First

Annual Report 1997

"Moving ahead"

FirstBus at a glance

For the year ended 31 March 1997

Financial highlights		1997	1996
Turnover	(£m)	551·5	356·3
Operating profit ‡	(£m)	73·7	43·2
Operating margin ‡	(%)	13·4	12·1
Profit before tax †	(£m)	59·3	32·4
Adjusted basic earnings per share	(pence)	14·4	10·4
Net dividend per share	(pence)	5·5	5·0
Capital expenditure	(£m)	54·3	49·7
Cash generation *	(£m)	101·7	62·8

‡ Before ESOP and restructuring and other exceptional costs
† Before restructuring and other exceptional items
* Operating profit, before ESOP and restructuring and other exceptional costs, plus depreciation

Bus turnover by division %	
Wales and South West	21
Midlands and South East	22
North of England	30
Scotland	27
Total bus turnover	£516m

Analysis of bus revenue %	
On-bus	61
Seasons	12
Concessions	11
Tenders	8
Other	8
Total	£516m

Bus operating profit by division % ‡	
Wales and South West	20
Midlands and South East	21
North of England	32
Scotland	27
Total bus operating profit	£78m

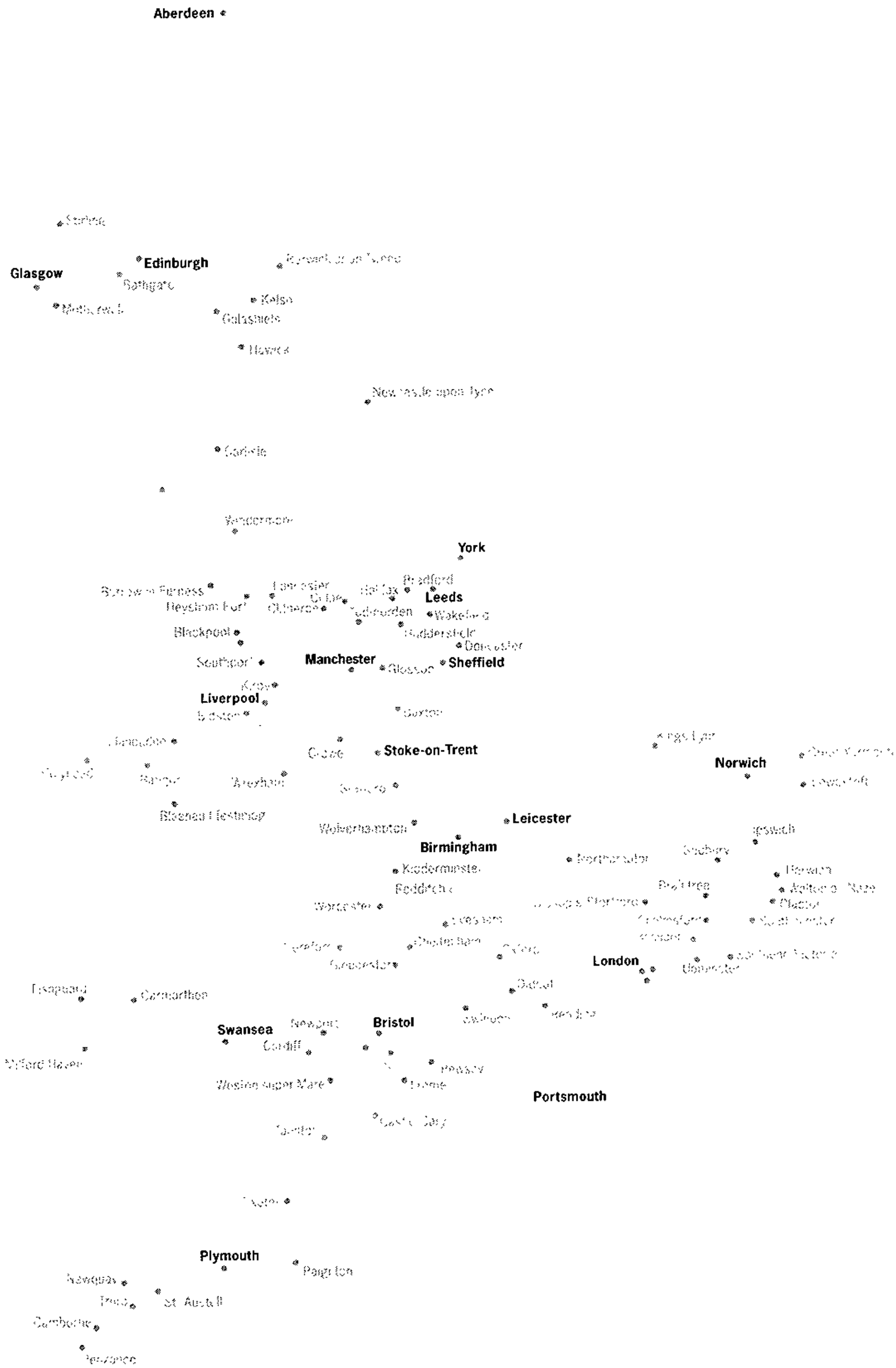
Passenger journeys by division %	
Wales and South West	17
Midlands and South East	23
North of England	33
Scotland	27
Total journeys	677m

Analysis of bus operating costs % ‡	
Drivers payroll	46
Fuel	9
Engineering payroll/materials	19
PCV depreciation	5
Other payroll	7
Other	14
Total bus operating costs	£438m

Fleet mix by type %	
Double deck	39
Single deck	19
Midi	11
Mini	26
Coaches	5
Total fleet (number)	8,800

Areas of bus and train operations

As at June 1997



Scotland

Grampian Transport
Greater Glasgow
Kelvin Central
Lowland
Midland Bluebird
SMT

North of England

Greater Manchester
Mainline (20% interest)
Rider Group

Midlands and South East

CentreWest
Eastern Counties
Eastern National
Leicester CityBus
Midland Red West
Northampton Transport
PMT Group
Thamesway

Wales and South West

Badgerline
Brewers Motor Services
City Line
Provincial
South Wales Transport
Wessex of Bristol
Western National

Rail

Great Eastern Railway
Great Western Holdings (24·5% interest):
Great Western Trains
North Western Trains

Financial calendar

Shares trade ex dividend	14 July 1997
Record date for final dividend*	18 July 1997
Annual General Meeting	31 July 1997
Final dividend paid	29 August 1997
Interim results announced	mid November 1997
Record date for interim dividend	5 January 1998
Interim dividend paid	18 February 1998
Preliminary announcement of full year results	June 1998

** Shareholders recorded on the register at this date will receive the final dividend*

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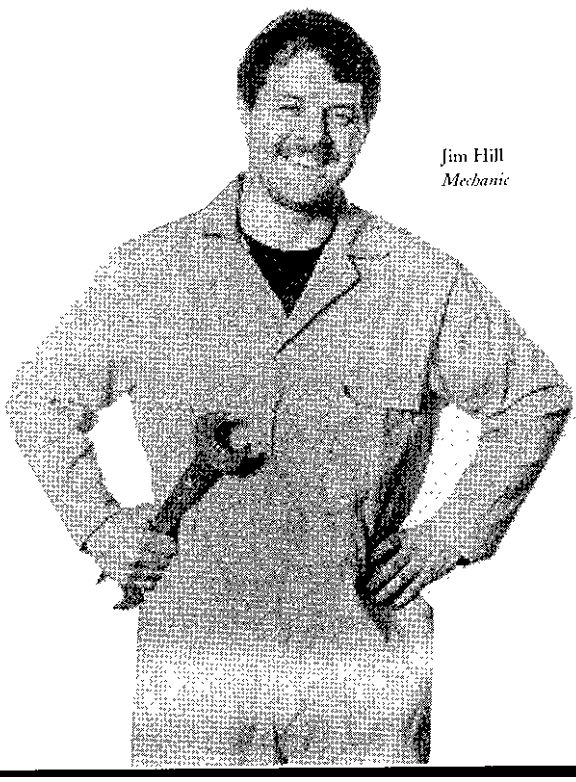


Jim Hill
Mechanic

Formed in 1995, FirstBus is now the UK's largest operator of bus services, with a 22% market share. It employs more than 22,000 people and operates 8,800 buses. Its strategy is to increase the efficiency and profitability of its core bus business; to grow by acquiring operations in urban areas in the UK; to seek further opportunities to invest in rail; and to enter international markets after thorough evaluation.

FirstBus is a major rail operator. It was awarded the seven-year Great Eastern Railway franchise in January 1997 and has a 24·5% interest in the Great Western and North Western Trains franchises.

The Group's long term success will come from organic growth based on providing good quality, reliable and cost-effective public transport. FirstBus is therefore committed to continued investment and constant improvement in customer service.

Chairman's statement

I am pleased to report another year of rapid progress, building on the very solid foundation put in place last year. We have increased profitability and acquired further businesses in urban areas, including our first major company in London. We have expanded our presence in the rail industry – although our core business remains local bus operations in the UK. We have tailored our management structure to support further growth and expansion of the business, and enter our third year with a strong management team focused on a clear Group strategy.

Financial results

Pre-tax profits rose 83% to £59·3m before bus and rail restructuring costs of £10m and other exceptional items. In June 1995 we set a target of raising operating profit margins in the original FirstBus companies to 15% by March 1997. We have beaten this target comfortably, as margins were 15·5% for the financial year. The overall bus group margin ended the year at 15·2%. Rail turned in a good performance with a £1·4m contribution from Great Western Holdings (GWH) and a promising operating profit from Great Eastern Railway after only three months' ownership.

Dividend

Your board recommends a final dividend of 3·7p per share, making a total for the year of 5·5p net per share, an increase of 10%.

Bus group

We entered the London market by acquiring CentreWest in March 1997. London is a growth market and has become more attractive with the change to net cost contracts, which provide the opportunity to reap the benefit of higher ridership. CentreWest is a well managed and profitable business but will gain from our purchasing power and economies of scale especially when tendering for services requiring new, high specification vehicles.

The acquisition supports our international aspirations by providing an opportunity to gain additional experience in tendered markets similar to those found in continental Europe. It also gives us valuable exposure to a large and exciting PFI project, the Croydon Tramlink. CentreWest is a 20% shareholder in Tramtrack Croydon – the consortium formed to design, build and maintain it on a 99-year concession from London Transport – and also has a 30-year operating contract.

The acquisition of Greater Manchester Buses and Strathclyde Buses in Spring 1996 added greatly to the quality of our earnings.

In September 1996 the Office of Fair Trading referred our Strathclyde acquisition to the MMC. In January 1997 the then Corporate and Consumer Affairs Minister, John Taylor MP, announced that we would be required to divest our Falkirk-based Midland Bluebird subsidiary and part of our Strathclyde operations. However, there has been a material change to this market since the MMC inquiry. We consider this development provides grounds for a review by the current Minister and intend to discuss the matter with him.

Rail

We tendered for rail franchises during the privatisation process and won the Great Eastern Railway franchise for seven years from January 1997. We moved quickly to manage this business, helped by our involvement in the industry over the preceding 12 months. We also tendered for rail franchises as a 24·5% partner with Great Western Holdings and in March 1997 the franchise for North West Regional Railways was awarded to GWH. Should any further franchises become available in the future, for whatever reason, we will be both eager and well placed to take them on.

International

Since taking the strategic decision to expand internationally, more than a year ago, we have been thoroughly researching the opportunities, especially in continental Europe.

A European acquisition would require a long term view, as bus operations are still largely under state or municipal ownership and profit margins will be lower than in the UK for some years to come. Some countries are already developing tendering systems and we expect these to become more widespread for three reasons: an EU directive on procurement will influence local government decisions on publicly tendering services such as transport; convergence for EMU will impose stricter budgetary controls on local government; and it will become increasingly clear that high levels of investment in new vehicles, environmental protection and staff training will require higher levels of profitability. With our wide experience of privatisation, we intend to be an early entrant into these markets – but only at the right price.

Board and staff

Two executive directors have recently changed their roles: Robbie Duncan takes over responsibility for the whole of our UK bus operations, supported by five divisional directors who have been appointed to strengthen the UK team. Graeme Varley moves to head a new International Division, reflecting the importance placed on overseas expansion.

John Woolley retired from the board on 4 June 1997. John was Engineering Director from the formation of FirstBus and was previously with Badgerline. The board would like to pay tribute to his considerable contribution to the business over the years and wish him well in his retirement. We would also like to thank Bob Barclay for his sound advice over his time as Employee Director. In his place, we welcomed Jean Weatherhead in December. Jean is employed at Lowland, where she is also an Employee Director.

Gordon Mills, Technical Director of FirstBus, recently left the Group and I would like to recognise here his part in its success.

The progress we have made in the past two years would not have been possible without the dedication and energy of our staff. I should like to thank them all for their contribution, and to welcome those who joined us as a result of acquisitions during the year.

"FirstBus has an outstanding record of investment – not only in expanding the business but in vehicles, depots, environmental protection, safety, information systems and, importantly, in employees."

Trevor Smallwood
Executive Chairman

Chairman's statement
continued

Outlook

We now have a new Labour government. Transport and the environment have been linked and made a high priority. In addition, the new Road Traffic Reduction Act requires local highway authorities to set targets for reducing road traffic or cutting the rate of growth.

We will maintain dialogue with the relevant ministries to ensure that the industry is well understood and its interests well served. Government-backed promotion of public transport, coupled with increasing attention to customer needs in both the bus and rail industries, will improve the environment and relieve congestion in our cities. Increased use of public transport will enable us to increase investment, to the further benefit of travellers.

The current year has started well. In the first two months the Group has turned in a satisfactory trading performance although the residual effects of the disruption in central Manchester and our determination to defend our market in Strathclyde are discernible in local trading results.

FirstBus already has an outstanding record of investment – not only in expanding the business but in vehicles, depots, environmental protection, safety, information systems and, importantly, in employees. We will continue to invest to improve the business and to translate the many opportunities available to us into good returns for our shareholders.

Trevor Smallwood
Executive Chairman

Chief Executive's review

Trading – UK bus

Developing the Group in line with our stated strategy has enabled us to exceed the profitability target that we set ourselves two years ago. Strong, devolved management has delivered higher operating margins.

The Group's strength also lies in the geographical spread and quality of its portfolio: it is no accident that some 70% of our operations are on high frequency routes in densely populated urban areas. Our size has enabled us to withstand adverse trading conditions at local level as well as the impact at Group level of the annual increase in fuel duty and higher fuel prices.

Excluding acquisitions since the formation of FirstBus, bus company operating margins rose in all divisions to give a 15·5% margin overall. Net Group margins including Great Eastern and after central costs were 13·4%, up from 12·1%. Passenger journeys totalled 677m, up 43% on last year. We achieved organic growth as a result of service initiatives in many areas but the bulk of the increase resulted from acquisitions.

Competition

The UK bus market remains competitive. We welcome this challenge and the benefits it brings to consumers. However, whilst some competitors focus on gaining market share alone – aided by very low barriers to entry – we remain convinced that the greater challenge to the industry is to develop the market and grow the passenger base by taking market share from the car.

Investment – acquisitions

The Group made three major acquisitions during the year and several smaller ones.

Greater Manchester Buses, with turnover of £65m, joined the Group in early April 1996. It suffered a serious setback from the IRA bomb in the city centre in June. However, most of the services had been reinstated by March 1997 and we have even been able to improve the route network – although bus travel has still not returned to its former level. We are now working in partnership with the local transport policy team of architects and planners to ensure that bus access and priority form an integral part of the city's regeneration. We have invested over £10m in new vehicles and refurbishment to improve the fleet, rebranding buses with a smart new livery.

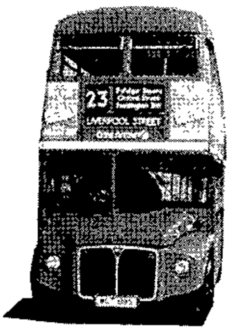
Strathclyde Buses, with an annualised turnover of over £90m, became part of FirstBus in June 1996. We are investing £21m in new vehicles over two years to upgrade the fleet and have also rebranded services as Greater Glasgow and Kelvin with a new livery.

