

NORTH WESTERN TRAINS COMPANY LIMITED

REPORT AND FINANCIAL STATEMENTS

31 MARCH 2003

**Company Registered
Number: 3007946**



NORTH WESTERN TRAINS COMPANY LIMITED

REPORT AND FINANCIAL STATEMENTS 2003

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DIRECTORS' REPORT

The directors have pleasure in submitting their annual report and audited financial statements for the year ended 31 March 2003.

Principal activities

The Company operates passenger railway services across the North West of England, North Wales and into other major conurbations.

Our Vision - Transforming Travel

First Group plc (the ultimate parent company) wants to lead the way in transforming the way people travel and the way they feel about public transport.

Our Aim

Our Aim is to lead the way in transforming rail travel in the North West through consistently providing the highest levels of safety and service and giving greater customer and employee satisfaction.

We will deliver our aim through continual focus on:

- Safety
- Performance
- Customer service
- Our people
- Value for money

Review of the business and future developments

The Company continues to provide passenger railway services in line with those of the prior year and will continue to do so until the end of its Franchise.

The Company will enter a period of Refranchising over the next twelve months when the Franchise is due to come to an end. As part of the SRA's project to reshape the franchise map across the UK, the services currently operated by North Western Trains Company Limited will be split three ways. The services along the North Wales coast will transfer to the Wales and Borders franchise. The services from Manchester International Airport to Barrow and Windermere will transfer to the newly created Transpennine Express franchise. The balance of the services remain with North Western Trains Company Limited until the newly created Northern franchise is awarded. It is anticipated that these changes will take place within the next financial year.

Financial matters

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

The directors do not recommend payment of a dividend (2002 : £nil)

The retained profit for the year was £2,308k (year ended 31st March 2002 £5,876k).

Fixed assets

Depreciation and other amounts written off tangible fixed assets of the Company during the year was £674k. This produces a nil net book value of tangible fixed assets at 31st March 2003.

DIRECTORS' REPORT**Supplier payment policy**

It is the Company's policy to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods and services in accordance with agreed terms and conditions. At 31st March 2003 the company had 30 days' (2002 -30 days') purchases outstanding.

Directors and their interests

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

Dr M Mitchell	
Mr D K Finch	
Mr N K Chevis	
Mr C Burrows	
Mr P Furze-Waddock	
Mr D A Kaye	
Mr V I Barker	
Mr P Bunting	Resigned 6 th September 2002
Mr M J Hopwood	
Mr R W Peck	Appointed 17 th April 2002
Mr D H Goodwin	Resigned 19 th February 2003
Mrs D E Lennox	Appointed 19 th February 2003
Mr R Gregson	Appointed 19 th February 2003

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

	At beginning of year	Ordinary 5p Shares		At end of year
		Additions	Disposals	
Mr D K Finch	-	-	-	-
Mr N K Chevis	-	5,476	-	5,476
Mr C Burrows	2,405	-	-	2,405
Mr P Furze-Waddock	5,000	37	-	5,037
Mr D A Kaye	1,525	-	-	1,525
Mr V I Barker	85	-	-	85
Mr M J Hopwood	-	51	-	51
Mr R W Peck	293	278	-	571
Mrs D E Lennox	256	-	-	256
Mr R Gregson	96	-	-	96

Share options under savings related share option scheme

	At beginning of year	Granted during year	Lapsed or waived	Exercised	At end of year
Mr D K Finch	-	-	-	-	-
Mr N K Chevis	-	1,968	-	-	1,968
Mr C Burrows	-	-	-	-	-
Mr P Furze-Waddock	-	4,921	-	-	4,921
Mr D A Kaye	323	-	323	-	-
Mr V I Barker	-	4,921	-	-	4,921
Mr M J Hopwood	-	-	-	-	-
Mr R W Peck	-	590	-	-	590
Mrs D E Lennox	-	-	-	-	-
Mr R Gregson	-	-	-	-	-

