SC157176

FirstGroup

Annual Report 2001

Transport solutions for the 21st century

contents

First people

At FirstGroup we realise that people are our greatest asset. Pictured below are some of the team who deliver the service to our customers each and every day across the UK and North America.

Tracey Turner bus driver for First Southampton

David Kinchella train driver for First Great Eastern

Beverly McCauley school bus driver for First Student in New Hampshire

Dave Thomas Train Manager for First Great Western

Emma Ford Paratransit driver in Cincinnati, Ohio

Phadrea Ozog Business Travel Consultant based at First Great Western's call centre in Plymouth

Derek Turner First Provincial's Chief Driving Instructor based in Hampshire with Peter Bird, Trainee Driver

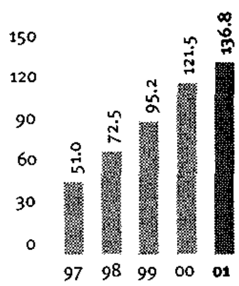
Judy Tracy Dispatcher with First Student in Hudson, New Hampshire

Donna Alosa Director of Training and Development with Debbie McCallum, Lorraine Hart-Lussier and Pat Bailey, all with First Student

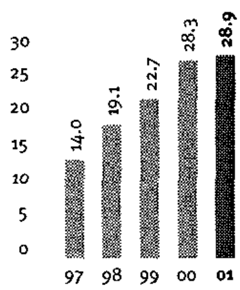
Financial highlights

		2001	2000
Group turnover	(£m)	**2,054.0**	1,795.1
Group operating profit[1]	(£m)	**218.5**	190.9
Profit before tax[2]	(£m)	**148.8**	142.1
Adjusted basic earnings per share	(pence)	**28.9**	28.3
Net dividend per share	(pence)	**9.4**	8.5
Capital expenditure	(£m)	**150.9**	136.0
Cash generation[3]	(£m)	**306.9**	260.3

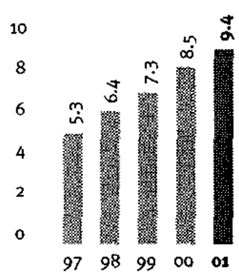
[1]Before ESOP, goodwill and restructuring and other exceptional costs
[2]Before goodwill and restructuring and other exceptional items
[3]Group operating profit, before ESOP, goodwill and restructuring and other exceptional costs, plus depreciation



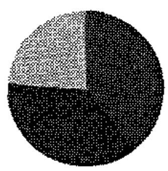
Profit before taxation
£million



Adjusted basic
earnings per share
pence



Dividend per share
pence



Annualised turnover
of Group
at 31 March 2001
■ UK Bus division
■ UK Rail division
■ North America
■ Other

First values

FirstGroup is a major international passenger transport company. We run buses, trains and trams in the UK. In the USA and Canada we operate school buses, transit services and vehicle maintenance facilities.

Our highest priority is the safety of our passengers and our employees.

Our vision is to offer the best and most consistent customer service and to be the preferred employer within our sector.

We constantly strive to improve what we do, to listen to our customers and to learn from our employees. We want to develop a shared vision of what it means to be 'First in our class'.

We are *introducing new solutions to the transport sector* and aim to be at the forefront of innovative thinking in our industry.

As a public transport operator we have a unique opportunity to improve the environment in which we live by helping to reduce traffic congestion and air pollution and conserve scarce resources by offering a real alternative to the car.

We take our role in the community seriously. We want to play our part in promoting socially inclusive policies, encouraging the young and disadvantaged, and helping the old and disabled.

We believe that through this vision we will be able to enhance our services, grow our business and add value for shareholders.

Chairman's statement

Safety remains our highest priority especially as this year has not been without problems on the railways. The accidents at Hatfield and Selby once again put the focus on rail safety. I am joined by the Board of FirstGroup and all of our employees in expressing our deepest sympathy to the injured and bereaved in these tragic accidents. We have good safety systems in place and continue to work closely with DuPont Safety Resources. We continue to strive to improve our performance wherever possible and to develop programmes to ensure that a culture of safety is embedded in everything that we do.

This has been a year of achievement for the Group. Turnover has increased by 14% to £2,054 million and profit before tax increased by 13% to £136.8 million. We have successfully progressed our strategy to focus on our three core businesses – UK Bus, UK Rail and North America. We have sold our interest in Hong Kong for £38.7 million, a profit of £13.8 million, and our 51% stake in Bristol International Airport for £107.1 million, a profit of £55.6 million. We successfully renegotiated the terms of First North Western's rail franchise which will relieve the Group of substantial losses to 2004. All three transactions will enhance the Group's earnings and improve our portfolio of businesses. In North America we have expanded our sphere of operations with the acquisition of Hertz Bus Group in Canada.

The steps taken by Railtrack in the immediate aftermath of the Hatfield accident highlighted major shortcomings in their management and maintenance of the railway infrastructure. We are deeply concerned that our passengers have suffered, and are still suffering from, delays and disruption to their journeys. We will pursue Railtrack for full compensation for the losses which have been incurred. We will also press Railtrack to complete the remedial work on the network as quickly as possible so that we can restore the full timetable service for our passengers.

We take very seriously our responsibility to the communities in which we operate to ensure that we manage environmental issues carefully. We have pioneered environmental reporting within our sector and we work closely with agencies to ensure that we maintain the highest standards of best practice throughout our businesses. Companies within our Group are encouraged to obtain ISO14001 accreditation for their environmental management systems.

People are our strongest asset. We lead the industry in our comprehensive customer and employee research and use the feedback to shape our business going forward. During the year Andrew Higginson retired from the Board as a non-executive director and I would like to thank him for his contribution to the Group.

The Group is now strongly positioned to continue its profitable expansion in the international transport industry. We believe that there are major opportunities to grow our business in North America. In the UK we are a strong contender in rail refranchising and we have the best urban bus portfolio with potential for growth as new schemes to reduce congestion are developed by Local Authorities in line with Government objectives. I believe the outlook for FirstGroup is strong and I look forward to the further growth of the business in the next 12 months.

Martin Gilbert
Chairman

Chief executive's review

Safety
Safety continues to be our number one priority and we are working on new initiatives to further develop the safety culture among all of our staff. In our rail operations we were pleased to be the first inter-city rail company to introduce airline style safety cards and safety announcements for passengers on our First Great Western trains. In a further effort to improve standards of best practice, we carried out a full scale train evacuation test to evaluate our current safety procedures. Among our employees, we are introducing programmes to help create a 'zero tolerance' culture for accidents and safety issues in the workplace. We are carrying out a series of safety training workshops for staff and, in addition, we are introducing a comprehensive employee communications programme to keep safety at the forefront of everybody's mind and share best practice throughout the Group.

Results
I am pleased to report another successful year for the Group. Operating profit, before ESOP, goodwill, restructuring and other exceptional costs, rose to £218.5 million, an increase of 14% (2000: £190.9 million). Group profit before tax increased by 13% to £136.8 million (2000: £121.5 million). Underlying earnings per share (before goodwill, amortisation, restructuring and exceptional costs and property profits) rose to 28.9p (2000: 28.3p), an increase of 2%, reflecting the full impact of the increased number of shares in issue following the rights issue in September 1999. The Board has recommended a final dividend of 6.4p, giving a total for the year of 9.4p per share (2000: 8.5p), an increase of 11%. The dividend is covered 2.3 times and will be paid on 24 August 2001 to shareholders on the register on 27 July 2001.

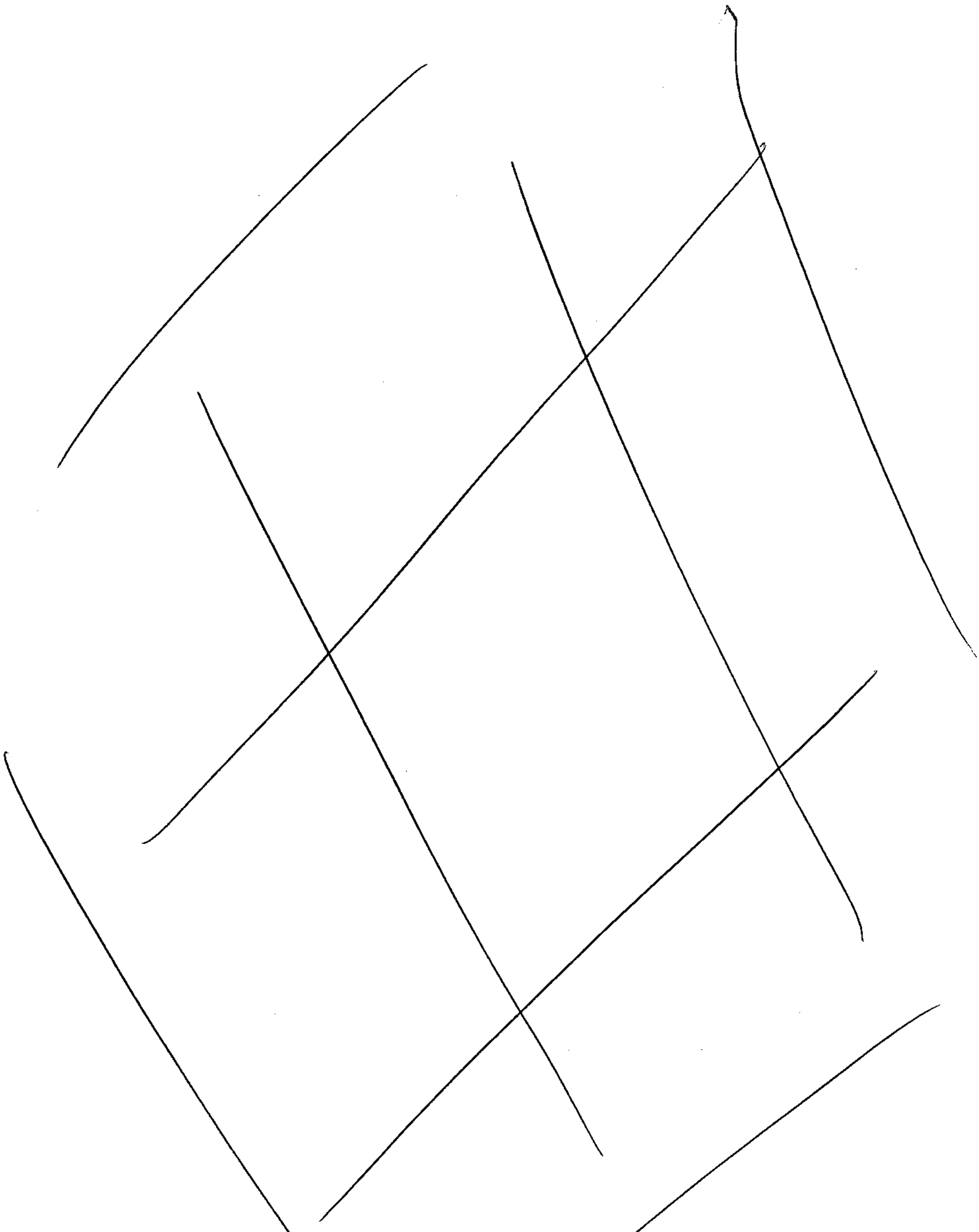
Strategy
Our strategy remains to increase value for shareholders through the focused development of FirstGroup as an international public transport leader. In line with this strategy, the Group disposed of two non-core operations during the year. The disposal of both New World First Holdings in May 2000 and Bristol International Airport in January 2001 produced substantial profits for shareholders and has enabled the Group to strengthen the focus on its core operations of UK Bus, UK Rail and in North America, student transportation, transit management and vehicle maintenance.

The scale of the US market offers excellent opportunities for growth. The combined market for student, transit and vehicle maintenance is estimated at some $25 billion and as the most cost-effective operator we are in a very strong position to grow rapidly.

Public transport remains a high priority for the UK Government. The 10-year Transport Plan envisages spending of £60 billion on railways and £59 billion on local transport initiatives. To achieve these objectives the Government has targeted a significant investment from the private sector and we believe that FirstGroup has an important role to play in helping to deliver these aspirations.

Outlook
The Group's strong financial position will enable us to develop new opportunities in our core markets and other transport-related activities. Despite the more uncertain economic outlook, I believe our companies are well placed to grow on both sides of the Atlantic, and I remain confident about the prospects for the Group. Although it is early in the new financial year, I am pleased to confirm that Group trading is in line with our expectations.

Moir Lockhead
Group Chief Executive



Safe and Sound

Every day FirstGroup carries more than four million passengers on its buses, trains, trams and school buses in the UK and North America. FirstGroup is committed to safety. Everything that we do is focused on the safety and security of the passengers we carry. That is why safety is the first item on our Board agenda at every meeting. That is why our staff attend safety workshops to ensure that they operate in the safest possible environment. That is why we have insisted that all our First Great Western trains will only run on the mainline from Paddington to Bristol if Automatic Train Protection is operating. That is why all of our school bus drivers have regular safety briefings and receive safety messages every day. We passionately believe in ensuring that public transport is a safe and secure environment for all our passengers and staff and that is why we are never complacent and always strive to improve our operating standards.

Tried and trusted

Solution

Challenge In the UK the school run accounts for up to 20% of peak hour traffic causing greater congestion, increased risk of accidents and more pollution. In the UK, only 9% of five to ten year old children go to school by bus. In the USA it is 54% of under 12 year olds. As the second largest operator of school buses in North America we can help solve the problem.

Solution In the USA, school buses are recognised as being one of the safest forms of transportation. First Student, our school bus operation in North America, transports over one million students each day. Parents trust us to deliver their children to and from school in a safe and secure environment. Schools trust us to run a reliable and cost-effective service. Our record is second to none and this is demonstrated by the number of new contracts that we have been awarded. By Autumn term 2001 we will operate over 14,000 school buses across 32 states in the USA and Canada, an increase of over 10% on the previous year. Now FirstGroup is bringing the American style yellow school bus service to the UK.

Challenge Since privatisation in 1996 we have seen an unprecedented rise in rail travel – on First Great Eastern passenger volumes are up 22% and on First Great Western they are up 33%. Under-investment in the railways over the last 20 years has left us with old rolling stock that needs replacing and not enough carriages to cope with the increased demand. This has meant overcrowding and unreliability.

Solution FirstGroup has committed to a £220 million programme of rolling stock replacement. Seventy new class 175 trains have already been introduced on First North Western, transforming the service and replacing outdated 40-year-old vehicles. On First Great Western we are introducing 70 new 125 mph trains to supplement our services and provide an unprecedented half hourly frequency to Cardiff. On First Great Eastern we are replacing the last of the slam-door rolling stock with new trains which will bring higher standards to commuters. So now you can travel to your meeting in comfort and arrive in style.

Online not in line

Challenge We have all experienced the frustration of queueing, whether it be to collect tickets, to find out information about journeys or just waiting for a bus or train to arrive.

Solution *The answer comes from FirstGroup initiatives* such as **totaljourney.com.** Providing an online one-stop-shop for all your travel needs, **totaljourney.com** will offer *not just information and booking for trains and buses,* but also for hotels, car hire and other retail services. New credit card pick-up machines at major stations will enable you to complete your transactions without the need to wait in line. We are also using technology to improve our bus and train services, to give real time information at bus stops and on WAP phones, so you will have all the information you need to plan your journey at your fingertips. Smartcards on buses, which can be topped up at your convenience, make for a speedier, cashless journey. These innovations will enable you to 'skip the queue' and get straight on with your journey. That should put a smile on your face.

Challenge Why travel by bus when it still gets snarled up in traffic and you can't guarantee to make that all important appointment? At FirstGroup we know what the problems are and we are working with Government and Local Authorities to solve them.

Solution Bus priority measures have proved to be a cost effective and immediate way of speeding up journeys, enabling us to provide a more reliable service. And guided busways, as pioneered by *FirstGroup in Leeds and Ipswich, have proved just how* attractive the bus can be. Journey times have been reduced by up to a third and the number of passengers is up by over 75% in Leeds. But we need the support of the public and Local Authorities to push ahead with more schemes. Some restrictions on private cars are inevitable. At FirstGroup we have already made the commitment. Over the last five years we have invested in 3,000 new state-of-the-art, low-floor easy access buses. So there is no need to pull your hair out. Together, we can keep the buses moving.

Group operations

FirstGroup is a major transport operator in the United Kingdom and North America.

