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FIRST GROUP PLC

Connected



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COMPANIES HOUSE 23/10/03

Annual Report 2003

Safety

Kids to school

Home to work

Business to business

Integrated transport

Staff and customers

Community and partnerships

Contents

Business overview	01	Consolidated balance sheets	31
Financial highlights	02	Consolidated cash flow statement	32
Chairman's statement	03	Reconciliation of net cash flows to movements in net debt	32
Chief Executive's review	04	Consolidated statement of total recognised gains and losses	33
Financial review	12	Reconciliation of movements in shareholders' funds	33
Board of Directors	15	Notes to the financial statements	34
Corporate governance	16	Group financial summary	56
Directors' remuneration report	19	Shareholder information	57
Directors' report	26		
Directors' responsibilities	28		
Independent auditors' report	29		
Consolidated profit and loss account	30		

Connected

At First we want to make travel a great experience and always try to exceed our customers' expectations. We want to create a total journey environment from first to last. To achieve this all the links need to join together – the planning and booking as well as the journey itself. This report highlights how we are striving to make all the right connections and create the perfect journey.

Business overview

UK Bus

We are the UK's largest bus operator, running more than one in five of all local bus services and carrying over 2.7m passengers every day. 75% of our operations are in urban areas where the bus is the most effective means of tackling traffic congestion. We are working in partnership with Local Authorities and other stakeholders to provide the best possible service for passengers.

UK Rail

We operate three passenger rail franchises in the UK accounting for 15% of the market and carry around 280,000 passengers every day. Our operations include intercity (First Great Western), London commuter (First Great Eastern) and regional (First North Western). We have an important role to play in the future development of Britain's railways and are bidding for a number of new and enlarged rail franchises.

North America

Headquartered in Cincinnati, Ohio our operations are spread across the US and Canada.

First Student

We are the second largest provider of student transportation in North America with a fleet of some 15,500 yellow school buses, carrying over 1 million students every day in the US and Canada.

First Transit

Our transit contracting and management operation is one of the largest private sector providers of urban bus services in the US. We manage public transport systems on behalf of cities such as Houston, Dallas and Denver.

First Services

Our services operation is the largest private sector provider of vehicle maintenance and ancillary services in the US. We maintain vehicle fleets and equipment primarily for public sector customers such as cities, counties, fire and police departments.

Financial highlights

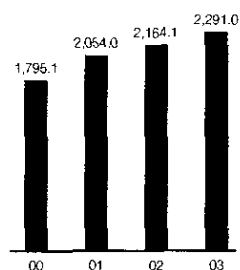
	2003	2002	%
Group turnover (£m)	2,291.0	2,164.1	+6
Group operating profit ^{1,2} (£m)	216.1	215.0	+1
Profit before tax ¹ (£m)	159.8	156.7	+2
Adjusted basic earnings per share (pence)	26.8p	25.8p	+4
Dividend per share (pence)	11.0p	10.3p	+7
EBITDA ^{2,3} (£m)	315.3	310.1	+2

¹Before goodwill amortisation and exceptional items

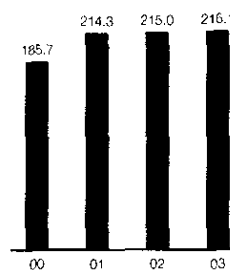
²Prior year restated

³Group operating profit before goodwill amortisation and exceptional items, plus depreciation

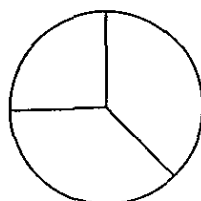
Turnover (£m)



Operating Profit¹ (£m)

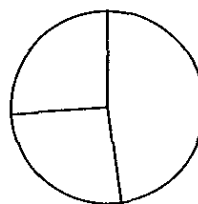


Turnover (£m)
year to 31 March 2003



■ UK Bus 859.4
■ UK Rail 842.3
■ North America 582.4

Operating Profit¹ (£m)
year to 31 March 2003



■ UK Bus 111.7
■ UK Rail 61.3
■ North America 61.3

Chairman's statement

Martin Gilbert
Chairman

Across all our divisions safety is our highest priority. We continue to reinforce a culture of safety throughout our Company, changing attitudes through education and training backed up by an ongoing programme of safety audits. During the year we have made real progress in further strengthening the business with successful initiatives in safety, staff training and environmental management.

I am very pleased to report further increases in Group turnover and operating profit* that once again demonstrate the quality and cash generative nature of our business. With over £300m of EBITDA (operating profit plus depreciation) we have continued to invest in our operations to deliver value to shareholders through growth in the business, increased dividends and the repurchase of shares.

Turnover has increased by 6% to £2,291m (2002: £2,164m) and profit before tax, goodwill amortisation and exceptional items increased by 2% to £159.8m (2002: £156.7m). Adjusted basic earnings per share has increased by 4% to 26.8p (2002: 25.8p) and the Board has proposed a final dividend, subject to approval by shareholders, of 7.45p making a full-year payment of 11p, an increase of 7%. The dividend is covered 2.1 times and will be paid on 29 August 2003 to shareholders on the register on 25 July 2003. The Group's strong and sustainable cash flows and profits give the Board confidence that they will be able to continue to increase dividends at above the rate of inflation going forward.

Since the Group's formation eight years ago dividends have increased each year giving a Compound Annual Growth Rate (CAGR) of 13%. Over the same period, operating profit has grown from £42m to £216m (CAGR 26%) and EBITDA has grown from £62m to £315m (CAGR 26%).

We continue to build on our successful strategy of focusing on three business segments; North America, UK Bus and UK Rail.

We are very pleased with the progress we have made in North America. In US Dollar terms turnover has increased 16% and profits have increased by 8%. Our student bus business has continued to grow, with contracts in a number of new regions. We have also seen growth in our transit and services divisions and we are confident that there are further opportunities for expansion in these businesses. Since acquisition in 1999, operating profits from our North American operations have grown by 50%.

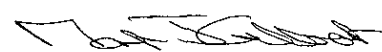
We are encouraged by the opportunities UK Bus offers for further organic growth. Turnover in our business in London has grown by £25m and we have seen passenger volume growth of 1.5% in the rest of the country. Traffic congestion continues to increase in towns and cities throughout the UK and we believe that the bus provides the most cost-effective and immediate solution. The early success of congestion charging in London may offer further encouragement for other cities to adopt a similar approach.

In UK Rail we continue to build on our excellent record of delivering benefits to passengers through improved operating performance, enhanced service quality and the introduction of new rolling stock. We are bidding for a number of new rail franchises which fit with our geographic and strategic profile of operations.

I am pleased to announce the appointment of Martyn Williams to the Board as a Non-Executive Employee Director. Martyn works for our UK Bus division in Swansea and has over 25 years' experience in the industry. At the end of March 2003, Robbie Duncan, Business Change Director, retired from the Group. I would like to thank Robbie for his contribution to the development of the business since its formation eight years ago.

Exceptional customer service is fundamental to our business. I would like to thank all of our staff for their hard work and continued commitment to the business, which has resulted in another successful year for the Group.

Our strategy is clear. We continue to focus on delivering shareholder value by developing our business in markets which offer the best opportunity for profitable growth and in areas where we can utilise our core skills. We have a well-balanced portfolio of businesses which are relatively resilient to economic downturn and are not heavily impacted by macro economic trends. The Group's strong cash generation underpins the continuing programme of investment in the business, share repurchase and dividend growth. I believe that the prospects for the Group are excellent.



Martin Gilbert
Chairman

*Operating profit referred to in this statement and in the Chief Executive's review and Financial review refers to operating profit before goodwill amortisation and exceptional items.

Chief Executive's review

Moir Lockhead
Chief Executive

Overview

Safety

The safety of our staff and passengers is of fundamental importance to us all and underpins everything that we do. During the year we have continued to work with DuPont Safety Resources with the aim of developing our total safety culture. We are making good progress but continually strive to improve safety awareness at all levels within our organisation.

Results

I am pleased to report another encouraging set of results for the Group with good progress in all areas of our operations. Operating profit rose to £216.1m (2002: £215.0m). We have seen continued growth in EBITDA (operating profit plus depreciation) to £315.3m (2002: £310.1m), which has enabled us to invest in the business with capital expenditure and business acquisitions totalling £134.5m, together with a 7% increase in dividend and the return of £17.1m to shareholders through the continued repurchase of equity during the year.

North America

Results

Turnover from our three North American operations was £582.4m (2002: £542.9m). The underlying increase at constant exchange rates was 16%. Operating profit was £61.3m (2002: £60.8m). At constant exchange rates the increase was 8%.

First Student

During the year growth continued at First Student with US Dollar turnover increasing by 15%. The bidding market for school bus contracts was more competitive in 2002, however we retained approximately 90% of our existing school bus contracts that came up for renewal during the period. Our policy remains that we will not bid for new business at unattractive margins. The division gained net new contracts for approximately 100 buses. We were delighted to make our first entry into the state of Tennessee with a contract win in Chattanooga.

Safety

Safety is paramount in our business. We are never complacent about our obligations to staff and passengers and are always seeking to improve the way we operate. That's why safety is at the top of every agenda and we have appointed safety officers in all our divisions. Our aim is to imbue a total safety culture across all our operations and for passengers to know that when they travel with us they can have absolute confidence in our services.

The majority of our expansion came from the purchase of smaller operators which we were able to acquire on attractive terms. Through this programme of strategic infill acquisitions we purchased six small businesses adding 725 buses to our fleet. We strengthened our position in Florida with the acquisition of a further school bus operator in Jacksonville bringing our total fleet in the city to 740 buses. New school bus businesses were also acquired in Massachusetts, New Jersey, Wisconsin and California. We now operate some 15,500 school buses across the US and Canada, approximately 50% more than at the time of acquisition in 1999, and this growth trend is continuing.

We are encouraged by our progress in the current bidding round for contracts to start in Autumn 2003. We have been awarded a five-year management contract, requiring no vehicle capital expenditure, to operate 683 school buses in Boston. This will be our first management contract in the city and builds on our successful relationships with school boards in New England. In addition we were awarded a contract in Louisiana, our first entry into this state. Looking forward, we have an encouraging pipeline of new contracts and business acquisitions and we are confident that we will deliver another year of continued growth in First Student.

First Transit

In First Transit US Dollar turnover increased by 17%. We have won net new business with an annualised turnover of approximately US\$5m. Important new contracts were gained in Maryland and California, and service expansions were added in Alabama and Virginia. In March, First Transit completed the acquisition of the transportation management division of Dyntek Inc. Through this acquisition First Transit will assume responsibility for non-emergency medical transport call centre contracts in Connecticut, Illinois and Arlington County, Virginia. This acquisition will strengthen First Transit's expertise in this growing market.

The new business market has continued to be competitive. In response, the division has reduced its cost base by improving

internal efficiencies to position itself as the lowest cost, best value provider in the market, consistent with maintaining our quality and customer service. We are focusing on bidding for new business where our specific expertise, in areas such as call centre management and paratransit services, will bring additional value to customers.

First Services

First Services has also continued to expand with US Dollar turnover increasing by 13%. We have completed a detailed review of opportunities within the servicing and vehicle management market. As a result First Services aims to broaden its spread of business in both the public and private sector. During the year we won new business in Washington DC, Puerto Rico and Georgia. Additionally, in February 2003, we acquired a small specialist business that fits communications equipment into vehicles such as police cars and emergency vehicles. This business complements and extends our existing operations.

Margins

Margins across the division were adversely impacted by increased fuel and insurance costs. In First Student the incidence of a higher than average number of school days lost through very heavy snowfall during the winter also impacted revenues and margins. Since the year end we have put in place fuel hedging arrangements which will give us cover for 50% of our purchase requirements for up to four years at competitive rates. Growth in insurance costs has also moderated and we are focusing on controlling claims more effectively.

Outlook – North America

Our North American division is now self-funding for maintenance and growth capital expenditure. The prospects for our operations remain excellent in highly fragmented markets, which also offer the prospect of further growth from outsourcing. We are confident that this division will form a growing proportion of the Group's profits in the future.

Chief Executive's review

UK Bus

Results

This was a year of considerable achievement in UK Bus. Turnover increased by 6% to £859.4m (2002: £811.5m) and operating profit before financing costs increased by 6% to £111.7m (2002: £105.7m). The division generated over £150m of cash, of which a substantial amount was reinvested in the division.

London

In London, where we operate bus services on behalf of Transport for London (TfL), we added 130 new vehicles in support of TfL's strategy to increase the number of buses and services in preparation for the start of congestion charging. The scheme was successfully introduced in February 2003 and the initial results show that car volumes within the charging zone have been reduced by approximately 15% with consequent improved journey times for buses. Our new and extended contracts generated £25m of additional turnover in the year. We now operate 1,235 buses in London giving us a 16% market share in the capital. Some 50% of our London business now operates under quality-incentivised contracts and we are performing well against these targets. For 2003/04 we have already secured all major contract changes and in addition we are targeting a further increase in the number of buses we operate.

Outside London

Outside London passenger volumes increased by 1.5%, with areas of particularly good growth where we continue to develop Quality Partnership programmes with Local Authorities. We have continued to strengthen our partnerships with transport authorities and other stakeholders to integrate bus service improvements within wider transport policies which include parking and development strategies. This has led to some important initiatives that have delivered improved services for passengers and new alternatives to the private car. Growth was very encouraging in cities such as Aberdeen, Glasgow, Manchester and York where we have introduced

Kids to school

At First we know a thing or two about going to school. With our 15,500 yellow school buses operating every day across the US and Canada almost a million parents can't be wrong about the safety and convenience of the school bus. That's why we've started to introduce them to the UK. So far six schemes are up and running and they have been hugely successful with the support of parents, teachers and Local Authorities. So now our aim is to persuade Government that these schemes can help to reduce traffic congestion, road accidents and air pollution and are by far the safest way of getting our kids to school.

Home to work

Commuting may not be fun, but at least we can make it more bearable. In many towns and cities where we operate, an increasing number of people are finding that it is much easier to let someone else do the driving instead of sitting in a car in traffic. Our buses are bright and comfortable, and with the new Overground colour coded networks it's simple to find your route. Guided busways and bus lanes make our buses faster and more reliable, so it's quicker too. And many companies are working with us to establish travel to work schemes which give discounts for staff who transfer to the bus.

a range of benefits such as modernised route structures, newer buses, simplified ticketing, park and ride schemes and zonal fares.

Partnerships

We are working closely with local authority partners to accelerate the implementation of bus infrastructure improvements at the conurbation level. In Sheffield we have developed a pilot demographic mapping system that enables us to measure customer response to service initiatives and to better target changes to those areas of highest potential bus usage, as well as helping us to address the Government's social inclusion agenda. This initiative is now being introduced across other urban areas where we operate.

In the major cities where our operations are centred, we have seen encouraging growth over the past two years. In Glasgow we now carry 15.1m more passengers (12.7% growth), while in Manchester we carry 10.4m more passengers (13.1% growth).

In Yorkshire, in conjunction with South and West Yorkshire Passenger Transport Executives we are developing the 'Yorkshire Showcase' which has a target to increase bus travel in the region by 30% over the next five years.

In York we have worked closely with the City Council which has introduced traffic restraint measures in the historic city centre in conjunction with a growing park and ride network on the periphery. In return we have introduced a brand new fleet of 90 buses together with an Overground network, marketing activities and investment in the Park and Ride. This has resulted in a 12% turnaround in passenger numbers since the start of the scheme and a reduction of road traffic in the city.

In the North West we have entered into an agreement with the Greater Manchester Passenger Transport Authority, Bolton Metro and Wigan Borough Councils to help fund a quality bus corridor which will significantly improve the reliability of services on an important arterial route in Greater Manchester.

In Glasgow, as part of a £1.5m investment package to improve the quality of bus services, we introduced the UK's first air-conditioned double decker tri-axle buses capable of carrying 115 passengers, which has helped to deliver the continued passenger volume growth in the city.

Rural operations

We are also improving our bus services in rural areas. For example, in Devon and Cornwall we have carried out a comprehensive market research and passenger and stakeholder consultation exercise, which has allowed us to introduce more direct routes between main towns, providing quicker journey times and enhanced services to over 40 towns and villages. We have also reorganised our operating divisions in the South West to deliver better customer service and reduce overheads.

Marketing

Investment in marketing and customer service has been a major priority throughout the year with the emphasis on improving the precision of our bus marketing programme.

We continued to roll out the Overground, our successful simplified route and fares structure, to new areas such as Chelmsford, Halifax, Huddersfield, Wirral, North Staffordshire, Northampton, Norwich and Redditch. We now operate 20 Overground networks throughout the UK.