Engineering management has been strengthened to overcome serious difficulties in this area and to implement a rigorous maintenance programme.

“Our commitment to constant improvement is part of a mission to make buses the preferred form of urban transport. Our success will be everyone's gain.”

Moir Lockhead
Group Chief Executive

Chief Executive's review
continued



One of CentreWest's Routemasters – essential for tendering in Central London

We have also formed a Quality Bus Partnership with Glasgow City Council and Strathclyde Passenger Transport Executive, the first of its kind in Scotland. Real time information has been installed on one corridor and passenger numbers grew by 6% in the first six months.

Enhancements to the network are under way and we also launched new low-floor express routes in Drumchapel, Newton Mearns and Cumbernauld in May 1997.

We were delighted to welcome CentreWest to the FirstBus Group in March 1997. This is a company with a strong management team that has built up a business with annualised turnover of £60m. It operates tendered services for London Transport in west, central and south-east London and commercial services in Buckinghamshire and Berkshire under the name of Beeline. CentreWest's involvement in the Croydon Tramlink project, scheduled to start operations in late 1999, is another exciting opportunity.

CentreWest has 2,000 employees and some 730 buses including 50 Routemasters, which are over 30 years old but a prerequisite for tendering in the regulated Central London market. This market has developed over the past few years from gross cost tendering, where a set price was paid to operators, to net cost contracts where operators take more of the commercial risk but can also gain from increased revenue if they improve services. London Transport's quality ambitions coincide with ours: new vehicles are often required when retendering, real time information has been installed in many areas, and LT is funding improvements to vehicles' environmental standards to improve air quality.

Among the year's smaller acquisitions, Portsmouth Transit, acquired in April 1996, has been combined with another South Coast operation, People's Provincial, to form Provincial Bus with total turnover of £13m. Trading is now improving in line with enhancements to the network and investment in new buses.

The 50 municipally owned vehicles and 80 staff of Great Yarmouth Transport, acquired in October 1996, have been successfully integrated with Eastern Counties' own Great Yarmouth operations under the Blue Bus identity.

“To help FirstBus give better service, we're asking passengers what they really want from a bus operator. This is one of the biggest projects of its kind in the UK.”

Petra van der Heijden
Associate Director, Network Research Ltd

Richard Burton, Alexandra, Matthew and Hugo Fisher
Passengers

Investment – staff

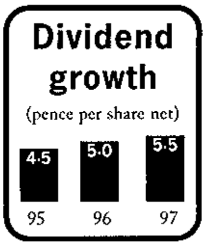
FirstBus put a further 5% of pre-tax profits aside for distribution as shares to employees in 1996/97. We believe this promotes an interest in how the business operates and fosters better customer service. Senior management also participate in a series of employee roadshows each year to explain the Group's progress.

The bus industry has pledged to train 60% of its workforce to NVQ standard by 2000. We are well on track with this, together with extensive training on customer service. Our graduate trainee programme got off to an excellent start with an initial intake of three recruits and three more expected this year. Several subsidiaries achieved Investors in People awards this year.

Investment – vehicles

We introduced 542 new vehicles during the year at a cost of £45m. In November 1996 we announced an £80m order for over 900 new high specification buses. This level of expenditure on new vehicles is likely to continue for some years as we upgrade and change the mix of the fleet to increase operational flexibility.

The new single decks and midibuses will all have low floors and kneeling suspension for easy access. The single decks will have air suspension, double-glazing and improved lighting. The specifications for interior colours, lighting and seating are the result of extensive customer research.



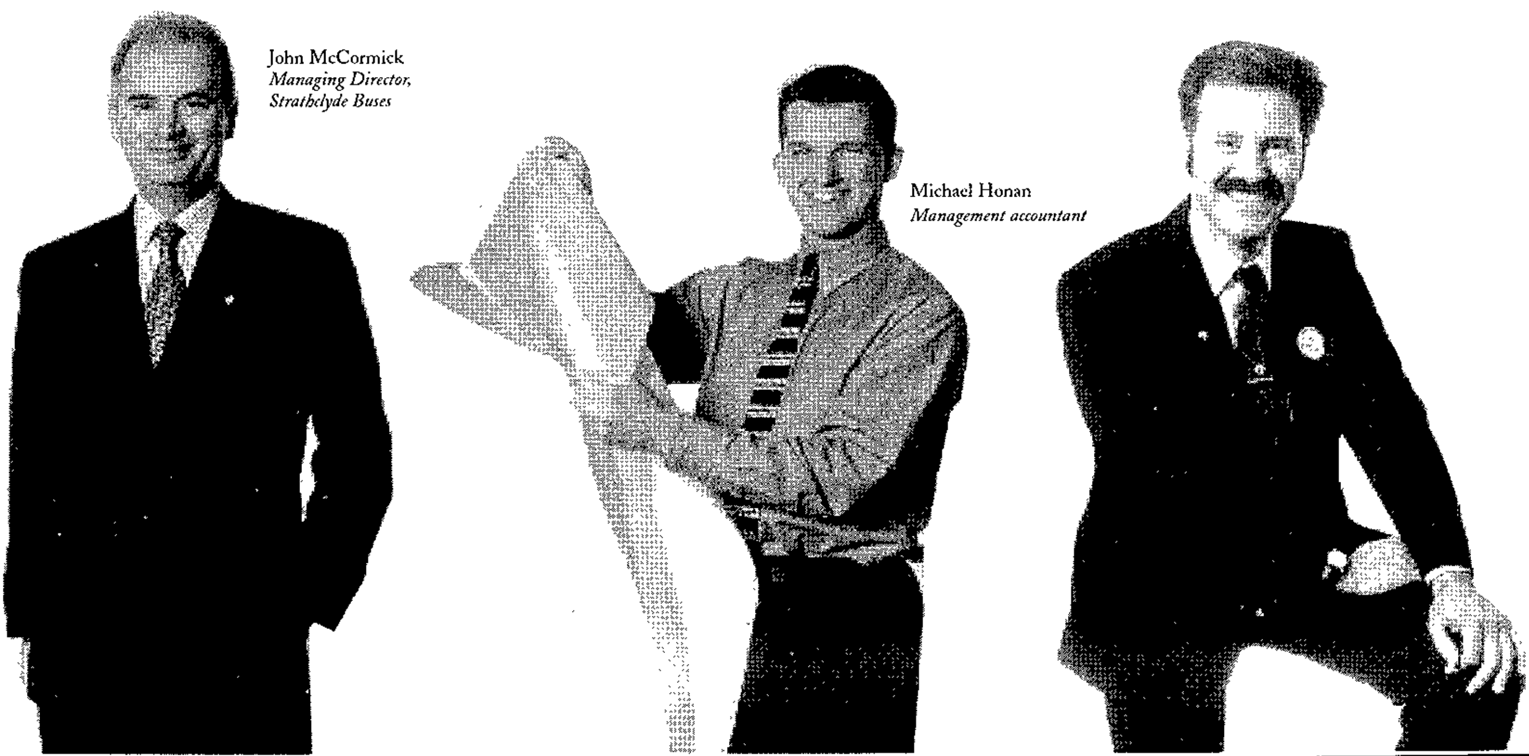
Investment – property

We continued to make good use of our property portfolio, financing investment of some £6m in new depots largely from the sale of surplus property. A new depot provides the opportunity to review the location, match capacity for the area and increase efficiency through better design. We can provide better facilities for staff and apply the latest thinking on environmental concerns such as fuel storage, waste disposal, bus washes and soundproofing.

In April 1996 we opened Cherry Row depot in Leeds. In December we opened a major depot for 175 vehicles in Huddersfield

"Quality Partnerships with local authorities – giving us bus lanes and junction priorities – are helping us make real improvements in journey times and reliability."

Chris Bell
Driver, Eastern National



John McCormick
Managing Director, Strathclyde Buses

Michael Honan
Management accountant

Chief Executive's review
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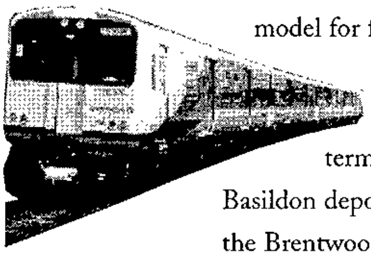


Great Eastern's new livery was unveiled in April 1997

financed by the sale of the existing depot for a non-food retailing development. This is a model for future schemes as we pursue our strategy of investing in modern facilities for long term growth. Modernising the Basildon depot has allowed us to transfer the Brentwood maintenance facilities and sell the vacated site to Sainsbury's for a new town centre store. Work has also begun on what will be our largest new depot, on a six-acre site in Bradford close to the bus station, for completion in September 1997.

Transport integration

There has been much discussion in the past year about the difficulty of interchange between different modes of travel. Interchanging is inherently time consuming and a direct journey is always best but, with bus and rail both now in private ownership there is a real incentive to remove barriers.

Co-ordination between our Eastern Counties subsidiary, Anglia Railways and Norfolk County Council now enables rail travellers to purchase a single rate add-on bus fare at their originating station for through travel on Eastern Counties buses into Norwich and Great Yarmouth. Eastern National and Great Eastern Railway have set up railway station links following the redevelopment of Braintree station, and in March they announced improved links to Clacton railway station and the town. Through ticketing involving Thamesway, LTS Rail and London Underground, which could make commuting easier as well as benefiting passengers financially, is now possible in an initiative centred on Benfleet station – used by some 4,000 commuters daily.

There is still much scope for innovation and service improvements.

Service enhancement

We cannot meet customers' quality and value for money expectations unless we understand what they want. One of our most exciting projects, started at the end of the last financial year, is an extensive customer satisfaction benchmarking survey. Each operating company will receive a rating based on a series of key indicators which will be monitored over time through

"FirstBus regards new buses as an investment in customer satisfaction. Their specifications are among the highest we've seen in terms of comfort and ease of access."

David Quainton
Sales Director, Plaxton (coachbuilders)

"As services improve, more people will use them – which will mean less traffic and less pollution."

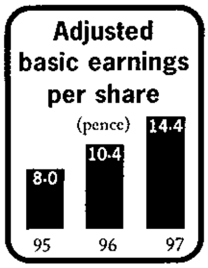
Penny Haslam
Passenger

telephone interviews. This research should improve our competitive position and benefit customers and employees alike.

The development of contractual and informal Quality Partnerships with local authorities this year has been very encouraging. Local authorities have contributed a range of enhancements including adjusting pavement heights to accommodate low-floor buses, introducing high visibility markings for bus lanes and stops, and installing more sophisticated traffic light priorities. In turn, we have provided new, low-floor buses and well trained staff.

Many of the larger cities have made significant advances in the past year. The Leeds guided busway, a venture with the city council and West Yorkshire PTE, has brought passenger growth of over 40%; a third phase of the guideway opened in April 1997, further enhancing the reliability and ridership of this service. A fourth phase is planned.

Potentially one of the most promising initiatives to foster passenger growth is the partnership in Greater Manchester between the PTE, PTA, city council and the bus operators' association. Some £3-5m has been set aside for new bus facilities for the centre of Manchester and the partnership will have a large role to play in the £63m scheme to regenerate and replan the city centre following the bomb.



Many other innovative schemes like these are being developed across our operating areas.

I have no doubt that alliances between bus companies, city and county councils and passenger transport authorities are the way to enhance the quality and use of public transport and regenerate the passenger base. They will improve bus companies' profitability and therefore investment while benefiting passengers as volume growth replaces fare growth and as the costs of congestion are reduced. The wider community benefits, too, from noise reduction and better air quality.

The quality of passenger information is

“Who needs low-floor buses? We do. Try lugging two children, a week's shopping and a pushchair on board in a hurry, and you'll know why!”

Rose, Poppy and Judith Eagle
Passengers

Mohammed Iqbal
Traffic controller

Chief Executive's review
continued

also important, and we are sharing best practice across the Group. Access to information may be simple, like our enhanced retail and information outlet in Huddersfield town centre and our new Travel Shop in Halifax. Or it can be high-tech, such as timetables on the Internet or the Automatic Vehicle Locators which supply real time information in Aberdeen.

Low-floor buses like this are part of our contribution to Quality Partnerships with local authorities

Environment

FirstBus aims to be an industry leader in environmental matters but we are aware that there are no easy or quick answers. We were pleased to be able to sponsor Transport 2000's launch, with the Department of Transport and London First, of a Green Commuter Resource Pack giving employers practical advice on how to change staff travel-to-work habits and reduce car trips. We are already actively involved in promoting such schemes with employers in several locations.

The year brought two important new air pollution control measures: the Euro 2 engine specification and the requirement to use low sulphur diesel from October 1996. The Euro 3 specification will come into force in about 2000, provisionally planned to cut carbon monoxide emissions alone from 4·0 to 2·0 grammes/kilowatt hour. All these measures apply only to new buses: no retrofitting will be required.

We have continued to use our GasBus in Bristol and a further six full size, low-floor CNG buses were introduced into Northampton in June 1997 in an initiative with Northampton County Council and the Borough Council.

The GasBus has been joined this year by a project to develop a Hybrid Bus, in a joint initiative with Hampshire County Council and Provincial in Portsmouth supported by ENTRANCE funding from the EU. The vehicle being developed is a Mercedes-Benz 609D with an engine management system and an integrated belt-drive electric motor. This will combine the advantages of conventional fuel with the option of fully electric or diesel-electric in the city centre and diesel-only for more open locations.

"We already carry 43,000 commuters a day – and as we add more services we're aiming to carry a lot more."

John Mann, *platform assistant*
Sue Haarley, *ticket collector*
Great Eastern Railway

Grace Allum
Passenger

Christine Thompson
Cleaner

We are trialling ultra low sulphur fuel at one depot in Glasgow. This form of fuel is more expensive, although the lower increase in fuel duty, announced last November, for ultra low sulphur fuels was a step in the right direction. LT is funding the price difference for some buses running in London, along with the cost of catalytic converters. This has been so successful that even the oldest vehicles in CentreWest's fleet, the Routemasters, have been brought up to Euro 2 standard.

In Bristol, with European ELGAR funding, the City Council and our subsidiary City Line are testing roadside messages on air quality which advise motorists when to use the Park and Ride. This programme is accompanied by a limited road pricing scheme trial.

Rail

We tendered for several train operating franchises during the privatisation process, winning Great Eastern Railway (GER) from January 1997. GER operates mainly commuter services from Southend, Colchester, Ipswich, Harwich and Chelmsford in addition to inner suburban services from Shenfield and Gidea Park. It carries some 43,000 commuters to Liverpool Street daily. It is a modern, all electric multiple unit railway and full modernisation of track and signalling by Railtrack will be completed by late 1997.

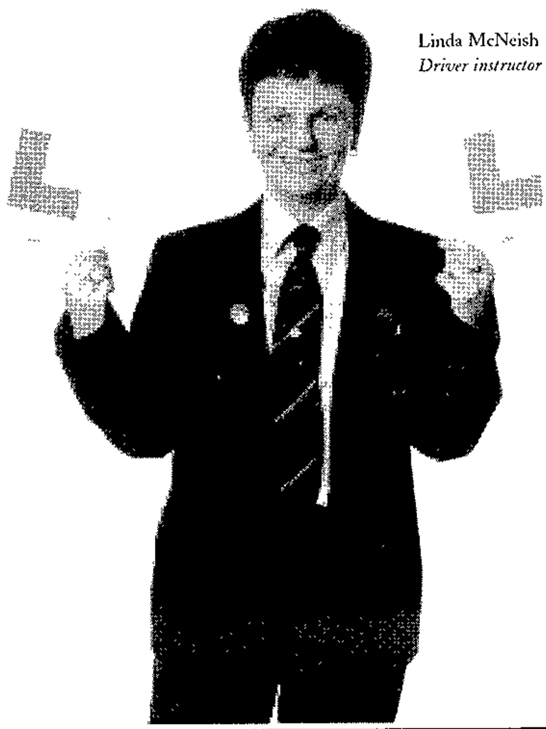
GER will turn a government subsidy of £29m in 1997/98 year into a payment to government of £9·5m in the seventh and final year of the franchise. A cost reduction programme already under way is designed to remove some 15-20% of variable costs over the early years of the franchise through measures such as productivity improvements and restructuring of engineering and

Great Western

Great Western has leased two extra high speed trains and added several new services

"The two biggest improvements? Indicator boards that tell you how long you've got to wait – and extra services, so you don't have to wait so long!"

