

Consolidated income statement

For the year ended 31 March

	Notes	2020 £m	2019 £m
Continuing Operations			
Revenue	3,5	7,754.6	7,126.9
Operating costs	6	(7,907.3)	(7,117.1)
Operating (loss)/profit	5,6	(152.7)	9.8
Investment income	8	2.7	2.7
Finance costs	8	(149.6)	(110.4)
Loss before tax		(299.6)	(97.9)
Tax	9	(25.0)	(10.1)
Loss for the year		(324.6)	(108.0)
Attributable to:			
Equity holders of the parent		(327.2)	(66.9)
Non-controlling interests		2.6	(41.1)
		(324.6)	(108.0)
Earnings per share			
Basic	10	(27.0)p	(5.5)p
Diluted	10	(27.0)p	(5.5)p
Adjusted results¹			Restated ²
Adjusted operating profit	4	256.8	314.8
Adjusted profit before tax	4	109.9	208.2
Adjusted EPS	10	6.8p	13.3p
Adjusted diluted EPS	10	6.7p	13.2p

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

2 Restated to charge £18.1m of software amortisation to divisional results in arriving at adjusted operating profit.

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

Consolidated statement of comprehensive income

Year ended 31 March

	Note	2020 £m	2019 £m
Loss for the year		(324.6)	(108.0)
Items that will not be reclassified subsequently to profit or loss			
Actuarial losses on defined benefit pension schemes	36	(29.0)	(38.7)
Deferred tax on actuarial losses on defined benefit pension schemes		1.1	7.1
Writing down previously recognised deferred tax assets on actuarial losses on defined benefit schemes		(25.7)	–
		(53.6)	(31.6)
Items that may be reclassified subsequently to profit or loss			
Derivative hedging instrument movements	28	(29.3)	23.5
Deferred tax on derivative hedging instrument movements		5.9	(4.1)
Exchange differences on translation of foreign operations		91.3	160.8
		67.9	180.2
Other comprehensive income for the year		14.3	148.6
Total comprehensive (loss)/income for the year		(310.3)	40.6
Attributable to:			
Equity holders of the parent		(312.9)	81.7
Non-controlling interests		2.6	(41.1)
		(310.3)	40.6

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

Financial statements

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Consolidated balance sheet

As at 31 March

	Note	2020 £m	2019 £m
Non-current assets			
Goodwill	11	1,663.2	1,598.1
Other intangible assets	12	51.9	75.1
Property, plant and equipment	13	4,374.5	2,165.9
Deferred tax assets	25	33.6	40.6
Retirement benefit assets	36	53.2	69.2
Derivative financial instruments	24	15.8	20.5
Investments	14	32.9	34.1
		6,225.1	4,003.5
Current assets			
Inventories	16	63.3	60.2
Trade and other receivables	17	1,170.6	1,141.4
Current tax assets		9.8	3.4
Cash and cash equivalents	20	869.3	692.9
Assets held for sale	18	1.0	31.7
Derivative financial instruments	24	4.8	15.5
		2,118.8	1,945.1
Total assets		8,343.9	5,948.6
Current liabilities			
Trade and other payables	19	1,799.7	1,547.3
Tax liabilities – Current tax liabilities		7.5	3.9
– Other tax and social security		42.9	29.0
Borrowings	21	694.3	84.9
Derivative financial instruments	24	44.2	3.4
Provisions	26	232.1	265.9
		2,820.7	1,934.4
Net current (liabilities)/assets		(701.9)	10.7
Non-current liabilities			
Borrowings	21	3,502.9	1,564.1
Derivative financial instruments	24	19.2	1.9
Retirement benefit liabilities	36	366.6	376.4
Deferred tax liabilities	25	38.8	16.5
Provisions	26	419.0	532.0
		4,346.5	2,490.9
Total liabilities		7,167.2	4,425.3
Net assets		1,176.7	1,523.3
Equity			
Share capital	27	61.0	60.7
Share premium		688.6	684.0
Hedging reserve	28	(28.3)	17.5
Other reserves	28	4.6	4.6
Own shares	28	(10.2)	(4.7)
Translation reserve	29	635.6	544.3
Retained earnings		(141.5)	248.1
Equity attributable to equity holders of the parent		1,209.8	1,554.5
Non-controlling interests		(33.1)	(31.2)
Total equity		1,176.7	1,523.3

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

Ryan Mangold

8 July 2020

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 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 (loss)/income 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
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
Adjustment on transition to IFRS 16	–	–	–	–	–	–	(15.6)	(15.6)	–	(15.6)
Balance at 1 April 2019	60.7	684.0	17.5	4.6	(4.7)	544.3	232.5	1,538.9	(31.2)	1,507.7
Loss for the year	–	–	–	–	–	–	(327.2)	(327.2)	2.6	(324.6)
Other comprehensive income/(loss) for the year	–	–	(23.4)	–	–	91.3	(53.6)	14.3	–	14.3
Total comprehensive (loss)/income for the year	–	–	(23.4)	–	–	91.3	(380.8)	(312.9)	2.6	(310.3)
Shares issued	0.3	4.6	–	–	–	–	–	4.9	–	4.9
Derivative hedging instrument movements transferred to balance sheet (net of tax)	–	–	(22.4)	–	–	–	–	(22.4)	–	(22.4)
Dividends paid/other	–	–	–	–	–	–	0.7	0.7	(4.5)	(3.8)
Movement in EBT and treasury shares	–	–	–	–	(5.5)	–	(4.2)	(9.7)	–	(9.7)
Share-based payments	–	–	–	–	–	–	10.3	10.3	–	10.3
Balance at 31 March 2020	61.0	688.6	(28.3)	4.6	(10.2)	635.6	(141.5)	1,209.8	(33.1)	1,176.7

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

Financial statements

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Consolidated cash flow statement

Year ended 31 March

	Note	2020 £m	2019 £m
Net cash from operating activities	31	958.2	563.7
Investing activities			
Interest received		2.7	2.7
Proceeds from disposal of property, plant and equipment		30.5	63.5
Purchases of property, plant and equipment		(321.8)	(421.3)
Purchases of software		(9.2)	(8.9)
Disposal of businesses	4	16.2	–
Acquisition of businesses	30	(21.8)	(2.3)
Net cash used in investing activities		(303.4)	(366.3)
Financing activities			
Shares purchased by Employee Benefit Trust		(9.8)	–
Shares issued		4.5	2.1
Repayment of bond		–	(250.0)
Drawdowns from bank facilities		122.9	255.0
Repayment of loan notes		–	(0.1)
Repayments of lease liabilities		(596.5)	(53.1)
Fees for finance facilities		(2.1)	(2.2)
Net cash flow used in financing activities		(481.0)	(48.3)
Net increase in cash and cash equivalents before foreign exchange movements		173.8	149.1
Cash and cash equivalents at beginning of year		692.9	555.7
Foreign exchange movements		2.6	(11.9)
Cash and cash equivalents at end of year per consolidated balance sheet	20	869.3	692.9

Cash and cash equivalents are included within current assets on the consolidated balance sheet. Cash and cash equivalents includes ring-fenced cash of £632.2m at 31 March 2020 (31 March 2019: £525.6m).

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

	Note	2020 £m	2019 £m
Net increase in cash and cash equivalents in year		173.8	149.1
(Increase)/decrease in debt and leases excluding leases formerly classified as operating leases		(75.3)	48.2
Adjusted cash flow		98.5	197.3
Payment of lease liabilities		549.2	–
Inception of new leases		(1,828.3)	–
Fees capitalised against bank facilities and bond issues		0.7	–
Foreign exchange movements		(24.1)	(28.3)
Other non-cash movements		(2.5)	(2.1)
Movement in net debt in year		(1,206.5)	166.9
Adjustment for transition to IFRS 16		(1,168.2)	–
Net debt at beginning of year		(903.4)	(1,070.3)
Net debt at end of year	32	(3,278.1)	(903.4)

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

Net debt Includes the value of derivatives in connection with the bond maturing 2021 and excludes all accrued interest. These bonds are included in current and non-current liabilities in the consolidated balance sheet.

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 5 to 74.

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 pages 72 to 73.

For the reasons set out in the going concern statement on pages 72 to 73 the Directors noted that the risks set out there indicate that a material uncertainty exists that may cast significant doubt on the Group's and the Company's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Material uncertainty relates to:

- the uncertainty regarding the levels of fiscal financial and contractual support which may be provided beyond the period for which that funding and contractual support is currently being provided;
- whether passenger volumes recover to the levels necessary to sustain the business without the current fiscal financial and contractual support;
- the ability of the Group to obtain covenant waivers from debt providers if required;
- the ability of the Group to draw down on c.£550m of the currently available but uncommitted facilities throughout the going concern period if required; and
- the timing of cash flows, including movements in working capital and the timing of receipts of contractual and fiscal support that may impact debt levels at covenant test dates.

As set out on pages 69 to 73, the Group has undertaken detailed reviews of the potential impact of coronavirus using financial outlook modelling. Based on their review of the financial forecasts and having regard to the risks and uncertainties to which the Group is exposed (including the material uncertainty referred to above), the Directors believe that the Company and the Group have adequate resources to continue in operational existence for the twelve-month period from the date on which the financial statements were approved. Accordingly, the financial statements have been prepared on a going concern basis.

The financial statements for the year ended 31 March 2020 include the results and financial position of the First Rail business for the year ended 31 March 2020 and the results and financial position of all the other businesses for the 52 weeks ended 28 March 2020. The financial statements for the year ended 31 March 2019 include the results and financial position of the First Rail businesses 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.

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.

Notes to the consolidated financial statements continued

2 Significant accounting policies continued

Business combinations

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

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair value at the acquisition date, 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 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.

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.

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

Under FRS 15 revenue is recognised when control of a good or service transfers to the customer. The point at which goods and services are transferred to the customer is based on the fulfilment of performance obligations.

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

Revenue principally comprises revenue from train passenger services, road passenger transport, and certain management and maintenance services in the UK 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 Greyhound, First Bus and First Rail. Passenger revenue is recognised at both a point in time and over time. Ticket sales for journeys of less than one week's duration are recognised on the first date of travel. Ticket sales for season tickets, travel cards and open-return tickets are initially deferred then recognised over the period covered by the relevant ticket. Concessionary amounts are recognised in the period in which the service is provided.

Contract revenues

Contract revenues mainly relate to 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.

2 Significant accounting policies continued

Charter/private hire

Charter and private hire predominantly relate 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.

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 the 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.

Leasing

The accounting policy for leasing for the year ended 31 March 2020 was as follows:

Lease identification

At inception of a contract, the Group shall assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Right of use asset (ROUA)

At the commencement date, the right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, less any incentives received, plus any initial direct costs incurred and an estimate of costs to be incurred by the Group to dismantle and remove the underlying asset or restore the underlying asset or the site on which it is located.

The right of use asset is depreciated on a straight-line basis over the shorter of the estimated useful life of the asset or the lease term. In addition, the right of use asset is periodically reduced by impairment losses, if applicable, and adjusted for certain remeasurements of the lease liability.

Lease liability

At the commencement date of the lease, the lease liability is initially measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid by the Group under residual value guarantees. The lease payments also include the exercise price of a purchase option if the Group is reasonably certain to exercise that option. Payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate the lease, are also included. The payments are discounted at the incremental borrowing rate since the rates implicit in the leases are not readily available.

The lease liability is measured by increasing the carrying amount to reflect the interest on the lease liability and reducing the carrying amount to reflect the lease payments made. The carrying value is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

In accordance with IAS 36 *Impairment of assets* the opening onerous contract provision for SWR of £145.9m was reclassified as an impairment on ROUA on adoption of IFRS 16. Similarly, £62.7m of the opening TPE onerous contract provision was reclassified as an opening impairment on ROUA with the remaining balance of £44.2m being reclassified as impairment on ROUA additions in the period.

Notes to the consolidated financial statements continued

2 Significant accounting policies continued

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to selected leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option and where it is not reasonably certain that the lease term will be extended. It also applies the low-value assets recognition exemption to leases of assets of low value based on the value of the asset when it is new, regardless of the age of the asset being leased. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

On the balance sheet, right of use assets have been included in property, plant and equipment and lease liabilities have been included in borrowings.

The accounting policy for leasing for the year ended 31 March 2019 was as follows:

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, significant movements on insurance discount rates, 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.

2 Significant accounting policies continued

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 (excluding software amortisation), Greyhound impairment charges, First Student onerous contract provision, aged self-insurance claims, significant adverse loss development factors on insurance provisions, significant movements in the insurance discount rate, restructuring and reorganisation costs, gain on disposal of property, fuel over hedge and writing down of previously recognised deferred tax assets. In the prior year the non-GAAP adjusting items principally related to other intangible asset amortisation charges (excluding software amortisation), onerous contract provision, impairment charges, aged self-insurance claims, restructuring and reorganisation costs, pension settlement losses including GMP equalisation.

Retirement benefit costs

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

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

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

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

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 with within other comprehensive income or directly in equity respectively.

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

The Group has adopted IFRIC 23 Uncertainty over Income Tax Treatments for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the Group to determine whether uncertain tax positions are assessed separately or as a Group: and

- Assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
 - If yes, the Group should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
 - If no, the Group should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

Notes to the consolidated financial statements continued

2 Significant accounting policies continued

Property, plant and equipment

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

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

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

Freehold buildings	50 years straight-line
Passenger carrying vehicles	7 to 17 years straight-line
Other plant and equipment	3 to 25 years straight-line

Right-of-use assets are depreciated over the shorter period of the lease and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset.

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.

For the year ended 31 March 2020 we have assessed the value of the Greyhound CGU on a fair value less costs to sell basis for the purposes of the impairment review. The adoption of this approach in preference to a value in use basis, reflects the ongoing intention of the Group to divest of the Greyhound business. The CGU valuation has been assessed under a Level 3 fair value hierarchy as defined by IFRS 13, assessing the value of a stand-alone Greyhound business on a discounted cash flow approach.

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 cash flows where those cash flows represent solely payments of principal and interest. Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Fair value through profit and loss

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

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

Fair value through other comprehensive income

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

Financial liabilities and equity instruments

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

Financial liabilities

Bank borrowings

Interest-bearing bank loans and overdrafts are measured on an amortised cost basis.

Bonds and loan notes

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

Trade payables

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

Derivative financial instruments and hedge accounting

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

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

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

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.

Notes to the consolidated financial statements continued

2 Significant accounting policies continued

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.

The Group has applied for the first time IFRS 16 Leases. The nature and effect of these changes are disclosed below.

IFRS 16 Leases replaces IAS 17 Leases and three interpretations (IFRIC 4 Determining whether an Arrangement contains a lease, SIC 15 Operating Leases – Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). On transition the Group has applied IFRS 16 using the modified retrospective approach, with the cumulative effect on adoption being recognised as an adjustment to opening retained earnings. Prior periods have not been restated.

Prior to the adoption of IFRS 16, leases were either classified as operating or finance leases. Payments made in respect of operating leases were charged to the income statement on a straight-line basis over the duration of the lease. Finance leases were recognised on the balance sheet with depreciation and interest being charged to the income statement.

For leases previously classified as finance leases, the Group has recognised the carrying amount of the finance lease asset and liability under IAS 17 as at 31 March 2020 as the carrying amount of the right of use asset and the lease liability under IFRS 16 at 1 April 2019.

The Group has elected not to include initial direct costs in the measurement of the right of use asset for operating leases in existence at the date of transition. At this date, the Group has also elected to measure the right of use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low value assets the Group has applied the available practical expedients, therefore these have not been recognised as right of use assets but have been accounted for as a lease expense on a straight-line basis over the remaining lease term.

In September 2019, the IASB issued Interest Rate Benchmark Reform – Amendment to IFRS 9, IAS 39 and IFRS 7. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedges items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms.

2 Significant accounting policies continued

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 3.21%.

	As previously reported at 31 March 2019 £m	Impact of IFRS 16 £m	Restated at 1 April 2019 £m
Assets			
Property, plant and equipment cost	2,165.9	1,140.4	3,306.3
Property, plant and equipment impairment	–	(208.6)	(208.6)
Trade and other receivables	1,141.4	(3.8)	1,137.6
Deferred tax assets	40.6	1.4	42.0
Other assets not impacted by IFRS 16	2,600.7	–	2,600.7
Total assets/impact on assets	5,948.6	929.4	6,878.0
Liabilities			
Trade and other payables	1,547.3	(11.3)	1,536.0
Borrowings	1,649.0	(59.9)	1,589.1
Lease liabilities ^{1, 2}	–	1,228.1	1,228.1
Deferred tax liabilities	16.5	(3.3)	13.2
Provisions	797.9	(208.6)	589.3
Other liabilities not impacted by IFRS 16	414.6	–	414.6
Total liabilities/impact on liabilities	4,425.3	945.0	5,370.3
Net assets/impact on net assets	1,523.3	(15.6)	1,507.7
Equity			
Retained earnings	248.1	(15.6)	232.5
Other equity not impacted by IFRS 16	1,275.2	–	1,275.2
Total equity/impact on equity	1,523.3	(15.6)	1,507.7

1 Lease liabilities are included within borrowings on the consolidated balance sheet.

2 As at 1 April 2019, lease liabilities due within one year were £549.7m. Lease liabilities due after one year were £678.4m.

Right of use assets of £1,140.4m were recognised at 1 April 2019, £829.4m related to rolling stock, £217.2m related to leases of land and property, £89.5m related to PCV's and £4.3m related to the lease of other assets.

The lease liabilities as at 1 April 2019 can be reconciled to the opening lease commitments as at 31 March 2019 as follows:

	£m
Operating lease commitments at 31 March 2019	2,952.8
Short-term and low value lease commitments straight-line expensed under IFRS 16	(36.5)
First Rail charges for track, station and depot access ³	(997.0)
Leases entered into where the commencement date falls after 31 March 2019	(496.6)
IAS 17 lease commitments which do not meet the definition of a lease under IFRS 16 ⁴	(183.1)
Other	30.0
Effect of discounting using incremental borrowing rates	(101.4)
Finance lease liabilities recognised under IAS 17 at 31 March 2019	59.9
Lease liabilities recognised at 1 April 2019	1,228.1

3 Within First Rail, £1.0bn relates to track, station and depot access charges which do 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 assets throughout the period of use, or that Network Rail, not the Group, directs how and for what purpose the assets are used.

4 IAS 17 lease commitments for ongoing rolling stock maintenance costs which comprise of non-lease components and do not meet the definition of a lease under IFRS 16.

In respect of the income statement impact, the application of IFRS 16 resulted in a decrease in other operating expenses and an increase in depreciation and interest expense compared to IAS 17. During the year ended 31 March 2020 the adoption of IFRS 16 resulted in the Group recognising following amounts in the consolidated income statement:

	£m
Depreciation	483.2
Interest expense	40.2
Short-term and low value lease expense	35.1

Notes to the consolidated financial statements continued

2 Significant accounting policies continued

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.

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.

Contractual and direct fiscal support as a result of coronavirus

The Group has received contractual and direct fiscal support as a result of coronavirus. The key fundamental principle to the basis of preparation of the financial statements is that this support will continue to be provided to the Group until passenger volumes and operated service activities return towards pre-coronavirus levels, as outlined in the Going Concern statement on page 72 & 73.