DIRECTORS' REPORT

	Deferred bonus shares – 5p ordinary shares				At end of year
	At beginning of year	Granted during year	Lapsed or waived	Exercised	
Mr D K Finch	4,800	11,660	-	-	16,460
Mr N K Chevis	6,515	10,587	-	-	17,102
Mr C Burrows	6,756	9,247	-	-	16,003
Mr P Furze-Waddock	-	4,795	-	-	4,795
Mr D A Kaye	4,224	9,247	-	-	13,471
Mr V I Barker	482	1,387	-	-	1,869
Mr M J Hopwood	-	-	-	-	-
Mr R W Peck	-	-	-	-	-
Mrs D E Lennox	-	-	-	-	-
Mr R Gregson	-	-	-	-	-

	Executive share option scheme – 5p ordinary shares				At end of year
	At beginning of year	Granted during year	Lapsed or waived	Exercised	
Mr D K Finch	18,470	24,535	-	-	43,005
Mr N K Chevis	15,584	20,684	-	-	36,268
Mr C Burrows	13,276	17,613	-	-	30,889
Mr P Furze-Waddock	11,544	15,316	-	-	26,860
Mr D A Kaye	13,276	19,331	-	-	32,607
Mr V I Barker	-	16,356	-	-	16,356
Mr M J Hopwood	-	-	-	-	-
Mr R W Peck	-	-	-	-	-
Mrs D E Lennox	-	-	-	-	-
Mr R Gregson	-	-	-	-	-

	Share options under long term incentive plan – 5p ordinary shares				At end of year
	At beginning of year	Granted during year	Lapsed or waived	Exercised	
Mr D K Finch	21,186	-	10,593	-	10,593
Mr N K Chevis	32,686	-	13,123	8,970	10,593
Mr C Burrows	23,092	-	11,546	-	11,546
Mr P Furze-Waddock	-	-	-	-	-
Mr D A Kaye	16,524	-	8,262	-	8,262
Mr V I Barker	-	-	-	-	-
Mr M J Hopwood	-	-	-	-	-
Mr R W Peck	-	-	-	-	-
Mrs D E Lennox	-	-	-	-	-
Mr R Gregson	-	-	-	-	-

The share options under long term incentive plan are in respect of performance related executive share options and deferred bonus plan.

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

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 arrangements with the company or any of its fellow group undertakings, other than service contracts, in which any of the directors is materially interested and which is significant in relation to the business of the company or any of its fellow group undertakings taken as a whole.

DIRECTORS' REPORT

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.

It is FirstGroup policy to encourage greater employee involvement in the business through the promotion of employee directors, who will represent the interest of the employees on the Board. Mr R Gregson sits on the Board as a director of the Company.

FirstGroup plc, the Company's ultimate holding company, is committed to wide employee share ownership and following the Company's AGM in 2001, shareholders approved the establishment of a Share Incentive Plan under the title "Buy As You Earn". This scheme, which is open to all UK employees of the Group (including the Executive Directors), enables employees to purchase partnership shares from their gross income. The Company provides one matching share for every two partnership shares bought by employees, subject to a maximum Company contribution of shares to the value of £15 per month. The shares are held in trust for up to five years, in which case, no income tax and national insurance will be payable. The matching shares will be forfeited if the corresponding partnership shares are removed from the trust within three years of the award.

The Company also operates a Save As You Earn (SAYE) Share Option Scheme for eligible employees under which options may be granted on an annual basis at a discount of up to 20% of market value. The Executive Directors are eligible to participate in the SAYE Share Option Scheme.

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.

Charitable and political donations

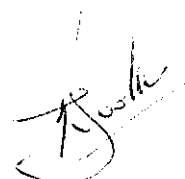
The Company did not make any charitable or political donations during the year (2002 : £nil).

Auditors

The Company has passed an elective resolution dispensing with the requirement to appoint auditors annually. Deloitte & Touche have indicated their willingness to continue as auditors of the Company and are, therefore, deemed to be reappointed for a further term. Deloitte & Touche has informed the directors that they are intending to transfer their business to a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000, to be known as Deloitte & Touche LLP. It is the current intention of the directors to use the Company's statutory power to give consent to the appointment of Deloitte & Touche being treated as extending to Deloitte & Touche LLP at the appropriate time.

