First
transforming travel

Annual Report & Accounts 2002

Financial Highlights

		2002	2001	%
Total turnover – continuing operations	(£m)	**2,164.1**	2,019.1	+7
Group operating profit[1]	(£m)	**219.2**	207.0	+6
Profit before tax[2]	(£m)	**156.7**	148.8	+5
Adjusted basic earnings per share[3]		**25.8p**	23.4p	+10
Net dividend per share		**10.3p**	9.4p	+10
Capital expenditure	(£m)	**153.4**	150.9	+2
Cash generation[4]	(£m)	**314.3**	293.3	+7

[1]Continuing operations before ESOP, goodwill and restructuring and other exceptional costs.
[2]Before goodwill and restructuring and other exceptional items.
[3]Prior year restated for FRS 19.
[4]Group operating profit from continuing operations, before ESOP, goodwill and restructuring and other exceptional costs, plus depreciation.

CONTENTS

Chairman's Statement

These results are clearly overshadowed by the tragic accident at Potters Bar on 10 May. On behalf of the Group I would like to convey our sincere condolences to the bereaved families and to the injured. Safety remains at the top of our agenda and we continue to work to embed a strong safety culture in all of our operations.

This has been another very successful year for the Group against a background of global uncertainty. Despite the more difficult trading conditions, all three of our businesses showed a welcome resilience and demonstrated the underlying quality of our operations. Turnover from continuing operations has increased by 7% to £2,164 million and profit before tax, goodwill and exceptional items increased by 5% to £156.7 million. Adjusted basic earnings per share has increased by 10% to 25.8p and the Board has proposed a final dividend, subject to approval by shareholders, of 7p making a full year payment of 10.3p, an increase of 10%.

The Group's strategy is to continue to develop its three core businesses, UK Bus, North America and UK Rail. UK Bus offers opportunities for organic growth through more efficient management and operational delivery linked to better marketing and promotion of our services. North America continues to offer significant opportunities for expansion both in yellow school bus as well as transit contracting and management and vehicle maintenance. We have strengthened the management team in North America and the focus remains on delivering a high return on our investment.

In UK Rail we believe that we have an excellent record of delivering benefits to passengers in our two main rail companies First Great Eastern and First Great Western. It is our priority to extend these franchises as well as bidding for new franchises such as TransPennine Express and Northern.

In our view the private sector has much to offer in the regeneration of the UK's transport system. We will continue to build on the strong partnerships we have developed, since the formation of the Company, with customers, local authorities and the communities where we operate. We believe that our industry has demonstrated the success of these voluntary Quality Partnerships through the level of new investment we have made. As a result we believe that the future does not lie with increased regulation, but through the commitment of Government and local authorities to deliver the necessary traffic priority measures and infrastructure investment required for public transport to succeed.

I am pleased to announce the appointment of John Sievwright to the Board as a Non-Executive Director. John is a Chartered Accountant and has held various senior management positions in banking in the UK, USA and Japan. He will bring extensive international financial experience to the Board. At the end of November 2001, Tony Osbaldiston, Deputy Chief Executive, left the Group. I would like to thank Tony for his contribution to the development of the business over the last seven years.

We have a dedicated workforce and once again, I would like to pay tribute to their continued commitment to the business. I believe that we are well placed to continue to develop our businesses in both the UK and North America. As part of the longer-term development of the Group we continue to appraise opportunities in related fields which will enhance shareholder value. I look forward to the future with confidence.

Martin Gilbert
Chairman

Chief Executive's Operating Review

Overview

I am pleased to report another set of strong results for the Group. Operating profit* rose to £219.2 million, an increase of 6%, (2001: £207.0 million excluding Bristol International Airport). We have seen an increase in operating profit across all of our three divisions and continued strong cash flow of £314.3 million (2001: £293.3 million).

UK Bus

Turnover increased by 3% to £811.5 million (2001: £788.6 million) and operating profit before financing costs increased to £105.7 million (2001: £105.0 million). This was a good result in the light of the significant increase in the price of oil which had a major impact on the cost base of the division last year. During the year the division continued to experience encouraging growth in passenger volumes, which increased by 1.4%. Growth was particularly strong in cities such as Glasgow, Leeds, Aberdeen, York and Plymouth where we have introduced 'The Overground', our simplified route and fares structure. In these areas there have been increases of up to 11%. In London, where we operate bus services on behalf of Transport for London, operating mileage has also continued to grow strongly.