Technology

Across the division we have continued to implement technology-based initiatives to improve customer service. In Leicester we introduced 'StarText' a new system that enables passengers to check the arrival times of local bus services, at given bus stops across the network, using text messaging on their mobile phones. In addition, we have been developing the use of our 'Tracker' system which uses satellite technology to track our buses through traffic and identify congestion hotspots. This enables us to refine timetables and work efficiently with Local Authorities to minimise disruption to services as a result of traffic congestion.

Business to business

The train is the ideal way to get to a business meeting on time and feeling refreshed. On First Great Western we have upgraded our on-board service and each train now carries a dedicated train manager to look after passengers' needs. First Great Eastern, our London commuter railway, has the best operating performance of any London passenger rail operator. We are running 26% more metro high-frequency services and have increased seating capacity on peak trains since we took over the franchise. So we really are doing our best to make the train a great place to do business and a great way to travel.

Chief Executive's review

Yellow school bus in the UK

Our US style yellow school bus pilot programme in the UK has been further expanded during the year to Aberdeen, Windsor, Wokingham and Wrexham. We now operate a total of six schemes and are actively pursuing opportunities to develop this successful pilot further.

Outlook – UK Bus

We remain optimistic about the opportunities for further growth in our bus operations as traffic congestion continues to increase in major towns and cities throughout the UK. We are very encouraged by the positive impact that congestion charging has had on traffic in London and the success of bus priority schemes across the country. The experience in London could provide the impetus to introduce similar measures to combat traffic congestion in other urban areas in the UK.

UK Rail

Results

Turnover in the Group's three train operating companies was £842.3m (2002: £802.9m), an increase of 5%. Operating profit was £61.3m (2002: £66.8m) which is a creditable result given the reduction in rail support grant for First Great Western and increase in franchise payments for First Great Eastern totalling £13.5m. All of our train franchises remain profitable and are benefiting from substantial investment in new rolling stock and passenger improvements. This is reflected in continuing high levels of performance as shown in the Strategic Rail Authority's (SRA) public performance measures. In particular First Great Eastern continues to be the best performing train operating company in London and the South East. First Great Western has also shown further improvements in punctuality and reliability, particularly during the last six months, as a result of improved infrastructure reliability and enhanced front-line staffing levels at stations.

Passenger volumes have increased during the period by 5% on First Great Western and 4% on First Great Eastern. At First North Western, which we operate on behalf of the SRA, the impact of industrial action last year resulted in passenger volumes falling by 5%.

Investment

We are committed to improving the performance and reliability of our rail services. We have continued our programme of introducing new rolling stock and investing in passenger facilities. The full fleet of new Adelante class 180 high-speed trains are scheduled to be in service at First Great Western from the start of the summer timetable in May providing additional capacity and passenger comfort on services to Bristol and South Wales. The new fleet of class 175s, which are now fully operational at First North Western are contributing to a better travel experience for passengers. In addition, this summer First Great Eastern will be phasing in its new fleet of Desiro class 360 trains to replace old slam door rolling stock. These trains are fully accessible for people with disabilities, include on-board CCTV and will provide a quieter, smoother ride for commuters at London's Liverpool Street station.

Looking further ahead we have an agreement with Siemens to develop a new generation of high-speed trains (HST) that could enter passenger service within five years. The aim is to develop a train that could replace the Intercity 125 HSTs on the Great Western mainline from London Paddington. This next generation of HSTs will set an even higher standard for intercity rail travel in the UK.

We have made further investment to improve passenger facilities and increase security at railway stations. At Swindon we have contributed to the cost of building an additional platform to ease the 'bottleneck' which causes frequent delays to train services through the station. At First Great Eastern we have recently improved station security at Chelmsford, Romford and Ilford which has been well received by passengers and accredited under the British Transport Police Secure Station Scheme.

Franchises

We continue to develop our proposals for new and renewed passenger rail franchises. We currently have a balanced portfolio of intercity, London commuter and regional railways and are seeking to develop a similarly balanced portfolio of operations under the SRA's revised franchise plan.

Integrated transport

In Bristol the bus meets the train and whisks you into the city; in York you can leave your car at the park and ride and travel in comfort into the historic centre; and in Truro you can jump off the train and into our dedicated '+Bus' chauffeur service which will drop you at your door. You can buy your train ticket on the bus or your bus ticket on the train; or both over the phone or on the internet. These are all examples of how we are joining up the links to create integrated journey opportunities making it more attractive for people to leave their cars at home and travel with us.

We are one of the final two bidders, with our partner Keolis, for the TransPennine Express franchise which is due to commence operation in early 2004. If selected for the franchise, we will be able to offer significantly improved services between the major centres in the North of England. We are currently working with train manufacturers to develop rolling stock which will bring new levels of passenger comfort to these services. In addition we have pre-qualified for the Northern and Scotrail franchises and we are now working on our detailed proposals to be submitted to the SRA later in the year.

In April this year we were invited by the SRA to put forward proposals for the interim consolidation of the Thames Trains franchise, which expires in 2004, with First Great Western which does not expire until 2006. We will be able to offer passengers a significantly enhanced level of service from London Paddington on the suburban lines to Reading and to the Cotswolds from 2004, through more efficient rolling stock scheduling and timetabling of services. We expect to hear whether our proposals have been successful later this year.

We were extremely disappointed, as were a large number of our customers and stakeholders, at the SRA's decision not to allow us to bid for the new Greater Anglia franchise. We are working with the SRA to understand how they reached this decision.

Network Rail

After an extremely difficult period in the autumn, we are now encouraged by the progress that Network Rail is making to address the backlog of infrastructure maintenance particularly on the Great Western mainline between London Paddington and Bristol. Significant works are scheduled to take place this year and we are working closely with Network Rail to minimise short-term disruption. These works will further improve the infrastructure and have a positive impact on reliability.

Bus/Rail Integration

The Group's scale of operations enables us to provide unrivalled bus/rail integration opportunities. We now offer joint bus/rail tickets for major parts of the South West, North West

Chief Executive's review

and East Anglia regions. We are also examining ways to improve links between railway stations and bus networks. Dedicated bus/rail links are in operation in Bristol and Taunton and in Truro we operate a train taxi service. In East Anglia innovative plans are being developed to create a network of buses to feed into train services at railheads throughout the region.

FirstInfo

Our call centre operation based in Plymouth now employs some 500 staff who handle around 11m inbound calls per year. They provide travel information, customer care and ticket sales on behalf of our bus and rail operations and are one of the national contractors to the National Rail Enquiry Service. In addition, FirstInfo now operates several TraveLine national bus enquiry contracts.

Trams

Passenger volumes continue to show encouraging growth on Croydon Tramlink which is now carrying over 20m passengers per annum. We are currently one of two finalists for the new Leeds Tram System. We expect to submit our proposals with our partners Bombardier, Bouygues and Jarvis later in 2003.

Staff

Once again I have been impressed by the commitment and enthusiasm of our staff. Their continued dedication has delivered another year of growth. Although the current rate of bus driver turnover remains too high, we continue to target further improvements. Our aim is to make First the employer of choice and we are working hard to improve our understanding of the needs and aspirations of our people so that they can continue to develop and achieve their full potential. We continue to target improved recruitment, training and retention of staff. Our overall objective is to develop a workforce that is highly motivated and customer focused. To achieve this we believe we have to offer employees opportunities to develop through training, on-the-job appraisal and the provision of programmes such as lifelong learning.

Staff and customers

Our staff are First to our passengers. We want our employees to enjoy working for First and to take pride in providing the best possible service to customers. We are working hard to improve the training we offer our staff. Workplace learning schemes have been introduced and many of our staff are taking NVQs through our sponsored programmes. Regular contact with our customers – through surveys on our buses and trains – helps us to improve and deliver even higher standards of service.

In the bus division we extended the successful pilot workplace learning scheme started in Essex to locations in Yorkshire and Scotland. We have also developed National Vocational Qualifications (NVQ) and Business & Technology Education Council (BTEC) qualifications for our drivers and introduced new training programmes for managers.

In our rail division we established a staff training academy in Bristol which includes driver simulators. This will ensure that our staff receive up-to-the-minute training and that key skills are developed and practised. First Great Western has already offered 900 staff the opportunity to achieve NVQ level qualifications in job-related subjects. First Great Eastern has developed and introduced a comprehensive series of training programmes for both frontline staff and managers covering, amongst other things, safety, customer service and conflict management. In addition First Great Eastern has received partial Investors in People (IIP) accreditation with special commendation for its training and appraisal process and aims to receive full accreditation by the end of 2003. First North Western has launched a series of comprehensive customer service training programmes for all frontline staff and managers with the aim of improving the travel experience for customers.

Environment and Community

As the UK's largest surface transport operator we can make a major contribution to improving the environment by encouraging the development of public transport and thereby reducing road congestion, vehicle emissions and improving safety. We are pleased to be taking part in the European Union's Clean Urban Transport Trial. We will be operating three fuel cell powered buses in our East London operation, the only such trial in the UK. These emission-free buses are virtually silent and have the potential to make a significant difference to overall air quality.

We have improved environmental awareness and training throughout the Group which has resulted in some encouraging trends. For example in the bus division we have achieved an 8% reduction in energy usage as a result of local depot initiatives. In addition we have invested £2m in partial water recycling bus washes bringing our water consumption down by 14%. We

Community and partnerships

With more and more traffic on our roads it's not getting any easier to protect the environment. As a public transport company we can play an active role in reducing congestion, pollution and accidents. For example, a full bus can take up to 50 cars off the road. The use of modern fuels and cleaner, more efficient engines helps to minimise the environmental impact of our vehicles. In addition, our partnerships with Local Authorities, transport organisations and passenger groups ensure that we provide the best possible service to the whole community helping to address the Government's social inclusion agenda.

were delighted to receive a Green Apple Award, one of the UK's leading environmental awards, for our work in reducing the environmental impact of transport. Additionally, we received a Scotland plc Corporate Social Responsibility Award in recognition of our successes in environmental and safety improvements, community involvement and charitable projects.

During the year the Group and its staff in the UK and North America have continued to support a number of local and national charities. Further details of all these activities can be found in our Corporate Responsibility Report which is published separately.

Group Outlook

The Group is well positioned in markets which are resilient and offer long-term growth prospects. We generate over £300m of EBITDA each year and our focus is to deliver increased shareholder value through investment in the business, continued dividend growth, debt reduction and further repurchases of equity as appropriate. Trading in the new financial year has started well and is in line with our expectations.



Moir Lockhead
Chief Executive

Financial review

Divisional results	Turnover £m	Year to 31 March 2003		Turnover £m	Year to 31 March 2002	
		Operating profit ¹ £m	Operating margin ¹ %		Operating profit ¹ £m	Operating margin ¹ %
UK Bus Division	859.4	111.7	13.0	811.5	105.7	13.0
North America Division	582.4	61.3	10.5	542.9	60.8	11.2
Rail Division	842.3	61.3	7.3	802.9	66.8	8.3
Financing elements of leases ²	–	(6.7)	–	–	(3.4)	–
Other ³	6.9	(11.5)	–	6.8	(14.9)	–
Total Group	2,291.0	216.1	9.4	2,164.1	215.0	9.9

¹Before goodwill amortisation and exceptional items

²Financing elements of UK Passenger Carrying Vehicle operating lease costs

³Tram operations, central management and other items

Throughout the financial review, operating profit and operating margin are defined as being before goodwill amortisation and exceptional items.

Overall

Group turnover in the year increased by £126.9m, or 6%, to £2,291.0m. Group operating profit, before goodwill amortisation and exceptional items, was £216.1m, an increase of £1.1m, or 1% on 2002.

Revenue in the UK Bus Division increased by £47.9m, or 5.9% to £859.4m. In London where we operate contracts on behalf of Transport for London (TfL), revenues have increased by £25.3m as a result of additional services provided in the run up to congestion charging. Outside London passenger volumes have increased by 1.5%. Operating profit, before the financing element of operating leases, grew by £6.0m, or 5.7% and the margin was maintained at 13.0% despite significant cost pressures most notably insurance, pensions and pay.

The financing element of leases increased by £3.3m to £6.7m, due to the full year effect of leases entered into during 2001/02 and additional leases entered into during the year for new London tenders.

The North America Division's turnover rose by £39.5m, or 7.3% to £582.4m. At constant exchange rates the increase in business was 15.8%. The majority of the new business was in First Student where we added 825 new buses, of which 725 were acquired through the purchases of six small school bus operators. Operating profit increased to £61.3m (2002: £60.8m). At constant exchange rates the increase was 8%. The operating margin fell by 0.7% to 10.5% principally due to increased insurance and fuel costs and a higher than usual number of school days lost due to severe snow conditions.

Rail Division revenue increased by £39.4m, or 4.9% to £842.3m. Passenger volumes were up 5% in First Great Western and 4% in First Great Eastern. Operating profit decreased by £5.5m to £61.3m due to a combination of lower subsidies, reduced performance regime receipts and cost pressures on insurance, pensions and pay. The reduction in performance regime receipts was partly mitigated by the release of the majority of the gauge corner cracking compensation received in 2001/02.

Exceptional items

Exceptional items totalled £10.6m (2002: £20.5m) and include a charge of £6.0m for UK Bus restructuring, £3.7m for claims settlements in North America principally relating to a one-off serious accident, £3.4m for bid costs incurred principally on Rail franchises, less an exceptional gain of £2.5m from the disposal of our interest in Tramtrack Croydon Limited.

Net gains on property disposals of £10.0m (2002: £1.0m) were realised during the year. These disposals are part of a five year property disposal programme which will release cash from prime city centre sites, much of which will be reinvested in modern bus depots, which will further enhance our UK Bus operations.

Goodwill amortisation

The goodwill charge was £25.8m (2002: £29.3m). The reduction is accounted for by goodwill on joint ventures and associates (now written off) of £2.0m which was included in 2001/02 and, in addition, foreign exchange movements of £1.9m. The balance is attributable to goodwill on acquisitions made in the last two years.

Interest

Net interest payable was £56.3m (2002: £56.3m). This was covered 5.6 times by earnings before interest, taxation, depreciation and amortisation (EBITDA). A reduction in the interest charge due to lower overall average borrowing levels, greater use of US Dollar denominated debt and the foreign exchange impact on the interest on US Dollar borrowings were partly offset by the full year effect of the higher interest rate on the bond. In the current year the Group will benefit from a reduced ongoing interest charge as set out below.

Acquisitions and disposals

During the year the Group acquired six school bus companies, one transit and one service business in North America for a total cash consideration of £28.1m (2002: £6.1m). Goodwill arising on these acquisitions amounted to £18.2m (2002: £4.2m).

Taxation

The taxation charge on profit before goodwill amortisation and exceptional items was £47.9m (2002: £48.1m) representing an effective rate of 30% (2002: 31%). Tax relief on goodwill amortisation and exceptional items reduces the tax charge to £35.8m (2002: £33.9m). No tax has been provided on property gains as these do not give rise to a chargeable gain for tax purposes.

The actual cash cost of taxation to the Group is £27.2m (2002: £25.6m) which is 20% of profit before tax (2002: 24%). A full reconciliation of this rate to the UK standard rate of corporation tax is set out in note 8 to the financial statements.

EBITDA and investment in the business

EBITDA (operating profit before goodwill amortisation and exceptional items, plus depreciation) was £315.3m (2002: £310.1m), an increase of 1.7%. Capital expenditure was £106.4m (2002: £153.4m). The majority of capital expenditure was in our bus operations with £60.6m spent in North America and £37.6m in the United Kingdom.

During the year there was an adverse working capital movement of £82.7m principally due to an increase in debtors of £77.3m. The majority of the working capital movement was due to temporary timing issues such as the lag in receipt of £18m of property disposals. The only longer-term timing difference is considered to be pension prepayments of £13.7m.

Balance sheet

Net assets of the Group decreased from £420.0m to £402.8m. The main elements of the movement were £52.0m of retained profit which was offset by a £53.2m adverse foreign exchange movement and £17.1m of share repurchases. The adverse foreign exchange movement is due primarily to the retranslation of goodwill relating to the North American business which is denominated in US Dollars. The Group's net debt has reduced by £28.1m to £624.4m.

Pensions

Pension and post-retirement costs have been accounted for on a SSAP 24 basis. The total charge to the profit and loss account was £26.1m (2002: £19.5m). We have continued to apply the transitional rules and disclosures under FRS 17. At 31 March 2003, after taking account of deferred taxation, the FRS 17 net deficit in the Group pension funds, excluding Rail, was approximately £194m (2002: £33m). In addition, it should be noted that a post-tax deficit of £20m (2002: post tax surplus of £7m) relates to Rail franchises where we believe that no liability will be borne beyond the end of the franchise. Markets have recovered substantially since the year-end and had 30 April 2003 market levels applied at 31 March 2003, the net FRS 17 deficit excluding Rail would have been £166m, with the Rail net deficit being £15m.

