

NORTH WESTERN TRAINS COMPANY LIMITED

REPORT AND FINANCIAL STATEMENTS

31 MARCH 2004



**Company Registered
Number: 3007946**

NORTH WESTERN TRAINS COMPANY LIMITED

REPORT AND FINANCIAL STATEMENTS 2004

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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 2004.

Principal activities

The company operates passenger railway services across the North West of England.

Our vision - Transforming Travel

FirstGroup 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 has undergone a period of refranchising over the past twelve months. As part of the Strategic Rail Authority's (SRA) project to reshape the franchise map across the UK, the services originally operated by North Western Trains Company Limited have been split three ways. The services along the North Wales coast transferred to the Wales and Borders franchise in September 2003. The services from Manchester International Airport to Barrow and Windermere transferred to the newly created Transpennine Express franchise in February 2004. The balance of the services across the North West of England remained with North Western Trains Company Limited.

The original franchise term for North Western Trains Company Limited ended on 31 March 2004. A Deed of Amendment was signed which extended the franchise term for a maximum of two years.

On 1 July 2004, the SRA announced that the preferred bidder for the newly created Northern franchise was Serco-Ned Railways. The services currently being operated by the company will transfer into the new franchise. It is anticipated that these changes will take place on 17 October 2004.

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 (2003 - £nil)

The retained profit for the year was £2,340,000 (2003 - £2,308,000).

Fixed assets

Depreciation charged during the year was £525,000 (2003 - £674,000). This produced a nil net book value of tangible fixed assets as at 31 March 2004 (2003 - £nil).

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 31 March 2004 the company had 39 days' (2003 - 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	Resigned 19 May 2004
Mr D K Finch	
Mr N K Chevis	
Mr C Burrows	
Mr P Furze-Waddock	
Mr D A Kaye	Resigned 10 October 2003
Mr V I Barker	Resigned 21 January 2004
Mr M J Hopwood	Resigned 21 January 2004
Mr R W Peck	
Mrs D E Lennox	
Mr R Gregson	
Mr A J Mellors	Appointed 29 October 2003
Mr P C Dyer	Appointed 22 December 2003
Mr D M W Hooper	Appointed 21 January 2004
Mr J P W Long	Appointed 17 March 2004
Mr J W A Nolan	Appointed 17 March 2004, Resigned 10 June 2004

None of the directors held any shares in the company or any other group company at any time during the year, except as disclosed below.

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

	At beginning of year*	Ordinary 5p Shares		At end of year
		Additions	Disposals	
Mr N K Chevis	5,476	344	-	5,820
Mr C Burrows	2,405	23,092	-	25,497
Mr P Furze-Waddock	5,037	204	-	5,241
Mr R W Peck	571	232	-	803
Mrs D E Lennox	256	-	-	256
Mr R Gregson	96	-	-	96
Mr A J Mellors	-	-	-	-
Mr P C Dyer	787	205	-	992
Mr D M W Hooper	-	-	-	-
Mr J P W Long	102	-	-	102
Mr J W A Nolan	283	-	-	283

* Or on appointment if later

DIRECTORS' REPORT**Share options under savings related share option scheme**

	At beginning of year *	Granted during year	Lapsed or waived	Exercised	At end of year
Mr N K Chevis	1,968	-	-	-	1,968
Mr C Burrows	-	-	-	-	-
Mr P Furze-Waddock	4,921	-	-	-	4,921
Mr R W Peck	590	-	-	-	590
Mrs D E Lennox	-	-	-	-	-
Mr R Gregson	-	-	-	-	-
Mr A J Mellors	-	-	-	-	-
Mr P C Dyer	-	-	-	-	-
Mr D M W Hooper	-	-	-	-	-
Mr J P W Long	-	-	-	-	-
Mr J W A Nolan	-	-	-	-	-

* Or on appointment if later

Deferred bonus shares – 5p ordinary shares

	At beginning of year *	Granted during year	Lapsed or waived	Exercised	At end of year
Mr N K Chevis	17,102	13,168	-	-	30,270
Mr C Burrows	16,003	10,495	-	-	26,498
Mr P Furze-Waddock	4,795	5,307	-	-	10,102
Mr R W Peck	-	-	-	-	-
Mrs D E Lennox	-	-	-	-	-
Mr R Gregson	-	-	-	-	-
Mr A J Mellors	-	-	-	-	-
Mr P C Dyer	746	-	-	-	746
Mr D M W Hooper	-	-	-	-	-
Mr J P W Long	-	-	-	-	-
Mr J W A Nolan	-	-	-	-	-

