

First Manchester Limited

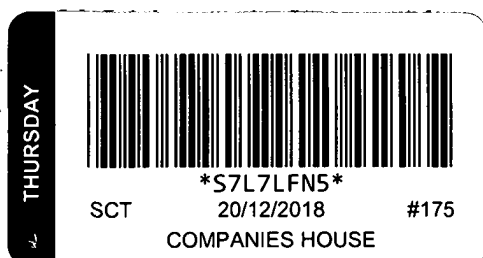
Annual Report and Financial Statements

For the 53 week period ended 31 March 2018

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First Manchester Limited

Report and financial statements 2018

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First Manchester Limited

Strategic report

The directors have pleasure in submitting their strategic report for the 53 week period ended 31 March 2018.

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, the company's turnover was £86.1 million (2017: £85.6m), an increase of 0.5% over the prior period. Significant impacts on the business included a £2.3m reduction of concessionary income reflecting both the move from a fixed payment agreement with Transport for Greater Manchester (TfGM) to a pay on use scheme and a general decline in use by pass holders. The company encouraged customers to switch their channel of purchase with many opting to use the Mticket app and load travel tickets on to their mobile phones. The impact of this switch is apparent in the £4.3m increase in seasons and £1.3m reduction in on bus transactions. Customer loyalty improved with many choosing to buy longer period tickets and this combined with the company's continued focus on core activities, has improved the overall yield per journey. Overall revenue was also impacted by industrial action at the Rusholme depot. Tendered income declined reflecting a decrease in the overall market, competitive pricing in some segments and the loss of some non-core school operations. The company as an active member of GMBOA (Greater Manchester Bus Operators Association), joined with other operators and TfGM to develop a partnership alternative to the franchised model of bus operation which is under active consideration by the Mayor of Greater Manchester.

Operating costs increased by £1.0 million to £91.8 million. This was mainly due additional staff costs of £1.2 million. The closure of the Bury depot in the previous period resulted in a reduction in managerial, supervisory and engineering head count, however driver costs rose significantly, partly due to inflationary wage pressure and the necessity to restore driver numbers to ensure customer satisfaction with the services provided. Fuel prices fell by £0.3 million due to cost savings negotiated at group level. The remaining articulated vehicles were withdrawn from service during the period, resulting in a £0.2 million impairment loss. As a non-core vehicle type, an acceptable reliability standard was not being achieved and they had become disproportionately expensive to maintain. The withdrawal of these vehicles saw a reduction in associated repair costs of £1.0 million.

The operating loss increased from £5.2 million to £5.8 million.

The balance sheet shows the company's financial position at the period end. Net liabilities have decreased from £25.1 million to £23.2 million in the current period, primarily as a result of the £8.5 million actuarial gain in relation to the defined benefit pension scheme, which offset the loss for the period of £5.4 million. The net pension liability recognised on the company's balance sheet has decreased from £28.5 million to £9.5 million, made up of a £12.5 million liability and a £3.0 million asset. Further details are set out in note 19.

Capital expenditure, including transfers from other group companies, was £3.4 million in the period. Further details are set out in note 10.

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. Safety as a key performance indicator is discussed for the group as a whole in the group's Annual Report. Safety as a key performance indicator is discussed for the group as a whole in the group's Annual Report.

The key performance indicators for the company are turnover, net assets and operating profit, which have been discussed above. 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. FirstGroup plc ("the group") manages its operations on a divisional basis. The performance of the UK Bus Division of FirstGroup plc, which includes the company, and the key performance indicators for the group are discussed in the group's Annual Report which does not form part of this report. Details of where the group's Annual Report can be found are set out in note 20.

Future developments

The trading environment for the next 12 months is set to continue to be challenging. Whilst progress was made in the current period in modernising the business, trading conditions were challenging, and this is expected to continue over the next 12 months. The potential bus reform overshadowing the industry in Greater Manchester has generated a level of uncertainty.

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. Restructuring costs are not expected to be incurred at the levels seen in the past two years, which will help to improve the company's performance.

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

First Manchester Limited

Strategic report (continued)

Going concern

At 31 March 2018 the company had bank overdrafts of £36.5 million, net current liabilities of £62.2 million, net liabilities of £23.2 million and made a loss of £5.4 million. The directors have carried out a detailed review of the budgets for the 12 months after the signing date of the financial statements, with due regard for the risks and uncertainties to which the business is exposed, 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 also taken into consideration 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 has the intention to 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.

Principal 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 the following:

Competition risk

The company faces the risk of loss of customers' through other bus companies providing improved services or more competitive pricing. Management mitigate the competitive pressure by monitoring competitors' behaviour and strategies to ensure that the company acts appropriately under current market conditions.

Legal and regulatory risk

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.

