Financial review

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Chief Financial Officer

Focus is on cash flow and maintaining liquidity to ensure the Group's ability to continue providing services to our customers and communities through the pandemic. As we emerge from the crisis, improving business financial performance will be a key goal.

The Group has received contractual and direct fiscal support as a result of the coronavirus pandemic. The basis of preparation of the financial statements is that this support will continue to be provided to the Road Divisions until passenger volumes and operated service activities return towards pre-coronavirus pandemic levels. In addition it is assumed that Emergency Measures Agreements (EMA) or similar arrangements will exist for the duration of our existing First Rail franchises. Further details are set out in the Going Concern statement on pages 72 to 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.

Group revenue in the year increased by 8.8%. In constant currency, revenue increased by 7.2%, or by 2.6% excluding the initial contribution of the Avanti rail franchise. This principally reflects growth in First Student, First Transit and First Rail; like-for-like passenger revenue growth in First Bus was offset by disposals while Greyhound experienced like-for-like passenger revenue declines compared with the prior year and the effect of the withdrawal from loss-making routes in Western Canada. The coronavirus outbreak and the measures taken by authorities to control its spread in the final weeks of the year significantly affected revenue in all divisions.

Group adjusted operating profit decreased by (20.1)% in constant currency, or by (24.5)% adjusting for Avanti, reflecting a material impact from the coronavirus outbreak in the period comprising drop through of lower revenues offset by lower variable costs from reduced service levels, limited initial customer support and government funding and commencement of cost actions in the final week. The Road divisions' contribution to adjusted operating profit decreased by (25.6)% in constant currency, reflecting the impact of the coronavirus outbreak, £29.4m ($36.8m) increase in insurance costs for the year reflecting the continued hardening of the North American insurance market, labour cost pressures in the US, two adverse legal judgements in First Transit, Greyhound revenue reductions, and poorer UK summer weather compared with prior year and slower cost efficiency programme progress in First Bus, partially offset by the First Student, First Transit and First Rail revenue growth noted above and management actions. Software amortisation in the year of £16.1m (2019: £18.1m) has been charged to divisional results in arriving at adjusted operating profit and prior year Group and divisional adjusted operating profit has been restated accordingly. In prior years this was separately disclosed as an adjusting item. In the year, Greyhound recorded a £8.3m profit (2019: £8.4m) on sale of real estate. The adjusted operating profit contribution from First Rail in the year was flat, with the impact of the coronavirus outbreak and moving to the Emergency Measures Agreements from 1 March largely offset by the first-time contribution from Avanti. Group adjusted operating profit margin in constant currency decreased by (110)bps. In reported currency, adjusted operating profit decreased by (18.4)% to £256.8m (2019: £314.8m).

	Year to 31 March 2020			Year to 31 March 2019		
	Revenue £m	**Adjusted operating profit[1] £m**	**Adjusted operating margin[1] %**	Revenue £m	Adjusted operating profit[1] £m	Adjusted operating margin[1] %
First Student	**1,940.4**	**158.8**	**8.2**	1,845.9	171.2	9.3
First Transit	**1,171.4**	**28.3**	**2.4**	1,075.8	49.3	4.6
Greyhound	**603.2**	**(11.6)**	**(1.9)**	645.1	2.6	0.4
First Bus	**835.9**	**46.1**	**5.5**	876.1	65.1	7.4
Group items[2]	**17.8**	**(33.7)**		17.3	(42.2)	
Road divisions	**4,568.7**	**187.9**	**4.1**	4,460.2	246.0	5.5
First Rail	**3,185.9**	**68.9**	**2.2**	2,666.7	68.8	2.6
Total Group	**7,754.6**	**256.8**	**3.3**	7,126.9	314.8	4.4

