.0**	**293.0**
Benefit paid from schemes	**(116.3)**	**(57.9)**	**(174.2)**	**(72.0)**	**(246.2)**
Employer administration expenses	**(7.2)**	**(6.3)**	**(13.5)**	**(11.1)**	**(24.6)**
Currency gain	**–**	**26.3**	**26.3**	**–**	**26.3**
At 31 March 2019	**2,693.4**	**468.0**	**3,161.4**	**2,077.9**	**5,239.3**

	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
At 1 April 2017	2,614.5	508.7	3,123.2	1,018.0	4,141.2
New SWR franchise	–	–	–	854.7	854.7
Settlement impact on assets	–	(4.8)	(4.8)	–	(4.8)
Interest income on assets	72.5	17.0	89.5	25.3	114.8
Company contributions	62.4	17.6	80.0	31.5	111.5
Employee contributions	10.8	1.1	11.9	20.7	32.6
Employee share of return on assets	–	–	–	16.9	16.9
Actuarial (loss)/gain on assets	(17.1)	26.8	9.7	(48.9)	(39.2)
Benefit paid from schemes	(115.1)	(56.8)	(171.9)	(46.2)	(218.1)
Employer administration expenses	(5.4)	(6.4)	(11.8)	(6.0)	(17.8)
Currency loss	–	(48.4)	(48.4)	–	(48.4)
At 31 March 2018	2,622.6	454.8	3,077.4	1,866.0	4,943.4

36 Retirement benefit schemes continued

(e) Asset allocation

The vast majority of the assets held by the pension arrangements are invested in pooled funds with a quoted market price. The analysis of the schemes' assets at the balance sheet dates were as follows:

At 31 March 2019	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
Global equity	567.4	156.8	724.2	–	724.2
Private equity	56.8	–	56.8	182.7	239.5
Fixed income/liability driven	1,635.7	183.0	1,818.7	1.7	1,820.4
Other return seeking assets	286.4	36.7	323.1	1,856.9	2,180.0
Real estate	57.1	78.5	135.6	29.0	164.6
Cash and cash equivalents	90.0	13.0	103.0	7.6	110.6
	2,693.4	468.0	3,161.4	2,077.9	5,239.3

The table above includes a cash holding of £80m that is a component of an investment designed to provide exposure to the equity market. The portfolio will therefore benefit from equity market investment that is £80m higher than shown under equities above.

At 31 March 2018	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
Global equity	890.4	167.9	1,058.3	–	1,058.3
Private equity	90.3	–	90.3	164.6	254.9
Fixed income/liability driven	1,265.8	167.0	1,432.8	1.1	1,433.9
Other return seeking assets	279.8	41.4	321.2	1,660.0	1,981.2
Real estate	85.7	63.3	149.0	40.3	189.3
Cash and cash equivalents	10.6	15.2	25.8	–	25.8
	2,622.6	454.8	3,077.4	1,866.0	4,943.4

The assets held by the pension scheme are not used by the Group and as such are transferable without detriment to the Group's ongoing business operations.

(f) Accounting for First Rail pension arrangements

In relation to the defined benefit pension arrangements it sponsors for employees of the rail franchises it operates, FirstGroup's obligations differ from its obligations to its other pension schemes. These are shared cost arrangements. All the costs, and any deficit or surplus, are shared 60% by the employer and 40% by the members. In addition, at the end of the franchise, any deficit or surplus in the scheme passes to the subsequent franchisee with no compensating payments from or to the outgoing franchise holder. FirstGroup's obligations are thus limited to its contributions payable to the schemes during the period over which it operates the franchise.

The disclosed information has been set out to illustrate the effect of this on the costs borne by FirstGroup. In particular, 40% of the costs, gains or losses and any deficit are attributed to the members. In addition, the total surplus or deficit is adjusted by way of a 'franchise adjustment' which includes an assessment of the changes that will arise from contracted future contributions and which is the portion of the deficit or surplus projected to exist at the end of the franchise which the Group will not be required to fund or benefit from. The remaining balance sheet items and gains or losses relate to Hull Trains which is operated under direct access, rather than franchise.

36 Retirement benefit schemes continued

Reconciliation of Rail franchises:

	Assets £m	Liabilities £m	Adjustment for employee share of RPS deficits (40%) £m	Franchise adjustment £m	Net £m
At 1 April 2018	**1,866.0**	**(2,951.1)**	**434.1**	**648.4**	**(2.6)**
Income statement					
Operating					
– Service cost	**–**	**(135.1)**	**54.0**	**49.0**	**(32.1)**
– Admin cost	**–**	**(11.0)**	**4.4**	**–**	**(6.6)**
– Past service costs and curtailments	**–**	**(3.1)**	**1.3**	**1.8**	**–**
Total operating	**–**	**(149.2)**	**59.7**	**50.8**	**(38.7)**
Financing	**50.1**	**(78.2)**	**11.2**	**16.8**	**(0.1)**
Total income statement	**50.1**	**(227.4)**	**70.9**	**67.6**	**(38.8)**
Amounts paid to/(from) scheme					
Employer contributions	**38.6**	**–**	**(15.4)**	**15.3**	**38.5**
Employee contributions	**25.2**	**–**	**(10.1)**	**(15.0)**	**0.1**
Benefit paid	**(83.0)**	**83.0**	**–**	**–**	**–**
Total	**(19.2)**	**83.0**	**(25.5)**	**0.3**	**38.6**
Expected closing position	**1,896.9**	**(3,095.5)**	**479.5**	**716.3**	**(2.8)**
Change in financial assumptions	**–**	**(286.9)**	**114.7**	**171.7**	**(0.5)**
Change in demographic assumptions	**–**	**(58.1)**	**23.3**	**34.8**	**–**
Return on assets in excess of discount rate	**181.0**	**–**	**(72.5)**	**(108.3)**	**0.2**
Experience	**–**	**(10.7)**	**4.3**	**6.4**	**–**
Total	**181.0**	**(355.7)**	**69.8**	**104.6**	**(0.3)**
At 31 March 2019	**2,077.9**	**(3,451.2)**	**549.3**	**820.9**	**(3.1)**

	Assets £m	Liabilities £m	Adjustment for employee share of RPS deficits (40%) £m	Franchise adjustment £m	Net £m
At 1 April 2017	1,018.0	(1,519.9)	200.8	299.1	(2.0)
New SWR franchise	854.7	(1,246.4)	156.7	235.0	–
Income statement					
Operating					
– Service cost	–	(110.8)	44.3	40.7	(25.8)
– Admin cost	–	(6.0)	–	–	(6.0)
Total operating	–	(116.8)	44.3	40.7	(31.8)
Financing	42.2	(61.2)	7.6	11.4	–
Total income statement	42.2	(178.0)	51.9	52.1	(31.8)
Amounts paid to/(from) scheme					
Employer contributions	31.5	–	(12.6)	12.5	31.4
Employee contributions	20.8	–	(8.3)	(12.3)	0.2
Benefit paid	(52.3)	52.3	–	–	–
Total	–	52.3	(20.9)	0.2	31.6
Expected closing position	1,914.9	(2,892.0)	388.5	586.4	(2.2)
Change in financial assumptions	–	(31.8)	12.7	18.8	(0.3)
Return on assets in excess of discount rate	(48.9)	–	19.6	29.2	(0.1)
Experience	–	(27.3)	13.3	14.0	–
Total	(48.9)	(59.1)	45.6	62.0	(0.4)
At 31 March 2018	1,866.0	(2,951.1)	434.1	648.4	(2.6)

36 Retirement benefit schemes continued

(g) Consolidated statement of comprehensive income

Amounts presented in the consolidated statement of comprehensive income comprise:

	2019 £m	2018 £m
Actuarial loss on DBO	**(482.6)**	(53.9)
Actuarial gain/(loss) on assets	**293.0**	(39.2)
Actuarial gain on franchise adjustment	**174.4**	107.7
Adjustment for irrecoverable surplus	**(23.5)**	12.0
Actuarial (losses)/gains on defined benefit schemes	**(38.7)**	26.6

(h) Adjustment for First Bus irrecoverable surplus

Movements in the adjustment for the First Bus irrecoverable surplus were as follows:

	2019 £m	2018 £m
At 1 April	**(160.4)**	(167.7)
Interest on irrecoverable surplus	**(4.3)**	(4.7)
Actuarial (loss)/gain on irrecoverable surplus	**(23.5)**	12.0
At 31 March	**(188.2)**	(160.4)

Cash contributions

As at 31 March 2019 the Group is committed to make deficit recovery payments with a net present value of £204m (2018: £207m), over the period to July 2035, in respect of the First Bus Pension Scheme. The net present value reflects the current value of deficit recovery payments that would be required to meet the actuarial deficit in full, discounted at 7.3% per annum. The IAS 19 deficit of the scheme at 31 March 2019 is £208.4m (2018: £140.8m). Management consider that, were a pension asset to arise in respect of this scheme, this would be fully recoverable through actions within the Group's control, in line with the rules of the scheme.