UK Bus has also enjoyed success in a number of areas where it has been able to develop Quality Partnerships with local authorities to introduce improved bus priority measures. Flagship schemes that have opened in the last 12 months include new guided busways in Bradford and Leeds. In the short periods since opening, passenger volumes on these schemes are already showing encouraging increases. During the year additional bus priority and park and ride schemes have been successfully introduced in Bristol, Glasgow and York. We believe that such schemes are critical in maintaining the impetus to increase bus usage countrywide and to achieve the Government's aspirations to increase bus travel by 10% over the next ten years.

As part of our 'Transforming Travel' vision we are focusing on improving the quality of service we offer to our customers. Key to this is the training and motivation of staff. We have now introduced improved recruitment and training techniques for drivers and this has already resulted in a welcome reduction in staff turnover. Improved benefits packages, for application at local level, are also being developed to assist in staff retention and encourage skill development and lifetime learning. In addition, we are introducing new marketing programmes, which include more attractive ticketing structures, simplified information and a range of promotional activities, designed to widen the appeal of our services and create more value for money travel opportunities.

We have continued to develop our trial programme of US style yellow school buses in the UK. Two pilot schemes were successfully started during the year in Yorkshire and Surrey and a further scheme will start in Wrexham in June 2002. It is hoped that the success of these schemes will lead to other local authorities moving to this concept, which provides a proven, safe method of transporting children and offers a solution to traffic congestion created by the 'school run'.

UK Rail

Turnover in the Group's three train operating companies was £802.9 million (2001: £761.2 million), an increase of 5.5%. Operating profit, which benefited substantially from the renegotiation of the First North Western franchise, was £66.8 million (2001: £56.2 million).

The results for the year reflect two main events. In March 2001 the Group concluded an agreement with the Strategic Rail Authority (SRA) to amend the terms of the franchise agreement for First North Western and increase the operating subsidy for 2002 to eliminate losses on the franchise.

Secondly, as predicted at the half year, passenger volumes on First Great Western and First Great Eastern recovered during the second half of the year as we moved into the post-Hatfield comparative period.

Although total passenger volumes

*Operating profit in the remainder of the Chief Executive's Operating Review and the Financial Review refers to continuing operating profit before ESOP, goodwill and restructuring and other exceptional costs.

Chief Executive's Operating Review

have returned to pre-Hatfield levels, at this stage it is too early to say when the rates of passenger growth will fully recover, particularly in the light of the Potters Bar accident. However, early indications are that as reliability is restored growth is returning. Speed restrictions are now at a lower level with a general improvement in train service reliability. Since September, punctuality in our three train operating companies has improved and customer complaints have been reduced by over 20%.

First Great Western has put in place an £18 million package of improvements to the existing High Speed Train fleet. As part of the continued focus on customer service, action has been taken to provide cleaner, tidier stations and additional employees have been recruited at key stations and on-board trains. We are now focusing on an enhanced programme of marketing and on-train service targeted at particular market segments. For example, First Great Western has introduced 'The Travelling Chef', a new catering facility provided on peak train services which recently won the prestigious HSBC Rail Business Award.

In June 2002 the first of 70 new 'Adelante' 125mph vehicles will be introduced into timetabled service on the Great Western main line. These new trains, which have already undergone extensive testing and consumer evaluation, will provide much needed additional capacity and enable First Great Western to operate the most frequent service ever to Bristol and Cardiff. New trains will also be introduced on First Great Eastern in 2003, replacing the last of the slam-door rolling stock. These new class 360 Desiro units will provide greater levels of comfort for commuters to Colchester and Essex.

We welcome the opportunity to work with the new team at the SRA. Our priority is to put forward proposals for the enlargement of the First Great Eastern and First Great Western franchises. We believe we can offer passengers immediate improvements to services through the amalgamation of services at Liverpool Street and Paddington stations. In addition we are bidding for two of the successor franchises to First North Western – Transpennine Express and Northern. We have a strong service record in these regions through our bus and rail operations and we will offer attractive and cost-effective proposals for these railways.

