

Company Registration No 2818607

First Manchester Limited

Report and Financial Statements

26 March 2011



First Manchester Limited

Report and financial statements 2011

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First Manchester Limited

Directors' report

The directors have pleasure in submitting their annual report and financial statements for the 52 week period ended 26 March 2011

Principal activities

The company's principal activities are the provision of bus and coach operations in and around the Greater Manchester area

Business review

As shown in the company's profit and loss account on page 7, the company's sales have increased by 3.1% over the prior period attributed mainly to concessions and scholars income. Operating profit has increased considerably by 44% due to the flow through of sales, mileage cuts, a reduction in fuel costs and a review of costs.

The balance sheet on page 8 shows the company's financial position at the period end. The company has net assets of £8.0 million compared to prior period's net liability of £0.7 million. This is due to the elimination of the prior period pension liability and the profit for the period being in excess of the dividends paid.

Capital expenditure was £353,000 in the period. Further details are set out in note 12.

Significant cost increases continue to place pressure on margins. The directors continue to carry out regular detailed reviews of route profitability to ensure that company resources are managed as efficiently as possible whilst matching service provision with demand and driving down unit costs through operational efficiencies and higher productivity.

Safety remains the highest priority. The directors are continuously developing and improving processes to ensure that a 'Safety First' culture is embedded throughout the company and strive to make our services as safe as possible for our customers and staff.

FirstGroup plc manages its operations on a divisional basis. For this reason, the company's directors believe that further key performance indicators for the company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the UK Bus Division of FirstGroup plc, which includes the company, is discussed in the Group's Annual Report which does not form part of this report.

Risks and uncertainties

There are a number of potential risks and uncertainties that could have an impact on the company's long-term performance. The directors have established an ongoing process for identifying, evaluating and managing the significant risks and uncertainties faced by the company and continue to assess these on a regular basis in the light of internal and external events.

Specific business risks faced by the company include competitive pressures, legislation and regulation and increasing labour, fuel and insurance costs. The directors are aware of the continual change in laws and other regulations and the increasing costs of compliance. The directors conduct regular reviews of safety procedures, equipment specifications, employment requirements, environmental procedures, insurance coverage and other areas to ensure they are appropriate and operating effectively. Labour costs represent the most significant element of the company's operating costs. The directors continue to monitor employee recruitment, training, personal development and remuneration to ensure the company attracts and retains the right people. Fuel costs also represent a significant proportion of the company's cost base. Fuel prices are directly influenced by international, political and economic circumstances as well as natural disasters. Wherever possible, the directors seek to minimise the operational and financial impact of such events through fixed price forward contracts and other operational efficiency measures. Finally, the promotion of a 'Safety First' culture at all levels throughout the business minimises insurance premiums and other related claims.

First Manchester Limited

Directors' report (continued)

Going concern

The directors have considered the going concern assumption given the current uncertainty of the economic climate and have formed the conclusion that there is a reasonable expectation that the company will continue to operate in the foreseeable future. The directors have considered the company forecasts, uncertainties and the financial commitment from the parent company in forming this judgement.

The ultimate parent company has provided the directors of the company with a letter confirming that it will make available such funds as may be required to enable the company to meet its obligations for a period of at least 12 months from signing the financial statements. The directors have made enquiries and understand that the ultimate parent company has adequate resources to be able to provide this financial support.

After making enquiries and considering the above facts, the directors therefore have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Outlook

The trading environment for the next 12 months is set to continue to be challenging. In spite of this, the directors remain optimistic about the current and future opportunities to grow the business with innovative ideas, improved service quality and reliability while retaining a tight control on costs.

The directors remain confident that the company's activities will generate a satisfactory result in the coming period.

Environmental

FirstGroup plc recognises the importance of its environmental policies, monitors its impact on the environment, and designs and implements policies to reduce any damage that might be caused by the Group's activities. The company operates in accordance with Group policies, which are described in the Group's Annual Report, which do not form part of this Report. Initiatives designed to minimise the company's impact on the environment include safe disposal of waste, recycling and reducing energy consumption.

Through our core business activities we are committed to providing a safe, good quality, reliable and cost effective public transport to all our customers. Our core business strategy is to increase customer numbers and encourage a greater move towards the use of bus transport. This will support the needs of society to achieve more sustainable travel. We recognise the environmental impacts arising from our business activities and are committed to reducing these through effective environmental management.

Employees

Details of the number of employees and related costs can be found in note 4 to the financial statements.

Financial matters

The results for the financial period are given in the profit and loss account on page 7.

A final dividend of £15.0 million was paid prior to the period end (2010: £nil). In accordance with FRS 21 this has been recognised in the financial statements when approved.

Fixed assets

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

First Manchester Limited

Directors' report (continued)

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 commitments under finance leases and hire purchase contracts and under operating leases are paid by direct debit. At 2011 the company had 34 days' (2010 - 46 days') purchases outstanding.