The estimated amounts of employer contributions expected to be paid to the defined benefit schemes during the financial year to 31 March 2020 is £94m (year to 31 March 2019: £96m).

Risks associated with defined benefit plans:

Generally the number of employees in defined benefit plans is reducing rapidly, as these plans are largely closed to new entrants, and in most cases to future accrual. Consequently, the number of defined contribution members is increasing.

The First Bus Pension Scheme and the FirstGroup Pension Scheme both closed to future accrual on 5 April 2018. This change will serve to limit the risks associated with defined benefit pension provision by the Group.

Despite remaining open to new entrants and future accrual, the risks posed by the RPS are limited, as under the franchise arrangements, the First Rail TOCs are not responsible for any residual deficit at the end of a franchise. As such, there is only short term cash flow risk within this business.

36 Retirement benefit schemes continued

The key risks relating to the defined benefit pension arrangements and the steps taken by the Group to mitigate them are as follows:

Risk	Description	Mitigation
Asset volatility	The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. Most of the defined benefit arrangements hold a significant proportion of return-seeking assets (equities, diversified growth funds and global absolute return funds) which, though expected to outperform corporate bonds in the long term, create volatility and risk in the short term.	Asset liability modelling has been undertaken to ensure that any risks taken are expected to be rewarded and, in relation to the Company's largest pension exposures further work is being undertaken to ensure that the investment strategy remains the most appropriate.
Inflation risk	A significant proportion of the UK benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities.	The business has certain inflation linking in its revenue streams that helps to offset this risk. In addition, the investment strategy reviews have led to increased inflation hedging, mainly through swaps or holding Index Linked Gilts in the UK schemes.
Uncertainty over level of future contributions	Contributions to defined benefit schemes can be unpredictable and volatile as a result of changes in the funding level revealed at each valuation.	The Group engages with the Trustees and Administering Authorities to consider how contribution requirements can be made more stable. The level of volatility and the Group's ability to control contribution levels varies between arrangements.
Life expectancy	The majority of the scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.	Linking retirement age to State Pension Age (as in The First Bus Pension Scheme and LGPS) has mitigated this risk to some extent.
Legislative risk	Future legislative changes are uncertain. In the past these have led to increases in obligations, through introducing pension increases, and vesting of deferred pensions, or reduced investment return through the ability to reclaim Advance Corporation Tax.	The Group receives professional advice on the impact of legislative changes.

37 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Remuneration of key management personnel

The remuneration of the Directors, which comprise the plc Board who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual Directors is provided in the Directors' remuneration report on pages 76 to 97.

	Year to 31 March 2019 £m	Year to 31 March 2018 £m
Basic salaries[1]	**0.8**	1.6
Performance-related bonuses	**0.1**	0.1
Benefits in kind	**0.0**	0.1
Fees	**0.9**	0.7
Share-based payment	**0.2**	1.1
	2.0	3.6

1 Basic salaries include cash emoluments in lieu of retirement benefits and car and tax allowances.

Financial statements

38 Information about related undertakings

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiaries and equity accounted investments as at 31 March 2019 is disclosed below:

Subsidiaries – wholly owned and incorporated in the United Kingdom

A E & F R Brewer Limited, Heol Gwyrosydd, Penlan, Swansea, SA5 7BN

Airport Buses Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Airport Coaches Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Bolton Coachways & Travel Limited, Wallshaw Street, Oldham, OL1 3TR

Bristol Bus Station Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Butler Woodhouse Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Cawlett Limited, Enterprise House, Easton Road, Bristol, BS5 0DZ

CCB Holdings Limited (03128545)[4], 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

CCB TV Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

CentreWest Limited (02844270)[4], 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

CentreWest London Buses Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

CentreWest ESOP Trustee (UK) Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Chester City Transport Limited, Bus Depot, Wallshaw Street, Oldham, OL1 3TR

Crosville Limited, Bus Depot, Wallshaw Street, Oldham, OL1 3TR

Don Valley Buses Limited, Olive Grove, Sheffield, South Yorkshire, S2 3GA

East Coast Trains Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

East West Rail Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

Eastern Scottish Omnibuses Limited, Carmuirs House, 300 Stirling Road, Larbert, Stirlingshire, FK5 3NJ

ECOC (Holdings) Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

FB Canada Holdings Limited (SC356482)[4], 395 King Street, Aberdeen, AB24 5RP

FG Canada Investments Limited (SC356484)[4], 395 King Street, Aberdeen, AB24 5RP

FG Properties Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

FGI Canada Holdings Limited (SC356485)[4], 395 King Street, Aberdeen, AB24 5RP

First Aberdeen Limited, 395 King Street, Aberdeen, AB24 5RP

First Ashton Limited, Wallshaw Street, Oldham, OL1 3TR

First Beeline Buses Limited, Bus Depot, Empress Road, Southampton, Hampshire, SO14 0JW

First Bus Central Services Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

First Caledonian Sleeper Limited, 395 King Street, Aberdeen, AB24 5RP

First Capital Connect Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Capital East Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

First Capital North Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

First CentreWest Buses Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

First City Line Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

First Coaches Limited, Enterprise House, Easton Road, Bristol, BS5 0DZ

First Customer Contact Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Cymru Buses Limited, Heol Gwyrosydd, Penlan, Swansea, West Glamorgan, SA5 7BN

First Dublin Metro Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First East Anglia Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Eastern Counties Buses Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

First Essex Buses Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

First European Holdings Limited (05113697)[1&4], 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

First Games Transport Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

First Glasgow Limited[1], 100 Cathcart Road, Glasgow, G42 7BH

First Glasgow (No.1) Limited, 100 Cathcart Road, Glasgow, G42 7BH

First Glasgow (No.2) Limited, 100 Cathcart Road, Glasgow, G42 7BH

First Great Western Link Limited[3], 15 Canada Square, Canary Wharf, London, E14 5GL

First Great Western Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Great Western Trains Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Greater Western Limited, Milford House 1 Milford Street, Swindon, Wiltshire, SN1 1HL

First Hampshire & Dorset Limited, Bus Depot, Empress Road, Southampton, Hampshire, SO14 0JW

First Information Services Limited (SC288178)[1&4], 395 King Street, Aberdeen, AB24 5RP

First International (Holdings) Limited (08743641)[1&4], 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

First International No.1 Limited (08746564)[4], 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

First Manchester Limited, Wallshaw Street, Oldham, OL1 3TR

First Merging Pension Schemes Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

First Metro Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Midland Red Buses Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

First North West (Schools) Limited, Wallshaw Street, Oldham, OL1 3TR

First North West Limited (02862042)[4], Wallshaw Street, Oldham, OL1 3TR

First Northern Ireland Limited, 21 Arthur Street, Belfast, BT1 4GA

First Pioneer Bus Limited, Wallshaw Street, Oldham, OL1 3TR

First Potteries Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

First Provincial Buses Limited, Empress Road, Southampton, Hampshire, SO14 0JW

First Rail Holdings Limited[1], 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Rail Support Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

