FIRST BRISTOL BUSES LIMITED
(*formerly* BRISTOL OMNIBUS COMPANY LIMITED)

FINANCIAL STATEMENTS

31 MARCH 1999

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Company Registered

Number: 25088

FIRST BRISTOL BUSES LIMITED

FINANCIAL STATEMENTS

31 MARCH 1999

Contents **Pages**

DIRECTORS' REPORT

The directors have pleasure in submitting their annual report and audited financial statements for the year ended 31 March 1999.

Principal activities

The company operates local bus services within the cities of Bath and Bristol, and in the surrounding areas.

Review of the business

The start of the year saw the opening of the Cribbs Causeway shopping centre which had a major impact on passenger flows within Bristol. Services were revised accordingly and an 18% market share of travel to the centre was achieved. Services to Bristol City centre were reduced slightly in July once new shopping and travel patterns had become established.

The company has continued to work closely with all local authorities to develop quality partnerships linking investment in bus priorities with service and vehicle improvements. Infrastructure improvements during the year included bus lanes in Hotwells Road and on the Avon Ring Road and the company purchased 42 new vehicles at a cost of £4.7m. Despite these developments and some service changes designed to improve the robustness of timetables, service reliability due to traffic congestion remains an area of concern and only through working in partnership with Local Authorities can real progress be made.

Following release of over £50m nationally by central government to improve rural bus services a significant number of new and enhanced services were put out to tender by local authorities and the company was successful in gaining many of these tenders. This additional work together with the relatively buoyant state of the economy in the area has put pressure on recruitment of staff which has been a challenge for the company during the year but overall a net increase of 35 driving staff was achieved.

The company launched Internet sites during the year to provide an additional source of information to passengers about both the company and services and these have received a high level of usage from existing and potential customers from all over the world.

Financial matters

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

The directors recommend payment of a dividend of £5.100m (£0.927 per share).

After deducting the dividend of £5.100m, the retained profit for the year was £0.340m.

Fixed assets

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

Creditors

It is the company's policy to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods and services in accordance with agreed terms and conditions. A number of significant purchases, such as fuel and tyres and commitments under finance leases and hire purchase contracts and under operating leases are paid by direct debit. At 31 March 1999 the company had 48 days' (31 March 1998 - 38 days') purchases outstanding.

Directors

The directors who held office during the year together with those subsequently appointed are as follows:

R A Duncan	(Chairman)	
V M Bettison		
S G Bond		
A J Burge		(appointed 12 April 1999)
M R Doidge		
R W Holland		
B P Keane		(resigned 9 November 1998)
B G Noton		
M N Pestereff		(resigned 9 November 1998)
R M Soper		(appointed 12 April 1999)

The directors who held office at the end of the year had the following interests in the ordinary shares of FirstGroup plc:

	Ordinary shares		Share options under Savings related share option scheme		Share options under long term incentive plan	
	At end of year	At beginning of year	At end of year	At beginning of year	At end of year	At beginning of year
Director	5p shares	5p shares	5p shares	5p shares	5p shares	5p shares
V M Bettison	463	421	1,297	1,297	-	-
S G Bond	12,918	14,376	1,117	1,117	-	-
M R Doidge	42	-	-	-	-	-
R W Holland	524,768	624,768	-	-	34,304	22,790
B G Noton	2,174	2,132	-	-	-	-

Information, including details of exercise prices, relating to the Savings related share option scheme and the long term incentive plan are given in note 31 to the financial statements of FirstGroup plc.

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

The interests of Mr R A Duncan in the ordinary shares of FirstGroup plc are disclosed in the directors' report of FirstGroup plc.

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. Employee involvement has been extended by the appointment of an employee director nominated by the workforce.

FirstGroup plc, the company's ultimate holding company, is committed to wide employee share ownership and has established an Employee Share Ownership Plan ("ESOP"). The Board of FirstGroup plc has resolved to allocate 5% of the Group's consolidated pre-tax profit to the ESOP. The trustees will use this to acquire shares in FirstGroup plc which will then be appropriated to participating employees of subsidiary undertakings.

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.

Year 2000

An executive committee sponsored by the Group Finance Director was established with responsibility to ensure that all operating companies within the Group have identified the systems (including those using embedded chips) which require change and are associated with business criticality. The work to date has been reviewed by external consultants and formally reported to the FirstGroup plc board.