The performance of equity markets in the last few years has impacted the pension funding requirements of the Group's defined benefit pension schemes. Recognising that this is unlikely to be made up in the short term simply through a recovery in asset values, in addition to the normal pension contributions in 2002/03, the Group has made discretionary tax-deductible payments into the schemes of £14m, and expects discretionary payments to continue over the coming years.

During the year, the Group consulted with employees and Trade Unions within UK Bus, and agreed the introduction of a new pensions package in the occupational schemes. Benefits for the majority of existing employees have been restructured and employer and employee rates have been increased. For new employees starting from April 2003, benefits will be confined to a money purchase and career average basis. In addition, scheme management costs will be minimised through a continuation of scheme mergers.

Funding and risk management

At the year end, total bank borrowing facilities amounted to £595m, of which £520m had more than two years to maturity. Of these, £326m were utilised at 31 March 2003.

Financial review

Analysis of net debt

	Fixed £m	Variable £m	Total £m
Cash	–	13.4	13.4
Rail ring fenced cash	–	67.9	67.9
Sterling bank loans and overdrafts	–	(40.0)	(40.0)
US Dollar bank loans	–	(276.2)	(276.2)
Canadian Dollar bank loans	–	(10.6)	(10.6)
Bond (2013: 6.875%)	(295.1)	–	(295.1)
HP and finance leases	(50.2)	(11.7)	(61.9)
Loan notes	(8.9)	(13.0)	(21.9)
Interest rate swaps	(208.8)	208.8	–
Total	(563.0)	(61.4)	(624.4)

The maturity profile of committed banking facilities is regularly reviewed and well in advance of their expiry, such facilities are extended or replaced. In December 2002 the Group entered into a new £400m, five year committed revolving credit and guarantee facility which replaced existing bank facilities due to expire by May 2004. This facility increased the medium-term committed borrowing capability of the Group with improved terms and competitive pricing. This was also arranged on a non-underwritten basis.

The bond issue in March 2002 has greatly improved the debt maturity profile which at the year end was 6.8 years, 3.1 years higher than at 31 March 2001, the bond having been issued in March 2002 on a weighted average basis for fixed rate debt.

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. The Group limits deposits to short terms, and with any one bank to the maximum of £30m, depending upon the individual bank's credit rating, which must not be less than 'A' rated.

The Group does not enter into speculative financial transactions and uses financial instruments for certain risk management purposes only. With regard to net interest rate risk, the Group reduces exposure by using interest rate derivatives to achieve an overall hedged position of between 75% to 100%. Subsequent to 31 March 2003 the Group's interest hedging programme was rebalanced to reduce future ongoing costs whilst retaining the hedging target range of 75% to 100%. For the year to 31 March 2004, the impact of the rebalancing is estimated to be a saving of £10.0m in the interest charge with declining benefits in future years. It involved the cancellation of certain interest rate swaps for a total exceptional pre-tax item within the interest charge of £19.0m. At the same time new US Dollar swaps were entered into at an average interest rate of 2.85%.

Fuel price risk is 100% hedged in both UK Bus and Rail by way of a cap which expires in March 2005. In North America the Group bears no fuel risk on approximately half of its contracts. On the contracts where the Group bears fuel price risk, we

were unhedged for most of the year. However, since the year end we have taken advantage of falling oil prices and hedged 50% of this exposure for a period of up to four years.

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.

Shares in issue

During the year 1.0 million shares were issued to satisfy Save As You Earn scheme maturities and 7.4 million shares were repurchased and cancelled at a total cost of £17.1m. Accordingly the total number of shares in issue decreased from 419.8 million to 413.4 million. For the purpose of the earnings per share (EPS) calculation (excluding 0.4 million own shares held in trust for employees), the average number of shares in issue for the year was 416.7 million (2002: 419.8 million).

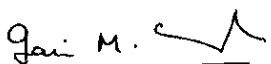
Foreign exchange

The profits from the US have been translated at an average rate of £1:\$1.55 (2002: £1:\$1.44). The year end rate was £1:\$1.57, compared with £1:\$1.43 last year.

Accounting standards and policies

The Group has adopted UITF 34 'Pre-contract costs'. As a result all general bid costs are expensed as incurred. Prior year figures have been restated to reflect this change in accounting policy.

The Group has continued to account for pension costs under SSAP 24. The application of SSAP 24 is likely to continue in light of the extended implementation period for FRS 17 and the review of IAS 19 'Employee Benefits'. It is anticipated that the change in accounting policy will take place in financial year 2005/06.



Iain M Lanaghan
Finance Director

Board of Directors

¹Member of the Audit Committee
²Member of the Remuneration Committee
³Member of the Nomination Committee
⁴Member of the Safety Committee
⁵Member of the Executive Committee

Martin Gilbert LLd MA LLB CA
Chairman
Chairman of the Nomination Committee^{1,3}

One of the founding directors and Chief Executive of Aberdeen Asset Management PLC, he was appointed to the Board of GRT Bus Group PLC at the time of the employee buy-out. 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 Medicine PLC. Age 47.

Moir Lockhead OBE
Deputy Chairman and Chief Executive
Chairman of the Safety Committee^{4,5}

Chief Executive and Deputy Chairman since the Group's formation in 1995 having led the successful employee buy-out of GRT Bus Group PLC. He has been a Non-Executive Director of ASCO PLC 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 58.

Robbie Duncan BCom CA
Business Change Director^{4,5}

Retired from the Group on 31 March 2003. He was Acting President of FirstGroup America with UK responsibilities for Change Management, Property and Environment. He was previously 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 is a Chartered Accountant having qualified with Coopers & Lybrand in Glasgow. Age 52.

Iain M Lanaghan MA CA
Finance Director^{4,5}

Appointed to the Board in 2000 as Finance Director. He joined from Atlantic Power Group 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 47.

Mike Mitchell MA MBA PhD MCIT MILT
Chief Operating Officer UK^{4,5}

Appointed Chief Operating Officer in April 2001 with responsibility for all UK Bus and Rail operations. After senior management roles within the UK Bus division he was seconded to First North Western and then transferred to First Great Western as Managing Director. He was subsequently appointed Managing Director, Rail Division in January 1999, joining the plc Board as Director, UK Rail in November 1999. Age 55.

David Dunn CA
Senior Independent Non-Executive Director
Chairman of the Audit Committee^{1,2,3}

Appointed to the Board as a Non-Executive Director in December 1999. He is a Chartered Accountant and is Non-Executive Chairman of Brammer plc. He is also a Non-Executive Director of Croda International plc and 4imprint Group plc. Age 58.

Jim Forbes CBE MSc BSc CEng MIEE
Non-Executive Director
Chairman of the Remuneration Committee^{1,2,3}

Former Chief Executive of Scottish and Southern Energy plc. His career began with the South of Scotland Electricity Board and he has since held various senior posts in the electricity industry. Age 56.

John Sievwright MA CA
Non-Executive Director^{1,2,3}

Appointed to the Board in May 2002. A Chartered Accountant, he has held various positions in banking. Most recently he was President and Chief Operating Officer, Merrill Lynch Japan Securities in Tokyo. He retired in 2001 and now resides in the United States. He is a member of the North American Board of the Michael Smurfit Business School, Dublin. Age 48.

Martyn Williams
Non-Executive Employee Director^{1,2,3}

Appointed to the Board as Employee Director in January 2003. He is employed as a customer services supervisor in Swansea and has worked for the Group for 25 years. Age 48.

B Louise Ruppel
Company Secretary

Corporate governance

The Board is committed to maintaining high standards of corporate governance throughout the Group. The Listing Rules of the Financial Services Authority require the Board to report on the Group's compliance throughout the year with the provisions set out in Section 1 of the Combined Code Principles of Good Governance and Code of Best Practice (the Code).

The Directors believe that the Group has complied with the Code throughout the year with the exception that the Group's Non-Executive Employee Director (the Employee Director) is a member of the Remuneration Committee. The Code requires that the Remuneration Committee should comprise only independent Non-Executive Directors (Code Provision B.2.1). As an employee of the Group, the Employee Director cannot be regarded as independent under the Code. However, the Board believes that the Employee Director should sit on the Board and its various committees in order to give the Group's employees (who, through the Group's employee share schemes, represent a large proportion in number of the Company's shareholders) a voice. The Employee Director is elected by the Employee Directors' Forum, which is comprised of the Employee Directors from the Group's subsidiaries, and generally serves a three-year term. Following the end of George Law's three-year term, he was succeeded by Martyn Williams, who became the Employee Director with effect from 1 January 2003.

The Board has considered the recommendations of the Higgs report on the role and effectiveness of Non-Executive Directors and the accompanying report by Sir Robert Smith on audit committee reform. The Company currently complies with many of the recommendations in these reports. The Board will implement any changes it considers necessary or desirable following the resulting amendments to the revised Code, when it is published.

This statement sets out how the principles in Section 1 of the Code have been applied.

The Board

Board balance

The Board currently comprises the Chairman, three Executive Directors and four Non-Executive Directors. Except as described above in respect of the Employee Director, the Non-Executives are considered to be independent of management and have no business or other relationships which could materially influence the exercise of their independent judgement. The names of the Directors and their details are set out on page 15.

Re-election

As required by the Company's articles of association, Directors offer themselves for re-election at least once every three years. Any Director appointed during the year is required to seek reappointment by shareholders at the next Annual General Meeting. Non-Executive Directors are appointed for an initial term of three years, subject to reappointment by shareholders. The Company's articles of association do not contain any age limits for directors.

Board procedure

Martin Gilbert, the Chairman, is responsible for the effective conduct of Board and shareholder meetings, and for ensuring that all Directors are properly briefed to enable them to take a full part in Board discussions. Moir Lockhead, the Chief Executive, is responsible for developing and implementing business strategy and processes and for the day-to-day management of the Group. David Dunn, who chairs the Audit Committee, is the Senior Independent Non-Executive Director. The Board believes that together, the Directors possess the breadth of business, financial and international experience necessary to manage effectively an organisation of the size and complexity of the Group.

The Board critically examines the Group's strategy, budget and business plan annually and meets at least eight times a year to review the financial performance of the Group, current trading and key business issues and initiatives. It also meets regularly to discuss strategy and on an ad hoc basis as required. It has a schedule of matters reserved to it for decision, including items such as the approval of the annual and interim financial statements, financing arrangements, material capital commitments, business acquisitions and disposals, relationships with regulatory authorities and operating and accounting policies. The Board receives detailed papers on the business to be conducted at each meeting well in advance and individual Board members have direct access to senior executives should they wish to receive additional information on any items for discussion. 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.

The Board has delegated certain matters to committees of the Board. Details of the principal such committees are set out below:

Executive Safety Committee

The Executive Safety Committee (ESC) is chaired by Moir Lockhead and comprises the Executive Directors, other senior managers and safety officers. The ESC meets monthly to review the Group's safety performance and practices, develop safety policies and procedures and follow up on outstanding issues. The meetings are attended by representatives from DuPont Safety Resources. Senior representatives of relevant industry bodies, such as Her Majesty's Railway Inspectorate, also attend meetings of the ESC on a regular basis.

Executive Management Board

The Executive Management Board (EMB), under the chairmanship of Moir Lockhead, acts as a general operating management committee and comprises all the Executive Directors and certain senior business managers. The EMB meets monthly with senior corporate staff and business unit managing directors to review outstanding issues and to consider the Group's financial and operational performance.

Executive Committee

The Executive Committee, which comprises the Executive Directors, under the chairmanship of Moir Lockhead, has been established to meet on an ad hoc basis to consider and approve matters which arise in the ordinary course of the Group's operations. The Board has delegated specific powers to this committee within certain prescribed limits to deal with matters relating to the ordinary day-to-day running of the Group's operations and which need to be considered before the next scheduled EMB or Board meeting.

Audit Committee

The Audit Committee, which is chaired by David Dunn, includes Martin Gilbert, Jim Forbes, John Sievwright and Martyn Williams and normally meets at least twice a year. George Law was a member until his retirement on 31 December 2002.

The Audit Committee, which has written terms of reference, monitors and reviews accounting policies and financial reporting, the system of financial and operational controls for the Group, and reviews the half-year and full-year financial statements before they are presented to the Group. It also considers the Group's compliance with the Code and oversees the objectivity and effectiveness of internal audit. It is also responsible for appointing the Group's external auditors and for monitoring their independence and objectivity. The Audit Committee can request the external auditors, Executive Directors and any other officers of the Group to attend its meetings. In addition, the Group's internal and external auditors have direct access to the Audit Committee to raise any matters that may concern them. The Audit Committee receives papers summarising the audits undertaken to date, an executive summary of each internal audit report and, from time-to-time, various reports from the external auditors and management.

Nomination Committee

The Nomination Committee is chaired by Martin Gilbert and includes David Dunn, Jim Forbes, John Sievwright, Martyn Williams and Moir Lockhead. George Law was a member until his retirement on 31 December 2002. The Nomination Committee has written terms of reference and meets as required to discuss appointments to the Board of both Executive and Non-Executive Directors, with recommendations being put to the full Board for its consideration. External search consultants are used to assist the process.

Remuneration Committee

The composition and terms of reference of the Remuneration Committee, under the chairmanship of Jim Forbes, are set out on pages 19 to 25 together with a statement of the Group's remuneration strategy and policy. Full details of Directors' remuneration appear on page 23.

Relations with shareholders

The Group recognises the importance of regular communication with all of its shareholders. The full Annual Report and Financial Statements are made available to all shareholders and an Interim Report is published and sent to all shareholders at the half-year. These reports are intended to provide shareholders and other interested parties with a clear and balanced understanding of the Group's operational performance and prospects and its financial results and position.

All investors are kept informed of key business activities, decisions, appointments etc. via news releases and the Group's web site. There is also regular dialogue with institutional shareholders throughout the year and general presentations are made following the release of the announcement of the preliminary and interim results. All shareholders have the opportunity to put questions to the Directors at the Company's Annual General Meeting (AGM), at which a report is made on the highlights of the key business developments during the financial year under review. Notice of the AGM is circulated to all shareholders at least 20 working days prior to the meeting.

Accountability and Audit

Financial reporting

The Directors have a commitment to best practice in the Group's external financial reporting in order to present a balanced and understandable assessment of the Group'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 announcements and other public information.

Going concern

After making enquiries, 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 financial statements.

Internal Control

Introduction

The Board has established procedures to meet the requirements of the Code as extended by the Turnbull Report. These procedures, which are subject to a regular review, provide an ongoing process for identifying, evaluating and managing any significant risks faced by the Group.

Responsibility

The Board has overall responsibility for the system of internal control and assessing risk. The responsibility for establishing detailed control and risk management procedures within each subsidiary unit lies with the Executive Directors and the subsidiary unit managing directors. A sound system of internal control is designed to manage rather than eliminate the risk of failure to achieve business

Corporate governance

objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Control environment

The Board is committed to business integrity, high ethical and moral values and professionalism in all its activities, principles with which managers and employees are required to comply.

There is a defined divisional organisational structure with lines of responsibility and delegated authority which allows the Board to plan, execute, control and monitor the business in a manner consistent with the achievement of the Group's objectives. The day-to-day business management is delegated to the Executive Directors and subsidiary unit managing directors under the direction of the Chief Executive. 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.

A number of the Group's key functions, including treasury, taxation, insurance, corporate finance, legal, corporate communications and procurement are dealt with centrally. Each of these functions has detailed procedures and is monitored by an Executive Director.

Monitoring

The Group adopts a professional approach to financial reporting and information in compliance with generally accepted accounting practice. 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.

Budgets are prepared by subsidiary company management and are subject to review by both Group management and the Executive Directors. Monthly forecasts are completed during the year and compared against budget. When setting budgets and forecasts, management identifies, evaluates and reports on the potential significant business risks and actions required.

Each subsidiary unit prepares a monthly report of operating performance, with a commentary on variances against budget, forecasts and prior year. Similar reports are prepared at a Group level. Key performance indicators, both financial and operational, are monitored on a weekly basis. In addition, business units participate in strategic reviews which include consideration of long-term financial projections and the evaluation of business alternatives.

A process of annual self-assessment and hierarchical reporting provides for a documented and auditable trail of accountability from the subsidiary units to senior management to the Executive Directors. This process includes an internal control questionnaire and risk assessment and is signed off by the subsidiary directors. This process and the supporting documentation are reviewed by both the internal and external auditors. Detailed action plans are developed from these questionnaires to resolve any control weaknesses or significant risks identified.

Risk assessment

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. As an integral part of planning and review, management from each business area and major projects identify their risks, the probability of the risks occurring, the impact on the business should the risks occur and the actions taken to manage the risks. The risks are assessed on a continuous basis and could be associated with a variety of internal and external sources including political instability, regulatory requirements, disruption to information systems, control breakdowns and social, ethical and environmental issues. Regular performance reviews have been introduced in each of the Divisions to further embed the concept of risk management. The divisional directors review the detailed risk management reports prepared by their subsidiary units which include updates of agreed action plans arising from previous quarterly performance reviews.