During the year the principal contractual and direct fiscal support recognised comprised £131.8m of EMA funding in First Rail, £48.2m of coronavirus recoveries and £10.4m of CARES Act employee retention credits in First Student, £6.6m of CARES Act 5311(f) funding in Greyhound, £7.4m of CBSSG and other funding in First Bus and £1.6m of coronavirus recoveries in First Transit.

The main contractual and direct fiscal support received for each division has been as follows:

First Student

The US CARES Act was passed into law on 27 March 2020 and stipulates that School Boards should to the greatest extent practicable pay all of their contractors in full. The amounts receivable from customers are recognised as contract revenue in the period in which the service is provided.

First Transit

Any additional amounts contractually agreed with customers are recognised as contract revenue in the period in which the service is provided.

Greyhound

Subsidy funding was made available under section 5311(f) of the terms of the US CARES Act. The Act allows Greyhound to claim for losses made from operating intercity bus services in the US after 20 January 2020. The subsidy funding receivable is recognised as other revenue in the period in which the service is provided.

First Bus

A new COVID-19 Bus Service Support Grant (CBSSG) was in place from 17 March 2020 for English bus operators. It is a grant payable to bus operators in respect of commercial services in return for making available sufficient capacity to run an agreed level of commercial miles.

First Rail

The Emergency Measures Agreements (EMAs) transferred all revenue and cost risk to the government for an initial period to 20 September 2020. Franchised TOCs are paid a small management fee to continue running a revised National Rail timetable across the UK. The EMAs signed are effective from 1 March 2020.

Net EMA funding including the management fee is recognised as revenue in Rail franchise subsidy receipts, in line with the revenue recognition policy for franchise subsidy receipts from the DfT. The accounts for the year ended 31 March 2020 have been prepared on the basis that there will be a continuation of EMA or similar for all Franchised TOCs for the duration of the franchise period and that these arrangements will allow FirstGroup to recover the remaining value of the right of use assets as reflected in the balance sheet.

Going Concern Statement and Viability

The year has been materially impacted by the onset of the coronavirus pandemic. The Group has a strong balanced portfolio of businesses that provide essential services to the communities we serve.

Continuity of transport proved essential to governments, local communities and many of our customers throughout the coronavirus pandemic and it will also be critical to the restoration of normal life when the present uncertain and extremely difficult situation is overcome. The funding to sustain services that we have received from governments and our customers is testament to the importance of our offering to those we serve.

Both governments and our key contracted customers recognised the need to stop or significantly reduce services as passenger demand declined rapidly when the lockdowns and 'shelter in place' orders were made. They also recognised that it was critical to maintain essential services for key workers to get to their place of work, and to preserve the ability to restore services quickly when required. Throughout the crisis, all our businesses had productive engagement with major customers on revenue recovery, including school district boards throughout North America, and local, state and national governments in all of the markets served by the Group.

Details of the revenue protection measures and government funding and other support are set out in the Operating and Financial Review on page 60. Details of the actions taken to reduce operating costs and non-contractual committed capital spend across the Group are also set out on page 59.

The impact of coronavirus on our business, and the support being provided by customers and government, will continue to evolve throughout the coming months. Despite these support measures, it is uncertain how and when these support measures will be withdrawn and, if the crisis persists for a much longer period, the extent to which governments and customers will continue to have the ability to provide fiscal and contractual support.

2 Significant accounting policies continued

It is difficult to assess with any degree of certainty what effect the continued impact of the coronavirus crisis might have on the wider economy and the transport sector in the markets in which the Group operates. It is therefore highly uncertain what impact there might be on the Group's future trading performance and financial position.

The Going Concern Statement at pages 72 to 73 sets out the following material uncertainties as to going concern which are facing the Group:

Material uncertainty relates to:

- The uncertainty regarding the levels of fiscal and contractual support which may be provided beyond the period for which that funding and contractual support is currently being provided;
- Whether passenger volumes recover to the levels necessary to sustain the business without the current fiscal financial and contractual support;
- The timing of cash flows, including movements in working capital and the timing of receipts of contractual and fiscal support that may impact debt levels at covenant test dates;
- The ability of the Group to draw down on c.£550m of the currently available but uncommitted facilities throughout the going concern period if required; and
- The ability of the Group to obtain covenant waivers from debt providers if required.

The Prospects and Viability section at pages 69 to 71 details the mitigating actions which the Group could take if materially different outcomes to the base case and downside scenarios have a materially adverse impact on the Group.

Defined benefit pension arrangements

The Group currently sponsors six 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 IAS 19 (Revised) with a third party taking on the obligation for future contributions. As there is no requirement to make contributions to fund the current deficit, it is assumed that all of the current deficit will be funded by another party and hence none of that deficit is attributable to the current 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 IAS 19 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 2020 the impact of this alternative approach would be an increase in costs of £63.3m (2019: £49.6m) in the income statement and a credit to OCI of £169.9m (2019: £65.9m). In addition, the balance sheet would reflect a surplus of £155.3m (2019: £48.7m). 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 for each scheme following completion of their funding valuations, and more frequently only if appropriate to do so.

The current market volatility and fundamental economic uncertainties have resulted in difficulties in valuing certain assets of the pension schemes that are not listed on public markets (e.g. property, infrastructure, private debt). Where asset valuations were not provided prior to the production of this report, we have consulted with investment managers and actuarial advisers in estimating adjustments to asset values where appropriate. Further details are set out in note 36.

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 2020 was a liability of £313.4m (2019: £307.2m). Further details and sensitivities are set out in note 36.

Determining the incremental borrowing rate used to measure lease liabilities

The Group is required to determine its incremental borrowing rate (IBR) to measure its lease liabilities. Judgement is required to determine the components of the IBR used for each lease, including risk-free rates, credit risk and any lease specific adjustments.

Notes to the consolidated financial statements continued

2 Significant accounting policies continued

IBRs are determined quarterly or at the time of a new franchise. They depend on the term, country and start and end date of the lease. They are estimated based on several factors which include the risk-free rate based on government bond rates, a country-specific adjustment and a credit risk adjustment based on the average credit spread of entities with similar ratings to the Group.

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 CGUs

The key sources of estimation uncertainty in relation to impairment of assets in CGUs relate to the cash flow forecasts including significant judgements in deciding what assumption to make regarding how the impact of the coronavirus pandemic might evolve over the coming months in our CGUs. This is covered in more detail in note 11.

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.

Under emergency measures announced by the Secretary of State and the DfT at the end of March 2020, the government has suspended all rail franchise agreements due to the exceptional circumstances presented by coronavirus. These measures which have been formalised in EMAs effectively transfer all revenue and cost risks to the government for an initial period to 20 September 2020 with franchised TOCs being paid a management fee to continue running a revised national rail timetable across the UK. As noted earlier in this note on page 141, the accounts for the year ended 31 March 2020 have been prepared on the basis that there will be a continuation of EMA or similar for all Franchised TOCs for the remainder of the franchise terms.

If the DfT were to return all TOCs to the original franchise terms following the EMA expiry on 20 September 2020 without any rebasing, the maximum unavoidable loss remaining after existing impairments is £232m. The remaining cash exposure is £294m.

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 (including franchise change amounts) 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. For the duration of the EMAs, all Franchise Changes are suspended except for Franchise Change events triggered before the EMA.

Amounts recoverable for subsidy franchises are in line with IAS 37 for premium franchises. Under IFRS 15 the estimated amounts have been included in revenue if it is highly probable that a significant reversal of cumulative revenue for the contracts will not occur when the uncertainty is resolved. Under IAS 37, the Group considers the recognition and measurement criteria in forming our best estimate of amounts to offset against the franchise premium cost. The amounts recoverable under subsidy franchises in the balance sheet at 31 March 2020 total £60.2m.

Hull Trains is not subject to an EMA. It has non-current assets of £32.5m as at 31 March 2020. The impairment assessment of Hull Trains is covered in note 11.

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, 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 £588.9m (2019: £471.8m) as set out in note 26. Of this £527.3m relates to North America where the actuarial range is £442.2m to £548.2m (2019: £408.9m and actuarial range £342.9m to £438.8m). In addition, North America has an additional provision of £22.1m and a receivable of equal amount from third party insurers for indemnified claims.

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 could lead to future adjustments to tax assets and liabilities that are currently not recognised and therefore the range of potential outcomes would have a minimal impact on the tax charge.

Deferred tax asset recognition

Deferred tax assets are recognised to the extent that it is probable that the Group has sufficient taxable profits to offset these assets and the financial forecasts used to assess the impairment of assets in CGUs are used to demonstrate the future taxable profits. There is a deferred tax asset recognised in the UK and should the assumption that all franchised TOCs continue under EMA or similar arrangements for the life of the existing franchise agreement prove incorrect then there would be a risk that the deferred tax assets should not be recognised and there would be a charge to Other Comprehensive Income of up to £26.5m with minimal impact on the income statement.

3 Revenue

	2020 £m	2019 £m
Services rendered	7,380.2	6,933.1
First Rail franchise subsidy receipts	369.1	193.8
Other income	5.3	–
Revenue	7,754.6	7,126.9

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

Services rendered includes £60.2m of recoveries in relation to coronavirus in relation to First Bus, First Student, First Transit and Greyhound.

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, significant movements on discount rates used to discount the insurance reserve 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.

During the year to 31 March 2020 software amortisation charges of £16.1m (2019: £18.1m) have been charged to divisional results in arriving at adjusted operating profit and prior year adjusted Group and divisional results have been restated accordingly. In prior years this was separately disclosed as an adjusting item.

	Year to 31 March 2020 £m	Year to 31 March 2019 (restated) £m
Reconciliation of operating (loss)/profit to adjusted operating profit		
Operating (loss)/profit	(152.7)	9.8
Adjustments for:		
Greyhound impairment charges	186.9	–
North America insurance provisions	141.3	94.8
Restructuring and reorganisation costs	58.2	24.1
Other intangible asset amortisation charges	4.9	11.8
Gain on disposal of properties	(9.3)	(9.3)
Fuel over hedge	7.4	–
Legacy pension settlement	4.9	–
First Student onerous contract provision	14.1	–
Increase in SWR performance bond	1.1	–
SWR onerous contract provision	–	145.9
Guaranteed minimum pensions charge	–	21.5
Loss on disposal/impairment charges	–	16.2
Total operating profit adjustments	409.5	305.0
Adjusted operating profit (note 5)	256.8	314.8

	Year to 31 March 2020 £m	Year to 31 March 2019 (restated) £m
Reconciliation of loss before tax to adjusted profit before tax and adjusted earnings		
Loss before tax	(299.6)	(97.9)
Operating profit adjustments (see table above)	409.5	305.0
Notional interest on TPE onerous contract provision	–	1.1
Adjusted profit before tax	109.9	208.2
Adjusted tax charge (see below)	(24.6)	(46.6)
Adjusted non-controlling interests ¹	(2.6)	(1.8)
Adjusted earnings	82.7	159.8

1 Statutory non-controlling interests of £2.5m comprise a charge in respect of the results for Avanti West Coast.

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4 Reconciliation to non-GAAP measures and performance continued

	Year to 31 March 2020 £m	Year to 31 March 2019 £m
Reconciliation of tax charge to adjusted tax charge		
Tax charge (note 9)	25.0	10.1
Tax effect of adjusting items (note 10)	39.6	36.5
Write down of previously recognised deferred tax assets (note 10)	(40.0)	–
Adjusted tax charge	24.6	46.6

The adjusting items are as follows:

Greyhound impairment charges

We have assessed the recoverable value of Greyhound under a Fair Value Less Costs To Sell approach, rather than the IAS 36 Value-in-Use method applied to our other trading Divisions and in the prior year. This approach considers the value that a potential Market Participant may ascribe to Greyhound, including recognition of significant unrealised property values in the Greyhound portfolio.

An impairment charge of £124.4m was recorded in the first half of the year on our Greyhound business largely as a result of a decline in immigration flows on the Southern US border and increased competition on some routes leading the Group to lower its short to medium term financial projections for this business.

In the second half we have recorded a further impairment charge of £62.5m to reflect poor business performance and an increase in the rate used to discount the future cash flows. As a result the total impairment charge for Greyhound for the year was £186.9m (2019: £nil).

Both impairments have been recognised in the results on a pro-rata basis against the assets of the division excluding property. Valuations in excess of book value suggest no impairment to the carrying value of property.

North America Insurance provisions

FirstGroup North American insurance arrangements involve retaining the working loss layers in a captive and insuring against the higher losses. Based on our actuaries' recommendation and a second additional, independent actuarial review, last year we increased our reserve to \$533m. During this financial year we have continued to see a deteriorating claims environment with legal judgements increasingly in favour of plaintiffs and punitive in certain regions. In this hardening motor claims environment, we have seen further significant new adverse settlements and developments on a number of aged insurance claims, and as a result our actuaries have increased their expectation of the reserve required on historical claims.

In addition, there has been a significant change in the market-based discount rate used in the actuarial calculation from 2.7% to 0.8%, creating the requirement to increase the provision. This is the first time that a movement in the discount rate has been treated as an adjusting item. Management consider that this treatment is appropriate due to the size of the financial impact. In recent years movements in discount rates have not been significant and the financial impact has been included in operating results.

In light of the continued change in claims environment we have increased the provision to provide more protection for historical claims, and the resulting self-insurance reserve level is above the midpoint of the actuarial range. These changes in accounting estimates combined with the discount rate movement has resulted in the Group recording an additional charge of \$175.2m or £141.3m (2019: \$125.0m or £94.8m); \$149.5m or £120.6m relating to losses from historical claims and \$25.7m or £20.7m relating to the change in the discount rate. It is expected that the majority of these claims will be settled over the next five years. Following these charges, the provision at 31 March 2020 stands at \$657m (2019: \$533m) compared with the actuarial range of \$551m to \$683m (2019: \$447m to \$572m).

The charge to the adjusted operating profit for the current year reflects this revised environment and the businesses continue to build the higher insurance costs into their bidding processes and hurdle rates for investment. The Group also actively evaluates alternatives to reduce insurance risk and ongoing expense, and has made improvements to claims management processes during the second half. It is anticipated that the Group would extinguish the relevant self-insurance provisions as part of the sale processes for the North American divisions.

The Group has a strong focus on safety and risk management. In First Student for example, the culture of safety we have built and continue to foster has resulted in four consecutive years of reduced injuries, down 34% over that period. We continue to maintain high standards and levels of investment in safety and this will continue to be a key area of focus for the Group.

4 Reconciliation to non-GAAP measures and performance continued

Restructuring and reorganisation costs

There was a charge of £58.2m (2019: £24.1m) for restructuring and reorganisation costs of which a large part relates to a Group-wide initiative to achieve systematic and structured cost savings across the businesses with the assistance of a market leading organisation in this field. Although this assistance has now ended, the programme has shown some benefits in the year just ended prior to the coronavirus pandemic and is anticipated to have further benefits in future years. Restructuring costs also include legal, professional and other costs associated with the proposed rationalisation of the Group. In addition, trading losses in the two Manchester depots to the date of disposal have been included.

The two Manchester depots were disposed of in the financial year for £16.2m. The net book value of the assets sold totalled £15.1m, resulting in a gain on sale of £1.1m which is included in the operating loss.

Other intangible asset amortisation charges

The amortisation charge for the year was £4.9m (2019: £11.8m) with the reduction due to a number of customer contract intangibles which have now been fully amortised with the remainder mainly relating to brand amortisation in Greyhound.

Gain on disposal of properties

First Student recognised a profit of £8.0m on sale of a property in the year. Greyhound recognised a profit of £1.3m on sales of property, principally relating to the withdrawal from Western Canada (2019: £9.3m).

Fuel over hedge

There was a charge of £7.4m (2019: £nil) relating to ineffectiveness on fuel hedges as a result of dramatically lower than forecast volumes due to the short-term reduction in services levels as a result of the coronavirus pandemic, particularly in First Bus and First Student.

Legacy pension settlement

This relates to a legacy pension liability from a business disposal which First Transit made in 2013.

First Student onerous contract provision

As a result of coronavirus, a number of school bus contracts which have either been lost or were up for bid at the balance sheet date, will incur unavoidable losses from the start of the new financial year until the end of the school year. The total charge for unavoidable losses on these contracts was £14.1m (2019: £nil).

Increase in SWR performance bond

The SWR Performance bond renewed in October 2019, six months before expiry. On renewal the cost of the bond took into account increases in RPI and increased from £15.0m to £16.1m.

	Year to 31 March 2020			Year to 31 March 2019 (restated)			
	Reported £m	Avanti franchise £m	Avanti adjusted £m	Reported £m	Effect of foreign exchange £m	Adjusted constant currency £m	% change
Reconciliation of underlying ¹ adjusted ²							
Revenue	7,754.6	(331.2)	7,423.4	7,126.9	107.7	7,234.6	+2.6%
Operating profit	256.8	(14.3)	242.5	314.8	6.5	321.3	(24.5)%

	Year to 31 March 2020 £m	Year to 31 March 2019 (restated)			
		Reported £m	Effect of foreign exchange £m	Constant Currency £m	% change
Reconciliation of constant currency ³					
Revenue	7,754.6	7,126.9	107.7	7,234.6	+7.2%
Adjusted operating profit	256.8	314.8	6.5	321.3	(20.1)%
Adjusted profit before tax	109.9	208.2	4.0	212.2	(48.2)%
Adjusted EPS	6.8p	13.3p	0.2p	13.5p	(49.6)%
Net debt	3,278.1	903.4	23.3	926.7	+253.7%

1 Growth excluding Avanti franchise (which became part of First Rail in December 2019 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 2019 foreign currency amounts at 2020 rates.

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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 2020 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	–	–	532.7	758.2	2,584.1	–	3,875.0
Contract revenue	1,764.9	1,031.9	–	63.5	–	17.8	2,878.1
Charter/private hire	159.4	5.0	3.5	–	–	–	167.9
Rail franchise subsidy receipts	–	–	–	–	369.1	–	369.1
Other	16.1	134.5	67.0	14.2	232.7	–	464.5
Revenue	1,940.4	1,171.4	603.2	835.9	3,185.9	17.8	7,754.6
EBITDA³	387.6	62.9	35.3	113.2	538.6	(28.7)	1,108.9
Depreciation	(225.8)	(32.2)	(39.7)	(69.2)	(518.2)	(4.3)	(889.4)
Software amortisation	(3.0)	(2.4)	(8.1)	(0.9)	(1.0)	(0.7)	(16.1)
Capital grant amortisation	–	–	0.9	3.0	49.5	–	53.4
Segment results	158.8	28.3	(11.6)	46.1	68.9	(33.7)	256.8
Other intangible asset amortisation charges	(2.4)	–	(2.5)	–	–	–	(4.9)
Other adjustments (note 4)	(67.0)	(50.2)	(239.3)	(13.7)	(1.1)	(33.3)	(404.6)
Operating (loss)/profit⁴	89.4	(21.9)	(253.4)	32.4	67.8	(67.0)	(152.7)
Investment income							2.7
Finance costs							(149.6)
Loss before tax							(299.6)
Tax							(25.0)
Loss after tax							(324.6)
Other information	First Student £m	First Transit £m	Greyhound £m	First Bus £m	First Rail £m	Group items² £m	Total £m
Capital additions	297.7	21.2	59.5	58.9	123.1	2.7	563.1

	Total assets £m	Total liabilities £m	Net assets/ (liabilities) £m
Balance sheet⁵			
First Student	3,157.7	(608.5)	2,549.2
First Transit	663.2	(274.0)	389.2
Greyhound	261.4	(392.2)	(130.8)
First Bus	722.8	(343.3)	379.5
First Rail	2,513.6	(1,164.9)	1,348.7
	7,318.7	(2,782.9)	4,535.8
Group items ²	112.5	(147.7)	(35.2)
Net debt	869.3	(4,147.4)	(3,278.1)
Taxation	43.4	(89.2)	(45.8)
Total	8,343.9	(7,167.2)	1,176.7

1 Greyhound segment results contains £8.3m of property gains mainly from the disposal of 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 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
EBITDA³	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)
Software amortisation ⁶	(2.3)	(2.2)	(8.8)	(0.7)	(3.5)	(0.6)	(18.1)
Capital grant amortisation	–	–	0.5	2.2	25.9	–	28.6
Segment results (note 6)	171.2	49.3	2.6	65.1	68.8	(42.2)	314.8
Other intangible asset amortisation charges	(8.6)	–	(3.2)	–	–	–	(11.8)
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)

	First Student £m	First Transit £m	Greyhound £m	First Bus £m	First Rail £m	Group items ¹ £m	Total £m
Other information							
Capital additions	257.8	27.3	28.0	17.9	112.0	1.0	444.0

	Total assets £m	Total liabilities £m	Net assets/ (liabilities) £m
Balance sheet⁵			
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)
Group items ¹	5,075.0	(2,659.5)	2,415.5
Net debt	136.7	(120.1)	16.6
Taxation	692.9	(1,596.3)	(903.4)
	44.0	(49.4)	(5.4)
Total	5,948.6	(4,425.3)	1,523.3

1 Greyhound segment results contain £8.4m of property gains on the disposal of 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 (loss)/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.