The company has made appropriate plans to ensure that all changes required will be successfully implemented by mid 1999. Phase one of this programme has been completed with a full assessment of the company's readiness for the Year 2000 having been completed. Currently we are on schedule and it is anticipated that all critical systems will be compliant by mid 1999. This includes the underlying hardware and operating software.

The costs of the programme do not have a material impact on the company's accounts.

DIRECTORS' REPORT (continued)

Auditors

During the year Deloitte & Touche were appointed as auditors to fill the casual vacancy resulting from the resignation of KPMG Audit Plc. In accordance with section 385 of the Companies Act 1985, a resolution concerning the reappointment and remuneration of Deloitte & Touche as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

Enterprise House
Easton
Bristol
BS5 0DZ

M R Doidge
Secretary

6th September 1999

DIRECTORS' RESPONSIBILITIES

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

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

FIRST BRISTOL BUSES LIMITED

We have audited the financial statements on pages 7 to 23, which have been prepared under the accounting policies set out on pages 11 to 13.

Respective responsibilities of directors and auditors

As described on page 5 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 March 1999 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants
Registered Auditor
20 August
1999

Hill House
1 Little New Street
London
EC4A 3TR

PROFIT AND LOSS ACCOUNT

For the year ended 31 March 1999

	Notes	Year to 31 March 1999 £000	Year to 31 March 1998 £000
Turnover			
- continuing operations	2	51,876	49,491
Operating costs			
- General		(44,867)	(42,720)
- Restructuring and other exceptional costs		-	(92)
- Employees' profit sharing scheme		(320)	(300)
Total operating costs	3	(45,187)	(43,112)
Operating profit		6,689	6,379
Profit on disposal of fixed asset properties		1,274	-
Profit on ordinary activities before interest		7,963	6,379
Net interest payable and similar charges	6	(1,254)	(1,187)
Profit on ordinary activities before taxation	7	6,709	5,192
Tax on profit on ordinary activities	8	(1,269)	(1,017)
Profit for the financial year		5,440	4,175
Equity dividends proposed	9	(5,100)	(5,600)
Retained profit/(loss) for the financial year	17	340	(1,425)

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

BALANCE SHEET

At 31 March 1999

	Notes	31 March 1999		31 March 1998	
		£000	£000	£000	£000
Assets employed:					
Fixed assets					
Tangible assets	10		33,544		30,654
Current assets					
Stocks	11	400		426	
Debtors	12	8,239		6,246	
Cash at bank and in hand		613		613	
		9,252		7,285	
Creditors: amounts falling due within one year	13	(24,188)		(18,419)	
Net current (liabilities)/assets					
Due within one year			(15,816)		(11,981)
Amounts due after more than one year	12		880		847
Net current liabilities			(14,936)		(11,134)
Total assets less current liabilities			18,608		19,520
Creditors: amounts falling due after *more than one year*	13		(10,766)		(11,905)
Provisions for liabilities and charges	14		(857)		(970)
Net assets			6,985		6,645
Financed by:					
Capital and reserves					
Called up share capital	16		5,500		5,500
Revaluation reserve	17		1,399		2,022
Goodwill reserve	17		-		(885)
Profit and loss account	17		86		8
Equity shareholders' funds			6,985		6,645

These financial statements were approved by the Board of directors on 6 September 1999 and were signed on its behalf by:

M R Doidge
Director

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

For the year ended 31 March 1999

	Year to 31 March 1999 £000	Year to 31 March 1998 £000
Profit for the financial year	5,440	4,175
Dividends	(5,100)	(5,600)
	340	(1,425)
Goodwill arising on acquisition of business written off	-	(932)
Net reductions to shareholders' funds	340	(2,357)
Shareholders' funds at beginning of year	6,645	9,002
Shareholders' funds at end of year	6,985	6,645

NOTE OF HISTORICAL COST PROFITS AND LOSSES

Year Ended 31 March 1999

	Year to 31 March 1999 £000	Year to 31 March 1998 £000
Profit on ordinary activities before taxation	*6,709*	*5,192*
Realisation of property revaluation gains of prior years	623	-
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	9	-
Historical cost profit on ordinary activities before taxation	7,341	5,192
Historical cost profit/(loss) for the year retained after taxation and dividends	972	(1,425)

NOTES TO THE ACCOUNTS

31 March 1999

1 Principal accounting policies

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

(a) Basis of preparation

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of land and buildings, and in accordance with applicable accounting standards.