In the UK, FirstGroup is the largest bus operator running more than one in five of all bus services. 75% of our operations are in urban areas where traffic congestion is a major problem. It is these areas that buses can offer the most effective alternative to the car and where we have a real opportunity to grow passenger volumes.

Our three UK rail franchises make up almost 15% of the rail market and carry some 300,000 passengers every day. Our operations cover intercity, London commuter and regional railways, giving us an excellent spread of experience.

We are the second largest operator of school buses in the USA and the third largest operator in Canada. We are also a major provider of public transit contracting and management and the largest private sector provider of vehicle maintenance services in the USA. Our operations are headquartered in Cincinnati, Ohio and spread across 38 states. We have strong representation in major urban areas and the fast growing states of the south east and west coast.

Operating review

UK Bus

Turnover increased by 6% to £788.6 million (2000: £744.3 million) and operating profits were £105.0 million (2000: £111.4 million). The decrease in operating profit and margin is largely due to continued cost pressures, particularly labour, and a number of one-off items including industrial action in Manchester in the first half of the year. We estimate that total passenger volumes have increased by over 1% in the year. We continue to see encouraging growth in passenger volumes in urban areas where we have rolled out 'Overground' and 'Metro' networks (the Group's simplified route and fares structures). Currently the programme has been introduced in Glasgow, Bradford, Leeds, Doncaster, Sheffield, Leicester, Southampton, Weymouth, Aberdeen and Edinburgh. Over the next 12 months we will extend coverage to include Manchester, Rotherham, York, Chelmsford, Norwich, Bristol, Northampton, Huddersfield and Halifax.

Cost pressures, particularly payroll, remain an issue. In London and the south of England, driver turnover continues at higher levels than we would wish, although we have seen some improvement during the last 12 months and our driver shortfall now represents less than 3% of our total requirement. We are focusing our efforts to ensure that we improve driver retention and are putting in place new recruitment and training procedures. Going forward we have negotiated a four year fuel hedge which will cap our exposure to fuel price increases whilst allowing us to retain the benefit of any weakness in oil prices over the period.

During 2000 we added 760 vehicles to the fleet including 35 bendi buses and 481 state-of-the-art single and double-deck vehicles which all meet the latest standards for safety, accessibility and emissions. Our average fleet age is now approximately eight years, in line with Government targets. We expect future capital expenditure will maintain the age profile of our fleet. As part of FirstGroup's drive to improve efficiency within the bus division, we are trialling innovative new arrangements with Volvo Bus Ltd for the maintenance and management of our fleets in Bradford and Aberdeen. The contracts which are initially for a seven-year duration include the provision of approximately 160 new buses and every aspect of the servicing and maintenance of the fleets, as well as the operation of workshop facilities.

The Group retains its strong belief that the bus has a major part to play in the revival of urban transportation systems. Much has been written about the advantages of tram and light rail systems and we are actively involved in a number of projects including Manchester, Bristol, Leeds, Dublin and South Hampshire light rail proposals. However, we believe that bus-based solutions still have much to recommend them in terms of financial viability, operational flexibility and speed of implementation. In Leeds it is pleasing to note that the original guided busway corridor is now carrying around 75% more passengers than it did in 1995 when the system opened. Relative to the rest of Leeds, the corridor is now carrying 100% more passengers, with no sign of this growth slowing down. New guided bus schemes are being built in Leeds and Bradford.

The Group's smartcard scheme in Bradford already has over 20,000 participants. The smartcard offers greater convenience and flexibility for passengers and helps to speed up boarding time enabling us to improve service reliability. Further initiatives are planned with our joint venture partner Prepayment Cards Limited later this year.

In February the Group was delighted to receive the endorsement of Government for our pilot project to introduce American style yellow school buses to the UK. We estimate that this new market could be worth over £200 million per annum. We will shortly be placing an order for right-hand drive vehicles for use with a number of schools and local authorities who have expressed interest in the new service.

In the Local Transport Plans unveiled by the Government in December, over £100 million of infrastructure investment by Local Authorities was authorised for towns and cities in which we operate bus services. This investment will provide a further boost for public transport and enable us to provide an enhanced level of service and reliability for our passengers.

UK Rail

Turnover in the Group's three train operating companies was £761.2 million (2000: £767.4 million). The decrease in turnover reflects the reduction in passenger volumes resulting from the extensive disruption to the national rail network, following the imposition of emergency speed restrictions by Railtrack, in the wake of the accident at Hatfield in October 2000. Operating profit was £56.2 million (2000: £46.2 million), an increase of 22%.

In the first six months of this year, up until the Hatfield accident, passenger volumes had been increasing at the rate of 7.5% overall for our three rail franchises, with passenger income increasing by 9% in First Great Western, 7.3% in First Great Eastern and 7% in First North Western. However, passenger revenues were severely impacted by the disruption to the network. We believe that growth in passenger volumes will resume once the network is restored to full working capacity and timetables are reinstated.

In the meantime we have seen a good recovery in our commuter traffic at First Great Eastern and, during March and April this year, we had a very successful off-peak fares promotion at First Great Western which has helped to encourage passengers back to the railway.

Until the Hatfield accident, performance in all three of our train operating companies was excellent. Both First Great Eastern and First Great Western were top of their respective classes in the SRA performance tables. Since then the varying impact of engineering works on different parts of the network has made it difficult to measure the performance of individual operators. We were delighted that First Great Eastern was voted Best Commuter Rail Operator of the Year in the Rail Industry Awards at the end of last year, and that our Managing Directors at First Great Eastern and First North Western both achieved major industry awards for their contribution to rail management.

In March 2001 we signed a Deed of Amendment to the First North Western trains franchise. Under the terms of this agreement, substantial losses which were expected to be incurred until the end of the franchise in 2004 will be avoided. The amendment to the franchise will improve the quality of FirstGroup's earnings and enable us to develop our proposals for new rail franchises in the region, where we are currently shortlisted for the TransPennine Express franchise (in conjunction with Via GTI, a subsidiary of SNCF) and the Wales and Borders franchise.

On First Great Western we have been invited by the SRA to put forward proposals for a two-year extension to the franchise to 2008. In addition, we are currently developing proposals in line with the SRA's strategic plan to rationalise the number of operators into London's Liverpool Street and Paddington stations. We are also bidding for the Wessex franchise which is adjacent to our First Great Western franchise. We believe we can offer significant improvements to train service capacity in the new franchise region and, as the largest operator of buses in the area, we can offer further opportunities for transport integration.

During the year, delivery commenced of part of the fleet of 70 new class 175 trains for First North Western. These trains have provided a step change in the levels of comfort on the lines where they have been introduced. A further 70 new class 180 'Adelante' 125 mph trains will enter service on First Great Western later this year. In addition we have now ordered 21 new class 360 'Desiro' units to replace the last of the slam-door rolling stock at First Great Eastern. These four-car units will provide a much improved passenger environment for commuters into Liverpool Street.

North America

FirstGroup America comprises three separate operations; First Student – school bus operations; First Transit – urban bus contracting and management; First Vehicle Services – fleet maintenance services. In the period, turnover was £462.7m (period from 13 September 1999 to 31 March 2000: £246.4m) and operating profit was £56.3m (period from 13 September 1999 to 31 March 2000: £34.5m). This excellent performance, which is ahead of budget set at the time of acquisition, is due to strong growth in the school bus division where new contracts representing over 600 additional new buses were operated from the start of the new school year in September 2000 together with strong cost control. During the year the management team has been reorganised and strengthened with simplified reporting lines and a stronger focus on sales and marketing. A key task over the first 12 months of FirstGroup's ownership was the creation of stand-alone accounting and administration systems. This has been achieved within the original timescale set at acquisition. As a result of the hard work of the management team in the US, all systems have now been successfully transferred. One-off costs of approximately £6 million were incurred mainly in connection with systems and pension advice.

First Student operates in the US and Canada and is the second largest operator of school buses in the United States with currently over 13,000 vehicles, carrying nearly a million students every day across 29 states in the US and Canada. During the year we made our first entry into the Canadian school bus market with the purchase of the Hertz Group. Hertz is the third largest school bus operator in Canada with some 735 buses operating in the province of Saskatchewan. Brad Hertz, Chief Executive of Hertz Group, has joined our North American management team with responsibility for operations in Canada and the Northern United States. We also acquired Champion of Maine, a student transportation company which operates 53 school buses in New England.

Expansion of our school bus operations has continued during the spring bidding season and to date we have won net new contracts to operate over 1,300 school buses for the new term starting in Autumn 2001. This represents growth of around 10%. This expansion will take us into a number of new states such as Alaska, Florida and North Carolina, where we have not previously operated, and take our total school bus fleet to over 14,000 across 32 states.

First Transit has renewed or gained a number of important contracts during the year including systems in Dallas, Los Angeles, other locations in California and Alabama. First Vehicle Services has gained important new contracts including locations in New York, Indiana and Virginia. Both First Transit and First Vehicle Services operate in relatively underdeveloped markets which we believe offer us significant scope for expansion.

Joint Ventures, Associates and Other

On 15 May last year the Group disposed of its 26% shareholding in New World First Holdings to the majority shareholder for £38.7 million, giving a profit before tax of £13.8 million on our investment over the 18 months since trading began.

In January 2001 we completed the sale of Bristol International Airport to Macquarie Bank Group and Cintra Concessiones de Infrastructras de Transporte, S.A. The Group received £130 million for its 51% shareholding including repayment of debt. Turnover for the period to the date of sale was £34.9 million (2000: £31.3 million) and operating profit for the period to the date of the sale was £11.5 million (2000: £9.9 million). Whilst the airport continued to perform strongly and had grown substantially since acquisition in 1997, the Group found itself unable to build a portfolio of airport businesses at prices that would have been earnings enhancing for shareholders. The sale of the airport reinforces our focus on core business activities.

Croydon Tramlink is now fully operational and is carrying an estimated 16 million passengers per year, making it the busiest tram system in the UK. In Manchester the Group is a member of the Greater Manchester Rapid Transit Consortium which has been shortlisted to take over operation of the Manchester Metrolink system and to design, build and operate new lines to Oldham/Rochdale, Manchester Airport and Ashton.

FirstInfo, the Group's information and e-commerce division, provides telephone and internet-based transport information services. A new service developed by FirstInfo is **FirstBus.co.uk** – this is the first website to sell bus company season tickets online, offering tickets from 10 FirstGroup bus companies. **TrainDirect.co.uk** sells a range of FirstGroup train tickets and season tickets online. FirstInfo operates a centralised call centre in Plymouth, which successfully re-bid for the Wales and West zone National Rail Enquiries contract. The division has also won the contract to operate the South West Region of the Government's Travel Line service, offering integrated transport information over the telephone.

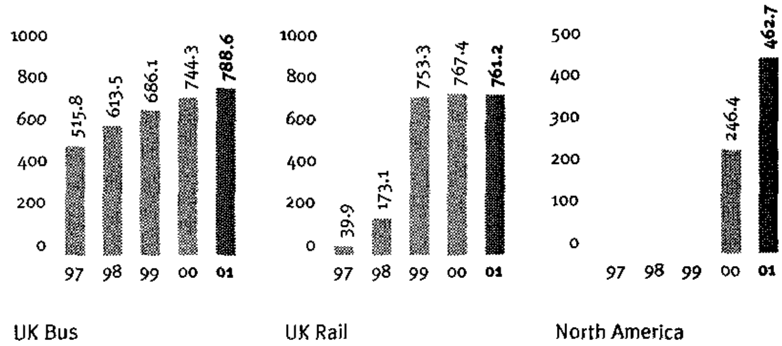
In an exciting new development, FirstGroup and Railtrack Travel Ltd signed a 50:50 joint venture agreement in January 2001 to develop **totaljourney.com**, the first integrated travel planning and booking service dedicated to the UK. **totaljourney** will be launched in June from a unique position of strength. 500,000 customers (including 35,000 WAP-registered users) will be transferred to the new online service from the Railtrack timetable site, the second most popular travel site in the UK.

Financial review

Group turnover in the year increased by £258.9 million, or 14.4%, to £2,054.0 million. Group operating profit, before ESOP, goodwill and one-off costs, was £218.5 million, an increase of £27.6 million. This year's results include a full year of the North America division for the first time, against only 6½ months last year.

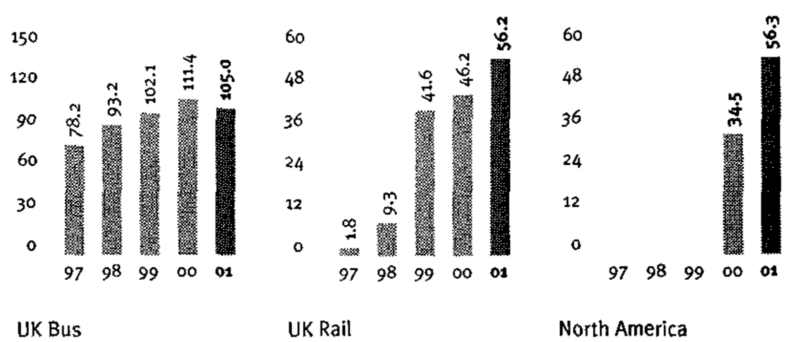
5 year record

TURNOVER BY DIVISION
£million



5 year record

OPERATING PROFIT BY DIVISION
before ESOP, goodwill and restructuring and other exceptional costs
£million



Divisional results	Year to 31 March 2001 Turnover £m	Operating profit[1] £m	Operating margin[1] %	Year to 31 March 2000 Turnover £m	Operating profit[1] £m	Operating margin[1] %
UK Bus Division	**788.6**	**105.0**	**13.3**	744.3	111.4	15.0
North America Division	**462.7**	**56.3**	**12.2**	246.4	34.5	14.0
Rail Division	**761.2**	**56.2**	**7.4**	767.4	46.2	6.0
Bristol International Airport	**34.9**	**11.5**	**32.8**	31.3	9.9	31.6
Other[2]	**6.6**	**(10.5)**	**–**	5.7	(11.1)	–
Total Group	**2,054.0**	**218.5**	**10.6**	1,795.1	190.9	10.6

[1]Before ESOP, goodwill and restructuring and other exceptional costs
[2]Tram operations, central management, Group information technology, and other items

Overall

Revenue in the UK Bus division grew by £44.3 million to £788.6 million, or 4.1% after allowing for an extra week's trading this year. The operating margin was 13.3%, reflecting both one-off items such as industrial action in Manchester in the early part of the year and implementation costs of the Overground network and more general cost pressures, particularly on drivers' wages. The Group was fully hedged on fuel during the year. We have entered a further hedge arrangement which caps our fuel costs for the four years to March 2005.

In its first full year, the North America division's turnover was £462.7 million and operating profit was £56.3 million, a margin of 12.2%. Whilst operating profit is up £21.8 million, the percentage margin is lower than last year because last year's figures excluded the school summer holidays. The increase in operating profits includes £2.9 million due to the weakening of Sterling against the Dollar this year.

The Rail division operating profit was £56.2 million, £10.0 million higher than last year's despite grant reductions of £22.7 million. Revenue was £6.2 million below last year as a result of the severe disruption to the UK rail network in the aftermath of the Hatfield accident. Prior to Hatfield, passenger revenue was up 9.4% on last year. Although some compensation has been received from Railtrack, further claims will be made for unrecovered losses.

This year's results include the trade of Bristol International Airport up to its disposal in January 2001. The operating profit for that period was £11.5 million.

Exceptional costs

Exceptional costs include a charge of £39.9 million in connection with the agreement to amend the First North Western franchise. As a result of this, significant losses to the end of the franchise in 2004 are avoided. The £13.6 million of other items includes £6.1 million in North America for restructuring and transition costs, and £2.5 million in respect of bringing new trains into service at First North Western.

Joint Ventures and Associates

The Croydon trams commenced operation in May 2000. Tram Operations Limited, our 100% subsidiary that has the operating contract, made an operating profit of £0.7 million. Our share of operating loss of Tramtrack Croydon, the joint venture that owns the track, was £0.3 million. Our share of losses at **totaljourney,** our new joint venture with Railtrack, was £0.5 million and our total equity investment is £5.5 million. **totaljourney** plans to launch its services this summer. Our share of losses at Prepayment Cards Limited, which is also in the start-up phase, was £0.2 million.