6 Restated to charge £18.1m of software amortisation to divisional results in arriving at adjusted operating profit.

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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	2020 £m	2019 £m
United Kingdom	4,039.6	3,560.1
United States of America	3,380.7	3,226.4
Canada	334.3	340.4
	7,754.6	7,126.9

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	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
United Kingdom	2,884.1	741.1	184.7	130.9	4,328.4	2,113.1
United States of America	2,879.8	2,813.1	328.5	262.3	3,568.4	3,410.2
Canada	336.0	319.0	49.9	50.8	403.7	381.3
Unallocated corporate items	–	–	–	–	43.4	44.0
	6,099.9	3,873.2	563.1	444.0	8,343.9	5,948.6

6 Operating (loss)/profit

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

	2020 £m	2019 £m
Depreciation – owned assets (note 13)	393.0	366.0
– leased assets (note 13)	496.4	–
Operating lease charges (note 34)	421.4	971.9
Other intangible asset amortisation charges (note 12)	21.0	29.9
Capital grant amortisation	(53.4)	(28.6)
Cost of inventories recognised as an expense	539.4	575.0
Employee costs (note 7)	3,612.8	3,355.2
Gain on disposal of property, plant and equipment	(12.9)	(23.5)
Impairment charges	189.0	13.0
SWR onerous contract provision	–	145.9
TPE onerous contract provision	–	(0.5)
North America insurance provisions (note 4)	141.3	94.8
Auditor's remuneration (see below)	4.1	2.9
Rail franchise payments	317.2	293.3
Other operating costs ¹	1,838.0	1,321.8
	7,907.3	7,117.1

¹ Other operating costs includes £58.6m (2019: £63.6m) 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:

	2020 £m	2019 £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	3.7	2.5
Total audit fees	3.8	2.6
Audit-related assurance services	0.2	0.2
Other non-audit services	0.1	0.1
Total non-audit fees	0.3	0.3

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 were safeguarded are set out in the Corporate Governance report on pages 105. 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:

	2020 Number	2019 Number
Operational	97,324	96,182
Administration	6,170	5,879
	103,494	102,061

The aggregate remuneration (including Executive Directors) comprised:

	2020 £m	2019 £m
Wages and salaries	3,162.7	2,935.6
Social security costs	350.8	323.1
Pension costs (note 36)	99.3	96.5
	3,612.8	3,355.2

Wages and salaries include a charge in respect of share-based payments of £10.3m (2019: £9.1m).

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 110 to 129. Directors' emoluments in aggregate were £2.9m (2019: £2.0m).

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8 Investment income and finance costs

	2020 £m	2019 £m
Investment income		
Bank interest receivable	(2.7)	(2.7)
Finance costs		
Bonds	56.5	59.9
Bank borrowings	19.7	14.0
Senior unsecured loan notes	9.2	8.9
Loan notes	1.2	1.1
Finance charges payable in respect of leases	2.4	2.7
Interest cost on right of use assets	40.2	–
Notional interest on long-term provisions	11.8	14.6
Notional interest on pensions	8.6	8.1
Finance costs before adjustments	149.6	109.3
Notional interest on TPE onerous contract provision	–	1.1
Total finance costs	149.6	110.4
Finance costs before adjustments	149.6	109.3
Investment income	(2.7)	(2.7)
Net finance cost before adjustments	146.9	106.6

Finance costs are stated after charging fee expenses of £0.7m (2019: £2.1m). There was no interest capitalised into qualifying assets in either the year ended 31 March 2020 or 31 March 2019.

9 Tax on loss on ordinary activities

	2020 £m	2019 £m
Current tax	(0.7)	8.1
Adjustments with respect to prior years	1.2	0.1
Total current tax charge	0.5	8.2
Origination and reversal of temporary differences	(14.1)	4.8
Adjustment in respect of prior years	1.4	(2.9)
Adjustments attributable to changes in tax rates and laws	(2.8)	–
Writing down of previously recognised deferred tax assets	40.0	–
Total deferred tax charge (note 25)	24.5	1.9
Total tax charge	25.0	10.1

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

UK corporation tax is calculated at 19% (2019: 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:

	2020 £m	2020 %	2019 £m	2019 %
Loss before tax	(299.6)	100.0	(97.9)	100.0
Tax at the UK corporation tax rate of 19% (2019: 19%)	(56.9)	19.0	(18.6)	19.0
Non deductible expenditure	5.2	(1.7)	1.7	(1.7)
Non taxable income	(1.5)	0.5	(1.4)	1.4
Tax rates outside of the UK	(5.2)	1.7	(0.5)	0.5
Unrecognised losses	3.1	(1.0)	8.1	(8.3)
Reduction in tax provisions for uncertain tax positions relating to prior years ¹	(1.0)	0.4	(2.5)	2.6
Other adjustments in relation to prior years	3.6	(1.2)	(0.3)	0.3
Unrecognised losses on SWR onerous contract provisions ²	0.8	(0.3)	24.3	(24.8)
Non-recognition of deferred tax asset on Greyhound impairment ²	39.7	(13.2)	–	–
Write down of previously recognised deferred tax assets ³	40.0	(13.4)	–	–
Reduced deferred tax rates on current year temporary differences	–	–	(0.7)	0.7
Adjustments attributable to changes in tax rates and laws	(2.8)	0.9	–	–
Tax charge and effective tax rate for the year	25.0	(8.3)	10.1	(10.3)

- 1 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. We engage advisers to obtain opinion on tax legislation and we monitor proposed changes in legislation. No adjustment was required to these provisions on the adoption of IFRIC 23. 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.
- 2 The impairment of Greyhound has resulted in deferred tax assets that have not been recognised and the SWR onerous contract provision in 2019 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.
- 3 Certain deferred tax assets which had previously been recognised have now been written down as it is now not probable that there will be sufficient future profits before these assets expire as a result of the impact of the coronavirus pandemic on the near-term forecasts and the North American sales processes; both arising in the current year.

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. At the balance sheet date a change to maintain the UK corporation tax rate at 19%, which was to reduce to 17% from 1 April 2020, had been substantively enacted.

In addition to the amount charged/(credited) to the income statement, deferred tax relating to actuarial losses on defined benefit pension schemes £24.6m (2019: £(7.1)m) and cash flow hedges £(5.9)m (2019: £4.1m) have been charged/(credited) to comprehensive income together with a further £(5.9)m (2018: £(4.7)m) taken directly to equity on cash flow hedges. These amount to a total charge/(credit) of £12.8m (2019: £(7.7)m) recognised in other comprehensive income and equity.

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10 Earnings per share (EPS)

EPS is calculated by dividing the loss attributable to equity shareholders of £327.2m (2019: loss £66.9m) by the weighted average number of ordinary shares of 1,210.9m (2019: 1,205.9m). 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.

	2020 Number m	2019 Number m
Weighted average number of shares used in basic calculation	1,210.9	1,205.9
Executive share options	14.8	8.1
Weighted average number of shares used in the diluted calculation	1,225.7	1,214.0

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:

	2020 £m	2020 EPS (pence)	2019 £m	2019 EPS (pence)
Basic loss/EPS	(327.2)	(27.0)	(66.9)	(5.5)
Amortisation charges (note 4)	4.9	0.4	11.8	1.0
Notional interest on TPE onerous contract provision	–	–	1.1	0.1
Other adjustments (note 4)	404.6	33.4	293.2	24.3
Non-controlling interest share of the SWR onerous contract provision	–	–	(42.9)	(3.6)
Tax effect of above adjustments	(39.6)	(3.3)	(36.5)	(3.0)
Write down of previously recognised deferred tax assets	40.0	3.3	–	–
Adjusted profit/EPS	82.7	6.8	159.8	13.3

	2020 pence	2019 pence
Diluted EPS	(27.0)	(5.5)
Diluted EPS	(27.0)	(5.5)
Adjusted diluted EPS	6.7	13.2

11 Goodwill

	2020 £m	2019 £m
Cost		
At 1 April	1,862.7	1,761.4
Additions (note 30)	1.7	0.6
Foreign exchange movements	90.9	100.7
At 31 March	1,955.3	1,862.7
Accumulated impairment losses		
At 1 April	264.6	264.6
Foreign exchange movements	27.5	–
At 31 March	292.1	264.6
Carrying amount		
At 31 March	1,663.2	1,598.1

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:

Carrying amount	2020 £m	2019 £m
First Student	1,269.4	1,218.5
First Transit	309.8	296.1
First Bus	78.4	77.9
First Rail	5.6	5.6
	1,663.2	1,598.1

Impairment testing – First Student, First Transit, First Bus and First Rail

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 in First Student, First Transit, First Bus and First Rail has been tested for impairment on a value in use basis assessed on the discounted future cash flows expected to be generated by each relevant CGU.

The Group prepares cash flow forecasts derived from the Three Year Plan for 2020/21 to 2022/23 which takes account of both past performance and expectations for future developments. Cash flows beyond the plan period are extrapolated using estimated long term growth rates which do not exceed the long term average growth rate for the market. Cash flows are discounted using a pre-tax discount rate derived from a market participant's weighted average cost of capital, benchmarked to externally available data.

The long term average growth rate and pre-tax discount rate assumption applied to each CGU are as follows:

	Pre-tax discount rate applied to cash flow projections		Growth rate used to extrapolate cash flows beyond three-year period of management plan	
	2020	2019	2020	2019
First Student	8.7%	8.3%	2.8%	2.8%
First Transit	8.7%	8.3%	2.6%	2.8%
First Bus	8.0%	7.8%	2.3%	2.5%
First Rail	3.2%	7.8%	2.5%	2.5%

The discount rate applied in First Rail reflects the significant level of IFRS 16 Right of Use asset funding within the First Rail CGU, principally in respect of franchise rolling stock agreements.

Financial modelling adopting the assumptions outlined above confirms that the carrying amount of the CGUs does not exceed their recoverable amount in respect of the First Transit, First Student and First Bus divisions, and accordingly no impairment charge is required for these CGUs. The assessment of the value in use of First Rail is dependent on judgements surrounding EMA emergency measures as detailed in Note 2 under key sources of estimation uncertainty.

As detailed in note 2 under key sources of estimation uncertainty, the cash flow forecasts include significant judgement in deciding what assumption to make regarding how the impact of the coronavirus pandemic might evolve over the coming months in our First Student, First Transit and First Bus divisions. This is covered in further detail in the Going Concern Statement at pages 72 and 73 including the key assumptions and judgements made in the base case forecasts for each CGU.

The calculation of value in use for each CGU is most sensitive to the principal assumptions of discount rate, growth rates and margins achievable. The table below summarises the % change in the principal assumptions which would erode the headroom to zero:

	First Bus	First Student	First Transit
Discount Rate	12.0%	10.0%	13.8%
Terminal Growth Rate	-2.4%	1.4%	-3.5%
Terminal Margin	5.0%	7.8%	2.5%

Management have performed sensitivity analysis to assess the impact that a combination of reasonably possible changes in the principal assumptions would have on the recoverable amount in respect of the First Student, First Transit and First Bus divisions.

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11 Goodwill continued

The scenarios modelled include:

First Student: Reducing the long term growth rate to 2.0% (in line with independent GDP forecasts for North America), maintaining an 8.7% discount rate and adopting a terminal margin at 8.9% in perpetuity (2019/20 reported margin: 8.2%) would lead to an £8.4m impairment on a total carrying value of assets in use of £2,582.3m.

First Transit: Reducing the long term growth rate to 2.0% (in line with independent GDP forecasts for North America), maintaining an 8.7% discount rate and adopting a terminal margin at 2.8% in perpetuity (2019/20 reported margin: 2.4%) would lead to a £14.8m impairment on a total carrying value of assets in use of £423.3m.

First Bus: Reducing the long term growth rate to 1.7% (in line with independent GDP forecasts for the UK), maintaining an 8.0% discount rate and adopting a terminal margin at 5.6% in perpetuity (2019/20 reported margin: 5.5%) would lead to a £16.5m impairment on a total carrying value of assets in use of £577.6m.

Impairment testing – Hull Trains

The carrying value of non-current assets of the Group includes £32.5m in respect of our Hull Trains operation which does not benefit from the EMA mechanism that supports our Franchised TOC portfolio. The impact of coronavirus represents an indication of potential impairment on Hull Trains and we have separately tested this CGU for impairment at 31 March 2020.

The Group prepares cash flow forecasts for Hull Trains through to the end of the current open access agreement in December 2029. These forecasts take into account past performance and expectations for future developments. In order to test for impairment, the cash flows are discounted using a pre-tax discount rate derived from the IFRS 16 Right of Use leases agreements, which are the principle non-current assets of the business.

Cash flows have been projected forward beyond 2021/22 using an average annual revenue growth rate of 7.0%, an operating cost growth rate of 2.9% and is discounted using a 3.4% pre-tax discount rate assumption. On this basis the value in use of Hull Trains exceeds its carrying value by £18.4m

The calculation of value in use for Hull Trains is most sensitive to the principal revenue and operating cost growth rate assumptions. A reduction in the average annual revenue growth rate to 5.7% from 2021/22 or an increase in the annual operating cost growth rate to 4.6% would reduce the value in use headroom to nil.

Management have performed sensitivity analysis to assess the impact that a reasonably possible change to these principal assumptions would have on the recoverable amount. This analysis highlights that under a scenario where annual revenues are assumed to recover to pre-coronavirus levels of £30.9m in 2021/22 (2019/20: £30.9m) followed by average annual revenue and operating cost growth of 1.7% thereafter (in line with independent GDP forecasts for the UK) the CGU assets would be impaired by £20.6m

Impairment testing – Greyhound

At 31 March 2019 the carrying value of the Greyhound CGU was reviewed for impairment in accordance with IAS 36 Impairment of Assets. For the purposes of this impairment the carrying value was tested for impairment on the basis of discounted future cash flows arising. As at 31 March 2019 the calculated value in use of the Greyhound division exceeded its carrying amount of £295.4m by £85.2m. Following their review at 31 March 2019, the Directors concluded that there should be no impairment in Greyhound.

An impairment charge of £124.4m was recorded in the first half of the year on our Greyhound business largely as a result of a decline in immigration flows on the Southern US border and increased competition on some routes leading the Group to lower its short to medium term financial projections for this business. This impairment has been recognised in the results and apportioned on a pro-rata basis against the tangible and intangible assets of the division excluding owned property. Market valuations in excess of book value suggest no impairment to the carrying value of property. Note that the carrying value of Goodwill is zero, having been fully impaired in previous years.

For the year ended 31 March 2020 we have assessed the value of the Greyhound CGU on a fair value less costs to sell basis for the purposes of the impairment review. Fair value has also been assessed on a value in use basis, but recent activity in line with the intention to divest of the business indicated that using a fair value less costs to sell basis would be a more appropriate approach. The CGU valuation on a fair value less costs to sell basis has been assessed as a Level 3 fair value in the hierarchy as defined by IFRS 13, assessing the value of a stand-alone Greyhound business using a discounted cash flow approach. A risk adjusted view of the discounted future cash flows for the next three years, including £136.0m of net property disposal proceeds, was prepared to determine the potential value that a market participant may ascribe to the Greyhound CGU. A long-term revenue growth rate of 1.0% (March 2019: 2.8%) and terminal margin of 5.4% on a stand-alone CGU basis (2019/20: -2.0% reported margin) has been assumed. Cash flows are discounted using a pre-tax discount rate of 9.7% (March 2019: 8.3% on a value in use basis). The pre-tax discount rates applied are derived from a riskier view of a potential market participant's weighted average cost of capital at 1.0% above the discount rate applied to our other North American CGUs.

This indicated an impairment of £62.5m in addition to the £124.4m impairment recorded in the first half of the year. The full year impairment is therefore £186.9m and has been applied on a pro-rata basis against the assets of the division excluding owned property. Market valuations in excess of book value suggest no impairment to the carrying value of property. The carrying value of the CGU after recognising the impairment is £188.7m (\$235.2m).

The Greyhound impairment is sensitive to a change in the assumptions used, most notably to changes in the discount rate, terminal growth rate or terminal margin. Applying a 15.7% discount rate, a -6.0% terminal growth rate or a 3.3% terminal margin would reduce the fair value less costs to sell to £110.7m (\$137.9m), being the carrying value of Greyhound owned property at 31 March 2020.

12 Other intangible assets

	Customer contracts £m	Greyhound brand and trade name £m	Software £m	Total £m
Cost				
At 1 April 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
Acquisitions (note 30)	11.1	–	–	11.1
Additions	–	–	9.2	9.2
Transfers	–	–	(0.2)	(0.2)
Foreign exchange movements	19.3	2.7	2.7	24.7
At 31 March 2020	501.8	74.2	87.9	663.9
Accumulated amortisation and impairment				
At 1 April 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
Charge for year	2.4	2.5	16.1	21.0
Transfers	–	–	0.9	0.9
Impairment ¹	–	16.7	6.3	23.0
Foreign exchange movements	18.6	1.8	2.7	23.1
At 31 March 2020	481.3	64.7	66.0	612.0
Carrying amount				
At 31 March 2020	20.5	9.5	21.9	51.9
At 31 March 2019	11.1	27.8	36.2	75.1

1 The impairment charge of £23.0m (2019: £nil) relates to Greyhound as detailed in note 11.

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.