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

Milford House
1 Milford Street
Swindon
SN1 1HL



Director
30th July 2003

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

- * select suitable accounting policies and then apply them consistently;
- * make judgements and estimates that are reasonable and prudent;
- * state whether applicable accounting standards have been followed; and
- * prepare the financial statements on 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 are responsible for the system of internal control, for safeguarding the assets of the company and hence taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NORTH WESTERN TRAINS COMPANY LIMITED

We have audited the financial statements of North Western Trains Company Limited for the year ended 31 March 2003, which comprise the profit and loss account, the balance sheet, the reconciliation of movements in shareholders' deficit and the related notes 1 to 22. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

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

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

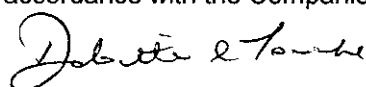
Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

**Deloitte & Touche**

Chartered Accountants and Registered Auditors

Manchester

3 July 2003

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2003

	Notes	2003 £000	2002 £000
Turnover	2	273,271	268,797
Operating costs			
- General		(269,342)	(258,236)
- Restructuring and other exceptional income	4	-	460
- Employees' profit sharing scheme		-	(300)
Total operating costs	3	(269,342)	(258,076)
Operating profit		3,929	10,721
Net interest payable and similar charges	7	(727)	(1,259)
Profit on ordinary activities before taxation	2,8	3,202	9,462
Tax on profit on ordinary activities	9	(894)	(3,586)
Profit on ordinary activities after taxation and retained profit for the year	17	2,308	5,876

All activities relate to continuing operations.

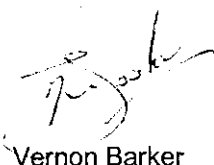
No statement of total recognised gains and losses is given as all gains or losses for the current and preceding year passed through the profit and loss account.

No note of historical cost profits and losses is given as there were no material differences between the results as set out in the profit and loss account, and their historical cost equivalents.

BALANCE SHEET**At 31 March 2003**

	Notes	£000	2003 £000	£000	2002 £000
Assets employed:					
Fixed assets					
Tangible fixed assets	10		-		-
Current assets					
Stocks	11	1,615		1,672	
Debtors	12	22,753		23,264	
Cash at bank and in hand		571		732	
		24,939		25,668	
Creditors: amounts falling due within one year	13	(87,807)		(91,360)	
Net current liabilities					
Due within one year			(62,883)		(65,710)
Amounts due after more than one year	12		15		18
Total assets less current liabilities			(62,868)		(65,692)
Provisions for liabilities and charges	14		(1,991)		(1,475)
Net liabilities			(64,859)		(67,167)
Financed by:					
Capital and reserves					
Called up share capital	16		5		5
Share premium account	17		495		495
Profit and loss account	17		(65,359)		(67,667)
Equity shareholders' deficit			(64,859)		(67,167)

These financial statements were approved by the Board of directors on 30th July 2003 and were signed on its behalf by:



Vernon Barker

Director

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' DEFICIT

For the year ended 31 March 2003

	2003 £000	2002 £000
Profit for the financial year	2,308	5,876
Opening shareholders' deficit	(67,167)	(73,043)
Closing shareholders' deficit	<u>(64,859)</u>	<u>(67,167)</u>

NOTES TO THE ACCOUNTS (continued)

1 Principal accounting policies

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

(a) Basis of preparation

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

(b) Tangible fixed assets and depreciation

Tangible fixed assets are stated 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:

Short leasehold properties	- period of lease
Other plant and equipment	- written off in the year expenditure is incurred

(e) Leases and hire purchase

All 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.

(f) Government grants and subsidies

Amounts receivable for tendered services and concessionary fare schemes are included in turnover. Financial support receivable from the Strategic Rail Authority is shown in turnover.

(g) Stocks

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

(h) Taxation

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

NOTES TO THE ACCOUNTS (continued)

1 Principal accounting policies (continued)**(i) Pension costs**

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

2 Turnover and profit before taxation

Turnover represents the amounts receivable for services supplied to customers during the year and includes rail support grants.