Financial instruments

The company's principal financial assets are bank balances and inter company & trade debtors. The company's credit risk is primarily attributable to its trade debtors. The amounts presented in the balance sheet are net of provisions for doubtful debts. The company has no significant concentration of credit risk, with exposure spread over a large number of customers. The credit risk on liquid funds is limited because the counterparties are banks. Although certain risks, for example fuel price, are hedged on a group basis, the company does not directly enter into any derivative financial instruments. In order to maintain liquidity and ensure that sufficient funds are available for ongoing operations and future developments, the company uses a mixture of inter company loans, hire purchase and finance leases.

Directors

The directors who held office throughout the period and subsequently are as follows

D A Kaye	(Resigned 1 June 2010)
A M Scholey	(Resigned 16 May 2011)
R L Mason	(Resigned 15 January 2011)
R M Davies	
I P Robinson	(Resigned 16 May 2011)
C L Johnson	(Resigned 16 May 2011)
D B Alexander	(Appointed 19 July 2010)
R M Soper	(Appointed 23 August 2010)
T M Broxton	(Appointed 18 April 2011)
S Smith	(Appointed 1 December 2010)
A J Pike	(Appointed 6 June 2011)
K C Poole	(Appointed 6 June 2011)

Employee 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.

Disabled persons

The company recognises its obligations to give disabled people full and fair consideration for all vacancies within the statutory medical requirement 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.

First Manchester Limited

Directors' report (continued)

Audit information

Each of the persons who is a director at the date of approval of this report confirms that

- as far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information

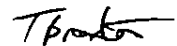
This confirmation is given and should be interpreted in accordance with the provision of S418 of the Companies Act 2006

Auditor

Deloitte LLP have indicated their willingness to be reappointed for another term and appropriate arrangements are being made for them to be deemed reappointed as auditor in the absence of an Annual General Meeting

Approved by the Board of Directors
And signed by order of the board

Wallshaw Street
Oldham
OL1 3TR



T M Broxton
Director

15 December 2011

First Manchester Limited

Directors' Responsibilities Statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

First Manchester Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FIRST MANCHESTER LIMITED

We have audited the financial statements of First Manchester Limited for the 52 week period ended 26 March 2011 which comprise the profit and loss account, the balance sheet, the reconciliation of movement in shareholder's funds/(deficit), the statement of total recognised gains and losses and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

Respective responsibilities of directors and auditor

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 26 March 2011 and of its profit for the 52 week period then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Christopher Powell FCA (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

Leeds, England

16 December 2011

First Manchester Limited

Profit and loss account 52 weeks ended 26 March 2011

		52 weeks ended 26 March 2011 £000	52 weeks ended 27 March 2010 £000
	Notes		
Turnover	2	102,652	99,577
Operating costs	3	(85,529)	(87,718)
Operating profit		17,123	11,859
Profit on sale of tangible fixed assets	8	-	2,050
Net interest receivable / (payable) and similar charges	7	2,601	(1,511)
Profit on ordinary activities before taxation	8	19,724	12,398
Tax on profit on ordinary activities	9	(5,286)	(3,043)
Profit for the period, transferred to reserves	20	14,438	9,355

All activities relate to continuing operations

First Manchester Limited

Balance Sheet At 26 March 2011

	Notes	26 March 2011 £000	27 March 2010 £000
Assets employed:			
Fixed assets			
Goodwill	11	641	713
Tangible assets	12	55,458	61,824
Investments	13	1,405	1,405
		<u>57,504</u>	<u>63,942</u>
Current assets			
Stocks	14	1,457	1,467
Debtors	15	6,254	7,760
Cash at bank and in hand		58,372	29,287
		<u>66,083</u>	<u>38,514</u>
Creditors amounts falling due within one year	16	(93,883)	(68,464)
Net current liabilities		<u>(27,800)</u>	<u>(29,950)</u>
Total assets less current liabilities		29,704	33,992
Creditors amounts falling due after more than one year	16	(11,870)	(13,540)
Provisions for liabilities	17	(9,905)	(9,834)
Net assets excluding pension liability		7,929	10,618
Pension asset / (liability)	23	34	(11,347)
Net assets / (liabilities) including pension asset / (liability)		<u>7,963</u>	<u>(729)</u>
Financed by:			
Capital and reserves			
Called up share capital	19	-	-
Profit and loss account	20	7,963	(729)
Shareholder's funds / (deficit)		<u>7,963</u>	<u>(729)</u>

These financial statements (Company Registration Number 2818607) were approved by the Board of directors on 15 December 2011 and were signed on its behalf by



T M Broxton

Director

First Manchester Limited

Reconciliation of Movements in Shareholder's Funds / (Deficit)