First Scotland East Limited, Carmuirs House, 300 Stirling Road, Larbert, Stirlingshire, FK5 3NJ

First ScotRail Limited, 395 King Street, Aberdeen, AB24 5RP

First ScotRail Railways Limited, 395 King Street, Aberdeen, AB24 5RP

First Shared Services Limited, 395 King Street, Aberdeen, AB24 5RP

First South West Limited, Union Street, Camborne, Cornwall, TR14 8HF

First South Yorkshire Limited, Olive Grove, Sheffield, South Yorkshire, S2 3GA

First Student UK Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

38 Information about related undertakings continued

First Thameslink Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Trains Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First TransPennine Express Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Travel Solutions Limited, Unit 20 Time Technology Park, Blackburn Road, Burnley, BB12 7TG

First Wessex National Limited, Enterprise House, Easton Road, Bristol, BS5 0DZ

First West of England Limited, Enterprise House, Easton Road, Bristol, BS5 0DZ

First West Coast Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First West Yorkshire Limited, Hunslet Park Depot, Donisthorpe Street, Leeds, Yorkshire, LS10 1PL

First York Limited, Hunslet Park Depot, Donisthorpe Street, Leeds, Yorkshire, LS10 1PL

FirstBus (North) Limited[1], 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

FirstBus (South) Limited[1], 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

FirstBus Group Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

FirstBus Investments Limited (02205797)[1&4], 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

FirstGroup American Investments (SC330038)[4], 395 King Street, Aberdeen, AB24 5RP

FirstGroup Canadian Finance Limited (03486937)[1&4], 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

FirstGroup Construction Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

FirstGroup Holdings Limited[1], 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

FirstGroup (QUEST) Trustees Limited[1], 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

FirstGroup US Finance Limited (SC330060)[1&4], 395 King Street, Aberdeen, AB24 5RP

FirstGroup US Holdings (SC330054)[4], 395 King Street, Aberdeen, AB24 5RP

Fleetrisk Management Limited, Olive Grove, Sheffield, South Yorkshire, S2 3GA

G.E. Mair Hire Services Limited, 395 King Street, Aberdeen, AB24 5RP

G.A.G. Limited[1]**,** Enterprise House, Easton Road, Bristol, BS5 0DZ

GB Railways Group Limited[1], 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

GB Railways Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

GMBN Employees' Share Scheme Trustee Limited, Bus Depot, Wallshaw Street, Oldham, Lancashire, OL1 3TR

Great Western Holdings Limited[1], Milford House, 1 Milford Street, Swindon, SN1 1HL

Great Western Trains Company Limited[3], 15 Canada Square, Canary Wharf, London, E14 5GL

Great Western Trustees Limited, Milford House, 1 Milford Street, Swindon, SN1 1HL

Grenville Motors Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Greyhound Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

GRT Bus Group Limited (SC114203)[1&4], 395 King Street, Aberdeen, AB24 5RP

Gurna Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Halesworth Transit Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Hampshire Books Limited, Empress Road, Southampton, Hampshire, SO14 0JW

Hull Trains Company Limited, 4th Floor Europa House, 184 Ferensway, Hull, HU1 3UT

Indexbegin Limited, Hunslet Park Depot, Donisthorpe Street, Leeds, Yorkshire, LS10 1PL

KCB Limited, 100 Cathcart Road, Glasgow, G42 7BH

Kelvin Central Buses Limited, 100 Cathcart Road, Glasgow, G42 7BH

Kelvin Scottish Omnibuses Limited, 100 Cathcart Road, Glasgow, G42 7BH

Kirkpatrick of Deeside Limited, 395 King Street, Aberdeen, AB24 5RP

Lynton Bus and Coach Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Lynton Company Services Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Mainline ESOP Trustees (No 1) Limited, Olive Grove, Sheffield, South Yorkshire, S2 3GA

Mainline ESOP Trustees (No 2) Limited, Olive Grove, Sheffield, South Yorkshire, S2 3GA

Mainline Partnership Limited[1], Olive Grove, Sheffield, South Yorkshire, S2 3GA

Mainline Employees' Shareholding Trustees Limited, Olive Grove, Sheffield, South Yorkshire, S2 3GA

Midland Bluebird Limited, Carmuirs House, 300 Stirling Road Larbert, Stirlingshire, FK5 3NJ

Midland Travellers Limited, Hunslet Park Depot, Donisthorpe Street, Leeds, Yorkshire, LS10 1PL

North Devon Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Northampton Transport Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Portsmouth Transit Limited, Empress Road, Southampton, Hampshire, SO14 0JW

Quickstep Travel Limited, Hunslet Park Depot, Donisthorpe Street, Leeds, Yorkshire, LS10 1PL

Reiver Ventures Properties Limited, Carmuirs House, 300 Stirling Road, Larbert, Stirlingshire, FK5 3NJ

Reiver Ventures Limited, Carmuirs House, 300 Stirling Road, Larbert, Stirlingshire, FK5 3NJ

Reynard Buses Limited, Hunslet Park Depot, Donisthorpe Street, Leeds, Yorkshire, LS10 1PL

Rider Holdings Limited (02272577)[4], Hunslet Park Depot, Donisthorpe Street, Leeds, Yorkshire, LS10 1PL

Rider Travel Limited, Hunslet Park Depot, Donisthorpe Street, Leeds, Yorkshire, LS10 1PL

S Turner & Sons Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Scott's Hospitality Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Sheafline (S.U.T.) Limited, Olive Grove, Sheffield, South Yorkshire, S2 3GA

Sheffield & District Traction Company Limited, Olive Grove, Sheffield, South Yorkshire, S2 3GA

Sheffield United Transport Limited, Olive Grove, Sheffield, South Yorkshire, S2 3GA

Skillplace Training Limited, Heol Gwyrosydd, Penlan, Swansea, West Glamorgan, SA5 7BN

Smiths of Portland Limited, Enterprise House, Easton Road, Bristol, BS5 0DZ

SMT Omnibuses Limited, Carmuirs House, 300 Stirling Road, Larbert, Stirlingshire, FK5 3NJ

Southampton CityBus Limited, Empress Road, Southampton, Hampshire, SO14 0JW

Southampton City Transport Company Limited, Empress Road, Southampton, Hampshire, SO14 0JW

Sovereign Quay Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Strathclyde Buses Limited, 100 Cathcart Road, Glasgow, G42 7BH

Streamline Buses (Bath) Limited[1], Enterprise House, Easton Road, Bristol, BS5 0DZ

Taylors Coaches Limited, Enterprise House, Easton Road, Bristol, BS5 0DZ

38 Information about related undertakings continued

The FirstGroup Pension Scheme Trustee Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

The First UK Bus Pension Scheme Trustee Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Totaljourney Limited[1], 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

Tram Operations Limited, Tramlink Depot, Coomber Way, Croydon, CR0 4TQ

Transportation Claims Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Turonian Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Wessex of Bristol Limited, Enterprise House, Easton Road, Bristol, BS5 0DZ

West Dorset Coaches Limited, Enterprise House, Easton Road, Bristol, BS5 0DZ

Western National Holdings Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Subsidiaries – wholly owned and incorporated in the United States of America

Americanos USA, LLC, 350 N. St. Paul Street, Dallas, Texas 75201

ATE Management of Duluth, 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Atlantic Greyhound Lines of Virginia, Inc. 350 N. St. Paul Street, Dallas, Texas 75201

Berkshire Transit Management, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Central Mass Transit Management Co, Inc. 287 Grove St, Worcester, Massachusetts 01606

Central Virginia Transit Management, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Champion City Transit Management, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Durham City Transit Company, 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

First DG, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

FirstGroup Investment Corporation, 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

First Management Services LLC, 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

First Mile Square Transportation LLC, 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

First Student Management Services LLC, 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

First Student, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

First Transit, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

First Transit Rail Services of TX, LLC. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

First Vehicle Services, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

FirstGroup America Holdings, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