North America in USD	**$m**	**$m**	**%**	$m	$m	%
First Student	**2,474.9**	**205.9**	**8.3**	2,424.9	227.1	9.4
First Transit	**1,488.4**	**36.2**	**2.4**	1,411.4	64.8	4.6
Greyhound	**766.0**	**(15.3)**	**(2.0)**	846.7	2.7	0.3
Total North America	**4,729.3**	**226.8**	**4.8**	4,683.0	294.6	6.3

1 'Adjusted' figures throughout this document reflect the adoption of IFRS 16 in the period and are before the Greyhound impairment charges, North American self-insurance provisions, restructuring and reorganisation costs, other intangible asset amortisation charges and certain other items as set out in note 4 to the financial statements. The statutory operating loss for the year was £(152.7)m (2019: profit of £9.8m) as set out in note 5.

2 Tramlink operations, central management and other items.

The statutory operating loss for the year was £(152.7)m (2019: profit of £9.8m), reflecting a total of £409.5m in costs and charges that have been excluded from the adjusted operating profit measure. This includes the Greyhound impairment charge of £186.9m of which £124.4m was taken in the first half, £141.3m in relation to the North American self-insurance provision reflecting historic claims experience in the insurance market and lower discount rates at the balance sheet date, restructuring and reorganisation costs of £58.2m, £21.5m in coronavirus-related charges (comprising a First Student onerous contract provision of £14.1m and a fuel over hedge charge of £7.4m due to lower than forecast fuel utilisation), and £8.0m of profit on sale of real estate in First Student.

Net finance costs were £146.9m (2019: £106.6m) with the increase mainly reflecting the transition to IFRS 16, resulting in adjusted profit before tax of £109.9m (2019: £208.2m). Adjusted earnings were £82.7m (2019: £159.8m) with the decrease due to the lower adjusted profit before tax together with higher non-controlling interests while the effective tax rate was stable at 22.4% (2019: 22.4%). Adjusted EPS was 6.8p (2019: 13.3p). In constant currency, adjusted EPS decreased by 49.6%, or by 33.3% excluding the net effect of implementing IFRS 16. EBITDA was £1,108.9m (2019: £670.3m); excluding the effect of adopting IFRS 16, EBITDA was £619.2m, a decrease of (9.4)% over the prior year, with Road EBITDA decreasing by (13.2)% in constant currency and Rail EBITDA increasing by 7.1%, benefiting from Avanti.

The statutory loss attributable to equity shareholders was £(327.2)m (2019: £(66.9)m), and statutory EPS was (27.0)p in the year (2019: (5.5)p).

The pre-IFRS 16 adjusted cash inflow of £98.5m (2019: £197.3m) includes a Rail net cash inflow of £90.6m (2019: inflow of £172.7m). This includes a net £67.3m of capital expenditure for which funding was received in prior periods and a £106.8m outflow for the utilisation of onerous contract provisions at SWR and TPE. Rail ring-fenced cash increased by £87.2m to £611.9m (2019: £524.7m) including the start-up of Avanti. Under the Emergency Measures Agreements, the working capital requirements of each of our TOCs are provided by the DfT. The Road divisions' cash inflow of £7.9m (2019: £24.6m) was after capital expenditure of £283.4m as our targeted fleet investment programmes continued during the year.

Pre-IFRS 16 net debt was flat at £896.2m (2019: £903.4m). Net debt: EBITDA on the 'frozen accounting standards' basis relevant to the Group's banking covenants was broadly flat at 1.4 times (2019: 1.3 times) and Rail ring-fenced cash adjusted net debt: EBITDA on the same basis was 2.4 times (2019: 2.1 times).