52 weeks ended 26 March 2011

	52 weeks ended 26 March 2011 £000	52 weeks ended 27 March 2010 £000
Profit for the financial period	14,438	9,355
Share based payments (note 6)	148	174
Other recognised gains and losses relating to the period (net)	9,106	6,675
Dividend paid (note 10)	(15,000)	-
Net increase to shareholder's funds	8,692	16,204
Opening shareholder's deficit	(729)	(16,933)
Closing shareholder's funds / (deficit)	7,963	(729)

First Manchester Limited

Statement of Total Recognised Gains and Losses 52 weeks ended 26 March 2011

	52 weeks ended 26 March 2011 £000	52 weeks ended 27 March 2010 £000
Profit for the financial period	14,438	9,355
Actuarial gain relating to the pension scheme	12,767	9,271
UK deferred taxation attributable to actuarial (gain) / loss	(3,447)	(2,596)
Reduced deferred tax liability arising from decrease in tax rate	(214)	-
Total recognised gains and losses for the period and since last report	23,544	16,030

First Manchester Limited

Notes to the Financial Statements 52 weeks ended 26 March 2011

1. Principal accounting policies

The accounting policies have been applied consistently throughout the current and preceding period

(a) Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards. The financial statements are made up to the Saturday nearest to the year end for each financial period.

(b) Going concern

The directors have considered the going concern assumption given the current uncertainty of the economic climate and have formed the conclusion that there is a reasonable expectation that the company will continue to operate in the foreseeable future. The directors have considered the company forecasts and the financial commitment from the ultimate parent company in forming this judgement.

The ultimate parent company has provided the directors of the company with a letter confirming that it will make available such funds as may be required to enable the company to meet its obligations for a period of at least 12 months from signing the financial statements. The directors have made enquiries and understand that the ultimate parent company has adequate resources to be able to provide this financial support.

After making enquiries and considering the above facts, the directors therefore have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

(c) Group financial statements

Under the provisions of section 401 of the Companies Act 2006, and in accordance with paragraphs 21b and 21c of Financial Reporting Standard 2, the company is exempt from preparing consolidated financial statements by virtue of the fact that the company is a subsidiary of another company which prepares Group financial statements. The financial statements therefore present information about the company as an individual undertaking and not as a group.

(d) Cash flow statement

The company is a wholly owned subsidiary of FirstGroup plc, a company registered in Scotland. Accordingly, the company has taken advantage of the exemption offered by Financial Reporting Standard 1 enabling it not to produce a cash flow statement as the parent company has included a consolidated cash flow statement within its Group financial statements.

(e) Tangible 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	-	50 years straight line
Passenger carrying vehicle		
Double and single decks	-	15 years straight line
Coaches	-	7 or 12 years straight line
Midibuses	-	12 years straight line
Minibuses	-	9 years straight line
Other plant and equipment	-	3 to 8 years straight line

No depreciation is provided on freehold land, or the land element of long leasehold properties.

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Notes to the Financial Statements (continued)

52 weeks ended 26 March 2011

1. Principal accounting policies (continued)

(f) Investments

Fixed asset investments are shown at cost less provision for impairment

(g) 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.

(h) Leases and hire purchase

Assets held under finance lease, 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 as tangible fixed assets. Depreciation is provided on these assets over 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.

(i) Government grants and subsidies

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.

(j) Stocks

Stocks are valued at the lower of cost and net realisable value. Provision is made for obsolete and slow moving or defective items where appropriate.

First Manchester Limited

Notes to the Financial Statements (continued) **52 weeks ended 26 March 2011**

1. Principal accounting policies (continued)

(k) Taxation

UK corporation tax is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date

The taxation liability is reduced wholly or in part by the surrender of losses by Group undertakings. The tax benefits arising from Group relief are recognised in the financial statements of the surrendering undertaking.

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. 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.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

(l) Pension costs

Company specific schemes (Greater Manchester Pension Fund)

The company operates a defined benefit scheme being the Greater Manchester Pension Fund which is held in separately administrated funds.

The amounts charged to operating profit regarding the defined benefit scheme are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest costs and the expected return on the assets are shown as a net amount of other financial costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Pension scheme assets are measured at fair values and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond or equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of related deferred tax, is presented separately after other assets on the face of the balance sheet.

Group scheme

The company is unable to separately identify its share of the scheme assets and liabilities for the UK Bus Pension Scheme and the FirstGroup Pension Scheme. It therefore accounts for the schemes as if they were defined contribution schemes and includes certain disclosures in the financial statements in respect of the Group schemes. Contributions are charged to the profit and loss account as they become payable.

(m) Turnover

UK Bus turnover principally comprises amounts receivable from ticket sales and concessionary fare schemes. Concessionary amounts are recognised in the period in which the service is provided based on a predetermined formula as agreed with the relevant local authority. Other bus and services revenue from contracts with government bodies and similar organisations are recognised as the services are provided.