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13 Property, plant and equipment

Owned assets

	Land and buildings £m	Passenger carrying vehicle fleet £m	Other plant and equipment £m	Total £m
Cost				
At 1 April 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
Adjustments on transition to IFRS 16	–	(167.6)	–	(167.6)
At 1 April 2019	463.9	3,217.0	866.9	4,547.8
Acquisitions (note 30)	–	16.2	–	16.2
Additions in the year	10.1	294.0	149.1	453.2
Transfers from right of use assets/assets held for sale	34.9	22.3	–	57.2
Disposals	(15.6)	(90.4)	(161.4)	(267.4)
Reclassified as held for sale	(24.4)	(122.9)	7.1	(140.2)
Foreign exchange movements	11.3	103.9	14.3	129.5
At 31 March 2020	480.2	3,440.1	876.0	4,796.3
Accumulated depreciation and impairment				
At 1 April 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
Adjustments on transition to IFRS 16	–	(93.2)	–	(93.2)
At 1 April 2019	101.0	1,686.8	668.5	2,456.3
Charge for year	15.0	234.7	143.3	393.0
Transfers from right of use assets/assets held for sale	8.4	7.7	–	16.1
Disposals	(4.9)	(93.4)	(160.5)	(258.8)
Impairment ²	–	108.4	8.4	116.8
Reclassified as held for sale	(2.8)	(121.5)	6.4	(117.9)
Foreign exchange movements	3.2	55.9	12.3	71.4
At 31 March 2020	119.9	1,878.6	678.4	2,676.9
Carrying amount				
At 31 March 2020	360.3	1,561.5	197.6	2,119.4
At 31 March 2019	362.9	1,604.6	198.4	2,165.9

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

2 The impairment charge of £116.8m in 2020 relates to assets associated with Greyhound, as detailed in note 11.

An amount of £0.8m (2019: £0.1m) in respect of assets under construction is included in the carrying amount of land and buildings, plant and equipment.

At 31 March 2020 the Group had entered into contractual capital commitments amounting to £193.2m (2019: £196.7m), principally representing buses ordered in the United Kingdom and North America and commitments under the Great Western Railway.

13 Property, plant and equipment continued

Right of use assets

	Rolling stock £m	Land and buildings £m	Passenger carrying vehicle fleet £m	Other plant and equipment £m	Total £m
Cost					
At 31 March 2019	–	–	–	–	–
Adjustment on transition to IFRS 16	829.4	217.2	257.1	4.3	1,308.0
At 1 April 2019	829.4	217.2	257.1	4.3	1,308.0
Additions	1,712.0	36.8 ¹	85.6	2.3	1,836.7
Transfer from owned assets	–	–	(22.3)	–	(22.3)
Foreign exchange movements	–	7.3	12.4	0.2	19.9
At 31 March 2020	2,541.4	261.3	332.8	6.8	3,142.3
Accumulated depreciation and impairment					
At 31 March 2019	–	–	–	–	–
Adjustment on transition to IFRS 16	208.6	–	93.2	–	301.8
At 1 April 2019	208.6	–	93.2	–	301.8
Transfer from onerous contract provision	44.2	–	–	–	44.2
Transfer from owned assets	–	–	(7.7)	–	(7.7)
Charge for period	399.5	59.4	35.0	2.5	496.4
Impairment	–	33.8	13.0	–	46.8
Foreign exchange movements	–	0.8	4.9	–	5.7
At 31 March 2020	652.3	94.0	138.4	2.5	887.2
Carrying amount					
At 31 March 2020	1,889.1	167.3	194.4	4.3	2,255.1
At 31 March 2019	–	–	–	–	–

1 Includes an impairment charge of £2.1m relating to First Student.

The impairment charge of £46.8m relates to Greyhound.

The discounted lease liability relating to the right of use assets included above are shown in note 21.

Owned assets and right of use assets

	Rolling stock £m	Land and buildings £m	Passenger carrying vehicle fleet £m	Other plant and equipment £m	Total £m
Carrying amount					
At 31 March 2020	1,889.1	527.6	1,755.9	201.9	4,374.5
At 31 March 2019	–	362.9	1,604.6	198.4	2,165.9

The maturity analysis of lease liabilities is presented in note 22.

	2020 £m	2019 £m
Amounts recognised in income statement		
Depreciation expense on right of use assets	496.4	–
Interest expense on lease liabilities	42.6	2.7
Expense relating to short-term liabilities	31.7	–
Expense relating to leases of low value assets	3.4	–
	574.1	2.7

The total cash outflow for leases amounted to £646.6m (2019: £53.1m).

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14 Investments

	2020 £m	2019 £m
US deferred compensation plan assets	30.3	31.7
Other investments	2.6	2.4
	32.9	34.1

15 Subsidiaries and non-controlling interests

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

A full list of subsidiaries, joint ventures and associates is disclosed in note 39.

The non-controlling interests of the Group are First West Coast Limited (70% ownership and voting rights), First MTR South Western Trains Limited (70% ownership and voting rights) and Leicester CityBus Limited (94% ownership and voting rights). The registered addresses are disclosed in note 39. The non-controlling interest share of loss for the financial year is a profit of £2.6m which all relates to First West Coast Limited.

UK local bus and coach operators	Rail companies	North American school bus operators
First Aberdeen Limited ¹	First Greater Western Limited	First Canada ULC ²
First Beeline Buses Limited	First TransPennine Express Limited	First Student, Inc ³
First Cymru Buses Limited	Hull Trains Company Limited	
First Eastern Counties Buses Limited	First West Coast Limited (70%)	
First Essex Buses Limited	First MTR South Western Trains Limited (70%)	Transit contracting and fleet maintenance
First Glasgow (No. 1) Limited ¹		First Transit, Inc ³
First Glasgow (No. 2) Limited ¹		First Vehicle Services, Inc ³
First Hampshire and Dorset Limited		
First Manchester Limited		
First Midland Red Buses Limited		
First Potteries Limited		
First Scotland East Limited ¹		North American coach operators
First West of England Limited		Americanos USA, LLC ³
First South West Limited		Greyhound Lines, Inc ³
First South Yorkshire Limited		Greyhound Canada Transportation ULC ²
First West Yorkshire Limited		
First York Limited		
Leicester CityBus Limited (94%)		
Midland Bluebird Limited ¹		

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

	2020 £m	2019 £m
Spare parts and consumables	63.3	60.2

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

	2020 £m	2019 £m
Amounts due within one year		
Trade receivables	652.2	617.9
Loss allowance	(4.9)	(3.6)
Trade receivables net	647.3	614.3
Other receivables	90.2	84.9
Amounts recoverable on contracts	91.2	43.3
Prepayments	90.3	164.0
Accrued income	251.6	234.9
	1,170.6	1,141.4

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

Other receivables includes £54.2m (2019: £46.3m) of VAT receivables, £11.1m (2019: £15.5m) of receivables from government bodies for fuel duty rebates and £22.1m (2019: £21.5m) of insurance recoveries.

Amounts recoverable on contracts relates to amounts due from governmental and similar bodies for agreed contractual changes.

Accrued income principally comprises amounts relating to contracts with customers billed each month. Any amount previously recognised as accrued income is reclassified to trade receivables at the point at which is it invoiced to the customer.

Credit risk

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

Credit risk exists in relation to the Group's financial assets, which comprise trade and other receivables of £995.0m (2019: £894.1m), cash and cash equivalents of £869.3m (2019: £692.9m) and derivative financial instruments of £20.6m (2019: £36.0m).

The Group's maximum exposure to credit risk for all financial assets at the balance sheet date was £1,907.5m (2019: £1,623.0m). The exposure is spread over a large number of unconnected counterparties and the maximum single concentration with any one counterparty was £175.0m (2019: £120.0m) 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 £4.9m (2019: £3.6m).

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 £175.0m, 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.

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.

The coronavirus situation has not given rise to an increase in the impairment of trade receivables. The majority of the Group's customers are governmental or similar bodies and hence there is not considered to be any issues with the recoverability of these receivables. Further there has not been any significant issues with the recoverability of non-governmental receivables.

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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:

	Carrying amount £m	Current £m	Days past due			
			Less than 30 days £m	30-90 days £m	90-180 days £m	Over 180 days £m
Expected credit loss rate	0.8%	0.1%	0.2%	0.6%	2.0%	12.5%
Gross carrying amount of trade receivables	652.2	437.3	130.8	32.1	24.8	27.2
Loss allowance	4.9	0.5	0.3	0.2	0.5	3.4

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 close to 0% loss rate.

Movement in the loss allowance for trade receivables	2020 £m	2019 £m
At 1 April	3.6	4.3
Amounts written off during the year	(0.6)	(4.4)
Amounts recovered during the year	–	(0.4)
Increase in allowance recognised in the income statement	1.8	3.8
Foreign exchange movements	0.1	0.3
At 31 March	4.9	3.6

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

18 Assets held for sale

	2020 £m	2019 £m
Assets held for sale	1.0	31.7

2019 included £26.2m of assets associated with the First Bus Queens Road depot disposal and the remaining Manchester depots.

The balance primarily relates to 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 2019	31.7
Net book value of additions	22.3
Net book value of disposals	(53.1)
Foreign exchange movements	0.1
At 31 March 2020	1.0

19 Trade and other payables

	2020 £m	2019 £m
Amounts falling due within one year		
Trade payables	336.9	278.7
Other payables	385.7	299.8
Accruals	838.5	710.3
Deferred income	152.3	167.8
Season ticket deferred income	86.3	90.7
	1,799.7	1,547.3

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.

Included within trade payables are amounts of £120.4m (2019: £56.5m) due to our principle supplier of school buses in US and Canada for deliveries principally within the prior 6 months. Under the terms of our supply arrangement, we may choose to finance these amounts when due under arrangements with the supplier and its parent company.

Other payables includes £188.4m (2019: £81.5m) 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 £99.0m (2019: £116.4m).

The average credit period taken for trade purchases is 28 days (2019: 31 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

	2020 £m	2019 £m
Cash and cash equivalents	869.3	692.9

The fair value of cash and cash equivalents approximates to the carrying value. Cash and cash equivalents includes ring-fenced cash of £632.2m (2019: £525.6m). The most significant ring-fenced cash balances are held by the Group's First Rail subsidiaries. All cash in franchised Rail subsidiaries is considered ringfenced under the terms of the Emergency Measures Agreement. Ring-fenced cash balances of £20.3m (2019: £0.9m) are held outside the First Rail subsidiaries.

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21 Borrowings

	2020 £m	2019 £m
On demand or within 1 year		
Leases (note 22) ²	642.2	41.5
Loan notes (note 23)	8.7	–
Bond 8.75% (repayable 2021) ¹	30.4	30.4
Bond 5.25% (repayable 2022) ¹	5.8	5.8
Bond 6.875% (repayable 2024) ¹	7.2	7.2
Total current liabilities	694.3	84.9
Within 1-2 years		
Leases (note 22) ²	587.4	18.1
Loan notes (note 23)	0.7	9.4
Bond 8.75% (repayable 2021)	355.1	–
	943.2	27.5
Within 2-5 years		
Syndicated loan facilities	573.9	446.7
Leases (note 22) ²	1,030.3	0.2
Bond 8.75% (repayable 2021)	–	357.7
Bond 5.25% (repayable 2022)	322.6	322.1
Bond 6.875% (repayable 2024)	199.8	–
Senior unsecured loan notes	80.3	–
	2,206.9	1,126.7
Over 5 years		
Leases (note 22) ²	213.3	0.1
Senior unsecured loan notes	139.5	210.0
Bond 6.875% (repayable 2024)	–	199.8
	352.8	409.9
Total non-current liabilities at amortised cost	3,502.9	1,564.1

1 Relates to accrued interest.

2 The right of use assets relating to lease liabilities are shown in note 13. The maturity analysis of lease liabilities is presented in note 22.

Fair value of bonds and senior unsecured loan notes issued

	Par value £m	Interest payable	Month	2020 Fair value £m	2019 Fair value £m
Bond 8.75% (repayable 2021)	350.0	Annually	April	395.1	423.0
Bond 5.25% (repayable 2022)	325.0	Annually	November	336.4	355.0
Bond 6.875% (repayable 2024)	200.0	Annually	September	223.2	240.1
	\$m			£m	£m
Senior unsecured loan notes	275.0	Semi-annually	March & September	231.3	208.3

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:

	2020	Maturity	2019	Maturity
Bank overdraft	LIBOR + 1%	–	LIBOR + 1%	–
Syndicated loan facilities	LIBOR + 0.5%	November 2023	LIBOR + 0.5%	November 2023
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 2.7%	Various	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 2021 bonds have been swapped to floating rates and hence have a lower effective rate net of these swaps.

	2020 £m	2019 £m
Carrying amount of gross borrowings by currency		
Pounds Sterling	3,279.1	1,078.1
US Dollar	823.5	516.4
Canadian Dollar	94.6	54.5
	4,197.2	1,649.0

Borrowing facilities

The Group had £348.6m (2019: £353.3m) of undrawn committed borrowing facilities as at year end. Total bank borrowing facilities at year end stood at £936.4m (2019: £816.1m) of which £920.0m (2019: £800.0m) was committed and £16.4m (2019: £16.1m) was uncommitted.

Capital management

We aim to maintain an investment grade credit rating and appropriate balance sheet liquidity headroom. The Group has a net debt to EBITDA ratio of 2.9 times as at March 2020 (2019: 1.3 times).

Liquidity within the Group has remained strong. At year end there was £585.7m (2019: £520.6m) 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 2020, was £3,278.1m (2019: £903.4m) as set out on page 35 of the Financial review.

22 Lease liabilities

The Group had the following lease liabilities at the balance sheet dates:

	2020 £m	2019 £m
Maturity analysis:		
Due in less than one year	702.4	42.7
Due in more than one year but not more than two years	632.8	19.0
Due in more than two years but not more than five years	1,089.3	0.3
Due in more than five years	240.6	0.1
	2,665.1	62.1
Less future financing charges	(191.9)	(2.2)
	2,473.2	59.9

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 £90.1m (2019: £55.3m). The fair value is calculated by discounting future cash flows that will arise under the lease agreements.

The right of use assets related to the lease liabilities is presented in note 13.

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23 Loan notes

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

	2020 £m	2019 £m
Due in less than one year	8.7	–
Due in more than one year but not more than two years	0.7	9.4
	9.4	9.4

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 (2019: £8.7m) are supported by unsecured bank guarantees.

The loan notes have an average effective borrowing rate of 10.3% (2019: 10.2%) and an average remaining term of one year (2019: one year) assuming that the holders do not request redemption. The fair value of the loan notes has been determined to be £9.4m (2019: £10.4m). This has been calculated by discounting future cash flows that will arise under the loan notes.

24 Financial instruments

Derivative financial instruments

	2020 £m	2019 £m
Total derivatives		
Total non-current assets	15.8	20.5
Total current assets	4.8	15.5
Total assets	20.6	36.0
Total current liabilities	44.2	3.4
Total non-current liabilities	19.2	1.9
Total liabilities	63.4	5.3

Derivatives designated and effective as hedging instruments carried at fair value

Non-current assets

Coupon swaps (fair value hedge)	13.3	16.2
Fuel derivatives (cash flow hedge)	–	2.7
Currency forwards (cash flow hedge)	2.5	1.6
	15.8	20.5

Current assets

Fuel derivatives (cash flow hedge)	–	11.3
Currency forwards (cash flow hedge)	4.8	4.2
	4.8	15.5

Current liabilities

Fuel derivatives (cash flow hedge)	32.4	3.4
Currency forwards (net investment hedge)	4.4	–
	36.8	3.4

Non-current liabilities

Fuel derivatives (cash flow hedge)	19.2	1.9
	19.2	1.9

Derivatives designated classified as held for trading

Current liability

Fuel derivatives	7.4	–
	7.4	–

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 £63.4m (2019: £5.3m) were subject to netting arrangements.

Total cash flow hedges are a liability of £44.3m (2019: £14.5m asset). Total fair value hedges are an asset of £13.3m (2019: £16.2m).

During the year £29.3m was debited to the hedging reserve in respect of cash flow and net investment hedges (2019: £23.5m credited).

24 Financial instruments continued

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

	2020 £m	2019 £m
Operating losses	28.3	23.1

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

	2020				
	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	869.3	–	–	869.3	869.3
Trade and other receivables	–	995.0	–	995.0	995.0
Derivative financial instruments	–	20.6	–	20.6	20.6
Financial liabilities and derivatives					
Borrowings ¹	573.9	3,672.9	–	4,246.8	4,197.2
Trade and other payables	–	1,700.7	–	1,700.7	1,700.7
Derivative financial instruments	–	63.4	–	63.4	63.4

1 Includes lease liabilities as set out in note 22.

	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

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.

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24 Financial instruments continued

Financial assets/(liabilities)	Fair values at 31 March 2020 £m	Fair values at 31 March 2019 £m	Fair value hierarchy	Valuation technique(s) and key inputs
Derivative contracts				
1) Coupon swaps	13.3	16.2	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	(59.0)	8.7	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	2.9	5.8	Level 2	Discounted cash flow; future cash flows are estimated based on forward foreign exchange rates and contract rates and then discounted at a rate that reflects the credit risk of the various counterparties.

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

	2020			
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
Financial assets and derivatives				
Cash and cash equivalents	869.3	–	–	869.3
Trade and other receivables	995.0	–	–	995.0
Derivative financial instruments	–	13.3	7.3	20.6
	1,864.3	13.3	7.3	1,884.9
Financial liabilities and derivatives				
Interest bearing loans and borrowings ¹	4,197.2	–	–	4,197.2
Trade and other payables	1,700.7	–	–	1,700.7
Derivative financial instruments	–	7.4	56.0	63.4
	5,897.9	7.4	56.0	5,961.3

¹ Includes lease liabilities as set out in note 22.

	2019			
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
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

24 Financial instruments continued

	Cash flow hedges		Fair value hedges	Net investment hedges
	Commodity price risk	Foreign exchange price risk	Interest rate risk (2021 Bond)	Foreign exchange risk
As at 31 March 2020				
Nominal amount of hedging	2.3m bbls	\$120.9m	£350m	\$952.9m
< 1 year	1.3m bbls	\$75.0m	–	\$30.0m
1 – 2 years	0.8m bbls	\$36.9m	–	\$155.0m
2 – 5 years	0.2m bbls	\$9.0m	£350m	\$492.9m
> 5 years	–	–	–	\$275.0m
Average hedged rate	\$78.05/bbl	\$1.3442	3m LIBOR +2.21%	\$1.2933
Maturity	April 20 to March 23	April 20 to Dec 22	April 21	N/A
Carrying amount of hedging instruments				
Assets – Derivatives (£m)	–	7.3	13.3	–
Liabilities – Derivatives (£m)	(59.1)	–	–	(4.4)
Liabilities – Borrowings (£m)	–	–	–	(616.3)
Carrying amount of hedged item				
Liabilities – Borrowings (£m)	N/A	N/A	(348.7)	N/A
Accumulated amount of fair value hedging adjustments included in carrying amount of hedged item				
Liabilities – Borrowings (£m)	N/A	N/A	(6.4)	N/A
Changes in fair value of hedged item used for calculating hedge effectiveness	33.5	(8.6)	3.0	(13.1)
Changes in fair value of hedging instrument used in calculating hedge effectiveness	(33.5)	8.6	(3.0)	13.1
Changes in fair value of hedging instrument accumulated in cash flow hedge reserve	(43.0)	0.9	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:

	2020 £m	2019 £m
Losses on hedging instruments in fair value hedges	(3.0)	(9.6)
Gains on hedged item attributable to hedged risk fair value hedges	3.0	9.6
Hedge ineffectiveness in cash flow hedges	(7.4)	–
	(7.4)	–

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 £920.0m (2019: £800.0m), and committed headroom was £348.6m (2019: £353.3m), in addition to free cash balances of £237.1m (2019: £167.3m). 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 2020 was 3.3 years (2019: 4.3 years).