FirstGroup America, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

FirstGroup International, Inc. 2221 E Lamar Blvd, Suite 500, Arlington, Texas 76007

Franklin Transit Management, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

GLI Corporate Risk Solutions, Inc. 350 N. St. Paul Street, Dallas, Texas 75201

Greyhound Lines, Inc. 350 N. St. Paul Street, Dallas, Texas 75201

H.N.S. Management Company, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Laidlaw International Finance, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Laidlaw Medical Holdings, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Laidlaw Transportation Holdings, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Laidlaw Transportation Management, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Laidlaw Transportation, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Laidlaw Two, Inc. Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801

Laredo Transit Management, Inc. 2221 E Lamar Blvd, Suite 500, Arlington, Texas 76007

LSX Delivery, LLC, 350 N. St. Paul Street, Dallas, Texas 75201

Merrimack Valley Area Transportation, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

MidSouth Transportation Management, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

National Insurance and Indemnity Corporation, 30 Main Street, Suite 330, Burlington, Vermont 05401

On Time Delivery Service, Inc. 350 N. St. Paul Street, Dallas, Texas 75201

Paratransit Brokerage Services TM, Inc. 287 Grove Street, Worchester, Massachusetts 01606

Paratransit Management of Berkshire, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Paratransit Management of Brockton, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Safe Ride Services, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Safe Transport LLC. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Shuttle Services M.I.A., Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

South Coast Transit Management, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Southwestern Virginia Transit Management, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Special Transportation Services, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Springfield Area Transit Company, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

SuTran, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Abilene, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Ada County, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Alexandria, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Ashville, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Canyon County, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Central Maryland, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Clinton County, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Denton, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Dutchess County, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Mobile, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Montgomery, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Racine, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Richland, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Rocky Mount, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Sherman, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Spartanburg, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

38 Information about related undertakings continued

Transit Management of St Joseph, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Wilmington, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Valley Area Transit Company, Inc. 350 N. St. Paul Street, Dallas, Texas 75201

Valley Garage Co, 350 N. St. Paul Street, Dallas, Texas 75201

Valley Transit Co, Inc. 350 N. St. Paul Street, Dallas, Texas 75201

Subsidiaries – not wholly owned but incorporated in the United States of America

DG 21 LLC (51%), 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

SYPS LLC (87.5%), 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transportation Realty Income Partners Limited Partnership (50%), 600 Vine Street Suite 1400, Cincinnati, Ohio 45202

Subsidiary – wholly owned and incorporated in US Virgin Islands

Primaisla, Inc. 1 Estate Hope, St. Croix

Subsidiaries – wholly owned and incorporated in Ireland

Aeroporto Limited, 25-28 North Wall Quay, Dublin

FirstGroup Treasury Finance (Ireland) DAC[3], Airport Business Park, Dublin Airport, Dublin

Last Passive Limited, 25–28 North Wall Quay, Dublin

Subsidiary – wholly owned and incorporated in India

Transit Operations India Private Limited, Lentin Chambers, 2nd Floor, Dalal Street, Fort Mumbai 400023

Subsidiary – wholly owned and incorporated in Panama

First Transit de Panama, Inc. Morgan & Morgan, Costa del Este, MMG Tower, 23rd Floor, Panama City

Subsidiaries – wholly owned and incorporated in Canada

Autobus Transco (1988) Limited, Blake, Cassels & Graydon LLP, 1 Place Ville Marie, Suite 3000, Montreal, Quebec

FC Investment Limited, Blake, Cassels & Graydon LLP, 3500, 855 – 2 Street SW, Calgary, Alberta, T2P 4J8

FirstCanada ULC, Blake, Cassels & Graydon LLP, 3500, 855 – 2 Street SW, Calgary, Alberta, T2P 4J8

GCT Holdings Limited, Blake, Cassels & Graydon LLP, 3500, 855 – 2 Street SW, Calgary, Alberta, T2P 4J8

GCT Investment Limited Partnership, Blake, Cassels & Graydon LLP, 3500, 855 – 2 Street SW, Calgary, Alberta, T2P 4J8

Gray Coach Travel, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Greyhound Canada Transportation ULC, Blake, Cassels & Graydon LLP, 595 Burrard Street, P.O. Box 49314, Suite 2600, Three Bentall Centre, Vancouver, British Columbia V7X 1L3

Greyhound Courier Express Limited, Blake, Cassels & Graydon LLP, 595 Burrard Street, P.O. Box 49314, Suite 2600, Three Bentall Centre, Vancouver, British Columbia V7X 1L3

Manhattan Equipment Supply Company Limited, 1111 International Blvd, Suite 700, Burlington, Ontario L7L 6W1

Subsidiary not wholly owned but incorporated in Canada

FirstCanada Transportation BC Limited (49%), Blake, Cassels & Graydon LLP, 595 Burrard Street, P.O. Box 49314, Suite 2600, Three Bentall Centre, Vancouver, British Columbia V7X 1L3

GACCTO Limited (50%), 130 King Street West, #1600, Toronto, Ontario M5X 1J5

Subsidiaries – wholly owned and incorporated in Puerto Rico

First Transit of Puerto Rico, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

First Transit Rail of Puerto Rico, Inc. 361 San Francisco Street, San Juan

Subsidiary – wholly owned and incorporated in Mexico

Greyhound Lines Mexico, S.A. de R.L. de C.V. 350 N. St. Paul Street, Dallas, Texas 75201

Subsidiaries not wholly owned but incorporated in the United Kingdom

Careroute Limited (80%), Empress Road, Southampton, Hampshire, SO14 0JW

First/Keolis Holdings Limited (55%)[1], 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First/Keolis TransPennine Holdings Limited (55%), 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First/Keolis TransPennine Limited (55%), 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First MTR South Western Trains Limited (70%), 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Trenitalia East Midlands Rail Limited (70%), 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Trenitalia West Coast Rail Limited (70%), 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

PTI Website Limited (20%)[1], 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Leicester CityBus Benefits Limited (94%), Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Leicester CityBus Limited (94%)[2], Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

LCB Engineering Limited (94%), Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Nicecon Limited (50%), 395 King Street, Aberdeen, AB24 5RP

Somerset Passenger Solutions Limited (50%), J24 Hinkley Point C, Park and Ride, Huntworth Business Park, Bridgwater, TA6 6TS

1 Directly owned by FirstGroup plc.

2 All shares held in subsidiary undertakings are ordinary shares, with the exception of Leicester CityBus Limited where the Group owns 100% of its redeemable cumulative preference shares and 94% of its ordinary shares.

3 In liquidation.

4 For the year ending 31 March 2019 these subsidiaries are exempt from audit of individual accounts under S479A of the UK Companies Act 2006.

Independent auditor’s report to the members of FirstGroup plc

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of FirstGroup plc (the ‘Parent Company’) and its subsidiaries (the ‘Group’) give a true and fair view of the state of the Group’s and of the Parent Company’s affairs as at 31 March 2019 and of the Group’s loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 “Reduced Disclosure Framework”; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and Parent Company balance sheets;
- the consolidated and Parent Company statements of changes in equity;
- the consolidated cash flow statement;
- the statement of accounting policies; and
- the related notes 1 to 38 of the Consolidated financial statements and 1 to 10 of the Parent Company financial statements.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 “Reduced Disclosure Framework” (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor’s responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council’s (the ‘FRC’s’) Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC’s Ethical Standard were not provided to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: ▪ Accounting for rail franchise contracts, including the forecast profitability of the SouthWestern Railway ("SWR") and TransPennine Express ("TPE") franchises; ▪ Forecast margin and long term growth rate used in the impairment testing of the Greyhound cash generating unit; ▪ Valuation of significant claims and the estimate of incurred but not reported claims in the North American self-insurance provision; ▪ Inflation, discount rate and mortality assumptions used in the valuation of pension scheme liabilities; and ▪ Accuracy of material manual adjustments to revenue recognition processes at First Student and First Transit.
Materiality	The materiality that we used for the Group financial statements was £7.5 million which was determined on the basis of 3.7% of profit before tax adjusted for intangible amortisation, guaranteed minimum pensions charge, material gains and losses on property disposals, the SWR onerous contract provision charge and the North American insurance reserves charge recorded as an adjusting item.
Scoping	We performed full scope audit procedures at each of the five operating divisions as well as certain Group central functions. These components account for over 95% of the Group's net assets, revenue, and operating profit.
Significant changes in our approach	Our audit approach for the current year included the following changes, as compared to our audit of the prior year: ▪ The key audit matter relating to accounting for the rail franchise contracts no longer includes the forecast profitability of the Great Western Railway ("GWR") and the recognition of certain performance related amounts receivable under the franchise contracts as the level of judgement involved in the accounting for these areas has reduced during the year; ▪ The forecast profitability of the SWR franchise is included within the scope of the key audit matter relating to accounting for the rail franchise contacts following challenging trading conditions; and ▪ The carrying value of Student goodwill is not a key audit matter this year due to continued improved performance.