Litigation and claims risk

The company has three main insurance risks: third party claims arising from vehicle and general operations; employee injuries; and property damage. FirstGroup plc has a very strong focus on safety, as one of its core values, the promotion of a 'Safety First' culture at all levels throughout the business minimises insurance premiums and other related claims.

Labour cost and employee relations and retention risk

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:

To retain the right people the company believes that good communication with employees is effected 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.

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.

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

First Manchester Limited

Strategic report (continued)

Principal risks and uncertainties (continued)

Fuel cost risk

Fuel costs 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 group seek to minimise the operational and financial impact of such events through fixed price forward contracts and other operational efficiency measures.

Environmental risk

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.

General Political Risk

The UK's departure from the European Union may adversely impact the UK's economic position which in turn may have an adverse impact on the company's operations. The group has formed a Brexit Steering Committee to monitor and manage the potential impact of Brexit.

Approved by the board of directors and signed on its behalf by:



I Humphreys
Director
19 December 2018

First Manchester Limited

Directors' report

The directors have pleasure in submitting their annual report and audited financial statements for the 53 week period ended 31 March 2018.

Results and dividends

The results for the financial period are given in the profit and loss account on page 9.

No ordinary dividends were paid during the period (2017: £nil). The directors do not recommend the payment of a final dividend (2017: £nil).

Events after the balance sheet date

On 26 October 2018, the High Court ruled that guaranteed minimum pensions should be equalised between men and women. As a result pension scheme trustees will be obliged to adjust benefit payments in order that benefits received by male and female members with equivalent age, service and earnings histories are equal. We are working with the trustees of our UK pension schemes and our actuarial and legal advisors to fully understand the extent to which this ruling could crystallise additional liabilities in our UK pension schemes. We estimate that the impact could be significant and we anticipate that any adjustment will be recognised in the second half of the current financial year.

Directors

The directors who held office throughout the period and, up to the date of this report, unless otherwise stated, are as follows:

I Humphreys	(Appointed 17 April 2018)
D B Alexander	
J Peach	(Appointed 1 October 2017)
P H Medlicott	(Resigned 13 April 2018)
A Clegg	(Resigned 30 May 2017)

Directors' and officers' liability insurance

Directors' and officers' liability insurance is taken out by FirstGroup plc, the company's ultimate parent undertaking, for the benefit of the directors and officers of the company.

Directors' indemnity

Qualifying third party indemnity provisions (as defined in section 234 of the Companies Act 2006) were in force during the period and up to and including the date of the directors' report for the benefit of the directors of the company.

Strategic report

In accordance with the Companies Act 2006, s.414C(11) the directors have chosen to include details of future developments in the strategic report rather than the directors' report.

Financial risk management objectives and policies

The company's activities expose it to a number of financial risks including credit risk and liquidity risk.

Credit risk

The company's principal financial assets are trade and intercompany 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 directors do not consider there to be any risk associated with intercompany balances as these are managed for the group as a whole by FirstGroup plc. Although certain risks, for example fuel price, are hedged on a group basis, the company does not directly enter into any derivative financial instruments.

Liquidity risk

In order to maintain liquidity and ensure that sufficient funds are available for ongoing operations and future developments, the company uses a mixture of intercompany loans, hire purchase and finance leases.

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.

First Manchester Limited

Directors' report (continued)

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the group continues and that appropriated training is arranged. It is the policy of the group and the company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee consultation

The group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the group and the company. This is achieved through formal and informal consultation meetings with both employees and trade union representatives (where appropriate), and the inclusion of an employee director on FirstGroup plc's board of directors. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Two share plans are operated which are open to all employees. One is a HMRC approved Save As You Earn (SAYE) plan where employees may elect to make savings over a three-period period with an option at the end of this time to purchase FirstGroup plc shares at a 20% discount. The other is a HMRC approved Share Incentive Plan (SIP) which allows employees to purchase FirstGroup plc shares each month from gross earnings. Matching shares are awarded on a two for three basis on the first £30 contributed each month.

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 ought to have taken as a director in order to make himself 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 on its behalf by:



I Humphreys
Director
19 December 2018

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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". 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 judgements 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.

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of First Manchester Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its loss for the 53 week period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 21.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

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

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Mark Boxall, (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Bristol, United Kingdom

19 December 2018

First Manchester Limited

Profit and loss account

53 week period ended 31 March 2018

	Note	53 weeks ended 31 March 2018 £000	52 weeks ended 25 March 2017 £000
Turnover	3	86,074	85,647
Operating costs	6	(91,834)	(90,811)
Operating loss		(5,760)	(5,164)
Net finance costs	7	(704)	(1,168)
Loss before taxation		(6,464)	(6,332)
Tax credit on loss	8	1,090	1,636
Loss for the period		(5,374)	(4,696)

All activities relate to continuing operations.