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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.

	2020			
	< 1 year £m	1-2 years £m	2-5 years £m	> 5 years £m
Borrowings ¹	1,229.5	1,054.6	1,700.7	479.4
Fuel derivatives	39.8	17.3	1.9	–
Currency forwards	4.4	–	–	–
Trade and other payables	1,700.7	–	–	–
	2,974.4	1,071.9	1,702.6	479.4
				6,228.3

1 Includes lease liabilities as set out in note 22.

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

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 programme. 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.

	2020 £m	2019 £m
Impact on profit after tax	0.3	0.5
Impact on hedging reserve	(1.0)	(1.0)

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 2020, 94% (2019: 89%) of net debt was fixed. This fixed rate protection had an average duration of 4.2 years (2019: 5.0 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.

	2020 £m	2019 £m
Impact on profit after tax	(0.6)	(1.4)

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	
	2020 %	2019 %	2020 £m	2019 £m	2020 £m	2019 £m
Fair value hedges						
Less than one year	–	–	–	–	–	–
One to two years	2.21	–	350	–	6.4	–
Two to five years	–	2.21	–	350	–	9.4

Fuel price 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 65% to March 2021 and 39% to March 2022 for UK diesel price risk exposure and 58% to March 2021 and 20% to March 2022 for US diesel price risk exposure.

The Group has entered into swaps for periods from April 2020 to March 2023 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:

	2020 £m	2019 £m
Impact on profit after tax	(2.7)	(3.8)
Impact on hedging reserve	11.9	18.2

Volume at risk for the year to 31 March 2021 is 2.1m (year to 31 March 2020: 2.9m) barrels for which 62% is hedged to diesel price risk.

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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 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	–	(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)
Impact of adoption of IFRS 16	–	–	(4.7)	–	(4.7)
At 1 April 2019	188.9	(60.0)	98.0	(255.7)	(28.8)
Charge to income statement	10.5	6.4	0.5	7.1	24.5
Charge/(credit) to other comprehensive income and equity	–	24.6	(11.8)	–	12.8
Foreign exchange and other movements	7.9	(1.6)	5.0	(14.6)	(3.3)
At 31 March 2020	207.3	(30.6)	91.7	(263.2)	5.2

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

	2020 £m	2019 £m
Deferred tax assets	(33.6)	(40.6)
Deferred tax liabilities	38.8	16.5
	5.2	(24.1)

The deferred tax asset relates to the UK and is recognised as the Group forecasts sufficient taxable profits in future periods.

No deferred tax has been recognised on deductible temporary differences of £220.6m (2019: £46.7m) and tax losses of £478.7m (2019: £299.3m) and US tax credits of £10.7m have not been recognised. The earliest period in which some of the unrecognised assets will expire is year ended 31 March 2024.

No deferred tax asset has been recognised in respect of £2.9m (2019: £2.9m) of capital losses.

26 Provisions

	2020 £m	2019 £m
Insurance claims	382.8	292.7
Legal and other	34.6	35.5
TPE onerous contract	–	76.6
SWR onerous contract	–	125.5
Pensions	1.6	1.7
Non-current liabilities	419.0	532.0

	Insurance claims £m	Legal and other £m	TPE onerous contract £m	SWR onerous contract £m	Pensions £m	Total £m
At 1 April 2019	471.8	71.6	106.9	145.9	1.7	797.9
Adjustment on transition to IFRS 16	–	–	(62.7)	(145.9)	–	(208.6)
Charged to the income statement	309.5	15.1	–	–	–	324.6
Impairment of right of use asset additions	–	–	(44.2)	–	–	(44.2)
Utilised in the year	(219.4)	(28.0)	–	–	(0.1)	(247.5)
Notional interest	11.8	–	–	–	–	11.8
Foreign exchange movements	15.2	1.9	–	–	–	17.1
At 31 March 2020	588.9	60.6	–	–	1.6	651.1

Current liabilities	206.1	26.0	–	–	–	232.1
Non-current liabilities	382.8	34.6	–	–	1.6	419.0
At 31 March 2020	588.9	60.6	–	–	1.6	651.1

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

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 £35.4m (2019: £27.9m) can extend for up to 30 years. The utilisation of £219.4m (2019: £210.0m) represents payments made against the current liability of the preceding year as well as the settlement of certain large aged claims.

The insurance claims provisions contains £22.1m (2019: £21.5m) 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 ten years. Also included are provisions in respect of costs anticipated on the exit of surplus properties which are expected to be settled over the remaining terms of the respective leases and dilapidation, other provisions in respect of contractual obligations under rail franchises and restructuring costs. The dilapidation provisions are expected to be settled at the end of the respective franchise.

In accordance with IAS 36 Impairment of assets the opening onerous contract provision for SWR of £145.9m was reclassified as an impairment on ROUA on adoption of IFRS 16. Similarly, £62.7m of the opening TPE onerous contract provision was reclassified as an opening impairment on ROUA with the remaining balance of £44.2m being reclassified as impairment on ROUA additions in the year.

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.

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27 Called up share capital

	2020 £m	2019 £m
Allotted, called up and fully paid		
1,219.5m (2019: 1,213.9m) ordinary shares of 5p each	61.0	60.7

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

During the year 5.6m 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:

	2020 £m	2019 £m
Balance at 1 April	17.5	16.5
Transfer to hedging reserve through consolidated statement of comprehensive income		
Fuel derivatives	(33.5)	7.5
Currency forwards	4.2	16.0
	(29.3)	23.5
Transfer from hedging reserve through consolidated statement of comprehensive income:		
Fuel derivatives	—	—
Currency forwards	—	—
	—	—
Tax on derivative hedging instrument movements through statement of comprehensive income	5.9	(4.1)
Transfer from hedging reserve to the balance sheet:		
Fuel derivatives	(20.8)	(20.8)
Currency forwards	(7.5)	(2.3)
	(28.3)	(23.1)
Tax on derivative hedging instrument movements to the balance sheet	5.9	4.7
Balance at 31 March	(28.3)	17.5

Own shares

The number of own shares held by the Group at the end of the year was 8,650,254 (2019: 5,310,593) FirstGroup plc ordinary shares of 5p each. Of these, 8,460,505 (2019: 5,120,844) were held by the FirstGroup plc Employee Benefit Trust, 32,520 (2019: 32,520) by the FirstGroup plc Qualifying Employee Share Ownership Trust and 157,229 (2019: 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 2020 was £4.4m (2019: £4.8m).

Other reserves	Capital redemption reserve £m	Capital reserve £m	Total other reserves £m
At 31 March 2020 and 31 March 2019	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 2020. 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

	2020 £m	2019 £m
At 1 April	544.3	383.5
Movement for the financial year	91.3	160.8
At 31 March	635.6	544.3

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 £(13.1)m (2019: £(10.7)m) 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 £(484.5)m (2019: £(471.4)m).

30 Acquisition of businesses and subsidiary undertakings

	2020 £m	2019 £m
Provisional fair value of net assets acquired:		
Property, plant and equipment	16.2	1.5
Other intangible assets	11.1	0.7
Other liabilities	(3.2)	(0.2)
	24.1	2.0
Goodwill	1.7	0.6
Satisfied by cash paid and payable	25.8	2.6

On 19 August 2019 the Group completed the acquisition of Longwood School District from East End Bus Lines, Inc. a provider of school and charter transportation services. On 31 October 2019 the Group completed the acquisition of Hopewell Services Inc, a Chicago based provider of specialist school transportation services, and on 20 December 2019 the Group completed the acquisition of Campeau Bus Lines Limited, an Ontario based provider of school and charter transportation services.

The total consideration of £25.8m represents the £21.8m cash paid during the year and £4.0m deferred to be paid in future periods.

The businesses acquired during the year contributed £7.9m (2019: £1.6m) to Group revenue and £2.4m profit (2019: £0.5m profit) to Group operating loss from date of acquisition to 31 March 2020.

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 £27.5m (2019: £2.2m) and the Group operating profit from this acquisition attributable to equity holders of the parent would have been £5.5m (2019: £0.7m).

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31 Net cash from operating activities

	2020 £m	2019 £m
Operating (loss)/profit	(152.7)	9.8
Adjustments for:		
Depreciation charges	889.4	366.0
Capital grant amortisation	(53.4)	(28.6)
Software amortisation charges	16.1	18.1
Other intangible asset amortisation charges	4.9	11.8
Impairment charges	189.0	13.0
Share-based payments	10.3	9.1
Profit on disposal of property, plant and equipment	(12.9)	(23.5)
Operating cash flows before working capital and pensions	890.7	375.7
Increase in inventories	(1.7)	(2.0)
Increase in receivables	(9.0)	(209.4)
Increase in payables due within one year	169.0	279.4
Increase in provisions due within one year	9.7	53.1
Increase in provisions due over one year	67.1	37.3
SWR onerous contract provision	–	145.9
TPE onerous contract provision	–	(0.5)
Defined benefit pension payments in excess of income statement charge	(38.8)	(24.3)
Cash generated by operations	1,087.0	655.2
Tax paid	(2.9)	(7.5)
Interest paid	(83.3)	(81.3)
Interest element of leases	(42.6)	(2.7)
Net cash from operating activities¹	958.2	563.7

¹ Net cash from operating activities is stated after an inflow of £13.2m (2019: inflow of £40.0m) in relation to financial derivative settlements.

32 Analysis of changes in net debt

	At 1 April 2019 £m	IFRS 16 transitional adjustment £m	Cash flow £m	Foreign exchange movements £m	Other £m	At 31 March 2020 £m
Components of financing activities:						
Bank loans	(446.7)	–	(122.9)	(4.1)	(0.2)	(573.9)
Bonds	(879.7)	–	–	–	2.2	(877.5)
Fair value of interest rate coupon swaps	9.4	–	–	–	(3.0)	6.4
Senior unsecured loan notes	(210.0)	–	–	(9.8)	–	(219.8)
Lease liabilities ¹	(59.9)	(1,168.2)	596.9	(12.8)	(1,829.2)	(2,473.2)
Other debt	(9.4)	–	–	–	–	(9.4)
Total components of financing activities	(1,596.3)	(1,168.2)	474.0	(26.7)	(1,830.2)	(4,147.4)
Cash	167.3	–	67.2	2.6	–	237.1
Ring-fenced cash	525.6	–	106.6	–	–	632.2
Cash and cash equivalents	692.9	–	173.8	2.6	–	869.3
Net debt	(903.4)	(1,168.2)	647.8	(24.1)	(1,830.2)	(3,278.1)

¹ Lease liabilities 'other' includes an increase of £820.9m on commencement of Avanti West Coast, £729.7m on commencement of GWR DA-3, £114.4m in relation to new rolling stock leases in TPE and £32.7m in Hull Trains. The remaining amount is due to modifications to existing leases and new PCV and property leases entered into in UK Bus and North American divisions

32 Analysis of changes in net debt continued

	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)

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 FirstGroup plc and certain subsidiaries have indemnified certain banks and insurance companies who have issued performance bonds for £990.0m (2019: £806.5m) and letters of credit for £393.8m (2019: £369.2m). The performance bonds relate to the North American and First Bus businesses of £686.5m (2019: £570.8m) and the First Rail franchise operations of £303.5m (2019: £235.7m). 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 £120.2m to First Rail Train Operating Companies of which £49.7m remains undrawn.

The Group is party to certain unsecured guarantees granted to banks for overdraft and cash management facilities provided to itself and subsidiary undertakings. The Company has given certain unsecured guarantees for the liabilities of its subsidiary undertakings arising under certain 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. The Company's North American subsidiaries participate in a number of multi-employer pension schemes in which their contributions are pooled with the contributions of other contributing employers. The funding of these schemes is therefore reliant on the ongoing participation by third parties.

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.

While the British Transport Police have now concluded their investigations into the Croydon tram incident in November 2016 without bringing any charges, the Office of Rail & Road (ORR) investigations are ongoing and it is uncertain when they will be concluded. The tram was operated by Tram Operations Limited (TOL), a subsidiary of the Group, 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 ORR proceedings have been commenced and, as such, it is not possible to assess whether any financial penalties or related costs could be incurred.

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33 Contingent liabilities continued

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 noise abatement notices in respect of the operations at the Reading railway depot. The serving of the notices has been appealed and the parties agreed in principle in June 2020 that the related court hearing should be put on hold until 31 May 2021 to allow the Council further time to monitor GWR's operations at the depot. The parties further agreed that in May 2021 the Council will be obliged to consider whether the 2017 abatement notices should be withdrawn and if the notices are not withdrawn the appeal proceedings will restart. The precise wording and mechanism to achieve this in principle agreement are currently being negotiated by the parties. If it is not possible to agree this, a further court hearing has been listed for 4 September 2020 at which the court will decide how the appeal proceedings should be taken forward. As a result it is not possible at this stage to quantify the implications for the GWR operations, if any, if the notices are not withdrawn by the Council or if GWR are not ultimately successful with respect to any appeal.

On 26 February 2019, collective 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 collective proceedings, has been postponed pending the outcome of an appeal to the Supreme Court in a different collective proceedings and is therefore unlikely to occur until late 2020 at the earliest. It is not possible at this stage to determine accurately the likelihood or quantum of any damages and costs, or the timing of any such damages or 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

	2020 £m	2019 £m
Minimum lease payments made under operating leases recognised in the income statement for the year:		
Plant and machinery	4.0	24.5
Track and station access	384.9	269.6
Hire of rolling stock	25.1	591.1
Other assets	7.4	86.7
	421.4	971.9

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:

	2020 £m	2019 £m
Within one year	413.7	1,054.4
In the second to fifth years inclusive	1,067.5	1,690.7
After five years	3.3	207.7
	1,484.5	2,952.8

Included in the above commitments are contracts held by the First Rail businesses with Network Rail for access to the railway infrastructure track, stations and depots of £1,472.5m (2019: £997.0m).

35 Share-based payments

Equity-settled share option plans

The Group recognised total expenses of £10.3m (2019: £9.1m) 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 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	3,300,863	5,748,843	8,601,817	9,843,523
Exercised during the year	(1,219,425)	(3,921,581)	(72,802)	(26,764)
Lapsed during the year	(2,081,438)	(463,891)	(934,528)	(1,241,993)
Outstanding at the end of the year	–	1,363,371	7,594,487	8,574,766
Exercisable at the end of the year	–	–	–	–
Weighted average exercise price (pence)	85.0	86.0	83.0	70.0
Weighted average share price at date of exercise (pence)	106.7	121.0	112.0	N/A

(b) Deferred bonus shares (DBS)

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

	DBS 2009 Options Number	DBS 2010 Options Number	DBS 2011 Options Number	DBS 2012 Options Number	DBS 2013 Options Number
Outstanding at the beginning of the year	24,219	49,904	76,894	93,845	280,686
Exercised during the year	(16,017)	(10,704)	(22,613)	(41,199)	(151,764)
Lapsed during the year	(8,202)	–	–	–	–
Outstanding at the end of the year	–	39,200	54,281	52,646	128,922
Exercisable at the end of the year	–	39,200	54,281	52,646	128,922
Weighted average exercise price (pence)	Nil	Nil	Nil	Nil	Nil
Weighted average share price at date of exercise (pence)	110.01	113.12	113.23	110.74	109.25

	DBS 2014 Options Number	DBS 2015 Options Number	DBS 2016 Options Number	DBS 2017 Options Number	DBS 2018 Options Number	DBS 2019 Options Number
Outstanding at the beginning of the year	223,865	636,064	1,325,701	1,772,505	804,693	–
Granted during the year	–	–	14,502	–	–	2,175,103
Forfeited during the year	–	–	(347,055)	(81,279)	(23,927)	–
Lapsed during the year	–	–	(5,356)	(118,786)	(36,203)	(33,727)
Exercised during the year	(67,459)	(334,852)	(462,243)	(111,528)	(57,898)	–
Outstanding at the end of the year	156,406	301,212	525,549	1,460,912	686,665	2,141,376
Exercisable at the end of the year	156,406	301,212	525,549	85,085	59,967	–
Weighted average exercise price (pence)	Nil	Nil	Nil	Nil	Nil	Nil
Weighted average share price at date of exercise (pence)	111.79	115.10	117.89	106.51	105.29	N/A

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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 2020 there were 5,439 (2019: 5,871) participants in the BAYE scheme who have cumulatively purchased 23,832,265 (2019: 21,698,965) shares with the Company contributing 7,755,927 (2019: 7,125,644) matching shares on a cumulative basis.

(d) Long-Term Incentive Plan (LTIP)

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

	LTIP 2016 Options Number	LTIP 2017 Options Number	LTIP 2018 Options Number	LTIP 2019 Options Number
Outstanding at the beginning of the year	2,397,356	5,696,696	7,850,345	–
Granted during the year	–	–	–	4,807,448
Forfeited during the year	(71,185)	–	–	–
Lapsed during the year	(2,097,696)	(452,813)	(580,158)	(547,019)
Exercised during the year	(180,660)	–	–	–
Outstanding at the end of the year	47,815	5,243,883	7,270,187	4,260,429
Exercisable at the end of the year	47,815	–	–	–
Weighted average share price at date of exercise (pence)	122.05	Nil	Nil	Nil

(e) Divisional Incentive Plan (DIP)

The DIP were one-off awards which vested 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	592,504
Lapsed during the year	(379,379)
Exercised during the year	(140,829)
Outstanding at the end of the year	72,296
Exercisable at the end of the year	72,296
Weighted average exercise price (pence)	Nil
Weighted average share price at date of exercise (pence)	113.69

(f) Executive Share Plan (ESP)

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

	ESP 2015 Options Number	ESP 2016 Options Number	ESP 2017 Options Number	ESP 2018 Options Number	ESP 2019 Options Number
Outstanding at the beginning of the year	350,723	665,804	2,462,129	4,634,159	–
Granted during the year	–	–	42,323	–	10,135,057
Forfeited during the year	–	(75,914)	(400,147)	(577,176)	–
Lapsed during the year	–	(31,285)	(97,786)	(316,263)	(175,644)
Exercised during the year	(147,165)	(313,047)	(466,070)	(489,467)	–
Outstanding at the end of the year	203,558	245,558	1,540,449	3,251,253	9,959,413
Exercisable at the end of the year	203,558	245,558	360,770	403,253	–
Weighted average exercise price (pence)	Nil	Nil	Nil	Nil	Nil
Weighted average share price at date of exercise (pence)	119.1	114.7	112.6	109.7	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:

	2020	2019
Weighted average share price at grant date (pence)		
– DBS	98.1	84.2
– SAYE December 2018	–	86.4
– LTIP	122.1	84.1
– ESP	111.3	84.2
Weighted average exercise price at grant date (pence)		
– DBS	–	–
– SAYE December 2018	–	70.0
– LTIP	–	–
– ESP	–	–
Expected volatility (%)		
– DBS	N/A	N/A
– SAYE December 2018	–	31
– LTIP	33	31
– ESP	N/A	N/A
Expected life (years)		
– DBS	3.0	3.0
– SAYE schemes	3.0	3.0
– LTIP	2.58	2.75
– ESP	3.0	3.0
Rate of interest (%)		
– DBS	N/A	N/A
– SAYE December 2018	–	0.75
– LTIP	–	–
– ESP	–	–
Expected dividend yield (%)		
– DBS	–	–
– 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.