Winsome Carroll
Passenger



Linda McNeish
Driver instructor

Chief Executive's review
continued

on-train staff. To increase revenue we are planning to introduce new services, improve operational performance, launch customer service initiatives and invest £9·2m in stations and information.

Well designed, accessible information for passengers is a priority

In June 1997 we introduced new Sunday services to Ipswich and Harwich and additional peak hour trains to Ipswich. Service punctuality is already good but will be further improved and we will provide better information for passengers, with help points at all stations.

Service improvements planned for 1998 include increasing the frequency of fast trains between Southend and London, doubling services to outer suburban stations and increasing inner suburban services by half.

Improvements to stations will include increased security, a customer services centre, better disabled access and general refurbishment. At the larger stations we will provide additional car parking and secure facilities for bicycles. We are confident that we can further improve an already well run railway and enhance profitability over the period of the franchise.

Our 24·5% investment in Great Western Holdings from February 1996 has proved sound both financially and in terms of increasing our understanding of rail operations. Great Western Trains had a very successful year: a 7% increase in passenger numbers, coupled with a reduction in operating costs, resulted in an increased contribution of £1·4m. The £50m fleet upgrade is on target for completion next year and two additional high speed trains have been leased to cope with an expanded summer timetable involving seven additional weekday services.

In March 1997 Great Western Holdings won the North West Regional Railways franchise, which covers local services in Greater Manchester and throughout north-west England.

Enhanced profitability on the railways in the longer term can only come from increased passenger travel. This will require us to focus on the frequency and quality of

"Improving services and vehicles really does make a difference – over time we've increased passenger numbers by 25% in Bristol."

Bob Holland
Managing Director, Bristol Omnibus

"Park and Ride is quicker and less stressful than driving into work – and I'm up to speed with the news by the time I get there."

James Fisher
Passenger

services and access to information. We must also fully exploit the potential synergies between our railway interests, and between our rail and bus services.

Community

During the year we announced five-year funding for a Chair in Transport Management at the Robert Gordon University in Aberdeen.

We also became a Patron Company sponsor of the Outward Bound organisation and this year we sponsored 30 young people on Outward Bound courses.

Looking forward

The current year has begun well and we are moving ahead confidently. We are actively seeking acquisition opportunities overseas, but have no intention of acting precipitately: we will only contemplate acquisitions which, after thorough evaluation, we believe we can develop profitably into the next century.

Our expansion strategy is based not only on acquisitions but on solid and sustained organic growth. We continue to demonstrate that high quality, reliable services quickly generate growth in passenger numbers. Our commitment to investment and to constant improvement in customer service is part of a mission to make buses the preferred form of urban transport, and to foster a steady transfer of passenger traffic from private cars to public transport. Our success will be everyone's gain.

Moir Lockhead
Group Chief Executive

We sponsored 30 young people on Outward Bound courses this year

Grace Sandhu
Cash office assistant

"SWT's Country Shuttle is the first coach service in Britain that carries bicycles – let's hope there'll be many more to follow!"

Gavin Watts
Passenger

Directors and advisers

Trevor Smallwood OBE
Executive Chairman
Before his appointment as Executive Chairman of FirstBus he was Managing Director of Badgerline Group for nine years. In this capacity he led the management and employee buy-out of Badgerline from the National Bus Company in 1986. He joined the bus industry in 1966 as a management trainee. He was elected President of the Confederation of Passenger Transport in 1994. In 1995 he was awarded the OBE for services to the passenger transport industry. Age 49.

Moir Lockhead OBE
Deputy Chairman and Group Chief Executive
Executive Chairman of the GRT Bus Group PLC from 1989, having led an employee buy-out. He joined Grampian Regional Transport as General Manager in 1985, having started his career as an engineering trainee in 1960. Director of Grampian Enterprise Limited since 1993. He is also non-executive Chairman of ASCo, a North Sea logistics company. In 1996 he was awarded the OBE for services to the bus industry and he is the 1997 President of the Confederation of Passenger Transport. Age 52.

Robbie Duncan CA
Director UK Bus
Appointed Director UK Bus in April 1997 after two years as Regional Director North. He was previously Group Managing Director of GRT Bus Group PLC, which he joined in 1986 as Finance Director. He initially qualified as a chartered accountant with Coopers and Lybrand, where he worked overseas for four years and in industry for five years. Age 47.

Bill Foreman CA
Non-executive; Chairman of the Audit Committee †‡
Commercial Director at Vickers for nine years. Before this he was Director of Finance from 1973, having joined the company in 1970. He opted for early retirement in 1991 but remains Chairman of the Vickers Pension Fund Trustees. He is also a non-executive director of several other companies, including Chloride Group PLC and Ricardo Group PLC. Age 61.

Martin Gilbert CA
Non-executive †‡
Chief Executive of Aberdeen Trust Management PLC and Chairman of its operating subsidiaries. He was appointed to the board of GRT Bus Group PLC at the time of the management buy-out in 1989. He is a chartered accountant. Age 41.

Photographed left to right
Andrew Higginson
Bill Foreman
Martin Gilbert
Jean Weatherhead
Graeme Varley
Robbie Duncan
Tony Osbaldiston
Trevor Smallwood
Moir Lockhead

Andrew Higginson FCMA
Non-executive; Chairman of the Remuneration Committee †‡
Group Finance Director of The Burton Group plc, he was appointed to the board of the Badgerline Group before its flotation in 1993. He was formerly Group Finance Director of Laura Ashley Holdings plc, having started his career at Unilever and Guinness. He is currently Chairman of the Economic Affairs Committee of the British Retail Consortium and a member of the Hundred Group of Finance Directors. Age 39.

Tony Osbaldiston FCA
Group Finance Director
Joined the Badgerline Group as Finance Director in February 1995. He was previously Finance Director of Volvo Car UK Limited, where he also had responsibility for the asset leasing subsidiary and the information technology and parts divisions. Before joining Volvo he was Finance Director of the Max Factor UK Group. He qualified as a chartered accountant with Coopers and Lybrand. Age 44.

Jean Weatherhead
Non-executive Employee Director †‡
Employee Director of Lowland Omnibuses since February 1995. She joined Lowland in 1986 and is Office Supervisor at the Berwick-on-Tweed office. Age 60.

Graeme Varley
Director International Development
Regional Director South, UK Bus Division until his appointment to International Development in April 1997. He was Group Managing Director of Badgerline Group from 1993, having been appointed to the board in 1989 as Group Executive (Buses). Before that he was Managing Director of City Line from 1983, having joined the National Bus Company in 1969 as a senior management trainee. Age 50.

David Ward ACA
Secretary

† Member of the Audit Committee
‡ Member of the Remuneration Committee

Corporate brokers
Cazenove & Co.
12 Tokenhouse Yard
London EC2R 7AN

HSBC James Capel & Co. Ltd
Thames Exchange
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Merchant bankers
Lazard Brothers & Co., Ltd
21 Moorfields
London EC2P 2HT

Principal bankers
Midland Bank plc
Poultry
London EC2P 2BX

Auditors
KPMG Audit Plc
15 Pembroke Road
Clifton, Bristol BS8 3BG

Solicitors
Burges Salmon
Narrow Quay House
Narrow Quay, Prince Street
Bristol BS1 4AH

Paull & Williamsons
Investment House
6 Union Road
Aberdeen AB10 1DQ

Slaughter and May
35 Basinghall Street
London EC2V 5DB

Financial review

Shareholder return and dividends

In 1996/97, adjusted basic earnings per share rose to 14·4p, an increase of 30% when measured on the same basis.

The board has recommended a final dividend of 3·7p giving a total dividend of 5·5p (5·0p) net per share, an increase of 10%. The dividend is covered 2·2 times, before the one-off tax credit. Our dividend policy reflects the board's confidence in its ability to deliver strong operating cash flows to fund both dividend growth and the capital investments which we plan.

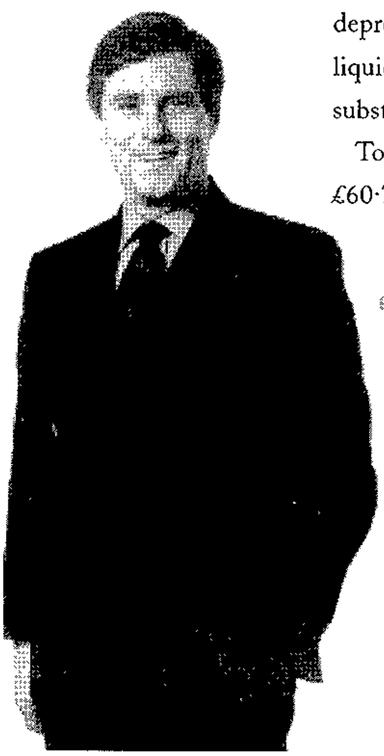
The share price traded in the range of 144p to 246p during the year. At a year end share price of 224p, the market capitalisation was £702m.

Cash flow and investment in the business

Strong cash generation (operating profit before ESOP and one-off costs, plus depreciation) of £101·7m maintained liquidity levels capable of supporting a substantial investment programme.

Total capital investment amounted to £60·7m. This included £44·6m for 542 new vehicles. This figure also includes £6·4m which was spent at Strathclyde just before completion of the acquisition. £11·3m was spent on depots and other plant and equipment. At 31 March 1997, the average age of the fleet was 9·3 years. Board approved commitments for new vehicles at the year end stood at £60m for 1997/98 and £35m for 1998/99.

Capital investment on information technology to develop management information and financial systems amounted to £2·6m. Subsidiaries now use common financial reporting and consolidation software and further large projects on payroll and personnel systems began in 1996/97. Over half the Group has implemented an integrated accounting and engineering system with the remainder scheduled for 1997/98. The core business systems are expected to be year 2000 compliant by March 1998.



"The Group's financial strength lies in its highly dependable cash flows."

Tony Osbaldiston
Group Finance Director

Margin enhancement – bus operations

The margin enhancement programme in the bus operations delivered the anticipated profit improvement. The original FirstBus companies achieved an operating profit margin of 15·5%, exceeding the promised 15·0% target, which is regarded as a minimum return consistent with the necessary high levels of investment. Including companies acquired since the formation of FirstBus the total bus group operating margin was 15·2%. Costs remained under control but the fuel element increased to 9% of operating costs as a result of the annual duty increase.

Total restructuring costs were £10·0m. This included £3·4m to complete the margin improvement in the original FirstBus companies and the balance related to companies acquired during the year. Greater Manchester accounted for £1·6m, Strathclyde £2·5m, Portsmouth £0·4m and Great Eastern £2·1m. The main elements were £2·1m to buy out inefficient conditions of employment, £4·3m for redundancy, £0·6m for early retirement and £1·9m to bring local liveries into line with the FirstBus identity. In 1997/98 the acquisitions of CentreWest and GER will give rise to one-off costs of up to £1m and £3m respectively.

Great Eastern Railway

FirstBus was awarded the Great Eastern Railway franchise in December 1996 and operations began on 5 January 1997. Turnover for the three months included passenger revenues of £33·2m which, after the OPRAF subsidy of £5·8m, resulted in an operating profit of £1·8m. Good early progress in reorganising of the business led to £2·1m of restructuring costs in the period.

The first three months' results benefited strongly from favourable receipts under the performance regime. Consequently, at this early stage, the operating margin of 5·3% cannot be regarded as an accurate indicator for the future.

The board is confident that the expected levels of profitability will be achieved. The grant for 1997/98 will be £29·0m, reducing by 52% to £14·0m in 1998/99 and becoming a payment to OPRAF of £9·5m in 2003/04, the final year. In accordance with the franchise plan the Group is investing £9·2m mainly on improving stations and customer information.

Interest

Net interest payable was £13·1m (£9·7m). This was covered 4·9 times by profit before interest. Cash generation covered interest 7·8 times, almost double the minimum cover required by our banking covenants. The increase in the interest charge over 1995/96 reflects the rise in the average net debt resulting from the Greater Manchester and Strathclyde Buses acquisitions.

Divisional results	Year to 31 March 1997			Year to 31 March 1996		
	Turnover £m	Operating profit† £m	Operating margin† %	Turnover £m	Operating profit† £m	Operating margin† %
Wales and South West	**96·8**	**14·0**	**14·5**	93·6	12·7	13·6
Midlands and South East	**114·6**	**16·6**	**14·5**	110·4	14·5	13·1
North of England	**88·6**	**14·7**	**16·6**	85·9	10·6	12·3
Scotland	**60·6**	**10·7**	**17·7**	60·0	9·8	16·3
Original FirstBus	**360·6**	**56·0**	**15·5**	**349·9**	**47·6**	**13·6**
Acquisitions since merger	**155·2**	**22·2**	**14·3**	3·4	0·3	8·8
Total bus operations	**515·8**	**78·2**	**15·2**	**353·3**	**47·9**	**13·6**
Great Eastern Railway	**34·1**	**1·8**	**5·3**	–	–	–
Other ‡	**1·6**	**(6·3)**		3·0	(4·7)	
FirstBus Group	**551·5**	**73·7**	**13·4**	**356·3**	**43·2**	**12·1**

† Before ESOP and restructuring and other exceptional costs
‡ Central management, Group information technology and other Group items

Financial review
continued

Employee Share Ownership Plan (ESOP)

The board's decision to appropriate 5% of pre-tax profit to the FirstBus ESOP will result in a charge of £2·7m (£1·2m) which will be shared among some 17,500 employees.

Taxation

The Group's policy is to continue to provide for deferred tax on timing differences except to the extent that it is probable that an actual liability will not crystallise. Following the major acquisitions in Manchester, Strathclyde and London, capital expenditure plans for new buses are at a level where the deferred tax provision for capital allowances would continue to grow, under full provisioning, with little likelihood of this liability crystallising.

Consequently, as regards the differences between capital allowances and depreciation, the board decided to apply partial provisioning with effect from 1 April 1996. The profit and loss account includes a one-off £9·6m deferred tax provision release which is excluded from the calculation of adjusted basic earnings per share. Before this release, the tax charge of £13·5m represents an effective rate of 26·5%. Had the previous basis been applied the tax charge would have been £12·5m higher.

It is estimated that, using the partial provisioning method, the adjusted basic earnings per share for 1995/96 would have been 11·1p per share. Accordingly, the adjusted basic earnings per share of 14·4p represents a comparable increase of 30%.

Acquisitions

The acquisitions of Greater Manchester Buses, Strathclyde Buses and Portsmouth Transit were completed in the first half-year. The Great Eastern Railway franchise was acquired in January 1997 and the acquisition of CentreWest was completed in the last week of the financial year. The purchase price of all acquisitions, including acquired debt, was £216·2m of which £167·7m was funded by the issue of new shares. Goodwill written off in the year amounted to £184·2m, taking the total goodwill written off to £280·7m.

For the acquisition of the Great Eastern Railway, OPRAF required a performance bond of £9·5m and further capital of £9·5m, of which £0·5m was subscribed in cash.

Balance sheet and funding

Net assets of £58·3m at the year end reflected the high level of goodwill written off. The Group's 24·5% equity interest in GWH is held in the balance sheet on an equity accounting basis at £0·9m net of goodwill written off. The directors believe that this interest is worth considerably more.

The board's view remains that the Group's financial strength lies in its highly dependable cash flows rather than the balance sheet, which does not adequately reflect this worth. This view is also acknowledged in our banking covenants, which are largely based on cash flow and which provide substantial headroom for the Group's requirements.