* Or on appointment if later

Executive share option scheme – 5p ordinary shares

	At beginning of year	Granted during year	Lapsed or waived	Exercised	At end of year
Mr N K Chevis	36,268	19,833	-	-	56,101
Mr C Burrows	30,889	16,892	-	-	47,781
Mr P Furze-Waddock	26,860	16,111	-	-	42,971
Mr R W Peck	-	13,937	-	-	13,937
Mrs D E Lennox	-	-	-	-	-
Mr R Gregson	-	-	-	-	-
Mr A J Mellors	-	-	-	-	-
Mr P C Dyer	-	-	-	-	-
Mr D M W Hooper	-	-	-	-	-
Mr J P W Long	-	-	-	-	-
Mr J W A Nolan	-	-	-	-	-

* Or on appointment if later

DIRECTORS' REPORT

	Share options under long term incentive plan – 5p ordinary shares				
	At beginning of year	Granted during year	Lapsed or waived	Exercised	At end of year
Mr N K Chevis	21,186	-	-	(21,186)	-
Mr C Burrows	23,092	-	-	(23,092)	-
Mr P Furze-Waddock	-	-	-	-	-
Mr R W Peck	-	-	-	-	-
Mrs D E Lennox	-	-	-	-	-
Mr R Gregson	-	-	-	-	-
Mr A J Mellors	-	-	-	-	-
Mr P C Dyer	-	-	-	-	-
Mr D M W Hooper	-	-	-	-	-
Mr J P W Long	-	-	-	-	-
Mr J W A Nolan	-	-	-	-	-

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 and Mr D K Finch 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.

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 £20 per month (£15 per month up to 31 January 2004). 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.

DIRECTORS' REPORT

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

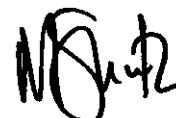
The company made charitable donations of £731 (2003 - £nil) during the year. It did not make any political donations during the year (2003 - £nil).

Auditors

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

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

Milford House
1 Milford Street
Swindon
SN1 1HL



Secretary
28 July 2004

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 2004, which comprise the profit and loss account, the balance sheet, the reconciliation of movements in shareholders' deficit and the related notes 1 to 21. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

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

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

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

Basis of audit opinion

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

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

Opinion

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

**Deloitte & Touche LLP**Chartered Accountants and Registered Auditors
London*29 July 2004*

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2004

	Notes	2004 £000	2003 £000
Turnover	2	275,789	273,271
Operating costs	3	(271,932)	(269,342)
Operating profit		<u>3,857</u>	<u>3,929</u>
Net interest payable and similar charges	6	(505)	(727)
Profit on ordinary activities before taxation	2,7	<u>3,352</u>	<u>3,202</u>
Tax charge on profit on ordinary activities	8	<u>(1,012)</u>	<u>(894)</u>
Profit on ordinary activities after taxation and retained profit for the financial year	16	<u><u>2,340</u></u>	<u><u>2,308</u></u>

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 2004

	Notes	£000	2004 £000	£000	2003 £000
Assets employed:					
Fixed assets					
Tangible fixed assets	9		-		-
Current assets					
Stocks	10	1,637		1,615	
Debtors	11	38,585		22,753	
Cash at bank and in hand		510		571	
		<u>40,732</u>		<u>24,939</u>	
Creditors: amounts falling due within one year	12	<u>(100,904)</u>		<u>(87,807)</u>	
Net current (liabilities)/assets					
Due within one year			(60,184)		(62,883)
Amounts due after more than one year	11		12		15
Total assets less current liabilities			<u>(60,172)</u>		<u>(62,868)</u>
Provisions for liabilities and charges	13		<u>(2,347)</u>		<u>(1,991)</u>
Net liabilities			<u><u>(62,519)</u></u>		<u><u>(64,859)</u></u>
Financed by:					
Capital and reserves					
Called up share capital	15		5		5
Share premium account	16		495		495
Profit and loss account	16		(63,019)		(65,359)
Equity shareholders' deficit			<u><u>(62,519)</u></u>		<u><u>(64,859)</u></u>

These financial statements were approved by the Board of directors on 28 July 2004 and were signed on its behalf by:



Peter Dyer

Director

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' DEFICIT

For the year ended 31 March 2004

	2004 £000	2003 £000
Profit for the financial year	2,340	2,308
Opening shareholders' deficit	(64,859)	(67,167)
Closing shareholders' deficit	<u>(62,519)</u>	<u>(64,859)</u>

NOTES TO THE ACCOUNTS

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 contribution pension scheme. This is funded by contributions from the company and employees. The company's contributions are charged to the profit and loss account as incurred.