Assurance

The work of the internal audit department is focused on areas of priority as identified by risk analysis and in accordance with an annual audit plan approved by the Audit Committee and the Board. Reports are sent to senior executives of the Group and subsidiary units and there is a follow-up process to ensure that actions to resolve identified control weaknesses are implemented.

The Audit Committee keeps under review the nature, scope and results of the external audit and the audits conducted by the internal audit department. The independence and objectivity of the external auditors is also considered on a regular basis, with particular regard to the level of non-audit fees. Details of the audit and non-audit fees, including a breakdown of the non-audit fee, are set out in Note 7 to the financial statements.

The Audit Committee reviews with management, a detailed analysis of the Group's financial information prior to completion and announcement of the half-year and full-year results and receives a report from the external auditors on the audit process. The external auditors also meet with the full Board and, if necessary, separately, with the Chairman, the Chief Executive and Finance Director. The Annual Report and Financial Statements and interim results go through a detailed verification and due diligence process involving external advisers.

Effectiveness

The Directors confirm that they have reviewed the effectiveness of the system of internal control for the year under review and to the date of approval of the Annual Report and Financial Statements through the monitoring process described above.

In addition, the Directors confirm that they have conducted a specific annual review of the effectiveness of the Group's system of internal control and risk management in operation during the period up to the date of this Annual Report and Financial Statements.

Directors' remuneration report

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002. It also meets the requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the Principles of Good Governance relating to Directors' remuneration. A resolution to approve this report will be proposed at the Company's Annual General Meeting to be held on 3 July 2003.

Unaudited information

Remuneration Committee

The Remuneration Committee (the Committee) is chaired by Jim Forbes. The other current members of the Committee are David Dunn, John Sievwright and Martyn Williams, all of whom are Non-Executive Directors. Martyn Williams replaced George Law who served as Non-Executive Employee Director until 31 December 2002. With the exception of Martyn Williams, none of the members of the Committee has any personal financial interest (other than as a shareholder) in the matters to be decided, conflict of interest arising from cross-directorships or any involvement in the day-to-day running of the business. They do not hold any share options nor do they participate in any Group share or pension schemes.

Martyn Williams is an employee of one of the Group's operating subsidiaries. In that capacity, he is entitled to participate in employee share schemes from time-to-time and to be a member of one of the Group's pension schemes. Although he would therefore not be regarded as independent in strict corporate governance terms, the Committee considers it very important that the Group's employees are given a voice on the Board and that employees' views are taken into consideration, in particular when the remuneration of the Executive Directors is determined.

The Committee, which has written terms of reference, generally meets at least once a year and also as required to consider matters related to the remuneration of Executive Directors. In the year under review, it met six times and all its members attended each of those meetings.

In determining the Executive Directors' remuneration for the year, the Committee considered publicly available information, including the remuneration packages of those holding equivalent posts at the Company's peers within the transport industry and the FTSE 250 generally. In addition, the Committee has also received advice in relation to certain specific remuneration and pension-related matters from Watson Wyatt, a firm of independent remuneration consultants. Watson Wyatt also provided advice to the Company during the year on remuneration and pension-related matters in respect of staff below main Board level.

Remuneration policy

Executive remuneration packages are designed to attract, motivate and retain individuals of the high calibre needed to maintain the Group's position as a leader in the public transportation sector. There are four main elements of the remuneration package for Executive Directors and senior management, namely basic salary, annual cash and deferred share bonus, share option incentives and pension arrangements. The remuneration package for each Executive Director is viewed as a whole and the individual elements making up the package are balanced to ensure that overall, the remuneration received by an executive is not excessive, is competitive with the remuneration received by the individual's equivalents in other similar quoted companies, contains an appropriate balance of fixed and variable (performance-related) compensation and provides longer-term share incentives designed to align his interests with those of shareholders. A high proportion of the total remuneration package is performance-related.

Basic salary and other benefits in kind

The basic salary and benefits in kind for each Executive Director is determined by the Committee prior to the beginning of each financial year and when an individual changes position or responsibility. In deciding appropriate levels, the Committee considers the Group as a whole and also the packages received by similar individuals at the Company's peers in the public transport sector and the FTSE 250. Details of the salaries and benefits in kind paid to each of the Executive Directors in the year are shown on page 23.

Directors' remuneration report

FirstGroup plc Executive Annual Bonus Plan

Payment of bonuses under this plan is linked to achievement of budgeted Group operating profit targets and personal objectives (including certain safety-linked targets). In the case of Mike Mitchell, the payment of a bonus is also linked to the profitability of the UK Bus and UK Rail Divisions. The Committee considers and agrees the Group objectives that must be met for each financial year for a bonus to become payable. The personal objectives for the Executive Directors are agreed with the Chief Executive.

Bonus payments comprise a mixture of cash and deferred share awards. Share awards, which are structured as nil-cost share options, are deferred for three years and will lapse if the Director leaves the Group during that period for reasons other than redundancy, retirement or ill-health. The Committee considers that it is appropriate for part of the annual bonus to be paid in the form of deferred shares as this more closely aligns Directors' interests with those of shareholders and provides an incentive for the relevant executive to remain with the Group. As the award of any bonus is already dependent upon the achievement of performance targets in a particular year, the Committee does not consider it appropriate to impose any further performance criteria on vesting of the deferred share element of any bonus award, other than that the relevant Executive Director remains employed by the Group and has not tendered his resignation at the end of that three-year period.

The Group sets yearly budget targets for the Group as a whole and for each business unit within the Group. These targets are, of necessity, extremely challenging. The Committee has determined that bonuses would be payable for Group performance against budget between 90% and 110%. The level of bonus payable is heavily skewed towards performance in excess of 100% of budget. However, even if the budgetary targets are met, a proportion of the bonus which would otherwise be payable is dependent on personal performance. The maximum level of bonus payable to an Executive Director is 80% of basic salary, although awards for the year ended 31 March 2003 were 58.85% for each Executive Director. The Committee has determined that awards should be calculated on this basis for the 2003/04 financial year and, going forward, will review on a yearly basis what performance criteria are appropriate for future years.

Share Option Schemes

Executive Share Option Scheme (ESOS)

The Company operates an Executive Share Option Scheme for Executive Directors and other senior management. Under this scheme, options to acquire ordinary shares in the Company may be awarded at the discretion of the Committee at levels of up to 200% of basic salary. The exercise price of the options granted under the scheme is based on the average of the middle market quotations for shares in the Company for the three dealing days prior to the date of grant.

The Committee has agreed that the following performance targets should continue to apply for option grants made in the 2003/04 financial year. Options will be exercisable if the growth in the Company's annualised earnings per share (EPS) for the three-year period following the financial year ending before the date of grant exceeds the growth in the UK Retail Prices Index (RPI) over the same period by an average of at least 3% per annum. If at the end of the three-year period the performance target has not been met, EPS growth will be measured over an additional year and must show an average growth of 3% in excess of RPI over the full four year period. If the EPS criterion is met, the option may be exercised at any time during the rest of its ten-year life, without any further condition.

If the holder leaves the Group before the end of the performance period by reason of injury, ill-health, disability, redundancy or retirement, an option may be exercised within 12 months if the performance target has been satisfied at the date of such cessation. Early exercise of options may also be permitted within specific periods in the event of a change of control of the Company resulting from a takeover, reconstruction, amalgamation or voluntary winding-up of the Company but only to the extent that any performance targets have then been achieved on a pro rata basis.

Grants for the 2002/03 financial year were set at 1.33 times basic salary for Moir Lockhead and 1 times salary for other Executive Directors. Going forward, the Committee will consider what performance criteria and levels of award are appropriate for each financial year.

The performance criteria and annual levels of grant have remained unchanged since the scheme was adopted in 2001. At that time, the scheme was designed to attract and retain key individuals in the face of competition for talented and effective staff and the performance criteria and levels of grant were considered appropriate to achieve this aim whilst better aligning the interests of the individuals concerned with the longer-term interests of shareholders. The Committee believes that these performance criteria and levels of grant remain appropriate for the current financial year. In the current climate, the RPI-related target is a realistic challenge and the overall levels of grant are not considered to be excessive when compared to the Group's principal competitors and FTSE 250 companies more generally.

Save As You Earn (SAYE) Scheme

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

The Company no longer operates any long-term incentive schemes other than the share option schemes described above. No amendments are proposed to be made to the terms and conditions of any entitlement of a Director to share options.

Buy As You Earn (BAYE) Scheme

At the Company's AGM in 2001, shareholders approved the establishment of a new all-employee Share Incentive Plan. This replaced the Employee Share Ownership plan (ESOP). The Company was no longer able to operate the ESOP following a change in the law governing approved profit sharing schemes. The final appropriation under the ESOP was made in June 2002 in respect of the financial year ended 31 March 2002. During the year, the Company launched the new Share Incentive Plan under the title 'Buy as You Earn'. This scheme, which is open to all UK employees of the Group (including the Executive Directors), enables employees to purchase partnership shares from their gross income (i.e. before income tax and National Insurance deductions). The Company provides one matching share for every two partnership shares bought by employees, subject to a maximum Company contribution of shares to the value of £15 a month. The shares are held in trust for up to five years, in which case, no income tax and national insurance will be payable. The matching shares will be forfeited if the corresponding partnership shares are removed from trust within three years of award.

Retirement benefits

Executive Directors are members of a number of defined benefit Group pension schemes. Their dependants are eligible for dependants' pensions and the payment of a lump sum in the event of death in service. Further details are set out on page 25.

Service contracts

It is the Company's policy to restrict notice periods for Executive Directors to a maximum of 12 months. In line with this policy, all of the Executive Directors have service contracts with an undefined term but which provide for a notice period of 12 months. There are no contractual provisions governing payment on early termination of these contracts. If it becomes necessary to consider termination of a service contract, the Company will have regard to all the circumstances of the case, including mitigation, when determining any compensation to be paid. Details of their contracts are set out below:

	Date of Service Contract
Moir Lockhead	5 March 2001
Robbie Duncan ¹	5 March 2001
Iain Lanaghan	29 November 2002
Mike Mitchell	2 July 1997

¹Retired as a Director on 31 March 2003

Executive Directors are permitted to accept a limited number of outside non-executive directorships, recognising that this is an effective way to broaden their knowledge and expertise and, unless the appointment is in connection with Group business, the individual Director is entitled to retain any fees received. No such appointment can be taken up without prior Board approval.

Non-Executive Directors

All Non-Executive Directors have a letter of appointment and their remuneration is determined by the Board based on independent surveys of fees paid to non-executive directors of comparable companies. Non-Executive Directors cannot participate in any of the Company's share option schemes and are not eligible to join the Company's pension scheme. Each of the Non-Executive Directors, other than Martyn Williams, has elected to receive 40% of his fees in the form of shares in order to ensure that their interests are more closely aligned to those of the Company's shareholders. The shares are purchased on a monthly basis in the market. The appointment of each of the Non-Executive Directors is subject to early termination (without compensation) if he is not reappointed at an Annual General Meeting when he is up for re-election.

Directors' remuneration report

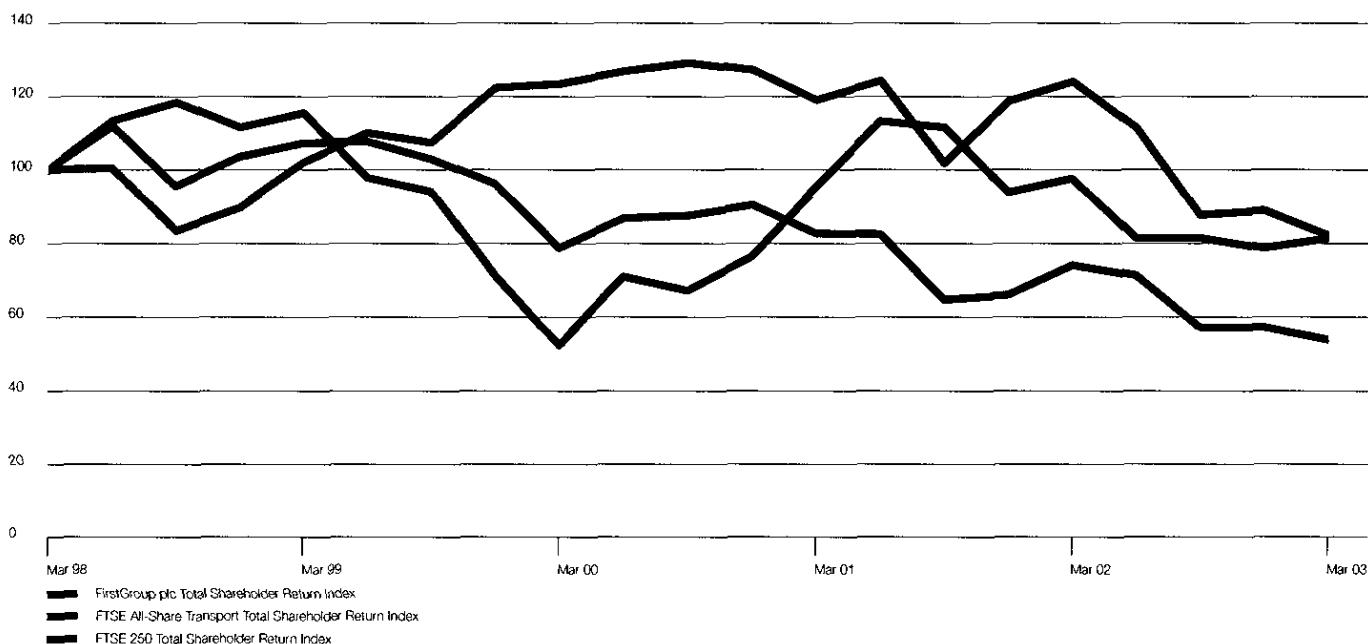
Total shareholder return

The following graph shows, for the last five financial years of the Company, the total shareholder return on a holding of shares in the Company as against that of a hypothetical holding of shares made up of shares of the same kinds and number as those by reference to which the FTSE 250 index and the FTSE All-Share transport index are calculated.

Total shareholder return index

Source: Thomson Datastream

31/03/98 = 100



These indices were selected for this purpose as the Company believes that they are the most appropriate and representative indices against which to measure the Company's performance.

Audited Information

Directors' remuneration

Details of the Directors' remuneration for the year ended 31 March 2003 are set out on the following pages.

Directors' emoluments and compensation

The total salaries, fees and benefits paid to, or receivable by, each person who served as a Director of the Company at any time during the year appear below. These include any and all payments for services as a Director of the Company, its subsidiaries or otherwise in connection with the management of the Group.