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

3 Operating costs

	2003 £000	2002 £000
Materials and consumables	10,180	10,335
Staff costs	61,816	56,470
External charges	196,672	186,055
Depreciation and other amounts written off tangible fixed assets	674	5,216
	<u>269,342</u>	<u>258,076</u>

NOTES TO THE ACCOUNTS (continued)**4 Restructuring and other exceptional income**

	2003 £000	2002 £000
Franchise amendment costs	-	(460)
	<u>-</u>	<u>(460)</u>

5 Employee numbers and costs

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

	2003 No.	2002 No.
Operations	2,000	1,893
Fleet	227	221
Administration	102	94
	<u>2,329</u>	<u>2,208</u>

The aggregate payroll costs of these persons were as follows:

	2003 £000	2002 £000
Wages and salaries	57,218	52,721
Social security costs	3,713	3,749
Other pension costs	885	-
	<u>61,816</u>	<u>56,470</u>

NOTES TO THE ACCOUNTS (continued)

6 Directors' remuneration

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

	2003 £000	2002 £000
Aggregate emoluments (excluding pension contributions)	633	641
Company pension contributions to defined benefit scheme	19	-
	<u>652</u>	<u>641</u>

Retirement benefits accrue to five directors (2002 - five directors) under defined benefit schemes.

The emoluments of the highest paid director amounted to:

	2003 £000	2002 £000
Aggregate emoluments	<u>169</u>	<u>159</u>
<i>Defined benefit scheme</i>		
Accrued pension at end of year	5	5
Accrued lump sum at end of year	4	11

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

7 Net interest payable and similar charges

	2003 £000	2002 £000
<i>Interest payable and similar charges</i>		
Amounts payable to other group undertakings	(740)	(1,051)
Bank overdrafts	-	(233)
	<u>(740)</u>	<u>(1,284)</u>
<i>Interest receivable and similar income</i>		
Bank interest	13	25
	<u>(727)</u>	<u>(1,259)</u>

NOTES TO THE ACCOUNTS (continued)**8 Profit on ordinary activities before taxation**

	2003 £000	2002 £000
Profit on ordinary activities before taxation is stated after charging:		
Auditors' remuneration		
- Deloitte & Touche audit fee	22	21
- Deloitte & Touche and associates non audit fees	35	60
Depreciation and other amounts written off tangible fixed assets		
- depreciation on owned assets	674	1,787
- amounts written off owned assets	-	3,429
Rentals payable under operating leases		
- plant and machinery	38,628	33,291
- other operating leases		
Network Rail charges		
- track access	103,063	95,467
- other operating leases and charges	14,652	22,022

9 Tax on profit on ordinary activities

	2003 £000	2002 £000
Current taxation		
- UK corporation tax charge for the year	713	4,087
- Adjustment in respect of prior years	(958)	(159)
Total current taxation	(245)	3,928
Deferred taxation		
- Origination and reversal of timing differences	241	(463)
- Adjustment in respect of prior years	898	121
Total deferred taxation	1,139	(342)
Tax on profit on ordinary activities	894	3,586

NOTES TO THE ACCOUNTS (continued)

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

	2003 %	2002 %
Standard rate of taxation	30.0	30.0
Factors affecting charge		
- Disallowable expenses	(4.8)	8.3
- Capital allowances in excess of depreciation	(4.1)	5.7
- Other timing differences	1.2	(0.8)
- Adjustments to the tax charge in respect of prior periods	(29.9)	(1.7)
Current taxation rate for the year	<u>(7.6)</u>	<u>41.5</u>

10 Tangible fixed assets

	Short leasehold buildings	Other plant and equipment	Total
	£000	£000	£000
Cost			
At 1 April 2002	3,736	4,420	8,156
Additions	532	142	674
At 31 March 2003	<u>4,268</u>	<u>4,562</u>	<u>8,830</u>
Depreciation			
At 1 April 2002	3,736	4,420	8,156
Charge for year	532	142	674
At 31 March 2003	<u>4,268</u>	<u>4,562</u>	<u>8,830</u>
Net book value			
At 31 March 2003	<u>-</u>	<u>-</u>	<u>-</u>
At 31 March 2002	<u>-</u>	<u>-</u>	<u>-</u>