Goodwill amortisation

The overall goodwill charge this year was £27.8 million, including £25.3 million in North America and £1.9 million on joint ventures and associates. The increase over last year's £13.0 million is mainly due to the full-year effect of the North America goodwill, and goodwill on joint ventures and associates that commenced this year.

Interest

Net interest payable was £64.5 million (2000: £44.0 million). This was covered 4.8 times by cash generation. The increase in the interest charge over the previous year principally reflects the

Financial review

Analysis of net debt	Fixed £m	Variable £m	Total £m
Cash	–	28.2	28.2
Rail ring fenced cash	–	50.2	50.2
Sterling bank loans and overdrafts	–	(334.4)	(334.4)
US dollar bank loans	–	(176.4)	(176.4)
Canadian dollar bank loans	–	(6.0)	(6.0)
HP and finance leases	(151.2)	(35.2)	(186.4)
Loan notes	(9.5)	(26.4)	(35.9)
Interest rate caps and swaps	(451.5)	451.5	–
Total	**(612.2)**	**(48.5)**	**(660.7)**

full-year effect of the increased net debt following the Ryder acquisition in September 1999.

Employee Share Ownership Plan (ESOP)

The charge for the ESOP represents 5% of profits earned in the UK. The appropriation of £4.2 million (2000: £5.2 million) will be shared among an estimated 26,000 eligible UK employees.

Acquisitions and disposals

On 18 December 2000 the Group acquired the Hertz Group in Canada for C$24.4 million (£10.9 million) paid in cash. The goodwill amounted to £8.0 million, which is being amortised over 20 years.

The Group's 51% stake in Bristol International Airport was sold on 24 January 2001 for net proceeds of £128.3 million, including the repayment of Group loans. The pre-tax profit on disposal was £55.6 million.

In May 2000, we sold our 26% interest in New World First Holdings to our joint venture partners, New World Development Company, for HK$457 million (£38.7 million). The pre-tax profit on disposal was £13.8 million.

Taxation

The overall tax charge for the year of £42.0 million includes £21.8 million in respect of the Bristol International Airport and New World First Holdings disposals and £2.5 million tax relief on the exceptional costs. Although the Group believes that tax relief is available for the costs of obtaining and managing rail franchises, no tax relief has been accrued in respect of the charge for the First North Western franchise amendment. The effective rate on underlying profits is 15.3%, which reflects the high level of capital expenditure in the UK and the tax relief obtained in the US for goodwill amortisation.

Cash flow and investment in the business

Cash generation (operating profit, before ESOP, goodwill and one-off costs, plus depreciation) was £306.9 million, 18% higher than last year's £260.3 million. Capital expenditure was £150.9 million. This included £54.3 million for 481 new buses in the UK. In addition, the Group commenced leases on 278 new buses with a value of £31.7 million. In the USA, £58.4 million was spent on 1,500 new vehicles which supported an additional 600 new vehicle routes. Capital expenditure at Bristol International Airport was £5.9 million in the period up to disposal.

£7.0 million of the deposit on new rolling stock previously paid by the Group has been refunded by the leasing company, as the first new trains were delivered to First North Western. The remaining deposits of £23.4 million will be recovered from the leasing companies when the other First North Western and the First Great Western vehicles are delivered into service.

Balance sheet

Net assets of the Group increased from £336.2 million to £458.6 million. The main elements of the increase are the £52 million retained profit, £60 million of foreign exchange differences, £40 million of goodwill written back on the disposal of Bristol International Airport and New World First Holdings, offset by the £31 million of share repurchases.

The Group's net debt has fallen over the year by £119.1 million to £660.7 million, reflecting the Group's strong operating cash flow, which remains positive after high capital expenditure, together with the disposal of Bristol International Airport. The £38.5 million proceeds from the sale of New World First Holdings have largely been used for share repurchases.

Funding and risk management

The Group only borrows to finance investment and provide working capital. It does not enter into speculative financial transactions and uses financial instruments for risk management purposes only.

As the Group is a net borrower, it minimises cash and bank deposits, although it can only withdraw cash and bank deposits from the rail companies to the extent of retained profits. Cash received in advance for rail season tickets is protected by an insurance arrangement approved by the SRA, which has replaced the bonded cash. The Group limits deposits with any one bank to a maximum of £30 million, depending upon the individual bank's credit rating.

The Group reduces exposure to interest rate risk by using interest rate swaps and fixed rate debt. At 31 March 2001, net debt amounted to £660.7 million, which is analysed opposite.

The maturity profile of banking facilities is regularly reviewed. Well in advance of their expiry, the facilities are extended or replaced. At the year end, bank borrowing and guarantee facilities amounted to £825 million, of which £617 million had more than two years to maturity. This compares with total utilisation of £517 million.

The Group hedges part of its exposure to the impact of exchange rate movements on translation of foreign currency net assets by holding net borrowings in foreign currencies.

The Group manages exposure to fuel price movements by entering contracts with suppliers to cap or fix the purchase price for future periods.

Shares in issue

During the year, 12.7 million shares were repurchased and cancelled at a total cost of £31.1 million. 1.1 million shares were issued to the Group's QUEST to be used to satisfy SAYE share option exercises and 0.5 million shares were issued on the exercise of executive share options. The total number of shares in issue decreased by 11.1 million to 422.4 million. Immediately before the year end, the Group contracted to purchase a further 0.2 million shares, although settlement and cancellation did not take place until immediately after the year end. For the purpose of the earnings per share calculation (excluding own shares held), the average number of shares in issue for the year was 422.2 million. If the number of shares remained unchanged for the forthcoming year, the average number in issue would be 421.1 million.

Foreign exchange

The profits from the US have been translated at an average rate of £1:$1.49 (2000: £1:$1.62). The year end rate was £1:$1.42, compared with £1:$1.60 last year.

Accounting standards and policies

During the year, three new accounting standards were issued, being FRS 17 Retirement Benefits, FRS 18 Accounting Policies and FRS 19 Deferred Tax. It is intended to adopt FRS 19 in the forthcoming year and to follow the phased introduction of FRS 17 that is provided for in its transitional arrangements, starting in the forthcoming year. The Group already complies with FRS 18.

Iain Lanaghan
Group Finance Director

Directors and advisers

Martin Gilbert MA LLB LLD CA
Non-Executive Chairman; Chairman of the Nominations Committee †+
He is one of the founding directors and Chief Executive of Aberdeen Asset Management PLC, who have assets under management in excess of £35 billion. He was appointed to the Board of GRT Bus Group PLC at the time of the employee buyout, which was partly funded by Aberdeen Asset Management. He is a director of a number of investment trusts and is a non-executive director of Lombard International Assurance SA, Primary Health Properties PLC and Scottish Medical PLC. Age 45.

Moir Lockhead OBE
Deputy Chairman and Group Chief Executive; Chairman of the Safety Committee #
Group Chief Executive and Deputy Chairman since FirstGroup's formation in 1995, having been Executive Chairman of the GRT Bus Group PLC from 1989 when he led the successful employee buy-out. He joined Grampian Regional Transport as General Manager in 1985 after following a career in engineering. He has been Chairman of Scottish Enterprise Grampian since 1998 and a director since 1993. He has been Non-Executive Chairman of the ASCo Group since 1997. In 1996 he was awarded the OBE for services to the bus industry and he is a past President of the Confederation of Passenger Transport. Age 56.

Tony Osbaldiston FCA
Deputy Chief Executive #
Joined the Badgerline Group plc as Finance Director in February 1995. He is now responsible for FirstGroup America. He was previously Finance Director of Volvo Car UK Limited. Before joining Volvo he was Finance Director of the Max Factor UK Group. He qualified as a chartered accountant with Coopers & Lybrand. Awarded Scottish Finance Director of the Year 1999. He is a non-executive director and Chairman of the Remuneration Committee of Synstar International Plc. Age 48.

Robbie Duncan CA
Director UK Bus #
Director UK Bus since April 1997, having been Group Managing Director of GRT Bus Group PLC, which he joined as Finance Director in 1986. He qualified as an accountant with Coopers & Lybrand where he worked overseas for four years and in industry for five years. He is a non-executive director of Auris Ltd. Age 51.

Iain Lanaghan MA CA
Group Finance Director
Appointed to the Board in August 2000 as Group Finance Director. He joined the Group from Atlantic Power Group, a subsidiary of Petroleum Geo-Services (PGS) in Aberdeen where he was Finance Director. Previously he was Finance Director of PowerGen International. He is a Chartered Accountant, having qualified with KPMG in London and Europe. Age 45.

† Member of the Audit Committee
‡ Member of the Remuneration Committee
+ Member of the Nominations Committee
 # Member of the Safety Committee

Dr Mike Mitchell MA MBA PhD MCIT
Director UK Rail #
Appointed Director UK Rail in December 1999, he began his career as a graduate management trainee with British Rail in 1970 and progressed in rail operations management. In 1986 he was appointed Operations Manager for Eastern Scottish Omnibuses Limited in Edinburgh, which was later acquired by GRT Bus Group. In 1997, he became Divisional Director of FirstGroup's North West bus division and Managing Director of First Manchester. Following the Group's purchase of three rail franchises, he was seconded to First North Western and subsequently appointed Managing Director, Rail Division in January 1999. Age 53.

David Dunn CA
Non-Executive; Chairman of the Audit Committee †‡+
Appointed to the Board as a Non-Executive Director in December 1999. He is a Chartered Accountant and is Non-Executive Chairman and formerly Chief Executive of Scapa Group plc. He is also a Non-Executive Director of Croda International plc and 4imprint Group plc. Age 56.

James Forbes MSc BSc CEng MIEE
Non-Executive; Chairman of the Remuneration Committee †‡+
He was appointed Chief Executive of Scottish and Southern Energy in December 1998, following the merger of Scottish Hydro-Electric and Southern Electric. Prior to this he held a number of executive positions within Southern Electric being appointed Chief Executive in 1996. Age 54.

George Law
Non-Executive Employee Director †‡+
Appointed to the Board as Employee Director in January 2000. He has worked as a bus driver for FirstGroup in Aberdeen for over 30 years. Age 49.

B. Louise Ruppel
Company Secretary

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

UBS Warburg
1 Finsbury Avenue
London EC2M 2PP

Merchant Bankers
Lazard Brothers & Co., Ltd
21 Moorfields
London EC2P 2HT

Principal Bankers
Danske Bank
75 King William Street
London EC4N 7DT

The Royal Bank of Scotland plc
135 Bishopsgate
London EC2M 3VR

HSBC Bank plc
27-32 Poultry
London EC2P 2BX

Auditors
Deloitte & Touche
Hill House
1 Little New Street
London EC4A 3TR

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

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

Slaughter and May
35 Basinghall Street
London EC2V 5BD

corporate governance

The Board has reviewed the Group's compliance with the Code of Best Practice as set out in Section 1 of the Combined Code on Corporate Governance annexed to the Listing Rules of the Financial Services Authority.

The Board is committed to maintaining the highest professional standards and integrity in all its business activities and supports the principles and provisions, upon which the Code is based. The Group intends to continue to embed internal controls and risk management into the operations of the business and to deal with areas of improvement which come to management's and the Board's attention.

The Listing Rules require the Company to demonstrate how it has applied the Principles of Good Corporate Governance and to explain the extent to which the Code Provisions have been complied with during the accounting period.

Directors

Board of Directors

The Company is controlled through the Board of directors, which comprises five executive and four non-executive directors. Biographical details and current business interests of each director in office at the end of the financial year appear on pages 24 and 25. The roles of Chairman and Chief Executive are separate such that there is an adequate division of responsibilities at senior Board level.

All directors have access to the advice and services of the Company Secretary and can seek independent professional advice, at the Company's expense, in the furtherance of their duties if necessary. As required by the Company's articles of association, directors offer themselves for re-election at least once every three years.

Non-Executive Directors

The Board considers that David Dunn, Jim Forbes and Martin Gilbert are independent non-executive directors, whilst the employee director, George Law, is not. All four non-executive directors actively contribute to the functioning of the Board, bringing a wide range of views and experience from different fields. The senior independent non-executive director is David Dunn.

Main Board Responsibilities

The Board normally meets around twelve times per annum and has a formal schedule of matters reserved for its consideration, allowing it to maintain control over critical strategic, financial, operational and organisational matters and key business decisions; day to day management of the business has been delegated to the executive directors and senior operating unit management. Specifically, the Board is responsible for overall Group strategy, acquisition and divestment policy, major capital expenditure, financing arrangements, operating and accounting policies and relationships with regulatory authorities.

At each meeting the Board receives reports on safety and key business matters in the UK bus, North America, and rail operations and finance. Additional ad-hoc reports on other matters are received and considered as appropriate.

Board Committees

The Board has established a number of standing committees, each of which operates within defined terms of reference. The principal committees are the Executive Management Board, the Safety Committee, the Audit Committee, the Remuneration Committee and the Nominations Committee.

Executive Management Board

The Executive Management Board (EMB) acts as a general operating management committee and comprises all the executive directors and certain senior business managers. The EMB is chaired by Moir Lockhead.

Safety Committee

The Safety Committee is chaired by Moir Lockhead. The other members are Tony Osbaldiston, Robbie Duncan and Mike Mitchell.

Audit Committee

The Audit Committee, chaired by David Dunn, comprises all the non-executive directors. The committee meets at least twice per annum with the external auditors attending by invitation. The Committee assists the Board in meeting its accounting and financial reporting responsibilities by reviewing the Group's accounting policies, financial statements, accounting matters and the adequacy of its internal controls and risk management. It also provides a forum through which the internal and external auditors can report to the non-executive directors, in private if necessary.

Remuneration Committee

The Remuneration Committee is chaired by Jim Forbes. The other members are David Dunn and George Law.

Nominations Committee

The Nominations Committee comprises Martin Gilbert, as committee chair, David Dunn, Jim Forbes and George Law. The committee meets when required and is responsible for making recommendations to the Board on its composition and balance, including the appointment of new directors.

Directors' Remuneration
In making recommendations to the Board on directors' remuneration, the Remuneration Committee takes advice from external consultants on the level of directors' pay and benefits offered by similar organisations in terms of size and market sector. The committee also reviews the performance of the executive directors and key members of senior management, against specific performance objectives, prior to making recommendations to the Board on directors' annual salary, bonus and share option awards. The remuneration of non-executive directors is recommended to the Board by the Chairman and Chief Executive. The final determination of individual directors' remuneration is taken by the Board as a whole, but with no director participating in the discussions, nor voting, on their own remuneration package.

The Report of the Board to the Shareholders on Directors' Remuneration, set out on pages 29 to 32, gives further explanation of the Company's remuneration policy and includes details of directors' pay, incentive payments and related performance criteria.

Relations with Shareholders
To ensure that investors have a mutual understanding of the Company's objectives, the directors, particularly the Chief Executive and Group Finance Director, attend meetings with the Company's institutional shareholders throughout the year. Formal presentations are made following the announcement of the annual and interim results to discuss issues and obtain feedback, whilst further meetings were held with analysts and shareholders in the year ending 31 March 2001.

Notice of the Annual General Meeting (AGM) is circulated to all shareholders at least 20 working days prior to the meeting. All directors and Board committee Chairs plan to attend the AGM and to be available to answer shareholders' questions. In addition to the AGM, private investors are kept informed of key business activities, decisions, appointments etc. via press releases and the FirstGroup web site.

Accountability and Audit

Financial Reporting
The directors have a commitment to best practice in all the Company's external financial reporting in order to present a balanced and understandable assessment of the Company's financial position and prospects to its shareholders, employees, customers, suppliers and other third parties. This commitment encompasses all published information including but not limited to the year end and interim financial statements, Stock Exchange and other public information. The Audit Committee reviews the annual and interim financial statements prior to publication.

Going Concern
After making enquires, the directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason the directors continue to adopt the going concern basis in preparing the accounts.

Internal Control
The Board of directors has overall responsibility for the Group's system of internal control, the objective of which is to safeguard the assets of the business, effectively manage the business risks, maintain proper accounting records and ensure that financial information used within the business or for publication is reliable.

Last year the Group reported, under the transitional arrangements then available, that it had established the necessary procedures to ensure full implementation from 1 April 2000. Full implementation of the Code extends the requirement that the Board review the effectiveness of the Group's system of internal controls to cover all controls including financial, operational and compliance controls and risk management, that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, that it has been in place for the year under review and up to the date of approval of the annual report and accounts.