North America

The United States is the largest transport market in the western world. In North America we operate in three sub-sectors: school bus, transit contracting and management and vehicle maintenance services which in total are worth some $30 billion in annual revenues. We have strong positions in these highly fragmented markets and, as the second largest school bus operator, and a leading provider of transit contracting and management and vehicle maintenance services, we have significant opportunities for further expansion. We have restructured and strengthened the senior management team in the US with the appointment of a new President for FirstGroup America, and the creation of a new post of President for First Vehicle Services. Both of these positions will be based in Cincinnati.

Turnover from our three North American operations was £542.9 million (2001: £462.7 million) an increase of 14% excluding exchange rate movements. Operating profit was £60.8 million (2001: £56.3 million) an increase of 4.5% excluding exchange rate movements. This performance reflects the particularly high level of new school bus business won in 2001 (12% up from the start of the new term in September 2001). However, this growth was to some extent offset by extra start up costs incurred on a new school bus contract in Jacksonville, Florida and a transit contract in Dallas, Texas which impacted our results by £2.5 million.

During the year First Student expanded into five new states. The acquisition of four companies running 320 school buses took the division into Maine and Wisconsin and there were contract wins in Florida, Alaska and North Carolina. Contracts for a total of 1,800 additional buses started during the year, of which some 800 buses were accounted for by three particularly large contracts. At 31 March 2002 First Student operated 14,800 school buses in 33 states across the US and Canada.

Bidding for new school bus contracts is now underway. Whilst we do not anticipate matching the particularly high level of contract wins made last year, we are confident we will see another healthy increase in our school bus business during the current year.

First Transit also had a successful year. We retained over 90% of the division's contracts which were due to be renewed, and net new business with an annualised turnover of approximately $30 million was won. Important new contracts were gained in Denver, East Bay in San Francisco and Houston. First Transit also expanded into the states of Arkansas and Wyoming for the first time. We were also pleased to announce our first para-transit contract win in Canada, where we were awarded the contract to provide wheelchair accessible public transportation services for the city of Ottawa.

First Vehicle has also continued to expand with significant new contract wins in Florida where it was successful in gaining its first state contract award from the Florida Department of Transportation. New contracts were also won in Massachusetts and the District of Columbia. In addition, based on its proven quality and service record, First Vehicle Services was successful in retaining a number of important contracts such as Allegheny County in Pennsylvania, Galloway and Neptune in New Jersey and Wilmington in Delaware. We believe that this division has great potential for further growth and the appointment of a new President will increase the impetus to actively develop this part of the business.

The consolidation of the accounting and management systems in North America was completed at the beginning of the year with the relocation of the head office of First Student from St Louis to Cincinnati.

Going forward, the North American businesses are expected to generate sufficient free cash flow each year to enable the division to become self financing for capital expenditure, while still being able to sustain strong growth through contract wins and new business acquisitions. We will continue to focus on tight cost control within the business and, in particular, we will be managing the issues of increased insurance and fuel costs.

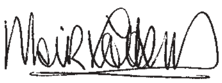
We believe that the outlook for the growth of the North American business is excellent. Increasing pressure on tax revenues at Federal and State levels should speed up the move towards outsourcing. Furthermore, 'best value' legislation is being proposed which should also increase the rate of transfer to the private sector.

In our three existing business divisions we have made good in-roads in geographical areas where we do not already have a presence. The high quality of our start-ups has also enhanced our reputation with potential customers. We will also continue to look for attractive opportunities for strategic expansion in related business fields within North America, where we can build on our outsourcing expertise.

This year we have embarked on a major business change programme, 'Transforming Travel', to help us improve efficiency, motivate our staff and focus on service delivery. Integral to this is the relaunch of the 'First' brand as a single unified identity that our customers, staff and stakeholders can recognise across all our businesses. Our overriding aim is to improve the travel experience for our customers and change the perceptions of public transport.

People are our strongest asset. The success of our business is built on the people who deliver our services everyday throughout the UK and North America. We will continue to strengthen and support our staff and equip them with the skills to enable them to deliver the highest quality service. By working together with a clear common objective to be more effective in everything that we do, we will achieve our vision of Transforming Travel.