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the directors' statement on page 50 about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the Group's and company's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 42-48 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation on pages 49-50 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on pages 49-50 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Accounting for rail franchise contracts, including the forecast profitability of the SouthWestern Railway ("SWR") and TransPennine Express ("TPE") franchises

Key audit matter description

The Group operates a number of complex rail franchise contracts. Judgement is required in the evaluation of the overall profitability of the franchise contracts and whether they are onerous and, as such, require provision for future losses.

SWR franchise profitability
This judgement includes consideration of the key assumptions regarding industrial action, franchise agreement mechanisms relating to Central London Employment and delays to timetable changes. Assessing the impact of each of these assumptions on future profitability, and the outcome of negotiations with the Department for Transport (DfT), requires management judgement. The Group considers it has an onerous contract, the value of which is estimated to be £145.9m, which is the maximum unavoidable loss under the Franchise Agreement.

TPE franchise profitability
This judgement includes consideration of the key assumptions regarding passenger revenue growth, costs the impact of delays to planned timetable changes assumed in the bid model and the valuation of franchise change amounts under discussion with the DfT. Assessing the impact of each of these assumptions on the assessment of the onerous contract provision requires management judgement. A provision of £106.9 million (2018: £106.3m) is held in relation to the estimated value of the future unavoidable losses under the contract.

Management has highlighted onerous contracts as a key source of estimation uncertainty in note 2 to the consolidated financial statements and the Audit Committee has identified this as a Significant Issue or Judgement on page 73 of their report.

How the scope of our audit responded to the key audit matter

The audit procedures we performed in respect of the key audit matter included:

- Assessing the process undertaken by Management in estimating the forecast profitability and evaluating the design and implementation of key controls;
- understanding the key drivers forming the basis of the franchise profitability forecasts;
- reviewing and challenging Management's key assumptions including consideration of the entitlement to receive any franchise change amounts and the valuation thereof by reference to relevant supporting evidence and sensitising the impact of Management's key assumptions on Management's assessment of the profitability of the two contracts;
- meeting with representatives of the DfT to understand the latest position regarding ongoing contractual discussions;
- recalculating the relevant forecasts;
- assessing and challenging Management's expected range of possible outcomes; and
- reviewing the related financial statement disclosures including the disclosure of the SWR onerous contract provision as an adjusting item.

Key observations

The results of our procedures were satisfactory and we concur with the judgements made and that the resulting onerous contract provisions are within a range of reasonable outcomes.

Forecast margin and long term growth rate used in the impairment testing of the Greyhound cash generating unit	
Key audit matter description	The assessment of impairment of the Group's cash generating units ("CGUs"), as described in note 2, involves judgement in relation to forecasting future cash flows. At the planning stage of our audit we identified the CGU most sensitive to variation in future cash flows to be Greyhound CGU. In the prior year, an impairment loss of £277.3 million was recognised. £260.6 million of the impairment loss of was first allocated to Goodwill, which was fully written down, and the remaining impairment loss of £16.7 million was allocated to the other tangible and intangible assets of the CGU on a pro rata basis according to the carrying amount of each asset in the CGU. In the current year, Management has identified an impairment indicator for the Greyhound CGU and therefore determined the recoverable amount. We focused on the forecast margin and long term growth rate within Management's discounted cash flow model given these are the areas where the most significant judgement is required. Management has highlighted impairment of assets in the Greyhound CGU as a key source of estimation uncertainty in note 2. The Audit Committee report on page 73 refers to the carrying value of the Greyhound CGU as one of the significant issues and judgements considered by the Audit Committee.
How the scope of our audit responded to the key audit matter	The audit procedures we performed in respect of this key audit matter included: ▪ gaining an understanding of Group and Greyhound Management's process for developing their impairment models and assessing the design and implementation of key controls; ▪ agreeing the underlying forecasts to the Board approved adjusted three year plan; ▪ meeting with Greyhound Divisional Management team to understand and challenge the forecasts; ▪ challenging the underlying assumptions within the cash flow projections impacting the forecast margin including estimates around passenger revenue growth and cost assumptions at Greyhound; ▪ assessing cash flow projections with reference to historical trading performance and forecasting accuracy; ▪ considering and assessing the impact of contradictory evidence in relation to the expected performance of the CGU; ▪ considering the reasonableness of, and recalculating, the sensitivity assessment applied by Management; ▪ performing further independent sensitivity analysis on the impairment model; and ▪ considering the appropriateness of the related disclosures.
Key observations	Management have updated their assumptions regarding the value in use of Greyhound which we consider are reasonable but contain a degree of optimism. We concur with Management's conclusion that no impairment is required. We consider the disclosure in the judgements and estimates section of note 2 provided concerning the impairment of assets in the Greyhound CGU together with the reasonable possible change sensitivity provided in note 11 to be proportionate to the estimate of the provision.

Valuation of significant claims and the estimate of IBNR claims in the North American self-insurance provision	
Key audit matter description	The underlying calculation of the North American self-insurance reserves is subject to judgement based on the volume and severity of claims. We have identified a key audit matter in relation to the valuation of the individually material claims within the North American self-insurance provision and the estimated value of incurred but not reported ("IBNR") claims. Management has highlighted self-insurance provisioning as a key source of estimation uncertainty in the notes to the consolidated financial statements and note that the provision of £408.9 million (2018: £313.6 million) is within the range calculated by their actuaries of £342.9 million to £438.8 million (2018: £271.4 million to £347.1 million). The provision has primarily increased following adverse settlements, developments on a number of aged insurance claims, and deterioration in long-term development factors. The Audit Committee report on page 73 refers to North America self-insurance provisions as one of the significant issues and judgements considered by the Audit Committee. The provision is disclosed in note 26 to the consolidated financial statements.
How the scope of our audit responded to the key audit matter	The audit procedures we performed in respect of this key audit matter included: ▪ gaining an understanding of Management's process for developing the North American self-insurance reserves, including how Management ensures the completeness of IBNR claims, and assessing the design and implementation of key controls; ▪ meeting with the Management and their external actuary to challenge key assumptions; ▪ working with our actuarial specialists in North America to develop independently an actuarial calculation and comparing the provision recorded to the actuarial range calculated by Management and their external actuary, considering the methodologies employed and comparing assumptions used to the Group's historical experience; ▪ considering the deterioration of loss development factors during the year; ▪ engaging a specialist Insurance partner on the Group Audit Team in order to review and assess the procedures performed by the component auditor and our oversight of those procedures; and ▪ assessing the related financial statement disclosures including consideration of £94.8 million as an adjusted item.
Key observations	We are satisfied that the assumptions used the valuation of the North American self-insurance reserve is within our range of estimate and the related disclosures are reasonable.