	Salary 2003 £000	Cash bonus 2003 £000	Benefits in kind 2003 £000 ¹	Fees 2003 £000	Total 2003 £000	Total 2002 £000
Executive Directors						
Moir Lockhead	351	136	23	–	510	494
Robbie Duncan ²	238	92	19	–	349	338
Iain Lanaghan	210	81	1	–	292	243
Mike Mitchell	236	92	20	–	348	336
Non-Executive Directors						
Martin Gilbert	–	–	–	100	100	63
David Dunn	–	–	–	33	33	31
Jim Forbes	–	–	–	33	33	31
George Law ³	–	–	–	10	10	13
John Sievwright ⁴	–	–	–	29	29	–
Martyn Williams ⁵	–	–	–	3	3	–
	1,035	401	63	208	1,707	1,549

¹In relation to the value of non-cash benefits received, the values indicated relate to the following benefits received by each Director: Moir Lockhead: £18,000 company car, £4,000 private fuel and £1,000 medical insurance for himself and spouse; Robbie Duncan: £14,000 company car, £4,000 private fuel and £1,000 medical insurance for himself and spouse; Iain Lanaghan: £1,000 medical insurance for himself and his family; Mike Mitchell: £15,000 company car, £4,000 private fuel and £1,000 medical insurance for himself and his family

²Retired as a Director on 31 March 2003

³Retired as Employee Director on 31 December 2002

⁴Appointed as a Director on 9 May 2002

⁵Appointed as Employee Director on 1 January 2003

Directors' remuneration report

The outstanding share options under the Executive Share Option Scheme (ESOS), deferred share bonus, long-term incentive plan (LTIP) and SAYE scheme granted to each of the serving Directors are as follows:

	Scheme	At beginning of year or date of appointment (number of shares)	Granted during the year (number of shares)	Exercised during the year (number of shares)	Lapsed/ waived during the year (number of shares)	At end of year or date of cessation (number of shares)	Exercise price (pence)	Date from which exercisable	Expiry date
Current Directors									
Moir Lockhead	LTIP 2000 ¹	110,168	–	–	–	110,168	nil	31.3.03	3.7.07
	ESOS 2001	130,985	–	–	–	130,985	346.5	15.8.04	15.8.11
	ESOS 2002	–	173,784	–	–	173,784	269	21.6.05	21.6.12
	Deferred share bonus:								
	2001 ²	31,633	–	–	–	31,633	nil	1.4.04	n/a
	2002 ²	–	25,080	–	–	25,080	nil	1.4.05	n/a
Robbie Duncan	LTIP 2000 ¹	74,576	–	–	–	74,576	nil	31.3.03	3.7.07
	ESOS 2001	66,667	–	–	–	66,667	346.5	15.8.04	15.8.11
	ESOS 2002	–	88,450	–	–	88,450	269	21.6.05	21.6.12
	Deferred share bonus:								
	2001 ²	13,200	–	–	–	13,200	nil	1.4.04	n/a
	2002 ²	–	16,977	–	–	16,977	nil	1.4.05	n/a
Iain Lanaghan	LTIP 2000 ¹	55,932	–	–	–	55,932	nil	31.3.03	3.7.07
	ESOS 2001	50,000	–	–	–	50,000	346.5	15.8.04	15.8.11
	ESOS 2002	–	78,067	–	–	78,067	269	21.6.05	21.6.12
	Deferred share bonus:								
	2001 ²	10,707	–	–	–	10,707	nil	1.4.04	n/a
	2002 ²	–	12,733	–	–	12,733	nil	1.4.05	n/a
Mike Mitchell	SAYE 2002/03	–	4,921	–	–	4,921	192	1.2.05	31.8.05
Mike Mitchell	LTIP 2000 ¹	67,796	–	–	–	67,796	nil	31.3.03	3.7.07
	ESOS 2001	60,606	–	–	–	60,606	346.5	15.8.04	15.8.11
	ESOS 2002	–	88,067	–	–	88,067	269	21.6.05	21.6.12
	Deferred share bonus:								
	2001 ²	22,667	–	–	–	22,667	nil	1.4.04	n/a
Mike Mitchell	2002 ²	–	16,903	–	–	16,903	nil	1.4.05	n/a
	SAYE 2002/03	–	4,921	–	–	4,921	192	1.2.05	31.8.05
Marty Williams	SAYE 2002/03	787	–	–	–	787	192	1.2.05	31.8.05
Former Directors									
George Law	SAYE 1995 ³	1,303	–	1,303	–	–	107.72	1.11.02	31.3.03
	SAYE 1999	323	–	–	323	–	359.73	1.9.02	28.2.03

¹The performance period for these LTIPs expired on 31 March 2003. The growth in the Company's adjusted basic earnings per share having been at least equal to the increase in the retail prices index over the three-year performance period and the Company's total shareholder return when compared with that of the FTSE 250 (excluding investment trusts) over the same period having been in the 25th percentile, the awards matured and the shares will be transferred to participants on exercise. The number of shares in each grant was determined based on a share price of 236p at 30 June 2000. Based on the closing middle market share price of 239.5p on 31 March 2003 (the date on which the awards vested), the value of the shares comprised in the awards was Moir Lockhead: £263,852; Robbie Duncan: £178,610; Iain Lanaghan: £133,957 and Mike Mitchell: £162,371

²The figures shown represent the number of nil-cost options which were granted under the deferred share element of the Executive Annual Bonus Plan in respect of the 2000/01 and 2001/02 financial years. The cash values of the 2002/03 award are Moir Lockhead: £70,685; Robbie Duncan: £47,848; Iain Lanaghan: £42,231 and Mike Mitchell: £47,641. These awards will take the form of nil-cost options over shares which will, subject to satisfying the requirements of the Plan, vest on 31 March 2006. The number of shares under option will be fixed based on the closing middle market price of FirstGroup plc shares at the close of business on 14 May 2003

³Exercised on 6 November 2002 on maturity of the SAYE contract. The closing market price on the date of exercise was 231.25p. The notional pre-tax gain on exercise was £1,609.59

Market price of FirstGroup plc shares

The market price of FirstGroup plc shares at 31 March 2003 was 239.50p and the range during the year was 200.00p to 338.75p.

Retirement benefits

	Moir Lockhead	Robbie Duncan ¹	Iain Lanaghan	Mike Mitchell
	2	2	3	3
Scheme				
Normal retirement age	65	65	60	60
Directors' contributions (£)	22,460	15,302	13,122	49,749
Increase in accrued pension during the year (net of inflation) (£ pa)	8,806	4,440	3,838	10,194
Increase in accrued pension (£ pa)	11,252	5,253	3,918	10,818
Accrued pension at 31 March 2003 (£ pa)	155,180	53,132	8,640	47,545
Value of increase in accrued pension (net of inflation) during the year (£)	161,657	48,542	26,461	98,930
Transfer value of accrued pension at 31 March 2002 (£)	2,605,321	662,556	45,596	388,425
Transfer value of accrued pension at 31 March 2003 (£)	2,848,743	580,899	59,568	424,767
Increase in transfer value over the year, net of Directors' contributions (£)	220,962	(96,959)	850	(13,407)
Company contribution to FURBS during the year (£)	–	–	27,528	–

¹Retired as a Director on 31 March 2003

²Aberdeen City Council No.2 Pension Fund

³FirstGroup Flexible Benefits Scheme

The Group does not have one pension scheme but instead operates a number of different schemes. All of the schemes in which the Executive Directors participate are defined benefit schemes, and are not limited in membership to Executive Directors. In addition to their pension entitlement, Moir Lockhead and Robbie Duncan are entitled at retirement age to a lump sum from their pension scheme of £465,539 (2002: £431,782) and £159,396 (2002: £142,636), respectively. Only Iain Lanaghan has accruing benefits which are subject to the Inland Revenue earnings cap.

This report was approved by the Board of Directors on 13 May 2003 and signed on its behalf by:



B Louise Ruppel
Company Secretary

13 May 2003

Directors' report

The Directors have pleasure in submitting their Annual Report and Financial Statements for the year ended 31 March 2003.

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 Operating Review and in the Financial Review.

Financial matters

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

The Directors recommend payment of a final dividend of £30.8m (7.45p per share), which, with the interim dividend of £14.8m (3.55p per share) paid on 12 February 2003, gives a total dividend of £45.6m (11.0p per share) for the year. The proposed final dividend, if approved, will be payable on 29 August 2003 to shareholders on the register at the close of business on 25 July 2003.

Share capital

Details of changes in share capital are set out in Note 22 to the accounts.

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.

Directors

The Directors of the Company since 1 April 2002 were Robbie Duncan (retired 31 March 2003), David Dunn, Jim Forbes, Martin Gilbert, Iain Lanaghan, George Law (retired 31 December 2002), Moir Lockhead, Mike Mitchell, John Sievwright (appointed 9 May 2002) and Martyn Williams (appointed 1 January 2003).

In accordance with the Company's Articles of Association, Martyn Williams, who has been appointed as a Director by the Board since the date of the last Annual General Meeting (AGM), will be retiring and, being eligible, offers himself for election. In addition, Mike Mitchell, David Dunn and Jim Forbes will be retiring by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election. Biographical details of the Directors to be elected or re-elected at the AGM are given in the Chairman's Letter and Notice of Meeting which accompany this Annual Report.

Details of the service contracts of the Executive Directors and the terms of appointment of the Non-Executive Directors are given in the Directors' remuneration report on pages 19 to 25.

Directors' interests

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

	Ordinary 5p shares			
	At beginning of year or subsequent appointment		At end of year	
	Beneficial	Non-beneficial	Beneficial	Non-beneficial
Robbie Duncan	3,828,234	–	3,828,234	–
David Dunn	8,000	–	12,532	–
Jim Forbes	–	–	4,532	–
Martin Gilbert	19,285	–	33,369	–
Iain Lanaghan	6,036	–	6,155	–
Moir Lockhead	1,440,723	470,690	1,440,723	470,690
Mike Mitchell	115,395	–	115,395	–
John Sievwright	7,500	–	12,032	–
Martyn Williams	965	–	965	–

Details of the Directors' share options are given in the Directors' remuneration report on pages 19 to 25. Moir Lockhead also holds nominal non-beneficial interests in a number of subsidiary undertakings.

Between 1 April and 13 May 2003, the following changes occurred to Directors' interests: on 23 April 2003 Iain Lanaghan acquired 62 shares pursuant to the Company's Buy As You Earn Scheme. On 25 April 2003, Martin Gilbert acquired 1,494 shares, and David Dunn, Jim Forbes and John Sievwright each acquired 482 shares pursuant to the standing arrangements whereby they have each elected to receive 40% of their monthly fees in the form of shares in the Company.

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

Significant interests

At 13 May 2003 the Company had been advised of the following notifiable interests in its issued ordinary share capital:

	Ordinary 5p shares	%
Legal & General Group plc	15,393,250	3.71
AEGON UK plc Group of Companies	12,965,919	3.14

Employees

The Group is committed to employee involvement and uses a variety of methods to inform, consult and involve its employees in the business, details of which are given in the Chief Executive's Operating Review. Employee newsletters are distributed regularly throughout the year. The Group extends employee involvement by the appointment of Employee Directors nominated by the workforce. There is 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 UK subsidiary undertakings.

The Group is committed to wide employee share ownership. During the year, the Group launched a Share Incentive Plan (the Buy As You Earn Scheme) and also invited employees to participate in a Save As You Earn Scheme, details of which are given in Note 31 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.

Corporate social responsibility

The system of internal control described on pages 17 and 18 covers significant risks associated with social, environmental and health and safety matters. The Group publishes a separate Corporate Responsibility Report, covering social, environmental and health and safety matters, which will be available on our web site www.firstgroup.com.

Charitable and political contributions

The Group made various donations to UK charities totalling approximately £69,000 (2002: £143,000) during the year. There were no payments made for political purposes.

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, finance leases and operating leases are paid by direct debit. At 31 March 2003, the Group had 30 days' (2002: 38 days') purchases outstanding. The Company does not have any trade creditors in its balance sheet.

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 3 July 2003 at 11.00 am. The Notice of 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
B Louise Ruppel
Company Secretary
13 May 2003

395 King Street
Aberdeen
AB24 5RP



Directors' responsibilities

United Kingdom company law requires that the Directors prepare financial statements 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; and
- state whether applicable accounting standards have been followed.

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 are also responsible for the system of internal control, for safeguarding the assets of the Company and Group and hence for taking reasonable steps to prevent and detect fraud and other irregularities.

Independent auditors' report to the members of FirstGroup plc

We have audited the financial statements of FirstGroup plc for the year ended 31 March 2003 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds and the related notes 1 to 31. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the Directors' remuneration report that is described as having been audited.

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

Respective responsibilities of Directors and auditors

As described in the statement of Directors' responsibilities, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the Annual Report including the Directors' remuneration report. Our responsibility is to audit the financial statements and the part of the Directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements, auditing standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' remuneration report described as having been audited have been 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 of the Financial Services Authority regarding Directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

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

We read the Directors' report and the other information contained in the Annual Report for the above year as described in the contents section including the unaudited part of the Directors' remuneration report and 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 and the part of the Directors' remuneration report described as having been audited. 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 and the part of the Directors' remuneration report described as having been audited 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 and the part of the Directors' remuneration report described as having been audited.

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 2003 and of the profit of the Group for the year then ended; and
- the financial statements and part of the Directors' remuneration report described as having been audited, have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche
Chartered Accountants and Registered Auditors
London
13 May 2003

Consolidated profit and loss account

For the year ended 31 March 2003

	Notes	Before goodwill amortisation and exceptional items 2003 £m	Goodwill amortisation and exceptional items 2003 £m	Total 2003 £m	Before goodwill amortisation and exceptional items 2002 Restated £m	Goodwill amortisation and exceptional items 2002 Restated £m	Total 2002 Restated £m
Turnover							
Continuing operations		2,277.6	–	2,277.6	2,164.1	–	2,164.1
Acquisitions		13.4	–	13.4	–	–	–
Group turnover	2	2,291.0	–	2,291.0	2,164.1	–	2,164.1
Share of turnover of joint ventures		–	–	–	0.1	–	0.1
Total turnover		2,291.0	–	2,291.0	2,164.2	–	2,164.2
Operating profit							
Continuing operations		213.2	(36.0)	177.2	215.0	(47.8)	167.2
Acquisitions		2.9	(0.4)	2.5	–	–	–
Group operating profit	2	216.1	(36.4)	179.7	215.0	(47.8)	167.2
Group operating profit before goodwill amortisation and exceptional items		216.1	–	216.1	215.0	–	215.0
Exceptional items, net	4	–	(10.6)	(10.6)	–	(20.5)	(20.5)
Goodwill amortisation	2	–	(25.8)	(25.8)	–	(27.3)	(27.3)
Group operating profit	2	216.1	(36.4)	179.7	215.0	(47.8)	167.2
Share of operating losses of joint ventures		–	–	–	(1.6)	–	(1.6)
Share of operating losses of associate		–	–	–	(0.4)	–	(0.4)
Amortisation of goodwill on associate		–	–	–	–	(1.4)	(1.4)
Amortisation of goodwill on joint ventures		–	–	–	–	(0.6)	(0.6)
Total operating profit		216.1	(36.4)	179.7	213.0	(49.8)	163.2
Profit on disposal of fixed assets		–	10.0	10.0	–	1.0	1.0
Profit on ordinary activities before interest	2	216.1	(26.4)	189.7	213.0	(48.8)	164.2
Net interest payable and similar charges	6	(56.3)	–	(56.3)	(56.3)	–	(56.3)
Profit on ordinary activities before taxation	7	159.8	(26.4)	133.4	156.7	(48.8)	107.9
Tax on profit on ordinary activities	8	(47.9)	12.1	(35.8)	(48.1)	14.2	(33.9)
Profit on ordinary activities after taxation		111.9	(14.3)	97.6	108.6	(34.6)	74.0
Equity minority interests		(0.1)	–	(0.1)	(0.1)	–	(0.1)
Profit for the financial year		111.8	(14.3)	97.5	108.5	(34.6)	73.9
Equity dividends paid and proposed	9	(45.5)	–	(45.5)	(43.1)	–	(43.1)
Retained profit for the financial year	23	66.3	(14.3)	52.0	65.4	(34.6)	30.8
		Adjusted		Actual	Adjusted		Actual
Basic earnings per share	10	26.8p		23.4p	25.8p		17.6p
Cash earnings per share	10	50.6p		–	48.5p		–
Diluted earnings per share		–		23.4p	–		17.5p

Consolidated balance sheets

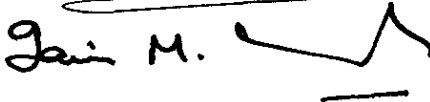
At 31 March 2003

		Group		Company	
		2003	2002	2003	2002
	Notes	£m	Restated £m	£m	Restated £m
Assets employed:					
Fixed assets					
Intangible assets	11	496.7	547.0	–	–
Tangible assets	12	775.8	797.5	–	–
Investments	13	0.7	1.5	1,659.5	1,660.3
		1,273.2	1,346.0	1,659.5	1,660.3
Current assets					
Stocks	14	28.9	25.0	–	–
Debtors	15	345.8	284.0	1,028.4	909.5
Investments	16	45.7	60.4	–	5.3
Cash at bank and in hand	17	35.6	41.0	7.2	1.4
		456.0	410.4	1,035.6	916.2
Creditors: amounts falling due within one year	18	(571.5)	(537.8)	(961.8)	(849.6)
Net current (liabilities)/assets					
Due within one year		(159.3)	(157.4)	73.8	66.6
Amounts due after more than one year	15	43.8	30.0	–	–
Net current (liabilities)/assets		(115.5)	(127.4)	73.8	66.6
Total assets less current liabilities		1,157.7	1,218.6	1,733.3	1,726.9
Creditors: amounts falling due after more than one year	18	(630.9)	(687.9)	(589.1)	(611.6)
Provisions for liabilities and charges	20	(124.0)	(110.7)	–	–
		402.8	420.0	1,144.2	1,115.3
Financed by:					
Capital and reserves					
Called up share capital	22	20.7	21.0	20.7	21.0
Share premium account	23	238.8	236.7	238.8	236.7
Revaluation reserve	23	3.5	3.6	–	–
Other reserves	23	3.8	3.5	261.3	261.0
Profit and loss account	23	134.9	154.2	623.4	596.6
Equity shareholders' funds		401.7	419.0	1,144.2	1,115.3
Equity minority interests		1.1	1.0	–	–
		402.8	420.0	1,144.2	1,115.3

These financial statements were approved by the Board of Directors on 13 May 2003 and were signed on its behalf by:

Moir Lockhead
Iain M Lanaghan

Director
Director

Consolidated cash flow statement

For the year ended 31 March 2003

	Notes	2003 £m	2002 Restated £m
Net cash inflow from operating activities	24(a)	219.7	310.3
Returns on investments and servicing of finance	24(b)	(31.0)	(65.8)
Taxation			
Corporation tax paid		(23.6)	(37.6)
Capital expenditure and financial investment	24(c)	(82.2)	(140.3)
Acquisitions and disposals	24(d)	(23.8)	(14.0)
Equity dividends paid		(44.0)	(40.7)
Cash inflow before use of liquid resources and financing		15.1	11.9
Management of liquid resources			
Decrease/(increase) in bank deposits		14.7	(48.6)
Financing	24(e)	(47.4)	13.8
Decrease in cash in year		(17.6)	(22.9)