11 Stocks

	2003 £000	2002 £000
Raw materials and consumables	<u>1,615</u>	<u>1,672</u>

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

NOTES TO THE ACCOUNTS (continued)**12 Debtors**

	2003 £000	2002 £000
Amounts due within one year		
Trade debtors	13,262	18,277
VAT	5,116	2,481
Other prepayments and accrued income	3,879	868
Deferred tax asset	481	1,620
	<u>22,738</u>	<u>23,246</u>
Amounts due after one year		
Other debtors	<u>15</u>	<u>18</u>
	<u>22,753</u>	<u>23,264</u>

13 Creditors

	2003 £000	2002 £000
Amounts falling due within one year		
Trade creditors	20,505	18,064
Amounts owed to group undertakings	44,373	43,213
Corporation tax	479	3,962
Other tax and social security	1,379	1,506
Other creditors	5,922	2,677
Accruals and deferred income	15,149	21,938
	<u>87,807</u>	<u>91,360</u>

NOTES TO THE ACCOUNTS (continued)**14 Provisions for liabilities and charges**

	Public & Employee liability claims £000	Deferred tax £000	Warranty £000
At beginning of year	1,443	(1,620)	32
Provided in the year	672	1,139	
Utilised during the year	(152)		(4)
At end of year	<u>1,963</u>	<u>(481)</u>	<u>28</u>

The Directors have reclassified public and employee liabilities claims provisions from creditors, due within one year and after more than one year, to provisions for liabilities and charges.

Details of the deferred tax asset are given in Note 15. The balance is included in Note 12 within Debtors.

15 Deferred taxation

Provision for deferred taxation consists of the following amounts:

	2003 £000	2002 £000
Capital allowances in excess of depreciation	(394)	(695)
Other timing differences	(87)	(925)
Total asset	<u>(481)</u>	<u>(1,620)</u>

16 Called up share capital

	2003 £000	2002 £000
Authorised		
Ordinary shares of £1 each	<u>10</u>	<u>10</u>
Allotted, called up and fully paid		
Ordinary shares of £1 each	<u>5</u>	<u>5</u>

The number of ordinary shares of £1 each in issue at the end of the year was 5,000 (2002 – 5,000).

17 Reserves

	Share premium account £000	Profit and loss account £000
At 1 April 2002	495	(67,667)
Retained profit for the year	-	2,308
At 31 March 2003	<u>495</u>	<u>(65,359)</u>

NOTES TO THE ACCOUNTS (continued)

18 Commitments

Capital expenditure

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

	2003 £000	2002 £000
Contracted for but not provided:	-	-

Operating leases

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

	2003		2002	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	102	139,031	-	1,049
Between two and five years	-	-	102	145,882
	<u>102</u>	<u>139,031</u>	<u>102</u>	<u>146,931</u>

The Company has signed contracts, which commit it to lease rolling stock from Angel Train Contracts Limited and Porterbrook Leasing Company Limited over the next seven months to one year. These contracts can be terminated by agreement with the relevant rolling stock Company.

The Company has signed contracts with Network Rail Limited for access to the railway infrastructure (track, stations and depots). These contracts are for a period of a further one year and may be terminated by joint agreement between the company and Network Rail Limited.

19 Contingent liabilities

FirstGroup plc has provided performance bonds of £7 million, backed by an insurance arrangement, to the Director of Passenger Rail Franchising in support of the Group's Franchise obligations at North Western Trains Company Limited. In addition, as required by the Director of Passenger Rail Franchising, a loan of £6.5 million has been provided by FirstGroup plc.

NOTES TO THE ACCOUNTS (continued)**20 Pension scheme**

The company operates a defined benefit pension scheme, which is funded. All eligible employees are offered membership of the scheme. The valuation of the scheme was carried out by independent actuaries at 31st December 2001 in respect of the costs used in these accounts. At the date of this actuarial valuation, the market value of the scheme's assets totalled £139.3m. The actuarial value of these assets was sufficient to cover 105% of the benefits which had accrued to the scheme's members. The surplus of £17.7m is being utilised by increasing the benefits offered to the members as well as a reduction in the company's contribution to the scheme to November 2003. Employee contributions have been frozen at 5% of eligible pay until September 2003.