Statement of comprehensive income

53 week period ended 31 March 2018

	Note	53 weeks ended 31 March 2018 £000	52 weeks ended 25 March 2017 £000
Loss for the period		(5,374)	(4,696)
Remeasurement gain recognised on net defined pension scheme	19	8,516	1,878
Movement on deferred tax relating to pension scheme	16	(1,448)	(319)
Reduced deferred tax asset arising from rate change		-	(555)
Total other comprehensive income		7,068	1,004
Total comprehensive income/(loss) for the period		1,694	(3,692)

First Manchester Limited

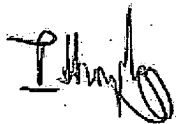
Balance Sheet

As at 31 March 2018

		31 March 2018		25 March 2017	
	Note	£000	£000	£000	£000
Fixed assets					
Goodwill	9		124		206
Tangible assets	10		56,958		61,793
Investments	11		1,405		1,405
			<u>58,487</u>		<u>63,404</u>
Current assets					
Stocks	12	831		1,006	
Debtors					
- due within one period	13	23,438		24,281	
- due after one period	13	-		77	
Pension asset	19	2,956		-	
Cash at bank and in hand		1,133		72	
			<u>28,358</u>	<u>25,436</u>	
			<u>(90,589)</u>	<u>(78,001)</u>	
Creditors: amounts falling due within one period	14				
Net current liabilities			<u>(62,231)</u>		<u>(52,565)</u>
Total assets less current liabilities			<u>(3,744)</u>		<u>10,839</u>
Creditors: amounts falling due after more than one period	14		(934)		(1,536)
Provisions for liabilities	15		<u>(18,556)</u>		<u>(34,397)</u>
Net liabilities			<u>(23,234)</u>		<u>(25,094)</u>
Capital and reserves					
Called-up share capital	17		-		-
Profit and loss account			<u>(23,234)</u>		<u>(25,094)</u>
Shareholder's deficit			<u>(23,234)</u>		<u>(25,094)</u>

The financial statements of First Manchester Limited (registration number 02818607) were approved by the board of directors and authorised for issue on 19 December 2018.

They were signed on its behalf by:



I Humphreys
Director

First Manchester Limited

Statement of changes in equity

53 week period ended 31 March 2018

	Called-up share capital £000	Profit and loss account £000	Total £000
At 26 March 2016	-	(21,573)	(21,573)
Loss for the period	-	(4,696)	(4,696)
Other comprehensive income	-	1,004	1,004
Total comprehensive loss	-	(3,692)	(3,692)
Share-based payments	-	171	171
At 25 March 2017	-	(25,094)	(25,094)
Loss for the period	-	(5,374)	(5,374)
Other comprehensive income	-	7,068	7,068
Total comprehensive income	-	1,694	1,694
Share-based payments	-	166	166
At 31 March 2018	-	(23,234)	(23,234)

First Manchester Limited

Notes to the financial statements

53 week period ended 31 March 2018

1. Principal accounting policies

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

General information and basis of preparation

First Manchester Limited is a private company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and registered in England and Wales. The company's registered office is Wallshaw Street, Oldham, OL1 3TR. The nature of the company's operations and its principal activities are set out in the strategic report.

The financial statements for the period ended 31 March 2018 include the results and financial position of the company for 53 weeks ended 31 March 2018.

The financial statements have been prepared under the historical cost convention and on a going concern basis as described in the going concern statement within the strategic report, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of First Manchester Limited is pound sterling because that is the currency of the primary economic environment in which the company operates.

The company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its financial statements. The company is consolidated in the financial statements of its ultimate parent, FirstGroup plc, which may be obtained at 395 King Street, Aberdeen, AB24 5RP. Exemptions have been taken in relation to share-based payments, presentation of a cash flow statement, intra-group transactions, key management personnel and financial instrument disclosures.

Group financial statements

Under the provisions of section 401 of the Companies Act 2006, and in accordance with paragraph 1.12 of Financial Reporting Standard 102, 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.

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 to 17 years straight-line
Midibuses	-	12 or 15 years straight-line
Minibuses	-	9 years straight-line
Plant and equipment	-	3 to 15 years straight-line

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

Impairment of assets

Assets are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss.

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Where indicators exist for a decrease in impairment loss previously recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

First Manchester Limited

Notes to the financial statements (continued)

53 week period ended 31 March 2018

1. Principal accounting policies (continued)

Investments

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

Goodwill

Purchased goodwill is capitalised and written off on a straight-line basis over its useful economic life, which is 20 years. Provision is made for any impairment.

In accordance with Section 35 of FRS 102, Section 19 of FRS 102 has not been applied in these financial statements in respect of business combinations effected prior to the date of transition.

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 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.

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.

Grant income is credited to deferred income and released to the profit and loss account over the estimated useful lives of the assets to which they relate. The grant income is shown net of operating costs.

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 in to 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.

Stocks

Stocks are valued at the lower of cost and estimated selling price less costs to sell, which is equivalent to net realisable value. Provision is made for obsolete and slow moving or defective items where appropriate.

