

FIRST MANCHESTER LIMITED

Report and Financial Statements

31 March 2004



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DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 March 2004.

ACTIVITIES

The principal activity of the company is the provision of public transport by road.

REVIEW OF DEVELOPMENTS

The company made a profit before tax of £8.261m (2003 - £18.313m) during the year.

The future prospects of the company are deemed to be satisfactory.

FINANCIAL MATTERS

The retained loss for the year of £8.165m (2003 profit of - £7.569m) has been transferred from reserves.

The directors recommend payment of a dividend of £13.955m (2003 - £7.443m).

FIXED ASSETS

In the opinion of the directors, there were no material differences between the market values of the company's properties and their net book values.

SUPPLIER PAYMENT POLICY

It is the company's policy to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods and services in accordance with agreed terms and conditions. A number of significant purchases, such as fuel and tyres and commitments under finance leases and hire purchase contracts and under operating leases are paid by direct debit. At 31 March 2004 the company had 25 days (31 March 2003: 50 days) purchases outstanding.

DIRECTORS AND THEIR INTERESTS

The directors who held office throughout the year (except as noted) and subsequently appointed are as follows:

DJ Leonard	(resigned 30 June 2003)
G A Houston	
R J Gard	
S P Chapman	(resigned 1 August 2003)
M J Mitchell	(resigned 20 July 2004)
D J Leeder	
V Brown	(resigned 31 March 2004)
J A Campbell	
C Stafford	(appointed 1 August 2003)
B Pybis	(appointed 1 August 2003) (resigned 28 June 2004)
D A Kaye	(appointed 1 July 2004)
J I Davies	(appointed 1 July 2004)

None of the directors held any shares in the company at any time during the year.

The interests of Houston, Gard, Leeder, Campbell, Stafford, Pybis, Kaye and Davies in the shares of First Group plc are disclosed in the directors report of First North West Limited.

The interests of M J Mitchell in the ordinary shares of FirstGroup plc are disclosed in the directors report of FirstGroup plc.

There is no contract or arrangements with the company or any of its fellow group undertakings, other than service contracts in which any of the directors is materially interested and which is significant in relation to the business of the company or any of its fellow group undertakings taken as a whole.

DIRECTORS' REPORT

EMPLOYMENT INVOLVEMENT

Communication with employees is effected mainly through regular briefing and negotiating meetings between the directors, the senior management and employee representatives on the central and depot negotiating committees. The briefing meetings enable senior management to consult employees and to ascertain their views on matters likely to affect their interests. Employee involvement has been extended by the appointment of employee directors nominated by the workforce.

DISABLED PERSONS

The company recognises its obligations to give disabled people full and fair consideration for all vacancies within the statutory medical requirements, which have to be met for certain grades of staff. Wherever reasonable and practicable, the company will retain newly disabled employees and at the same time provide full and fair opportunities for the career development of disabled people.

CHARITABLE AND POLITICAL DONATIONS

The company made various donations to UK charities totalling £466 (2003 - £500) during the year. There were no payments made for political purposes.

AUDITORS

The company has passed an elective resolution dispensing with the requirement to appoint auditors annually; Deloitte & Touche LLP have indicated their willingness to continue as auditors of the company and are therefore deemed to be re-appointed for a further term.

Approved by the Board of Directors
and signed on behalf of the Board on 18 August 2004



Director

Wallshaw Street, Oldham, OL1 3TR

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FIRST MANCHESTER LIMITED

We have audited the financial statements of First Manchester Limited for the year ended 31 March 2004, which comprise the profit and loss account, the balance sheet, reconciliation of movement in shareholders' funds and the related notes 1 to 24. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors' 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.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

London

18 August 2004

PROFIT AND LOSS ACCOUNT

Year ended 31 March 2004

	Note	2004 £'000	2003 £'000
TURNOVER	2	73,147	74,487
OPERATING COSTS			
Administrative expenses		(64,414)	(61,231)
TOTAL OPERATING COSTS	4	(64,414)	(61,231)
OPERATING PROFIT		8,733	13,256
Profit on sale of fixed assets		-	5,867
OPERATING PROFIT BEFORE INTEREST		8,733	19,123
Net interest payable and similar charges	5	(472)	(810)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2,6	8,261	18,313
Tax charge on profit on ordinary activities	7	(2,471)	(3,301)
PROFIT FOR THE FINANCIAL YEAR		5,790	15,012
Equity dividends paid	8	(13,955)	(7,443)
RETAINED (LOSS)/PROFIT FOR THE FINANCIAL YEAR	19	(8,165)	7,569

All activities relate to continuing operations.