Liquidity within the Group increased compared with the prior year; as at 31 March 2020 the Group's undrawn committed headroom and free cash was £585.7m (2019: £520.6m), comprising £237.1m (2019: £167.3m) in free cash and £348.6m (2019: £353.3m) of undrawn committed bank revolving credit (RCF) facilities. Subsequent to the year end, the Group was confirmed as an eligible issuer for the UK Government's Covid Corporate Financing Facility (CCFF) scheme, with an issuer limit of £300m based on its credit ratings under the terms of the scheme as published by the Bank of England. On 27 April 2020 the Group issued £300m in commercial paper through the scheme to further enhance liquidity levels. The Group's diversified funding structure also includes undrawn facilities comprising a committed £250m bridging loan entered into in March 2020 for the redemption of the £350m bond that matures in April 2021, an uncommitted £150m accordion facility to

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the RCF, as well as further lines of uncommitted leasing facilities and more than $100m of uncommitted supplier credit for the procurement of buses. Average maturity of bond debt, senior unsecured loan notes and bank facilities was 3.3 years (2019: 4.3 years). As at the end of June 2020 the Group had c.£850m in free cash (before Rail ring-fenced cash) and committed undrawn revolving banking facilities. The level of free cash and undrawn committed revolving banking facilities has increased over the past two months and is anticipated to decline with the normal seasonal decline in revenues in First Student when schools are closed for the summer and due to working capital requirements as the business prepares for school start-up during August.

During the year, gross capital expenditure, excluding right of use assets, of £489.8m (2019: £444.0m) was invested in our business, with the Road divisions' capital expenditure being £366.7m (2019: £332.0m). The Road divisions' gross capital expenditure was driven principally by the higher retention rates and new business wins achieved in First Student's recent bid season and targeted investment in our other fleets in Greyhound and First Bus during the year.

ROCE before the impact of IFRS 16 was 8.2% (2019: 10.5%), or 4.4% following the addition of right of use assets to capital employed under IFRS 16.

While the Group currently has material fiscal and contractual support for running essential services across the divisions during the pandemic and committed undrawn liquidity of c.£850m as at the end of June, there are material uncertainties as to the future consequences of the coronavirus pandemic. The potential impact of certain scenarios have been highlighted in the going concern statement on page 72 to 73.

Impact of new accounting standards (IFRS 16)

The new accounting standard, IFRS 16 (Leases) came into effect on 1 January 2019, and was adopted by the Group from 1 April 2019.

The new standard eliminates the operating lease classification and therefore on the balance sheet lessees are required to recognise an asset (the right to use the leased item) and lease liabilities for all leases unless they have a remaining term of less than 12 months or are of low value. On the income statement, the operating lease expense are replaced by a combination of depreciation and interest.

IFRS 16 has been adopted in the period using the modified retrospective method. This resulted in a right of use asset of £1,140.4m and a lease liability of £1,168.2m recognised on 1 April 2019. The transition method has not required the balance sheet comparatives to be restated. All statutory and adjusted figures for the year to 31 March 2020 throughout this document are reported under IFRS 16 unless otherwise stated.

The impact of IFRS 16 is detailed further in note 2, and is summarised below:

	Year to 31 March 2020			Year to 31 March 2019
	Per IAS 17 accounting treatment £m	**Impact of IFRS 16 £m**	**Per IFRS 16 accounting treatment £m**	Per IAS 17 accounting treatment £m
EBITDA	**619.2**	**+489.7**	**1,108.9**	670.3
Adjusted operating profit	**250.4**	**+6.4**	**256.8**	314.8
Net finance costs	**(106.7)**	**(40.2)**	**(146.9)**	(106.6)
Adjusted profit before tax	**143.7**	**(33.8)**	**109.9**	208.2
Adjusted EPS	**9.0p**	**(2.2)p**	**6.8p**	13.3p
Net debt	**896.2**	**+2,381.9**	**3,278.1**	903.4

In accordance with IAS 36 (impairment of assets) the opening onerous contract provision for SWR of £145.9m was reclassified as an impairment on right of use assets (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 adoption of IFRS 16 has impacted the Rail division's results more significantly than the Road divisions, reflecting the high value of rolling stock leases as well as the change in accounting for onerous contract provisions. To aid understanding, set out overleaf are the impacts by division on adjusted operating profit and EBITDA:

Year to 31 March 2020	Pre-IFRS 16 basis Revenue £m	Adjusted operating profit £m	Adjusted margin %	EBITDA £m	EBITDA margin %
First Student	1,940.4	158.0	8.1	350.2	18.0
First Transit	1,171.4	28.1	2.4	51.3	4.4
Greyhound	603.2	(16.3)	(2.7)	15.7	2.6
First Bus	835.9	44.6	5.3	95.9	11.5
Group items	17.8	(33.8)		(30.4)	
Road divisions	4,568.7	180.6	4.0	482.7	10.6
First Rail	3,185.9	69.8	2.2	136.5	4.3
Total Group	7,754.6	250.4	3.2	619.2	8.0
North America in USD	$m	$m	%	$m	%
First Student	2,474.9	204.8	8.3	449.1	18.1
First Transit	1,488.4	35.9	2.4	65.3	4.4
Greyhound	766.0	(21.3)	(2.8)	19.1	2.5
Total North America	4,729.3	219.4	4.6	533.5	11.3

Year to 31 March 2020	IFRS 16 impact Adjusted operating profit £m	EBITDA £m
First Student	+0.8	+37.4
First Transit	+0.2	+11.6
Greyhound	+4.7	+19.6
First Bus	+1.5	+17.3
Group items	+0.1	+1.7
Road divisions	+7.3	+87.6
First Rail	(0.9)	+402.1
Total Group	+6.4	+489.7
North America in USD	$m	$m
First Student	+1.1	+47.6
First Transit	+0.3	+14.7
Greyhound	+6.0	+24.9
Total North America	+7.4	+87.2

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Year to 31 March 2020	Revenue £m	Adjusted operating profit £m	Adjusted margin %	EBITDA £m	EBITDA margin %
	Post IFRS 16 basis				
First Student	1,940.4	158.8	8.2	387.6	20.0
First Transit	1,171.4	28.3	2.4	62.9	5.4
Greyhound	603.2	(11.6)	(1.9)	35.3	5.9
First Bus	835.9	46.1	5.5	113.2	13.5
Group items	17.8	(33.7)		(28.7)	
Road divisions	4,568.7	187.9	4.1	570.3	12.5
First Rail	3,185.9	68.9	2.2	538.6	16.9
Total Group	7,754.6	256.8	3.3	1,108.9	14.3

North America in USD	$m	$m	%	$m	%
First Student	2,474.9	205.9	8.3	496.7	20.1
First Transit	1,488.4	36.2	2.4	80.0	5.4
Greyhound	766.0	(15.3)	(2.0)	44.0	5.7
Total North America	4,729.3	226.8	4.8	620.7	13.1

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 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 insurance reserves, onerous contracts, impairment charges and pension settlement gains or losses. Note 4 to the financial statements sets out the reconciliations of operating profit and loss before tax to their adjusted equivalents. The adjusting items are as follows:

Other intangible asset amortisation charges

The 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.

Greyhound impairment charges

We have assessed the value of Greyhound under a Fair Value Less Costs To Sell (FVLCTS) 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 discount rate used to value 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 other 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 period 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.

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.

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 service levels as a result of the coronavirus pandemic, particularly in First Bus and First Student.

First Student onerous contract provision

As a result of the coronavirus pandemic, a significant number of school bus contracts which have either been lost or were up for rebid 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).

Legacy pension settlement

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

Property profits

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

Finance costs and investment income

Net finance costs were £146.9m (2019: £106.6m) with the increase principally reflecting the additional interest charges under IFRS 16. Finance costs pre-IFRS 16 were £106.7m (2019: £106.6m) reflecting largely stable debt levels relative to prior year.

Profit before tax

Adjusted profit before tax as set out in note 4 to the consolidated financial statements was £109.9m (2019: £208.2m). An overall charge of £409.5m (2019: £305.0m) for adjustments principally reflecting the Greyhound impairment of £186.9m (2019: nil), North America self-insurance reserve charge of £141.3m (2019: £94.8m), restructuring and reorganisation charges of £58.2m (2019: £24.1m), a legacy pension settlement in First Transit of £4.9m (2019: £nil) and other intangible asset amortisation charges of £4.9m (2019: £11.8m), resulted in a statutory loss before tax of £299.6m (2019: loss before tax of £97.9m).