There is an extensive programme in place for reviewing, assessing and benchmarking the effectiveness of financial and operational controls across all divisions and business units. On behalf of the Board the Audit Committee reviews the effectiveness of the Group's internal control system and has done so during the year, taking account of any material developments since then.

The key features of the Group's system of internal control are set out below:

Control Environment
The Board is committed to business integrity, high ethical and moral values and professionalism in all its activities. To this end the Board has developed and circulated a code of conduct with which managers and employees comply.

The Board has implemented a divisional organisational structure that allows it to plan, execute, control and monitor the business in a manner consistent with the achievement of the Group's objectives. A key feature of this structure is the delegation of day to day business management to the executive directors and subsidiary unit managing directors, through formally defined lines of responsibility, authority and reporting, including specific responsibility for implementing adequate internal controls throughout the Group. As noted above the Board retains certain key decisions to itself enabling it to maintain control over the key business decision making processes and significant transactions in terms of size, type or risk.

Certain key financial functions including treasury, taxation, insurance, acquisition evaluation, financing arrangements and the provision of legal advice are controlled by Group Head Office functions, which are monitored by the Group Finance Director.

Identification of Risks

The Board has identified an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. The process has been in place for the year and up to the date of approval of this report. The programme is designed to manage rather than eliminate risks and can therefore only provide reasonable and not absolute assurance against material misstatement or loss. The key aspects of the risk management process are:

- ongoing assessment of risks considered as part of the Group's budgetary and planning processes;
- risk management culture embedded within operations at each business unit;
- additional reporting mechanisms integrated within the reporting process to allow for the Group Board to receive regular reviews of the risk management process;
- nomination of senior managers as divisional risk controllers;
- twice yearly review and reporting of key divisional risks and divisional and main Board approval;
- annual risk mapping assessment and reporting at business unit level; and
- review by internal audit of risk reports within unit audit programs.

Where appropriate, risks are insured or passed to third parties.

Financial Information and Reporting

A professional approach to financial reporting and information which complies with generally accepted accounting practice is adopted by the Company. The Group Finance Manual, circulated by the Group Finance function to all subsidiaries, details the Group accounting policies and procedures with which subsidiaries must comply.

A comprehensive standard Group financial reporting system ensures that budgets, management accounts, forecasts and other internal financial information are prepared/reported on a consistent, accurate and timely basis. The Board receives monthly reports on progress against budget, forecast and revised forecasts.

Monitoring

The Group financial reporting system provides a comprehensive monitoring system which allows variances from budgetary targets to be quickly identified, allowing senior management to take corrective action. The key elements of this system are:

- weekly reporting of key performance indicators, both financial and operational;
- monthly management accounts, including profit and loss, balance sheet and cash flow statements;
- rolling monthly forecasts; and
- 13-week cash flow forecasts.

Operating subsidiaries are required to complete an annual internal control self assessment questionnaire, which covers financial and other controls and risk assessment, and which is reviewed by the auditors. Detailed action plans are developed from these questionnaires to resolve any control weaknesses or significant risks identified.

The Group Internal Audit function reviews controls in the subsidiaries to a plan agreed with the Audit Committee. Reports are sent to senior executives of the Group and subsidiaries and there is a follow-up process to ensure that actions to resolve control weaknesses are implemented.

Compliance Statement

In the opinion of the directors, the Group has complied with the Code throughout the year, except as follows:

As stated above, the Board believes that the employee director makes a positive contribution to the workings of the Board and should sit on its various committees, including the Remuneration Committee. However, the Code requires that Remuneration Committees should exclusively comprise independent non-executive directors.

directors' remuneration

This report by the Board contains the information required by The Listing Rules.

Remuneration Committee

The Remuneration Committee is chaired by Jim Forbes and the other current members are David Dunn and George Law, all non-executive directors. The Committee is responsible for the determination of remuneration for executive directors. The non-executive directors (with the exception of George Law, the Company's non-executive Employee Director, see below) have no personal financial interest (other than as shareholders) in the matters to be decided, no potential conflict of interest arising from cross directorships 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. George Law, as non-executive Employee Director, is fully entitled as an employee to participate in the FirstGroup share option schemes, receive shares under the FirstGroup Employee Share Ownership Plan (ESOP) and to be a member of his 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. The term of appointment for Martin Gilbert is currently until 31 July 2001. The appointments of David Dunn, Jim Forbes and George Law end on 31 December 2002. The appointments of all the non-executive directors are subject to early termination (without compensation) if they are not re-appointed at Annual General Meetings.

Remuneration policy

The remuneration policy 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 for 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 FirstGroup business, in which case any fee must be remitted to the Company.

Directors' remuneration

Details of each individual director's remuneration, excluding pension contributions, for the year ended 31 March 2001 are given below:

	Salary 2001 £000	Cash bonus 2001 £000	Share bonus 2001 £000	Benefits in kind 2001 £000	Fees 2001 £000	**Total 2001 £000**	Total 2000 £000
Executive directors							
Moir Lockhead	325	130	95	17	–	**567**	404
Tony Osbaldiston	275	110	72	18	–	**475**	350
Robbie Duncan	220	53	40	14	–	**327**	299
Iain Lanaghan[2]	110	44	32	1	–	**187**	–
Mike Mitchell[4]	200	80	68	13	–	**361**	144
Richard George[3]	–	–	–	–	–	**–**	217
Trevor Smallwood[3]	–	–	–	–	–	**–**	118
Non-executive directors							
Martin Gilbert	–	–	–	–	60	**60**	26
David Dunn	–	–	–	–	30	**30**	6
Jim Forbes[2]	–	–	–	–	23	**23**	–
George Law	–	–	–	–	11	**11**	3
Andrew Higginson[1]	–	–	–	–	15	**15**	24
Bill Foreman[3]	–	–	–	–	–	**–**	10
Jean Weatherhead[3]	–	–	–	–	–	**–**	7
	1,130	417	307	63	139	**2,056**	1,608

[1] Retired during the current year
[2] Appointed during the current year
[3] Retired during the previous year
[4] Appointed during the previous year

directors' remuneration

Salaries
The basic salary of each executive director is reviewed annually before 1 April for the forthcoming year.

Annual performance related bonus
The Company operates an annual performance related bonus scheme for executive directors. The performance targets are established by the non-executive directors and are linked to Group profitability and personal performance. For executive directors responsible for individual divisions (Tony Osbaldiston, Robbie Duncan and Mike Mitchell), performance targets are also linked to the profitability of their divisions. Bonus payments comprise a mixture of cash and share awards. Share awards are deferred for three years and will lapse if the director leaves the Group for reasons other than redundancy, retirement or mutual termination. Bonuses are not pensionable.

Long term incentive plan (LTIP)
The Company has established a long term incentive plan for the benefit of certain senior executives of the Group, including the executive directors, subject to the discretion of the Committee. The aim of the plan is to provide an incentive to achieve a sustained improvement in total shareholder return.

An award under the plan consists of an option to acquire at a later date, shares in the Company subject to certain performance conditions. Awards are, in effect, exercisable at no cost (other than any tax charges) to the participant as exercise of an award automatically entitles the participant to a gross cash payment equal to the exercise consideration required. The primary performance condition is the level of total shareholder return achieved over a three-year performance period compared with that of all other companies (excluding investment trusts) in the FTSE 250 Index. For this purpose, total shareholder return is calculated to reflect the capital growth in the shares, deeming any dividend paid to have been used to acquire further ordinary shares at the market price on the day such dividend was paid.

If FirstGroup's total shareholder return is in the top 25% of companies in the Index, an award would be exercisable in respect of 200% of the award shares. If FirstGroup's total shareholder return is at the mid-point of the companies in the Index, an award would be exercisable in respect of 50% of the award shares. For positions between the 25th percentile and 50th percentile ranking, an award would be exercisable in respect of a proportion of the award shares between 200% and 50% measured on a sliding scale. If FirstGroup's total shareholder return is below 50% of the Index companies, awards will not be exercisable.

Regardless of FirstGroup's total shareholder return performance, awards will not be exercisable unless the Group has achieved growth in earnings per share greater than the increase in RPI, measured over the same performance period.

Awards may normally be exercised at any time after the performance conditions have been satisfied until the 7th anniversary of the grant of the award.

The maximum value of shares comprised within any award granted in any financial year is limited to 40% of the individual's annual salary at the date of the grant and is then adjusted according to performance.

Awards were made to directors in 1997 in respect of the three-year performance period ending 31 March 2000. Those awards would, under the original Plan rules, have lapsed at the end of the performance period as the minimum performance criteria were not achieved. However, following receipt of professional advice, the Remuneration Committee determined that in view of the exceptional stock market conditions experienced in the last few months of the performance period, it should be extended for a further two years. This was subsequently approved at the AGM on 29 June 2000, although the executive directors all waived their entitlement to the 1997 awards.

Further awards were made to directors in 1998, 1999 and 2000 in respect of the three-year performance periods ending 31 March 2001, 2002 and 2003 respectively. During the performance period for the three years ended on 31 March 2001, FirstGroup's total shareholder return was 6.4%, which was at the 43rd percentile of the Index. As a result, directors are entitled to 91.2% of the 1998 award, which is equivalent to 45.6% of the maximum number of shares. Each of the members of the LTIP scheme is being offered a cash award in lieu of the shares.

Details of LTIPs are as follows:

	Year of award	Options over FirstGroup plc ordinary shares: At beginning of year	Granted during the year	Lapsed/waived during the year	At end of year
Moir Lockhead	1997	65,118	–	(65,118)	–
	1998	36,196	–	(19,695)	16,501
	1999	49,180	–	–	49,180
	2000	–	110,168	–	110,168
Tony Osbaldiston	1997	56,714	–	(56,714)	–
	1998	32,174	–	(17,507)	14,667
	1999	43,716	–	–	43,716
	2000	–	93,220	–	93,220
Robbie Duncan	1997	50,412	–	(50,412)	–
	1998	30,164	–	(16,413)	13,751
	1999	41,530	–	–	41,530
	2000	–	74,576	–	74,576
Iain Lanaghan	2000	–	55,932	–	55,932
Mike Mitchell	1997	23,630	–	(23,630)	–
	1998	11,940	–	(6,497)	5,443
	1999	17,758	–	–	17,758
	2000	–	67,796	–	67,796

It is intended that the current LTIP arrangements will be replaced during the current year with a new executive share option scheme for senior executives of the Group, including the executive directors. Details of the proposed new scheme are included in the notice of the AGM for July 2001, in which shareholder approval is sought.

Other benefits

Executive directors are eligible for a range of benefits including, in most cases, 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.

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.

All of the executive directors are members of one of the Group pension schemes. As Tony Osbaldiston and Iain Lanaghan joined the Group after the introduction of the salary cap in May 1989, defined contribution pension arrangements have also been established through a FURBS for each of them to provide benefits commensurate with the current market practice for equivalent positions. The contributions to the FURBS in the year were £93,000 (2000: £31,000) for Tony Osbaldiston and £24,000 (2000: £nil) for Iain Lanaghan.

Pension benefits earned by directors who are members of one of the Group pension schemes are as follows:

	Increase in accrued pension during the year £000	Transfer value of increase in accrued pension £000	Accumulated total accrued pension at year end £000
Moir Lockhead	40.2	709.6	133.0
Tony Osbaldiston	2.8	24.1	18.6
Robbie Duncan	7.9	95.9	42.7
Iain Lanaghan[1]	1.8	9.5	1.8
Mike Mitchell	1.3	7.9	21.6

[1] Figures given are for period since appointment

As at 31 March 2000, the accrued pension of the highest paid director for 1999/00 was £89,800.

The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year. The increases in accrued pension during the year exclude any increase for inflation. The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 less each director's contributions. The transfer values do not represent a sum paid or payable to the individual directors. Instead they represent potential liabilities of the pension schemes.

Moir Lockhead and Robbie Duncan are entitled at retirement age to a lump sum from their pension scheme of £398,900 (2000: £269,400) and £128,200 (2000: £101,300) respectively.

Service contracts

Each of the executive directors' service contracts is terminable by the Group or by the individual on giving not less than one year's notice. The service contracts of all the executive directors 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. Additional details are given in note 33 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.

Savings related share option scheme (SAYE)

Grants of options under this scheme took place in October 1995 and June 1999. All of the executive directors waived their right to apply for any options in respect of these grants. Before Mike Mitchell became an executive director of the Company, he had participated in the October 1995 grant of options. During the year, Mike Mitchell's 4,868 options were exercised at a price of 107.72p per share, giving a pre-tax gain of £9,000.

George Law holds 1,303 options with an exercise price of 107.72p and a maturity date of October 2002, and 323 options with an exercise price of 359.73p and a maturity date of June 2002.

Executive share option schemes

Tony Osbaldiston is the only director with share options remaining under the Badgerline Group plc executive share option scheme, details of which are given below. No further options will be granted under this scheme. In February 2000, a one-off exceptional award of options was made to Tony Osbaldiston. The main performance criteria are that the US businesses achieve their budgeted performance over the three years to 31 March 2003 and over that period the Group's adjusted basic earnings per share growth is at least equal to RPI. The performance criteria can be waived at the discretion of the Remuneration Committee.

Scheme	At beginning of year	Exercised during year	At end of year	Exercise price (p)	Date from which exercisable	Expiry date
Badgerline executive	340,030	(326,500)	13,530	123.51	3/4/98	2/4/05
2000 award	147,059	–	147,059	nil	1/4/03	28/2/10

The pre-tax gain made by Tony Osbaldiston on the exercise of executive share options was £570,000.

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 UK profit before taxation to the trustees of the ESOP. The trustees use the funds received to acquire shares in the Company which are held in trust and apportioned equally amongst the Group's participating UK employees. An appropriation under this scheme took place in June 2000 in respect of the year ended 31 March 2000. 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.

The market price of FirstGroup plc shares at 31 March 2001 was 305p and the range during the year was 140p to 312p.

directors' report

The directors have pleasure in submitting their annual report and financial statements for the year ended 31 March 2001.

Principal activities
The principal activity of the Group is the provision of passenger transport services.

Review of the business
Reviews of the business and likely future developments are given in the Chairman's Statement, Chief Executive's Review, Operating Review and Financial Review.

Financial matters
The results for the year are given in the profit and loss account on page 38.

The directors recommend payment of a final dividend of £26.9m (6.4p per share) which, with the interim dividend of £12.6m (3.0p per share) paid on 14 February 2001, gives a total dividend of £39.5m (9.4p per share) for the year. There is also a £0.7m credit in respect of the prior year final dividend due to the repurchase and cancellation of shares, giving a net dividend charge for the year of £38.8m. The proposed final dividend, if approved, will be payable on 24 August 2001 to shareholders on the register at the close of business on 27 July 2001.

Share capital
Details of changes in share capital are given in note 23.

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 hire purchase contracts and finance leases and under operating leases are paid by direct debit. At 31 March 2001 the Group had 36 days' (2000: 39 days') purchases outstanding. The Company does not have any trade creditors in its balance sheet.

Directors
The directors of the Company since 1 April 2000 were:

	Date of appointment	Date of resignation
Robbie Duncan		
David Dunn		
Jim Forbes	25 April 2000	
Martin Gilbert		
Andrew Higginson		3 October 2000
George Law		
Iain Lanaghan	1 August2000	
Moir Lockhead		
Mike Mitchell		
Tony Osbaldiston		

Further information on the current directors is given on pages 24 and 25.

In accordance with the Company's Articles of Association, Iain Lanaghan, who was appointed director since the date of the last Annual General Meeting, will be retiring and, being eligible, offers himself for re-election. In addition, Robbie Duncan will be retiring by rotation at the forthcoming Annual General Meeting and, being eligible, offers himself 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 Report on Directors' Remuneration on pages 29 to 32.

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 5p shares			
		At end of year	At beginning of year or subsequent appointment	
	Beneficial	Non-beneficial	Beneficial	Non-beneficial
Robbie Duncan	3,838,234	–	3,838,234	–
David Dunn	8,000	–	8,000	–
Martin Gilbert	19,285	–	19,285	–
George Law	465	–	380	–
Iain Lanaghan	6,036	–	2,036	–
Moir Lockhead	1,450,723	470,690	1,450,723	470,690
Mike Mitchell	115,395	–	115,327	–
Tony Osbaldiston	3,500	–	9,500	–

Details of the directors' share options are given in the Report on Directors' Remuneration on pages 29 to 32.