Inflation, discount rate and mortality assumptions used in the valuation of pension scheme liabilities (£6,729 million)	
Key audit matter description	The Group operates in a labour intensive industry with large membership to a number of defined benefit pension schemes. The valuation of gross pension liabilities, as disclosed in note 36 is materially sensitive to changes in the underlying assumptions adopted in respect of the discount, inflation, and mortality rates. Judgement is also involved in assessing the impact of the High Court ruling relating to the guaranteed minimum pension equalisation (£21.5m income statement charge). The funding of The Railways Pension scheme is under review by the pension scheme trustees and the impact of the outcome of this review on future employer contributions is uncertain. The Audit Committee report on page 73 refers to pension liability assumptions as one of the significant issues and judgements considered by the Audit Committee. Management has historically highlighted defined benefit pension arrangements as a key source of estimation uncertainty in the note 2 to the consolidated financial statements.
How the scope of our audit responded to the key audit matter	The audit procedures we performed in respect of this key audit matter included: ▪ gaining an understanding of Management's process for determining the underlying assumptions and assessing the design and implementation of key controls; ▪ working with our actuarial specialists to test the estimates determined by Management and its external actuary considering the methodologies employed and comparing assumptions used to the Group's historical experience and to listed and industry benchmarks; ▪ performing enquiries to understand the latest position regarding the future funding of The Railways Pension Scheme; and ▪ assessing the impact of the GMP equalisation ruling on the pension liability.
Key observations	We are satisfied that the assumptions applied in respect of the valuation of the pension liabilities are reasonable and that the valuation of the pension scheme liabilities is reasonable. We consider the disclosure around the sensitivity of the liabilities to reasonably possible change to be proportionate to the level of judgement.

Accuracy of material manual adjustments to revenue recognition processes at First Student and First Transit	
Key audit matter description	As described in the Significant accounting policies in note 2 revenue transactions across the Group are predominantly high volume and low value. In some instances, revenue recorded may be subject to manual adjustments to reflect the timing and valuation of revenue recognised, for example where amounts are unbilled at the year end. The accuracy of recording any such material manual adjustments to revenue represents a key risk of material misstatement to revenue due to the potential for fraud. This includes manual adjustments to accrued or deferred income balance sheet items that impact revenue in the income statement. The key audit matter applies to the First Student and First Transit divisions, due to the judgement required in assessing the level of unbilled revenue accrued on contracts in those divisions at year end. The Audit Committee report on page 73 refers to Revenue recognition as one of the significant issues and judgements considered by the Audit Committee.
How the scope of our audit responded to the key audit matter	The audit procedures we performed in respect of this risk included: ▪ gaining an understanding of Management's process for ensuring the accuracy of manual adjustments to revenue and assessing the design and implementation of key controls; ▪ understanding the judgements taken by Management in determining material manual adjustments at First Student and First Transit, their accuracy and the associated accrued income; ▪ recalculating the accuracy of material accrued income balances and reviewing supporting documentation on a sample basis; and ▪ auditing revenue related journal entries by selecting items that demonstrated characteristics of being manual in nature by agreeing them to supporting documentation to determine the rationale for the entries.
Key observations	The results of our procedures were satisfactory and we did not identify inappropriate manual adjustments to revenue.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent Company financial statements
Materiality	£7.5 million (2018: £7.5 million)	£6.0 million (2018: £6.0 million)
Basis for determining materiality	We determined materiality for the Group to be £7.5 million (2018: £7.5 million), which is 3.7% of loss before tax of £97.9 million adjusted for intangible amortisation of £29.9 million, guaranteed minimum pensions charge of £21.5 million, net material gains and losses on property disposals of £6.9 million, SWR onerous contract provision charge of £145.9 million and the North American insurance reserve charge recorded of £94.8 million. In the prior year our materiality represented 5.4% of the adjusted profit measure, which excluded intangible amortisation, bond make-whole payments, impairment and TPE onerous contract provision.	Parent Company materiality represents less than 1% of net assets (2018: less than 1%).
Rationale for the benchmark applied	We consider a profit measure the most appropriate basis for determining materiality as this is the measure on which business performance is analysed. The exclusion of intangible amortisation, guaranteed minimum pensions charge, net material gains and losses on property disposals, the SWR onerous contract provision charge and the North American insurance reserves charge is consistent with the key measure used by the Group for internal and external reporting and market analysts.	The Parent Company is a holding company which does not generate revenue and therefore a revenue or profit benchmark would not be relevant. Net assets was considered the most relevant benchmark for the nature of the Parent Company.

* Benchmark profit measure is calculated as the loss before tax adjusted for intangible amortisation, guaranteed minimum pensions charge, net material gains and losses on property disposals, the SWR onerous contract provision charge, and the North American insurance reserves charge.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £375,000 (2018: £375,000) for the Group, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls over key audit areas, and assessing the risks of material misstatement at the Group level. Based on that assessment, as in the prior year, we focused our Group audit scope primarily on the FirstGroup America component (FirstStudent, FirstTransit, Greyhound and the North American self-insurance captive entity), the three significant Train Operating Companies (GWR, TPE and SWR), the First Bus Division as well as certain Group central functions.

The locations subject to full audit procedures represent the principal business units and account for over 95% of the Group's net assets, revenue and operating profit. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work at locations subject to full audit procedures was executed at levels of component materiality of between £3.0 million and £6.4 million applicable to each individual location.

At the Parent Company level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit.

The Group audit team have directed and supervised the work of the component audit teams during the course of the year. We included all component teams in our team briefing, discussed their risk assessment and remained in contact throughout the audit process. The Senior Statutory Auditor met all component teams and held meetings with Management at all components to discuss the work performed. In relation to the current year the Senior Statutory Auditor of the Group audit team visited the FirstGroup America component team in January 2019 and May 2019. Other senior members of the Group audit team also visited the FirstGroup America component in October 2018 and March 2019. The Group audit team have reviewed documentation of the findings from the component audit teams' work.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **Fair, balanced and understandable** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of Management, internal audit, internal legal counsel and the audit committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team including significant component audit teams and involving relevant internal specialists, including regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.
- obtaining an understanding of the legal and regulatory frameworks that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pension legislation and tax legislation. In addition, compliance with terms of the Group's Rail franchise agreements and bank covenants had a fundamental effect on the operations of the Group.

Audit response to risks identified

As a result of performing the above, we identified the following key audit matters:

- Accounting for rail franchises, including the forecast profitability of the SouthWestern Railway ("SWR") and TransPennine Express ("TPE") franchises;
- Forecast margin and long term growth rate used in the impairment testing of Greyhound cash generating unit;
- Valuation of significant claims and the estimate of IBNR claims in the North American self-insurance provision; and
- Accuracy of material manual adjustments to revenue recognition processes at First Student and First Transit.

The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above as having a direct effect on the financial statements;
- enquiring of Management, the audit committee and in-house and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with relevant regulatory authorities; and
- in addressing the risk of fraud through Management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records Under the Companies Act 2006 we are required to report to you if, in our opinion: ▪ we have not received all the information and explanations we require for our audit; or ▪ adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or ▪ the Parent Company financial statements are not in agreement with the accounting records and returns.	**We have nothing to report in respect of these matters.**
Directors' remuneration Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.	**We have nothing to report in respect of these matters.**

Financial statements

Other matters

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed on 2 March 1999 to audit the financial statements for the year ending 31 March 1999 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 21 years, covering the years ending 31 March 1999 to 31 March 2019. The year ending 31 March 2020 is expected to be the final year of our audit appointment.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Mark Mullins, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, UK
30 May 2019

Group financial summary
Unaudited

Consolidated income statement	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Group revenue	**7,126.9**	6,398.4	5,653.3	5,218.1	6,050.7
Operating profit before amortisation charges and other adjustments	**332.9**	317.0	339.0	300.7	303.6
Amortisation charges	**(29.9)**	(70.9)	(60.2)	(51.9)	(54.3)
Other adjustments	**(293.2)**	(442.3)	4.8	(2.5)	(3.5)
Operating profit/(loss)	**9.8**	(196.2)	283.6	246.3	245.8
Net finance cost	**(107.7)**	(130.7)	(132.0)	(132.4)	(139.7)
Ineffectiveness on financial derivatives	**–**	–	1.0	(0.4)	(0.3)
(Loss)/profit before tax	**(97.9)**	(326.9)	152.6	113.5	105.8
Tax	**(10.1)**	36.0	(36.5)	(17.1)	(20.3)
(Loss)/profit for the year	**(108.0)**	(290.9)	116.1	96.4	85.5
EBITDA	**670.3**	690.6	686.6	615.9	624.4