Tax

The tax charge, on adjusted profit before tax, for the year was £24.6m (2019: £46.6m) representing an effective tax rate of 22.4% (2019: 22.4%). There was a tax credit of £39.6m (2019: a tax credit of £36.5m) relating to other intangible asset amortisation charges and other adjustments, partly offset by the write down of previously recognised deferred tax assets of £40.0m (2019: £nil). The total statutory tax charge was £25.0m (2019: £10.1m) representing an effective tax rate on the statutory loss before tax of (8.3)% (2019: (10.3)%). This rate is different from the effective tax rate on adjusted profits primarily because the potential tax credit on the impairment in Greyhound is not recognised and the write down of deferred tax assets. The Group's effective tax rate is sensitive to the geographic mix of profits including tax rates in the US and Canada (including state taxes) that are higher than in the UK and to changes in tax law and rates in the jurisdictions in which it operates.

The actual tax paid during the year was £2.9m (2019: £7.5m) and differs from the tax charge of £25.0m primarily because of the write down of deferred tax assets, partly offset by capital allowances in excess of depreciation and the utilisation of carried forward tax assets.

EPS

Adjusted EPS was 6.8p (2019: 13.3p). Basic EPS was (27.0)p (2019: (5.5)p).

Shares in issue

As at 31 March 2020 there were 1,210.8m shares in issue (2019: 1,208.6m), excluding treasury shares and own shares held in trust for employees of 8.7m (2019: 5.3m). The weighted average number of shares in issue for the purpose of basic EPS calculations (excluding treasury shares and own shares held in trust for employees) was 1,210.9m (2019: 1,205.9m).

Cash flow

The pre-IFRS 16 adjusted cash inflow was £98.5m (2019: £197.3m). This includes a £106.8m outflow for the utilisation of onerous contract provisions at SWR and TPE. Rail ring-fenced cash increased by £87.2m to £611.9m (2019: £524.7m) reflecting the start-up of Avanti. The Road divisions' cash inflow of £7.9m was after £283.4m of capital expenditure as our targeted fleet investment programmes continued during the financial year.

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Net debt increased in the period to £3,278.1m (2019: £903.4m). The increase is principally due to a £1,168.2m adjustment on transition to IFRS 16 and inception of new leases of £1,750.8m, primarily due to the commencement of Avanti and the award of DA3 in GWR. The cash flow on a pre- and post- IFRS 16 basis is set out below:

	Year to 31 March 2020			Year to 31 Mar 2019 £m
	Pre-IFRS 16 £m	IFRS 16 impact £m	Post-IFRS 16 £m	
EBITDA	**619.2**	**489.7**	**1,108.9**	670.3
Other non-cash income statement charges	**(1.4)**	**–**	**(1.4)**	3.7
Working capital	**79.7**	**(7.1)**	**72.6**	53.8
Movement in other provisions	**(171.3)**	**106.8**	**(64.5)**	(24.8)
Pension payments in excess of income statement charge	**(38.8)**	**–**	**(38.8)**	(47.8)
Cash generated by operations	**487.4**	**589.4**	**1,076.8**	655.2
Capital expenditure and acquisitions	**(352.8)**	**–**	**(352.8)**	(432.5)
Proceeds from disposal of property, plant and equipment	**30.5**	**–**	**30.5**	63.5
Proceeds from disposal of business	**16.2**	**–**	**16.2**	–
Interest and tax	**(85.9)**	**(40.2)**	**(126.1)**	(88.8)
Operating lease payments now in debt/other	**3.1**	**(549.2)**	**(546.1)**	(0.1)
Adjusted cash flow	**98.5**	**–**	**98.5**	197.3
Foreign exchange movements	**(12.0)**	**(12.1)**	**(24.1)**	(28.3)
Inception of new leases	**(77.3)**	**(1,750.8)**	**(1,828.1)**	–
Operating lease payments now in debt	**–**	**549.2**	**549.2**	–
Other non-cash movements	**(2.0)**	**–**	**(2.0)**	(2.1)
Adjustment on transition to IFRS 16	**–**	**(1,168.2)**	**(1,168.2)**	–
Movement in net debt in the period	**7.2**	**(2,381.9)**	**(2,374.7)**	166.9