First Manchester Limited

Notes to the Financial Statements (continued)

52 weeks ended 26 March 2011

1. Principal accounting policies (continued)

(n) Share based payment

The company's parent 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 determined at the grant date of the equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on the Group's estimate of the 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 model. 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.

(o) Insurance

FirstGroup plc's policy is to self-insure high frequency, low value claims within the businesses. To provide protection above these types of losses, cover is obtained through third-party insurance policies. Provision is made under FRS 12 for the estimated cost of settling uninsured claims for incidents occurring prior to the balance sheet date.

2. Turnover and profit on ordinary activities before taxation

Turnover represents the amounts receivable for services supplied to customers during the period, and includes amounts receivable for tendered services and concessionary fare schemes.

The whole of the turnover and 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. Operating costs

	52 weeks ended 26 March 2011 £000	52 weeks ended 27 March 2010 £000
Raw materials and consumables	15,769	20,739
Staff costs (note 4)	49,866	49,445
Other external charges	13,571	10,604
Depreciation and other amounts written off tangible fixed assets	6,251	6,851
Amortisation of goodwill	72	79
	<u>85,529</u>	<u>87,718</u>

First Manchester Limited

Notes to the Financial Statements (continued) 52 weeks ended 26 March 2011

4. Employee numbers and costs

The average number of persons employed by the company (including directors) during the period was as follows

	52 weeks ended 26 March 2011 No.	52 weeks ended 27 March 2010 No.
Drivers	1,521	1,546
Maintenance and traffic	425	447
Administration	62	78
	<u>2,008</u>	<u>2,071</u>

The aggregate payroll costs of these persons were as follows

	52 weeks ended 26 March 2011 £000	52 weeks ended 27 March 2010 £000
Wages and salaries	43,135	43,123
Social security costs	3,483	3,492
Other pensions costs	3,100	2,656
Shared based payments	148	174
	<u>49,866</u>	<u>49,445</u>

5. Directors' remuneration

The remuneration of the directors during the period was as follows

	52 weeks ended 26 March 2011 £000	52 weeks ended 27 March 2010 £000
Aggregate emoluments (excluding pension contributions)	402	495
Company contributions to defined contribution pension schemes	64	70
	<u>466</u>	<u>565</u>

Retirement benefits accrue to 4 (2010 6) directors under defined benefit schemes

Directors' emoluments include salary, fees, bonuses, company contributions to money purchase pension schemes, sums paid by way of expense allowances subject to UK income tax and the money value of other non-cash benefits and exclude share options, other company pension contributions and payments made under long-term incentive schemes

No directors exercised share options during the period

First Manchester Limited

Notes to the Financial Statements (continued) 52 weeks ended 26 March 2011

5. Directors' remuneration (continued)

The emoluments of the highest paid director amounted to

	52 weeks ended 26 March 2011 £000	52 weeks ended 27 March 2010 £000
Aggregate emoluments	125	144
<i>Defined benefit scheme</i>		
Accrued pension at end of period	23	26

No director exercised share options during the period and became entitled to receive shares under the FirstGroup long term incentive plan

6. Share based payments

Save as you earn (SAYE)

The Group operates an Inland Revenue 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 and Yorkshire Building Society. 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.

Details of the share options of the Group outstanding during the period are as follows

	SAYE April 2006 Options No.	SAYE December 2006 Options No.	SAYE December 2007 Options No.	SAYE December 2008 Options No.	SAYE December 2009 Options No.	SAYE December 2010 Options No.
Outstanding at the beginning of the period	1,265	1,789,363	1,514,616	2,224,615	2,900,694	-
Awarded during the period	-	-	-	-	-	2,999,495
Exercised during the period	-	-	(1,595)	(2,878)	(3,093)	-
Lapsed during the period	(1,265)	(1,789,363)	(1,389,721)	(272,935)	(271,508)	(33,882)
Outstanding at the end of the period	-	-	123,300	1,948,802	2,626,093	2,965,613
Exercisable at the end of the period	-	-	123,300	-	-	-
Weighted average exercise price (pence)	325.0	444.0	583.0	371.0	310.0	319.0
Weighted average share price at date of exercise (pence)	N/A	N/A	376.8	382.1	369.3	N/A

First Manchester Limited

Notes to the Financial Statements (continued)

52 weeks ended 26 March 2011

6. Share based payments (continued)

The fair values of the options granted during the last two periods were measured using a Black-Scholes model. The inputs into the Black-Scholes model were as follows:

	2011	2010
Weighted average share price (pence)		
– SAYE December 2009	–	395.0
– SAYE December 2010	387.0	–
Weighted average exercise price (pence)		
– SAYE December 2009	–	310.0
– SAYE December 2010	319.0	–
Expected volatility		
– SAYE December 2009	–	35%
– SAYE December 2010	35%	–
Expected life		
– SAYE schemes	3 years	3 years
Rate of interest		
– SAYE December 2009	–	2.0%
– SAYE December 2010	1.4%	–
Expected dividend yield		
– SAYE December 2009	–	4.8%
– SAYE December 2010	4.8%	–

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% p.a. pre-vesting leaver assumption.