This is an exciting time for the Group. In all the markets in which we operate, there are opportunities for further growth. In UK Bus we are focusing on improved marketing and service delivery. In UK Rail we are encouraged by the prospect of new and enlarged railway franchises. In North America there remain significant opportunities for further growth. 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**	**Operating profit# £m**	**Operating margin# %**	Turnover £m	Operating profit# £m	Operating margin# %
	Year to 31 March 2002			Year to 31 March 2001		
UK Bus Division	**811.5**	**105.7**	**13.0**	788.6	105.0	13.3
North America Division	**542.9**	**60.8**	**11.2**	462.7	56.3	12.2
Rail Division	**802.9**	**66.8**	**8.3**	761.2	56.2	7.4
Financing elements of leases*	**–**	**(3.4)**	**–**	–	–	–
Other**	**6.8**	**(10.7)**	**–**	6.6	(10.5)	–
Continuing Group	**2,164.1**	**219.2**	**10.1**	2,019.1	207.0	10.3
Bristol International Airport	**–**	**–**	**–**	34.9	11.5	32.8
Total Group	**2,164.1**	**219.2**	**10.1**	2,054.0	218.5	10.6

Before ESOP, goodwill and restructuring and other exceptional costs.
* Financing elements of UK PCV operating lease costs.
**Tram operations, central management, group information technology, and other items.

Overall

Group turnover in the year increased by £110.1 million, or 5.4%, to £2,164.1 million. Continuing Group operating profit, before ESOP, goodwill and one-off costs, was £219.2 million, an increase of £12.2 million, or 5.9% on 2001.

Divisional results

Revenue in the UK Bus Division grew by £22.9 million to £811.5 million, or 4.4% after allowing for the extra week's trading last year. Passenger volumes rose 1.4% on a comparable basis, after allowing for the extra week and other one-off effects last year. This was as a result of successful additional London tenders and growth outside London. Fuel costs were £5.1 million higher than last year, with the increased oil price under the four-year cap which commenced in April 2001, partially offset by the increased fuel duty rebate on Ultra Low Sulphur Diesel. This and other cost pressures, particularly on drivers' wages, led to the margin falling 0.3% to 13.0%.

The financing element of leases totalling £3.4 million has been disclosed separately in the divisional results. During the year we rolled out further contract hire and maintenance schemes in York and Leicester. We now have some 850 vehicles leased from and maintained by the manufacturer. This has achieved operational benefits and fleet standardisation focused on growth areas. Additionally, we entered into further operating leases for our London contracts, which are co-terminous with the contract periods.

The North America Division's turnover grew by £80.2 million to £542.9 million. The majority of the increase in business was in First Student where we were successful in winning net new contracts for 1,600 school buses. Operating profit increased by £4.5 million. Operating margin at 11.2% was 1.0% down on last year principally due to difficulties encountered on new contracts in Dallas and Jacksonville, which have subsequently been addressed. In particular Jacksonville proved to be a difficult contract during the start-up phase as a result of litigation and recruitment issues that were resolved during the year. We believe that this has enhanced our reputation and has given us competitive advantage in winning and managing new work.

Rail Division revenue was £41.7 million up on last year largely through increased subsidies as a result of the new financial arrangement in respect of the North Western franchise. Shortfalls in passenger revenue arising from delays and disruption caused by speed restrictions have been largely matched by compensation through the performance regime. Operating profit at £66.8 million, was £10.6 million higher than last year. Passenger revenue was 4% up on last year, with the first half down by 3% due to the disruption following the Hatfield accident, and the second half up by 11%. The overall passenger growth on the previous year, before the Hatfield accident, was 5.1%. During the year additional compensation of £17.3 million for gauge corner cracking was received, reflecting the loss of future revenue growth post-Hatfield. Accordingly, this will be recognised in 2002/03.

Exceptional costs

Exceptional costs include a charge of £8.0 million for the provision against the unamortised cost of investments in totaljourney.com and Prepayment Cards Limited (PCL). The £10.9 million of other items includes £5.3 million in North America for restructuring and transition costs, £2.1 million for UK restructuring costs, £2.0 million for abortive rail bid costs and £1.5 million in respect of industrial action in North America.

Joint ventures and associates

The Group's share of losses in totaljourney.com amounted to £1.6 million in the period up to this company ceasing operations, and our share of losses in PCL during the year was £0.4 million. Our shareholding in PCL was diluted shortly after the year-end and it will be accounted for as a trade investment in future. As explained above we have fully provided against our investments in both companies. During the year we also entered into an agreement to dispose of our interest in Tramtrack Croydon Limited and completion of this sale is expected later in the year.