	2020 pence	2019 pence
Weighted average fair value of options at grant date		
– DBS	98.1	84.2
– SAYE December 2018	–	27.0
– LTIP	122.2	84.1
– ESP	111.3	84.2

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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 £34.2m (2019: £38.0m) 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 11 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 tends 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 boards are 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, in line with the rules of the schemes.

The First UK Bus Pension Scheme

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

A smaller 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 two Local Government Pension Schemes (LGPS), one in England and one in Scotland (following the merger of two funds during the year), 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.

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% (2019: 71% and 114%). The market value of the assets at 31 March 2020 for all non-rail operation defined benefit schemes totalled £2,994m (2019: £3,161m) (see disclosure 36(e) for information about the impact of current market conditions on the valuations of some of these assets).

Rail

The Railways Pension Scheme (RPS)

The Group currently sponsors six 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 managed by the Railways Pension Trustee Company Limited, and is subject to regulation from the Pensions Regulator and relevant UK legislation.

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

For the TOC sections, under the franchising obligations, the employer's responsibility is to pay the contributions following triennial funding valuations 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 IAS 19 actuarial valuations are carried out for different purposes and may result in materially different outcomes. The IAS 19 valuation is set out in the disclosures below.

The accounting treatment for the time-based risk-sharing feature of the Group's participation in the RPS is not explicitly considered by IAS 19 'Employee Benefits (Revised)'. The contributions currently committed to being paid to each TOC section are lower than the share of the service cost (for current and future service) that would normally be calculated under IAS 19 (Revised) and the Group does not account for uncommitted contributions towards the sections' current or expected future deficits. Therefore, the Group does not need to reflect any deficit on its balance sheet. A 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 IAS 19 (Revised).

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

At the previous year end, we noted that The Pensions Regulator (TPR) had been in discussion with the 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.

Management do not believe that the current Emergency Measures Agreements have impacted the position in relation to the Group's funding obligations towards the Railways Pension Schemes, and no allowance has therefore been made within the disclosures for these Agreements.

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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 2020 %	First Rail 2020 %	North America 2020 %	First Bus 2019 %	First Rail 2019 %	North America 2019 %
Key assumptions used:						
Discount rate	2.40	2.40	3.30	2.40	2.40	3.50
Expected rate of salary increases	1.80	2.75	2.50	2.15	3.40	2.50
Inflation – CPI	1.80	1.80	2.00	2.15	2.15	2.00
Future pension increases	1.80	1.80	–	2.15	2.15	–
Post retirement mortality (life expectancy in years) ¹						
Current pensioners at 65:	19.1	21.1	20.1	19.1	22.1	19.2
Future pensioners at 65 aged 45 now:	20.6	22.3	21.3	20.6	22.3	20.4

¹ Life expectancies reflect the largest underlying plans in each region.

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 2019/20 balance sheet position by approximately £28m. A 0.1% movement in the inflation rate would impact the 2019/20 balance sheet position by approximately £23m. A one-year movement in life expectancy would impact the balance sheet position by approximately £63m.

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.

Management notes that, since the calculation date, the spread on corporate bond yields has reduced materially; in isolation this change would have had the impact of reducing the discount rate, and therefore increasing the present value of the disclosed defined benefit obligations. Market conditions have generally been volatile and it's currently unclear for how long these levels of volatility will persist. Sensitivity estimates are shown in this section to illustrate how the position would change in response to changes in key assumptions. The Company will also be monitoring the IAS19 position over the course of the year.

(a) Income statement

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

	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
Year to 31 March 2020					
Current service cost	(10.7)	(8.7)	(19.4)	(114.1)	(133.5)
Impact of franchise adjustment on operating cost	–	–	–	68.3	68.3
Net interest cost	(2.9)	(5.7)	(8.6)	(19.4)	(28.0)
Impact of franchise adjustment on net interest cost	–	–	–	19.4	19.4
	(13.6)	(14.4)	(28.0)	(45.8)	(73.8)

	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
Year to 31 March 2019					
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)

36 Retirement benefit schemes continued

Net interest comprises:

	2020 £m	2019 £m
Interest cost (table (c))	(136.0)	(137.6)
Interest income on assets (table (d))	112.5	117.1
Interest on irrecoverable surplus (table (h))	(4.5)	(4.3)
	(28.0)	(24.8)

During the year £22.4m (2019: £24.6m) of gross administrative expenses were incurred. Net administration expenses were £18.3m (2019: £20.1m).

(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:

	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
At 31 March 2020					
Fair value of schemes' assets	2,576.2	417.6	2,993.8	2,796.2	5,790.0
Present value of defined benefit obligations	(2,452.2)	(636.1)	(3,088.3)	(4,245.5)	(7,333.8)
(Deficit)/surplus before adjustments	124.0	(218.5)	(94.5)	(1,449.3)	(1,543.8)
Adjustment for irrecoverable surplus ¹ (table (h))	(216.6)	–	(216.6)	–	(216.6)
First Rail franchise adjustment (table (f)) (60%)	–	–	–	867.3	867.3
Adjustment for employee share of RPS deficits (40%)	–	–	–	579.7	579.7
Deficit in schemes	(92.6)	(218.5)	(311.1)	(2.3)	(313.4)
Liability recognised in the balance sheet	(92.6)	(218.5)	(311.1)	(2.3)	(313.4)
The amount is presented in the consolidated balance sheet as follows:					
Non-current assets	53.2	–	53.2	–	53.2
Non-current liabilities	(145.8)	(218.5)	(364.3)	(2.3)	(366.6)
	(92.6)	(218.5)	(311.1)	(2.3)	(313.4)

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

	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
At 31 March 2019					
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)

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

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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 2019	2,644.9	632.4	3,277.3	3,451.2	6,728.5
Business acquisition	–	–	–	1,153.5	1,153.5
Current service cost	10.7	8.7	19.4	114.1	133.5
Interest cost	62.1	21.6	83.7	52.3	136.0
Employee share of change in DBO (not attributable to franchise adjustment)	0.9	0.5	1.4	110.9	112.3
Experience loss on DBO	(8.9)	(13.3)	(22.2)	(11.9)	(34.1)
Loss on change of assumptions (demographic)	–	21.5	21.5	–	21.5
(Loss)/gain on change of assumptions (financial)	(129.9)	7.7	(122.2)	(535.9)	(658.1)
Benefit payments	(127.6)	(61.3)	(188.9)	(88.7)	(277.6)
Currency loss	–	18.3	18.3	–	18.3
At 31 March 2020	2,452.2	636.1	3,088.3	4,245.5	7,333.8

	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

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 2019	2,693.4	468.0	3,161.4	2,077.9	5,239.3
Business acquisition	–	–	–	785.0	785.0
Interest income on assets	63.7	15.9	79.6	32.9	112.5
Company contributions	37.8	20.6	58.4	45.6	104.0
Employee contributions	0.9	0.5	1.4	30.4	31.8
Employee share of interest on assets	–	–	–	21.9	21.9
Actuarial loss on assets	(92.1)	(37.1)	(129.2)	(108.6)	(237.8)
Benefit paid from schemes	(121.6)	(55.0)	(176.6)	(78.7)	(255.3)
Employer administration expenses	(5.9)	(6.3)	(12.2)	(10.2)	(22.4)
Currency gain	–	11.0	11.0	–	11.0
At 31 March 2020	2,576.2	417.6	2,993.8	2,796.2	5,790.0

	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 interest 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

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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 2020	First Bus	North America	Total non-rail	First Rail	Total
Global equity	12%	29%	15%	0%	7%
Private equity	3%	0%	2%	9%	6%
Fixed income/liability driven	69%	48%	66%	0%	34%
Other return seeking assets	12%	1%	10%	89%	48%
Real estate	2%	20%	5%	1%	3%
Cash and cash equivalents	2%	2%	2%	1%	2%
	100%	100%	100%	100%	100%

The scheme achieves equity exposure both directly and synthetically. The table above includes the market value of instruments designed to give synthetic exposure to equities, within the "global equity" category. As at 31 March 2020 these had a market value of £10m. The table above includes a cash holding of £140m 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 £140m higher than shown under equities above.

There have been significant movements in the financial markets over the month of March as a result of coronavirus, and this has had an impact on the value of pension scheme assets at 31 March 2020. Global equity markets have experienced reductions in value by up to 20% over the month, although a number of the Company's pension schemes have protections in place to reduce exposure to changes in equity markets. The current market volatility and fundamental economic uncertainties have also resulted in difficulties in valuing certain assets of the pension schemes that are not listed on public markets (e.g. property, infrastructure, private debt). Where the investment manager has provided a valuation of those private/illiquid assets as at 31 March 2020 we have relied on that valuation, as the managers will have a better understanding of the movements in that asset over the period than we would otherwise be able to estimate. However, there are a number of assets where valuations were not provided prior to the production of this report.

There are c.£47m of assets in the non-rail arrangements for which an updated valuation was not available as at 31 March 2020 and therefore stale asset prices were provided. Management have applied estimated adjustments to these assets which served to reduce their value by c.£2m prior to inclusion in the above figures.

The value of private/illiquid assets held by the Railways Pension Scheme and included in these statements include 31 December 2019 assets totalling c.£576m, which have been adjusted for cash inflows and outflows to 31 March 2020. Applying any form of adjustment to these assets is highly subjective and in any case would have a negligible impact on the deficit due to the shared cost and franchise adjustments applied. As such we have retained the valuations provided directly by the investment manager. As a result, the actual assessed value of those assets as at 31 March 2020 may differ from the figure reported in these accounts.

At 31 March 2019	First Bus	North America	Total non-rail	First Rail	Total
Global equity	21%	34%	23%	0%	14%
Private equity	2%	0%	2%	9%	5%
Fixed income/liability driven	61%	38%	58%	0%	35%
Other return seeking assets	11%	8%	10%	90%	41%
Real estate	2%	17%	4%	1%	3%
Cash and cash equivalents	3%	3%	3%	0%	2%
	100%	100%	100%	100%	100%

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.

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 2019	2,077.9	(3,451.2)	549.3	820.9	(3.1)
Business acquisition	785.0	(1,153.7)	147.4	221.3	–
Income statement					
Operating					
– Service cost	–	(180.0)	72.0	68.3	(39.7)
– Admin cost	–	(10.2)	4.1	–	(6.1)
Total operating	–	(190.2)	76.1	68.3	(45.8)
Financing	54.8	(87.2)	13.0	19.4	–
Total income statement	54.8	(277.4)	89.1	87.7	(45.8)
Amounts paid to/(from) scheme					
Employer contributions	45.6	–	(18.2)	18.0	45.4
Employee contributions	30.4	–	(12.3)	(18.0)	0.1
Benefit paid	(88.9)	88.9	–	–	–
Total	(12.9)	88.9	(30.5)	–	45.5
Expected closing position	2,904.8	(4,793.4)	755.4	1,129.9	(3.3)
Change in financial assumptions	–	536.0	(214.3)	(320.6)	1.1
Return on assets in excess of discount rate	(108.6)	–	43.4	65.1	(0.1)
Experience	–	11.9	(4.8)	(7.1)	–
Total	(108.6)	547.9	(175.7)	(262.6)	1.0
At 31 March 2020	2,796.2	(4,245.5)	579.7	867.3	(2.3)

	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)

Notes to the consolidated financial statements

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36 Retirement benefit schemes continued

(g) Consolidated statement of comprehensive income

Amounts presented in the consolidated statement of comprehensive income comprise:

	2020 £m	2019 £m
Actuarial loss on DBO	670.8	(482.6)
Actuarial (loss)/gain on assets	(237.7)	293.0
Actuarial (loss)/gain on franchise adjustments	(438.3)	174.4
Adjustment for irrecoverable surplus	(23.8)	(23.5)
Actuarial losses on defined benefit schemes	(29.0)	(38.7)

(h) Adjustment for First Bus irrecoverable surplus

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

	2020 £m	2019 £m
At 1 April	(188.2)	(160.4)
Interest on irrecoverable surplus	(4.5)	(4.3)
Actuarial loss on irrecoverable surplus	(23.9)	(23.5)
At 31 March	(216.6)	(188.2)

Cash contributions

The Group is finalising an updated schedule of contributions with the Trustees of the First UK Bus Scheme. In broad terms, it is expected that cash contributions will double from current levels and should serve to reduce the scheme's reliance on the Group over time. The IAS 19 deficit of the scheme at 31 March 2020 is £145.8m (2019: £208.4m). 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 2021 is £132m based on current contributions schedules in force (year to 31 March 2020: £104m).

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.

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 110 to 130.

	Year to 31 March 2020 £m	Year to 31 March 2019 £m
Basic salaries ¹	1.2	0.8
Performance-related bonuses	–	0.1
Benefits in kind	0.1	0.0
Fees	0.8	0.9
Share-based payment	0.8	0.2
	2.9	2.0

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

38 Post balance sheet events

The impact of the coronavirus pandemic on the Group's operations is discussed within the principal risks and uncertainties on pages 59 to 68 as well as set out within note 1 and the basis of preparation on page 141 which summarises the coronavirus scenario modelled by the Group.

Subsequent to the balance sheet date, the Group has monitored the business performance, internal actions, as well as other relevant external factors (such as changes in any of the government restrictions and policy guidance). No adjustments to the key estimates and judgements that impact the balance sheet as at 31 March 2020 have been identified.

The following non-adjusting events have occurred since 31 March 2020:

- Use of the UK government's Coronavirus Job Retention Scheme for furloughed staff as required under the Covid-19 Bus Service Support Grant in England and support in Scotland and Wales
- Use of the CARES Act support for our North American businesses for the Employee Retention Credits. The CARES Act was signed pre year end and the appropriate amounts receivable were recognised in 2019/20 and subsequently contractualised in 2020/21
- Contracted with six states with 5311 (f) subsidy funding in Greyhound with appropriate recognition of revenue taken in 2019/20. We continue to progress agreements with other states we operate in
- Signed a DA3 award for GWR for a further three years plus one at the DfT's option
- The Group received confirmation from the Bank of England that it was an eligible issuer under the UK government's Covid Corporate Financing Facility (CCFF) and allocated an issuer limit of £300m and issued £300m in commercial paper on 27 April
- Continued to progress contractual support arrangements in First Student and First Transit
- Agreed CBSSG Restart in England and agreed fiscal support in Scotland for increased bus service levels

Financial statements

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39 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 2020 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 Limited⁴, 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 Limited⁴, 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, Carmuir 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 Limited⁴, 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 Limited⁴, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

First Capital North Limited⁴, 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 Limited⁴, 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, Davey House, 7b Castle Meadow, Norwich, NR1 3DE

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 Limited¹, 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 Limited³, 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 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 Limited¹, 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, Carmuir House, 300 Stirling Road, Larbert, Stirlingshire, FK5 3NJ

39 Information about related undertakings continued

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

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) Limited¹, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

FirstBus (South) Limited¹, 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 (07124679)⁴, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

FirstGroup Holdings Limited¹, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

FirstGroup (QUEST) Trustees Limited¹, 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. Limited¹, Enterprise House, Easton Road, Bristol, BS5 0DZ

GB Railways Group Limited¹, 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 Limited¹, Milford House, 1 Milford Street, Swindon, SN1 1HL

Great Western Trains Company Limited³, 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 Limited¹, 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

Quickstep Travel Limited (02643677), 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 (02468610)⁴, 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

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39 Information about related undertakings continued

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, Carmuir 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) Limited¹, Enterprise House, Easton Road, Bristol, BS5 0DZ

Taylor's Coaches Limited, Enterprise House, Easton Road, Bristol, BS5 0DZ

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 Limited¹, 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

Truronian Limited⁴, 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

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, Worcester, 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

39 Information about related undertakings continued

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

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

Subsidiaries – 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

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

Subsidiaries – wholly owned and incorporated in India

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

Subsidiaries – 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

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

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

Subsidiaries – 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

Subsidiaries – 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

Notes to the consolidated financial statements continued

39 Information about related undertakings continued

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 2020 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

1. 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 2020 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 39 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).

2. 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. The non-audit services provided to the group and parent company for the year are disclosed in note 6 to the financial statements. 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.

3. Material uncertainty relating to going concern

We draw attention to note 2 in the financial statements and the detailed information on page 73 which indicates that a material uncertainty exists that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern.

The following areas were those which were considered to be the key risks giving rise to a material uncertainty in relation to the directors' going concern assessment and the procedures we have performed on those risks:

Continuation of fiscal and contractual support

The Group has been the recipient of significant fiscal support during the coronavirus pandemic, primarily:

- Emergency Measures Agreements ('EMAs') in First Rail
- COVID-19 Bus Service Support Grant and other schemes in First Bus
- Federal subsidy funding under the US CARES Act in Greyhound
- Employee Retention Credit for Employers subject to closure due to coronavirus in North American divisions
- Commercial paper borrowing under the Covid Corporate Financing Facility ('CCFF')

In addition to fiscal support, the Group has received significant financial support from customers in First Student and First Transit. In the case of First Student, the US CARES Act stipulated that school boards should, to the greatest extent practicable, pay contractors such as First Student.

For the purposes of preparing its forecasts to assess going concern, the Directors made assumptions regarding the continuation of the above fiscal and other financial support mechanisms over the going concern period. There is significant uncertainty regarding the levels and duration of fiscal and contractual support which will be provided throughout the entire going concern period.

Independent auditor's report to the members of FirstGroup plc

continued

3. Material uncertainty relating to going concern continued

Forecast recovery of passenger volumes

There is significant interaction between the passenger volumes assumed by the Directors in their forecasts over the going concern period and the level of available fiscal and other financial support. If actual passenger volumes do not return to the levels included in the forecasts, the Directors assume that additional fiscal and other financial support would be received to help ensure the continuation of services.

There is significant uncertainty regarding the forecast recovery of passenger volumes and the impact of travel restrictions and social distancing requirements on passenger numbers during the going concern period.

Ability to obtain covenant waivers

Due to continuing uncertainties in the transportation industry as a result of the impact of the coronavirus pandemic and related social distancing measures, there is a risk that the Group's financial performance falls below the level the Directors have forecast.

The base case forecasts do not indicate a breach of financial covenants, however, there is limited headroom. On a reasonable downside scenario, the Directors forecast a breach of a financial covenant in March 2021 and very limited headroom at September 2020. The ability to obtain covenant waivers from lenders to cure any breach in financial covenant represents a significant uncertainty.

Availability of uncommitted facilities

A number of the Group's debt facilities are uncommitted or not committed for the duration of the going concern period. The Group's base case forecasts assume that the Bank of England CCFF of £300m, which is committed to March 2021, will be extended and an uncommitted Revolving Credit Facility ("RCF") Accordion of £150m will be available for the duration of the going concern period. In addition, the Group has £16m of other uncommitted overdraft facilities and a \$230m committed supplier financing facility which matures in June 2021. As these facilities are not contractually committed throughout the going concern period there is significant uncertainty whether the facilities will be available when the Directors have forecasted to utilise them.

Timing of cash flows

There is significant uncertainty regarding the timing of cash flows, including the receipt of fiscal and other financial support as well as working capital movements. If actual cash flows are not as forecast, additional debt may be required to be drawn down to satisfy the operational needs of the Group. As there is limited headroom on the Group's financial covenants, drawdowns of available facilities could result in a breach at the September 2020 or March 2021 test dates.