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

The Group has allocated the expense amongst its trading subsidiary undertakings based on the number of employees participating in the scheme. The company has recognised a total expense of £148,000 (2010: £174,000) relating to equity-settled share-based payment transactions.

First Manchester Limited

Notes to the Financial Statements (continued) 52 weeks ended 26 March 2011

7. Net interest receivable / (payable)

	52 weeks ended 26 March 2011 £000	52 weeks ended 27 March 2010 £000
<i>Interest payable</i>		
Interest recharge from Group undertakings	(432)	(432)
Interest on pension scheme liabilities	(9,886)	(10,398)
Finance leases and hire purchase contracts	(232)	(441)
	<u>(10,550)</u>	<u>(11,271)</u>
<i>Interest receivable</i>		
Return on pension scheme assets	13,151	9,760
	<u>2,601</u>	<u>(1,511)</u>

8. Profit on ordinary activities before taxation

	52 weeks ended 26 March 2011 £000	52 weeks ended 27 March 2010 £000
Profit on ordinary activities before taxation is stated after charging / (crediting)		
Auditor's remuneration		
Fees payable to the Company's auditors for the audit of the Company's financial statements	40	40
Depreciation and other amounts written off tangible fixed assets		
- owned assets	5,189	5,789
- held under finance leases and hire purchase contracts	1,062	1,062
Gain on sale of fixed assets	-	(2,050)
Amortisation of goodwill	72	79
Rentals payable under operating leases		
- land & buildings	48	67
- other	16	86

There were no fees payable to Deloitte LLP and their associates for non-audit services to the company during the period (2010 £nil)

First Manchester Limited

Notes to the Financial Statements (continued) 52 weeks ended 26 March 2011

9. Tax charge on profit on ordinary activities

	52 weeks ended 26 March 2011 £000	52 weeks ended 27 March 2010 £000
Current taxation		
- Group relief payable	5,163	3,467
- Adjustments in respect of prior periods	(159)	(1,571)
Total current taxation	5,004	1,896
Deferred taxation		
- Origination and reversal of timing differences	(341)	(346)
- Adjustment in respect of prior periods	121	1,566
- Effect of decrease in tax rate on opening deferred tax balance	(262)	-
	(482)	1,220
- Deferred taxation on pension scheme movements	820	(73)
- Effect of decrease in tax rate on opening deferred tax balance	(56)	-
	764	(73)
Total deferred taxation	282	1,147
Total tax charge on profit on ordinary activities	5,286	3,043

The standard rate of taxation for the period, based on the UK standard rate of corporation tax, is 28% (2010 28%) The actual current tax charge for the current and previous period differed from the standard rate for the reasons set out in the following reconciliation

	52 weeks ended 26 March 2011 %	52 weeks ended 27 March 2010 %
Standard rate of taxation	28.0	28.0
Factors affecting charge		
- Expenses not deductible for tax purposes	0.1	(3.5)
- Capital allowances in excess of depreciation	2.4	1.8
- Other timing differences	(4.3)	1.7
- Prior periods' tax charge	(0.8)	(12.7)
Current taxation rate for the period	25.4	15.3

First Manchester Limited

Notes to the Financial Statements (continued)

52 weeks ended 26 March 2011

9. Tax charge on profit on ordinary activities (continued)

During the year the UK Government enacted legislation to reduce the UK corporation tax rate from 28% to 27% with effect from 1 April 2011. The effect of this reduction in the UK corporation tax rate was to reduce the deferred tax liability on UK timing differences.

The UK Government later announced that it would introduce legislation that would reduce the corporation tax rate to 26% with effect from 1 April 2011. This legislation was substantively enacted on 29 March 2011, after the end of the financial period. The effective tax rate for the period to 31 March 2012 is expected to reduce accordingly.

The UK Government has also announced their intention to subsequently reduce the UK corporation tax rate by 1% per annum to 23% with effect from 1 April 2014. This is likely to have the effect of reducing the effective tax rate in future years.

No deferred tax has been recognised on disposals where the gain has been rolled into replacement assets as such tax would only become payable if the replacement asset is sold without rollover relief being obtained. The tax which would be payable in such circumstances is estimated to be £nil (2010: £1.2 million).