Revenue recognition

UK Bus turnover principally comprises amounts receivable from ticket sales and concessionary fare schemes. Ticket sales are recognised in the period in which the service is provided. 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)

53 week period ended 31 March 2018

1. Principal accounting policies (continued)

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 is presented separately after other assets on the face of the balance sheet.

Group schemes

First UK Bus Pension Scheme

The company participates in a group defined benefit scheme, the First UK Bus Pension Scheme, which is held in separately administered funds. This scheme has been allocated across all participating employing entities based on the proportion of pensionable pay relating to the members employed by that entity. 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 as other financial costs or credits included within interest payable. Actuarial gains and losses are recognised immediately in the statement of comprehensive income. 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 of equivalent currency and term to the scheme liabilities. The last formal actuarial valuation was at 5 April 2016. The resulting defined benefit asset or liability is presented separately after other assets on the face of the balance sheet.

FirstGroup Pension Scheme

The company participates in a group multi-employer defined benefit scheme, the FirstGroup Pension Scheme. This scheme is disclosed in FirstGroup Holdings Limited's financial statements and is funded separately by defined contributions which have been expensed to the profit and loss account of FirstGroup Holdings Limited during the period to 31 March 2018. There is no charge in the company's profit and loss. The assets and liabilities of the scheme are held separately and cannot be allocated out, accordingly, the scheme is treated as a defined contribution scheme in the financial statements.

Defined contribution pension scheme

The company operates a defined contribution pension scheme. Payments to the defined contribution scheme are charged as an expense as they fall due. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments. There is no legal or constructive obligation to pay additional contributions into the defined contribution scheme if the fund has insufficient assets to pay all employees' benefits relating to employee service in the current and prior periods.

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 102 paragraph 21 for the estimated cost of settling uninsured claims for incidents occurring prior to the balance sheet date.

First Manchester Limited

Notes to the financial statements (continued)

53 week period ended 31 March 2018

1. Principal accounting policies (continued)

Share-based payments

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.

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 £166,000 (2017: £171,000) relating to equity-settled share-based payment transactions.

Restructuring provisions

A restructuring provision is recognised when the company has developed a formal detailed plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing the main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

Financial instruments

The company only enters in to basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable, financing arrangements from banks and other third parties and balances due to and from related parties.

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the instrument.

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the balance sheet when, and only when there exists a legally enforceable right to set off the recognised amounts and the company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the accounting policies which are described above, management has made the following judgments and estimates that have the most significant effect on the amounts recognised in the financial statements.

Critical accounting judgements

Impairment of fixed assets

The carrying values of the company's fixed assets, including passenger carrying vehicles, are reviewed at each balance sheet date to determine whether there is any indication of impairment. Particularly in relation to passenger carrying vehicles, management consider the future plans for the company and fellow subsidiaries in determining whether there is a use for the asset in the future. If any indication of impairment exists, the recoverable amount of the asset is estimated. An impairment is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

The carrying value of the company's fixed assets is £57.0 million (2017: £61.8 million).

First Manchester Limited

Notes to the financial statements (continued) 53 week period ended 31 March 2018

2. Critical accounting judgements and key sources of estimation uncertainty (continued)

Key sources of estimation uncertainty

Defined benefit pension arrangements

Measurement of defined benefit pension obligations requires estimation of a suitable discount rate, the expected return on scheme assets, expected rate of inflation of future salary and pension costs along with assumptions about mortality rates. The most significant of these are the discount rate and inflation rate assumptions. The gross pension asset for the Greater Manchester Pension fund, before deferred tax, as at the balance sheet date was £3.0 million (2017: liability of £13.8 million) as set out in note 19. The gross pension liability for the FirstGroup UK Bus fund, before deferred tax, as at the balance sheet date was £12.5 million (2017: £28.4 million) as set out in note 19.

Self-insurance

Provision is made for all known incidents for which there is self-insurance using management's best estimate of the likely settlement of these incidents. The estimated settlement is reviewed on a regular basis with independent actuarial advice and the amount provided is adjusted as required. The entity's total self-insurance provisions, including those classified within accruals, as at the balance sheet date were £4.1 million (2017: £4.1 million) as set out in note 15.

3. Turnover

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 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.

4. Employee numbers and costs

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

	53 weeks ended 31 March 2018	52 weeks ended 25 March 2017
	No.	No.
Drivers	1,494	1,458
Maintenance and traffic	294	326
Administration	29	55
	<u>1,817</u>	<u>1,839</u>

The aggregate payroll costs of these persons were as follows:

	53 weeks ended 31 March 2018	52 weeks ended 25 March 2017
	£000	£000
Wages and salaries	47,389	45,616
Social security costs	4,130	3,897
Pension costs	3,450	4,292
Share based payments	166	171
Total staff costs	<u>55,135</u>	<u>53,976</u>

The pension costs of £3,144,000 above include costs relating to participation in the First Group plc defined contribution scheme, as well as the defined benefit schemes set out in note 19.