No statement of total recognised gains and losses is given as all gains and losses for the current and preceding year passed through the profit and loss account.

BALANCE SHEET
31 March 2004

	Note	£'000	2004 £'000	£'000	2003 £'000
ASSETS EMPLOYED					
FIXED ASSETS					
Intangible assets	9	1,163		1,235	
Tangible assets	10	46,533		47,780	
Investments	11	1,405		1,405	
			49,101		50,420
CURRENT ASSETS					
Stocks	12	577		637	
Debtors: amount receivable in less than one year	13	12,696		26,831	
Debtors: amount receivable in more than one year		5,478		6,267	
Cash at bank and in hand		11,438		7,951	
			30,189	41,686	
CREDITORS: amounts falling due within one year	14	(68,662)		(70,625)	
NET CURRENT LIABILITIES			(38,473)		(28,939)
TOTAL ASSETS LESS CURRENT LIABILITIES			10,628		21,481
CREDITORS: amounts falling due after more than one year	15		(1,151)		(3,192)
PROVISIONS FOR LIABILITIES AND CHARGES	16		(8,425)		(9,072)
NET ASSETS			1,052		9,217
CAPITAL AND RESERVES					
Called up share capital	18		-		-
Profit and loss account	19		1,052		9,217
EQUITY SHAREHOLDERS' FUNDS			1,052		9,217

These financial statements were approved by the Board of Directors on 18 August 2004

Signed on behalf of the Board of Directors



– Director

C Stafford

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
Year ended 31 March 2004

	2004 £'000	2003 £'000
Profit for the financial year	5,790	15,012
Dividends	<u>(13,955)</u>	<u>(7,443)</u>
Net (reduction in)/addition to shareholders' funds	(8,165)	7,569
Shareholders' funds at beginning of year	<u>9,217</u>	<u>1,648</u>
Shareholders' funds at end of year	<u><u>1,052</u></u>	<u><u>9,217</u></u>

NOTES TO THE ACCOUNTS

Year ended 31 March 2004

1. PRINCIPAL ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

(a) Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

(b) Fixed assets and depreciation

Tangible fixed assets are stated at cost net of depreciation and any provision for impairment.

Depreciation is provided to write off the cost less residual value of tangible fixed assets over their estimated useful economic lives as follows:

Freehold buildings	50 years straight line
Long leasehold properties	Shorter of the lease term or 50 years

Passenger carrying vehicles	7 to 15 years straight line
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Other plant and equipment	3 to 8 years straight line
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No depreciation is provided on freehold land or the land element of long leasehold properties.

(c) Investments

Fixed asset investments are shown at cost less provision for impairment.

(d) Leases and hire purchase

Assets held under finance leases, which are those leases where substantially all the risks and rewards of ownership of the asset have passed to the company, and under hire purchase contracts are recorded in the balance sheet date as tangible fixed assets. Depreciation is provided on these assets over the shorter of their estimated useful lives or lease term, as appropriate.

Future obligations under finance leases and hire purchase contracts are included in creditors, net of finance charges. Payments are apportioned between the finance element, which is charged to the profit and loss account as interest, and the capital element, which reduces the outstanding obligations. The finance charges are calculated in relation to the reducing amount of obligations outstanding and are charged to the profit and loss account on the same basis.

All other leases are operating leases and the rental charges are taken to the profit and loss account on a straight-line basis over the life of the lease.

(e) Government grants

Amounts receivable for tendered services and concessionary fare schemes are included in turnover. Rebates in respect of duty paid on fuel are netted off operating costs.