Capital expenditure

Road cash capital expenditure was £283.4m (2019: £322.3m) and comprised First Student £193.0m (2019: £232.3m), First Transit £18.8m (2019: £32.2m), Greyhound £38.8m (2019: £31.7m), First Bus £30.1m (2019: £25.1m) and Group items £2.7m (2019: £1.0m). First Rail capital expenditure was £115.7m (2019: £110.2m) and is typically matched by franchise receipts or other funding. In addition, during the period we entered into leases in the Road divisions with capital values in First Student of £75.1m (2019: £27.0m), First Transit of £13.8m (2019: £3.4m), Greyhound of £21.3m (2019: £34.8m) and First Bus of £6.3m (2019: £61.9m). During the period First Rail entered into leases with a discounted present value of £1,719.8m being mainly for rolling stock.

Gross capital investment (fixed asset and software additions plus the capital value of new leases) was £2,326.5m (2019: £571.1m) and comprised First Student £331.9m (2019: £284.8m), First Transit £30.5m (2019: £30.7m), Greyhound £65.4m (2019: £62.8m), First Bus £52.6m (2019: £79.8m), First Rail £1,842.9m (2019: £112.0m) and Group items £3.2m (2019: £1.0m). The balance between cash capital expenditure and gross capital investment represents new leases and creditor movements in the year.

Balance sheet

Net assets have decreased by £346.6m since the start of the year. The principal reasons for this are the retained loss for the year of £327.2m, unfavourable hedging reserve movements of £45.8m, actuarial losses on defined benefit pension schemes, including deferred tax of £53.6m partly offset by favourable translation reserve movements of £91.3m.

CGU carrying value

Other than Greyhound, the carrying value (net assets including goodwill but excluding intercompany balances) of each cash generating unit (CGU) was tested for impairment during the year by reference to their projected value in use and following their review of these projections, the Directors concluded that there continues to be adequate headroom in First Student, First Transit, First Bus and First Rail. Details of sensitivities to reasonably possible changes in the assumptions for these CGUs is set out in note 11.

We assessed the value of Greyhound under a Fair Value Less Costs To Sell ("FVLCTS") approach, rather than the IAS 36 Value-in-Use method applied to our other trading divisions and in the prior year. For Greyhound the carrying value was assessed to be in excess of the Fair Value Less Costs To Sell for this business due to poor business performance and an increase in the rate used to discount the future cash flows. A further impairment charge of £62.5m was recorded in the second half of the year which, together with the £124.4m impairment charge recorded in the first half of the year, brought the full year impairment charge to £186.9m.

Fuel price risk

We use a progressive forward hedging programme to manage commodity risk. In 2019/20 in the UK, 90% of our 'at risk' crude requirements (1.7m barrels p.a.) were hedged at an average rate of $65 per barrel. We have hedged 63% of our 'at risk' UK crude requirements for the year to 31 March 2021 at $64 per barrel and 41% of our requirements for the year to 31 March 2022 at $64 per barrel.

In North America 60% of 2019/20 'at risk' crude oil volumes (1.3m barrels p.a.) were hedged at an average rate of $62 per barrel. We have hedged 58% of the volumes for the year to 31 March 2021 at $63 per barrel and

20% of our volumes for the year to 31 March 2022 at $65 per barrel, predominantly in relation to First Student and First Transit. Greyhound's fuel exposure is largely unhedged because its competitors – passenger cars and the airlines – have no hedging on their exposures, so Greyhound's pricing is responsive to fuel price changes.