Goodwill amortisation
The overall goodwill charge this year was £29.3 million, including £26.8 million in North America and £2.0 million on joint ventures and associates. The £1.5 million increase over last year is mainly due to North American acquisitions during the year and the full year effect of acquisitions made last year.

Interest
Net interest payable was £56.3 million (2001: £64.5 million). This was covered 5.6 times by cash generation. The reduction in the interest charge over the previous year principally reflects the full year effect of the reduction in net debt following the disposal of Bristol International Airport in January 2001.

Employee Share Ownership Plan (ESOP)
The charge for the ESOP represents 5% of profits earned in the UK. The appropriation of £4.2 million (2001: £4.2 million) will be shared among an estimated 27,000 eligible UK employees.

Acquisitions and disposals
During the year the Group acquired four school bus companies in North America for a total cash consideration of £6.1 million. Goodwill arising on these acquisitions amounted to £4.2 million.

Taxation
The Group has adopted FRS 19, which has involved moving from a partial provision basis for deferred tax to a full provision basis, and prior year comparatives have been restated to reflect this change. The restatement of the tax charge has resulted in an increase in the profit and loss charge of £13.2 million for the year to 31 March 2001 and the restatement of the balance sheet deferred tax provision at 31 March 2001 has resulted in an increase of £58.8 million to £71.1 million. It should be noted that these changes have no cash impact. The tax charge for the year of £33.9 million is an effective rate of 31.0%. This compares to a current tax rate of 23.4%.

Cash flow and investment in the business
Cash generation (operating profit, before ESOP, goodwill and one-off costs, plus depreciation) was £314.3 million, 7.2% higher than last year's £293.3 million (excluding Bristol International Airport). Capital expenditure was £153.4 million. The majority of capital expenditure was in the US where £121.8 million was spent primarily on 2,665 new vehicles which supported existing and new contracts.

Balance sheet
Net assets of the Group increased from £400.7 million to £422.3 million. The main element of the increase was £32.4 million of retained profit which was offset by a £3.2 million foreign exchange movement and £7.7 million of share repurchases. The Group's net debt has fallen over the year by £8.2 million to £652.5 million, reflecting the Group's strong operating cash flow which remains positive after high capital expenditure and the payment of the £37.0 million in connection with the North Western Trains franchise.

Funding and risk management
In February the Group issued a £300 million 11 year 6.875% fixed rate sterling bond. The issue was well received by the market and as a result was significantly over-subscribed. The proceeds were received just before year end and were largely used to repay certain shorter-term facilities. The bond issue was significant, being the first time the Group has raised this type of debt in the market. It also enabled the Group to increase the diversity of its debt profile.

The Group only borrows to finance investment and provide working capital. It does not enter into speculative financial transactions and uses financial instruments for risk management purposes only. As the Group is a net borrower, it minimises cash and bank deposits, although it can only withdraw cash and bank deposits from the rail companies to the extent of retained profits. Cash received in advance for rail season tickets is protected by an insurance arrangement approved by the SRA, which has replaced the bonded cash. The Group limits deposits with any one bank to a maximum of £30 million, depending upon

Analysis of net debt

Net debt at the year-end amounted to £652.5 million, a reduction of £8.2 million on 2001:

	Fixed £m	Variable £m	Total £m
Cash	65.2	–	65.2
Rail ring fenced cash	36.2	–	36.2
Sterling bank loans and overdrafts	–	(45.0)	(45.0)
US dollar bank loans	–	(262.6)	(262.6)
Canadian dollar bank loans	–	(7.5)	(7.5)
Bond (2013: 6.875%)	(294.8)	–	(294.8)
HP and finance leases	(98.9)	(20.7)	(119.6)
Loan notes	(9.2)	(15.2)	(24.4)
Interest rate caps and swaps	(175.3)	175.3	–
Total	**(476.8)**	**(175.7)**	**(652.5)**

the individual bank's credit rating. The Group reduces exposure to interest rate risk by using interest rate swaps and fixed rate debt.

Analysis of net debt

The maturity profile of banking facilities is regularly reviewed. Well in advance of their expiry, the facilities are extended or replaced. At the year end, bank borrowing and guarantee facilities amounted to £585 million, of which £275 million had more than two years to maturity. This compares with total utilisation of £315 million.