A new five-year £150m revolving credit facility was put in place with 10 leading banks in October 1996. This is unsecured and priced at 45 basis points over LIBOR. At 31 March 1997, net debt amounted to £168·1m with 75% at fixed and semi-variable interest rates.

The Group has limited the impact of potential interest rate rises by capping £50m of debt at 7% for the next three years.

Analysis of net debt

	Fixed £m	Semi-variable £m	Variable £m	Total £m
Cash and current asset investments	–	–	12·1	12·1
Train season ticket bonded cash	–	–	29·2	29·2
HP and finance leases	(53·7)	–	(97·6)	(151·3)
Loan notes	(8·8)	(13·7)	(35·6)	(58·1)
Interest rate cap	(50·0)	–	50·0	–
Total	**(112·5)**	**(13·7)**	**(41·9)**	**(168·1)**

Property

The Group's policy is to dispose of surplus property and to re-invest the cash in new depots. In the year, cash proceeds totalled £4·9m from the sale of the Huddersfield and Brentwood depots and accounted for most of the realised gain of £1·7m. In April 1997, the sale of King House, Leeds, generated £2·3m.

Accounting standards and policies

The Group has adopted FRS 1 (revised) regarding cash flow statements.

The accounts include receipt of financial support from OPRAF for the first time. The accounting standard is to include this within either turnover or operating costs and FirstBus has chosen the latter. Until an industry-wide approach becomes apparent the treatment of this item may differ from other rail operators.

As FirstBus is an acquisitive company, the treatment of goodwill does have a significant impact on the Group's accounts. An exposure draft (FRED 12) has already been issued on this subject and is expected to develop into an accounting standard which will bring the UK into line with international accounting practice.

Tony Osbaldiston
Group Finance Director

Corporate governance

Compliance

The company has complied with all the recommendations of the Code of Best Practice issued by the Committee on the financial aspects of corporate governance throughout the year.

Audit Committee

The members of the Audit Committee are set out on pages 14 and 15. The Committee, which deals with financial reporting, internal controls and accounting matters, meets at least twice a year.

Remuneration Committee

The members of the Remuneration Committee are set out on pages 14 and 15 and their report is on pages 22 to 25.

The board of directors and internal financial control

The board of directors has overall responsibility for the Group's system of internal financial control. This is in place to safeguard the assets, maintain proper accounting records and to ensure that financial information used within the business or for publication is reliable.

The board holds regular meetings and receives reports on key areas including bus and train operations, engineering and finance. A formal schedule of matters is reserved for it, to provide control over strategic, financial, and organisational matters. The board has introduced an organisational structure with formally defined lines of responsibility and delegation of authority. Implementation of the system of internal control throughout the Group is delegated to executive directors and operational management.

On behalf of the board, the Audit Committee monitors the effectiveness of these controls through regular reviews of the work of the Group's internal audit department. It also reviews the financial statements at half year and year end. The Group has a commitment to best practice in external reporting. The nature and scope of the Group's external audit is monitored and regular meetings are held with the external auditors.

The system of financial control is designed to provide reasonable assurance on the timely recognition and appropriate resolution of matters of concern. However, no system can provide absolute assurance against material misstatement or loss. The key elements of the system are as follows:

- *clearly defined responsibilities for boards of directors and management teams of bus and train operating subsidiaries;*
- *standard financial reporting infrastructure, accounting policies and comprehensive budgeting, forecasting and reporting systems;*
- *annual budgets and long term business plans for all operating units identifying key risks and opportunities;*
- *review of subsidiary budgets and forecasts by Group finance and at least one member of the board. Board review of final submissions;*
- *weekly monitoring of key business performance indicators, including cash flow, and monthly monitoring of performance against plans and budgets;*
- *detailed appraisal, approval and review of the capital expenditure programme;*
- *an internal audit department which monitors and reviews key business processes and financial controls;*
- *self-assessment through questionnaires to measure and assess the principal financial controls. For companies acquired during the year questionnaires are completed under the supervision of internal audit; and*
- *an Audit Committee which approves audit plans and deals with significant control issues raised by internal or external audit.*

The board has reviewed the effectiveness of the FirstBus system of internal financial control operating in the year.

Going concern

After making enquiries, the directors have a reasonable expectation that the company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Review report

by KPMG Audit Plc

to FirstBus plc on corporate governance matters

In addition to our audit of the accounts, we have reviewed the directors' statement on page 20 on the company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the accounts. The objective of our review is to draw attention to non-compliance with Listing Rules 12·43(j) and 12·43(v).

Basis of opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform any additional work necessary to, and we do not, express a separate opinion on the effectiveness of either the Group's system of internal financial control or the company's corporate governance procedures, or on the ability of the Group to continue in operational existence.

Opinion

With respect to the directors' statements on internal financial control and going concern on page 20, in our opinion the directors have provided the disclosures required by the Listing Rules and such statements are not inconsistent with the information of which we are aware from our audit work on the accounts.

Based on enquiry of certain directors and officers of the company, and examination of relevant documents, in our opinion, the directors' statement on page 20 appropriately reflects the company's compliance with the other paragraphs of the Code specified for our review by the Listing Rules.

KPMG Audit Plc

KPMG Audit Plc

Chartered Accountants

9 June 1997

Remuneration Committee's report

This report by the Remuneration Committee, on behalf of the board, contains the information required by the London Stock Exchange Listing Rules. Throughout the year, the company has complied with section A of the best practice provisions annexed to those Rules and full consideration has been given to the matters set out in section B of these best practice provisions.

Composition of the Committee

The Remuneration Committee is chaired by Andrew Higginson and the other current members are Bill Foreman, Martin Gilbert and Jean Weatherhead, all non-executive directors. Robert Barclay also served on the Committee before his retirement. The Committee is responsible for the determination of remuneration policy for executive directors. The non-executive directors have no personal financial interest (other than as shareholders) in the matters to be decided, no potential conflict of interest arising from cross directorship and no day-to-day involvement in the running of the business. They do not hold any share options, nor participate in any share schemes or pension schemes. Employee non-executive directors, presently Jean Weatherhead and formerly Robert Barclay, are fully entitled as employees to participate in the FirstBus share option schemes, receive shares under the FirstBus Employee Share Ownership Plan (ESOP) and become members of their employing company's pension scheme.

The remuneration for each non-executive director is determined by the board as a whole. In addition to a salary or fee, which they receive in connection with board and board committee meetings and, where relevant, for additional services such as chairing a board committee, all expenses incurred in connection with these meetings and other expenses in furtherance of their duties are reimbursed.

The non-executive directors do not have formal service contracts but have written terms of appointment. Their appointments are initially for three years and end on 31 July 1998 (except in the case of Jean Weatherhead, which ends on 31 December 1999). Their appointments are subject to early termination (without compensation) if they are not re-appointed at Annual General Meetings.

Remuneration policy

The policy of the Committee is determined by the Group's aim to attract, motivate and retain high calibre executives by rewarding them with competitive salary and benefit packages linked with both business and individual performance. The packages are reviewed each year by the Committee to ensure that they continue to be consistent with the Group's strategic and financial objectives.

Salary and benefit packages are established by reference to remuneration practices in other companies of comparable size and in them for their executives of comparable status, responsibility and skills. The Committee seeks professional advice in carrying out such reviews.

Executive directors are encouraged to accept a limited number of non-executive directorships, recognising that this is an effective way to broaden knowledge and expertise. However, under the terms of their service contracts, all such appointments need formal board approval. Fees for such appointments may be retained unless the appointment is in connection with FirstBus business, in which case any fee must be remitted to the company.

Directors' remuneration

Details of each individual director's remuneration for the year ended 31 March 1997 and their salaries/fees for the forthcoming year are given on the page opposite.

Directors' remuneration

	Current annual salary/fee 1997/98 £000	Annual salary 1996/97 £000	Bonus 1996/97 £000	Benefits in kind 1996/97 £000	Pension 1996/97 £000	Fees 1996/97 £000	**Total 1996/97 £000**	Total 1995/96 £000
Executive directors								
T Smallwood	*155*	150	45	12	6	–	**213**	94
M Lockhead	*155*	150	45	11	4	–	**210**	88
JA Osbaldiston	*135*	130	39	8	62*	–	**239**	128
RA Duncan	*120*	100	30	9	2	–	**141**	74
GGT Varley	*105*	100	30	9	4	–	**143**	77
VJ Woolley	–	85	26	6	3	–	**120**	64
C Smith	–	5	–	–	–	–	**5**	128
Former director	–	–	–	–	–	–	–	188
Non-executive directors								
CW Foreman	*19*	–	–	–	–	18	**18**	16
MJ Gilbert	*18*	–	–	–	–	17	**17**	13
AT Higginson	*19*	–	–	–	–	18	**18**	15
MJ Weatherhead	*9*	–	–	–	–	2	**2**	–
RW Barclay	–	–	–	–	–	8	**8**	6
	735	**720**	**215**	55	**81**	63	**1,134**	**891**

* Includes backdating to February 1995

Salaries

The basic salary of each executive director is reviewed annually before 1 April for the forthcoming year. In common with most Group employees executive directors may participate in Inland Revenue profit related pay schemes, which link a proportion of salary to the profitability of the employing Group company. The salary levels in 1995/96 predated the merger and were increased for 1996/97 to reflect the size of the enlarged Group, which adjustment had been deferred until the success of the merger was self evident. The salaries of the Chairman and Chief Executive are still considered to be below present commensurate market levels.

Performance related bonus

A performance related bonus scheme for executive directors was introduced for 1996/97. The performance targets are established by the non-executive directors and are linked to the Group achieving specific objectives. Bonuses are not pensionable. For 1996/97 a bonus of 30% of basic salary was awarded by the Committee on the basis that the Group achieved a profit before taxation of more than £50m. For 1997/98 payment of the bonus will be on the basis of actual performance compared to the approved Group budget. The level of bonus varies on a sliding scale, with no bonus payable if results are below 95% of budget and a maximum bonus of 40% of basic salary, payable if the results exceed budget by 5% or more.

The Committee considers that the introduction of a long term performance share plan would benefit both shareholders and senior management. Accordingly, the board is putting a proposal to the shareholders to introduce such a scheme. Full details of the proposed scheme are included within the notice of the Annual General Meeting. Essentially this scheme would enable the executive directors to be awarded shares linked to both their basic salary and the performance of the FirstBus plc shares in relation to the FTSE 250.

Other benefits

Executive directors are eligible for a range

Remuneration Committee's report

continued

of taxable benefits including provision of a fully expensed motor car, private health insurance for themselves, their spouse and minor children, and payment of the annual subscription to an approved professional body. In addition, they are entitled to reimbursement of all reasonable travelling, subsistence and other expenses incurred in the performance of their duties.

Retirement benefits

Executive directors are eligible, under the terms of their service contracts, to become members of one of the Group pension schemes, which are Inland Revenue approved. In general, the Group pension schemes are contributory and provide a pension on retirement based on length of service and final basic salary. The schemes also provide a lump sum death in service benefit and pensions for dependants of members on their death in service or in retirement.

With the exception of JA Osbaldiston all the executive directors were members of Group pension schemes before the introduction of the salary cap in May 1989 and which predate the existence of FirstBus. In respect of JA Osbaldiston, pension arrangements have been established through a FURBS, based upon the independent advice of the company's actuaries, to provide benefits commensurate with the current market practice for an equivalent position. These arrangements were put into place in December 1996 and took effect from February 1995. The remuneration table includes the cost of backdating.

The pension costs set out on page 23 reflect the average SSAP 24 cost for the Group pension scheme in which the executive director is a member for their level of pensionable pay; plus the actual payments made to the retirement benefit scheme of JA Osbaldiston in respect of his salary above the Inland Revenue salary cap. Recently, the London Stock Exchange has published amendments to the Listing Rules to implement the recommendation that the cost of pension entitlement earned during the year for each individual director should be based on actuarial assessment. This amendment to the Listing Rules is not proscriptive to these accounts but will be applied in respect of all future years.

Service contracts

Each of the executive directors has a service contract which is terminable by the Group or by the individual on giving not less than two years' notice. The Remuneration Committee considers that the notice period of two years by either party is reasonable and proper in the interests of both the Group and the executive directors having regard to the prevailing market conditions, current practice amongst large public companies, the need to retain the commitment of the executive directors during the continued development and expansion of the Group and the length and detailed nature of their restrictive covenants contained within their service contracts. The service contracts contain rights of summary dismissal by the Group without compensation in certain circumstances.

Share options and share schemes

The company operates a number of share option and other share schemes. In common with all eligible employees, executive directors are able to participate in these schemes. Additional details are given in note 29 to the financial statements.

The Remuneration Committee believes that share ownership by the executive directors strengthens the link between their personal interests and those of the shareholders. Further, the Committee strongly supports the board's view that involvement of the employees of the Group by their share ownership through shares they hold themselves, via the ESOP, or are saving to acquire via the savings related share option scheme, enables the employees rightly to share in the rewards of the business prosperity to which they are contributing.

Certain directors have share options under the Badgerline Group plc executive share option scheme and the Badgerline Group plc unapproved executive share option scheme. No further options will be granted under either of these schemes.

FirstBus plc savings related share option scheme (SAYE)

The first grant of options under this scheme took place in October 1995. All of the executive directors waived their right to apply for any options in respect of this grant. Robert Barclay, the employee non-executive director at that time, received SAYE options under this scheme as detailed below.

FirstBus employee share ownership plan (ESOP)

All employees who satisfy the relevant eligibility criteria can participate in any allocation by the Group under its Inland Revenue approved profit sharing scheme. Under this scheme the board of the company allocates 5% of the Group's annual profit before taxation to the trustees of the ESOP. The trustees use these funds to acquire shares in the company which are held in trust and apportioned equally amongst participating employees. The first appropriation under this scheme took place in July 1996 in respect of the year ended 31 March 1996. All of the executive directors waived their right to participate in the scheme in respect of this appropriation and have indicated that they do not intend to take part in any future appropriation.

Details of all options held by those who were directors during the year are as follows:

Directors' share options

	At 1 April 1996	Additional granted due to 2 for 7 Rights Issue	At 31 March 1997	Amended exercise price (p)	Date from which exercisable	Expiry date	Scheme
JA Osbaldiston	315,789	12,145	327,934	128·07	3/4/98	2/4/05	Badgerline executive
GGT Varley	375,000	14,423	389,423	38·52	23/4/93	22/4/00	Badgerline executive
GGT Varley	160,000	6,153	166,153	38·52	27/5/96	26/5/03	Badgerline executive
VJ Woolley	100,000	3,846	103,846	38·52	27/5/96	26/5/03	Badgerline executive
VJ Woolley	40,000	1,538	41,538	38·52	27/5/96	26/5/03	Badgerline unapproved
RW Barclay	1,249	48	1,297	111·70	5/10/00	4/3/01	FirstBus SAYE

The market price of FirstBus plc shares at 31 March 1997 was 224p and the range during the year was 144p to 246p.

Andrew Higginson

Andrew Higginson
Chairman of the Remuneration Committee
9 June 1997

Directors' report

The directors have pleasure in submitting their annual report and financial statements for the year ended 31 March 1997.

Principal activities

The principal activity of the Group is the provision of passenger transport services in the United Kingdom.

Review of the business

Reviews of the business and likely future developments are given in the Chairman's statement, Chief Executive's review and financial review.

Financial matters

The results for the year are given in the profit and loss account on page 30.

The directors recommend payment of a final dividend of £11·3m (3·7p per share) which, with the interim dividend of £5·5m (1·8p per share) paid on 19 February 1997, gives a total dividend of £16·8m (5·5p per share) for the year. The proposed final dividend, if approved, will be payable on 29 August 1997 to shareholders on the register at the close of business on 18 July 1997.

After deducting dividends of £16·8m, the retained profit for the year is £30·2m.

Share capital

Details of changes in share capital are given in note 24.

Fixed assets

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

Creditors

It is the Group'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 1997 the Group had 40 days' (1996: 43 days') purchases outstanding.