10. Dividends

	52 weeks ended 26 March 2011 £000	52 weeks ended 27 March 2010 £000
Amounts recognised as distributions to share holders in the period		
Final dividend for the period	15,000	-

11. Goodwill

	£000
Cost	
At 28 March 2010 and 26 March 2011	1,544
Amortisation	
At 28 March 2010	831
Charge for period	72
At 26 March 2011	903
Net book value	
At 26 March 2011	641
At 27 March 2010	713

First Manchester Limited

Notes to the Financial Statements (continued) 52 weeks ended 26 March 2011

12. Tangible fixed assets

	Land and buildings £000	Passenger carrying vehicle fleet £000	Plant and equipment £000	Total £000
Cost or valuation				
At 28 March 2010	14,317	91,023	4,010	109,350
Additions	325	-	28	353
Intra group transfers in	-	1,142	-	1,142
Intra group transfers out	-	(1,817)	-	(1,817)
Disposals	(98)	(166)	(388)	(652)
At 26 March 2011	<u>14,544</u>	<u>90,182</u>	<u>3,650</u>	<u>108,376</u>
Depreciation				
At 28 March 2010	2,951	41,484	3,091	47,526
Charge for period	368	5,631	252	6,251
Intra group transfers in	-	897	-	897
Intra group transfers out	-	(1,106)	-	(1,106)
Disposals	(98)	(164)	(388)	(650)
At 26 March 2011	<u>3,221</u>	<u>46,742</u>	<u>2,955</u>	<u>52,918</u>
Net book value				
At 26 March 2011	<u>11,323</u>	<u>43,440</u>	<u>695</u>	<u>55,458</u>
At 27 March 2010	<u>11,366</u>	<u>49,539</u>	<u>919</u>	<u>61,824</u>

The net book value of land and buildings comprises

	26 March 2011 £000	27 March 2010 £000
Freehold	9,293	9,492
Long leasehold	1,661	1,371
Short leasehold	369	503
	<u>11,323</u>	<u>11,366</u>

Depreciation is not provided on the land element of freehold property which amounts to £2.3 million (2010 - £2.3 million)

Depreciation is not provided on the land element of the long leasehold property which amounts to £0.2 million (2010 - £0.2 million)

£14.1 million (2010 - £15.2 million) of the 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 period was £1.1 million (2010 - £1.1 million)

First Manchester Limited

Notes to the Financial Statements (continued) 52 weeks ended 26 March 2011

13. Fixed asset investments

	Subsidiary undertakings £000
Cost	
At 28 March 2010 and 26 March 2011	1,506
Provision for impairment	
At 28 March 2010 and 26 March 2011	101
Net book value	
At 27 March 2010 and 26 March 2011	1,405

The subsidiary undertakings at the end of the period, and the nature of their business are

Subsidiary undertakings	Country of incorporation	Principle activity	Holding Ordinary shares	Holding %
Bolton Coachways & Travel Ltd	UK	Dormant	100	
First Ashton Ltd	UK	Dormant	100	

14. Stocks

	26 March 2011 £000	27 March 2010 £000
Spare parts and consumables	1,457	1,467

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

15. Debtors

	26 March 2011 £000	27 March 2010 £000
Amounts due within one year		
Trade debtors	1,709	639
Amounts owed by Group undertakings	3,279	5,705
Other debtors	649	765
Other prepayments and accrued income	617	651
	6,254	7,760

First Manchester Limited

Notes to the Financial Statements (continued) 52 weeks ended 26 March 2011

16. Creditors

	26 March 2011 £000	27 March 2010 £000
Amounts falling due within one year		
Obligations under finance leases and hire purchase contracts	1,671	1,671
Trade creditors	2,641	4,200
Amounts owed to Group undertakings	83,493	56,781
Other tax and social security	1,172	1,035
Other creditors	664	1,062
Accruals and deferred income	4,242	3,715
	<u>93,883</u>	<u>68,464</u>
Amounts falling due after more than one year		
Obligations under finance leases and hire purchase contracts	<u>11,870</u>	<u>13,540</u>
Analysis of borrowings		
Obligations under finance leases and hire purchase contracts		
Due in more than one year but not more than two years	1,670	1,670
Due in more than two years but not more than five years	5,009	5,009
Due in more than five years	5,191	6,861
	<u>11,870</u>	<u>13,540</u>

17. Provisions for liabilities

	Insurance claims £'000	Deferred tax £000	Total £000
At 28 March 2010	2,378	7,456	9,834
Utilised in the period	(2,357)	-	(2,357)
Charge/(credit) to the profit and loss account	<u>2,910</u>	<u>(482)</u>	<u>2,428</u>
At 26 March 2011	<u>2,931</u>	<u>6,974</u>	<u>9,905</u>

Details of the deferred tax provision (excluding deferred tax in the pension liability) are given in note 18

Insurance claims accruals due within one year at 2011 amounted to £1,578,000 (2010 £1,280,000) and are included in 'accruals and deferred income' within note 16. The amount included within provisions above represents the estimate of amounts due after more than one year.

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 six years.