The Group hedges part of its exposure to the impact of exchange rate movements on translation of foreign currency net assets by holding net borrowings in foreign currencies. The Group manages exposure to fuel price movements by entering contracts with suppliers to cap or fix the purchase price for future periods.

Shares in issue

During the year, 2.6 million shares were repurchased and cancelled at a total cost of £7.7 million with the total number of shares in issue decreasing from 422.4 million to 419.8 million. For the purpose of the earnings per share (EPS) calculation (excluding 1.0 million own shares held in trust for employees), the average number of shares in issue for the year was 419.8 million. If the number of shares remained unchanged for the forthcoming year, the average number in issue, for the EPS calculation, would be 418.8 million.

Foreign exchange

The profits from the US have been translated at an average rate of £1:$1.44 (2001: £1:$1.49). The year end rate was £1:$1.43, compared with £1:$1.42 last year.

Accounting standards and policies

As explained above, FRS 19 Deferred Tax was adopted during the year ended 31 March 2002. As a result the Group's policy for deferred tax has changed from partial provision to full provision. Prior year figures have been restated to reflect the new policy. More details are given in note 1.

The Group intends to follow the phased implementation of FRS 17 Retirement Benefits provided for in its transitional arrangements, which will be fully incorporated in our financial statements from the year ended 31 March 2004 onwards. The Group operates a number of individual pension schemes and the total market value of the assets of the schemes at 31 March 2002 was £1.3 billion. If FRS 17 had been applied the net pension deficit after tax would have been £26.1 million. At this stage we believe that the profit and loss impact of adopting FRS 17 would not be material to the Group.

Iain M. [signature]

Iain M Lanaghan
Group Finance Director

Corporate Governance

The Board is committed to maintaining high standards of corporate governance throughout the Group. The UK Listing Authority's rules require that the Board 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 except that George Law, the Company's Non-Executive Employee Director, is a member of the Remuneration Committee. The Code requires that the Remuneration Committee should comprise only independent Non-Executive Directors. As an employee of the Group, George Law is not regarded as independent under the Code. However, the Board believes that the Employee Director makes a positive contribution to the workings of the Board and should sit on its various committees, including the Remuneration Committee.

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 Non-Executive Chairman, four Executive Directors and four additional Non-Executive Directors. Except as described above in respect of George Law, 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 judgment. The names of the Directors and their details are set out on page 19.

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 and are subject to reappointment by shareholders. No Directors are forced to retire from the Board by reason of having attained a certain age.

Board procedure

Martin Gilbert, the Non-Executive Chairman, is responsible for the effective conduct of Board and shareholder meetings, and for ensuring that all Directors are properly briefed in order to take a full part in Board discussions. Moir Lockhead, the Group Chief Executive and Deputy Chairman, is responsible for developing and implementing business strategy and processes and for the day-to-day management of the Group. David Dunn, the Chairman of the Audit Committee, is the senior independent Non-Executive Director. 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 initiatives. It also meets 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 of such meeting 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, the principal such committees being referred to below.

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 to this committee specific powers 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.

Safety Committee

The Safety Committee is chaired by Moir Lockhead and comprises Dr Mike Mitchell, Robbie Duncan and certain senior business managers. The Safety Committee meets monthly to review the Group's safety performance and practices, develop safety policies and procedures and follow up on outstanding issues.

Corporate Governance

Audit Committee
The Audit Committee, which is chaired by David Dunn and includes Martin Gilbert, Jim Forbes, John Sievwright and George Law, all Non-Executive Directors, normally meets at least twice a year.

The Audit Committee monitors and reviews accounting policies and financial reporting, the system of financial and operational controls of the Group and reviews half-yearly and annual accounts before they are presented to the Board. It also considers the Group's compliance with the Code and oversees the objectivity and effectiveness of internal audit. The Committee can request the external auditor, 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 Committee to raise any matters that may concern them. The 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 auditor and management.

Nominations Committee
The Nominations Committee, under the chairmanship of Martin Gilbert and including David Dunn, Jim Forbes, John Sievwright and George Law, 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. Appointments of Executive Directors are initially proposed by the Group Chief Executive. Potential new Non-Executive Directors are suggested by all members of the Board against the requirements of the Group's business and the need to have a balanced Board. 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 page 12, together with a statement of the Group's remuneration policy. Full details of Directors' remuneration appear on page 12.