(f) Stocks

Stocks are valued at the lower of cost and net realisable value.

(g) Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred taxation is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

NOTES TO THE ACCOUNTS

Year ended 31 March 2004

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(h) Goodwill

Purchased goodwill is capitalised and classified as an intangible fixed asset on the balance sheet. Prior to 1 April 1998, purchased goodwill was written off to reserves in the year it was acquired. This goodwill has not been reinstated. On disposal of the businesses concerned this goodwill is included in determining the gain or loss on disposal in the profit and loss account.

Where capitalised goodwill is regarded as having a limited useful economic life, it is amortised over that life, but where capitalised goodwill is regarded as having an indefinite useful economic life, it is not amortised. Where capitalised goodwill is amortised over a life of greater than 20 years, or is not amortised, annual impairment reviews are conducted to compare the book value with the recoverable amount. If the recoverable amount has fallen below the book value, the goodwill is written down to the recoverable amount immediately.

All capitalised goodwill in the balance sheet at the year-end is being amortised over a period of 20 years on a straight-line basis.

(i) Cash Flow Statement

The Company has taken advantage of the exemption conferred by FRS 1 (revised 1996) "Cash Flow Statements" in not producing a cash flow statement as it is a wholly owned subsidiary of a UK company which produces consolidated financial statements including a consolidated cash flow statement.

(j) Pension costs

Retirement benefits are provided for most employees of the company by means of a defined benefit pension scheme. This is funded by contributions from the company and employees. The company's contributions are charged to the profit and loss account based on recommendations by an independent actuary, in such a way as to provide for the liabilities evenly over the average remaining working lives of the employees. The difference between the charge to the profit and loss account and the contributions paid by the company is shown as an asset or liability in the balance sheet and the tax effect of this timing difference is included in deferred taxation.

2. TURNOVER AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Turnover represents the amounts receivable for services supplied to customers during the year.

The whole of the profit on ordinary activities before taxation derives from the company's principal activities within the United Kingdom. The company has one principal class of business, namely the provision of passenger transport services.

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

All but one of the directors who held office during the year also served on the Board of First North West Limited and since 1 April 2002 directors emoluments have been paid by this company.

	2004	2003
	£'000	£'000
Directors' emoluments		

The remuneration of the directors during the year was as follows:

Aggregate emoluments (excluding pension contributions)	-	4
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NOTES TO THE ACCOUNTS

Year ended 31 March 2004

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)

Retirement benefits accrue to no directors (2003 – nil) under defined benefit schemes.

	2004	2003
	No	No
The average number of persons employed by the company (including directors) during the year was as follows:		
Drivers	1,637	1,593
Maintenance and traffic	397	213
Administration	45	102
	<u>2,079</u>	<u>1,908</u>
	£'000	£'000
The aggregate payroll costs of these persons were as follows:		
Wages and salaries	31,598	31,224
Social security costs	2,676	2,187
Pension costs	1,682	1,116
	<u>35,956</u>	<u>34,527</u>

4. OPERATING COSTS

	2004	2003
	£'000	£'000
Materials and consumables	22,903	21,007
Staff costs	35,956	34,527
Depreciation and other amounts written off tangible fixed assets		
- owned assets	4,209	3,705
- leased assets	1,274	1,920
Amortisation of goodwill	72	72
	<u>64,414</u>	<u>61,231</u>

5. NET INTEREST PAYABLE AND SIMILAR CHARGES

	2004	2003
	£'000	£'000
Finance charges payable in respect of finance leases and hire purchase contracts	350	691
Other interest payable	122	119
	<u>472</u>	<u>810</u>

NOTES TO THE ACCOUNTS

Year ended 31 March 2004

6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2004 £'000	2003 £'000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation	5,483	5,625
Profit on sale of fixed assets	(3)	(5,867)
Amortisation of goodwill	72	72
Rentals payable under operating leases		
- plant and machinery	462	209
- land and buildings	38	78
Auditors' remuneration - audit fee	-	-
Recharge from First North West Ltd for central services	3,792	4,621

Audit fees have been paid by First North West Limited on behalf of First Manchester Limited.

7. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

	2004 £'000	2003 £'000
Current taxation		
- Group relief payable	3,114	3,399
- Adjustment in respect of prior years	4	(891)
Total current taxation	3,118	2,508
Deferred taxation		
- Origination and reversal of timing differences	(581)	602
- Adjustment in respect of prior years	(66)	191
Total deferred taxation	(647)	793
Total tax charge on profit on ordinary activities	2,471	3,301

The standard rate of taxation for the year, based on the UK standard rate of corporation tax, is 30% (2003 – 30%). The actual current tax charge for the current and previous year differed from the standard rate for the reasons set out in the following reconciliation:

	2004 %	2003 %
Standard rate of taxation	30.0	30.0
Factors affecting charge:		
Expenses not deductible for tax purposes	0.6	(0.4)
Property disposals	-	(9.6)
Capital allowances in excess of depreciation	5.6	(0.5)
Other timing differences	1.5	(0.9)
Prior years' tax charge	-	(4.9)
Current taxation rate for the year	37.7	13.7

NOTES TO THE ACCOUNTS
Year ended 31 March 2004

8. EQUITY DIVIDENDS

	2004 £'000	2003 £'000
Ordinary shares of £1 each		
- final paid £139,550 (2003 - £74,430) per share	13,955	7,443

9. INTANGIBLE FIXED ASSETS

	Goodwill £'000
Cost	
At beginning and end of year	1,522
Amortisation	
At beginning of year	287
Charge for the year	72
At end of year	359
Net book value	
At 31 March 2004	1,163
At 31 March 2003	1,235

The directors have reviewed the useful economic life of the above goodwill. In their opinion it has a life of 20 years and is being amortised over that period on a straight-line basis.

10. TANGIBLE FIXED ASSETS

	Land and buildings £'000	Passenger carrying vehicle fleet £'000	Other plant and equipment £'000	Total £'000
Cost				
At 1 April 2003	7,303	77,371	5,690	90,364
Additions	6,235	-	322	6,557
Intra-group transfers	-	(3,351)	-	(3,351)
Disposals	-	(864)	-	(864)
At 31 March 2004	13,538	73,156	6,012	92,706
Depreciation				
At 1 April 2003	1,103	39,223	2,258	42,584
Charge for year	166	4,891	426	5,483
Intra-group transfers	-	(1,031)	-	(1,031)
Disposals	-	(863)	-	(863)
At 31 March 2004	1,269	42,220	2,684	46,173
Net book value				
At 31 March 2004	12,269	30,936	3,328	46,533
At 31 March 2003	6,200	38,148	3,432	47,780

NOTES TO THE ACCOUNTS

Year ended 31 March 2004

10. TANGIBLE FIXED ASSETS (continued)

The net book value of land and buildings comprises:

	2004	2003
	£'000	£'000
Freehold	9,889	3,775
Long leasehold	2,380	2,425
	<u>12,269</u>	<u>6,200</u>

Certain properties are subject to profit clawback arrangements if sold within a specified period.

£10.544m (2003 - £16.984m) of net book value of the passenger carrying vehicle fleet was acquired under finance leases and hire purchase contracts. The depreciation charges on these assets during the year was £1.274m (2003 - £1.920m).

11. FIXED ASSET INVESTMENTS

	Subsidiary undertakings unlisted £'000
Shares	
Cost at the beginning and end of year	1,506
Provisions at the beginning and end of year	(101)
	<u>1,405</u>
Net book value at the beginning and end of the year	<u>1,405</u>

The company owns 100% of the issued share capital of First Ashton Limited and Bolton Coachways & Travel Limited, two dormant companies.

All subsidiary undertakings are wholly owned at the end of the year. All these companies are incorporated in Great Britain and registered in England and Wales.

All shares held in subsidiary undertakings are ordinary shares.

Group accounts are not presented as the company is a wholly owned subsidiary undertaking of FirstGroup plc, which is incorporated in Great Britain and registered in Scotland. Accordingly, these accounts present information about the company as an individual undertaking and not about its group.