We note that the Directors consider that there are mitigating actions available to them which could be taken in the event that one of more of the material uncertainties above crystallise. These include raising additional debt financing, property disposals, sale and leaseback of buses and the capital expenditures. A number of these actions are not completely within the Group's control.

In response to the material uncertainty noted above, we obtained, challenged and assessed the Directors' going concern forecasts through performing a number of procedures, including:

- testing the clerical accuracy of the model used to prepare the going concern forecasts;
- inspecting key debt documentation to understand the principal terms and related financial covenants;
- reviewing the Group's covenant compliance in the period and assessing forecast compliance for the going concern period;
- with assistance from internal financial advisory specialists, challenging the reasonableness of the key assumptions applied in the underlying cash flows:
 - reading industry data and other external information and comparing these with estimates to determine if they provided corroborative or contradictory evidence in relation to the Directors' assumptions;
 - testing the underlying assumptions used to prepare the forecast scenarios and determined whether there was adequate support;
 - reviewing correspondence relating to the availability of the Group's financing arrangements, including the availability of CCFF funding; and
 - enquiring of the Directors regarding the available mitigating actions and challenging the quantum of those actions with reference to supporting evidence and assessing whether the mitigating actions were within the Company's control.
- performing sensitivity analysis on forecasts, including applying alternative reasonable downside scenarios, and considering the mitigating actions highlighted by the Directors in the event that they were required;
- considering the Group's liquidity requirements alongside its available financing, including the availability of ongoing fiscal and other financial support including committed and uncommitted facilities; and
- challenging the appropriateness of the disclosure made in the Annual Report and financial statements.

As stated in note 2, the events or conditions described above indicate that a material uncertainty exists that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

4. Summary of our audit approach

Key audit matters	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> ■ Going concern, including covenant compliance and the related disclosures (see material uncertainty relating to going concern section above); ■ Valuation of the recoverable amount of the Greyhound, First Student, First Transit and First Bus cash generating units ("CGUs"); ■ Contract profitability assessments of the TransPennine Express ("TPE"), SouthWestern Railway ("SWR") and Avanti West Coast ("Avanti") franchises, and the assumptions relating to Emergency Measures Agreements in future forecasts; ■ Actuarial methods and assumptions used to estimate the North American self-insurance provision; ■ Adjusting items included in the determination of adjusted earnings; ■ Accuracy of material manual adjustments to revenue recognition processes at First Student and First Transit, including judgements arising from the coronavirus pandemic; ■ Inflation, discount rate and mortality assumptions used in the valuation of pension scheme liabilities; ■ Valuation of certain unquoted investments in pension scheme assets; and ■ Recognition of deferred tax assets in the UK.
Materiality	<p>We have considered a number of benchmarks and determined that a materiality of £10.0m is appropriate. The materiality has been determined with reference to a range of benchmarks including average statutory loss before tax, average adjusted operating profit and net assets.</p>
Scoping	<p>We performed full scope audit procedures at each of the five operating divisions as well as certain Group central functions. The scope of our work was extended to include Avanti West Coast, a new Rail Franchise which commenced during the year. Together these components account for over 97% of the Group's net assets, revenue, and operating profit.</p>
Significant changes in our approach	<p>Our audit approach for the current year included the following changes, as compared to our audit of the prior year:</p> <p>In the current year, we have identified four new key audit matters related to:</p> <ul style="list-style-type: none"> ■ Going concern including covenant compliance and the related disclosures (see material uncertainty relating to going concern section above); ■ Adjusting items included in the determination of adjusted earnings; ■ Valuation of certain unquoted investments in pension scheme assets; and ■ Valuation of intercompany investments and receivables recorded by the Parent Company. <p>We have also updated three key audit matters:</p> <ul style="list-style-type: none"> ■ the key audit matter related to impairment to the carrying value of Greyhound CGU has been expanded to include First Student, First Transit and First Bus; ■ accounting for rail franchise contracts, including the forecast profitability assessments of TPE and SWR franchises has been expanded to include the Avanti franchise and the assumptions relating to Emergency Measures Agreements in future forecasts; and ■ the accuracy of material manual adjustments to revenue recognition has been expanded to include any revenue recognised for judgements as a result of the coronavirus pandemic.

These changes and the reasons for identification of these areas as key audit matters are discussed further on the next pages.

Independent auditor's report to the members of FirstGroup plc continued

5. 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 Parent 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 59-68 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the directors' confirmation on page 134 that they have carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 69-73 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 going concern and the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

Viability means the ability of the Group to continue over the time horizon considered appropriate by the directors.

In addition to the impact of the matters disclosed in the material uncertainty relating to going concern section and the other matters disclosed by the director's, we draw attention to the disclosures on pages 69 to 71 regarding the longer-term viability of the Group and highlight that the Directors' base case forecasts for assessing Group's viability includes £850m of debt and equity issuances which are not within the going concern period. These are fundamental assumptions upon which the viability assessment has been prepared.

We confirm that we have nothing to report on the matters required by LR 9.8.6R(3).

6. 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. In addition to the matter described in the material uncertainty relating to going concern in section 3, we have determined the matters described below to be the key audit matters to be communicated in our report:

6.1 Valuation of the recoverable amount of the Greyhound, First Student, First Transit and First Bus cash generating units

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 for First Student, First Transit and First Bus and in assessing the fair value less costs to sell of Greyhound. This judgement includes consideration of the key assumptions regarding forecast margin and long term growth rate.

As a result of the impact of the coronavirus pandemic on the Group and as explained in the material uncertainty relating to going concern, there is significant uncertainty relating to the assumptions made in forecasting the future cash flows of Greyhound, First Student, First Transit and First Bus.

First Student, First Transit and First Bus require an annual impairment test due to the goodwill allocated to the CGUs. The carrying value of these CGUs are £2,582.3m, £423.3m and £577.6m, respectively. Management has also identified an impairment indicator in relation to the carrying value of the assets in the Greyhound CGU due to underperformance compared with budget.

Management assesses recoverable amount by reference to a value in use ("VIU") model, unless the VIU model indicates impairment, in which case a fair value less costs to sell ("FVLCTS") model is also prepared and the recoverable amount is the higher of the VIU and FVLCTS. During the year Management assessed the recoverable amount of Greyhound by reference to a FVLCTS model given that Management recognised an impairment of £186.9m on the Greyhound CGU during the year.

The impairment forecasts used to determine the recoverable amount of the Group CGUs also provide the basis of assessing the carrying amount of Parent Company investments in subsidiary undertakings for impairment. Management has recognised an impairment of £434.1m on the investments in subsidiary undertakings during the year.

On the basis that the cash flow forecasts used for assessing impairment are consistent with those used for assessing going concern, there exists significant estimation uncertainty as disclosed in note 11. This key audit matter is also considered a fraud risk as discussed in Section 12.2.

The Audit Committee report on page 100 refers to the valuation of the carrying value of CGUs as one of the significant issues and judgements considered by the Audit Committee.

6. Key audit matters continued

How the scope of our audit responded to the key audit matter	<p>The audit procedures we performed in respect of this key audit matter included:</p> <ul style="list-style-type: none"> ■ gaining an understanding of Group and divisional Managements' process for developing their impairment assessment through obtaining an understanding of controls related to the forecasting of results; ■ assessing the historical trading performance and forecasting accuracy; ■ considering the reasonableness of, and recalculating, the sensitivity assessment applied by Management; ■ considering and assessing the impact of contradictory evidence, including historical forecasting accuracy and independent GDP forecasts, through performing further independent sensitivity analysis on the impairment model; ■ agreeing the underlying cash flow forecasts to the Board approved adjusted plans; ■ meeting with Divisional Management teams to understand and challenge the forecasts; ■ challenging the underlying assumptions within the cash flow forecasts impacting the forecast margin and long term growth rates; ■ inspecting property valuations to support the property disposal proceeds included within the Greyhound FVLCTS model; ■ understanding and challenging the impact of the coronavirus pandemic, including the significant uncertainty relating to the assumptions relating to the period of lockdown, the timing of recovery and the post lockdown recovery environment; and ■ considering the appropriateness of the related disclosures.
Key observations	<p>While we note the significant uncertainty relating to the assumptions made in forecasting future cash flows, we make the following key observations:</p> <ul style="list-style-type: none"> ■ we concur with Management's conclusion that no impairment is required on the First Student, First Transit and First Bus CGUs. ■ we concur with the recognition of an impairment charge of £186.9m in respect to the Greyhound CGU and £434.1m in respect to the investments in subsidiary undertakings. ■ we consider the disclosure in the judgments and estimates section of note 2 relating to the impairment of assets in the Greyhound CGU together with the reasonable possible change sensitivity noted in respect of First Student, First Transit and First Bus and detailed in note 11 to be proportionate to the estimate of the recoverable amounts.

6.2 Contract profitability assessments of TPE, SWR and Avanti rail franchises, including the assumptions relating to Emergency Measures Agreements in future forecasts

Key audit matter description	<p>The Group operates a number of complex rail franchise contracts in the United Kingdom that were significantly impacted by the coronavirus pandemic. As a result of actual and expected future losses and liquidity constraints brought about by a significant fall in passenger volumes, the Department for Transport ("DfT") placed all of the UK rail franchises under Emergency Measures Agreements ("EMAs"), which cover the period from 1 March 2020 to 20 September 2020. The EMAs provide the Group with cost and revenue protection while operating under the EMAs. In addition, the Train Operating Companies are entitled to a management fee and a contingent performance fee.</p> <p>Management have made a critical judgement as part of the basis of preparation of this Annual Report that the DfT will, as a result of an expected long term and adverse impact on passenger demand for rail travel, extend the current term of the Emergency Measures Agreements, or replace them with similar management contracts, until the end of the term of each franchise, or, rebase the existing franchise agreements based on lower passenger demand levels. If the DfT were to return all TOCs to the original franchise terms following the EMA expiry on 20 September 2020 without any rebasing, the maximum unavoidable loss remaining after existing impairments is £232m. This represents the full undrawn value of the funding deeds provided in support of the franchises.</p> <p>In Management's judgement no further impairment is required to the carrying value of the Rail division right of use assets due to the assumption that the Group will either receive an extension to the EMAs, negotiate a similar management contract, or the existing franchise agreements will be rebased. This is a critical management judgement. Management has highlighted contract and franchise accounting as a key source of estimation uncertainty in note 2 to the consolidated financial statements. This key audit matter is also considered a fraud risk as discussed in Section 12.2.</p> <p>The Audit Committee report on page 100 refers to this as a one of the significant issues and judgements considered by the Audit Committee.</p>
How the scope of our audit responded to the key audit matter	<p>The audit procedures we performed in respect of this key audit matter included:</p> <ul style="list-style-type: none"> ■ gaining an understanding of Management's process for assessing the contract profitability and obtaining an understanding of key controls; ■ challenging Management's judgement relating to the continuation of EMAs, or similar arrangements, for the remaining term of the franchise agreements based upon available audit evidence including government announcements; ■ assessing and challenging Management's range of possible outcomes; and ■ assessing the appropriateness of the related financial statement disclosures surrounding this matter.

Independent auditor's report to the members of FirstGroup plc continued

6. Key audit matters continued

Key observations	<p>We note the significant estimation uncertainty in relation to the assumptions relating to Emergency Measures Agreements and the impact on rail contract profitability.</p> <p>Notwithstanding the significant estimation uncertainty, we consider Management's judgement and the related disclosures to be reasonable.</p>
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6.3 Actuarial methods and assumptions used to estimate the North American self-insurance provision

Key audit matter description	<p>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, and a fraud risk, in relation to the actuarial methods and assumptions used to estimate the unpaid claims reserve for provision.</p> <p>Management has highlighted North American self-insurance provisioning as a key source of estimation uncertainty in the notes to the consolidated financial statements and note that the provision of £527.3 million (2019: £408.9 million) is within the range calculated by their actuaries of £442.2 million to £548.2 million (2019: £342.9 million to £438.8 million). The provision has primarily increased due to adverse market developments and settlements across the claim portfolio, and deterioration of loss development factors.</p> <p>The Audit Committee report on page 99 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.</p>
How the scope of our audit responded to the key audit matter	<p>The audit procedures we performed in respect of this key audit matter included:</p> <ul style="list-style-type: none"> ■ gaining an understanding of Management's process for developing the North American self-insurance reserves, and obtaining an understanding of key controls; ■ meeting with Management and their 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; ■ assessing 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.
Key observations	<p>We are satisfied that the assumptions used in the valuation of the North American self-insurance reserve are within our range of estimate and the related disclosures are reasonable.</p>

6.4 Adjusting items included in the determination of adjusted earnings

Key audit matter description	<p>Management adjust for certain items in order to eliminate factors which they consider to distort year-on-year comparisons. Adjusting items are not defined by IFRS and therefore significant judgement is required in determining the appropriate classification.</p> <p>Adjusted earnings is a key focus of Management as well as external users of the accounts and creates an incentive to use the adjusting items to manipulate adjusted earnings.</p> <p>The use of non-GAAP or Adjusted Performance Measures ("APMs") within financial statements continues to be an area of increased focus by the regulators, in particular the Financial Reporting Council ("FRC") and the European Securities and Markets Authority ("ESMA").</p> <p>The Group has reported an adjusted profit before tax of £109.9 million (2019: £208.2 million), which is derived from statutory loss before tax of £299.6 million (2019: £97.9 million) adjusted for a number of items totalling £409.5 million (2019: £306.1 million) which the Group considers meet their definition of an 'adjusting item'. The most significant adjusting items in the year include impairment charges, significant adverse development factors on insurance provisions, significant movements on insurance discount rates, and restructuring and reorganisation costs.</p> <p>The Audit Committee report on page 100 refers to adjusting items as one of the significant issues and judgements considered by the Audit Committee. The adjusting items policy is disclosed in note 2 to the financial statements and explanations of each adjusting item, are set out in note 4 to the financial statements.</p>
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6. Key audit matters continued

How the scope of our audit responded to the key audit matter	<p>The audit procedures we performed in respect of this key audit matter included:</p> <ul style="list-style-type: none"> ■ gaining an understanding of Management's process for determining the adjusting items and of key controls; ■ challenging the adjustments between statutory and adjusted profit to understand the rationale for the separate classification and the appropriateness by confirming alignment with the Group's adjusting item accounting policy; ■ assessing the consistency of items adjusted for in the reconciliation of operating profit to adjusted operating profit between periods; ■ challenging the consistency of the treatment of similar gains and losses as adjusting items; ■ assessing the narrative and determining whether the disclosures are fair, balanced, and understandable; and ■ benchmarking the Group's alternative performance measures reporting against emerging practice and the guidance from the FRC and ESMA.
Key observations	<p>We are satisfied that the overall classification of adjusting items is reasonable with reference to the Group adjusting item policy.</p> <p>We highlight that during the year the Group's adjusting item policy changed to include significant movements on insurance discount rates and exclude software amortisation. The prior year comparatives have been restated, where material.</p>

6.5 Valuation of deferred tax assets in the UK

Key audit matter description	<p>The recognition and measurement of Deferred Tax Assets ("DTAs") is an area of judgement as a result of the significant uncertainty regarding the future profitability of the Group as a result of the impact of the coronavirus pandemic. Management have recognised deferred tax assets of £33.6m (2019: £40.6m). The only jurisdiction where net deferred tax assets have been recognised is in respect of the UK.</p> <p>The recognition of the net DTA has been supported by reference to the underlying divisions which forecast profits as a result of the assumption that the Rail TOCs will continue to operate with EMAs or a similar arrangement. No DTA has been recognised in the UK in respect of trading losses.</p> <p>Management have adopted a three year forecast period in assessing the recoverability of DTAs, which is shorter than the forecast period in earlier years (five years), reflecting the continuing uncertainty arising as a result of the coronavirus pandemic, in particular the susceptibility of future cash flows to be materially reduced as a result of matters outside the control of management.</p> <p>Management has highlighted contract profitability as a key source of estimation uncertainty in note 2 to the consolidated financial statements. Should the assumption that all franchised TOCs continue under management contract for the life of the existing franchise agreement not occur then there would be a risk that the deferred tax assets should not be recognised and there would be a charge to Other Comprehensive Income of up to £26.5m with minimal impact on the income statement.</p> <p>The Audit Committee report on page 99 refers to deferred tax asset recognition as one of the significant issues and judgements considered by the Audit Committee.</p>
How the scope of our audit responded to the key audit matter	<p>The audit procedures we performed in respect of this key audit matter included:</p> <ul style="list-style-type: none"> ■ gaining an understanding of Management's process for recognising deferred tax assets and of key controls; ■ involving our tax specialists to assess and challenge the judgements taken by Management in determining the deferred tax assets to recognise, including the period over which to consider future taxable profits; ■ recalculating the mechanical accuracy of amounts recognised and alignment with relevant tax legislation; ■ considering the consistency of the forecasts with other audit areas including going concern and impairment; and ■ assessing the related financial statement disclosures.
Key observations	<p>The results of our audit procedures were satisfactory and we conclude the DTAs recognised are reasonable, however we highlight the significant estimation uncertainty as described in note 2.</p>

Independent auditor's report to the members of FirstGroup plc continued

6. Key audit matters continued

6.6 Accuracy of material manual adjustments to revenue recognition processes at First Student and First Transit, including judgements arising from coronavirus

Key audit matter description	<p>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. This includes judgements arising from the coronavirus pandemic where standby services were provided and customers agreed to provide a level of financial compensation.</p> <p>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.</p> <p>The key audit matter applies to the First Student and First Transit divisions, due to the judgement required in assessing the level of accrued revenue on contracts at year end.</p> <p>The Audit Committee report on page 99 refers to Revenue recognition as one of the significant issues and judgements considered by the Audit Committee.</p>
How the scope of our audit responded to the key audit matter	<p>The audit procedures we performed in respect of this key audit matter included:</p> <ul style="list-style-type: none"> ■ gaining an understanding of Management's process for ensuring the accuracy of manual adjustments to revenue and of key controls; ■ assessing and challenging the judgements taken by Management in determining material manual adjustments at First Student and First Transit, including judgements arising from the coronavirus pandemic by reference to contracts with customers at year end; ■ considering whether financial support received from customers due to the impact of the coronavirus pandemic meets the revenue recognition criteria under IFRS 15; ■ recalculating the accuracy of material accrued income balances and reviewing supporting documentation on a sample basis; and ■ verifying revenue related manual journal entries by agreeing them to supporting documentation to determine the rationale for the entries.
Key observations	<p>The results of our procedures were satisfactory and we did not identify inappropriate manual adjustments to revenue.</p>
6.7 Inflation, discount rate and mortality assumptions used in the valuation of pension scheme liabilities	
Key audit matter description	<p>The Group has a large membership within 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. The gross pension liabilities at 31 March 2020 were £7,333.8m (2019: £6,728.5).</p> <p>The Audit Committee report on page 99 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.</p>
How the scope of our audit responded to the key audit matter	<p>The audit procedures we performed in respect of this key audit matter included:</p> <ul style="list-style-type: none"> ■ gaining an understanding of Management's process for determining the underlying assumptions and obtaining an understanding of key controls; ■ working with our actuarial specialists to audit 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; ■ assessing the pension cost, the Statement of Other Comprehensive Income and movement in balance sheet over the year; and ■ assessing the related financial statement disclosures.
Key observations	<p>We are satisfied that the assumptions applied in respect of the valuation of the pension liabilities are within our range of estimates 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.</p>