First Manchester Limited

Notes to the financial statements (continued)

53 week period ended 31 March 2018

5. Directors' remuneration

Two directors (2017: four) are employees of other FirstGroup companies and received remuneration from those companies of £466,000 (2017: £283,000) during the period. It is not considered practicable to allocate this between services provided to those companies, and services provided in their capacity as directors of First Manchester Limited.

The remuneration of the directors who are remunerated by the company during the period was as follows:

	53 weeks ended 31 March 2018 £000	52 weeks ended 25 March 2017 £000
Aggregate emoluments	3	131
Company contributions to pension schemes	-	31
	<u>3</u>	<u>162</u>

Retirement benefits accrue to no (2017: two) directors under defined benefit schemes and to no directors (2017: none) under defined benefit contribution schemes.

6. Operating costs

	Note	53 weeks ended 31 March 2018 £000	52 weeks ended 25 March 2017 £000
Raw materials and consumables		20,331	21,319
Staff costs	4	55,135	53,976
Other external charges		11,834	11,668
Depreciation	10	7,465	7,566
Impairment of fixed assets	10	224	-
Restructuring costs	15	1,567	1,313
Auditor's remuneration for audit of the company's financial statements		24	72
Amortisation of goodwill	9	82	81
Loss/(gain) on sale of fixed assets		94	(5)
Government grants		(6,049)	(6,294)
Operating lease rentals		1,086	1,037
Impairment of stock		41	78
		<u>91,834</u>	<u>90,811</u>

The restructuring costs relate to costs expected to be incurred due to the closure of the Bury depot and the company's share of estimated costs expected to be incurred due to the ongoing restructuring programme across the group.

Impairment of fixed assets in the year relates to ticket machines which were replaced in the year by a contactless ticketing system.

The company receives grants from the government for acquiring buses. Grants are amortised over the life of the bus.

There were no fees payable to Deloitte LLP and their associates for non-audit services to the company during the period (2017: £nil).

First Manchester Limited

Notes to the financial statements (continued) 53 week period ended 31 March 2018

7. Net finance income/(cost)

	Note	53 weeks ended 31 March 2018 £000	52 weeks ended 25 March 2017 £000
Interest payable and similar expenses		(15)	(86)
Interest receivable and similar income		-	20
Other finance cost		(689)	(1,102)
		<u>(704)</u>	<u>(1,168)</u>

Interest payable and similar expenses

		53 weeks ended 31 March 2018 £000	52 weeks ended 25 March 2017 £000
Finance leases and hire purchase contracts		<u>(15)</u>	<u>(86)</u>

Interest receivable and similar income

		53 weeks ended 31 March 2018 £000	52 weeks ended 25 March 2017 £000
Interest receivable from fellow subsidiary undertakings		<u>-</u>	<u>20</u>

Other finance costs

		53 weeks ended 31 March 2018 £000	52 weeks ended 25 March 2017 £000
Net interest cost on net defined benefit pension scheme	19	(568)	(941)
Unwinding of discount on provision	15	<u>(121)</u>	<u>(161)</u>
		<u>(689)</u>	<u>(1,102)</u>

8. Taxation

		53 weeks ended 31 March 2018 £000	52 weeks ended 25 March 2017 £000
Current taxation			
- Group relief receivable		(3,283)	(1,895)
- Adjustments in respect of prior periods		<u>1,645</u>	<u>(625)</u>
Total current taxation		<u>(1,638)</u>	<u>(2,520)</u>
Deferred taxation			
- Origination and reversal of timing differences		1,927	655
- Effect of decrease in tax rate on opening deferred tax balance		-	(304)
- Adjustments in respect of prior periods		<u>(1,379)</u>	<u>533</u>
Total deferred taxation		<u>548</u>	<u>884</u>
Total tax credit on loss		<u>(1,090)</u>	<u>(1,636)</u>

First Manchester Limited

Notes to the financial statements (continued)

53 week period ended 31 March 2018

8. Taxation (continued)

The standard rate of tax applied to reported loss is 19% (2017: 20%). The applicable tax rate has changed following the substantive enactment of Finance Act No2 2015 which included provisions to reduce the UK corporation tax rate to 19% with effect from 1 April 2017. Finance Act 2016 introduced further legislation to reduce the main rate of corporation tax to 17% from 1 April 2020 and these rates have therefore been used to measure deferred tax assets and liabilities where applicable.

In the period commencing 1 April 2018, the net reversal of deferred tax asset is expected to increase the corporation tax charge for the period by £34,000. This is primarily due to depreciation, capital allowances and capital grant amortisation.

There is no expiry date on timing differences, unused tax losses or tax credits.