12. STOCKS

	2004	2003
	£'000	£'000
Spare parts and consumables	<u>577</u>	<u>637</u>

There is no material difference between the balance sheet value of stocks and their replacement cost.

NOTES TO THE ACCOUNTS

Year ended 31 March 2004

13. DEBTORS

	2004 £'000	2003 £'000
Amounts due within one year		
Trade debtors	2,545	1,485
Amounts owed by group undertakings	7,527	23,186
Other debtors	1,249	1,040
Prepayments and accrued income	717	904
Pension fund prepayment (see note 23)	658	216
	<u>12,696</u>	<u>26,831</u>
Amounts due after more than one year		
Operators licence due after more than one year	54	59
Pension fund prepayment (see note 23)	5,424	6,208
	<u>5,478</u>	<u>6,267</u>
Total debtors	<u>18,174</u>	<u>33,098</u>

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2004 £'000	2003 £'000
Obligations under finance leases and hire purchase contracts	2,070	3,952
Trade creditors	1,593	2,229
Amounts owed to group undertakings	63,189	57,742
Corporation tax	172	-
Other tax and social security	-	859
Other creditors	79	1,075
Accruals and deferred income	1,559	4,768
	<u>68,662</u>	<u>70,625</u>

15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2004 £'000	2003 £'000
Obligations under finance leases and hire purchase contracts		
Due in more than one year but not more than two years	1,151	2,070
Due between two and five years	-	1,122
	<u>1,151</u>	<u>3,192</u>

Finance lease and hire purchase contract liabilities are secured on the assets to which they relate.

NOTES TO THE ACCOUNTS

Year ended 31 March 2004

16. PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred taxation £'000
At beginning of year	9,072
Credited to the profit and loss account	(647)
At end of year	8,425

Details of the deferred tax provision are given in note 17.

17. DEFERRED TAXATION

Provision for deferred taxation consists of the following amounts.

	2004 £'000	2003 £'000
Capital allowances in excess of depreciation	6,828	7,278
Other timing differences	1,597	1,794
Total provision	8,425	9,072

18. CALLED UP SHARE CAPITAL

	2004 £'000	2003 £'000
Authorised, allotted, called up and fully paid 100 Ordinary shares of £1 each	-	-

19. PROFIT & LOSS ACCOUNT

	£'000
At 1 April 2003	9,217
Retained loss for the year	(8,165)
31 March 2004	1,052

The cumulative amount of negative goodwill added to the profit and loss account is £9,479,000 (2003 - £9,479,000).

NOTES TO THE ACCOUNTS

Year ended 31 March 2004

20. COMMITMENTS

Capital expenditure

There are no capital commitments in the current or prior year.

Operating leases

Commitments for payments in the next year under operating leases are as follows:

	Land and buildings 2004 £'000	Land and buildings 2003 £'000	Plant and machinery 2004 £'000	Plant and machinery 2003 £'000
Operating leases which expire:				
Within one year	-	-	-	216
From two to five years	38	38	342	51
More than five years	-	12	-	-
	<u>38</u>	<u>50</u>	<u>342</u>	<u>267</u>

21. CONTINGENT LIABILITIES

The company has guaranteed the bank overdrafts of certain fellow subsidiary undertakings. The amount outstanding at the end of the year under the guarantees was £33.0m (2003 - £10.0m).

The company has guaranteed the bank loans of its holding company under various term facilities. The amount of the guaranteed bank loan at the end of the year was £129.6m (2003 - £316.8m).

The company is a member of a VAT group covering a number of subsidiary undertakings. All members are joint and severally liable in respect of any VAT owed to HM Customs and Excise.

22. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption conferred by para 3 of FRS 8 "Related Party Transactions" in not disclosing any transactions with other members of the FirstGroup plc group.

23. PENSION SCHEME

The total pension charge for the company to the profit and loss account during the year was £1.682m (2003 - £1.116m).

First Group North West Pension Scheme

The company participates in the First Group North West Pension scheme which provides benefits of the defined type and is a multi-employer scheme. The assets of the scheme are held in separate trustee administered funds. The company is unable to identify its share of the underlying assets and liabilities of the scheme.