Relations with shareholders
The Group fully appreciates the importance of communication with its shareholders. It publishes a concise Annual Review and the full Annual Report & Accounts are available to all shareholders on request. At the half year, an interim report is published and sent to all shareholders. These reports are intended to provide shareholders and other interested parties with a balanced and clear 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 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 accounts.

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 and operating 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 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 Group 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

A professional approach to financial reporting and information which complies with generally accepted accounting practice is adopted by the Group. 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.

Monthly reports of operating performance, with commentary on variances against budget, forecasts and prior year, are prepared at subsidiary unit and 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 these risks occur and the actions taken to manage the risks. These 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. Quarterly performance reviews have been introduced into the UK Bus Division to further embed the concept of risk management. These will be introduced into the rest of the Group during this coming financial year. 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 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.

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, separately, with the Chairman, the Group Chief Executive and Group Finance Director.
The Annual Report & Accounts 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 through the monitoring process laid out above for the year under review and to the date of approval of the Annual Report and Financial Statements.

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.

Remuneration Report

This report by the Board contains the information required by Schedule B of the Combined Code annexed to the Listing Rules.

Remuneration Committee

The Board has established the Remuneration Committee, which is chaired by Jim Forbes. The other current members of the Committee are David Dunn, John Sievwright and George Law, all of whom are Non-Executive Directors. The Committee is responsible for the determination of remuneration for the Executive Directors. The Non-Executive Directors, with the exception of George Law, the Company's Non-Executive Employee Director (see below), have no personal financial interest (other than as shareholders) in the matters to be decided, no potential conflict of interest arising from cross directorships and no day-to-day involvement in the running of the business. They do not hold any share options, nor do they participate in any Group pension or share schemes. George Law is an employee of one of the Company's operating subsidiaries and, in that capacity, is entitled to participate in employee share schemes from time to time and to be a member of his employing company's pension scheme.

Framework and policy on Executive Directors' Remuneration

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

Salary and benefit packages are established by reference to remuneration practices in other companies of comparable size for executives of comparable status, responsibility and skills. Reward is linked to both short-term and longer-term performance objectives. The Committee seeks professional advice in carrying out such reviews.

Directors' remuneration

Details of each individual Director's emoluments, excluding pension contributions, for the year ended 31 March 2002 are set out below:

	Salary 2002 £000	Bonus 2002 £000	Benefits in kind 2002 £000	Fees 2002 £000	**Total 2002 £000**	Total[4] 2001 £000
Executive Directors						
Moir Lockhead	341	135	18	–	**494**	472
Robbie Duncan	231	92	15	–	**338**	287
Iain M Lanaghan[1]	173	69	1	–	**243**	155
Mike Mitchell	230	91	15	–	**336**	293
Tony Osbaldiston[2]	193	–	12	–	**205**	403
Non-Executive Directors						
Martin Gilbert	–	–	–	63	**63**	60
David Dunn	–	–	–	31	**31**	30
Jim Forbes[1]	–	–	–	31	**31**	23
George Law	–	–	–	13	**13**	11
Andrew Higginson[3]	–	–	–	–	**–**	15
	1,168	387	61	138	**1,754**	1,749

[1]Appointed during the previous year.
[2]Left the Company on 30 November 2001. He received a payment of £680,384 in respect of accrued and prospective salary and bonus entitlement.
[3]Retired during the previous year.
[4]Restated to exclude Deferred Share Bonuses.

Salaries and fees

The basic salary of each Executive Director is reviewed annually before 1 April for the forthcoming year. The fees of each Non-Executive Director are determined by the Board as a whole, on the recommendation of the Group Chief Executive. In addition to a salary or fee, all expenses incurred in connection with attending Board and Committee meetings, and in furtherance of their duties, are reimbursed.

With effect from June 2002, each Non-Executive Director (other than George Law) has elected to receive 40% of his fees in the form of shares in the Company. Arrangements have been made for these shares to be purchased on their behalf in the market on a regular basis.

Annual performance-related bonus

The Company operates a discretionary annual performance-related bonus scheme for Executive Directors and other senior executives. The performance targets for Executive Directors are established by the Non-Executive Directors and are linked to Group profitability and personal performance. Mike Mitchell's bonus is also partly linked to the profitability of the UK Bus and UK Rail Divisions. 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. Bonuses are not pensionable.