Moir Lockhead and Robbie Duncan also hold nominal non-beneficial interests in a number of subsidiary undertakings.

Between 1 April and 14 May 2001, the directors' interests 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 14 May 2001, the Company had not been advised of any notifiable interests in its issued ordinary share capital.

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 extends employee involvement by the appointment of employee directors nominated by the workforce. This encompasses one employee director on the Board of FirstGroup 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 Employee Share Ownership Plan (ESOP). The Board has resolved to allocate 5% of the Group's UK profits to the ESOP. The trustees will use this to acquire shares in the Company, which will then be appropriated to participating UK employees.

The Group has a savings related share option scheme, details of which are given in note 33 to the financial statements.

The Group recognises its obligations to give disabled persons full and fair consideration for all vacancies where possible. 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 £80,900 (2000: £92,400) during the year. There were no payments made for political purposes.

Other issues
The introduction of the Euro has had minimal impact on the Group, as the Group does not trade in continental Europe. The directors continue to monitor the situation with regard to the possible introduction of Euro notes and coins in the UK.

Annual General Meeting
The Annual General Meeting will be held at the Aberdeen Exhibition and Conference Centre, Bridge of Don, Aberdeen, Scotland AB23 8BL on Thursday 5 July 2001 at 11.00 am. The notice of this Meeting is contained in a separate letter from the Chairman accompanying this annual report.

Auditors

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution concerning their reappointment and remuneration is to be proposed at the forthcoming Annual General Meeting.

By order of the Board
Iain Lanaghan *Director*
14 May 2001

395 King Street
Aberdeen
AB24 5RP

directors' responsibilities

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

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group 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 FirstGroup plc

We have audited the financial statements on pages 38 to 60, which have been prepared under the accounting policies set out on pages 42 to 43. We have also examined the amounts disclosed relating to emoluments, share options, long term incentive schemes and pension entitlements of the directors which form part of the Report on Directors' Remuneration on pages 29 to 32.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report including, as described on page 36, preparation of the financial statements, which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the UK Listing Authority, and by our profession's ethical guidance.

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

We review whether the corporate governance statement on page 28 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the UK Listing Authority, and we report if it does not. We are not required to consider whether the Board's statement on internal controls cover all the risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risks and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, 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 2001 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants and
Registered Auditors
14 May 2001

Hill House
1 Little New Street
London
EC4A 3TR

consolidated profit and loss account

For the year ended 31 March 2001

	Notes	Before goodwill and exceptional items 2001 £m	Goodwill and exceptional items 2001 £m	Total 2001 £m	Before goodwill and exceptional items 2000 £m	Goodwill and exceptional items 2000 £m	Total 2000 £m
Turnover							
Continuing operations		**2,015.7**	**–**	**2,015.7**	1,763.8	–	1,763.8
Acquisitions		**3.4**	**–**	**3.4**	–	–	–
		2,019.1	**–**	**2,019.1**	1,763.8	–	1,763.8
Discontinued operations		**34.9**	**–**	**34.9**	31.3	–	31.3
Group turnover	2	**2,054.0**	**–**	**2,054.0**	1,795.1	–	1,795.1
Share of turnover of joint ventures		**2.1**	**–**	**2.1**	22.7	–	22.7
Total turnover		**2,056.1**	**–**	**2,056.1**	1,817.8	–	1,817.8
Operating profit							
Continuing operations		**202.3**	**(79.3)**	**123.0**	175.8	(24.6)	151.2
Acquisitions		**0.5**	**(0.1)**	**0.4**	–	–	–
		202.8	**(79.4)**	**123.4**	175.8	(24.6)	151.2
Discontinued operations		**11.5**	**–**	**11.5**	9.9	–	9.9
Group operating profit	2	**214.3**	**(79.4)**	**134.9**	185.7	(24.6)	161.1
Group operating profit before goodwill and exceptional costs		**218.5**	**–**	**218.5**	190.9	–	190.9
FNW franchise amendment	4	**–**	**(39.9)**	**(39.9)**	–	–	-
Other exceptional costs	4	**–**	**(13.6)**	**(13.6)**	–	(11.6)	(11.6)
Goodwill amortisation	2	**–**	**(25.9)**	**(25.9)**	–	(13.0)	(13.0)
Employees' profit sharing scheme	2	**(4.2)**	**–**	**(4.2)**	(5.2)	–	(5.2)
Group operating profit	2	**214.3**	**(79.4)**	**134.9**	185.7	(24.6)	161.1
Share of operating (losses)/profits of joint ventures		**(0.8)**	**–**	**(0.8)**	0.4	–	0.4
Share of operating losses of associate		**(0.2)**	**–**	**(0.2)**	–	–	–
Amortisation of goodwill on associate		**–**	**(1.8)**	**(1.8)**	–	–	–
Amortisation of goodwill on joint ventures		**–**	**(0.1)**	**(0.1)**	–	–	–
Total operating profit		**213.3**	**(81.3)**	**132.0**	186.1	(24.6)	161.5
Profit on disposal of businesses – discontinued operations	6	**–**	**69.4**	**69.4**	–	–	–
(Loss)/profit on disposal of fixed assets – continuing operations		**–**	**(0.1)**	**(0.1)**	–	4.0	4.0
Profit on ordinary activities before interest	2	**213.3**	**(12.0)**	**201.3**	186.1	(20.6)	165.5
Net interest payable and similar charges	7	**(64.5)**	**–**	**(64.5)**	(44.0)	–	(44.0)
Profit on ordinary activities before taxation	8	**148.8**	**(12.0)**	**136.8**	142.1	(20.6)	121.5
Tax on profit on ordinary activities	9	**(22.7)**	**(19.3)**	**(42.0)**	(26.1)	1.8	(24.3)
Profit on ordinary activities after taxation		**126.1**	**(31.3)**	**94.8**	116.0	(18.8)	97.2
Equity minority interests		**(3.9)**	**–**	**(3.9)**	(3.7)	–	(3.7)
Profit for the financial year		**122.2**	**(31.3)**	**90.9**	112.3	(18.8)	93.5
Equity dividends paid and proposed	10	**(38.8)**	**–**	**(38.8)**	(36.6)	–	(36.6)
Retained profit for the financial year	24	**83.4**	**(31.3)**	**52.1**	75.7	(18.8)	56.9
		Adjusted		**Actual**	Adjusted		Actual
Basic earnings per share	11	**28.9p**		**21.5p**	28.3p		23.6p
Cash earnings per share	11	**49.6p**		**–**	45.6p		–
Diluted earnings per share	11	**–**		**21.4p**	–		23.4p

balance sheets
At 31 March 2001

	Notes	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Assets employed:					
Fixed assets					
Intangible assets	12	**573.6**	533.8	**–**	–
Tangible assets	13	**742.0**	724.8	**–**	–
Investments					
– Joint ventures					
– Goodwill		**2.6**	–		
– Share of gross assets		**35.1**	80.7		
– Share of gross liabilities		**(34.3)**	(56.7)		
– Shareholder loans		**1.1**	–		
		4.5	24.0	**5.4**	21.2
– Other		**7.6**	7.3	**1,411.4**	1,404.1
	14	**12.1**	31.3	**1,416.8**	1,425.3
		1,327.7	1,289.9	**1,416.8**	1,425.3
Current assets					
Stocks	15	**23.5**	21.9	**–**	–
Debtors	16	**279.3**	260.8	**1,138.2**	680.7
Investments	17	**11.8**	48.8	**0.2**	11.2
Cash at bank and in hand	18	**66.6**	47.8	**19.0**	0.1
		381.2	379.3	**1,157.4**	692.0
Creditors: amounts falling due within one year	19	**(591.8)**	(532.4)	**(910.1)**	(888.7)
Net current (liabilities)/assets					
Due within one year		**(237.2)**	(177.8)	**246.9**	(197.3)
Amounts due after more than one year	16	**26.6**	24.7	**0.4**	0.6
Net current (liabilities)/assets		**(210.6)**	(153.1)	**247.3**	(196.7)
Total assets less current liabilities		**1,117.1**	1,136.8	**1,664.1**	1,228.6
Creditors: amounts falling due after more than one year	19	**(622.6)**	(750.9)	**(484.9)**	(583.2)
Provisions for liabilities and charges	21	**(35.0)**	(39.9)	**–**	–
		459.5	346.0	**1,179.2**	645.4
Financed by:					
Capital and reserves					
Called up share capital	23	**21.1**	21.7	**21.1**	21.7
Share premium account	24	**236.7**	233.6	**236.7**	233.6
Revaluation reserve	24	**3.6**	3.7	**–**	–
Other reserves	24	**3.4**	2.8	**260.9**	260.3
Profit and loss account	24	**193.8**	74.4	**660.5**	129.8
Equity shareholders' funds		**458.6**	336.2	**1,179.2**	645.4
Equity minority interests		**0.9**	9.8	**–**	–
		459.5	346.0	**1,179.2**	645.4

These financial statements were approved by the Board of directors on 14 May 2001 and were signed on its behalf by:
Moir Lockhead Director
Iain Lanaghan Director

consolidated cash flow statement

For the year ended 31 March 2001

	Notes	2001 £m	2000 £m
Net cash inflow from operating activities	25(a)	**261.8**	193.6
Returns on investments and servicing of finance	25(b)	**(54.6)**	(42.2)
Taxation			
Corporation tax paid		**(20.3)**	(11.8)
Capital expenditure and financial investment	25(c)	**(50.4)**	(73.1)
Acquisitions and disposals	25(d)	**151.2**	(609.3)
Equity dividends paid		**(36.9)**	(28.8)
Cash inflow/(outflow) before use of liquid resources and financing		**250.8**	(571.6)
Management of liquid resources			
Increase in bank deposits		**(0.6)**	(11.2)
Financing	25(e)	**(227.5)**	587.2
Increase in cash in year		**22.7**	4.4

reconciliation of net cash flows to movements in net debt

For the year ended 31 March 2001

	Notes	2001 £m	2000 £m
Increase in cash in year		**22.7**	4.4
Cash outflow/(inflow) from decrease/(increase) in debt and hire purchase contract and finance lease financing		**199.8**	(355.2)
Movement in current asset investments		**(37.0)**	10.7
Debt issued on acquisition of subsidiary undertakings		**–**	(5.2)
Debt and hire purchase contracts and finance leases acquired with subsidiary undertakings and businesses		**(2.2)**	(25.9)
Inception of hire purchase contracts and finance leases		**(42.5)**	(53.8)
Debt issuance fees paid		**–**	1.8
Amortisation of debt issuance fees		**(0.4)**	(0.2)
Foreign exchange difference		**(21.3)**	0.2
Movement in net debt in year		**119.1**	(423.2)
Net debt at beginning of year	26	**(779.8)**	(356.6)
Net debt at end of year	26	**(660.7)**	(779.8)

consolidated statement of total recognised gains and losses

For the year ended 31 March 2001

	Group		Company	
	2001 £m	2000 £m	**2001 £m**	2000 £m
Profit for the year attributable to shareholders	**90.9**	93.5	**569.5**	79.8
Foreign exchange differences	**60.0**	–	**31.1**	0.3
Total recognised gains and losses	**150.9**	93.5	**600.6**	80.1

reconciliation of movements in shareholders' funds

For the year ended 31 March 2001

	Group		Company	
	2001 £m	2000 £m	**2001 £m**	2000 £m
Profit for the financial year	**90.9**	93.5	**569.5**	79.8
Dividends	**(38.8)**	(36.6)	**(38.8)**	(36.6)
	52.1	56.9	**530.7**	43.2
Shares issued:				
– in respect of subsidiaries acquired	**–**	2.7	**–**	2.7
– in respect of 1 for 4 rights issue	**–**	231.9	**–**	231.9
– to QUEST	**2.6**	6.0	**2.6**	6.0
– in respect of exercise of savings related and executive share options	**0.5**	0.1	**0.5**	0.1
Own shares purchased and cancelled	**(31.1)**	(3.7)	**(31.1)**	(2.9)
Write down of own shares held by QUEST	**(1.5)**	(3.7)	**–**	–
Goodwill written back on disposal of businesses	**39.8**	–	**–**	–
Foreign exchange differences	**60.0**	–	**31.1**	0.3
Net addition to shareholders' funds	**112.4**	290.2	**533.8**	281.3
Shareholders' funds at beginning of year	**336.2**	46.0	**645.4**	364.1
Shareholders' funds at end of year	**458.6**	336.2	**1,179.2**	645.4

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.

(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 2001.

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.

Undertakings, other than subsidiary undertakings, in which the Group has an investment, held for the long term, over which it exercises significant influence are treated as associates. Undertakings in which the Group has an investment that is held for the long term and which are jointly controlled by the Group and one or more other venturers under a contractual arrangement are treated as joint ventures. The Group's share of profits and losses of associates and joint ventures are 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

Goodwill arising on acquisitions made after 1 April 1998 is shown on the balance sheet as an intangible fixed asset.

Where capitalised goodwill is regarded as having a limited useful economic life, it is amortised over that life, but where capitalised goodwill is regarded as having an indefinite useful economic life, it is not amortised. Where capitalised goodwill is amortised over a life of greater than 20 years, or is not amortised, annual impairment reviews are conducted to compare the book value with the recoverable amount. If the recoverable amount has fallen below the book value, the goodwill is written down to the recoverable amount immediately.

The Companies Act 1985 normally requires goodwill that is treated as an asset to be amortised systematically over a finite period. In order to show a true and fair view of the Group s results, goodwill arising on the acquisitions of Mainline and Capital Citybus is not being amortised because of a number of factors that mean that the goodwill has an indefinite life. These include the stability of the bus industry, its lack of fundamental change and FirstGroup's track record in maintaining and enhancing the values of its businesses. This treatment of goodwill as having an indefinite life is in accordance with FRS 10. It is not possible to quantify the effect on the Group's results if the Act were to be followed, as it would depend on the finite life that was used.

Capitalised goodwill arising on other acquisitions is being amortised over a period of 20 years on a straight line basis, except the goodwill arising on Prepayment Cards Limited and totaljourney.com, which is being amortised over a five-year period.

Capitalised goodwill arising on foreign acquisitions is denominated in the currency in which the acquired company's assets and liabilities are recorded.

Fair value accounting adjustments are made in respect of acquisitions. In the year of acquisition, some adjustments are made using provisional estimates, based on information available at the time the financial statements are prepared, and amendments are sometimes necessary in the following accounting period, with a corresponding adjustment to goodwill, when the information necessary to determine these estimates is available.

Prior to 1 April 1998, all goodwill arising on acquisitions was written off to reserves. This goodwill has not been re-instated on the balance sheet. On disposal of the businesses concerned this goodwill is included in determining the gain or loss on disposal in the profit and loss account.

(d) Turnover

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

1 Principal accounting policies continued

(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 buildings	– 50 years straight line
Short leasehold properties	– period of lease
Runways and aprons	– 15 to 30 years straight line
Passenger carrying vehicles	– 7 to 15 years straight line
Other plant and equipment	– 3 to 25 years straight line

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

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.

From 1 April 1999 the Group's policy has been not to revalue tangible fixed assets. Properties that had been revalued before that date retained their book value, in accordance with the transitional rules of FRS 15.

(f) Hire purchase contracts and leases
Assets held under hire purchase contracts and under finance leases, which are those leases where substantially all the risks and rewards of ownership of the asset have passed to the Group 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 hire purchase contracts and finance leases 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
Rail support grants and amounts receivable for tendered services and concessionary fare schemes are included in turnover.

(h) Stocks and work in progress
Stocks are valued at the lower of cost and net realisable value.

(i) Interest
Interest is capitalised during the period of construction on loans raised to finance specific projects.

(j) Foreign currencies
Assets and liabilities denominated in foreign currencies are translated into Sterling at rates of exchange ruling at the year end and results of foreign enterprises are translated at the average rate of exchange during the year. Differences on exchange arising on the retranslation of net investments in foreign enterprises and from the translation of results at an average rate are taken to reserves. Where foreign currency borrowings are used to finance or hedge investments in foreign enterprises, the gain or loss on translation is also taken to reserves. All other exchange differences are dealt with through the profit and loss account.

(k) 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.

(l) 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.

(m) Financial instruments
Amounts payable or receivable in respect of interest rate swaps and caps are recognised as adjustments to interest expense over the period of the contracts.