Directors

Details of the current directors of the company are given on pages 14 and 15. C Smith, RW Barclay and VJ Woolley also served as directors during the year. They resigned on 30 April 1996, 16 December 1996 and 4 June 1997 respectively. MJ Weatherhead was appointed a director on 16 December 1996.

In accordance with the company's Articles of Association, MJ Weatherhead, who was appointed as a director since the date of the last Annual General Meeting, will be retiring and, being eligible, offers herself for re-election.
In accordance with the company's Articles of Association, T Smallwood, M Lockhead and JA Osbaldiston will be retiring by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Details of the service contracts of the executive directors and terms of appointment of the non-executive directors are given in the Remuneration Committee report on pages 22 to 25.

Directors' interests

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

	Ordinary shares			
	At end of year		*At beginning of year or date of appointment*	
	Beneficial 5p shares	Non-beneficial 5p shares	Beneficial 5p shares	Non-beneficial 5p shares
T Smallwood	**5,683,480**	**325,340**	5,683,480	487,840
M Lockhead	**2,414,047**	**553,995**	3,034,047	853,995
JA Osbaldiston	**2,000**	–	–	–
RA Duncan	**3,765,512**	–	4,465,512	–
GGT Varley	**1,242,376**	–	1,242,376	–
VJ Woolley	**696,768**	–	696,768	–
CW Foreman	**10,285**	–	8,000	–
MJ Gilbert	**19,285**	–	15,000	–
AT Higginson	**7,714**	–	6,000	–
MJ Weatherhead	**7,166**	–	7,166	–

Details of the directors' share options are given in the Remuneration Committee report.

T Smallwood, M Lockhead and RA Duncan also hold nominal non-beneficial interests in a number of subsidiary undertakings.

Between 1 April and 9 June 1997, the directors' interests as shown remained unchanged.

No director is materially interested in any significant contract or agreement with the Group, other than their service contracts.

Significant interests

At 5 June 1997 the company's share register showed the following interests in 3% or more in the issued share capital of the company.

	Ordinary 5p shares	%
Mercury Asset Management plc	27,493,251	8·8
Standard Life Investment Management	10,739,529	3·4

Employees

The Group is committed to employee involvement and uses a variety of methods to inform, consult and involve its employees. Subsidiary management is responsible for ensuring that employees at all levels are knowledgeable about the progress and development of the company locally and of the Group. A Group newsletter is distributed twice a year.

The Group has extended employee involvement by the appointment of employee directors nominated by the workforce. This encompasses one employee director on the board of FirstBus plc and one or two employee directors on the boards of the majority of the Group's subsidiary undertakings.

The Group is committed to wide employee share ownership and has established an ESOP. The board 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 the company which will then be appropriated to participating employees.

The Group has a savings related share option scheme, details of which are given in note 29 to the financial statements.

The Group recognises its obligations to give disabled persons full and fair consideration for all vacancies within the statutory medical requirements which have to be met for certain grades of staff. Wherever reasonable and practicable, the Group 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 contributions

The Group made various donations to UK charities totalling approximately £36,000 (1996: £34,000) during the year. There were no payments made for political purposes.

Annual General Meeting

The Annual General Meeting will be held at Church House Conference Centre, Dean's Yard, London SW1 on Thursday, 31 July 1997 at 10.30am. The notice of this Meeting is contained in a separate letter from the Chairman accompanying this annual report.

Auditors

In accordance with section 385 of the Companies Act 1985, a resolution concerning the re-appointment and remuneration of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

D. J. Ward

David Ward
Secretary
9 June 1997

395 King Street
Aberdeen
AB24 5RP

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 Group 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; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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 Group and to prevent and detect fraud and other irregularities.

Report of the auditors
to the members of FirstBus plc

We have audited the financial statements on pages 30 to 57. We have also examined the amounts disclosed relating to emoluments and share options of the directors which form part of the Remuneration Committee report on pages 22 to 25.

Respective responsibilities of directors and auditors

As described on page 28 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 Group'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 and the Group as at 31 March 1997 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc

Chartered Accountants
Registered Auditor

15 Pembroke Road
Clifton
Bristol
BS8 3BG

9 June 1997

Consolidated profit and loss account

For the year ended 31 March 1997

	Notes	1997 £m	1996 £m
Turnover			
Continuing operations		**370·6**	356·3
Acquisitions		**180·9**	–
	2	**551·5**	356·3
Operating costs			
– General		**(477·8)**	(313·1)
– Restructuring and other exceptional costs	4	**(10·0)**	(6·9)
– Employees' profit sharing scheme	2	**(2·7)**	(1·2)
Total operating costs	2, 3	**(490·5)**	(321·2)
Operating profit			
Continuing operations		**45·2**	35·1
Acquisitions		**15·8**	–
	2	**61·0**	35·1
Profit on disposal of fixed asset properties – continuing operations		**1·7**	0·1
Merger costs – continuing operations		–	(3·6)
Share of profits of associated undertakings		**1·4**	0·1
Profit on ordinary activities before interest		**64·1**	31·7
Net interest payable and similar charges	7	**(13·1)**	(9·7)
Profit on ordinary activities before taxation	8	**51·0**	22·0
Tax on profit on ordinary activities	9	**(3·9)**	(7·1)
Profit on ordinary activities after taxation		**47·1**	14·9
Equity minority interests		**(0·1)**	(0·3)
Profit for the financial year		**47·0**	14·6
Equity dividends paid and proposed	10	**(16·8)**	(10·2)
Retained profit for the financial year	25	**30·2**	4·4

		1997 Pence	1996 Pence
Basic earnings per share	11	**16·0**	7·0
Adjusted basic earnings per share	11	**14·4**	10·4

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

Balance sheets

At 31 March 1997

	Notes	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Assets employed:					
Fixed assets					
Tangible assets	12	313·4	198·8	–	–
Investments	13	12·6	7·5	318·8	22·0
		326·0	206·3	318·8	22·0
Current assets					
Stocks	14	22·1	19·9	–	–
Debtors	15	73·6	31·6	41·2	35·4
Investments	16	31·2	–	0·8	–
Cash at bank and in hand		11·3	8·8	10·6	0·6
		138·2	60·3	52·6	36·0
Creditors: amounts falling due within one year	17	(235·3)	(86·2)	(155·3)	(14·6)
Net current (liabilities)/assets					
Due within one year		*(117·0)*	*(35·0)*	*(107·6)*	*19·7*
Amounts due after more than one year	15	*19·9*	*9·1*	*4·9*	*1·7*
Net current (liabilities)/assets		(97·1)	(25·9)	(102·7)	21·4
Total assets less current liabilities		228·9	180·4	216·1	43·4
Creditors: amounts falling due after more than one year	17	(157·4)	(115·1)	(20·0)	(11·1)
Provisions for liabilities and charges	18	(12·8)	(20·7)	(0·2)	(0·2)
		58·7	44·6	195·9	32·1
Financed by:					
Capital and reserves					
Called up share capital	24	15·7	10·2	15·7	10·2
Share premium account	25	93·3	3·3	93·3	3·3
Revaluation reserve	25	3·7	3·6	–	–
Other reserves	25	(106·6)	5·0	72·7	0·1
Profit and loss account	25	52·2	22·1	14·2	18·5
Equity shareholders' funds		58·3	44·2	195·9	32·1
Equity minority interests		0·4	0·4	–	–
		58·7	44·6	195·9	32·1

These financial statements were approved by the board of directors on 9 June 1997 and were signed on its behalf by:

Trevor Smallwood Director
Tony Osbaldiston Director

Consolidated cash flow statement

For the year ended 31 March 1997

	Notes	1997 £m	1996 £m
Cash flow from operating activities	20(a)	92·2	56·6
Returns on investments and servicing of finance	20(b)	(12·9)	(10·1)
Taxation			
Corporation tax paid		(10·1)	(5·7)
Capital expenditure and financial investment	20(c)	(9·6)	(12·5)
Acquisitions and disposals	20(d)	(80·5)	(7·7)
Equity dividends paid		(12·4)	(8·2)
Cash (outflow)/inflow before use of liquid resources and financing		(33·3)	12·4
Management of liquid resources*			
Cash withdrawn from bank deposits		–	19·5
Financing	20(e)	35·8	(27·1)
Increase in cash in year		2·5	4·8

*FirstBus plc includes as liquid resources unencumbered bank deposits of maturity of less than one year.

Reconciliation of net cash flows to movements in net debt

For the year ended 31 March 1997

	Notes	1997 £m	1996 £m
Increase in cash in year		2·5	4·8
Cash outflow from decrease in debt and finance lease and hire purchase contract financing		58·0	28·5
Cash inflow from management of liquid resources		–	(19·5)
Debt issued on acquisition of subsidiary undertakings		(42·5)	–
Debt and finance leases and hire purchase contracts acquired with subsidiary undertakings and businesses net of current asset investments		(22·2)	(1·4)
Inception of finance lease and hire purchase contracts		(37·0)	(40·0)
Movement in net debt in year		(41·2)	(27·6)
Net debt at beginning of year	21	(126·9)	(99·3)
Net debt at end of year	21	(168·1)	(126·9)

Reconciliation of movements in shareholders' funds

For the year ended 31 March 1997

	Group		Company	
	1997 **£m**	1996 £m	**1997** **£m**	1996 £m
Profit for the financial year	**47·0**	14·6	**12·5**	28·8
Dividends	**(16·8)**	(10·2)	**(16·8)**	(10·2)
	30·2	4·4	**(4·3)**	18·6
Shares issued:				
– under schemes of arrangements	–	–	–	10·0
– in respect of subsidiaries acquired	**74·7**	2·4	**74·7**	2·4
– in respect of 2 for 7 Rights Issue	**93·0**	–	**93·0**	–
– in respect of exercise of savings related and executive share options	**0·4**	1·1	**0·4**	1·1
– other issues	–	–	–	0·1
– redemption of shares	–	(0·1)	–	(0·1)
Goodwill arising on acquisitions written off	**(184·2)**	(5·1)	–	–
Net additions to shareholders' funds	**14·1**	2·7	**163·8**	32·1
Shareholders' funds at beginning of year or on incorporation	**44·2**	41·5	**32·1**	–
Shareholders' funds at end of year	**58·3**	44·2	**195·9**	32·1

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

Notes to the financial statements

1 Principal accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group'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 format of the profit and loss account has been changed to reflect presentation generally adopted in the industry and the comparatives have been restated.

The format of the cash flow statement has been changed to reflect the requirements of FRS 1 (revised) and the comparatives have been restated.

FRS 8 has been adopted for the first time in preparing these accounts.

(b) Basis of consolidation

The consolidated financial statements incorporate the accounts of the company and all of its subsidiary undertakings; all accounts are made up to 31 March 1997.

The results of subsidiary undertakings are included in the financial statements under the principles of FRS 6 (merger or acquisition accounting as appropriate) from the date control passes. The dates of the significant acquisitions made during the year ended 31 March 1997 are given in note 13.

Undertakings, other than subsidiary undertakings, in which the Group has an investment, held for the long term, representing not less than 20% of the voting rights and over which it exerts significant influence, are treated as associated undertakings. The Group's share of profits of associated undertakings is included in the consolidated profit and loss account, and the Group's share of their net assets is included in the consolidated balance sheet, based on the latest available accounts for these undertakings.

No profit and loss account is presented for the company as permitted by section 230 of the Companies Act 1985.

In the accounts of the company, investments in subsidiary and associated undertakings are stated at cost less amounts written off.

Dividends received and receivable are credited to the profit and loss account to the extent that they represent a realised profit for the company.

(c) Goodwill

Purchased goodwill is written off in full in the year in which it is acquired.

Goodwill arising on consolidation (representing the difference between the fair value of consideration given and the net assets acquired) is written off direct to reserves in the year in which it arises.

Fair value accounting adjustments are made in respect of acquisitions. Some adjustments have been made on provisional estimates, based on information currently available, and amendments may be necessary in subsequent accounting periods, with a corresponding adjustment to goodwill, when the information necessary to determine these estimates is available.

Goodwill previously eliminated direct to reserves is taken to the profit and loss account in the year of disposal, included in the profit or loss on disposal, with a corresponding transfer between reserves.

(d) Turnover

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

(e) 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.

(f) 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 Group, 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.

(g) Government grants and subsidies

Amounts receivable for tendered services and concessionary fare schemes are included in turnover. Financial support receivable from OPRAF and rebates in respect of duty paid on fuel are netted off operating costs.

(h) Stocks and work in progress

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

The cost of property development work in progress includes interest capitalised on loans raised to finance specific projects.

(i) 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.

(j) Pension costs

Retirement benefits are provided for most employees of the Group by means of defined benefit pension schemes. These are funded by contributions from the Group and employees. The Group's contributions are charged to the profit and loss account, based on recommendations by independent actuaries, 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 Group is shown as an asset or a liability in the balance sheet and the tax effect of this timing difference is included in deferred taxation.

Notes to the financial statements

continued

2 Profit and loss account analysis and segmental information

	Continuing operations £m	Acquisitions £m	1997 Total £m	1996 Total £m
Turnover	**370·6**	**180·9**	**551·5**	356·3
Operating costs				
– General (net of OPRAF financial support: see note 8)	**(320·0)**	**(157·8)**	**(477·8)**	(313·1)
– Restructuring and other exceptional costs	**(3·4)**	**(6·6)**	**(10·0)**	(6·9)
– Employees' profit sharing scheme	**(2·0)**	**(0·7)**	**(2·7)**	(1·2)
Total operating costs	**(325·4)**	**(165·1)**	**(490·5)**	(321·2)
Operating profit	**45·2**	**15·8**	**61·0**	35·1

Segmental information is as follows:

	Turnover		Profit before interest		Net assets	
	1997 £m	1996 £m	1997 £m	1996 £m	1997 £m	1996 £m
Bus and other related activities	**517·4**	356·3	**63·0**	31·6	**52·2**	42·9
Rail	**34·1**	–	**1·1**	0·1	**6·1**	1·3
	551·5	356·3	**64·1**	31·7	**58·3**	44·2

The employees' profit share of £2·7m (1996: £1·2m) represents an allocation of 5% of profit before taxation to the FirstBus plc ESOP.

3 Operating costs	Continuing operations £m	Acquisitions £m	1997 Total £m	1996 Total £m
Materials and consumables	**52·4**	**27·1**	**79·5**	48·2
Staff costs	**203·5**	**85·6**	**289·1**	196·8
External charges	**47·5**	**46·4**	**93·9**	56·6
Depreciation and other amounts written off tangible fixed assets	**22·0**	**6·0**	**28·0**	19·6
	325·4	**165·1**	**490·5**	321·2

4 Restructuring and other exceptional costs

The programme to improve efficiency and profit margins has given rise to restructuring and other exceptional costs in the year as follows:

	1997 £m	1996 £m
Bus companies		
Buying out conditions of employment	**2·1**	2·7
Early retirement	**0·6**	0·7
Redundancy	**2·2**	2·0
Systems replacement	**0·3**	0·5
Relivering to FirstBus corporate identity	**1·9**	0·2
Other	**0·8**	0·8
Rail		
Redundancy	**2·1**	–
	10·0	6·9

4 Restructuring and other exceptional costs continued

At 31 March 1997 cash payments of £4·9m (1996: £5·0m) in respect of the current year's charge had been made and the balance of the liability is accrued in creditors.

The tax effect of these restructuring and other exceptional costs was a credit of £3·3m. In the preceding year, the tax effect of these costs and merger costs of £3·6m, was a credit of £3·3m.