The actual current tax credit for the current and previous period differed from the standard rate for the reasons set out in the following reconciliation:

	53 weeks ended 31 March 2018 £000	52 weeks ended 25 March 2017 £000
Loss before tax	(6,464)	(6,332)
Tax on loss on at standard UK corporation tax rate of 19% (2017: 20%)	(1,228)	(1,266)
Factors affecting credit:		
- Expenses not deductible for tax purposes	99	142
- Prior period adjustments	266	(92)
- Effect of decrease in tax rate on origination and reversal of timing difference	(227)	(116)
- Effect of decrease in tax rate on opening deferred tax balance	-	(304)
Total tax credit on loss	(1,090)	(1,636)

9. Goodwill

	£000
Cost	
At 26 March 2017 and 31 March 2018	1,594
Amortisation	
At 26 March 2017	1,388
Charge for period	82
At 31 March 2018	1,470
Net book value	
At 31 March 2018	124
At 25 March 2017	206

First Manchester Limited

Notes to the financial statements (continued)

53 week period ended 31 March 2018

10. Tangible fixed assets

	Land and buildings £000	Passenger carrying vehicle fleet £000	Plant and equipment £000	Total £000
Cost				
At 26 March 2017	17,295	92,779	8,485	118,559
Additions	98	-	33	131
Intra group transfers in	-	6,329	433	6,762
Intra group transfers out	-	(521)	-	(521)
Disposals	(808)	(6,532)	(193)	(7,533)
At 25 March 2017	16,585	92,055	8,758	117,398
Depreciation				
At 26 March 2017	5,456	45,472	5,838	56,766
Charge for period	349	6,053	1,063	7,465
Impairment (note 6)	-	224	-	224
Intra group transfers in	-	3,166	310	3,476
Intra group transfers out	-	(392)	-	(392)
Disposals	(547)	(6,370)	(182)	(7,099)
At 25 March 2017	5,258	48,153	7,029	60,440
Net book value				
At 31 March 2018	11,327	43,902	1,729	56,958
At 25 March 2017	11,839	47,307	2,647	61,793

The net book value of land and buildings comprises:

	2018 £000	2017 £000
Freehold	9,929	10,449
Long leasehold	1,398	1,390
	11,327	11,839

Depreciation is not provided on the land element of freehold property which amounts to £3.0 million (2017: £3.0 million). Depreciation is not provided on the land element of the long leasehold property which amounts to £0.2 million (2017: £0.2 million).

£0.3 million (2017: £2.4 million) of the net book value of the passenger carrying vehicle fleet was acquired under finance leases and hire purchase contracts. The depreciation charge on these assets during the period was £0.1 million (2017: £0.8 million).

First Manchester Limited

Notes to the financial statements (continued)

53 week period ended 31 March 2018

11. Fixed asset investments

	Subsidiary undertakings £000
Cost	
At 26 March 2017 and 31 March 2018	1,506
Provision for impairment	
At 26 March 2017 and 31 March 2018	101
Net book value	
At 25 March 2017 and 31 March 2018	1,405

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

Subsidiary undertakings	Registered office	Principal activity	Holding	%
Bolton Coachways & Travel Ltd	Wallshaw Street, Oldham, OL1 3TR	Dormant	Ordinary shares	100
First Ashton Ltd	As above	Dormant	Ordinary shares	100

12. Stocks

	2018 £000	2017 £000
Spare parts and consumables	831	1,006

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

13. Debtors

	2018 £000	2017 £000
Amounts due within one period		
Trade debtors	1,153	149
Amounts owed by fellow group undertakings	14,518	16,643
Amounts owed by ultimate parent undertaking	2,461	-
Other debtors	1,313	2,240
Prepayments	1,214	1,029
Accrued income	1,486	931
Deferred tax asset (note 16)	1,293	3,289
	23,438	24,281
Amounts due after one period		
Amounts owed by fellow group undertakings	-	77

Amounts owed by fellow group undertakings and ultimate parent undertaking are interest free and repayable on demand.

First Manchester Limited

Notes to the financial statements (continued) 53 week period ended 31 March 2018

14. Creditors

	2018 £000	2017 £000
Amounts falling due within one period		
Bank overdrafts	36,459	25,659
Obligations under finance leases and hire purchase contracts	185	826
Trade creditors	2,628	4,472
Amounts owed to fellow group undertakings	44,623	39,563
Amounts owed to ultimate parent undertaking	-	2,373
Other tax and social security	1,321	1,017
Other creditors	790	1,009
Accruals	2,009	1,754
Deferred income	2,574	1,328
	<u>90,589</u>	<u>78,001</u>
Amounts falling due after more than one period		
Obligations under finance leases and hire purchase contracts	-	535
Other creditors	-	28
Accruals and deferred income	934	973
	<u>934</u>	<u>1,536</u>
Obligations under finance leases and hire purchase contracts		
Due in less than one period	185	826
Due between one and five periods	-	535
	<u>185</u>	<u>1,361</u>

Amounts owed to fellow group undertakings and ultimate parent undertaking are interest free and repayable on demand.