First Manchester Limited

Notes to the Financial Statements (continued) 52 weeks ended 26 March 2011

18. Deferred taxation

Provision for deferred taxation consists of the following amounts

	26 March 2011 £000	27 March 2010 £000
Capital allowances in excess of depreciation	7,112	7,705
Other timing differences	(138)	(249)
Deferred tax provision	<u>6,974</u>	<u>7,456</u>

19. Share capital

	26 March 2011 £000	27 March 2010 £000
Allotted, called up and fully paid 100 ordinary shares of £1 each	<u>-</u>	<u>-</u>

20. Reserves

	Profit and loss account £000
At 28 March 2010	(729)
Other recognised gains and losses	9,106
Share based payments	148
Profit for the period	14,438
Dividend paid	<u>(15,000)</u>
At 26 March 2011	<u>7,963</u>
Profit and loss reserve excluding pension liability	7,929
Pension asset	<u>34</u>
At 26 March 2011	<u>7,963</u>

The cumulative amount of goodwill arising from the acquisition of businesses written off in prior years is £9,479,000 (2010 - £9,479,000)

First Manchester Limited

Notes to the Financial Statements (continued) 52 weeks ended 26 March 2011

21. Commitments

Capital expenditure

Capital commitments at the end of the year for which no provision has been made are as follows

	26 March 2011 £000	27 March 2010 £000
Contracted for but not provided	-	281

Operating leases

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

	26 March 2011 Land & Buildings £000	26 March 2011 Other £000	27 March 2010 Land & Buildings £000	27 March 2010 Other £000
Operating leases which expire				
Within one year	4	-	48	28
Between two and five years	9	-	12	7
	<u>13</u>	<u>-</u>	<u>60</u>	<u>35</u>

22. Other commitments

The company is a member of a Value Added Tax ("VAT") group covering a number of subsidiary undertakings. All members of the VAT group are jointly and severally liable in respect of any VAT owed to HMRC.

23. Pension scheme

Greater Manchester Pension Fund

The company is a member of a defined benefit pension scheme, which is funded. The scheme's assets are held and managed independently of the company's finances by independent investment managers appointed by the trustees of the scheme.

The scheme is subject to triennial valuation by independent actuaries, the last valuation being carried out in 2009 updated to March 2011 for the purposes of FRS17 using the projected unit method.

The main financial assumptions used in this update were as follows

	2011	2010	2009
Rate of increase in salaries	4.2%	4.4%	4.1%
Rate of increase of pensions in payment	2.4%	3.4%	2.6%
Discount rate	5.5%	5.6%	6.8%
Inflation assumption – RPI	3.2%	3.4%	2.6%
Inflation assumption – CPI	2.4%	-	-

Mortality has been based on the PA00 tables with a 165% loading (2010 PA00 with a 180% loading)

First Manchester Limited

Notes to the Financial Statements (continued)

52 weeks ended 26 March 2011

Pension scheme (continued)

During the period the Government announced its intention to change the measure that it uses for cost of living increases to the public sector pensions and to change the basis for the statutory revaluation and indexation of occupational pension schemes in the private sector. Increases to pensions in payment and deferred pensions in the local government pension schemes are expected to be linked to the rise in CPI in future rather than the rise in RPI. As a result of this, the pension liabilities are £16.1 million lower at 26 March 2011.

The assets in the scheme and the expected rate of return were

	2011 Expected rate of return	2010 Expected rate of return	2009 Expected rate of return	2011 Value £m	2010 Value £m	2009 Value £m
Equities	8.9%	9.1%	8.7%	119.9	106.4	80.0
Bonds	5.2%	5.3%	6.5%	29.4	34.4	25.8
Property	6.9%	7.6%	6.8%	11.4	14.5	10.9
Other	1.0%	1.0%	4.0%	4.8	4.5	3.4
Cash	4.3%	4.4%	4.0%	18.4	15.4	11.6
				<u>183.9</u>	<u>175.2</u>	<u>131.7</u>

The expected rate of return has been based on the long term expectation of the return against the asset classifications. The return on assets differs from the discount rate because the standard requires that the discount rate be set with reference to the yield on corporate bonds. Typically, the assets actually held will be expected to provide a return that is higher than the discount rate.

The balance sheet position for the company

	2011 £m	2010 £m	2009 £m
Total fair value of assets	183.9	175.2	131.7
Present value of scheme liabilities	<u>(183.9)</u>	<u>(191.0)</u>	<u>(156.5)</u>
Surplus (deficit) in the scheme	-	(15.8)	(24.8)
Related deferred tax (liability) / asset	<u>-</u>	<u>4.4</u>	<u>6.9</u>
Net pension asset / (liability)	<u>-</u>	<u>(11.4)</u>	<u>(17.9)</u>