5 Employee numbers and costs

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

	1997	1996
Drivers, maintenance and traffic	**18,217**	13,018
Administration	**1,335**	1,109
	19,552	14,127

The aggregate payroll costs of these persons were as follows:

	1997 £m	1996 £m
Wages and salaries	**259·7**	176·5
Social security costs	**19·5**	14·5
Other pension costs	**9·9**	5·8
	289·1	196·8

6 Directors' remuneration

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

	1997 £000	1996 £000
Aggregate emoluments (excluding pension contributions)	**990**	640
Company pension contributions to money purchase scheme	**58**	–
Fees for services	**63**	50
	1,111	690
Compensation for loss of office paid by subsidiary undertakings	**–**	185
	1,111	875

The emoluments of the highest paid director amounted to:

	1997 £000	1996 £000
Aggregate emoluments	**207**	128
Defined benefit pension scheme		
Accrued pension at end of year	**57**	

Retirement benefits accrue to all executive directors under defined benefit schemes. Contributions are also paid to a money purchase scheme in respect of one executive director.

Further details of the directors' remuneration and share options are given in the Remuneration Committee report on pages 22 to 25.

Notes to the financial statements

continued

7 Net interest payable and similar charges	1997 £m	1996 £m
Bank loans and overdrafts	**1·6**	1·6
Other loans	**4·1**	2·1
Finance charges payable in respect of finance leases and hire purchase contracts	**10·4**	7·3
	16·1	11·0
Income from short term deposits and loans to associated undertakings and other investments	**(3·0)**	(1·3)
	13·1	9·7

£0·4m (1996: £0·4m) of finance issue costs have been charged and then credited to the profit and loss account by way of capitalisation to current asset investments. They will be netted off bank borrowings when there is a draw down under the facility.

8 Profit on ordinary activities before taxation	1997 £m	1996 £m
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Auditors' remuneration – audit fee	**0·3**	0·2
Depreciation and other amounts written off tangible fixed assets	**28·0**	19·6
Rentals payable under operating leases		
– plant and machinery	**14·8**	4·0
– other assets	**19·6**	3·9
Net rents receivable from property	**(0·3)**	(0·4)
Financial support provided by OPRAF	**(5·8)**	–

In addition to the amounts given above, non-audit fees of £2·0m (1996: £0·7m) were paid to the auditors and their associates, including £1·7m (1996: £0·5m) relating to due diligence assistance and regulatory work on acquisitions and bids for rail franchises. The company's audit fee amounted to £0·1m (1996: £0·1m).

9 Tax on profit on ordinary activities	1997 £m	1996 £m
UK corporation tax at 33%		
Current year	**(10·1)**	(1·6)
Prior years	–	(0·1)
Transfer (to)/from deferred tax		
Current year	**(2·9)**	(6·0)
Prior years	–	0·6
Release of deferred tax provision	**9·6**	–
Associated undertakings	**(0·5)**	–
	(3·9)	(7·1)

Up to 31 March 1996 the Group made full provision for tax deferred by means of accelerated capital allowances on the passenger carrying vehicle fleet and on other plant and equipment. The Group's current capital expenditure plans indicate it is probable that the majority of this tax liability will not crystallize in the foreseeable future and accordingly part of the deferred tax provision has been released, giving rise to a credit of £9·6m in the year to 31 March 1997.

If full provision had been made for deferred tax the tax charge in the year would have been higher by £12·5m.

There was £Nil tax effect on the profit on disposal of fixed asset properties credited to the profit and loss account.

10 Equity dividends	1997 £m	1996 £m
Ordinary shares of 5p each		
– Interim paid (1·8p (1996: 1·6p) per share)	**5·5**	3·3
– Final proposed (3·7p (1996: 3·4p) per share)	**11·3**	6·9
	16·8	10·2

11 Earnings per share

Basic earnings per share is based on the weighted average number of ordinary shares of 293·7m (1996: 209·6m) in issue or committed to be issued and on earnings of £47·0m (1996: £14·6m). The weighted average number of shares includes an adjustment to reflect the bonus element of the Rights Issue in June 1996.

Adjusted basic earnings per share are intended to demonstrate recurring elements of the results of the Group. A reconciliation of the earnings used in the two bases is set out below:

	1997 £m	1997 Earnings per share (p)	1996 £m	1996 Earnings per share (p)
Profit for basic earnings per share calculation	**47·0**	**16·0**	14·6	7·0
Restructuring and other exceptional costs	**10·0**	**3·4**	6·9	3·3
Merger costs	–	–	3·6	1·7
Profit on disposal of fixed asset properties	**(1·7)**	**(0·6)**	(0·1)	–
Taxation effects of these adjustments	**(3·3)**	**(1·1)**	(3·3)	(1·6)
Effect of release of deferred tax provision	**(9·6)**	**(3·3)**	–	–
Profit for adjusted basic earnings per share calculation	**42·4**	**14·4**	21·7	10·4

The impact of fully diluted earnings per share is not material. The comparative figures have been restated to reflect the bonus element of the Rights Issue in June 1996.

Notes to the financial statements
continued

12 Tangible fixed assets

Group	Land and buildings £m	Passenger carrying vehicle fleet £m	Other plant and equipment £m	Total £m
Cost or valuation				
At beginning of year	49·4	238·2	26·3	313·9
Subsidiary undertakings acquired	23·5	136·8	10·0	170·3
Additions	6·1	43·0	5·2	54·3
Disposals	(3·1)	(8·6)	(1·1)	(12·8)
At end of year	**75·9**	**409·4**	**40·4**	**525·7**
Depreciation				
At beginning of year	1·9	93·6	19·6	115·1
Subsidiary undertakings acquired	0·6	70·5	7·1	78·2
Charge for year	1·0	23·7	3·3	28·0
Disposals	–	(8·2)	(0·8)	(9·0)
At end of year	**3·5**	**179·6**	**29·2**	**212·3**
Net book value				
At 31 March 1997	**72·4**	**229·8**	**11·2**	**313·4**
At 31 March 1996	47·5	144·6	6·7	198·8

The net book value of land and buildings comprises:

	1997 £m	1996 £m
Freehold	**63·4**	43·8
Long leasehold	**8·1**	3·1
Short leasehold	**0·9**	0·6
	72·4	47·5

Depreciation is not provided on the land element of freehold and long leasehold property which amounts to £23·9m (1996: £17·9m).

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

	1997 £m	1996 £m
At 1993 professional valuations	**20·8**	22·0
Aggregate depreciation thereon	**(0·9)**	(0·7)
Net book value	**19·9**	21·3
Historical cost of revalued assets	**19·1**	20·5
Aggregate depreciation based on historical cost	**(3·0)**	(2·8)
Historical net book value	**16·1**	17·7

The 1993 professional valuations were carried out by Chesterton International Limited, International Property Consultants, and Messrs Graham and Sibbald, Chartered Surveyors, on the basis of open market value for existing use.

No provision is made for tax of £3·4m (1996: £2·3m) which would arise on disposal of revalued properties. The Group does not intend to dispose of these properties without reinvestment of the sale proceeds.

Certain properties are subject to profit clawback arrangements if sold within a specified period.

£190·2m (1996: £123·6m) of the net book value of the passenger carrying vehicle fleet and £0·3m (1996: £0·1m) of other plant and equipment was acquired under finance leases and hire purchase contracts. The depreciation charges on these assets during the year were £13·5m and £0·1m (1996: £11·8m and £0·1m) respectively.

13 Fixed asset investments

Group	Unlisted subsidiary undertakings £m	Associated undertakings £m	Other investments £m	Total £m
Shares				
Cost				
At beginning of year	–	–	2·7	2·7
Additions (with subsidiary undertakings acquired)	–	–	0·7	0·7
At end of year	**–**	**–**	**3·4**	**3·4**
Share of post acquisition reserves				
Share of results and at end of year	**–**	**0·9**	**–**	**0·9**
Loans				
Cost				
At beginning of year	–	1·3	3·5	4·8
Additions	–	3·5	–	3·5
At end of year	**–**	**4·8**	**3·5**	**8·3**
Total				
At 31 March 1997	**–**	**5·7**	**6·9**	**12·6**
At 31 March 1996	–	1·3	6·2	7·5

Company	Unlisted subsidiary undertakings £m	Associated undertakings £m	Other investments £m	Total £m
Shares				
Cost				
At beginning of year	14·2	0·4	2·6	17·2
Additions	174·8	–	–	174·8
Intra group transfers	118·5	–	–	118·5
At end of year	**307·5**	**0·4**	**2·6**	**310·5**
Loans				
Cost				
At beginning of year	–	1·3	3·5	4·8
Additions	–	3·5	–	3·5
At end of year	**–**	**4·8**	**3·5**	**8·3**
Total				
At 31 March 1997	**307·5**	**5·2**	**6·1**	**318·8**
At 31 March 1996	14·2	1·7	6·1	22·0

Notes to the financial statements
continued

13 Fixed asset investments continued

Subsidiary undertakings

The principal subsidiary undertakings of FirstBus plc at the end of the year are:

Local bus and coach operators:

The Berks Bucks Bus Company Limited
AE & FR Brewer Limited
Bristol Omnibus Company Limited
CentreWest London Buses Limited
Comlaw No. 313 Limited †
Eastern Counties Omnibus Company Limited
Eastern Scottish Omnibuses Limited †
Essex Buses Limited
Grampian Regional Transport Limited †
Greater Manchester Buses North Limited
Kelvin Central Buses Limited †
Kirkpatrick of Deeside Limited †
Leicester CityBus Limited (94%)
Lowland Omnibuses Limited †
GE Mair Hire Services Limited †
Midland Bluebird Limited †
Midland Red West Limited
Northampton Transport Limited
PMT Limited
Portsmouth Transit Limited
The Provincial Bus Company Limited
Quickstep Travel Limited
Rider (York) Limited
The South Wales Transport Company, Limited
Strathclyde Buses Limited †
Wessex National Limited
Western National Limited
Yorkshire Rider Limited

Rail operators:

Great Eastern Railway Limited *

Property:

FB Properties Limited
Sovereign Quay Limited

All subsidiary undertakings are wholly owned at the end of the year except where percentage of ownership is shown above. All of the companies above are incorporated in Great Britain and registered in England and Wales except those marked † which are registered in Scotland.

All shares held in subsidiary undertakings are ordinary shares, with the exception of Leicester CityBus Limited where the Group owns 100% of its redeemable cumulative preference shares, as well as 94% of its ordinary shares.

All subsidiary undertakings above are owned via intermediate holding companies except that marked *, which is owned by FirstBus plc.

There are, in addition to those listed above, a number of subsidiary undertakings which were mostly intermediate holding companies or dormant throughout the year. A full list of subsidiary undertakings is filed with the Annual Return to the Registrar of Companies.

Associated undertakings

The interest in associated undertakings represents a 24·5% interest in the ordinary share capital of Great Western Holdings Limited ("GWH"), which operates the Great Western and North Western Trains franchises and which is incorporated in Great Britain and registered in England and Wales.
The investor loan of £1·265m to GWH bears interest at 3% above LIBOR. The company has a commitment to lend GWH a further £4·0m on the same terms for which it receives a 3% per annum commitment fee. The investor loan is repayable at the end of the Great Western Trains franchise term which is currently 3 February 2003.

The mezzanine loan of £3·5m bears interest at 4% above LIBOR. It is repayable by 31 March 2003 at which time the company will be entitled to an additional payment equal to 1·25% of the equity value of GWH.

The issued share capital of GWH at 31 March 1997 was 2,000,000 ordinary shares of 1p each and 1,921,568 ordinary "A" shares of 1p each. FirstBus plc holds 960,784 of the ordinary "A" shares.

The issued debt securities of GWH at 31 March 1997 was £20·5m of mezzanine loans and £2·530m of investor loans. FirstBus plc has provided £3·5m of the mezzanine loans and £1·265m of the investor loans.

13 Fixed asset investments continued

Other investments

The interest in other investments at the beginning of the year represents a 20% interest in the ordinary and non-voting convertible deferred share capital of Mainline Partnership Limited ("MPL"), which is incorporated in Great Britain and registered in England and Wales.

This interest is accounted for as an investment. The Group has a representative on the board of MPL but does not exert significant influence over its affairs and is not in a position to influence its dividend policy.

The company has also lent £3·5m to a wholly owned subsidiary undertaking of MPL. The loan bears interest at 10% per annum. It is due for repayment in 14 equal instalments paid twice yearly commencing 31 March 1999 with the last repayment on 30 September 2005.

MPL requires the company's consent to use the funds, which are held in a separate interest bearing account.

The interest in other investments acquired during the year represents a 20% interest in the ordinary share capital of Tramtrack Croydon Limited ("TCL"), which is incorporated in Great Britain and registered in England and Wales.

This interest is accounted for as an investment. The Group has a representative on the board of TCL but does not exert significant influence over its affairs.

TCL has been awarded a 99 year franchise by London Transport under the private finance initiative to design, build and operate the Croydon Tramlink system. Funding for the project will be provided in contractually agreed amounts by the shareholders of TCL, loans and leases provided by various banks and a grant from London Regional Transport.

Acquisition of GMBN (Holdings) Limited ("GMBN")

On 2 April 1996 the company acquired GMBN (Holdings) Limited. The acquisition has been accounted for using acquisition accounting. Consideration comprised £47·0m in FirstBus plc shares, together with £3·4m of cash expenses.

The fair value of the net assets acquired was £0·6m. The resulting goodwill on consolidation of £49·8m was written off to reserves. The fair value of the assets acquired was as follows:

	Book value £m	Accounting policy alignments £m	Other major items £m	Fair value to the Group £m
Tangible fixed assets	26·5	(4·0) (a)	–	22·5
Pension funds' assets	5·5	0·5 (b)	–	6·0
Other current assets	2·7	(0·2) (b)	–	2·5
Cash at bank and in hand	3·1	–	–	3·1
Bank loans	(8·3)	–	–	(8·3)
Obligations under finance leases and hire purchase contracts	(13·0)	–	–	(13·0)
Other creditors	(13·3)	(0·4) (b)	(1·3) (d)	(15·0)
Deferred taxation	–	4·7 (c)	–	4·7
Other provisions	(1·9)	–	–	(1·9)
	1·3	0·6	(1·3)	0·6

The principal fair value adjustments were as follows:

(a) Alignment of depreciation bases applied to passenger carrying vehicle fleet and other plant and equipment;

(b) Alignment of accounting policies to those of the Group;

(c) Recognition of deferred tax asset; and

(d) Provision for GMBN legal costs relating to acquisition by FirstBus.

Notes to the financial statements
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13 Fixed asset investments continued

Other provisions includes £0·4m for reorganisation and restructuring costs provided in the year to 1 April 1996.

The consolidated profit on ordinary activities after taxation of GMBN (Holdings) Limited amounted to £3·8m in the year ended 31 March 1996.

Acquisition of SB Holdings Limited ("SBH")

On 3 June 1996 the company acquired SB Holdings Limited. The acquisition has been accounted for using acquisition accounting. Consideration comprised £8·7m in FirstBus plc shares, £42·5m in floating rate loan notes and £44·7m in cash, together with £6·3m of cash expenses.

The fair value of the net assets acquired was £6·8m. The resulting goodwill on consolidation of £95·4m was written off to reserves. The fair value of the assets acquired was as follows:

	Book value £m	Accounting policy alignments £m		Other major items £m		Fair value to the Group £m
Tangible fixed assets	43·0	(3·0)	(a)	–		40·0
Pension funds' assets	3·2	(1·1)	(b)	–		2·1
Other current assets	8·1	(0·7)	(b)	–		7·4
Cash at bank and in hand	6·6	–		(6·6)	(c)	–
Bank overdrafts	–	–		(7·5)	(c)	(7·5)
Obligations under finance leases and hire purchase contracts	(13·5)	–		–		(13·5)
Other creditors	(17·4)	(3·1)	(b)	(1·2)	(d)	(21·7)
Deferred taxation	(0·6)	0·6	(b)	–		–
	29·4	(7·3)		(15·3)		6·8

The principal fair value adjustments were as follows:

(a) Alignment of depreciation bases applied to passenger carrying vehicle fleet;

(b) Alignment of accounting policies to those of the Group principally relating to holiday pay provision of £0·8m and unfair dismissal claims of £0·7m;

(c) Payment of pre-acquisition dividend (contingent on acquisition being completed); and

(d) Provisions for SBH legal costs relating to acquisition by FirstBus and severance payments to former directors of SBH.