Funding and risk management

Liquidity within the Group increased compared with the prior year; as at 31 March 2020 the Group's undrawn committed headroom and free cash was £585.7m (2019: £520.6m), comprising £237.1m (2019: £167.3m) in free cash (before Rail ring-fenced cash) and £348.6m (2019: £353.3m) of undrawn committed bank revolving credit facilities. The level of free cash and undrawn committed revolving banking facilities has increased over the past two months and is anticipated to decline with the normal seasonal decline in revenues in First Student when schools are closed for the summer and due to working capital requirements as the business prepares for the school start-up during August. Treasury policy requires a minimum level of committed headroom is maintained.

Subsequent to the year end, the Group was confirmed as an eligible issuer for the UK Government's Covid Corporate Financing Facility (CCFF) scheme, with an issuer limit of £300m based on its credit ratings under the terms of the scheme as published by the Bank of England. On 27 April 2020 the Group issued £300m in commercial paper through the scheme to further enhance liquidity levels. As at the end of June 2020 the Group had c.£850m in free cash (before Rail ring-fenced cash) and committed undrawn revolving banking facilities.

The Group's diversified funding structure also includes undrawn facilities comprising a committed £250m undrawn bridging loan entered into in March 2020 for the redemption of the £350m bond that matures in April 2021, an uncommitted £150m accordion facility to the RCF, as well as further lines of uncommitted leasing facilities and more than $100m of uncommitted supplier credit for the procurement of buses.

Average maturity of our bond debt, senior unsecured loan notes and bank facilities is 3.3 years (2019: 4.3 years). The Group's main revolving bank facilities of £800m require renewal in November 2023. The Group does not enter into speculative financial transactions and uses only authorised financial instruments for certain financial risk management purposes.

Interest rate risk

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

Foreign currency risk

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

Foreign exchange

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

	Year to 31 March 2020		Year to 31 March 2019	
	Closing rate	**Effective rate**	Closing rate	Effective rate
US Dollar	**$1.25**	**$1.29**	$1.30	$1.32
Canadian Dollar	**$1.74**	**$1.72**	$1.74	$1.74

Net debt

The Group's net debt at 31 March 2020 was £3,278.1m (2019: £903.4m) including first time recognition of £1,168.2m in operating leases under IFRS 16 as well as new operating leases under IFRS 16 relating to Avanti of £820.9m and the DA3 award in GWR of £729.7m, and comprised:

	31 March 2020		**31 March 2020**	31 March 2019
Analysis of net debt	**Fixed £m**	**Variable £m**	**Total £m**	Total £m
Sterling bond (2021)	**–**	**348.7**	**348.7**	348.4
Sterling bond (2022)	**322.6**	**–**	**322.6**	322.1
Sterling bond (2024)	**199.8**	**–**	**199.8**	199.8
Bank loans	**–**	**573.9**	**573.9**	446.7
Lease liabilities	**2,473.2**	**–**	**2,473.2**	59.9
Senior unsecured loan notes	**219.8**	**–**	**219.8**	210.0
Loan notes	**8.7**	**0.7**	**9.4**	9.4
Gross debt excluding accrued interest	**3,224.1**	**923.3**	**4,147.4**	1,596.3
Cash			**(237.1)**	(167.3)
First Rail ring-fenced cash and deposits			**(611.9)**	(524.7)
Other ring-fenced cash and deposits			**(20.3)**	(0.9)
Net debt excluding accrued interest			**3,278.1**	903.4

Financial review continued

First Rail ring-fenced cash increased by £87.2m in the period principally due to start-up of Avanti and working capital movements. Net debt excluding Rail ring-fenced cash and IFRS 16 operating leases was £1,508.1m (2019: £1,428.1m).