As a result of the previous actuarial valuation carried out at 31 March 2001, a cash contribution rate of 7.0% to the fund is anticipated by the company until 2004. The past contribution rate was determined using the projected unit method and assumed investment returns would be 6.25% per annum, earnings increases would average 4.3% per annum and present and future pensions would increase at the rate of 2.8% per annum.

The assets in the scheme and the expected rates of return at 31 March 2004 are set out below. Further information regarding the FRS 17 disclosures are included in the accounts of First North West Limited.

NOTES TO THE ACCOUNTS

Year ended 31 March 2004

23. PENSION SCHEME (continued)

	2004	2003	2002
	%	%	%
Rate of increase of salaries	4.1	3.6	4.0
Rate of increase of pensions in payment	2.5	2.1	2.5
Discount rate	5.7	5.7	6.0
Inflation assumption	2.6	2.1	2.5

	31 March 2004		31 March 2003		31 March 2002	
	Expected rate of return	Value £m	Expected rate of return	Value £m	Expected rate of return	Value £m
Equities	8.8%	11.6	8.8%	8.5	8.0%	10.3
Bonds	4.7%	3.7	4.5%	2.8	5.1%	1.7
Property	6.7%	0.8	6.7%	0.6	6.6%	0.1
Other	4.1%	0.3	3.6%	0.4	4.5%	0.9
Total fair value of assets		<u>16.4</u>		<u>12.3</u>		<u>13.0</u>
Present value of scheme liabilities		(22.1)		(18.4)		(16.8)
Deficit in the scheme		<u>(5.7)</u>		<u>(6.1)</u>		<u>(3.8)</u>
Related deferred tax asset		1.7		1.8		1.1
Net pension liability		<u>(4.0)</u>		<u>(4.3)</u>		<u>(2.7)</u>

Greater Manchester County Superannuation Fund

The company also participates in the Greater Manchester County Superannuation Fund, which operates within the requirements of the Local Government Superannuation Regulations and provides defined benefits. The assets of the scheme are held in separate trustee administered funds. Thus whilst the scheme is a multi-employer scheme the assets and liabilities relating to First Group plc subsidiaries can be separately identified. In addition the company provides self-funded and ex-gratia benefits, supplementing those payable from the Greater Manchester County Superannuation Fund and also operates a defined contribution pension scheme.

Cash contribution rates are determined by the fund's actuary on the basis of triennial valuations.

As a result of the previous actuarial valuation carried out at 31 March 2001, a cash contribution rate of 7.0% to the fund is anticipated by the company until 2004.

NOTES TO THE ACCOUNTS

Year ended 31 March 2004

23. PENSION SCHEME (continued)

The past contribution rate was determined using the projected unit method and assumed investment returns would be 6.25% per annum, earnings increases would average 4.3% per annum and present and future pensions would increase at the rate of 2.8% per annum. The prepayment in respect of the fund benefits is £6.082m (2003 - £6.424m).

	2004 £'000	2003 £'000
Surplus on defined benefit fund	8,889	10,422
Provision for self funded provisions	(2,807)	(3,998)
	<u>6,082</u>	<u>6,424</u>

The additional disclosures required by FRS 17 during the transitional period for the defined benefit scheme are set out below, based on the most recent actuarial valuations described above, which have been updated by independent professional qualified actuaries to take account of the requirements of FRS 17.

The main financial assumptions used in this update were as follows

	2004 %	2003 %	2002 %
Rate of increase of salaries	4.1	3.6	4.0
Rate of increase of pensions in payment	2.5	2.1	2.6
Discount rate	5.7	5.7	6.0
Inflation assumption	2.6	2.1	2.5

The fair value of the Scheme's assets, the present value of the liabilities in the scheme and the expected rates of return as at 31 March 2004 and 2003 were:

	31 March 2004		31 March 2003		31 March 2002	
	Expected rate of return	Value £m	Expected rate of return	Value £m	Expected rate of return	Value £m
Equities	8.8%	79.6	8.8%	64.2	8.0%	74.4
Bonds	4.7%	25.1	4.5%	24.2	5.1%	29.2
Property	6.7%	13.3	6.7%	6.6	6.6%	9.8
Other	4.1%	6.2	3.6%	7.3	4.5%	12.3
Total fair value of assets		<u>124.2</u>		<u>102.3</u>		<u>125.7</u>
Present value of scheme liabilities		<u>(145.2)</u>		<u>(124.7)</u>		<u>(122.2)</u>
Deficit in the scheme		(21.0)		(22.4)		3.5
Related deferred tax asset		6.3		6.7		(1.0)
Net pension liability		<u>(14.7)</u>		<u>(15.7)</u>		<u>2.5</u>

If FRS 17 had been adopted in these financial statements, the company's profit and loss accounts would have included the following operating costs:

	2004 £m	2003 £m
Current service costs	<u>3.2</u>	<u>3.7</u>

NOTES TO THE ACCOUNTS

Year ended 31 March 2004

23. PENSION SCHEME (continued)

The following amounts would also have been included as finance costs.

	2004 £m	2003 £m
Expected return of pension scheme assets	(7.4)	(9.3)
Interest on pension scheme liabilities	7.1	7.3
Net return	<u>(0.3)</u>	<u>(2.0)</u>

The total profit and loss charge before deduction for tax would have been £2.9m (2003 – credit of £1.7m).

The following amounts would have been disclosed in the statement of total recognised gain and losses if FRS 17 had been adopted.

	2004 £m	2003 £m
Actual return less expected return on pension scheme assets	15.0	(33.3)
Experience gains and losses arising on the scheme liabilities	(1.1)	8.1
Changes in assumptions underlying the present value of the scheme liabilities	<u>(10.5)</u>	<u>(0.4)</u>
Actuarial gain/(loss)	<u>3.4</u>	<u>(25.6)</u>

The detail of the amounts which would have been included in the statement of total recognised gains and losses is as follows:

	2004 £m	2003 £m
Difference between the expected and actual return on scheme assets:		
Amount (£ million)	15.0	(33.3)
Percentage of scheme assets	12.1%	32.6%
Experience gains and losses on scheme liabilities		
Amount (£ million)	(1.1)	8.1
Percentage of the present value of scheme liabilities	0.8%	6.5%
Total actuarial gain/(loss)		
Amount (£ million)	3.4	(25.6)
Percentage of present value of scheme liabilities	2.3%	20.5%

NOTES TO THE ACCOUNTS

Year ended 31 March 2004

23. PENSION SCHEME (continued)

The movement on the (deficit)/surplus was:

	2004 £m	2003 £m
(Deficit)/surplus in scheme at beginning of the year	(22.4)	3.5
Movement in year		
Current service cost	(3.2)	(3.7)
Contributions	0.9	1.4
Actuarial gain/(loss)	3.4	(25.6)
Net finance income	0.3	2.0
Deficit in scheme at end of year	<u>(21.0)</u>	<u>(22.4)</u>

If FRS 17 had been adopted, the company's net assets and profit and loss reserve would have been as follows:

	2004 £m	2003 £m
Net assets excluding pension surplus	1.1	9.2
Pension liability	(14.7)	(15.7)
	<u>(13.6)</u>	<u>(6.5)</u>
Less: SSAP 24 items included in net assets that will be reversed on implementation of FRS 17	(4.3)	(4.5)
Net liabilities on FRS 17 basis	<u>(17.9)</u>	<u>(11.0)</u>
Profit and loss reserve excluding pension (liability)/surplus	1.1	9.2
Pension liability	(14.7)	(15.7)
	<u>(13.6)</u>	<u>(6.5)</u>
Less: SSAP 24 items included in net assets that will be reversed on implementation of FRS 17	(4.3)	(4.5)
Profit and loss deficit on FRS 17 basis	<u>(17.9)</u>	<u>(11.0)</u>

24. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The ultimate holding company and controlling party is FirstGroup plc, which is incorporated in Great Britain and registered in Scotland. Copies of the accounts of FirstGroup plc can be obtained from the London office of this company at 3rd Floor Macmillan House, Paddington Station, London W2 1FG. The immediate parent company is First North West Limited.