The ultimate holding company has included within its financial statements a consolidated Cash Flow Statement in accordance with FRS No. 1 (revised). Therefore, the company is not required to give its own separate Cash Flow Statement.

(b) Fixed assets and depreciation

Depreciation is provided to write off the cost or valuation 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
Short leasehold properties	-	period of lease
Passenger carrying vehicles:		
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.

Surpluses or deficits arising on the revaluation of tangible fixed assets are credited or debited to a revaluation reserve. On a subsequent disposal of a revalued asset, the revaluation surplus or deficit relating to this asset is transferred to the profit and loss account reserve.

(c) Goodwill

In previous years, purchased goodwill was written off to reserves in full in the year in which it was acquired. With the adoption of FRS 10 for the first time in 1998/99, the new policy is to capitalise purchased goodwill and classify it as an asset on the balance sheet. Goodwill previously written off has not been reinstated.

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1 **Principal accounting policies** (continued)

(c) **Goodwill** (continued)

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 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.

(d) **Leases and hire purchase**

Assets held under finance leases, which are those leases where substantially all the risks and rewards of ownership of the asset have passed to the company, and under hire purchase contracts are recorded in the balance sheet 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.

(e) **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.

(f) **Stocks**

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

(g) **Taxation**

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax to the extent that it is probable that a liability or asset will crystallise.

1 **Principal accounting policies** (continued)

(h) Pension costs

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

2 **Turnover and profit before taxation**

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

The whole of the turnover and profit before taxation derives from the company's principal activities within the United Kingdom.

3 **Operating costs**

	Year to 31 March 1999 £000	Year to 31 March 1998 £000
Materials and consumables	6,650	6,881
Staff costs	29,306	27,176
External charges	5,631	5,537
Depreciation and other amounts written off tangible fixed assets	3,600	3,518
	45,187	43,112

4 Employee numbers and costs

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

	Year to 31 March 1999	Year to 31 March 1998
Drivers	1,434	1,425
Maintenance and traffic	282	278
Administration	106	99
	1,822	1,802

The aggregate payroll costs of these persons were as follows:

	Year to 31 March 1999 £000	Year to 31 March 1998 £000
Wages and salaries	26,029	24,135
Social security costs	2,061	1,884
Other pension costs	1,208	1,157
Redundancy costs	8	-
	29,306	27,176

5 Directors' remuneration

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

	Year to 31 March 1999 £000	Year to 31 March 1998 £000
Aggregate emoluments (excluding pension contributions)	306	276

5 Directors' remuneration (continued)

Retirement benefits accrue to five directors under defined benefit pension schemes.

The emolument of the highest paid director amounted to:

	Year to 31 March 1999 £000	Year to 31 March 1998 £000
Aggregate emoluments	119	105
Defined benefit pension scheme:		
Accrued pension at end of year	39	36
Accrued lump sum at end of year	-	-

Details of directors' options are given in the Directors' report.

6 Net interest payable and similar charges

	Year to 31 March 1999 £000	Year to 31 March 1998 £000
Finance charges payable in respect of finance leases and hire purchase contracts	1,254	1,187

7 Profit on ordinary activities before taxation

	Year to 31 March 1999 £000	Year to 31 March 1998 £000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Auditors' remuneration		
- audit fee	12	24
- non audit	-	4
Depreciation and other amounts written off tangible fixed assets	3,600	3,518
Rentals payable under operating leases		
- plant and machinery	52	49
- other assets	216	204
Net rents receivable from property	(11)	(11

NOTES TO THE ACCOUNTS (continued)

31 March 1999

8 Tax on profit on ordinary activities

	Year to 31 March 1999 £000	Year to 31 March 1998 £000
UK corporation tax at 31%		
Current year	1,356	1,356
Prior years	26	(25)
Transfer to/(from) deferred tax		
Current year	(109)	(278)
Prior years	(4)	(36)
	1,269	1,017

The charge for UK corporation tax for both the current year and the preceding year has been reduced by the availability of group loss relief for which payment will be made.