2 *Profit and loss account analysis and segmental information*	Continuing operations £m	Acquisitions £m	Discontinued operations £m	Total 2001 £m	Continuing operations £m	Discontinued operations £m	Total 2000 £m
Group turnover	**2,015.7**	**3.4**	**34.9**	**2,054.0**	1,763.8	31.3	1,795.1
Group operating costs							
– General	**(1,809.2)**	**(2.9)**	**(23.4)**	**(1,835.5)**	(1,582.8)	(21.4)	(1,604.2)
– Goodwill amortisation	**(25.8)**	**(0.1)**	**–**	**(25.9)**	(13.0)	–	(13.0)
– Exceptional costs (note 4)	**(53.5)**	**–**	**–**	**(53.5)**	(11.6)	–	(11.6)
– Employees' profit sharing scheme	**(4.2)**	**–**	**–**	**(4.2)**	(5.2)	–	(5.2)
Total Group operating costs (note 3)	**(1,892.7)**	**(3.0)**	**(23.4)**	**(1,919.1)**	(1,612.6)	(21.4)	(1,634.0)
Group operating profit	**123.0**	**0.4**	**11.5**	**134.9**	151.2	9.9	161.1

The discontinued operation is Bristol Airport.

Segmental information is as follows:	Turnover 2001 £m	Turnover 2000 £m	Profit before interest 2001 £m	Profit before interest 2000 £m	Net assets/(liabilities) 2001 £m	Net assets/(liabilities) 2000 £m
UK Bus	**788.6**	744.3	**95.8**	105.3	**522.4**	442.0
UK Rail	**761.2**	767.4	**16.2**	38.0	**(18.5)**	(20.5)
North America	**462.7**	246.4	**25.7**	20.8	**305.4**	235.8
Airport	**34.9**	31.3	**11.5**	9.9	**–**	8.5
Group items	**6.6**	5.7	**52.1**	(8.5)	**(350.7)**	(329.6)
	2,054.0	1,795.1	**201.3**	165.5	**458.6**	336.2

All of the Group turnover and Group operating profit for the year was generated in the United Kingdom, except that shown above as being generated in North America.

3 Operating costs	Continuing operations £m	Acquisitions £m	Discontinued operations £m	Total 2001 £m	Continuing operations £m	Discontinued operations £m	Total 2000 £m
Materials and consumables	**234.3**	**0.6**	**1.1**	**236.0**	180.3	1.1	181.4
Staff costs (note 5)	**853.2**	**1.6**	**5.4**	**860.2**	687.6	6.0	693.6
External charges	**688.4**	**0.4**	**14.8**	**703.6**	663.9	12.7	676.6
Depreciation, amortisation and other amounts written off fixed assets	**116.8**	**0.4**	**2.1**	**119.3**	80.8	1.6	82.4
	1,892.7	**3.0**	**23.4**	**1,919.1**	1,612.6	21.4	1,634.0

4 Exceptional costs	UK Bus 2001 £m	Rail 2001 £m	North America 2001 £m	Other 2001 £m	Total 2001 £m	Total 2000 £m
FNW franchise amendment	**–**	**39.9**	**–**	**–**	**39.9**	–
Restructuring costs	**1.8**	**–**	**3.8**	**–**	**5.6**	6.8
Transition costs	**–**	**–**	**2.3**	**–**	**2.3**	0.6
New train commissioning costs	**–**	**2.5**	**–**	**–**	**2.5**	0.8
Abortive project costs	**–**	**–**	**–**	**1.3**	**1.3**	–
Tram start up costs	**–**	**–**	**–**	**1.0**	**1.0**	–
Southall court fine	**–**	**–**	**–**	**–**	**–**	1.5
Other	**–**	**–**	**–**	**0.9**	**0.9**	1.9
	1.8	**42.4**	**6.1**	**3.2**	**53.5**	11.6

During the year cash payments of £14.5m (2000: £12.5m) were made in respect of restructuring and other exceptional costs.

No tax relief has been accrued on the cost of the FNW franchise amendment. The tax effect of the other exceptional costs was a credit of £2.5m (2000: £3.0m).

5 Employees' and directors' remuneration

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

	2001	2000
Operational	**49,214**	38,996
Administration	**2,770**	2,122
	51,984	41,118

The aggregate payroll costs of these persons were as follows:	2001 £m	2000 £m
Wages and salaries	**785.9**	630.3
Social security costs	**55.0**	45.0
Other pension costs	**19.3**	18.3
	860.2	693.6

For details of directors' remuneration, share options, long-term incentive plans and pension entitlements see the Report on Directors' Remuneration on pages 29 to 32.

6 Profit on disposal of business	2001 £m	2000 £m
Bristol International Airport	**55.6**	–
New World First Holdings	**13.8**	–
	69.4	–

On 24 January 2001, the Group sold its 51% interest in Bristol International Airport for cash proceeds of £107.1m plus repayment of loans.

On 15 May 2000, the Group sold its 26% interest in New World First Holdings for cash proceeds of HK$457m (£38.7m).

The tax effect of these disposals was a charge of £21.8m (2000: £nil).

7 Net interest payable and similar charges	2001 £m	2000 £m
Bank loans and overdrafts	**49.4**	32.3
Other loans	**2.9**	3.5
Finance charges payable in respect of hire purchase contracts and finance leases	**14.8**	15.0
	67.1	50.8
Income from short term deposits and other investments	**(4.4)**	(5.9)
Interest capitalised	**–**	(1.2)
Notional interest on provisions	**0.6**	0.3
	63.3	44.0
Share of interest payable of joint ventures	**1.2**	–
Total	**64.5**	44.0

The interest capitalised was in relation to the construction of the new terminal at Bristol International Airport.

8 Profit on ordinary activities before taxation

Group profit on ordinary activities before taxation is stated after charging/(crediting) the following:	2001 £m	2000 £m
Depreciation and other amounts written off tangible fixed assets	**93.4**	69.4
Goodwill amortisation	**25.9**	13.0
Rentals payable under operating leases – plant and machinery	**5.4**	4.7
– track and station access	**282.6**	291.7
– hire of rolling stock	**128.7**	129.0
– other assets	**8.0**	3.4
Net rents receivable from property	**(0.3)**	(0.4)
Deloitte & Touche audit fee	**0.4**	0.4
Deloitte & Touche and associates' non-audit fees	**0.8**	1.8

The Company's audit fee amounted to £0.1m (2000: £0.1m).

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9 Tax on profit on ordinary activities

	2001 £m	2000 £m
Corporation tax		
Current year – UK at 30% (2000: 30%)	**42.3**	13.1
Current year – overseas	**0.9**	1.6
Prior years – UK	**(0.5)**	(2.3)
Prior years – overseas	**0.2**	–
Transfer to deferred tax		
Current year – UK	**(2.0)**	12.2
Current year – overseas	**2.2**	0.6
Prior years – UK	**(1.1)**	(0.9)
Group	**42.0**	24.3

The tax effect on the profit on disposal of fixed assets was £nil (2000: £1.2m).

10 Equity dividends

	2001 £m	2000 £m
Ordinary shares of 5p each		
– Interim paid (3.0p (2000: 2.7p) per share)	**12.6**	11.6
– Final proposed (6.4p (2000: 5.8p) per share)	**26.9**	25.0
– Adjustment to prior year dividend in respect of shares cancelled	**(0.7)**	–
	38.8	36.6

11 Earnings per share

Basic earnings per share is based on earnings of £90.9m (2000: £93.5m) and on the weighted average number of ordinary shares of 422.2m (2000: 396.8m) in issue. Diluted earnings per share is based on the same earnings and on the weighted average number of ordinary shares of 424.6m (2000: 400.1m).

A reconciliation of the number of shares used in the basic and diluted measures is set out below:

	2001 Number (m)	2000 Number (m)
Weighted average number of shares used in basic calculation	**422.2**	396.8
SAYE share options	**1.9**	2.8
Executive share options	**0.4**	0.3
Long-term incentive plan awards	**0.1**	0.2
	424.6	400.1

The adjusted basic earnings per share and adjusted cash earnings per share measures are intended to demonstrate recurring elements of the results of the Group before goodwill amortisation. No adjustment is made for the tax relief of £7.8m (2000: £3.9m) obtained in the US as a result of the S338(h)(10) election on the Ryder goodwill as this cash benefit is not dependent on the accounting treatment. Both the adjusted basic and cash measures of earnings per share use the same weighted average number of ordinary shares as the basic earnings per share measure. A reconciliation of the earnings used in these measures is set out below:

	2001		2000	
	£m	Earnings per share (p)	£m	Earnings per share (p)
Profit for basic earnings per share calculation	**90.9**	**21.5**	93.5	23.6
Goodwill amortisation	**27.8**	**6.6**	13.0	3.3
FNW franchise amendment	**39.9**	**9.4**	–	–
Restructuring and other exceptional costs	**13.6**	**3.2**	11.6	2.9
Taxation effect of this adjustment	**(2.5)**	**(0.6)**	(3.0)	(0.8)
Profit on disposal of businesses	**(69.4)**	**(16.4)**	–	–
Taxation effect of this adjustment	**21.8**	**5.2**	–	–
Loss/(profit) on disposal of fixed assets	**0.1**	**–**	(4.0)	(1.0)
Taxation effect of this adjustment	**–**	**–**	1.2	0.3
Profit for adjusted basic earnings per share calculation	**122.2**	**28.9**	112.3	28.3
Depreciation	**88.4**	**20.9**	69.4	17.5
Minority interests in this adjustment	**(1.0)**	**(0.2)**	(0.8)	(0.2)
Profit for adjusted cash earnings per share calculation	**209.6**	**49.6**	180.9	45.6

12 Intangible fixed assets

Group	Goodwill £m
Cost	
At beginning of year	547.0
Additions (note 28)	9.6
Exchange rate differences	58.8
At end of year	**615.4**
Amortisation	
At beginning of year	13.2
Charge for the year	25.9
Exchange rate differences	2.7
At end of year	**41.8**
Net book value	
At 31 March 2001	**573.6**
At 31 March 2000	533.8

13 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	181.5	924.5	120.4	1,226.4
Subsidiary undertakings acquired	0.8	8.6	0.5	9.9
Additions	8.3	115.9	26.7	150.9
Disposals	(4.4)	(48.2)	(10.6)	(63.2)
Subsidiary undertakings sold	(70.9)	–	(20.5)	(91.4)
Exchange rate differences	1.4	35.4	2.5	39.3
At end of year	**116.7**	**1,036.2**	**119.0**	**1,271.9**
Depreciation				
At beginning of year	36.1	389.1	76.4	501.6
Subsidiary undertakings acquired	–	3.5	0.2	3.7
Charge for the year	6.7	72.2	14.5	93.4
Disposals	(2.7)	(38.5)	(9.8)	(51.0)
Subsidiary undertakings sold	(24.9)	–	(10.7)	(35.6)
Exchange rate differences	0.6	15.3	1.9	17.8
At end of year	**15.8**	**441.6**	**72.5**	**529.9**
Net book value				
At 31 March 2001	**100.9**	**594.6**	**46.5**	**742.0**
At 31 March 2000	145.4	535.4	44.0	724.8

The net book value of land and buildings comprises:	2001 £m	2000 £m
Freehold	**85.2**	128.2
Long leasehold	**11.2**	11.3
Short leasehold	**4.5**	5.9
	100.9	145.4

Depreciation is not provided on the land element of freehold and long leasehold property which amounts to £33.0m (2000: £37.2m).
Included in the cost of land and buildings is £nil (2000: £1.6m) of interest capitalised.

13 Tangible fixed assets continued

The assets which have been revalued comprise the following land and buildings:	2001 £m	2000 £m
At 1993 professional valuations	**15.5**	18.4
Aggregate depreciation thereon	**(1.2)**	(1.4)
Net book value	**14.3**	17.0
Historical cost of revalued assets	**13.6**	16.9
Aggregate depreciation based on historical cost	**(2.9)**	(3.6)
Historical net book value	**10.7**	13.3

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 £2.4m (2000: £2.4m) which would arise on disposal of revalued properties. The Group does not intend to dispose of these properties without reinvestment of the sale proceeds.

£297.4m (2000: £302.1m) of the net book value of tangible fixed assets was acquired under hire purchase contracts and finance leases. The depreciation charge on these assets during the year was £32.2m (2000: £29.9m).

14 Fixed asset investments

Group	Joint ventures £m	Associates £m	Other investments £m	Own shares £m	Total £m
Cost					
At beginning of year	24.0	–	4.0	4.1	32.1
Additions	5.6	4.1	–	1.1	10.8
Reclassification	–	4.0	(4.0)	–	–
Share of results	(2.0)	(0.2)	–	–	(2.2)
Disposals	(23.2)	–	–	(2.9)	(26.1)
Exchange differences	1.1	–	–	–	1.1
At end of year	5.5	7.9	–	2.3	15.7
Provision					
At beginning of year	–	–	–	(0.8)	(0.8)
Goodwill amortisation	(0.1)	(1.8)	–	–	(1.9)
Other charges	(0.9)	–	–	–	(0.9)
At end of year	**(1.0)**	**(1.8)**	–	**(0.8)**	**(3.6)**
Total					
At 31 March 2001	**4.5**	**6.1**	–	**1.5**	**12.1**
At 31 March 2000	24.0	–	4.0	3.3	31.3

Included in the net book value of associates is goodwill of £5.3m (2000: £nil).

14 *Fixed asset investments* continued

Company

	Unlisted subsidiary undertakings £m	Joint ventures £m	Associates £m	Other investments £m	Own shares £m	Total £m
Shares						
Cost						
At beginning of year	1,396.8	–	–	4.0	4.1	1,404.9
Additions	47.4	5.6	4.1	–	1.1	58.2
Reclassification	–	–	4.0	(4.0)	–	–
Disposals	(42.4)	(0.2)	–	–	(2.9)	(45.5)
At end of year	**1,401.8**	**5.4**	**8.1**	**–**	**2.3**	**1,417.6**
Provision						
At beginning of year	–	–	–	–	(0.8)	(0.8)
At end of year	**–**	**–**	**–**	**–**	**(0.8)**	**(0.8)**
Loans						
Cost						
At beginning of year	–	21.2	–	–	–	21.2
Disposals	–	(22.3)	–	–	–	(22.3)
Exchange rate differences	–	1.1	–	–	–	1.1
At end of year	–	–	–	–	–	–
Total						
At 31 March 2001	**1,401.8**	**5.4**	**8.1**	**–**	**1.5**	**1,416.8**
At 31 March 2000	1,396.8	21.2	–	4.0	3.3	1,425.3

Subsidiary undertakings

The principal subsidiary undertakings of FirstGroup plc at the end of the year were:

UK local bus and coach operators
CentreWest London Buses Limited
Essex Buses Limited
First Aberdeen Limited+
First Beeline Buses Limited
First Bristol Buses Limited
First Capital East Limited
First Capital North Limited
First Cymru Buses Limited
First Eastern Counties Buses Limited
First Edinburgh Buses Limited+
First Glasgow (No. 1) Limited+
First Glasgow (No. 2) Limited+
First Hampshire Limited
First Manchester Limited
First Midland Red Buses Limited
First Wessex National Limited
First Western National Buses Limited
Leicester CityBus Limited (94%)
Mainline Group Limited
Northampton Transport Limited
PMT Limited
Rider (York) Limited
Yorkshire Rider Limited

North America school bus operators
Bruce Transportation Group, Inc.†
First Student, Inc.†
FirstBus Canada Limited‡

Transit contracting and fleet maintenance
First Transit, Inc.†

Rail companies
Great Eastern Railway Limited
Great Western Trains Company Limited
North Western Trains Company Limited

Property
FB Properties Limited

All subsidiary undertakings are wholly owned at the end of the year except where percentage of ownership is shown above. All these companies above are incorporated in Great Britain and registered in England and Wales except those marked + which are registered in Scotland, those marked † which are incorporated in the United States of America and that marked ‡ which is registered in Canada.

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 of these subsidiary undertakings are owned via intermediate holding companies except Great Eastern Railway Limited, which is owned by FirstGroup plc.