Earnings per share	pence	pence	pence	pence	pence
Adjusted	**14.4**	12.3	12.4	10.3	9.8
Basic	**(5.5)**	(24.6)	9.3	7.5	6.2

Consolidated balance sheet	£m	£m	£m	£m	£m
Non-current assets	**4,003.5**	3,802.9	4,524.9	4,201.3	4,025.1
Net current assets/(liabilities)	**10.7**	(300.3)	(153.0)	(239.3)	(160.9)
Non-current liabilities	**(1,958.9)**	(1,671.0)	(2,011.8)	(2,066.5)	(2,141.3)
Provisions	**(532.0)**	(341.0)	(284.2)	(262.3)	(236.7)
Net assets	**1,523.3**	1,490.6	2,075.9	1,633.2	1,486.2

Share data Number of shares in issue (excluding treasury shares and shares in trusts)	millions	millions	millions	millions	millions
At year end	**1,213.9**	1,210.8	1,207.7	1,204.3	1,203.7
Average	**1,205.9**	1,205.1	1,204.8	1,204.0	1,204.0

Share price	pence	pence	pence	pence	pence
At year end	**91**	82	132	97	91
High	**117**	153	133	128	140
Low	**79**	77	89	81	91

Market capitalisation	£m	£m	£m	£m	£m
At year end	**1,105**	993	1,594	1,168	1,095

Company balance sheet
As at 31 March

	Note	2019 £m	Restated 2018 £m
Fixed assets			
Investments	3	**1,954.7**	2,073.8
Current assets			
Cash and cash equivalents		**32.6**	63.9
Derivative financial instruments – due within one year	4	**7.9**	17.7
– due after more than one year	4	**18.6**	20.7
Debtors – due within one year	5	**2,043.7**	2,013.4
– due after more than one year	5	**0.8**	1.0
		2,103.6	2,116.7
Current liabilities			
Creditors – amounts falling due within one year	7	**(336.0)**	(577.1)
Derivative financial instruments	4	**(1.4)**	(5.4)
		(337.4)	(582.5)
Net current assets		**1,766.2**	1,534.2
Total assets less current liabilities		**3,720.9**	3,608.0
Non-current liabilities			
Creditors – amounts falling due after more than one year	7	**(1,619.8)**	(1,346.2)
Derivative financial instruments	4	**(0.7)**	(2.9)
Net assets		**2,100.4**	2,258.9
Capital and reserves			
Called up share capital	8	**60.7**	60.5
Share premium		**684.0**	681.4
Other reserves		**262.1**	262.1
Own shares	9	**(4.7)**	(6.3)
Profit and loss account		**1,098.3**	1,261.2
Shareholders' funds		**2,100.4**	2,258.9

The 2018 balance sheet has been restated as set out in note 1.

Matthew Gregory
30 May 2019

Company number SC157176

Financial statements

Statement of changes in equity
As at 31 March

	Share capital £m	Share premium £m	Own shares £m	Hedging reserve £m	Merger reserve £m	Capital reserve £m	Capital redemption reserve £m	Retained earnings £m	Total £m
Balance at 1 April 2017	60.4	678.9	(1.5)	7.5	166.4	93.8	1.9	1,576.7	2,584.1
Opening balance restatement	–	–	–	–	–	–	–	(132.4)	(132.4)
Balance at 1 April 2017 (restated)[1]	60.4	678.9	(1.5)	7.5	166.4	93.8	1.9	1,444.3	2,451.7
Loss for the year (restated)[1]	–	–	–	–	–	–	–	(184.2)	(184.2)
Other comprehensive loss for the year	–	–	–	(7.5)	–	–	–	–	(7.5)
Total comprehensive loss for the year	–	–	–	(7.5)	–	–	–	(184.2)	(191.7)
Shares issued	0.1	2.5	–	–	–	–	–	–	2.6
Movement in EBT and treasury shares	–	–	(4.8)	–	–	–	–	(7.8)	(12.6)
Share-based payments	–	–	–	–	–	–	–	8.9	8.9
Balance at 31 March 2018 (restated)[1]	**60.5**	**681.4**	**(6.3)**	**–**	**166.4**	**93.8**	**1.9**	**1,261.2**	**2,258.9**
Change in accounting policies[2]	–	–	–	–	–	–	–	(3.6)	(3.6)
Balance at 31 March 2018	**60.5**	**681.4**	**(6.3)**	**–**	**166.4**	**93.8**	**1.9**	**1,257.6**	**2,255.3**
Loss for the year	–	–	–	–	–	–	–	(165.5)	(165.5)
Other comprehensive loss for the year	–	–	–	–	–	–	–	–	–
Total comprehensive loss for the year	–	–	–	–	–	–	–	(165.5)	(165.5)
Shares issued	0.2	2.6	–	–	–	–	–	–	2.8
Movement in EBT and treasury shares	–	–	1.6	–	–	–	–	(2.9)	(1.3)
Share-based payments	–	–	–	–	–	–	–	9.1	9.1
Balance at 31 March 2019	**60.7**	**684.0**	**(4.7)**	**–**	**166.4**	**93.8**	**1.9**	**1,098.3**	**2,100.4**

1 The retained earnings as at 1 April 2017 have been restated as set out in note 1.

2 Opening balances have been restated for the adoption of IFRS 9 'Financial Instruments'.

Notes to the Company financial statements

1 Significant accounting policies

Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006. The financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial instruments and on a going concern basis as described in the going concern statement within the Strategic report on page 50.

The Company meets the definition of a qualifying entity under Financial Reporting Standard (FRS 101) 'Reduced Disclosure Framework' issued by the Financial Reporting Council. Accordingly, these financial statements have been prepared in accordance with FRS 101.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payment, financial instruments, capital management, presentation of a cash-flow statement and certain related party transactions.

The financial statements for the year ended 31 March 2019, include the results and financial position of the Company for the year ended 31 March 2019. The financial statements for the year ended 31 March 2018 include the results and financial position of the Company for the 53 weeks ended 31 March 2018.

Where relevant, equivalent disclosures have been given in the consolidated financial statements. The principal accounting policies adopted are the same as those set out in note 2 to the consolidated financial statements except as noted below.

Investments

Fixed asset investments in subsidiaries and associates are shown at cost less provision for impairment. For investments in subsidiaries acquired for consideration, including the issue of shares qualifying for merger relief, cost is measured by reference to the nominal value only of the shares issued. Any premium is ignored.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

Dividends receivable from the Company's subsidiaries are recognised only when they are approved by shareholders.

Opening balance and prior year restatement

During the year, the Company identified that the investment and loan balance with FirstGroup Holdings Limited should have been impaired under IAS 36 and 39 at 31 March 2018 and 31 March 2017 because the best estimate of cash recoveries from the borrower was lower than the carrying amount of the receivable and the recoverable amount of the investment was determined to be £nil. Accordingly, the 31 March 2018 and 31 March 2017 comparatives have been restated, reducing the carrying value of investments by £25.8m and receivables by £106.6m. Note 3: Investments in subsidiary undertakings and Note 5: Trade and other receivables have been restated accordingly.

During the year, the Company identified that a liability should have been recorded in respect of an onerous contract provision relating to TPE of £100.8m. Accordingly, the 31 March 2018 comparatives have been restated, increasing the amounts due to subsidiary undertakings due within one year by £27.1m and amounts due to subsidiary undertakings due after more than one year by £73.7m. Note 7: Creditors has been restated accordingly.