9 Equity dividends

	Year to 31 March 1999 £000	Year to 31 March 1998 £000
Ordinary shares of £1 each		
- interim paid	-	-
- final proposed	5,100	5,600
	5,100	5,600

10 Tangible fixed assets

	Land and buildings £000	Passenger carrying vehicle fleet £000	Other plant and equipment £000	Total £000
Cost or valuation				
At beginning of year	3,669	46,772	3,484	53,925
Additions	2,139	4,787	162	7,088
Intra group transfers	-	(41)	36	(5)
Disposals	(635)	(988)	(2)	(1,625)
At end of year	5,173	5,0530	3,680	59,383
Depreciation				
At beginning of year	385	19,998	2,888	23,271
Charge for year	29	3,236	335	3,600
Intra group transfers	-	(41)	36	(5)
Disposals	(45)	(982)	-	(1,027)
At end of year	369	22,211	3,259	25,839
Net book value				
At 31 March 1999	4,804	28,319	421	33,544
At 31 March 1998	3,284	26,774	596	30,654

10 Tangible fixed assets (continued)

The net book value of land and buildings comprises:

	31 March 1999 £000	31 March 1998 £000
Freehold	3,022	894
Long leasehold	1,745	2,361
Short leasehold	37	29
	4,804	3,284

Depreciation is not provided on the land element of freehold and long leasehold property which amounts to £1.813m (31 March 1998 - £1.445m).

The assets which have been revalued comprise the following land and buildings:

	31 March 1999 £000	31 March 1998 £000
At 1993 professional valuation	2,340	2,970
Aggregate depreciation thereon	(143)	(155)
Net book value	2,197	2,815
Historical cost of revalued assets	1,246	1,257
Aggregate depreciation based on historical cost	(335)	(315)
Historical net book value	911	942

The 1993 professional valuations were carried out by Chesterton International Limited on the basis of open market value for existing use.

No provision is made for tax of £0.88m (31 March 1998 - £0.554m) which would arise on disposal of revalued properties. The company does not intend to dispose of these properties without reinvestment of the sale proceeds.

£21.991m (31 March 1998 - £20.890m) 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 year were £2.406m (31 March 1998 - £2.301m).

NOTES TO THE ACCOUNTS (continued)

31 March 1999

11 Stocks

	31 March 1999 £000	31 March 1998 £000
Spare parts and consumables	400	426

12 Debtors

	31 March 1999 £000	31 March 1998 £000
Amounts due within one year		
Trade debtors	1,441	1,259
Amounts owed from group undertakings	2,183	2,594
Other debtors	2,719	780
Pension funds' prepayments	431	210
Other prepayments and accrued income	585	556
	7,359	5,399
Amounts due after one year		
Pension funds' prepayments	756	837
Other prepayments and accrued income	124	3
Advance corporation tax recoverable	-	7
	880	847
	8,239	6,246

13 Creditors

Amounts falling due within one year

	31 March 1999 £000	31 March 1998 £000
Bank overdraft	257	2,197
Obligations under finance leases and hire purchase contracts	4,274	3,603
Trade creditors	1,785	1,347
Amounts owed to group undertakings	5,726	242
Corporation tax	481	33
Other tax and social security	627	560
Other creditors	617	2,292
Pension funds' creditors	163	344
Accruals and deferred income	5,158	2,201
Proposed dividends	5,100	5,600
	24,188	18,419

Amounts falling due after more than one year

	31 March 1999 £000	31 March 1998 £000
Obligations under finance leases and hire purchase contracts		
Due between one and two years	3,850	3,420
Due between two and five years	6,916	7,990
Due after five years	-	495
	10,766	11,905

Finance lease and hire purchase contract liabilities are secured on the assets to which they relate. The contracts vary in length between five and ten years and are on normal commercial terms at negotiated rates.

14 Provisions for liabilities and charges

	Deferred tax £000
At beginning of year	970
Transfer to profit and loss account	(113)
At end of year	857

Details of the deferred tax provision are given in Note 15.

15 Deferred taxation

The amounts provided for deferred taxation and the amounts not provided are set out below. The amounts unprovided represent contingent liabilities and are calculated using a tax rate of 30% (31 March 1998 - 31%).