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

3 Operating costs

	2004 £000	2003 £000
Materials and consumables	11,064	10,180
Staff costs	65,353	61,816
External charges	194,990	196,672
Depreciation and other amounts written off tangible fixed assets	525	674
	<u>271,932</u>	<u>269,342</u>

4 Employee numbers and costs

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

	2004 No.	2003 No.
Operations	1,948	2,000
Fleet	235	227
Administration	109	102
	<u>2,292</u>	<u>2,329</u>

NOTES TO THE ACCOUNTS (continued)

4 Employee numbers and costs (continued)

The aggregate payroll costs of these persons were as follows:

	2004 £000	2003 £000
Wages and salaries	60,378	57,218
Social security costs	4,371	3,713
Other pension costs	604	885
	<u>65,353</u>	<u>61,816</u>

5 Directors' remuneration

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

	2004 £000	2003 £000
Aggregate emoluments (excluding pension contributions)	563	633
Company pension contributions to defined contribution scheme	15	19
	<u>578</u>	<u>652</u>

The emoluments of the highest paid director amounted to:

	2004 £000	2003 £000
Aggregate emoluments (excluding pension contributions)	153	169
Company pension contributions to defined contribution scheme	2	-
	<u>155</u>	<u>169</u>

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

6 Net interest payable and similar charges

	2004 £000	2003 £000
<i>Interest payable and similar charges</i>		
Amounts payable to other group undertakings	523	740
<i>Interest receivable and similar income</i>		
Bank interest	(18)	(13)
	<u>505</u>	<u>727</u>

NOTES TO THE ACCOUNTS (continued)

7 Profit on ordinary activities before taxation

	2004 £000	2003 £000
Profit on ordinary activities before taxation is stated after charging:		
Auditors' remuneration		
- Deloitte & Touche LLP audit fee	22	22
- Deloitte & Touche LLP and associates non audit fees	-	35
Depreciation		
- on owned assets	525	674
Rentals payable under operating leases		
- plant and machinery	39,060	38,628
Network Rail charges		
- track access	93,077	103,063
- other operating leases and charges	<u>14,554</u>	<u>14,652</u>

8 Tax charge on profit on ordinary activities

	2004 £000	2003 £000
Current taxation		
- UK corporation tax charge for the year	993	713
- Adjustment in respect of prior years	<u>347</u>	<u>(958)</u>
Total current taxation	<u>1,340</u>	<u>(245)</u>
Deferred taxation		
- Origination and reversal of timing differences	21	241
- Adjustment in respect of prior years	<u>(349)</u>	<u>898</u>
Total deferred taxation	<u>(328)</u>	<u>1,139</u>
Total tax charge on profit on ordinary activities	<u><u>1,012</u></u>	<u><u>894</u></u>

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

	2004 %	2003 %
Standard rate of taxation	30.0	30.0
Factors affecting charge		
- Expenses not deductible for tax purposes	3.0	(4.8)
- Capital allowances in excess of depreciation	(4.5)	(4.1)
- Other timing differences	1.1	1.2
- Prior years' tax charge	10.4	(29.9)
Current taxation rate for the year	<u><u>40.0</u></u>	<u><u>(7.6)</u></u>

NOTES TO THE ACCOUNTS (continued)

9 Tangible fixed assets

	Short leasehold properties £000	Other plant and equipment £000	Total £000
Cost			
At 1 April 2003	4,268	4,562	8,830
Additions	377	148	525
Disposals	(1,088)	(731)	(1,819)
At 31 March 2004	<u>3,557</u>	<u>3,979</u>	<u>7,536</u>
Depreciation			
At 1 April 2003	4,268	4,562	8,830
Charge for year	377	148	525
Disposals	(1,088)	(731)	(1,819)
At 31 March 2004	<u>3,557</u>	<u>3,979</u>	<u>7,536</u>
Net book value			
At 31 March 2004	<u>-</u>	<u>-</u>	<u>-</u>
At 31 March 2003	<u>-</u>	<u>-</u>	<u>-</u>