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

The actuarial assumptions used in determining the costs used in these accounts were that the rate of return on new investments will be 6.3% per annum and the rate of return on existing investments will be 5.6% (past service); the rate of earnings increase will be 4% per annum and the rate of inflation will be 2.5% per annum. The valuation was made using the projected unit method.

The total pension cost in the year was £885k (2002 - £nil), all of which relates to defined benefit schemes.

Transitional FRS 17 disclosures

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

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

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

The fair value of the assets in the scheme, the present value of the liabilities in the scheme and the expected rate of return as at each Balance Sheet date were:

	2003	2002	2003	2002
	Expected	Expected	Value	Value
	rate of return	rate of return	£000	£000
Equities	8.8%	8.0%	85,900	119,800
Bonds	4.5%	5.1%	4,600	14,400
Property	6.7%	6.6%	14,800	8,300
Total Fair Value of Assets			105,300	142,500

NOTES TO THE ACCOUNTS (continued)

	2003 £000	2002 £000
Total fair value of assets	105,300	142,500
Present value of scheme liabilities	(133,700)	(136,400)
(Deficit)/surplus in the scheme	(28,400)	6,100
Irrecoverable surplus	-	(6,100)
Employees' share of deficit	11,400	-
Employer's share of deficit	(17,000)	-
Related deferred tax asset	5,100	-
Net pension liability	(11,900)	-

If FRS 17 had been adopted in these financial statements, the company's net assets and profit and loss reserve at 31 March 2003 would have been as follows:

	2003 £000	2002 £000
Net liabilities excluding pension liability	(64,859)	(67,167)
Pension liability	(11,900)	-
Net liabilities on an FRS 17 basis	(76,759)	(67,167)

	2003 £000	2002 £000
Profit and loss reserve excluding pension liability	(65,359)	(67,667)
Pension liability	(11,900)	-
Profit and loss reserve on an FRS 17 basis	(77,259)	(67,667)

Analysis of amount that would have been charged to operating profit:

	2003 £000
Current service costs	(6,200)
Past service costs	-
Gain/(loss) on settlements and curtailments	-
Total operating charge	(6,200)

Analysis of amount that would have been credited to net finance charges:

	2003 £000
Expected return on pension scheme assets	(6,500)
Interest on pension scheme liabilities	5,200
Net return	(1,300)

Analysis of the actuarial gain that would have been recognised in the statement of total recognised gains and losses ("STRGL"):

	2003 £000
Actual return less expected return on pension scheme assets	(23,700)
Experience gains and losses arising on scheme liabilities	12,100
Changes in assumptions underlying the present value of scheme liabilities	(500)
Actuarial loss recognised in STRGL	(12,100)

NOTES TO THE ACCOUNTS (continued)

Movement in scheme deficit during the year:

	2003 £000
Deficit at 1 April 2002	-
Movement in year:	
Current service cost	(6,200)
Contributions	-
Past service costs	-
Net finance income	1,300
Actuarial gain	(12,100)
Deficit at 31 March 2003	<u>(17,000)</u>

History of experience gains and losses

	2003
Difference between the expected and actual return on scheme assets:	
Amount (£000)	23,700
Percentage of scheme assets (%)	22.5
Experience gains and losses on scheme liabilities:	
Amount (£000)	12,100
Percentage of the present value of scheme liabilities (%)	9.1
Total actuarial loss in the statement of total recognised gains and losses:	
Amount (£000)	(12,100)
Percentage of the present value of scheme liabilities (%)	9.1

NOTES TO THE ACCOUNTS (continued)

21 Related party transactions

The company is taking advantage of the exemption under FRS 8 not to disclose transactions with group companies that are related parties.

22 Ultimate parent company and controlling party

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

Copies of the accounts of FirstGroup plc can be obtained on request from 3rd Floor, MacMillan House, Paddington Station, London W2 1FG.