Key sources of estimation uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge, actual results may ultimately differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Investment in subsidiaries

Estimation is required in relation to the recoverability of the investments and are sensitive to changes in cash flow forecasts supporting the recoverable amount. There is a significant risk that material adjustment to the carrying amounts of the investments and receivables could be required within the next financial year. The carrying value of investments at 31 March 2019 is £1,954.7m (2018: £2,073.8m).

2 Profit for the year

As permitted by section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year. The Company reported a loss for the financial year ended 31 March 2019 of £165.5m (2018: restated £184.2m loss).

Fees payable to the Company's auditors for the audit of the Company's annual financial statements are disclosed in note 6 of the Group accounts. The Company had no employees in the current or preceding financial year.

3 Investments in subsidiary undertakings

	Unlisted subsidiary undertakings £m
Cost	
At 1 April 2018	2,115.5
Additions	61.1
At 31 March 2019	**2,176.6**
Provision for impairment	
At 1 April 2018	(15.9)
Opening balance restatement [1]	(25.8)
At 1 April 2018 (restated)	(41.7)
Impairment	(180.2)
At 31 March 2019	**(221.9)**
Carrying amount	
At 31 March 2019	**1,954.7**
At 31 March 2018 (restated)	2,073.8

1 The provision for impairment as at 1 April 2018 has been restated as set out in note 1.

The additions in the year principally relate to investment in FirstBus (North) Limited and FirstBus (South) Limited.

The provision for impairment during the year relates to investments in First Rail and FirstGroup Holdings Limited for which the recoverable amount is £nil and therefore the carrying amount of the investments have been impaired.

A full list of subsidiaries and investments can be found in note 38 to the Group accounts.

4 Derivative financial instruments

	2019 £m	2018 £m
Total derivatives		
Total assets – due after more than one year	**18.6**	20.7
Total assets – due within one year	**7.9**	17.7
Total assets	**26.5**	38.4
Total creditors – amounts falling due within one year	**1.4**	5.4
Total creditors – amounts falling due after more than one year	**0.7**	2.9
Total creditors	**2.1**	8.3
Derivatives designated and effective as hedging instruments carried at fair value		
Non-current assets		
Coupon swaps (fair value hedge)	**16.2**	17.6
Current assets		
Coupon swaps (fair value hedge)	**–**	11.4
Total assets	**16.2**	29.0
Derivatives classified as held for trading		
Non-current assets		
Currency forwards	**1.6**	–
Fuel derivatives	**0.8**	3.1
	2.4	3.1
Current assets		
Currency forwards	**4.2**	–
Fuel derivatives	**3.7**	6.3
	7.9	6.3
Total assets	**10.3**	9.4
Current liabilities		
Currency forwards	**–**	5.3
Fuel derivatives	**1.4**	0.1
	1.4	5.4
Non-current liabilities		
Fuel derivatives	**0.7**	–
Currency forwards	**–**	2.9
	0.7	2.9
Total liabilities	**2.1**	8.3

Full details of the Group's financial risk management objectives and procedures can be found in note 24 of the Group accounts. As the holding company for the Group, the Company faces similar risks over foreign currency and interest rate movements.

5 Trade and other receivables

	2019 £m	Restated 2018 £m
Amounts due within one year		
Amounts due from subsidiary undertakings	**2,047.3**	2,013.4
Loss allowance	**(3.6)**	–
Net amounts due from subsidiary undertakings	**2,043.7**	2,013.4
Amounts due after more than one year		
Deferred tax asset (note 6)	**0.8**	1.0

6 Deferred tax

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

	Other temporary differences £m
At 1 April 2018	(1.0)
Charge to income statement	0.2
At 31 March 2019	**(0.8)**

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2019 £m	2018 £m
Deferred tax asset due after more than one year	**(0.8)**	(1.0)

7 Creditors

	2019 £m	Restated 2018 £m
Amounts falling due within one year		
£250.0m Sterling bond – 6.125% 2019	**–**	261.3
£350.0m Sterling bond – 8.750% 2021	**30.4**	30.1
£325.0m Sterling bond – 5.250% 2022	**5.8**	5.8
£200.0m Sterling bond – 6.875% 2024	**7.2**	7.2
Amounts due to subsidiary undertakings	**283.9**	264.2
Accruals and deferred income	**8.7**	8.5
	336.0	577.1
Amounts falling due after more than one year		
Syndicated loan facilities	**446.7**	197.0
£350.0m Sterling bond – 8.750% 2021	**357.7**	358.9
£325.0m Sterling bond – 5.250% 2022	**322.1**	321.6
£200.0m Sterling bond – 6.875% 2024	**199.8**	199.8
Senior unsecured loan notes	**210.0**	195.2
Amounts due to subsidiary undertakings	**83.5**	73.7
	1,619.8	1,346.2

Borrowing facilities

The maturity profile of the Company's undrawn committed borrowing facilities is as follows:

	2019 £m	2018 £m
Facilities maturing:		
Due in more than two years	**353.3**	603.0

Details of the Company's borrowing facilities are given in note 21 to the Group accounts.

Included within amounts due to subsidiary undertakings are liabilities for onerous contracts in respect of TPE £84.4m (2018 as restated: £100.8m) and SWR £43.7m (2018: £nil). This liability is required to reflect the undrawn portion of PCS and the performance bonds. In the case of TPE, this is restricted to the value of the onerous contract provision (less amounts already drawn under PCS).

8 Called up share capital

	2019 £m	2018 £m
Allotted, called up and fully paid		
1,213.9m (2018: 1,210.8m) ordinary shares of 5p each	**60.7**	60.5

The number of ordinary shares of 5p in issue, excluding treasury shares held in trust for employees, at the end of the period was 1,208.6m (2018: 1,203.1m). At the end of the period 5.3m shares (2018: 7.7m shares) were being held as treasury shares and own shares held in trust for employees.

9 Own shares

	Own shares £m
At 1 April 2018	**(6.3)**
Movement in EBT, QUEST and treasury shares during the year	**1.6**
At 31 March 2019	**(4.7)**

The number of own shares held by the Group at the end of the year was 5,310,593 (2018: 7,653,968) FirstGroup plc ordinary shares of 5p each. Of these, 5,120,844 (2018: 7,464,219) were held by the FirstGroup plc Employee Benefit Trust, 32,520 (2018: 32,520) by the FirstGroup plc Qualifying Employee Share Ownership Trust and 157,229 (2018: 157,229) were held as treasury shares. Both trusts and treasury shares have waived the rights to dividend income from the FirstGroup plc ordinary shares. The market value of the shares at 31 March 2019 was £4.8m (2018: £6.3m).

10 Contingent liabilities

To support subsidiary undertakings in their normal course of business, the Company and certain subsidiaries have indemnified certain banks and insurance companies who have issued performance bonds for £806.5m (2018: £783.1m) and letters of credit for £369.2m (2018: £327.7m). The performance bonds relate to the North American businesses of £570.8m (2018: £544.6m) and the First Rail franchise operations of £235.7m (2018: £238.5m). The letters of credit relate substantially to insurance arrangements in the UK and North America. The parent company has committed further support facilities of up to £30.0m to First Rail Train Operating Companies.

The Company is party to certain unsecured guarantees granted to banks for overdraft and cash management facilities provided to itself and subsidiary undertakings. The Company has given certain unsecured guarantees for the liabilities of its subsidiary undertakings arising under certain loan notes, hire purchase contracts, finance leases, operating leases, supply contracts and certain pension scheme arrangements. It also provides unsecured cross guarantees to certain subsidiary undertakings as required by VAT legislation. First Bus subsidiaries have provided unsecured guarantees on a joint and several basis to the Trustees of the First Bus Pension Scheme.

In its normal course of business First Rail has ongoing contractual negotiations with governmental and other organisations.

Investigations into the Croydon tram incident in November 2016 are ongoing and it is uncertain when they will be concluded. The tram was 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 any damages and costs, 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.