	31 March 1999		31 March 1998	
	Provided £000	Unprovided £000	Provided £000	Unprovided £000
Accelerated capital allowances	656	3,739	713	2,994
Other timing differences	201	-	257	-
Unrealised capital gains	-	265	-	554
	857	4,004	970	3,548

16 Called up share capital

	31 March 1999 £000	31 March 1998 £000
Authorised		
Ordinary shares of £1 each	5,500	5,500
Allotted, called up and fully paid		
Ordinary shares of £1 each	5,500	5,500

NOTES TO THE ACCOUNTS (continued)

31 March 1999

17 Reserves

	Revaluation reserve £000	Goodwill reserve £000	Profit and loss account £000
At beginning of year	2,022	(885)	8
Transfer on sale of revalued property	(623)	-	623
Reclassification of goodwill arising on acquisition of business written off, from goodwill reserve to profit and loss account	-	885	(885)
Retained profit for the year	-	-	340
At end of year	1,399	-	86

18 Commitments

Capital expenditure

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

	31 March 1999 £000	31 March 1998 £000
Contracted for but not provided		
Year to 31 March 1999	-	4,272
Year to 31 March 2000	1,209	-
	1,209	4,272

Operating leases

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

	31 March 1999		31 March 1998	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	-	-	18	46
From two to five years	222	39	168	-
Over five years	-	-	-	-
	222	39	186	46

19 Contingent liabilities

The company has guaranteed the bank overdrafts of certain fellow subsidiary undertakings. The amount outstanding at the end of the year under the guarantees was £2.1m (31 March 1998 - £Nil).

The company has guaranteed the bank loans of its holding company under various term facilities. The amount of guaranteed bank loans at the end of the year was £161.0m (1998 - £67.4m).

The company is a member of a 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 H M Customs and Excise.

20 Pension schemes

The company is a member of two defined benefit pension schemes, which are funded. All eligible employees are offered membership of the relevant scheme. The valuations of the schemes were carried out by independent actuaries at 1 January 1992 and 6 April 1992 in respect of the cots used in these accounts. At the date of these actuarial valuations, the market value of the scheme's assets totalled £19.407m. The actuarial value of these assets was sufficient to cover 113% of the benefits which had accrued to the scheme's members. The surplus of £2.530m is being utilised by increasing the benefits offered to the members as well as a reduction in the company's contribution to the schemes.

Contributions are paid to the schemes at rates recommended by the actuaries and the assets of the schemes are held in a separately administered trusts. The scheme's assets are held and managed independently of the company's finances by independent investment managers appointed by the trustees of the schemes.

The actuarial assumptions used in determining the costs used in these accounts were that the rate of return on investments will be 10.5% per annum; the rate of earnings increase will be 7.5% per annum; the rate of dividend growth will be 6.0% per annum after allowing for no increase in the first year; and the rate of inflation will be 5.5% per annum. The valuations were made using the projected unit method.

The two defined benefit pension schemes have been valued as at 1 January 1995 and 6 April 1995. These valuations which overall are in line with expectations, will form the basis of future years' charges. At the date of these recent actuarial valuations the market value of the scheme's assets totalled £31.617m. The actuarial value of these assets was sufficient to cover 106% of the benefits which had accrued to the scheme's members. The surplus of £1.855m will be utilised by increasing the benefits offered to the members as well as a reduction in the company's contribution to the schemes.

The actuarial assumptions used in these recent actuarial valuations were that the rate of return on investments will be 10% per annum; the rate of earnings increase will be 7.5% per annum; the rate of dividend growth will be 5.5% per annum; and the rate of inflation will be 5.0% per annum. The valuations were made using the projected unit method.

20 Pension schemes (continued)

The total pension cost in the year was £1.208m (1998 - £1.157m) all of which relates to two defined benefit schemes.

The two defined benefit pension schemes have been valued at 5 April 1998. These valuations which overall are in line with expectations, will form the basis of future years' charges. At the date of these recent actuarial valuations the market value of the scheme's assets totalled £49.696 m. The actuarial value of these assets was sufficient to cover 90% of the benefits which had accrued to the scheme's members. The deficit of £5.283 m will be recovered by increasing the funding level of the scheme over the average expected future working lifetime of the active members.

21 Ultimate parent company

The ultimate parent company and ultimate controlling party is FirstGroup plc, which is incorporated in Great Britain and registered in Scotland. Copies of the accounts of FirstGroup plc can be obtained from the Corporate Headquarters of this company at 32a Weymouth Street, London, W1N 3FA.