The consolidated results for SB Holdings Limited during the period 1 April 1996 to 2 June 1996 were turnover of £15·4m, operating profit of £1·4m, profit before taxation of £1·3m, taxation of £0·4m and goodwill written off direct to reserves of £0·4m. The consolidated results for the period 3 June 1996 to 31 March 1997 were turnover of £75·9m, operating profit of £7·8m, profit before taxation of £6·8m and taxation of £2·2m.

The consolidated profit on ordinary activities after taxation of SB Holdings Limited amounted to £8·1m in the year ended 31 March 1996.

13 Fixed asset investments continued

Acquisition of Great Eastern Railway Limited

On 5 January 1997 the company acquired Great Eastern Railway Limited. The acquisition has been accounted for using acquisition accounting. Consideration comprised £1 in cash, together with £0·2m of cash expenses and £0·5m by way of share subscription.

The fair value of the net assets acquired was £0·5m. The resulting goodwill on consolidation of £0·2m was written off to reserves. The fair value of the assets acquired was as follows:

	Book value and fair value to the Group £m
Tangible fixed assets	0·4
Current asset investments	29·4
Other current assets	16·3
Cash at bank and in hand	8·2
Other creditors	(53·8)
	0·5

The results for Great Eastern Railway Limited during the period 1 April 1996 to 4 January 1997 were turnover of £102·8m, operating profit of £4·4m (including financial support of £30·9m), profit before taxation of £5·1m and taxation of £1·7m. The results for the period 5 January 1997 to 31 March 1997 were turnover of £34·1m, operating loss of £0·3m, profit before taxation of £0·2m and taxation of £0·1m.

The profit on ordinary activities after taxation of Great Eastern Railway Limited amounted to £7·1m in the 5 month period ended 31 March 1996 (including financial support of £14·2m).

Notes to the financial statements

continued

13 Fixed asset investments continued

Acquisition of CentreWest Limited

On 26 March 1997 the company acquired CentreWest Limited. The acquisition has been accounted for using acquisition accounting. Consideration comprised £19·0m in FirstBus plc shares, together with £1·5m of cash expenses.

The fair value of the net liabilities acquired was £12·8m. The resulting goodwill on consolidation of £33·3m was written off to reserves. The fair value of the liabilities acquired was as follows:

	Book value £m	Accounting policy alignments £m	Other major items £m	Fair value to the Group £m
Tangible fixed assets	26·8	(0·5) (a)	–	26·3
Fixed assets investments	0·7	–	–	0·7
Pension funds' liabilities	(0·1)	–	–	(0·1)
Other current assets	6·2	0·1 (b)	–	6·3
Cash at bank and in hand	2·1	–	(2·1) (c)	–
Bank overdrafts	–	–	(19·4) (c)	(19·4)
Bank loans and other loans	(14·5)	–	14·5 (c)	–
Obligations under finance leases and hire purchase contracts	(15·4)	–	–	(15·4)
Other creditors	(12·0)	(0·2) (b)	1·2 (c)(d)	(11·0)
Deferred taxation	(0·2)	–	–	(0·2)
	(6·4)	(0·6)	(5·8)	(12·8)

The principal fair value adjustments were as follows:

(a) Alignment of depreciation bases applied to passenger carrying vehicle fleet;
(b) Alignment of accounting policies to those of the Group;
(c) Repayment of loan stock and accrued interest of £2·0m and redemption of preference shares (contingent on acquisition being completed); and
(d) Provision for CentreWest legal costs relating to acquisition by FirstBus and tax liabilities of employees' trusts arising as a result of the acquisition.

The consolidated results for CentreWest Limited during the period 1 April 1996 to 25 March 1997 were turnover of £60·5m, operating profit of £8·1m, profit before taxation of £4·8m and taxation of £0·7m. The consolidated results for the period 26 March 1997 to 31 March 1997 were turnover of £0·7m, operating profit of £0·1m, profit before taxation of £0·1m and taxation of £Nil.

The consolidated profit on ordinary activities after taxation of CentreWest Limited amounted to £2·1m in the year ended 31 March 1996.

14 Stocks	Group 1997 £m	Group 1996 £m
Spare parts and consumables	**8·2**	4·6
Property development work in progress	**13·9**	15·3
	22·1	19·9

Property development work in progress includes £1·0m (1996: £1·0m) of interest capitalised on loans raised to finance specific projects.

15 Debtors	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Amounts due within one year				
Trade debtors	**26·4**	8·2	–	–
Amounts owed from subsidiary undertakings	–	–	**20·1**	6·5
Dividends receivable from subsidiary undertakings	–	–	**15·0**	24·0
Other debtors	**12·7**	7·2	**0·6**	2·3
Pension funds' prepayments	**2·2**	0·9	–	–
Other prepayments and accrued income	**9·4**	6·2	**0·6**	0·1
Advance corporation tax recoverable	**3·0**	–	–	0·8
	53·7	22·5	**36·3**	33·7
Amounts due after more than one year				
Other debtors	**0·2**	0·2	–	–
Pension funds' prepayments	**16·7**	8·2	–	–
Other prepayments and accrued income	**2·6**	0·7	**2·0**	–
Advance corporation tax recoverable	**0·4**	–	**2·9**	1·7
	19·9	9·1	**4·9**	1·7
	73·6	31·6	**41·2**	35·4

16 Current asset investments	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Bank deposits	**29·2**	–	–	–
Prepayment of revolving and term credit facility costs	**0·8**	–	**0·8**	–
Cost of own shares held by trustees not yet vested unconditionally	**1·2**	–	–	–
	31·2	–	**0·8**	–

The bank deposits support the Group's commitments (which are guaranteed by one of the Group's bankers) under Great Eastern Railway Limited's season ticket bond to the Director of Passenger Rail Franchising. The bank deposits, which are charged to the bank, can not be reduced to below the amount of the season ticket bond.

Details of the number and market value of own shares vested unconditionally are as follows:

	1997 Number (m)	1997 £m	1996 Number (m)	1996 £m
Own shares held by trustees	**13·4**	**30·0**	14·3	25·8
Own shares vested unconditionally	**(12·7)**	**(28·8)**	(14·3)	(25·8)
	0·7	**1·2**	–	–

These shares represent those owned by FirstBus plc ESOP, FirstBus plc Employee Benefit Trust and various other employee trusts which were in place at subsidiary undertakings before they joined the FirstBus Group. They have been included on the balance sheet in accordance with UITF Abstract 13 "Accounting for ESOP Trusts".

The amount distributed by FirstBus to the ESOP each year is based on 5% of Group profit before taxation. Shares are allocated to employees equally.

In addition to the shares listed above, the subsidiary undertakings' employee trusts held cash at bank totalling £2·8m at 31 March 1997. These amounts are already vested unconditionally or are being held by the trustees to cover tax liabilities and accordingly have not been consolidated into the Group accounts.

Notes to the financial statements

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17 Creditors	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Amounts due within one year				
Obligations under finance leases and hire purchase contracts (3)	**34·0**	19·3	–	–
Floating rate loan notes (2)	**18·0**	1·3	**14·5**	–
Trade creditors	**40·9**	12·0	–	–
Amounts owed to subsidiary undertakings	–	–	**122·2**	3·2
Corporation tax	**9·4**	3·1	**4·3**	2·5
Other tax and social security	**9·6**	5·5	**0·1**	–
Other creditors	**6·2**	13·6	**0·9**	1·7
Pension funds' creditors	**4·3**	1·1	–	–
Accruals and deferred income	**71·8**	23·4	**2·0**	0·3
Season ticket deferred income	**29·8**	–	–	–
Proposed dividends	**11·3**	6·9	**11·3**	6·9
	235·3	86·2	**155·3**	14·6
Amounts due after more than one year				
Bank loans (1)				
Due between two and five years	–	11·1	–	11·1
Obligations under finance leases and hire purchase contracts (3)				
Due between one and two years	**33·5**	18·1	–	–
Due between two and five years	**74·6**	45·6	–	–
Due after five years	**9·2**	17·6	–	–
Floating rate loan notes (2)				
Due between one and two years	**40·1**	22·7	**20·0**	–
	157·4	115·1	**20·0**	11·1

(1) Bank loans are unsecured and bear interest at 0·45% above LIBOR. They are drawn under a £150m revolving and term credit facility under which the company has committed facilities until 7 October 2001. Whilst loans, when drawn, are repayable within at most six months they are classified by reference to the maturity date of the longest refinancing permitted under the facility.

(2) Loan notes bear interest at between 0·75% below and 1% above various LIBOR term or bank base rates with £8·8m at a minimum of 11%.

£0·2m of the loan notes may not be redeemed before 12 November 1997 (three months' notice). £57·0m (one year and one day's notice) and £0·9m (one month's notice) may now be redeemed.

Notice for redemption has been received on loan notes totalling £16·9m for payment during the period 30 April 1997 to 31 January 1998.

The latest dates for redemption are 1 January 1999 (£0·9m), 31 December 2007 (£34·5m), 1 September 2009 (£0·2m), 12 April 2020 (£8·8m) and 1 March 2024 (£13·7m).

Guarantees are provided for all but £0·2m of loan notes: £49·6m by the revolving and term credit facility and £8·3m by FirstBus plc.

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

18 Provisions for liabilities and charges	Deferred tax £m	Acquisition provisions £m	Insurance claims £m	Total £m
Group				
At beginning of year	12·0	1·2	7·5	20·7
Subsidiary undertakings acquired	(4·5)	1·9	–	(2·6)
Utilised during the year	–	(3·1)	–	(3·1)
Release of deferred tax provision	(9·6)	–	–	(9·6)
Transfer from profit and loss account	2·9	–	3·7	6·6
Advance corporation tax recoverable	0·8	–	–	0·8
At end of year	**1·6**	–	**11·2**	**12·8**

Company	Deferred tax £m
At beginning and end of year	**0·2**

19 Deferred tax Group	Provided 1997 £m	Unprovided 1997 £m	Provided 1996 £m	Unprovided 1996 £m
Accelerated capital allowances	**3·7**	**26·0**	13·7	3·0
Other timing differences	**4·0**	–	2·0	–
Trading losses	**(5·1)**	–	(1·6)	–
Advance corporation tax recoverable	**(2·5)**	**(3·4)**	(3·3)	–
Unrealised capital gains	**1·5**	**3·4**	1·2	2·3
	1·6	**26·0**	12·0	5·3

The amount provided for unrealised capital gains relates to properties held for disposal.

Company	Provided 1997 £m	Unprovided 1997 £m	Provided 1996 £m	Unprovided 1996 £m
Other timing differences	**0·2**	–	0·2	–

Notes to the financial statements

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20 Notes to the consolidated cash flow statement	1997 £m	1996 £m
(a) Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	**61·0**	35·1
Depreciation charges	**28·0**	19·6
Profit on sale of non property fixed assets	**(0·5)**	(0·6)
Decrease in stocks	**0·2**	2·2
Increase in debtors	**(0·1)**	(2·3)
Increase in creditors and provisions	**3·6**	2·6
Net cash inflow from operating activities	**92·2**	56·6
(b) Returns on investments and servicing of finance		
Interest received	**2·7**	1·3
Interest paid	**(5·4)**	(3·7)
Interest element of finance lease and hire purchase contract payments	**(9·8)**	(7·3)
Fees on issue of bank and other loans	**(0·4)**	(0·4)
Net cash outflow from returns on investments and servicing of finance	**(12·9)**	(10·1)
(c) Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(16·0)**	(9·7)
Sale of tangible fixed assets	**7·6**	2·9
Purchase of fixed asset investments	–	(2·2)
Loan to fixed asset investments	–	(3·5)
Purchase of current asset investments	**(1·2)**	–
Net cash outflow from capital expenditure and financial investment	**(9·6)**	(12·5)
(d) Acquisitions and disposals		
Purchase of subsidiary undertakings	**(55·9)**	(1·8)
Net (bank overdrafts)/cash acquired with subsidiary undertakings	**(19·2)**	0·6
Purchase of businesses	**(1·9)**	(1·0)
Purchase of share of associate undertaking	–	(0·4)
Loan to associate undertaking	**(3·5)**	(1·3)
Purchase of minority interest in subsidiary undertakings	–	(0·2)
Merger costs	–	(3·6)
Net cash outflow from acquisitions and disposals	**(80·5)**	(7·7)
(e) Financing		
Issue of share capital	**93·4**	1·1
Redemption of share capital	–	(0·1)
New bank and other loans	–	11·5
Repayment of amounts borrowed – bank loans	**(19·8)**	(16·4)
– other loans	**(8·4)**	(1·6)
Capital element of finance lease and hire purchase contract payments	**(29·6)**	(21·6)
Cash withdrawn from current asset investments	**0·2**	–
Net cash inflow/(outflow) from financing	**35·8**	(27·1)

21 Analysis of net debt	At beginning of year £m	Cash flow £m	Acquisitions £m	Other non-cash changes £m	**At end of year £m**
Current asset investments	–	(0·2)	29·4	0·8	**30·0**
Cash at bank and in hand	8·8	2·5	–	–	**11·3**
Bank loans	(11·1)	20·2	(8·3)	(0·8)	–
Obligations under finance leases and hire purchase contracts	(100·6)	29·6	(43·3)	(37·0)	**(151·3)**
Floating rate loan notes	(24·0)	8·4	(42·5)	–	**(58·1)**
	(135·7)	58·2	(94·1)	(37·8)	**(209·4)**
	(126·9)	60·5	(64·7)	(37·0)	**(168·1)**

22 Major non-cash transactions

During the year the Group entered into finance lease and hire purchase contracts in respect of assets with a total capital value of £37·0m (1996: £40·0m).

Part of the consideration for the purchases of subsidiary undertakings that occurred during the year comprised the issue of ordinary shares of 5p each and the issue of floating rate loan notes. A summary of these acquisitions is given in note 23.

23 Summary of purchase of subsidiary undertakings

	GMBN £m	SBH £m	Great Eastern £m	CentreWest £m	Others £m	**Total 1997 £m**	Total 1996 £m
Net assets acquired:							
Tangible fixed assets	22·5	40·0	0·4	26·3	2·9	**92·1**	2·2
Fixed asset investments	–	–	–	0·7	–	**0·7**	–
Pension funds' assets/(liabilities)	6·0	2·1	–	(0·1)	(0·1)	**7·9**	–
Current asset investments	–	–	29·4	–	–	**29·4**	–
Other current assets	2·5	7·4	16·3	6·3	0·3	**32·8**	0·4
Cash at bank and in hand	3·1	–	8·2	–	–	**11·3**	0·6
Bank overdrafts	–	(7·5)	–	(19·4)	(3·6)	**(30·5)**	–
Bank loans	(8·3)	–	–	–	–	**(8·3)**	–
Obligations under finance leases and hire purchase contracts	(13·0)	(13·5)	–	(15·4)	(1·4)	**(43·3)**	(1·4)
Other creditors	(15·0)	(21·7)	(53·8)	(11·0)	(1·3)	**(102·8)**	(1·0)
Deferred taxation	4·7	–	–	(0·2)	–	**4·5**	(0·1)
Other provisions	(1·9)	–	–	–	–	**(1·9)**	–
	0·6	6·8	0·5	(12·8)	(3·2)	**(8·1)**	0·7
Goodwill	49·8	95·4	0·2	33·3	4·2	**182·9**	3·5
	50·4	102·2	0·7	20·5	1·0	**174·8**	4·2
Satisfied by:							
Shares including premium	47·0	8·7	–	19·0	–	**74·7**	2·4
Loan notes	–	42·5	–	–	–	**42·5**	–
Cash paid and payable	3·4	51·0	0·7	1·5	1·0	**57·6**	1·8
	50·4	102·2	0·7	20·5	1·0	**174·8**	4·2

The subsidiary undertakings acquired during the year contributed £23·4m to the Group's net operating cash flows, paid £1·7m in respect of net returns on investments and servicing of finance, paid £6·4m in respect of taxation and utilised £1·0m for capital expenditure.