Included within deferred income are grants received for the acquisition of buses which are amortised over the life of the bus.

The amount of deferred income falling due after more than five periods is £600,000 (2017: £675,000).

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

First Manchester Limited

Notes to the financial statements (continued)

53 week period ended 31 March 2018

15. Provisions for liabilities

	Insurance claims £000	Restructuring provision £000	Unfunded pension £000	Total £000
At 26 March 2017	2,655	1,313	2,253	6,221
Charge to the profit and loss account	1,304	1,567	749	3,620
Unwinding of discount	121	-	-	121
Utilised in the period / transferred to accruals	(1,429)	(2,191)	(284)	(3,904)
At 31 March 2018	<u>2,651</u>	<u>689</u>	<u>2,718</u>	<u>6,058</u>

Provision for net defined benefit scheme deficit (2017: £28.5 million) (note 19) 12,498

At 31 March 2018 18,556

Insurance claims accruals due within one period at the balance sheet date amounted to £1,428,000 (2017: £1,430,000) and are included in 'accruals' within note 14. The amount included within provisions above represents the estimate of amounts due after more than one period.

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.

The majority of the restructuring provision arises from the share of estimated costs expected to be incurred due to the ongoing restructuring programme across the group. It is anticipated that the majority of these costs will be incurred within the next two years.

In the unfunded defined benefit pension, no assets are set aside and payments are made by the company using current income as the liabilities fall due, rather than making contributions to a separately administered fund.

16. Deferred taxation

	Deferred taxation £000
At 26 March 2017	3,289
Charged to the profit and loss account	(548)
Charged to other comprehensive income	(1,448)
At 31 March 2018	<u>1,293</u>

The opening and closing deferred tax asset is included in note 13 within debtors.

Deferred taxation consists of the following amounts:

	2018 £000	2017 £000
Capital allowances in excess of depreciation	(1,065)	(2,204)
Other timing differences	274	271
Pensions	1,622	4,838
Unfunded pension	462	384
Deferred tax asset	<u>1,293</u>	<u>3,289</u>

First Manchester Limited

Notes to the financial statements (continued)

53 week period ended 31 March 2018

17. Share capital and reserves

	2018 £000	2017 £000
Allotted, called up and fully paid		
100 ordinary shares of £1 each	-	-

The company has one class of ordinary shares which carry full voting, dividend and capital distribution rights.

The company's other reserves are as follows:

The profit and loss reserves represents cumulative profits and losses net of dividends paid.

18. Commitments

Capital commitments

The company had no capital commitments at 31 March 2018 or 25 March 2017.

Operating leases

Total future minimum lease payments under non-cancellable operating leases are as follows:

	2018		2017	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Within one period	159	665	208	882
Between one and five periods	509	533	567	906
More than five periods	263	-	434	-
	<u>931</u>	<u>1,198</u>	<u>1,209</u>	<u>1,788</u>

Commitments (continued)

Other commitments

The company participates in an overdraft facility with its parent company, FirstGroup plc and other group companies. The company has jointly and severally guaranteed the liabilities of the other parties under these arrangements.

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. The value of the group commitment owed to HMRC can be found within the FirstGroup plc financial statements.

19. Pension schemes

Greater Manchester Pension Fund (GMPF)

The company participates in a funded defined benefit pension scheme. 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.

First UK Bus Pension Scheme

The First UK Bus Pension Scheme is included as part of its disclosure under FRS 102 and has been based on the proportion of pensionable pay relating to First Manchester Limited members. The scheme's assets are held and managed independently of the company's finances by independent investment managers appointed by trustees of the scheme.

The actuarial valuations are obtained at least triennially. The last formal actuarial valuation was at 5 April 2016. The valuations are updated at each balance sheet date for FRS 102 purposes.

First Manchester Limited

Notes to the financial statements (continued)

53 week period ended 31 March 2018

19. Pension schemes (continued)

The main financial assumptions used in this update were as follows:

	GMPF		FG UK Bus	
	2018	2017	2018	2017
Rate of increase in salaries	2.05%	3.60%	2.05%	2.00%
Rate of increase of pensions in payment	2.05%	2.00%	2.05%	2.00%
Discount rate	2.70%	2.85%	2.70%	2.80%
Inflation	2.05%	2.00%	2.05%	2.00%
Post-retirement mortality (life expectancy in years):				
Current pensioners aged 65	19.8	20.1	19.8	20.1
Future pensioners at 65 aged 45 now	21.3	21.3	21.3	21.3

The assets in the scheme were:

	GMPF		FG UK Bus	
	2018	2017	2018	2017
	£m	£m	£m	£m
Equities	146.8	161.9	26.1	50.6
Bonds	48.5	41.4	30.6	52.5
Property	14.3	17.7	3.5	8.5
Cash	8.6	7.2	(2.7)	(2.4)
Other return seeking assets	19.7	-	52.6	-
	<u>237.9</u>	<u>228.2</u>	<u>110.1</u>	<u>109.2</u>