Analysis of amount charged to operating profit

	2011 £m	2010 £m
Current service costs	<u>2.2</u>	<u>1.8</u>

First Manchester Limited

Notes to the Financial Statements (continued) 52 weeks ended 26 March 2011

23. Pension scheme (continued)

Amounts charged to profit on ordinary activities before taxation

	2011 £m	2010 £m
Expected return on pension scheme assets	(13 2)	(9 8)
Interest on pension scheme liabilities	9 9	10 4
Net return (credited) / charged as finance (income) / cost	(3 3)	0 6
Current service cost (chargeable as operating cost)	2 2	1 8
Net pension (credit) / cost	(1 1)	2 4

The cumulative amount of actuarial gains and losses recognised in the statement of total recognised gains and losses since the adoption of FRS17 is a charge of £8 4m (2010 charge of £4 4m)

Movements in the present value of defined benefit obligations were as follows

	2011 £m	2010 £m
At 28 March	191 0	156 5
Current service cost	2 2	1 8
Employee share of changed defined benefit obligation	0 6	0 5
Interest cost	9 9	10 4
Actuarial (gain) / loss	(13 8)	26 6
Benefits paid	(6 0)	(4 8)
At 26 March	183 9	191 0

Movements in the fair value of scheme assets were as follows

	2011 £m	2010 £m
At 28 March	175 2	131 7
Expected return on scheme assets	13 2	9 8
Employer contributions	2 0	2 1
Employee contributions	0 5	0 5
Actuarial (loss) / gain	(1 0)	35 9
Benefits paid	(6 0)	(4 8)
At 26 March	183 9	175 2

First Manchester Limited

Notes to the Financial Statements (continued) 52 weeks ended 26 March 2011

23. Pension scheme (continued)

History of experience gains and losses

	2011	2010	2009	2008	2007
Present value of defined benefit obligations (£m)	(183 9)	(191 0)	(156 5)	(159 6)	(178 2)
Fair value of scheme assets (£m)	183 9	175 2	131 7	162 3	177 0
Surplus / (deficit) in the scheme (£m)	-	(15 8)	(24 8)	2 7	(1 2)
Experience adjustments on scheme liabilities					
Amount (£m)	0 7	20 8	(4 2)	5 1	(6 1)
Percentage of scheme liabilities	0 4	10 9	(2 7)	3 2	(3 4)
Experience adjustments on scheme assets					
Amount (£m)	0 7	35 9	(41 6)	25 9	(0 1)
Percentage of scheme assets	0 4	20 5	(31 6)	16 0	(0 1)

The estimated amounts of contributions expected to be paid to the scheme during the current financial year is £2m (2010 £2 2m)

UK Bus Pension Scheme

The company is unable to separately identify its share of the scheme assets and liabilities as contributions are set for the scheme as a whole rather than reflecting the underlying actuarial characteristics of the employees of the individual employer. It therefore accounts for the scheme as if it were a defined contribution scheme. Contributions are charged to the profit and loss account as they become payable.

The liability on the UK Bus Pension scheme of £52.4 million (2010 liability £61.9 million) will affect the company through periodic adjustments to the company's contribution rate as determined by the actuary. Additional disclosures required under Financial Reporting Standard 17 have been made on a group basis in the accounts of FirstGroup plc.

The total pension cost in the period was £1 million (2010 £0.9 million) and the total estimated employer contributions expected to be paid to the scheme during the current financial period is £1.6 million (2010 £1 million). At 26 March 2011 £nil (2010 £nil) was outstanding as at that date.

FirstGroup Pension Scheme

The company is unable to separately identify its share of the scheme assets and liabilities as contributions are set for the scheme as a whole rather than reflecting the underlying actuarial characteristics of the employees of the individual employer. It therefore accounts for the scheme as if it were a defined contribution scheme. Contributions are charged to the profit and loss account as they become payable.

The liability on the FirstGroup Pension scheme of £1.5 million (2010 liability £4.1 million) will affect the company through periodic adjustments to the company's contribution rate as determined by the actuary. Additional disclosures required under Financial Reporting Standard 17 have been made on a group basis in the accounts of FirstGroup plc.

The total pension cost in the period was £75,000 (2010 charge of £72,000) and the total estimated employer contributions expected to be paid to the scheme during the current financial period is £107,000 (2010 £75,000 million). At 26 March 2011 £nil (2010 £nil) was outstanding as at that date.

First Manchester Limited

Notes to the Financial Statements (continued)

52 weeks ended 26 March 2011

24. Related party transactions

The company is taking advantage of the exemption under FRS8 not to disclose transactions with wholly owned Group companies that are related parties

25. Ultimate parent company

The directors regard FirstGroup plc, a company incorporated in Great Britain and registered in Scotland, as the ultimate parent and controlling company, which is the smallest and largest group that includes the company's results and for which Group financial statements are prepared

The company's immediate parent company is First North West Limited

Copies of the accounts of FirstGroup plc can be obtained on request from Ground Floor, 50 Eastbourne Terrace, London, W2 6LX