Reconciliation of net cash flows to movements in net debt

For the year ended 31 March 2003

	Notes	2003 £m	2002 £m
Decrease in cash in year		(17.6)	(22.9)
Cash outflow/(inflow) from decrease/(increase) in debt and hire purchase contract and finance lease financing		32.7	(21.5)
Movement in current asset investments		(14.7)	48.6
Fees on issue of bond and loan facility		1.6	5.2
Amortisation of debt issuance fees		(0.5)	(1.1)
Foreign exchange difference		26.6	(0.1)
Movement in net debt in year		28.1	8.2
Net debt at beginning of year	25	(652.5)	(660.7)
Net debt at end of year	25	(624.4)	(652.5)

Consolidated statement of total recognised gains and losses

For the year ended 31 March 2003

	Group		Company	
	2003	2002 Restated	2003	2002 Restated
	£m	£m	£m	£m
Profit/(loss) for the year attributable to shareholders	97.5	73.9	92.2	(13.5)
Foreign exchange differences	(53.2)	(3.2)	(4.0)	0.5
Tax on foreign exchange	–	–	1.2	(0.1)
Total recognised gains and losses relating to the year	44.3	70.7	89.4	(13.1)
Prior period adjustment on adoption of UITF 34 (note 1)	(2.3)	–	(0.4)	–
Total recognised gains and losses since the last annual report	42.0	–	89.0	–

Reconciliation of movements in shareholders' funds

For the year ended 31 March 2003

	Group		Company	
	2003	2002 Restated	2003	2002 Restated
	£m	£m	£m	£m
Profit/(loss) for the financial year	97.5	73.9	92.2	(13.5)
Dividends	(45.5)	(43.1)	(45.5)	(43.1)
	52.0	30.8	46.7	(56.6)
Shares issued to QUEST	2.1	–	2.1	–
Own shares purchased and cancelled	(17.1)	(7.7)	(17.1)	(7.7)
Write down of own shares held by QUEST	(1.1)	–	–	–
Foreign exchange differences	(53.2)	(3.2)	(4.0)	0.5
Tax on foreign exchange	–	–	1.2	(0.1)
Net (deduction from)/addition to shareholders' funds	(17.3)	19.9	28.9	(63.9)
Shareholders' funds at beginning of year	419.0	399.1	1,115.3	1,179.2
Shareholders' funds at end of year	401.7	419.0	1,144.2	1,115.3

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, with the exception of the adoption of UITF 34 'Pre-contract costs'.

UITF 34 'Pre-contract costs' was adopted during the year. Pre-contract costs are now expensed as incurred, rather than the previous policy of capitalisation. The impact of this change in accounting policy for the year to 31 March 2003 is an increase in exceptional costs of £0.8m and for the year to 31 March 2002 an increase in exceptional costs of £1.6m. The restatement of bid costs at 31 March 2002 has resulted in a reduction of £1.9m in other debtors and prepayments, an increase of £0.4m in accruals and deferred income, and a reduction in equity shareholders' funds of £2.3m to £419.0m.

(a) Basis of preparation

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of certain fixed assets, and in accordance with applicable United Kingdom 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 2003.

The results of subsidiary undertakings are included in the financial statements under the principles of FRS 6 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 provision for impairment. 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. 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 the Group'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 up to 20 years on a straight line basis.

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 reinstated 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
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 and are recognised in the profit and loss account as the related expenditure is incurred.

(h) Stocks and work in progress

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

(i) 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 rates 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.

(j) 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 on all timing differences except those arising from the revaluation of fixed assets for which there is no binding agreement to sell or on the undistributed profits of overseas subsidiaries, associates and joint ventures. Deferred tax is calculated at the rates at which it is estimated the tax will arise. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. The deferred tax provision is not discounted to net present value.

(k) Pension costs

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

Notes to the financial statements

1 Principal accounting policies continued

(l) Financial instruments

Derivative instruments utilised by the Group are interest rate and forward exchange contracts. The Group does not enter into speculative derivative contracts. All such instruments are used for hedging purposes to alter the risk profile of an existing underlying exposure of the Group, in line with the Group's risk management policies. 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.

(m) Insurance

The Group's policy is to self-insure high frequency, low value claims within the businesses. To provide protection above these types of losses, cover is obtained through third-party insurance policies. Provision is made for the estimated cost of settling insurance claims for incidents occurring prior to balance sheet date.

2 Profit and loss account analysis and segmental information

	Continuing operations £m	Acquisitions £m	Total 2003 £m	Total 2002 Restated £m
Group turnover	2,277.6	13.4	2,291.0	2,164.1
Group operating costs				
– General	(2,064.4)	(10.5)	(2,074.9)	(1,949.1)
– Goodwill amortisation	(25.4)	(0.4)	(25.8)	(27.3)
– Exceptional items, net (note 4)	(10.6)	–	(10.6)	(20.5)
Total Group operating costs (note 3)	(2,100.4)	(10.9)	(2,111.3)	(1,996.9)
Group operating profit	177.2	2.5	179.7	167.2

Segmental information is as follows:	Turnover		Profit before interest		Net assets/(liabilities)	
	2003 £m	2002 £m	2003 £m	2002 Restated £m	2003 £m	2002 Restated £m
UK Bus	859.4	811.5	109.7	102.9	267.2	238.4
UK Rail	842.3	802.9	58.5	64.9	(37.9)	2.0
North America	582.4	542.9	32.4	27.3	483.5	521.9
Group items	6.9	6.8	(10.9)	(30.9)	(310.0)	(342.3)
	2,291.0	2,164.1	189.7	164.2	402.8	420.0

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	Total 2003 £m	Total 2002 Restated £m
Materials and consumables	233.9	1.5	235.4	233.0
Staff costs (note 5)	1,003.1	6.8	1,009.9	945.0
External charges	739.7	1.3	741.0	688.5
Depreciation, amortisation and other amounts written off fixed assets	123.7	1.3	125.0	130.4
	2,100.4	10.9	2,111.3	1,996.9

	UK Bus 2003 £m	Rail 2003 £m	North America 2003 £m	Other 2003 £m	Total 2003 £m	Total 2002 Restated £m
4 Exceptional items, net						
Restructuring costs	6.0	–	–	–	6.0	7.4
St Louis strike	–	–	–	–	–	1.5
Provision against cost of investment in joint ventures	–	–	–	–	–	8.0
Bid costs	–	2.8	–	0.6	3.4	3.6
Claims settlements	–	–	3.7	–	3.7	–
Gain on disposal of Tramtrack Croydon Limited	–	–	–	(2.5)	(2.5)	–
	6.0	2.8	3.7	(1.9)	10.6	20.5

The tax effect in 2003 was a credit of £3.1m (2002: credit of £5.2m) of the above exceptional items.

5 Employees' and Directors' remuneration

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

	2003 No.	2002 No.
Operational	52,257	50,928
Administration	4,862	4,857
	57,119	55,785

The aggregate payroll costs of these persons were as follows:

	2003 £m	2002 £m
Wages and salaries	923.6	866.5
Social security costs	60.2	59.0
Other pension costs	26.1	19.5
	1,009.9	945.0

Disclosures on Directors' remuneration, share options, long-term incentive schemes and pension entitlements required by the Companies Act 1985 and those specified for audit by the Financial Services Authority are contained in the tables/notes within the Directors' remuneration report on pages 19 to 25 and form part of these audited financial statements.

6 Net interest payable and similar charges

	2003 £m	2002 £m
Bond and bank facilities	47.6	43.8
Loan notes	1.9	2.1
Finance charges payable in respect of hire purchase contracts and finance leases	6.5	11.0
	56.0	56.9
Income from short-term deposits and other investments	(2.6)	(2.8)
Notional interest on provisions	2.9	2.2
Total	56.3	56.3

7 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging/(crediting) the following:

	2003 £m	2002 £m
Depreciation and other amounts written off tangible fixed assets	99.2	95.1
Goodwill amortisation	25.8	27.3
Rentals payable under operating leases – plant and machinery	17.2	9.1
– track and station access	278.4	280.0
– hire of rolling stock	71.8	68.5
– other assets	11.4	9.6
Net rents receivable from property	(0.1)	(0.3)
Deloitte & Touche audit fee	0.4	0.4
Deloitte & Touche and associates' non-audit fees	0.4	0.3

The Company's audit fee amounted to £0.1m (2002: £0.1m).

Non-audit fees comprised of due diligence on North American acquisitions of £203,000 (2002: £nil), other assurance services including the review of the interim accounts of £179,000 (2002: £258,000), tax advisory services of £nil (2002: £40,000) and other non-audit services of £42,000 (2002: £26,000).

Notes to the financial statements

8 Tax on profit on ordinary activities

	£m	2003 £m	£m	2002 £m
Current taxation				
UK corporation tax charge for the year	26.4		25.9	
Adjustment in respect of prior years	(0.4)		(0.5)	
Recoverable ACT previously written off	–		(1.1)	
		26.0		24.3
Overseas taxation charge				
Current year	1.2		1.0	
Prior years	–		0.3	
		1.2		1.3
Total current taxation		27.2		25.6
Deferred taxation				
Origination and reversal of timing differences	7.9		9.1	
Adjustment in respect of prior years	0.7		(0.8)	
		8.6		8.3
Tax on profit on ordinary activities		35.8		33.9

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

	2003 %	2002 Restated %
Standard rate of taxation	30.0	30.0
Factors affecting charge		
Disallowable expenses	2.3	2.5
Property disposals	(2.2)	(0.3)
Capital allowances in excess of depreciation	(13.8)	(21.0)
Other timing differences	(4.4)	(4.6)
Gain on disposal of Tramtrack Croydon Limited	(0.6)	–
Share of operating losses of associates and joint ventures	–	0.5
Provision against cost of investment in joint ventures	–	2.2
Foreign tax charged at different rates	2.0	2.4
Utilisation of tax losses brought forward	–	(1.2)
Unrelieved tax losses carried forward	7.4	14.4
Prior years' tax charge	(0.3)	(0.2)
Recoverable ACT previously written off	–	(1.0)
Current taxation rate for year	20.4	23.7

No provision has been made for deferred tax on revalued property. The tax on the gains arising would only become payable if the property were sold without rollover relief being available. The tax which would be payable under such circumstances is estimated to be £0.6m (2002: £2.0m). These assets are expected to be used in the continuing operations of the business and, therefore no tax is expected to be paid in the foreseeable future.

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.

9 Equity dividends

	2003 £m	2002 £m
Ordinary shares of 5p each		
– Interim paid 3.55p (2002: 3.3p) per share	14.8	13.9
– Final proposed 7.45p (2002: 7.0p) per share	30.8	29.3
– Adjustment to prior year dividend in respect of shares cancelled	(0.1)	(0.1)
	45.5	43.1

10 Earnings per share

Basic earnings per share is based on earnings of £97.5m (2002: £73.9m) and on the weighted average number of ordinary shares of 416.7m (2002: 419.8m) in issue. Diluted earnings per share is based on the same earnings and on the weighted average number of ordinary shares of 417.4m (2002: 421.4m).

	2003 Number (m)	2002 Number (m)
A reconciliation of the number of shares used in the basic and diluted measures is set out below:		
Weighted average number of shares used in basic calculation	416.7	419.8
SAYE share options	0.6	1.0
Executive share options	–	0.3
Long-term incentive plan awards	0.1	0.3
	417.4	421.4

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 and exceptional items. 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:

	£m	2003 Earnings per share (p)	£m	2002 Earnings per share (p) Restated
Profit for basic earnings per share calculation	97.5	23.4	73.9	17.6
Goodwill amortisation	25.8	6.2	29.3	7.0
Taxation effect of this adjustment	(9.0)	(2.2)	(9.0)	(2.2)
Exceptional items, net	10.6	2.5	20.5	4.9
Taxation effect of this adjustment	(3.1)	(0.7)	(5.2)	(1.2)
Profit on disposal of fixed assets	(10.0)	(2.4)	(1.0)	(0.3)
Profit for adjusted basic earnings per share calculation	111.8	26.8	108.5	25.8
Depreciation	99.2	23.8	95.1	22.7
Profit for adjusted cash earnings per share calculation	211.0	50.6	203.6	48.5

Notes to the financial statements

11 Intangible fixed assets

Group	Goodwill £m
Cost	
At beginning of year	616.0
Additions (note 27)	18.2
Exchange rate differences	(49.4)
At end of year	584.8
Amortisation	
At beginning of year	69.0
Charge for the year	25.8
Exchange rate differences	(6.7)
At end of year	88.1
Net book value	
At 31 March 2003	496.7
At 31 March 2002	547.0

12 Tangible fixed assets

Group	Land and buildings £m	Passenger carrying vehicle fleet £m	Other plant and equipment £m	Total £m
Cost or valuation				
At beginning of year	124.8	1,126.0	136.6	1,387.4
Businesses acquired	0.2	11.5	0.3	12.0
Additions	10.4	79.7	16.3	106.4
Disposals	(5.4)	(41.6)	(7.8)	(54.8)
Exchange rate differences	(1.6)	(41.1)	(3.1)	(45.8)
At end of year	128.4	1,134.5	142.3	1,405.2
Depreciation				
At beginning of year	18.6	491.1	80.2	589.9
Charge for the year	2.9	82.1	14.2	99.2
Disposals	(1.2)	(36.8)	(4.0)	(42.0)
Exchange rate differences	(0.4)	(15.9)	(1.4)	(17.7)
At end of year	19.9	520.5	89.0	629.4
Net book value				
At 31 March 2003	108.5	614.0	53.3	775.8
At 31 March 2002	106.2	634.9	56.4	797.5

The net book value of land and buildings comprises:	2003 £m	2002 £m
Freehold	93.5	90.4
Long leasehold	11.2	10.6
Short leasehold	3.8	5.2
	108.5	106.2

Depreciation is not provided on the land element of freehold and long leasehold property which amounts to £32.4m (2002: £31.7m).

12 Tangible fixed assets continued

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

	2003 £m	2002 £m
At 1993 professional valuations	14.9	14.9
Aggregate depreciation thereon	(1.4)	(1.3)
Net book value	13.5	13.6
Historical cost of revalued assets	13.1	13.1
Aggregate depreciation based on historical cost	(3.1)	(3.1)
Historical net book value	10.0	10.0

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

£189.8m (2002: £247.0m) 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 £24.8m (2002: £28.9m).

13 Fixed asset investments

Group	Associates £m	Other investments £m	Own shares £m	Total £m
Cost				
At beginning of year	7.5	0.5	2.3	10.3
Additions	–	–	2.2	2.2
Disposals	–	(0.5)	(3.3)	(3.8)
Reclassification as other investment	(7.5)	7.5	–	–
At end of year	–	7.5	1.2	8.7
Provision				
At beginning of year	(7.5)	(0.5)	(0.8)	(8.8)
Provided during year	–	–	(1.1)	(1.1)
Disposals	–	0.5	1.4	1.9
Reclassification as other investment	7.5	(7.5)	–	–
At end of year	–	(7.5)	(0.5)	(8.0)
Net book value				
At 31 March 2003	–	–	0.7	0.7
At 31 March 2002	–	–	1.5	1.5

Company	Unlisted subsidiary undertakings £m	Other investments £m	Associates £m	Own shares £m	Total £m
Cost					
At beginning of year	1,664.2	–	8.1	2.3	1,674.6
Additions	–	–	–	2.2	2.2
Disposals	–	–	–	(3.3)	(3.3)
Reclassification as other investment	–	8.1	(8.1)	–	–
At end of year	1,664.2	8.1	–	1.2	1,673.5
Provision					
At beginning of year	(5.4)	–	(8.1)	(0.8)	(14.3)
Provided during year	–	–	–	(1.1)	(1.1)
Disposals	–	–	–	1.4	1.4
Reclassification as other investment	–	(8.1)	8.1	–	–
At end of year	(5.4)	(8.1)	–	(0.5)	(14.0)
Net book value					
At 31 March 2003	1,658.8	–	–	0.7	1,659.5
At 31 March 2002	1,658.8	–	–	1.5	1,660.3

Notes to the financial statements

13 Fixed asset investments continued

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
First Aberdeen Limited+
First Beeline Buses Limited
First Bristol Buses Limited
First Capital East Limited
First Capital North Limited
First Cityline Limited
First Cymru Buses Limited
First Eastern Counties Buses Limited
First Edinburgh Buses Limited+
First Essex Buses Limited
First Glasgow (No. 1) Limited+
First Glasgow (No. 2) Limited+
First Hampshire Limited
First Manchester Limited

First Midland Red Buses Limited
First PMT Limited
First South Yorkshire Limited
First Wessex National Limited
First West Yorkshire Limited
First Western National Buses Limited
First York Limited
Leicester CityBus Limited (94%)
Northampton Transport Limited

North America school bus operators

First Student, Inc†
FirstBus Canada Limited‡
FirstGroup America, Inc†
FirstGroup USA, Inc†

Transit contracting and fleet maintenance

First Transit, Inc†

Rail companies

Great Eastern Railway Limited
Great Western Trains Company Limited
North Western Trains Company Limited
FirstInfo 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.