The balance sheet position for the company:

	GMPF		FG UK Bus	
	2018	2017	2018	2017
	£m	£m	£m	£m
Total market value of assets	237.9	228.2	110.1	109.2
Present value of scheme liabilities	(229.0)	(242.0)	(122.6)	(123.8)
Irrecoverable surplus	(5.9)	-	-	-
Surplus/(deficit) in the scheme	<u>3.0</u>	<u>(13.8)</u>	<u>(12.5)</u>	<u>(14.6)</u>

The irrecoverable surplus represents the amount of the surplus that the company could not recover through reducing future cash contributions to the Greater Manchester Pension Fund.

Amounts recognised in the profit and loss account:

	GMPF		FG UK Bus	
	2018	2017	2018	2017
	£m	£m	£m	£m
Net interest	(0.2)	(0.8)	(0.4)	(0.2)
Current service cost (chargeable as operating cost)	(1.3)	(1.1)	(1.1)	(0.8)
	<u>(1.5)</u>	<u>(1.9)</u>	<u>(1.5)</u>	<u>(1.0)</u>

First Manchester Limited

Notes to the financial statements (continued)

53 week period ended 31 March 2018

19. Pension schemes (continued)

Amounts recognised in the statement of comprehensive income:

	GMPF		FG UK Bus	
	2018	2017	2018	2017
	£m	£m	£m	£m
Actual return on pension scheme assets	3.4	40.5	(0.2)	11.6
Experience gain arising on scheme liabilities	10.1	3.6	3.0	1.8
Changes in assumptions	0.1	(31.9)	(2.0)	(23.7)
Movement in irrecoverable surplus	(5.9)	-	-	-
	<u>7.7</u>	<u>12.2</u>	<u>0.8</u>	<u>(10.3)</u>

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

	GMPF		FG UK Bus	
	2018	2017	2018	2017
	£m	£m	£m	£m
Opening position	242.0	215.4	123.8	104.2
Current service cost	1.3	1.1	1.1	0.8
Employee contributions	0.3	0.3	0.8	1.0
Interest cost	6.6	7.7	3.4	3.8
Actuarial (gain)/loss	(10.2)	28.3	(1.0)	21.9
Benefits paid	(11.0)	(10.8)	(5.5)	(7.9)
Closing position as at balance sheet date	<u>229.0</u>	<u>242.0</u>	<u>122.6</u>	<u>123.8</u>

Movements in the fair value of scheme assets were as follows:

	GMPF		FG UK Bus	
	2018	2017	2018	2017
	£m	£m	£m	£m
Opening position	228.2	188.4	109.2	98.4
Interest income	6.4	6.9	3.0	3.6
Employer contributions	10.6	2.9	2.8	2.4
Employee contributions	0.3	0.3	0.8	1.1
Actuarial gain/(loss)	3.4	40.5	(0.2)	11.6
Benefits paid	(11.0)	(10.8)	(5.5)	(7.9)
Closing position as at balance sheet date	<u>237.9</u>	<u>228.2</u>	<u>110.1</u>	<u>109.2</u>

FirstGroup Pension Scheme

The company participates in a group multi-employer defined benefit scheme, the FirstGroup Pension Scheme. This scheme is disclosed in FirstGroup Holdings Limited's financial statements and is funded separately by defined contributions which have been expensed to the profit and loss account of FirstGroup Holdings Limited during the period to 31 March 2018. There is no charge in the company's profit and loss. The assets and liabilities of the scheme are held separately and cannot be allocated out, accordingly, the scheme is treated as a defined contribution scheme in the financial statements.

The surplus on the FirstGroup Pension Scheme of £11.9 million (2017: £13.9 million) is reported within FirstGroup Holdings Limited financial statements.

20. Ultimate parent company

The company's immediate parent and controlling party is First North West Limited.

The directors regard FirstGroup plc, a company incorporated in the United Kingdom 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.

Copies of the financial statements of FirstGroup plc can be obtained on request from 395 King Street, Aberdeen, AB24 5RP, which is the registered office of FirstGroup plc.

First Manchester Limited

Notes to the financial statements (continued)

53 week period ended 31 March 2018

21. Events after the balance sheet date

On 26 October 2018, the High Court ruled that guaranteed minimum pensions should be equalised between men and women. As a result pension scheme trustees will be obliged to adjust benefit payments in order that benefits received by male and female members with equivalent age, service and earnings histories are equal. We are working with the trustees of our UK pension schemes and our actuarial and legal advisors to fully understand the extent to which this ruling could crystallise additional liabilities in our UK pension schemes. We estimate that the impact could be significant and we anticipate that any adjustment will be recognised in the second half of the current financial year.