Pensions

We have updated our pension assumptions as at 31 March 2020 for the defined benefit schemes in the UK and North America. The net pension deficit of £307.2m at the beginning of the period has increased to £313.4m at the end of the period. Assets performed well over the period to 29 February, although the fall in global markets during March as a result of the coronavirus pandemic reduced the value of some of our pension scheme assets.

Diversification and timely de-risking actions mitigated the impact of falling equity prices. The value placed on liabilities has decreased due to changes in financial conditions, especially lower levels of market implied inflation. This was partially offset by changes in demographic assumptions and exchange rate movements. The main factors that influence the balance sheet position for pensions and the principal sensitivities to their movement at 31 March 2020 are set out below:

	Movement	Impact
Discount rate	+0.1%	Reduce deficit by £28m
Inflation	+0.1%	Increase deficit by £23m
Life expectancy	+1 year	Increase deficit by £63m

The Trustee and Group have agreed the results of the 2019 funding valuation for the First UK Bus Pension Scheme, and are currently finalising the documentation. The funding deficit as at the valuation date (April 2019) had reduced compared with the previous triennial valuation (April 2016), and the Trustee and Group have agreed a significantly shorter recovery period within which contributions will be paid to repair the deficit.

Additionally, the Trustee and Group are in the final stages of agreeing an updated long-term funding plan for the First UK Bus Pension Scheme. This plan will work towards a funding target that is well aligned to the long-term targets articulated in the Pension Regulator's recently announced draft Funding Code. Central to this plan is reducing the level of asset risk, and the Group is making good progress with collaborative discussions with the trustees on reducing the exposure to investment risk within the scheme in a reasonably short time horizon.

The 2019 funding valuation for the Greater Manchester Pension Fund was completed during the financial year, and it showed an improvement in funding position compared to the previous valuation. This has allowed the Group to stop paying additional secondary contributions to the Fund from the end of the 2020-21 financial year, and also enabled the Group to agree a significant level of asset de-risking during the financial year. This has reduced the exposure to assets that are primarily return-seeking (and therefore risk bearing), such as equities, from c.32% to c.19%. The result of this funding valuation has therefore been an immediate reduced cash requirement for the Group, and reduced risk of continued cash requirements in the future.

Following on from the consolidation of the various LGPS plans in England during the previous financial year, the Group has completed a rationalisation of their LGPS plans in Scotland during the year to 31 March 2020. The merger of the Strathclyde fund into the Aberdeen fund has improved the funding position in the Aberdeen plan, and has also facilitated reduction of the relative asset risk across these obligations.

During the financial year the Group has taken over the West Coast Partnership rail franchise, and therefore the pension obligations have been brought onto the balance sheet. The risks associated with pensions costs have been suitably reflected in the overall contract, meaning the Group considers that it is sufficiently well protected against any adverse movements in scheme funding levels and cash contribution levels. These protections are also reflected within the agreement to continue operating the Great Western franchise. The low exposure to pensions risk across the rail franchises is reflected in the treatment on the Group balance sheet, which reflects a zero surplus/deficit position for all franchises currently operated by the Group.

Dividends

The Board recognises that dividends are an important component of total shareholder return for many investors and remains committed to reinstating a sustainable dividend at the appropriate time, having regard to the Group's financial performance, balance sheet and outlook. The Board is not proposing to pay a dividend in FirstGroup plc for the year to 31 March 2020 but will continue to review the appropriate timing for restarting dividend payments.

Seasonality

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

Contingent liabilities

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

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 Transport for London (TfL) subsidiary. TOL provides the drivers and management to operate the tram services, whereas the infrastructure and trams are owned and maintained by a TfL subsidiary. 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.

Post-balance sheet events

The impact of the coronavirus pandemic on the Group's operations is discussed within the principal risks and uncertainties on page 99 as well as set out within note 2 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 (CBSSG) in England and support in Scotland and Wales
- Use of the CARES Act support for our North American businesses for the Employee Retention Credits
- Contracted with six states with 5311 (f) subsidy funding in Greyhound and continued 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.

Ryan Mangold
Chief Financial Officer
8 July 2020