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

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14 Fixed asset investments continued

Joint ventures

The interest in joint ventures at the year end includes a 50% interest in the ordinary shares of totaljourney Limited, which is incorporated in Great Britain and registered in England & Wales. The registered office is in London. The remaining 50% of the ordinary shares are held by Railtrack. This interest is accounted for as a joint venture because it is held for the long term and there is an agreement between the shareholders of totaljourney sharing control between them and giving both parties veto over strategic policy decisions.

totaljourney plans to operate a web site offering information and services for UK travel, including rail timetables and on-line booking.

The interest in joint ventures also includes 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. The registered office is in Croydon. The interest is held by a wholly owned subsidiary. This interest is accounted for as a joint venture because it is held for the long term and there is an agreement between the shareholders of TCL sharing control between them and giving all parties veto over strategic policy decisions.

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 has been provided in contractually agreed amounts by the shareholders of TCL, loans and leases provided by various banks and a grant from London Regional Transport.

Associates

The interest in associates at the end of the year includes a 20% interest in the ordinary share capital of Prepayment Cards Limited (PCL), which is incorporated in Great Britain and registered in England and Wales. The registered office is in London. At the year end, £2.0m of the consideration for the shares was outstanding, due to be paid in November 2001.

PCL is intending to operate cashless payment systems for use on public transport.

Own shares

Details of the number and market value of own shares held in the FirstGroup plc ESOP and other employee trusts are as follows:

	Number (m)	2001 £m	Number (m)	2000 £m
Own shares held by trustees	**7.4**	**22.6**	8.2	14.3
Own shares vested unconditionally	**(6.3)**	**(19.4)**	(5.6)	(9.7)
	1.1	**3.2**	2.6	4.6

The own shares held by the Group at the end of the year were 1,060,539 (2000: 2,637,558) FirstGroup plc ordinary shares of 5p each. Of these, 567,450 (2000: 567,450) were held by the FirstGroup plc Employee Benefit Trust and 493,089 (2000: 2,070,108) by the FirstGroup plc Qualifying Employee Share Ownership Trust (QUEST). The shares held by the QUEST are being used to satisfy exercises of savings related share options. Both trusts have waived the rights to dividend income from the FirstGroup plc shares. The market value of the shares at 31 March 2001 was £3.2m (2000: £4.6m).

The amount distributed by the Group to the ESOP each year is based on 5% of the UK profit before taxation. Shares are allocated to UK employees equally. Dividends arising on the shares held in trust are paid to the employees to whom the shares have been allocated.

15 Stocks

	Group 2001 £m	Group 2000 £m
Spare parts and consumables	**21.0**	19.5
Property development work in progress	**2.5**	2.4
	23.5	21.9

16 Debtors

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Amounts due within one year				
Trade debtors	**176.1**	155.1	**–**	–
Amounts due from subsidiary undertakings	**–**	–	**582.3**	569.1
Dividends receivable from subsidiary undertakings	**–**	–	**554.2**	110.1
Other debtors	**26.9**	24.0	**–**	–
Deposit paid for rolling stock	**23.4**	30.4	**–**	–
Pension funds' prepayments	**3.2**	3.0	**–**	–
Other prepayments and accrued income	**23.1**	23.6	**0.2**	0.2
Deferred taxation	**–**	–	**1.1**	0.7
	252.7	236.1	**1,137.8**	680.1
Amounts due after more than one year				
Pension funds' prepayments	**25.0**	23.6	**–**	–
Other prepayments and accrued income	**1.6**	1.1	**0.4**	0.6
	26.6	24.7	**0.4**	0.6
	279.3	260.8	**1,138.2**	680.7

17 Current asset investments

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Bank deposits	**11.8**	48.8	**0.2**	11.2

18 Cash at bank and in hand

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Ring fenced cash	**50.2**	33.8	**–**	–
Other cash	**16.4**	14.0	**19.0**	0.1
	66.6	47.8	**19.0**	0.1

Under the terms of the franchise agreements, cash can only be distributed by the train operating companies up to the amount of retained profits. The ring fenced cash represents that which is not available for distribution at the year end.

19 Creditors

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Amounts falling due within one year				
Bank loans and overdrafts	**41.1**	44.6	**53.5**	98.2
Obligations under hire purchase contracts and finance leases	**65.2**	65.3	**–**	–
Loan notes	**10.2**	15.6	**10.0**	15.2
Trade creditors	**113.1**	120.9	**–**	–
Amounts due to subsidiary undertakings	**–**	–	**775.8**	737.3
Corporation tax	**36.0**	14.9	**11.8**	–
Other tax and social security	**15.6**	12.8	**–**	–
Other creditors	**21.9**	22.0	**5.3**	1.4
Pension funds' creditors	**7.8**	7.9	**–**	–
Accruals and deferred income	**178.8**	164.8	**26.7**	11.6
FNW franchise amendment accrual	**37.0**	–	**–**	–
Season ticket deferred income	**38.1**	38.6	**–**	–
Proposed dividends	**27.0**	25.0	**27.0**	25.0
	591.8	532.4	**910.1**	888.7

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19 **Creditors** continued	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Amounts falling due after more than one year				
Bank loans				
Due in more than one year but not more than two years	**60.9**	35.5	**60.9**	35.5
Due in more than two years but not more than five years	**414.8**	531.5	**414.8**	531.5
Obligations under hire purchase contracts and finance leases				
Due in more than one year but not more than two years	**58.7**	58.9	**–**	–
Due in more than two years but not more than five years	**61.8**	85.9	**–**	–
Due in more than five years	**0.7**	2.2	**–**	–
Loan notes				
Due in more than one year but not more than two years	**25.5**	36.5	**9.2**	16.2
Due in more than two years but not more than five years	**0.2**	0.4	**–**	–
	622.6	750.9	**484.9**	583.2

Bank loans and overdrafts

Whilst a number of the bank loans and overdrafts are repayable within a few months of the balance sheet date, they have been classified by reference to the maturity date of the longest refinancing permitted under these facilities. The bank loans and overdrafts are unsecured.

The maturity profile of the undrawn committed borrowing facilities is as follows:

	2001 £m	2000 £m
Facilities maturing:		
Within one year	**64.1**	162.0
Between one and two years	**42.1**	–
More than two years	**202.4**	33.8
	308.6	195.8

Hire purchase contracts and finance leases

Hire purchase contract and finance lease liabilities are secured on the assets to which they relate. Whilst the contracts vary in length between four and 12 years, all new contracts entered into during the year are for five years.

Loan notes

The loan notes have been classified by reference to the earliest date on which the loan note holders can request redemption. £32.0m (2000: £43.6m) of the loan notes are backed by guarantees provided under the banking facilities.

20 Financial assets and liabilities

Foreign currencies

At 31 March 2001, the Group's profit and loss account was not exposed to material exchange rate risk from monetary assets and liabilities denominated in foreign currencies as all material balances are used to hedge the Group's overseas net assets.

Interest rates

Details of the interest rates payable on financial liabilities are as follows:

	Total financial liabilities £m	Floating rate £m	Fixed rate £m	Fixed rate liabilities: Weighted average interest rate %	Fixed rate liabilities: Weighted average period years
At 31 March 2001					
Sterling	**547.6**	**119.0**	**428.6**	**6.93**	**3.7**
US dollars	**183.6**	**–**	**183.6**	**6.28**	**3.7**
Canadian dollars	**7.9**	**7.9**	**–**	**–**	
	739.1	**126.9**	**612.2**		
At 31 March 2000					
Sterling	689.2	258.3	430.9	6.99	3.3
US dollars	166.0	–	166.0	6.32	2.8
Hong Kong dollars	21.2	21.2	–		
	876.4	279.5	596.9		

20 Financial assets and liabilities *continued*

Since the year end £175m of Sterling interest rate swaps have been extended for two years, reducing the weighted average interest rate on fixed Sterling debt by 0.13% and increasing the weighted average period by 0.8 years.

Floating rate bank loans and overdrafts bear interest at between 0.4125% and 0.875% above either LIBOR or, for foreign currency loans, the relevant inter-bank rate. Floating rate hire purchase contracts and finance leases are on normal commercial terms at negotiated rates, generally relative to LIBOR. 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% (which have been treated as fixed rate liability).

Financial assets, which consist wholly of cash on deposit and in hand of £78.4m (2000: £96.6m), are all denominated in Sterling except £0.1m (2000: £7.0m) in US dollars and £0.2m (2000: £nil) in Canadian dollars, and are at normal commercial interest rates.

Fair values

Details of the book values and fair values of the financial assets and liabilities are as follows:

	2001		2000	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Bank deposits	**11.8**	**11.8**	48.8	48.8
Cash at bank and in hand	**66.6**	**66.6**	47.8	47.8
Bank loans and overdrafts	**(516.8)**	**(516.8)**	(611.6)	(611.6)
Obligations under hire purchase contracts and finance leases	**(186.4)**	**(189.6)**	(212.3)	(212.8)
Loan notes	**(35.9)**	**(41.6)**	(52.5)	(57.4)
Interest rate swaps	**–**	**(17.6)**	–	6.8
	(660.7)	**(687.2)**	(779.8)	(778.4)

In order to protect the Group's financial position, interest rates are fixed on a significant element of net debt. The instruments currently used are interest rates swaps and fixed rate hire purchase contracts. The Group also has £8.8m of loan notes which were issued in 1990 at a minimum interest rate of 11% and which are due for redemption in 2020. As a result of movements in interest rates relative to the fixed debt, differences arise between the book values and the fair values which are categorised as unrecognised gains and losses.

The fair values are determined by estimating the cost or benefit that would have arisen if the financial instruments had been switched at the year end to floating rates in the same currencies for the same periods, and adjusting the book values by those amounts.

	Net unrecognised gains/(losses)	
	2001 £m	2000 £m
At beginning of year	**1.4**	(13.4)
Arising in previous years but recognised in the year	**2.1**	3.7
Arising before beginning of year and remaining at the end of the year	**3.5**	(9.7)
Arising in the year	**(30.0)**	11.1
At end of year	**(26.5)**	1.4

It is expected that £8.0m of the unrecognised losses (2000: £2.1m gains) will be recognised in the following year as part of the interest charge. Further information on financial instruments is given in the Financial Review on pages 20 to 23.

21 Provisions for liabilities and charges

Group	Deferred tax £m	Insurance claims £m	Pensions £m	Total £m
At beginning of year	12.8	15.7	11.4	39.9
Subsidiary undertakings acquired	(0.1)	–	–	(0.1)
Subsidiary undertakings sold	0.5	–	(5.1)	(4.6)
Provided/(released) in the year	(0.9)	5.8	0.2	5.1
Utilised in the year	–	(5.4)	(0.5)	(5.9)
Notional interest	–	0.3	0.3	0.6
At end of year	**12.3**	**16.4**	**6.3**	**35.0**

Most of the insurance claims are expected to be settled within four years. The pensions payments will be spread over a few decades.

22 Deferred tax

Group	Provided 2001 £m	Unprovided 2001 £m	Provided 2000 £m	Unprovided 2000 £m
Accelerated capital allowances	**1.7**	**75.7**	10.8	44.0
Other timing differences	**8.1**	**(5.8)**	(0.7)	(2.5)
Trading losses	**–**	**(11.1)**	(0.4)	(2.4)
Advance corporation tax recoverable	**(0.2)**	**–**	(0.2)	–
Unrealised capital gains	**2.7**	**2.1**	3.3	2.1
Deferred tax liability	**12.3**	**60.9**	12.8	41.2

No deferred tax has been provided on the future remittance of overseas reserves as it is not expected that the reserves will be repatriated to the UK in the foreseeable future.

23 Called up share capital

Group and Company	2001 £m	2000 £m
Authorised		
Ordinary shares of 5p each	**30.0**	30.0
Allotted, called up and fully paid		
Ordinary shares of 5p each	**21.1**	21.7

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	433.5	21.7
Shares issued to QUEST	1.1	–
Shares issued on exercise of executive share options	0.5	–
Shares cancelled	(12.7)	(0.6)
At end of year	**422.4**	**21.1**

Between 23 May 2000 and 23 August 2000, 12,658,108 ordinary shares were repurchased at a total cost of £31.1m and cancelled.

On 7 November 2000, 1,070,707 ordinary shares were issued to the FirstGroup plc Qualifying Employee Share Ownership Trust (QUEST) at a cost of £2.6m. The shares are held in trust and are being used to satisfy exercises of savings related share options (see note 33). The difference between the cost and the option price receivable has been eliminated against the profit and loss account.

The following ordinary shares of 5p each were issued on the exercise of executive share options:

Scheme	Number	Consideration £000	Consideration per share (p)
GRT executive	153,624	119.8	78.01
Badgerline executive	326,500	403.3	123.51

Details of share options are given in note 33.

24 Reserves

Group	Share premium account £m	Revaluation reserve £m	Profit and loss account £m
At beginning of year	233.6	3.7	74.4
Exercise of executive share options	0.5	–	–
Issue of shares to QUEST (i)	2.6	–	(1.5)
Cancellation of shares (ii)	–	–	(31.1)
Transfer of realised revaluation reserve	–	(0.1)	0.1
Retained profit for the year	–	–	52.1
Goodwill written back on disposal of joint venture	–	–	1.6
Goodwill written back on disposal of business	–	–	38.2
Foreign exchange differences	–	–	60.0
At end of year	**236.7**	**3.6**	**193.8**

24 **Reserves** continued	Capital redemption reserve £m	Capital reserves £m	Total other reserves £m
At beginning of year	0.1	2.7	2.8
Cancellation of shares (ii)	0.6	–	0.6
At end of year	**0.7**	**2.7**	**3.4**

Notes:

(i) 1,070,707 ordinary shares were issued to the FirstGroup plc Qualifying Employee Share Ownership Trust at a price of £2.475 and then written down to the option price receivable.

(ii) 12,658,108 ordinary shares were repurchased at a total cost of £31.1m and cancelled.

The cumulative amount of positive and negative goodwill arising from acquisitions of subsidiary and associates written off at the end of the year was £429.6m and £4.7m respectively (2000: £469.4m and £4.7m).

Company	Share premium account £m	Profit and loss account £m
At beginning of year	233.6	129.8
Exercise of executive share options	0.5	–
Issue of shares to QUEST (i)	2.6	–
Cancellation of shares (ii)	–	(31.1)
Retained profit for the year	–	530.7
Foreign exchange differences	–	31.1
At end of year	**236.7**	**660.5**

	Capital redemption reserve £m	Capital reserve £m	Merger reserve £m	Total other reserves £m
At beginning of year	0.1	93.8	166.4	260.3
Cancellation of shares (ii)	0.6	–	–	0.6
At end of year	**0.7**	**93.8**	**166.4**	**260.9**

25 **Notes to the consolidated cash flow statement**	2001 £m	2000 £m
(a) Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	**134.9**	161.1
Depreciation and other amounts written off tangible fixed assets	**93.4**	69.4
Amortisation charges	**25.9**	13.0
Write down of investment in joint venture	**0.9**	–
Write down of own shares	–	0.8
Profit on sale of non property fixed assets	**(1.5)**	(1.2)
Increase in stocks	**(0.3)**	(2.2)
Increase in debtors	**(22.0)**	(44.8)
Increase/(decrease) in creditors and provisions	**30.5**	(2.5)
Net cash inflow from operating activities	**261.8**	193.6
(b) Returns on investments and servicing of finance		
Interest received	**4.7**	5.8
Interest paid	**(43.0)**	(30.0)
Interest element of hire purchase contract and finance lease payments	**(14.9)**	(14.8)
Fees on issue of bank loans	–	(2.8)
Dividends paid to minority shareholders	**(1.4)**	(0.4)
Net cash outflow from returns on investments and servicing of finance	**(54.6)**	(42.2)

25 Notes to the consolidated cash flow statement continued

	2001 £m	2000 £m
(c) Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(108.1)**	(78.1)
Purchase of fixed asset investments	**–**	(4.0)
Sale of fixed asset properties	**2.4**	14.8
Sale of other tangible fixed assets	**10.7**	3.5
Deposits for rolling stock	**7.0**	(8.0)
Acquisition of investment in own shares	**–**	(1.8)
Decrease in other current asset investments	**37.6**	0.5
Net cash outflow from capital expenditure and financial investment	**(50.4)**	(73.1)
(d) Acquisitions and disposals		
Purchase of subsidiary undertakings	**(11.6)**	(613.2)
Net cash acquired with subsidiary undertakings	**1.0**	5.0
Net overdraft sold on disposal of subsidiary undertaking	**22.9**	–
Purchase of businesses	**(1.5)**	(0.7)
Sale of subsidiary undertaking	**106.1**	–
Sale of investment in joint ventures	**38.5**	–
Purchase of investment in joint ventures	**(4.2)**	(0.4)
Net cash inflow/(outflow) from acquisitions and disposals	**151.2**	(609.3)
(e) Financing		
Issue of share capital	**3.4**	232.0
Own shares repurchased	**(31.1)**	–
New bank loans	**24.4**	668.0
Repayment of amounts borrowed – bank loans	**(137.7)**	(230.2)
– other loans	**(16.7)**	(14.4)
Capital element of hire purchase contract and finance lease payments	**(69.8)**	(68.2)
Net cash (outflow)/inflow from financing	**(227.5)**	**587.2**

26 Analysis of net debt

	At beginning of year £m	Cash flow £m	Acquisitions £m	Other non-cash changes £m	At end of year £m
Liquid resources	11.2	0.6	–	–	**11.8**
Other current asset investments	37.6	(37.6)	–	–	**–**
Current asset investments	48.8	(37.0)	–	–	**11.8**
Cash at bank and in hand	47.8	18.2	–	0.6	**66.6**
Bank overdrafts	(7.2)	4.5	–	–	**(2.7)**
Cash	40.6	22.7	–	0.6	**63.9**
Bank loans due within 1 year	(37.4)	0.8	(0.6)	(1.2)	**(38.4)**
Bank loans due after 1 year	(567.0)	112.5	(1.3)	(19.9)	**(475.7)**
Obligations under hire purchase contracts and finance leases	(212.3)	69.8	(0.3)	(43.6)	**(186.4)**
Loans and loan notes	(52.5)	16.7	–	(0.1)	**(35.9)**
Financing	(869.2)	199.8	(2.2)	(64.8)	**(736.4)**
Net debt	(779.8)	185.5	(2.2)	(64.2)	**(660.7)**

The Group includes as liquid resources unencumbered bank deposits of maturity of less than one year.