Other investments

The interest in other investments at the end of the year includes a 6% interest in the ordinary share capital of Prepayment Cards Limited, which is incorporated in Great Britain and registered in England and Wales. This has been reclassified from an associate as the shareholding was diluted from 20% to 6% during the year.

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:

	2003		2002	
	Number (m)	£m	Number (m)	£m
Own shares held by trustees	5.1	12.3	6.8	20.6
Own shares vested unconditionally	(4.7)	(11.4)	(5.8)	(17.5)
	0.4	0.9	1.0	3.1

The number of own shares held by the Group at the end of the year was 382,015 (2002: 1,010,837) FirstGroup plc ordinary shares of 5p each. Of these, 319,956 (2002: 567,450) were held by the FirstGroup plc Employee Benefit Trust and 62,059 (2002: 443,387) 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 2003 was £0.9m (2002: £3.1m).

	Group	
	2003	2002
	£m	£m
14 Stocks		
Spare parts and consumables	23.1	23.1
Property development work in progress	5.8	1.9
	28.9	25.0

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

	Group		Company	
	2003	2002	2003	2002
	£m	Restated £m	£m	Restated £m
15 Debtors				
Amounts due within one year				
Trade debtors	190.5	177.9	–	–
Amounts due from subsidiary undertakings	–	–	1,021.7	900.6
Corporation tax recoverable	–	–	5.7	8.7
Other debtors	44.5	19.1	0.4	–
Deposit paid for rolling stock	–	16.7	–	–
Pension fund prepayments	8.1	5.7	–	–
Other prepayments and accrued income	58.9	34.6	–	–
Deferred taxation	–	–	0.6	0.2
	302.0	254.0	1,028.4	909.5
Amounts due after more than one year				
Pension fund prepayments	42.4	28.3	–	–
Other prepayments and accrued income	1.4	1.7	–	–
	43.8	30.0	–	–
	345.8	284.0	1,028.4	909.5

	Group		Company	
	2003	2002	2003	2002
	£m	£m	£m	£m
16 Current asset investments				
Bank deposits	45.7	60.4	–	5.3

	Group		Company	
	2003	2002	2003	2002
	£m	£m	£m	£m
17 Cash at bank and in hand				
Ring fenced cash	22.2	36.2	–	–
Other cash	13.4	4.8	7.2	1.4
	35.6	41.0	7.2	1.4

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.

Notes to the financial statements

	Group		Company	
	2003	2002 Restated	2003	2002
	£m	£m	£m	£m
18 Creditors				
Amounts falling due within one year				
Bank loans and overdrafts	40.0	7.5	138.0	91.6
Obligations under hire purchase contracts and finance leases	34.2	57.3	–	–
Loan notes	0.6	1.2	0.4	–
Trade creditors	102.9	122.8	–	–
Amounts due to subsidiary undertakings	–	–	761.0	719.9
Corporation tax	27.2	23.8	–	–
Other tax and social security	18.5	16.4	–	–
Other creditors	33.0	21.9	–	0.8
Pension fund creditors	11.3	8.5	–	–
Accruals and deferred income	235.0	210.6	31.4	7.9
Season ticket deferred income	37.8	38.4	–	–
Proposed dividends	31.0	29.4	31.0	29.4
	571.5	537.8	961.8	849.6

	Group		Company	
	2003	2002	2003	2002
	£m	£m	£m	£m
Amounts falling due after more than one year				
Bank loans				
Due in more than one year but not more than two years	–	24.2	–	24.2
Due in more than two years but not more than five years	286.8	283.4	286.8	283.4
Obligations under hire purchase contracts and finance leases				
Due in more than one year but not more than two years	21.5	34.3	–	–
Due in more than two years but not more than five years	6.1	27.6	–	–
Due in more than five years	0.1	0.4	–	–
Loan notes				
Due in more than one year but not more than two years	21.3	23.2	7.2	9.2
£300.0m bond – 6.875% 2013	295.1	294.8	295.1	294.8
	630.9	687.9	589.1	611.6

Bond

The bond is repayable in March 2013 and is shown net of £4.9m (2002: £5.2m) of issue-related costs which are being amortised over the term of the bond. Certain subsidiaries have issued guarantees to the Company's bondholders. These guarantees rank pari passu with guarantees provided by those subsidiaries to the Group's other major unsecured lenders.

Bank loans and overdrafts

Whilst advances under bank facilities and overdrafts are generally 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 as permitted under FRS 4. The bank advances and overdrafts are unsecured.

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

	2003 £m	2002 £m
Facilities maturing:		
Within one year	40.0	87.5
Between one and two years	–	30.8
More than two years	205.6	131.6
	245.6	249.9

Hire purchase contracts and finance leases

Hire purchase contracts and finance lease liabilities are secured on the assets to which they relate. The contracts vary in length between 4 and 12 years and had a remaining weighted average duration of 1.8 years as at 31 March 2003.

18 Creditors continued

Loan notes

The loan notes have been classified by reference to the earliest date on which the loan note holders can request redemption. Loan notes of £20.6m (2002: £21.7m) are supported by bank guarantees.

19 Financial assets and liabilities

Foreign currencies

At 31 March 2003, 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 such material balances are used to hedge the Group's overseas net assets.

	Total financial liabilities £m	Floating rate £m	Fixed rate £m	Fixed rate liabilities	
				Weighted average interest rate %	Weighted average period Years
Interest rates					
Details of the interest rates payable on financial liabilities are as follows:					
At 31 March 2003					
Sterling	417.2	13.2	404.0	7.53	8.9
US Dollars	277.9	117.4	160.5	6.22	1.7
Canadian Dollars	10.6	10.6	–	–	–
	705.7	141.2	564.5		
At 31 March 2002					
Sterling	487.3	87.5	399.8	8.03	10.2
US Dollars	259.1	79.8	179.3	6.27	2.5
Canadian Dollars	7.5	7.5	–	–	–
	753.9	174.8	579.1		

The weighted average fixed interest rates of 7.53% and 6.22% on the respective Sterling and US Dollar liabilities include fixed rates under the Group's interest rate hedging programme, which accounts for 0.3% of Sterling fixed rate debt and 6.18% of US Dollar fixed rate debt. Sterling fixed rate debt includes an all-in cost of 7.14% relating to the £300m Sterling bond.

Bank margins negotiated on floating rate debt range from 0.2% to 1.0% over Sterling LIBOR and US Dollar LIBOR where applicable, or the bank base rate for the currency concerned.

Financial assets, which consist wholly of cash on deposit and in hand of £81.3m (2002: £101.4m), are all denominated in Sterling except £3.1m (2002: £6.1m) in US Dollars and £1.5m (2002: £0.6m) in Canadian Dollars. Deposited cash earns interest at commercial short-term rates negotiated with counterparty banks.

Fair values

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

	2003		2002	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Bank deposits	45.7	45.7	60.4	60.4
Cash at bank and in hand	35.6	35.6	41.0	41.0
Bank loans and overdrafts	(326.8)	(326.8)	(315.1)	(315.1)
Obligations under hire purchase contracts and finance leases	(61.9)	(62.7)	(119.6)	(121.7)
Loan notes	(21.9)	(27.1)	(24.4)	(29.3)
Interest rate swaps	–	(24.5)	–	(19.3)
Fuel derivatives	–	8.8	–	14.3
Bond	(295.1)	(323.8)	(294.8)	(299.3)
	(624.4)	(674.8)	(652.5)	(669.0)

In order to protect the Group's financial position and performance against net interest rate risk, a significant element of such risk is eliminated using interest rate swaps and fixed rate debt. As a result of movements in interest rates, differences arise between book values and fair values, which are categorised as unrecognised gains and losses as required under FRS 13.

Notes to the financial statements

19 Financial assets and liabilities continued

The Group also protects its financial position and performance against fuel price risk using a range of fuel derivatives. Movements in fuel prices relative to the prices enabled by the derivatives gives rise to differences between book and fair values which are categorised as unrecognised gains and losses as required under FRS 13.

Fair values for derivatives and the bond have been supplied externally by the respective counterparties and banks using market rates prevailing at year end. The book value of the bond is stated at its par value less issue costs of £4.9m (2002: £5.2m) as required by FRS 4. Fair values for hire purchase debt and loan notes have been determined by discounting future cash flows that will arise under these liabilities.

The movement in net unrecognised gains and losses on instruments used to hedge interest rate risk and commodity price risk are as follows:

	Net unrecognised gains/(losses)	
	2003 £m	2002 £m
At beginning of year	(5.0)	(0.9)
Arising in previous years but recognised in the year	5.1	4.4
Arising before beginning of year and remaining at the end of the year	0.1	3.5
Arising in the year	(15.8)	(8.5)
At end of year	(15.7)	(5.0)

It is expected that £15.7m of the net unrecognised losses (2002: £5.1m) will be recognised in the following year as part of exceptional costs within the interest charge (£19.0m) relating to the termination of certain interest rate swaps, as part of the interest charge (£1.2m) and as a credit to operating profit (£4.5m).

Further information on financial instruments is given in the Financial review on pages 12 to 14.

20 Provisions for liabilities and charges

Group	Deferred tax £m	Insurance claims £m	Pensions £m	Total £m
At beginning of year	79.6	24.9	6.2	110.7
Provided in the year	8.6	14.3	–	22.9
Utilised in the year	–	(10.1)	(0.4)	(10.5)
Notional interest	–	2.7	0.2	2.9
Exchange rate differences	–	(2.0)	–	(2.0)
At end of year	88.2	29.8	6.0	124.0

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

21 Deferred tax

Group	2003 £m	2002 £m
Capital allowances in excess of depreciation	116.2	101.1
Other timing differences	16.0	11.1
Trading losses	(44.0)	(32.6)
Deferred tax provision	88.2	79.6

22 Called up share capital

Group and Company	2003 £m	2002 £m
Authorised		
Ordinary shares of 5p each	30.0	30.0
Allotted, called up and fully paid		
Ordinary shares of 5p each	20.7	21.0

22 Called up share capital continued

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	419.8	21.0
Shares issued to QUEST	1.0	0.1
Shares cancelled	(7.4)	(0.4)
At end of year	413.4	20.7

Between 7 June 2002 and 17 February 2003, 7,434,626 ordinary shares were repurchased at a total cost of £17.1m and cancelled.

During the year 1,000,000 ordinary shares were issued to the FirstGroup plc Qualifying Employee Share Ownership Trust (QUEST) (2002: nil shares). The shares held by the QUEST are held in trust and are being used to satisfy exercises of savings related share options (note 31).

23 Reserves**Group**

	Share premium account £m	Revaluation reserve £m	Profit and loss account £m
At beginning of year as previously reported	236.7	3.6	156.5
Prior year adjustment	–	–	(2.3)
At beginning of year as restated	236.7	3.6	154.2
Cancellation of shares (i)	–	–	(17.1)
Retained profit for the year	–	–	52.0
Foreign exchange differences	–	–	(53.2)
Shares issued to QUEST	2.1	–	(1.1)
Transfer of realised revaluation reserve	–	(0.1)	0.1
At end of year	238.8	3.5	134.9

	Capital redemption reserve £m	Capital reserves £m	Total other reserves £m
At beginning of year	0.8	2.7	3.5
Cancellation of shares (i)	0.3	–	0.3
At end of year	1.1	2.7	3.8

Notes:

(i) 7,434,626 ordinary shares were repurchased at a total cost of £17.1m 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 (2002: £429.6m and £4.7m).

Company

	Share premium account £m	Profit and loss account £m
At beginning of year as previously reported	236.7	597.0
Prior year adjustment	–	(0.4)
At beginning of year as restated	236.7	596.6
Cancellation of shares – note 23 (i) above	–	(17.1)
Retained profit for the year	–	46.7
Foreign exchange differences	–	(4.0)
Shares issued to QUEST	2.1	–
Tax on foreign exchange	–	1.2
At end of year	238.8	623.4

Notes to the financial statements

23 Reserves continued

Company	Capital redemption reserve £m	Capital reserves £m	Merger reserve £m	Total other reserves £m
At beginning of year	0.8	93.8	166.4	261.0
Cancellation of shares – note 23 (i) above	0.3	–	–	0.3
At end of year	1.1	93.8	166.4	261.3

24 Notes to the consolidated cash flow statement

	2003 £m	2002 Restated £m
(a) Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	179.7	167.2
Depreciation and other amounts written off tangible fixed assets	99.2	95.1
Amortisation charges	25.8	27.3
Write down of investment in joint venture and associate	–	8.0
Profit on sale of investment in joint venture	(2.5)	–
Loss/(profit) on sale of non-property fixed assets	0.2	(0.7)
Increase in stocks	–	(2.1)
Increase in debtors	(77.3)	(11.6)
(Decrease)/increase in creditors and provisions	(5.4)	64.1
FNW Franchise amendment payment	–	(37.0)
Net cash inflow from operating activities	219.7	310.3
(b) Returns on investments and servicing of finance		
Interest received	2.7	2.8
Interest paid	(25.1)	(52.0)
Interest element of hire purchase contract and finance lease payments	(7.0)	(11.5)
Fees on issue of bond and loan facility	(1.6)	(5.1)
Net cash outflow from returns on investments and servicing of finance	(31.0)	(65.8)
(c) Capital expenditure and financial investment		
Purchase of tangible fixed assets	(107.4)	(154.7)
Sale of fixed asset properties	4.4	2.1
Sale of other tangible fixed assets	4.1	5.7
Deposits for rolling stock	16.7	6.6
Net cash outflow from capital expenditure and financial investment	(82.2)	(140.3)
(d) Acquisitions and disposals		
Purchase of subsidiary undertakings	–	(1.0)
Purchase of businesses	(28.1)	(6.1)
Net cash acquired with purchase of businesses	1.8	–
Purchase of investment in joint ventures	–	(4.9)
Purchase of investment in associate	–	(2.0)
Sale of investment in joint venture	2.5	–
Net cash outflow from acquisitions and disposals	(23.8)	(14.0)
(e) Financing		
Issue of share capital	2.5	–
Own shares repurchased	(17.1)	(7.7)
Bond 2013	–	300.0
New bank loans	312.1	77.5
Repayment of amounts borrowed – bank loans	(285.1)	(277.7)
– other loans	(2.5)	(11.5)
Capital element of hire purchase contract and finance lease payments	(57.3)	(66.8)
Net cash (outflow)/inflow from financing	(47.4)	13.8

	At beginning of year £m	Cash flow £m	Other non-cash changes £m	At end of year £m
25 Analysis of net debt				
Current asset investments	60.4	(14.7)	–	45.7
Cash at bank and in hand	41.0	(7.6)	2.2	35.6
Bank overdrafts	–	(10.0)	–	(10.0)
Cash	41.0	(17.6)	2.2	25.6
Bank loans due within one year	(7.5)	(27.0)	4.5	(30.0)
Bank loans due after one year	(307.6)	1.3	19.5	(286.8)
Bond 2013	(294.8)	0.2	(0.5)	(295.1)
Obligations under hire purchase contracts and finance leases	(119.6)	57.3	0.4	(61.9)
Loans and loan notes	(24.4)	2.5	–	(21.9)
Financing	(753.9)	34.3	23.9	(695.7)
Net debt	(652.5)	2.0	26.1	(624.4)

Current asset investments represent unencumbered bank deposits of maturity of less than one year.

26 Major non-cash transactions

There were no major non-cash transactions in the current or prior financial year.

	Total 2003 £m	Total 2002 £m
27 Summary of purchase of businesses		
Fair value of net assets acquired:		
Tangible fixed assets	12.0	3.6
Other current assets	1.6	–
Cash at bank and in hand	1.8	–
Other creditors	(5.5)	(1.7)
	9.9	1.9
Goodwill	18.2	4.2
	28.1	6.1
Satisfied by cash paid and payable	28.1	6.1

There was no material difference between the book value and the fair value of the net assets acquired.

The businesses acquired during the year contributed £4.2m (2002: £1.2m) to the Group's net operating cash flows, paid £nil (2002: £nil) in respect of net returns on investments and servicing of finance, paid £nil (2002: £nil) in respect of taxation, utilised £nil (2002: £nil) for capital expenditure and paid £nil (2002: £nil) in respect of financing.