10 Stocks

	2004 £000	2003 £000
Raw materials and consumables	<u>1,637</u>	<u>1,615</u>

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

11 Debtors

	2004 £000	2003 £000
Amounts due within one year		
Trade debtors	13,137	13,262
Amounts owed from group undertakings	19,089	-
VAT	1,967	5,116
Other prepayments and accrued income	3,571	3,879
Deferred tax asset (note 14)	809	481
	<u>38,573</u>	<u>22,738</u>
Amounts due after one year		
Other debtors	<u>12</u>	<u>15</u>
	<u>38,585</u>	<u>22,753</u>

NOTES TO THE ACCOUNTS (continued)

12 Creditors

	2004 £000	2003 £000
Amounts falling due within one year		
Trade creditors	25,243	20,505
Amounts owed to group undertakings	37,987	44,373
Corporation tax	7,885	479
Other tax and social security	1,203	1,379
Other creditors	4,585	5,922
Accruals and deferred income	24,001	15,149
	<u>100,904</u>	<u>87,807</u>

13 Provisions for liabilities and charges

	Insurance Claims £000	Warranty £000	Total £000
At beginning of year	1,963	28	1,991
Provided in the year	843	-	843
Utilised during the year	(459)	(28)	(487)
At end of year	<u>2,347</u>	<u>-</u>	<u>2,347</u>

The insurance claims relate to public and employers' liability claims. Most of these claims are expected to be settled within four years.

14 Deferred taxation

The movement on the deferred tax balance was:

	£000
At beginning of year	(481)
Credited to the profit and loss account	(328)
At end of year	<u>(809)</u>

Provision for deferred taxation consists of the following amounts:

	2004 £000	2003 £000
Depreciation in excess of capital allowances	(456)	(394)
Other timing differences	(353)	(87)
Deferred tax asset	<u>(809)</u>	<u>(481)</u>

The balance is included in note 11 within debtors.

NOTES TO THE ACCOUNTS (continued)

15 Called up share capital

	2004 £000	2003 £000
Authorised		
10,000 ordinary shares of £1 each	<u>10</u>	<u>10</u>
Allotted, called up and fully paid		
5,000 ordinary shares of £1 each	<u>5</u>	<u>5</u>

16 Reserves

	Share premium account £000	Profit and loss account £000
At 1 April 2003	495	(65,359)
Retained profit for the year	-	2,340
At 31 March 2004	<u>495</u>	<u>(63,019)</u>

17 Commitments

Capital expenditure

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

	2004 £000	2003 £000
Contracted for but not provided:	<u>10</u>	<u>-</u>

Operating leases

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

	2004		2003	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	98	53,175	102	139,031
Between two and five years	-	-	-	-
	<u>98</u>	<u>53,175</u>	<u>102</u>	<u>139,031</u>

Following the extension of the franchise, the company has signed contracts which commit it to lease rolling stock from Angel Train Contracts Limited and Porterbrook Leasing Company Limited until the anticipated end of the franchise on 16 October 2004.

The company has signed contracts with Network Rail Limited for access to the railway infrastructure (track, stations and depots). The company's liability under these contracts will cease at the end of the franchise, which is expected to be 16 October 2004.

NOTES TO THE ACCOUNTS (continued)

18 Contingent liabilities

During the year, FirstGroup plc 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.

Following the signing of the deed of amendment, performance bonds of £5.8 million have been provided to the Director of Passenger Rail Franchising in support of the Group's extended franchise obligations at North Western Trains Company Limited

19 Pension scheme

North Western Trains Company Limited participates in the Railways Pension Scheme (RPS), which is an industry-wide arrangement for employees of those companies previously owned by British Railways Board. As the franchise is under a management contract with the Strategic Rail Authority, the company will not bear any liability for pensions beyond the end of the franchise period, which is expected to be on 16 October 2004. Therefore, in accordance with FRS 17, the pension scheme is accounted for as a defined contribution scheme.

The costs charged to the profit and loss account for the year were £604,000 (2003 - £885,000). Outstanding employer's pension contributions as at 31 March 2004 were £295,000 (2003 - £nil).

The anticipated outstanding liability to the end of the franchise is £2,215,000.

20 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.

21 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.