6. Key audit matters continued

6.8 Valuation of certain unquoted investments in the pension scheme assets

Key audit matter description	<p>The pension schemes in which the Group participates hold unquoted plan assets in private equity, infrastructure and property funds. Significant judgment is required in determining the valuation of the investments which are based on inputs that are not directly observable. There is increased estimation uncertainty in relation to the private equity infrastructure and property valuation as a result of coronavirus.</p> <p>The funds involving significant judgement includes private equity or illiquid funds held by the Railways Pension Scheme (RPS) sections relating to the Group's rail franchises. At 31 December 2019 these assets totalled £576m and as a result of the difficulty in obtaining a valuation as at 31 March 2020, the valuation of these assets at 31 December 2019 has been used and adjusted for cash inflows and outflows from 1 January 2020 to 31 March 2020.</p> <p>Similarly, there was £243m within the Manchester Local Government Pension Scheme fund containing private equity and other illiquid assets.</p> <p>The effect of these matters is a potential range of reasonable outcomes to the valuations of these assets disclosed in note 2 greater than our materiality for the financial statements as a whole.</p> <p>We highlight that changes in the valuations of these assets do not impact the net pensions deficit disclosed by the Group owing to the fact that a franchise adjustment is applied to the RPS scheme as the Group only have an obligation to fund contributions during the franchise period and the Manchester pension scheme has a surplus which cannot be fully recognised in the financial statements of the Group under IFRS. The LGPS private equity and illiquid asset valuation would have to fall by £119m before the LGPS scheme surplus valuation is affected.</p> <p>Note 36 to the financial statements disclose the sensitivity of key assumptions for the uncertainties associated with the valuation of plan assets with unobservable inputs.</p>
How the scope of our audit responded to the key audit matter	<p>The audit procedures we performed in respect of this key audit matter included:</p> <ul style="list-style-type: none"> ■ making enquiries of management and their actuary; ■ obtaining confirmation of the existence of pension assets from the scheme administrator and of their valuation from the investment manager; ■ challenging, with the involvement of our own pension asset experts, the key unobservable inputs, including benchmarking assumptions against externally derived indices, comparable assets and market practice; ■ challenging third party valuation experts through enquires on the valuation methodology and considering the appropriateness of key assumptions applied in light of the uncertainty caused by the coronavirus pandemic, including the roll forward approach adopted by management and their actuary; ■ obtaining and reviewing the reports regarding the internal controls of the scheme administrators and investment managers; and ■ assessing the historical accuracy of previous private equity fund valuations with reference to the latest audited financial statements.
Key observations	<p>While we note the significant estimation uncertainty in relation to the private equity and infrastructure and property valuation as a result of the coronavirus pandemic, in our testing all funds except one fell within the reasonable range established by our pension asset experts. This resulted in only a potential reclassification misstatement which management and we did not consider material. We consider the valuation of the unquoted investments to be acceptable.</p>

Independent auditor's report to the members of FirstGroup plc continued

7. Our application of materiality

7.1. 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	£10.0m (2019: £7.5m)	£8.0m (2019: £6.0m)
Basis for determining materiality	<p>We determined materiality of the Group with reference to a range of benchmarks, which included statutory loss before tax, adjusted operating profit and net assets.</p> <p>The materiality determined represents 3.3% of statutory loss before tax (2019: 7.7%), 3.9% of adjusted operating profit (2019: 2.3%) and 0.8% of net assets (2019: 0.5%).</p>	<p>Parent Company materiality represents less than 1% of net assets (2019: less than 1%) and is capped at 80% of Group Materiality.</p>
Rationale for the benchmark applied	<p>In the current year, we considered the use of a number of benchmarks in determining materiality to be appropriate since a number of measures are relevant to the user of the financial statements, including statutory loss before tax, adjusted operating profit and net assets.</p> <p>In 2019, we determined materiality with reference to profit before tax adjusted for certain adjusting items.</p> <p>The increase in materiality compared to the year ended 31 March 2019 was due to the addition of Avanti West Coast in December 2019, and the increase in size and scope of the Group.</p>	<p>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 given the nature of the Parent Company.</p>

7.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. The Group performance materiality was set at 60% of Group materiality for the 2020 audit (2019: 70%). In determining performance materiality, we considered the following factors:

- there was no history of significant uncorrected misstatements in the previous audit; and
- the impact of the coronavirus pandemic on the operations of the Group, including the potential impact on the control environment, given the move to remote working in a short space of time, and the risk that key individuals could be absent during the year end close process.

Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £500,000 (2019: £375,000), 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.

8. 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, we focused our Group audit scope primarily on the FirstGroup America component (First Student, First Transit, Greyhound and the North American self-insurance captive entity), the four significant Train Operating Companies which includes the new Avanti West Coasts Franchise (Avanti, GWR, SWR and TPE), the First Bus Division as well as certain Group central functions. Avanti was a new Rail Franchise which commenced during the year and was included in the scope of our audit as a significant component.

The locations subject to full audit procedures represent the principal business units and account for over 97% 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 performance materiality of between £3.0 million and £5.1 million (2019: £2.1 million and £4.5 million) applicable to each individual location with the exception of the Parent Company, for which a materiality of £8.0 million and a performance materiality of £4.8 million was used.

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 issued detailed instructions to our component audit teams and 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 significant components to discuss the work performed. The audits of Avanti, GWR and TPE are led by members of the Group audit team. For all UK components, the Senior Statutory Auditor has access to the audit files and directly reviews the work performed in key risk areas relevant to the Group, including significant risk areas.

8. An overview of the scope of our audit continued

In relation to the current year, the Senior Statutory Auditor of the Group audit team visited the FirstGroup America ("FGA") component team in October 2019 and January 2020. In addition site visits of the FGA component, the most significant component, were initially scheduled for March 2020 and May 2020. Due to travel restrictions resulting from the coronavirus pandemic, these visits could not take place and therefore we have implemented alternative procedures to ensure appropriate oversight of the FGA component. These included the use of share-screen technology and regular video calls to discuss the status of the work of our FGA component team and to perform file review and close meetings with divisional management. The Group audit team have reviewed documentation of the findings from the component audit teams' work.

9. 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.

10. 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.

11. 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 and non-compliance with laws and regulations 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.

Independent auditor's report to the members of FirstGroup plc

continued

12. 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.

12.1. 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, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries 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; and
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations; and
- discussing among the engagement team including significant component audit teams and involving relevant internal specialists, including tax, valuations, pensions and IT regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act 2006, the UK Corporate Governance Code and the Listing Rules of the UK Listing Authority and the relevant tax compliance regulations in the jurisdictions in which FirstGroup operates.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty, including compliance with terms of the Group's Rail franchise agreements, Affordable Care Act, and banking covenants.

12.2. Audit response to risks identified

As a result of performing the above, we identified the following key audit matters related to potential risks of fraud:

- Going concern, including covenant compliance and the related disclosures;
- valuation of the recoverable amount of the Greyhound, First Student, First Transit and First Bus CGUs;
- future contract profitability assessments of Avanti, SWR and TPE including the assumptions relating to Emergency Measures Agreements in future forecasts;
- actuarial methods and assumptions used to estimate the North American self-insurance provision;
- adjusting items included in the determination of adjusted earnings; and
- accuracy of material manual adjustments to revenue recognition processes at First Student and First Transit, including judgements arising from the coronavirus pandemic.

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 including internal specialists 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

13. 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.

14. Matters on which we are required to report by exception

14.1. 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.

14.2. 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.

15. Other matters

15.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by 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 22 years, covering the years ending 31 March 1999 to 31 March 2020. The year ended 31 March 2020 is the final year of our audit appointment.

15.2. 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).

16. 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
8 July 2020

Financial statements

continued

Group financial summary

Unaudited

	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Consolidated income statement					
Group revenue	7,754.6	7,126.9	6,398.4	5,653.3	5,218.1
Operating profit before amortisation charges and other adjustments	256.8	314.8	317.0	339.0	300.7
Amortisation charges	(4.9)	(11.8)	(70.9)	(60.2)	(51.9)
Other adjustments	(404.6)	(293.2)	(442.3)	4.8	(2.5)
Operating (loss)/profit	(152.7)	9.8	(196.2)	283.6	246.3
Net finance cost	(146.9)	(107.7)	(130.7)	(132.0)	(132.4)
Ineffectiveness on financial derivatives	–	–	–	1.0	(0.4)
(Loss)/profit before tax	(299.6)	(97.9)	(326.9)	152.6	113.5
Tax	(25.0)	(10.1)	36.0	(36.5)	(17.1)
(Loss)/profit for the year	(324.6)	(108.0)	(290.9)	116.1	96.4
EBITDA	1,108.9	670.3	690.6	686.6	615.9
Earnings per share					
	pence	pence	pence	pence	pence
Adjusted	6.8	13.3	12.3	12.4	10.3
Basic	(27.0)	(5.5)	(24.6)	9.3	7.5
Consolidated balance sheet					
	£m	£m	£m	£m	£m
Non-current assets	6,225.1	4,003.5	3,802.9	4,524.9	4,201.3
Net current (liabilities)/assets	(701.9)	10.7	(300.3)	(153.0)	(239.3)
Non-current liabilities	(3,927.5)	(1,958.9)	(1,671.0)	(2,011.8)	(2,066.5)
Provisions	(419.0)	(532.0)	(341.0)	(284.2)	(262.3)
Net assets	1,176.7	1,523.3	1,490.6	2,075.9	1,633.2
Share data					
Number of shares in issue (excluding treasury shares and shares in trusts)	millions	millions	millions	millions	millions
At year end	1,219.5	1,213.9	1,210.8	1,207.7	1,204.3
Average	1,210.9	1,205.9	1,205.1	1,204.8	1,204.0
Share price					
	pence	pence	pence	pence	pence
At year end	50	91	82	132	97
High	138	117	153	133	128
Low	28	79	77	89	81
Market capitalisation					
	£m	£m	£m	£m	£m
At year end	610	1,105	993	1,594	1,168

Company balance sheet

As at 31 March

	Note	2020 £m	2019 £m
Non-current assets			
Trade and other receivables	3	2,210.8	0.8
Derivative financial instruments	4	15.8	18.6
Investments	5	1,530.9	1,954.7
		3,757.5	1,974.1
Current assets			
Cash and cash equivalents		137.4	32.6
Trade and other receivables	3	–	2,043.7
Derivative financial Instruments	4	4.8	7.9
		142.2	2,084.2
Total assets		3,899.7	4,058.3
Current liabilities			
Trade and other payables	7	389.1	336.0
Derivative financial instruments	4	9.5	1.4
		398.6	337.4
Net current (liabilities)/assets		(256.4)	1,746.8
Non-current liabilities			
Trade and other payables	7	1,780.0	1,619.8
Derivative financial instruments	4	1.0	0.7
		1,781.0	1,620.5
Total liabilities		2,179.6	1,957.9
Net assets		1,720.1	2,100.4
Equity			
Share capital	8	61.0	60.7
Share premium		688.6	684.0
Other reserves		258.6	262.1
Own shares	9	(10.2)	(4.7)
Retained earnings		722.1	1,098.3
Total equity		1,720.1	2,100.4

The company reported a loss for the financial year ended 31 March 2020 of £382.3m (2019: loss of £165.5m).

Ryan Mangold

8 July 2020

Company number SC157176

Financial statements

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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 2018 (restated)	60.5	681.4	(6.3)	–	166.4	93.8	1.9	1,261.2	2,258.9
Change in accounting policies ¹	–	–	–	–	–	–	–	(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)
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
Balance at 31 March 2019	60.7	684.0	(4.7)	–	166.4	93.8	1.9	1,098.3	2,100.4
Loss for the year	–	–	–	–	–	–	–	(382.3)	(382.3)
Other comprehensive loss for the year	–	–	–	(3.5)	–	–	–	–	(3.5)
Total comprehensive loss for the year	–	–	–	(3.5)	–	–	–	(382.3)	(385.8)
Shares issued	0.3	4.6	–	–	–	–	–	–	4.9
Movement in EBT and treasury shares	–	–	(5.5)	–	–	–	–	(4.2)	(9.7)
Share-based payments	–	–	–	–	–	–	–	10.3	10.3
Balance at 31 March 2020	61.0	688.6	(10.2)	(3.5)	166.4	93.8	1.9	722.1	1,720.1

1 Prior year 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 73.

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 2020, include the results and financial position of the Company for the year ended 31 March 2020. 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.

Where relevant, equivalent disclosures have been given in the consolidated financial statements. The principal accounting policies adopted are the same as those set out in note 2 to the consolidated financial statements except as noted below.

Investments

Investments in subsidiaries and associates are shown at cost less provision for impairment. For investments in subsidiaries acquired for consideration, 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.

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 2020 is £1,530.9m (2019: £1,954.7m).

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 2020 of £382.3m (2019: loss of £165.5m).

Fees payable to the Company's auditors for the audit of the Company's annual financial statements are disclosed in note 6 of the Group accounts. The Company had no employees in the current or preceding financial year.

3 Trade and other receivables

	2020 £m	2019 £m
Amounts due within one year		
Amounts due from subsidiary undertakings	–	2,047.3
Loss allowance	–	(3.6)
Net amounts due from subsidiary undertakings	–	2,043.7
Amounts due after more than one year		
Amounts due from subsidiary undertakings	2,212.4	–
Loss allowance	(3.6)	–
Net amounts due from subsidiary undertakings	2,208.8	–
Deferred tax asset (note 6)	2.0	0.8
	2,210.8	0.8

Financial statements

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Notes to the Company financial statements continued

4 Derivative financial instruments

	2020 £m	2019 £m
Total derivatives		
Total assets – due after more than one year	15.8	18.6
Total assets – due within one year	4.8	7.9
Total assets	20.6	26.5
Total creditors – amounts falling due within one year	9.5	1.4
Total creditors – amounts falling due after more than one year	1.0	0.7
Total creditors	10.5	2.1
Derivatives designated and effective as hedging instruments carried at fair value		
Non-current assets		
Coupon swaps (fair value hedge)	13.3	16.2
Total assets	13.3	16.2
Current liabilities		
Currency forwards (net investment hedge)	4.4	–
Total liabilities	4.4	–
Derivatives classified as held for trading		
Non-current assets		
Currency forwards	2.5	1.6
Fuel derivatives	–	0.8
	2.5	2.4
Current assets		
Currency forwards	4.8	4.2
Fuel derivatives	–	3.7
	4.8	7.9
Total assets	7.3	10.3
Current liabilities		
Fuel derivatives	5.1	1.4
	5.1	1.4
Non-current liabilities		
Fuel derivatives	1.0	0.7
	1.0	0.7
Total liabilities	6.1	2.1

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 Investments in subsidiary undertakings

	Unlisted subsidiary undertakings £m
Cost	
At 1 April 2019	2,176.6
Additions	10.3
At 31 March 2020	2,186.9
Provision for impairment	
At 1 April 2019	221.9
Impairment	434.1
At 31 March 2020	656.0
Carrying amount	
At 31 March 2020	1,530.9
At 31 March 2019	1,954.7

The additions in the year relate to IFRS 2 share based charges.

A full list of subsidiaries and investments can be found in note 39 to the Group accounts.

6 Deferred tax

The major deferred tax asset 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 2019	(0.8)
Credit to income statement	(0.4)
Credit to hedging reserve	(0.8)
At 31 March 2020	(2.0)

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2020 £m	2019 £m
Deferred tax asset due after more than one year	(2.0)	(0.8)

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7 Creditors

	2020 £m	2019 £m
Amounts falling due within one year		
£350.0m Sterling bond – 8.750% 2021	30.4	30.4
£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	342.9	283.9
Accruals and deferred income	2.8	8.7
	389.1	336.0
Amounts falling due after more than one year		
Syndicated loan facilities	574.0	446.7
£350.0m Sterling bond – 8.750% 2021	355.1	357.7
£325.0m Sterling bond – 5.250% 2022	322.6	322.1
£200.0m Sterling bond – 6.875% 2024	199.8	199.8
Senior unsecured loan notes	219.7	210.0
Amounts due to subsidiary undertakings	108.8	83.5
	1,780.0	1,619.8

Borrowing facilities

The maturity profile of the Company's undrawn committed borrowing facilities is as follows:

	2020 £m	2019 £m
Facilities maturing:		
Due in more than two years	348.6	353.3

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 £64.4m (2019: £84.4m) and SWR £44.4m (2019: £43.7m). 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

	2020 £m	2019 £m
Allotted, called up and fully paid		
1,219.5m (2019: 1,213.9m) ordinary shares of 5p each	61.0	60.7

The number of ordinary shares of 5p in issue, excluding treasury shares held in trust for employees, at the end of the period was 1,210.8m (2019: 1,208.6m). At the end of the period 8.7m shares (2019: 5.3m shares) were being held as treasury shares and own shares held in trust for employees.

9 Own shares

	Own shares £m
At 1 April 2019	(4.7)
Movement in EBT, QUEST and treasury shares during the year	(5.5)
At 31 March 2020	(10.2)

The number of own shares held by the Group at the end of the year was 8,650,254 (2019: 5,310,593) FirstGroup plc ordinary shares of 5p each. Of these, 8,460,505 (2019: 5,120,844) were held by the FirstGroup plc Employee Benefit Trust, 32,520 (2019: 32,520) by the FirstGroup plc Qualifying Employee Share Ownership Trust and 157,229 (2019: 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 2020 was £4.4m (2019: £4.8m).

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 £990.0m (2019: £806.5m) and letters of credit for £393.8m (2019: £369.2m). The performance bonds relate to the North American and First Bus businesses of £686.5m (2019: £570.8m) and the First Rail franchise operations of £303.5m (2019: £235.7m). 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 £120.2m to First Rail Train Operating Companies of which £49.7m remains undrawn.

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. The Company's North American subsidiaries participate in a number of multi-employer pension schemes in which their contributions are pooled with the contributions of other contributing employers. The funding of these schemes are therefore reliant on the ongoing participation by third parties.

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

While the British Transport Police have now concluded their investigations into the Croydon tram incident in November 2016 without bringing any charges, the Office of Rail & Road (ORR) investigations are ongoing and it is uncertain when they will be concluded. The tram was operated by Tram Operations Limited (TOL), a subsidiary of the Group, 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 ORR 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 noise abatement notices in respect of the operations at the Reading railway depot. The serving of the notices has been appealed and the parties agreed in principle in June 2020 that the related court hearing should be put on hold until 31 May 2021 to allow the Council further time to monitor GWR's operations at the depot. The parties further agreed that in May 2021 the Council will be obliged to consider whether the 2017 abatement notices should be withdrawn and, if the notices are not withdrawn, the appeal proceedings will restart. The precise wording and mechanisms to achieve this in principle agreement are currently being negotiated by the parties – if it is not possible to agree this, a further court hearing has been listed for 4 September 2020 at which the court will decide how the appeal proceedings should be taken forward. As a result it is not possible at this stage to quantify the implications for the GWR operations, if any, if the notices are not withdrawn by the Council or if GWR are not ultimately successful with respect to any appeal.

On 26 February 2019, collective 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 collective proceedings, has been postponed pending the outcome of an appeal to the Supreme Court in a different collective proceedings action and is therefore unlikely to occur until late 2020 at the earliest. It is not possible at this stage to determine accurately the likelihood or quantum of any damages and costs, or the timing of any such damages or 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.