The businesses acquired during the year and dates of acquisition were:

Northside Bus Service	15 July 2002
Taranto Bus Corp	31 July 2002
Bergen Passaic Transport Service Inc	15 August 2002
R&D Transportation Services LLC	20 August 2002
London Transportation Inc	18 September 2002
West Jacksonville LLC	26 October 2002
L&E Mobile Computers & Mounts Inc	28 February 2003
Dyntek Inc (a division thereof)	14 March 2003

Notes to the financial statements

28 Commitments

Capital commitments

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

	2003 £m	2002 £m
Contracted for but not provided		
Year to 31 March 2003	–	28.3
Year to 31 March 2004	31.6	–
	31.6	28.3

Operating leases

The rail businesses have contracts with Network Rail 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:

	2003 £m	2002 £m
Operating leases which expire:		
Within one year	215.8	17.4
From one to five years	123.7	198.7
Over five years	–	125.8
	339.5	341.9

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

	Land and buildings 2003 £m	Other 2003 £m	Land and buildings 2002 £m	Other 2002 £m
Operating leases which expire:				
Within one year	1.9	3.5	1.6	2.3
From one to five years	8.7	11.8	5.8	10.5
Over five years	1.3	5.3	1.6	1.1
	11.9	20.6	9.0	13.9

29 Contingent liabilities

To support subsidiary undertakings in their normal course of business, the Company has indemnified certain banks and insurance companies who have issued performance bonds for £149.8m as at 31 March 2003 (2002: £142.9m) and letters of credit for £93.0m as at 31 March 2003 (2002: £52.0m). The performance bonds relate to the North American businesses (£80.1m) and the UK Rail franchise operations (£69.7m). The letters of credit relate to insurance arrangements in the UK and North America.

The Company has provided a £9.0m (2002: £9.0m) unsecured loan facility to Great Eastern Railway Limited (GER), a £15.5m (2002: £15.5m) unsecured loan facility to Great Western Trains Company Limited (GWT) and a £6.5m (2002: £6.5m) unsecured loan facility to North Western Trains Company Limited (NWT) as required by the Director of Passenger Rail Franchising. Neither of the GER or GWT loans were drawn at 31 March 2003 nor 31 March 2002, while the NWT loan was fully drawn at 31 March 2003 and undrawn at 31 March 2002.

The Company is party to the guarantees granted to banks for overdraft and cash management facilities provided to itself and subsidiary undertakings. The Company has given guarantees for the liabilities of its subsidiary undertakings arising under certain loan notes, hire purchase contracts, finance leases, operating leases and supply contracts. It also provides cross guarantees to certain subsidiary undertakings as required by VAT legislation.

Certain of the Company's subsidiaries have issued guarantees to the Company's bondholders. These guarantees rank pari passu with guarantees provided by those subsidiaries to the Group's other major unsecured lenders.

30 Pension schemes

The Group operates or participates in a number of pension schemes which cover the majority of UK employees and certain North American 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 at least triennially.

The various defined benefit schemes include five UK Bus Division schemes where the 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 Group schemes are self-administered.

At their last triennial valuations, the defined benefit schemes had funding levels between 78% and 118%. For those schemes that do not meet the minimum funding requirement, additional payments totalling £4.0m per annum are being made. The market value of the assets at 31 March 2003 for all defined benefit schemes totalled £934m (2002: £1,142m).

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 £24.1m (2002: £18.2m).

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 6.5% pre-retirement, and 5.5% post-retirement, the rate of earnings growth will be 4.0%, and the rate of inflation will be 2.5%. These new valuations are made using the projected unit method.

Prepayment

A net prepayment of £33.2m (2002: £19.3m) 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 under SSAP 24, 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 which are held in separately administered trusts. The cost of these in the year was £2.0m (2002: £1.3m).

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

Transitional FRS 17 disclosures

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

The main financial assumptions (per annum) used in this update were as follows:

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

*Certain in-house bus schemes' pensions in payment receive LPI increases of 2.1% (2002: 2.4%) and LPI increases with a minimum of 3% (2002: 3.3%)

Notes to the financial statements

30 Pension schemes continued

The value of the schemes' assets and the expected rates of return as at 31 March 2003 were:

	Expected rate of return %	UK Bus £m	Rail £m	US £m	Total £m
Equities	8.8	469.8	146.8	6.5	623.1
Bonds	4.5	184.7	18.5	2.8	206.0
Property	6.7	46.5	14.6	–	61.1
Other	3.6	42.2	–	1.5	43.7
		743.2	179.9	10.8	933.9
Total market value of assets		743.2	179.9	10.8	933.9
Present value of scheme liabilities		(1,006.4)	(209.1)	(27.3)	(1,242.8)
Pension deficits		(263.2)	(29.2)	(16.5)	(308.9)
Related deferred tax asset		79.0	8.8	6.4	94.2
Net pension deficit		(184.2)	(20.4)	(10.1)	(214.7)

As noted in the Financial review, the net FRS 17 deficit of £214.7m at 31 March 2003 comprises £194.3m (2002: £32.8m deficit) relating to non-Rail schemes and £20.4m (2002: surplus of £6.7m) relating to Rail franchises where we believe that no liability will be borne beyond the period of the franchise.

The value of the schemes' assets and the expected rates of return as at 31 March 2002 were:

	Expected rate of return %	UK Bus £m	Rail £m	US £m	Total £m
Equities	8.0	647.8	201.8	8.1	857.7
Bonds	5.1	160.0	24.3	4.6	188.9
Property	6.6	32.2	14.1	–	46.3
Other	4.5	48.9	–	0.5	49.4
		888.9	240.2	13.2	1,142.3
Total market value of assets		888.9	240.2	13.2	1,142.3
Present value of scheme liabilities		(928.4)	(230.6)	(21.6)	(1,180.6)
Pension surpluses		43.7	9.6	–	53.3
Pension deficits		(83.2)	–	(8.4)	(91.6)
Net pension (deficit)/surplus		(39.5)	9.6	(8.4)	(38.3)
Related deferred tax asset/(liability)		11.9	(2.9)	3.2	12.2
Net pension (deficit)/surplus		(27.6)	6.7	(5.2)	(26.1)

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

	2003 £m	2002 £m
Net assets excluding pension liability	402.8	420.0
Pension liability	(214.7)	(26.1)
	188.1	393.9
Less: SSAP 24 items included in net assets that will be reversed on implementation of FRS 17	(23.2)	(13.5)
Net assets on FRS 17 basis	164.9	380.4

30 Pension schemes continued	2003 £m	2002 £m
Profit and loss reserve excluding pension liability	134.9	154.2
Pension reserve	(214.7)	(26.1)
	(79.8)	128.1
Less: SSAP 24 items included in net assets that will be reversed on implementation of FRS 17	(23.2)	(13.5)
Profit and loss reserve on FRS 17 basis	(103.0)	114.6

It should be noted that the £103.0m profit and loss deficit above is on a consolidated basis. As at 31 March 2003 FirstGroup plc had £623.4m of retained profits available for distribution.

Had the Group adopted FRS 17 the amounts charged to the profit and loss account would have been as follows:

Analysis of amount charged to operating profit:

	2003 £m
Current service costs	39.1
Past service costs	—
Gain/(loss) on settlements and curtailments	—
Total operating charge	39.1

Analysis of amount credited to net finance charges:

	2003 £m
Expected return on pension scheme assets	(77.2)
Interest on pension scheme liabilities	67.3
Net return	(9.9)

Analysis of the actuarial gain in the statement of total recognised gains and losses (STRGL):

	2003 £m
Actual return less expected return on pension scheme assets	(300.2)
Experience gains and losses arising on scheme liabilities	26.8
Changes in assumptions underlying the present value of scheme liabilities	(9.5)
Actuarial loss recognised in STRGL	(282.9)

Movement in schemes' deficit during the year:

	2003 £m
Deficit at 1 April 2002	(38.3)
Movement in year:	
Current service cost	(39.1)
Contributions	41.5
Past service costs	—
Net finance income	9.9
Actuarial loss	(282.9)
Deficit at 31 March 2003	(308.9)

Notes to the financial statements

30 Pension schemes continued

	2003 £m
History of experience gains and losses	
Difference between the expected and actual return on scheme assets:	
Amount (£m)	(300.2)
Percentage of scheme assets (%)	32.1
Experience gains on scheme liabilities:	
Amount (£m)	26.8
Percentage of the present value of scheme liabilities (%)	2.2
Total actuarial loss in the statement of total recognised gains and losses:	
Amount (£m)	(282.9)
Percentage of the present value of scheme liabilities (%)	22.8

31 Share option schemes

(a) Savings related share option scheme

The Company operates an Inland Revenue approved savings related share option scheme. Grants were made in October 1995 and June 1999 and a further grant was made in December 2002. The scheme is based on eligible employees being granted options and their agreement to opening a sharesave account with a nominated savings carrier and to save weekly or monthly over a specified period. Sharesave accounts are held with Halifax plc for the 1995 and 1999 grants and are held with Lloyds TSB for the 2002 grant. 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 granted on 5 October 1995 and were exercisable after either five or seven years. Options granted in June 1999 and December 2002 are exercisable after three years.

The number of options outstanding under each grant at the end of the year was as follows:

Grant date	2003		2002		Exercise price (p)	Earliest exercise date
	Number of employees	Ordinary 5p shares	Number of employees	Ordinary 5p shares		
October 1995	55	64,204	956	1,459,146	107.72	November 02
June 1999	68	19,059	7,427	2,095,644	359.73	September 02
December 2002	5,865	6,642,805	–	–	192.00	February 06
	5,988	6,726,068	8,383	3,554,790		

During the year, the Company launched a Share Incentive Plan, the Buy As You Earn scheme (BAYE). BAYE enables eligible employees to purchase shares from their gross income. The Company provides one matching share for every two shares bought by employees, subject to a maximum Company contribution of shares to the value of £15 per month. The shares are held in trust for up to five years, in which case, no income tax and national insurance will be payable. The matching shares will be forfeited if the corresponding partnership shares are removed from trust within three years of award.

At 31 March 2003 there were 3,058 participants in the BAYE scheme who have purchased 92,570 shares with the Company contributing 29,261 matching shares.

(b) Executive share option schemes

A new executive share option scheme was approved by shareholders at the 2001 Annual General Meeting. This new scheme, together with the deferred share element of the Executive Bonus Scheme which was also introduced during 2001/02, replaces the LTIP described below. The first grant of options under the new scheme was made in August 2001 to Directors and senior executives. Options are exercisable between three and ten years of the date of grant provided that the pre-determined performance criteria are met. Further details of the scheme including the performance criteria, are included in the Directors' remuneration report.

Details of executive share options outstanding at 31 March 2003 are set out below:

Scheme	Ordinary 5p shares		Exercise price (p)	Date original option granted
	2003 No.	2002 No.		
FirstGroup Executive Share Option Scheme	756,562	811,000	346.50	August 01
FirstGroup Executive Share Option Scheme	1,261,651	–	269.00	May 02
Tony Osbaldiston options	–	147,059	Nil	February 00
	2,018,213	958,059		

31 Share option schemes continued

(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.

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

Date of award	Ordinary 5p shares		Award price (p)
	2003 No.	2002 No.	
12 August 1997	–	145,268	190.42
3 July 2000	935,960	1,046,534	236.00
	935,960	1,191,802	

For the five-year performance period ended 31 March 2002, FirstGroup plc's total shareholder return was 7.8%, which was the 32.4th percentile of the index. As a result, participants in the 1997 LTIP were entitled to 156% of the 1997 award, which is equivalent to 78% of the maximum number of shares. Executive Directors previously waived their entitlement to the 1997 award.

For the three-year period ended 31 March 2003, FirstGroup plc's total shareholder return was 10.7%, which was the 16.6th percentile of the index. As a result participants are entitled to 200% of the 2000 award which is equivalent to the maximum number of shares.

Group financial summary

	2003 £m	2002 £m	2001 £m	2000 £m	1999 £m
Consolidated profit and loss accounts					
Group turnover	2,291.0	2,164.1	2,054.0	1,795.1	1,470.4
Operating profit before goodwill amortisation and exceptional items	216.1	215.0	214.3	185.7	139.8
Goodwill amortisation	(25.8)	(27.3)	(25.9)	(13.0)	–
Exceptional items, net*	(10.6)	(20.5)	(53.5)	(11.6)	(17.9)
Operating profit*	179.7	167.2	134.9	161.1	121.9
Profit before interest*	189.7	164.2	201.3	165.5	123.5
Net interest payable	(56.3)	(56.3)	(64.5)	(44.0)	(28.3)
Profit before taxation*	133.4	107.9	136.8	121.5	95.2
Taxation	(35.8)	(33.9)	(55.2)	(32.0)	(30.4)
Profit after taxation*	97.6	74.0	81.6	89.5	64.8
Earnings per share					
	pence	pence	pence	pence	pence
Adjusted basic	26.8	25.8	23.4	25.3	20.4
Basic*	23.4	17.6	18.4	21.6	17.4
Cash	50.6	48.5	44.1	42.6	33.5
Dividend per share	11.0	10.3	9.4	8.5	7.3
Consolidated balance sheets					
	£m	£m	£m	£m	£m
Fixed assets	1,273.2	1,346.0	1,327.7	1,289.9	590.6
Net current liabilities*	(115.5)	(127.4)	(210.6)	(153.1)	(168.5)
Creditors: amounts due after more than one year	(630.9)	(687.9)	(622.6)	(750.9)	(338.1)
Provisions for liabilities and charges	(124.0)	(110.7)	(93.8)	(85.5)	(68.3)
Equity minority interest	(1.1)	(1.0)	(0.9)	(9.8)	(7.6)
Equity shareholders' funds*	401.7	419.0	399.8	290.6	8.1
Share data					
Number of shares in issue	million	million	million	million	million
At year end	413.4	419.8	422.4	433.5	355.9
Average	416.7	419.8	422.2	396.8	353.3
Share price	pence	pence	pence	pence	pence
At year end	240	302	305	174	397
High	339	365	312	399	489
Low	200	243	140	152	327
Market capitalisation					
	£m	£m	£m	£m	£m
At year end	992	1,268	1,288	754	1,414

*Restated for adoption of UITF 34

Shareholder information

Shareholder enquiries

The Company's share register is maintained on our behalf by Lloyds TSB Registrars, who are responsible for making dividend payments and updating the register, including details of changes to shareholders' addresses and purchases and sales of the Company's shares. If you have any questions about your shareholding in the Company or need to notify any changes to your personal details you should contact: Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA. Telephone: 0870 600 3973.

Employees with queries about shares held in the Company's employee share schemes should contact Lloyds TSB Registrars at the same address or by telephoning 0870 241 3938.

Duplicate shareholder accounts

If you receive more than one copy of Company mailings this may indicate that more than one account is held in your name on the Register. This happens when the registration details of separate transactions differ slightly. If you believe more than one account exists in your name you may contact the Registrars to request that the accounts are combined. There is no charge for this service.

Direct dividend payments

If you would like your dividend to be paid directly into your bank or building society account, you should contact the Registrars or complete the dividend mandate attached to your dividend cheque. Mandating your dividends has a number of advantages. Firstly, the dividend will go into your account on the payment date – there is no chance of it being delayed in the post and you do not have to wait for a cheque to clear. Secondly, the payment method is more secure than receiving a cheque through the post. Thirdly, you still receive tax information about the dividend, which is sent direct to you at your registered address.

Online information

The Registrars also provide an online 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

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 or register online at www.mpsonline.org.uk

Shareholder profile

At 30 April 2003	Number of holders	%	Shares held (m)	%
By category				
Individuals	44,147	95.2	70.6	17.1
Banks and nominees	2,015	4.3	333.6	80.7
Insurance and assurance	2	0.0	0.1	0.0
Other companies	207	0.5	9.1	2.2
Other institutions	3	0.0	0.0	0.0
	46,374	100.0	413.4	100.0
By size of holding				
1-1,000	34,109	73.5	8.6	2.1
1,001-5,000	9,544	20.6	21.0	5.1
5,001-10,000	1,471	3.2	10.2	2.5
10,001-100,000	915	2.0	24.0	5.8
Over 100,000	335	0.7	349.6	84.5
	46,374	100.0	413.4	100.0

Financial calendar

Annual General Meeting	3 July 2003
Shares trade ex dividend	23 July 2003
Record date for final dividend*	25 July 2003
Final dividend paid	29 August 2003
Interim results announced	November 2003
Interim dividend paid	February 2004
Preliminary announcement of full year results	May 2004

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

Principal and Registered office

FirstGroup plc
395 King Street
Aberdeen AB24 5RP
Telephone: 01224 650100
Facsimile: 01224 650140

Registered in Scotland
number SC157176

London office

FirstGroup plc
3rd floor
E Block
Macmillan House
Paddington Station
London W2 1FG
Telephone: 020 7291 0505
Facsimile: 020 7636 1338

FirstGroup web site

www.firstgroup.com