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24 Called up share capital	1997 £m	1996 £m
Authorised		
Ordinary shares of 5p each	**17·5**	12·5
Allotted, called up and fully paid		
Ordinary shares of 5p each	**15·7**	10·2

The changes in the number and amount of issued share capital during the year are set out below:

	Number (m)	£m
At beginning of year	203·9	10·2
Shares issued in relation to acquisitions	42·0	2·1
Shares issued under 2 for 7 Rights Issue	66·4	3·3
Exercise of savings related and executive share options	1·0	0·1
At end of year	313·3	15·7

On 2 April 1996 the recommended offers to acquire GMBN (Holdings) Limited were declared unconditional. 28,486,774 ordinary shares were issued at £1·65 per share as part consideration for the acquisition. Merger relief has been applied in accounting for the premium on the shares issued.

On 3 June 1996 at an Extraordinary General Meeting, the shareholders approved:

(a) an increase in the authorised share capital of the company to £17·5m through the creation of 100 million ordinary shares of 5p each;

(b) the recommended offers to acquire SB Holdings Limited; and

(c) a 2 for 7 Rights Issue.

The recommended offers to acquire SB Holdings Limited were subsequently declared unconditional. Under the Rights Issue 66,388,302 ordinary shares were issued at £1·40 per share. The offers to acquire SB Holdings Limited included a share alternative and, pursuant to this alternative, 5,481,667 ordinary shares were issued at £1·59 per share as part consideration for this acquisition. Merger relief has been applied in accounting for the premium on the shares issued under the share alternative.

On 26 March 1997 the recommended offer to acquire CentreWest Limited was declared unconditional. 7,953,704 ordinary shares were issued at £2·345 per share as part consideration for the acquisition. Merger relief has been applied in accounting for the premium on the shares issued.

The following ordinary shares of 5p each were issued on the exercise of exchanged options existing under the Badgerline Group plc executive share option scheme:

	Number	Consideration £000	Consideration per share (p)
3 June 1996	240,000	96	40·00
19 August 1996	41,538	16	38·52
16 September 1996	41,538	16	38·52
24 September 1996	332,307	128	38·52
29 November 1996	295,960	114	38·52
29 January 1997	83,076	32	38·52
	1,034,419	402	

24 Called up share capital continued

The following ordinary shares of 5p each were issued on the exercise of options existing under the FirstBus plc savings related share option scheme:

	Number	Consideration £000	Consideration per share (p)
14 June 1996	1,466	2	116·0
19 August 1996	480	1	116·0
16 September 1996	1,089	1	116·0
21 October 1996	1,893	2	116·0
14 February 1997	828	1	111·7
10 March 1997	532	1	111·7
	6,288	8	

Details of share options are given in note 29.

25 Reserves

Group	Share premium account £m	Revaluation reserve £m	Profit and loss account £m
At beginning of year	3·3	3·6	22·1
Shares issued under 2 for 7 Rights Issue	89·7	–	–
Exercise of savings related and executive share options	0·3	–	–
Transfer on sale of revalued properties	–	0·1	(0·1)
Retained profit for the year	–	–	30·2
At end of year	**93·3**	**3·7**	**52·2**

	Capital redemption reserve £m	Capital reserve £m	Goodwill reserve £m	Total other reserves £m
At beginning of year	0·1	49·7	(44·8)	5·0
Shares issued in relation to acquisitions	–	0·3	72·3	72·6
Goodwill arising on acquisitions written off	–	–	(184·2)	(184·2)
At end of year	**0·1**	**50·0**	**(156·7)**	**(106·6)**

Goodwill arising on acquisitions written off during the year was as follows:

	1997 £m	1996 £m
Purchase of subsidiary and associated undertakings	**182·9**	4·1
Purchase of businesses	**1·3**	1·0
	184·2	5·1

The cumulative amount of positive goodwill and negative goodwill arising from acquisitions of subsidiary and associated undertakings written off at the end of the year was £283·1m and £4·7m respectively (1996: £100·2m and £4·7m) and was £2·3m (1996: £1·0m) of positive goodwill arising from acquisitions of businesses written off.

There was no tax effect in respect of the movement in the revaluation reserve during the year.

Notes to the financial statements

continued

25 Reserves continued

Company	Share premium account £m	Capital redemption reserve £m	Capital reserve £m	Merger reserve £m	Profit and loss account £m
At beginning of year	3·3	0·1	–	–	18·5
Shares issued under 2 for 7 Rights Issue	89·7	–	–	–	–
Exercise of savings related and executive share options	0·3	–	–	–	–
Shares issued in relation to acquisitions	–	–	0·3	72·3	–
Retained loss for the year	–	–	–	–	(4·3)
At end of year	**93·3**	**0·1**	**0·3**	**72·3**	**14·2**

26 Commitments

Group

Capital commitments

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

	1997 £m	1996 £m
Contracted for but not provided		
Year to 31 March 1997	–	11·1
Year to 31 March 1998	**59·7**	–
Year to 31 March 1999	**35·0**	–
Authorised but not contracted		
Year to 31 March 1997	–	9·9
Year to 31 March 1998	**4·2**	–
	98·9	21·0

Operating leases

Great Eastern Railway Limited has contracts with Railtrack plc for access to the railway infrastructure (track, stations and depots) for a period of 7 years and 3 months. It also has contracts under which it leases rolling stock from Angel Trains Contract Limited and Eversholt Leasing Limited.

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

	1997 £m
Operating leases which expire:	
Within one year	**0·1**
From one to five years	**6·6**
Over five years	**104·2**
	110·9

26 Commitments continued

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

	Land and buildings 1997 £m	Other 1997 £m	Land and buildings 1996 £m	Other 1996 £m
Operating leases which expire:				
Within one year	**1·0**	**1·3**	0·1	0·6
From one to five years	**0·5**	**2·5**	0·9	2·5
Over five years	**2·6**	**–**	2·4	–
	4·1	**3·8**	3·4	3·1

27 Contingent liabilities

The company has a performance bond backed by HSBC Midland Bank for £9·5m which has been provided to the Director of Passenger Rail Franchising in support of the Group's franchise obligations at Great Eastern Railway Limited. The company has provided a £9·0m loan facility to Great Eastern Railway Limited as required by the Director of Passenger Rail Franchising; none of the loan is currently drawn.

In addition Great Eastern Railway Limited has a season ticket bond backed by one of the Group's bankers provided to the Director of Passenger Rail Franchising which was for £29·2m at 31 March 1997 against which a cash deposit is held with the bank as disclosed in note 16. FirstBus plc has counter indemnified the bank in respect of this bond.

The company has given guarantees for the liabilities of its subsidiary undertakings arising under certain finance leases and hire purchase contracts. The company is party to the guarantees in respect of bank overdraft facilities provided to itself and the Group's subsidiary undertakings. The company is party, via a guarantee, to a letter of credit of £2·9m issued by one of the Group's bankers in respect of CentreWest Limited's obligations to Tramtrack Croydon Limited. It also provides cross guarantees to certain subsidiary undertakings under VAT group provisions.

28 Pension schemes

The Group operates or is a member of a number of pension schemes which cover the majority of employees. These are principally defined benefit schemes under which benefits provided are based on employees' number of years of service and final salary. The scope of benefits varies between schemes. The assets of the schemes are held in separately administered trusts which are managed independently of the Group's finances by investment managers appointed by the schemes' trustees.

Formal independent actuarial valuations are undertaken triennially.

The various defined benefit schemes include four schemes where the Group subsidiary undertaking is a participating employer in a scheme operated by a local authority. These schemes are subject to relevant local government regulations. Great Eastern Railway Limited is a member of the Railways Pension Scheme ("RPS") which is an industry wide arrangement for employees of those companies previously owned by British Railways Board. All other schemes are self-administered.

The defined benefit schemes are largely fully funded. Two schemes have small deficits totalling £1·2m. The employers' SSAP 24 rate, which has been actuarially assessed, for contributions varies between 4% and 8%. The assumptions which have been used in these valuations, many of which pre-date the relevant subsidiary undertaking joining the FirstBus Group, vary. The market value of the assets at the date of their most recent audited accounts for all defined benefit schemes, excluding the

Notes to the financial statements
continued

28 Pension schemes continued

four local government schemes and the Group's share of RPS, totalled £130·4m. For the local authority and RPS schemes the Group's share of assets is not currently separately identified.

Contributions are paid to all defined benefit schemes in accordance with rates recommended by the schemes' actuaries.

The valuation assumptions used for accounting purposes are being made uniform to Group standards, as appropriate, when each scheme is actuarially valued. For these new valuations (excluding the local government and RPS schemes), the assumptions which are being used are that the rate of return on investment will be 9·5%, the rate of earnings growth will be 6%, the rate of dividends growth will be 5% and the rate of inflation will be 4·5%. These new valuations are made using the projected unit method.

Prepayment

A net prepayment of £14·6m (1996: £8·0m) is included in the Group's consolidated balance sheet in respect of the sum of the cumulative differences between contributions paid by the Group into the schemes and the charge to the profit and loss account, and the surplus remaining in the schemes.

Defined contribution schemes

In addition, the Group operates five small defined contribution schemes. The assets of these schemes are held in separately administered trusts.

29 Share option schemes

(a) Savings related share option scheme

The company has an Inland Revenue approved savings related share option scheme. The scheme is based on eligible employees being granted options and them agreeing to open a share save account with Halifax plc and to save weekly or monthly for five years. The right to exercise the option is at the employee's discretion at the end of the five or seven years previously chosen.

All existing options were issued on 5 October 1995 at 116p per ordinary share, which was the average mid-market price during the period 29 to 31 August 1995, discounted by 20%. The number of ordinary shares and the exercise price were varied to take account of the dilution caused by the Rights Issue. The variation was subject to certification by the auditors that the adjustments were fair and reasonable and was accepted by the Inland Revenue. The amended exercise price is 111·7p per ordinary share.

The changes in the number of employees and ordinary shares were as follows:

	Number of employees	Ordinary 5p shares
At beginning of year	4,841	5,936,556
2 for 7 Rights Issue	–	232,741
Options exercised during the year	(37)	(6,288)
Options lapsed during the year	(357)	(699,347)
At end of year	4,447	5,463,662

29 Share option schemes continued

(b) Executive share option schemes

In 1995, executives in the Badgerline Group plc and GRT Bus Group PLC executive share option schemes (including an unapproved scheme) were offered and accepted options under similar terms over FirstBus plc ordinary shares in exchange for the surrender of their existing options. The right to exercise the options is at the discretion of the executive during the period between three and ten years after the original option was granted provided that, in the case of the GRT Bus Group PLC executive share option scheme, the Remuneration Committee is satisfied that the increase in normalised earnings per share over the preceding three years has been more than the target set of 10% per annum.

The number of ordinary shares and the exercise prices were varied to take account of the dilution caused by the Rights Issue. These variations were subject to certification by the auditors that the adjustments were fair and reasonable and were accepted by the Inland Revenue.

The amended exercise prices and the changes in the number of ordinary shares were as follows:

Scheme	Date original option granted	At beginning of year	2 for 7 Rights Issue	Exercised during the year	At end of year	Previous exercise price (p)	Amended exercise price (p)
Badgerline executive	May 1990	500,000	19,230	(129,807)	389,423	40	38·52
Badgerline executive	May 1993	1,272,000	39,687	(904,612)	407,075	40	38·52
Badgerline unapproved	May 1993	200,000	7,692	–	207,692	40	38·52
GRT executive	April 1994	261,565	10,059	–	271,624	84	80·89
Badgerline executive	April 1995	315,789	12,145	–	327,934	133	128·07
		2,549,354	88,813	(1,034,419)	1,603,748		

Group financial summary

	1997	1996	1995*
Consolidated profit and loss accounts	**£m**	£m	£m
Turnover	**551·5**	356·3	329·1
Operating profit before ESOP and restructuring and other exceptional costs	**73·7**	43·2	32·9
ESOP costs	**(2·7)**	(1·2)	(0·4)
Restructuring and other exceptional costs	**(10·0)**	(6·9)	–
Operating profit	**61·0**	35·1	32·5
Operating margin† (%)	**13·4**	12·1	10·0
Profit before interest	**64·1**	31·7	32·3
Net interest payable	**(13·1)**	(9·7)	(7·5)
Profit before taxation	**51·0**	22·0	24·8
Taxation	**(3·9)**	(7·1)	(8·9)
Profit after taxation	**47·1**	14·9	15·9
Earnings per share‡	**pence**	pence	pence
Adjusted basic	**14·4**	10·4	8·0
Basic	**16·0**	7·0	7·9
Dividend per share	5·5	5·0	4·5
Consolidated balance sheets	**£m**	£m	£m
Fixed assets	**326·0**	206·3	168·9
Net current liabilities	**(97·1)**	(25·9)	(10·7)
Creditors: amounts after more than one year	**(157·4)**	(115·1)	(103·3)
Provisions for liabilities and charges	**(12·8)**	(20·7)	(13·1)
Equity minority interests	**(0·4)**	(0·4)	(0·3)
Equity shareholders' funds	**58·3**	44·2	41·5
Share data			
Number of shares in issue	**million**	million	million
At year end	**313·3**	203·9	199·4
Average‡	**293·7**	209·6	200·3

The estimated average number of shares for the year ending 31 March 1998 and the estimated number of shares at that date is 314m.

Share price	**pence**	pence	pence
At year end	**224**	181	n/a
High	**246**	181	n/a
Low	**144**	127	n/a
Market capitalisation	**£m**	£m	£m
At year end	**702**	369	n/a

* 1995 numbers are *pro forma*

† Before ESOP and restructuring and other exceptional costs

‡ The weighted average number of shares are adjusted to reflect the bonus element of the Rights Issue in June 1996

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Shareholder information

Shareholder enquiries

Enquiries relating to the following administrative matters should be addressed to the company's registrars at Bank of Scotland, Registrar Department, Apex House, 9 Haddington Place, Edinburgh, EH7 4AL. Telephone 0131 243 5366.

- Dividend payment enquiries
- Dividend mandate instructions: Dividends may be paid directly into your bank or building society account on completion of the mandate instructions form. Tax vouchers are sent to the shareholder's registered address
- Loss of share certificates
- Notification of change of address
- Transfer of shares to another person
- Amalgamation of shareholdings: if you receive more than one copy of the annual report you may wish to amalgamate your accounts on the share register

Shareholder profile

At 31 May 1997	Number of holders	%	Shares held (m)	%
By category				
Individuals	20,812	92·0	98·0	31·3
Banks and nominees	1,571	7·0	194·2	62·0
Insurance and assurance companies	13	–	0·7	0·2
Pension funds	6	–	2·3	0·7
Investment trusts and unit trusts	1	–	0·1	–
Local authorities	4	–	1·0	0·3
Other institutions	221	1·0	17·1	5·5
	22,628	100·0	313·4	100·0
By size of holding				
1 – 5,000	20,368	90·0	23·5	7·5
5,001 – 10,000	1,014	4·5	7·1	2·3
10,001 – 25,000	591	2·6	9·2	2·9
25,001 – 50,000	182	0·8	6·4	2·0
Over 50,000	473	2·1	267·2	85·3
	22,628	100·0	313·4	100·0

FirstBus policy on discounts for shareholders

Shareholders are reminded that it is not Group policy to offer travel or other discounts to shareholders as they may be used only by a small number of individuals. The Group would rather maximise dividends which are of benefit to all shareholders.

Unsolicited mail

As the company's share register is, by law, open to public inspection, shareholders may receive unsolicited mail from organisations that use it as a mailing list. To limit the amount of unsolicited mail you receive, write to the Mailing Preference Society, FREEPOST 22, London W1E 7EZ.

The paper used throughout this report carries the Nordic Swan environmental award which recognises not just the elimination of chlorine gas from the bleaching process but also the strict control of waste water and air pollution.

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