27 Major non-cash transactions

During the year the Group entered into hire purchase contracts in respect of assets with a total capital value of £42.5m (2000: £53.8m).

28 Summary of purchase of subsidiary undertakings and businesses	Hertz £m	Other acquisitions £m	Total 2001 £m	Total 2000 £m
Fair value of net assets acquired:				
Tangible fixed assets	5.4	0.8	6.2	171.5
Other current assets	2.0	–	2.0	51.5
Cash at bank and in hand	1.0	–	1.0	5.3
Bank overdrafts	–	–	–	(0.3)
Bank loans and other loans	(1.9)	–	(1.9)	(8.3)
Obligations under hire purchase contracts and finance leases	–	(0.3)	(0.3)	(17.6)
Pension funds' creditors	–	–	–	(0.2)
Other creditors	(3.0)	(0.3)	(3.3)	(57.6)
Deferred taxation	(0.6)	0.7	0.1	5.9
	2.9	0.9	3.8	150.2
Goodwill	8.0	1.6	9.6	473.0
	10.9	2.5	13.4	623.2
Satisfied by:				
Cash paid and payable	10.9	2.3	13.2	615.3
Shares including premium	–	–	–	2.7
Loan notes	–	–	–	5.2
Other	–	0.2	0.2	–
	10.9	2.5	13.4	623.2

The Hertz Group of companies was acquired on 18 December 2000. There were no material fair value adjustments.

The subsidiary undertakings acquired during the year contributed £2.0m (2000: £22.6m) to the Group's net operating cash flows, paid £0.2m (2000: £6.7m) in respect of net returns on investments and servicing of finance, paid £0.5m (2000: £2.7m received) in respect of taxation, utilised £0.2m (2000: £13.9m) for capital expenditure and paid £1.9m (2000: £7.3m) in respect of financing.

29 Sale of subsidiary undertaking	Total 2001 £m	Total 2000 £m
Net assets sold:		
Goodwill	37.2	–
Tangible fixed assets	55.9	–
Other current assets	4.8	–
Bank overdrafts	(22.9)	–
Pension funds' creditors	(5.1)	–
Other creditors	(7.8)	–
Deferred taxation	0.5	–
Minority interests	(12.8)	–
	49.8	–
Profit on disposal	55.6	–
	105.4	–
Satisfied by:		
Net cash receivable	105.4	–

The subsidiary undertaking sold during the year (Bristol International Airport) contributed £9.7m to the Group's net operating cash flows, paid £2.5m in respect of net returns on investments and servicing of finance, paid £1.0m in respect of taxation, paid £6.6m for capital expenditure and repaid £21.3m of Group funding.

30 Commitments

Capital commitments

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

	2001 £m	2000 £m
Contracted for but not provided		
Year to 31 March 2001	–	97.6
Year to 31 March 2002	67.3	0.5
	67.3	98.1

At the year end there was £63.6m (2000: £59.8m) remaining to pay for the GWT rolling stock on order and not yet financed via an operating lease with a rolling stock company.

Operating leases

The rail businesses have contracts with Railtrack plc for access to the railway infrastructure (track, stations and depots). They also have contracts under which they lease rolling stock.

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

	2001 £m	2000 £m
Operating leases which expire:		
Within one year	0.5	2.9
From one to five years	248.0	282.0
Over five years	132.9	133.0
	381.4	417.9

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

	Land and buildings 2001 £m	Other 2001 £m	Land and buildings 2000 £m	Other 2000 £m
Operating leases which expire:				
Within one year	4.8	1.5	4.2	1.0
From one to five years	9.2	3.7	3.4	2.6
Over five years	1.4	1.9	5.4	0.1
	15.4	7.1	13.0	3.7

31 Contingent liabilities

FirstGroup has performance bonds for £33.0m (2000: £33.0m) backed by an insurance arrangement which have been provided to the Director of Passenger Rail Franchising in support of the Group's franchise obligations relating to Great Eastern Railway Limited (GER), Great Western Trains Company Limited (GWT) and North Western Trains Company Limited (NWT). FirstGroup has provided a £9.0m (2000: £9.0m) loan facility to GER, a £15.5m (2000: £15.5m) loan facility to GWT and a £6.5m (2000: £6.5m) loan facility to NWT as required by the Director of Passenger Rail Franchising: Neither of the GER or GWT loans were drawn at 31 March 2000 or 31 March 2001, while the NWT loan was fully drawn at both 31 March 2000 and 31 March 2001.

The Group is in negotiations for the supply of new trains to GER. If an order were not placed, GER would be liable to reimburse the other parties part of their costs. As at 31 March 2001, the amount potentially payable was £3.2m (2000: £nil).

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 £0.5m (2000: £0.5m) issued by one of the Group's bankers in respect of the Group's obligations to Tramtrack Croydon Limited. The Company has given guarantees for the liabilities of its subsidiary undertakings arising under certain hire purchase contracts and finance leases. It also provides cross guarantees to certain subsidiary undertakings under VAT group provisions.

The Company has provided guarantees, backed by the Group's bankers, to Alstom Transport Limited in respect of the Group's obligations under the production contracts for new rolling stock for GWT. At the year end, the total value of the guarantees was £8.0m (2000: £8.0m).

32 Pension schemes

The Group operates or is a member of a number of pension schemes which cover the majority of UK 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 five 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, Great Western Trains Company Limited and North Western Trains Company Limited are members 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.

At their last triennial valuations, the defined benefit schemes had funding levels between 75% and 119%. For those schemes that do not meet the minimum funding requirement, additional payments totalling £3.5m per annum are being made. The market value of the assets at the date of their most recent audited accounts for all defined benefit schemes, excluding the five local government schemes and the Group's share of RPS, totalled £287m (2000: £268m). 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 total charge to the profit and loss account in the year in respect of defined benefit schemes was £17.6m (2000: £17.0m).

The valuation assumptions used for accounting purposes have been 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 7.8%, the rate of earnings growth will be 4.9%, the rate of dividends growth will be 4.3% and the rate of inflation will be 3.5%. There is also an addition of 0.3% to the net dividend yield to allow for share buy backs and other forms of shareholder reward. These new valuations are made using the projected unit method.

Prepayment

A net prepayment of £14.1m (2000: £7.3m) 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 surpluses and deficits that have been recognised on acquisition.

Defined contribution schemes

In addition, the Group operates some defined contribution schemes. The assets of these schemes are held in separately administered trusts. The cost of these in the year was £1.7m (2000: £1.3m).

The Group pays certain costs on behalf of the various pension schemes and then re-charges the costs to the schemes.

33 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 their agreement to opening a share save account with Halifax plc and to save weekly or monthly for three or five years. The right to exercise the option is at the employee's discretion at the end of the period previously chosen for a period of six months.

The first options under the scheme were issued on 5 October 1995 and were exerciseable after either five or seven years. Further options were issued on 23 June 1999 and were exercisable after three years.

The number of options outstanding at the end of the year was as follows.

	2001		2000			
Issue date	Number of employees	Ordinary 5p shares	Number of employees	Ordinary 5p shares	Exercise price (p)	Exercise date
October 1995	**127**	**133,398**	2,205	2,788,005	107.72	October 2000
October 1995	**1,020**	**1,547,533**	1,101	1,658,865	107.72	October 2002
June 1999	**8,799**	**2,480,144**	10,555	2,972,706	359.73	June 2002
	9,946	**4,161,075**	13,861	7,419,576		

33 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 were offered and accepted options under similar terms over FirstGroup plc ordinary shares in exchange for the surrender of their existing options. The remaining options under the Badgerline scheme are held by Tony Osbaldiston and the remaining options under the GRT scheme at the start of the year were held by a former GRT executive director. The options are exercisable during the period between three and ten years after the original option was granted.

Details of the number of options are set out below.

Scheme	Ordinary 5p shares 2001	2000	Revised exercise price (p)	Date original option granted
GRT executive	–	153,624	78.01	April 1994
Badgerline executive	**13,530**	340,030	123.51	April 1995
Tony Osbaldiston options	**147,059**	147,059	nil	Feb 2000
	160,589	640,713		

(c) Long-term incentive plan

The Group operates a long-term incentive plan for senior executives. The exercise of awards under the scheme is conditional upon the attainment of performance targets. To achieve the maximum value under an award, the Company's total shareholder return over a performance period (of not less than three years) must be such to place the performance relative to the returns earned by the companies in the top 25% of companies in the FTSE 250 Share Index (excluding investment trusts). An award is not exercisable if the Company's performance would place the Company below the 50th percentile of the index. Performance between the 25th percentile and the 50th percentile of the index results in a proportion of the award being exercisable in accordance with a sliding scale. Regardless of performance relative to the index, an award will not be exercisable unless growth in earnings per share has been greater than RPI over the performance period.

The price payable for shares upon the exercise of any award is fixed at the date of grant. Awards are, in effect, exercisable at no cost (other than any tax charges) to the participant as exercise of an award automatically entitles the participant to a gross cash payment equal to the exercise consideration required.

The award prices and the maximum number of shares subject to awards are as follows:

Date of award	Ordinary 5p shares 2001	2000	Award price (p)
12 August 1997	**179,534**	451,704	190.42
5 June 1998	**120,358**	303,526	397.82
24 May 1999	**386,246**	442,092	365.99
3 July 2000	**1,163,272**	–	236.00
	1,849,410	1,197,322	

The awards made to directors in August 1997 were in respect of the three-year performance period ending 31 March 2000. Those awards would, under the original Plan rules, have lapsed at the end of the performance period as the minimum performance criteria were not achieved. However, following receipt of professional advice, the Remuneration Committee determined that in view of the exceptional stock market conditions experienced in the last few months of the performance period, it should be extended for a further two years. This was subsequently approved at the AGM on 29 June 2000, although the executive directors all waived their entitlement to the 1997 awards.

After the year end it was determined that for the three-year period ending 31 March 2001, FirstGroup's total shareholder return was 6.4%, which was at the 43rd percentile of the Index. As a result, participants are entitled to 91% of the 1998 award, which is equivalent to 46% of the maximum number of shares. Each of the members of the LTIP scheme is being offered a cash award in lieu of the shares.

group financial summary

Consolidated profit and loss accounts	2001 £m	2000 £m	1999 £m	1998 £m	1997 £m
Group turnover	**2,054.0**	1,795.1	1,470.4	795.0	557.3
Operating profit before goodwill, ESOP and restructuring and other exceptional costs	**218.5**	190.9	144.8	95.9	73.7
Goodwill amortisation	**(25.9)**	(13.0)	–	–	–
ESOP costs	**(4.2)**	(5.2)	(5.0)	(3.8)	(2.7)
Restructuring and other exceptional costs	**(53.5)**	(11.6)	(17.9)	(10.9)	(10.0)
Operating profit	**134.9**	161.1	121.9	81.2	61.0
Profit before interest	**201.3**	165.5	123.5	89.0	64.6
Net interest payable	**(64.5)**	(44.0)	(28.3)	(16.5)	(13.6)
Profit before taxation	**136.8**	121.5	95.2	72.5	51.0
Taxation	**(42.0)**	(24.3)	(22.4)	(16.3)	(3.9)
Profit after taxation	**94.8**	97.2	72.8	56.2	47.1
Earnings per share*	**pence**	pence	pence	pence	pence
Adjusted basic	**28.9**	28.3	22.7	19.1	14.0
Basic	**21.5**	23.6	19.6	17.2	15.5
Cash	**49.6**	45.6	35.8	30.3	23.2
Dividend per share*	**9.4**	8.5	7.3	6.4	5.3
Consolidated balance sheets	**£m**	£m	£m	£m	£m
Fixed assets	**1,327.7**	1,289.9	590.6	404.9	326.0
Net current liabilities	**(210.6)**	(153.1)	(168.5)	(171.7)	(97.1)
Creditors: amounts after more than one year	**(622.6)**	(750.9)	(338.1)	(232.5)	(157.4)
Provisions for liabilities and charges	**(35.0)**	(39.9)	(30.4)	(19.9)	(12.8)
Equity minority interest	**(0.9)**	(9.8)	(7.6)	(5.3)	(0.4)
Equity shareholders' funds	**458.6**	336.2	46.0	(24.5)	58.3
Share data*					
Number of shares in issue	**million**	million	million	million	million
At year end	**422.4**	433.5	355.9	349.1	323.0
Average	**422.2**	396.8	353.3	324.9	302.8
Share price	**pence**	pence	pence	pence	pence
At year end	**305**	174	397	351	217
High	**312**	399	489	352	239
Low	**140**	152	327	179	140
Market capitalisation	**£m**	£m	£m	£m	£m
At year end	**1,288**	754	1,414	1,224	702

*Adjusted to reflect the bonus element of the rights issue in September 1999

group directory

FirstGroup plc

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First Bradford
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First CityLine
First Cymru
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First Edinburgh
First Glasgow
First Hampshire
First Huddersfield
First Leeds
First Leicester
First London
First Mainline
First Manchester
First Midland Red
First Northampton
First PMT
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First Wessex
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shareholder information

Shareholder enquiries

Enquiries relating to the following administrative matters should be addressed to the Company's registrars at Lloyds TSB Registrars, Registrar Department, The Causeway, Worthing, West Sussex BN99 6DA. Telephone 0870 600 3973.

- 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

The registrars also provide an on-line service enabling you to access details of your shareholding. To view your details and a range of general information about holding shares, visit www.shareview.co.uk.

Shareholder profile

At 30 April 2001	Number of holders	%	Shares held (m)	%
By category				
Individuals	41,887	92.7	80.9	19.2
Banks and nominees	3,106	6.9	326.9	77.4
Insurance and assurance companies	4	–	5.7	1.3
Other companies	138	0.3	4.1	1.0
Other institutions	53	0.1	4.5	1.1
	45,188	100.0	422.1	100.0
By size of holding				
1 – 1,000	31,112	68.9	8.2	2.0
1,001 – 5,000	11,110	24.6	24.4	5.8
5,001 – 10,000	1,668	3.7	11.6	2.7
10,001 – 100,000	969	2.1	25.8	6.1
Over 100,000	329	0.7	352.1	83.4
	45,188	100.0	422.1	100.0

FirstGroup 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.

financial calendar

Annual General Meeting	5 July 2001
Shares trade ex dividend	25 July 2001
Record date for final dividend*	27 July 2001
Final dividend paid	24 August 2001
Interim results announced	November 2001
Interim dividend paid	13 February 2002
Preliminary announcement of full year results	May 2002

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

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