Other benefits

Executive directors receive a range of benefits including, in most cases, a fully expensed car or car allowance, private health insurance for themselves, their spouse and minor children, long-term sickness insurance and payment of the annual subscription to an approved professional body.

Retirement benefits

Executive Directors are eligible to become members of one of the Group pension schemes, which are Inland Revenue approved. In general, the Group pension schemes are contributory and provide a pension on retirement based on length of service and final basic salary. The schemes also provide a lump sum death in service benefit and pensions for dependants on death whilst in service or during retirement. Pension benefits for Executive Directors under Group pension schemes are as follows:

	Increase in accrued pension during the year £000	Transfer value of increase in accrued pension £000	Accumulated total accrued pension at year end £000
Moir Lockhead	8.7	136.0	143.9
Robbie Duncan	4.4	42.9	47.9
Iain M Lanaghan	3.9	34.2	6.5
Mike Mitchell	14.8	182.5	36.7
Tony Osbaldiston[1]	3.4	39.5	30.4

[1]Left the Company on 30 November 2001. Figures given are for the period to that date. He also received a payment of £101,400 in lieu of pension contributions.

As at 31 March 2001, the accrued pension of the highest paid Director for 2000/01 was £133,000. The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year. The increases in accrued pension during the year exclude any increase for inflation. The transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 less each Director's contributions. The transfer values do not represent a sum paid or payable to the individual Directors but represent potential liabilities of the relevant pension scheme. Moir Lockhead and Robbie Duncan are entitled at retirement age to a lump sum from their pension scheme of £431,782 (2001: £398,900) and £143,636 (2001: £128,200), respectively.

Remuneration Report

Share Option and Long-Term Incentive Plans

The Company operates a number of share option and other share schemes which are described below. Additional details are shown in note 33 to the financial statements. The Remuneration Committee believes that share ownership by the Executive Directors strengthens the link between their personal interests and those of the shareholders. In addition, the Remuneration Committee strongly supports the Board's view that involvement of the employees of the Group by their share ownership through such schemes enables employees to share in the rewards of the business prosperity to which they are contributing.

Details of outstanding share awards under share option, deferred share bonus and long-term incentive schemes made to Executive Directors are shown below:

	Scheme	At beginning of year (number of shares)	Granted during the year (number of shares)	Lapsed/ waived during the year (number of shares)	At end of year (number of shares)	Exercise Price (pence)	Date from which exercisable	Expiry date
Moir Lockhead	LTIP 99	49,180	–	49,180	–	n/a		
	LTIP 00	110,168	–	–	110,168	n/a	31.3.03	31.3.10
	ESOS	–	130,985	–	130,985	346.5	15.8.04	15.8.14
	Deferred share Bonus[2]	–	31,633	–	31,633	nil	1.4.04	n/a
Robbie Duncan	LTIP 99	41,530	–	41,530	–	n/a		
	LTIP 00	74,576	–	–	74,576	n/a	31.3.03	31.3.10
	ESOS	–	66,667	–	66,667	346.5	15.8.04	15.8.14
	Deferred share Bonus[2]	–	13,200	–	13,200	nil	1.4.04	n/a
Iain M Lanaghan	LTIP 00	55,932	–	–	55,932	n/a	31.3.03	31.3.10
	ESOS	–	50,000	–	50,000	346.5	15.8.04	15.8.14
	Deferred share Bonus[2]	–	10,707	–	10,707	nil	1.4.04	n/a
Mike Mitchell	LTIP 99	17,758	–	17,758	–	n/a		
	LTIP 00	67,796	–	–	67,796	n/a	31.3.03	31.3.10
	ESOS	–	60,606	–	60,606	346.5	15.8.04	15.8.14
	Deferred share Bonus[2]	–	22,667	–	22,667	nil	1.4.04	n/a
Tony Osbaldiston	LTIP 99	43,716	–	43,716	–	n/a		
	LTIP 00	93,220	–	–	93,220	n/a	31.3.03	31.3.10
	ESOS	–	95,833	–	95,833	346.5	15.8.04	15.8.14
	Deferred share Bonus[2]	–	23,833	–	23,833	nil	1.4.04	n/a

[1]The performance period for the LTIPs granted in 1998 expired on 31 March 2001 and, the performance criteria having been satisfied, the awards matured. With the approval of the Remuneration Committee, and as permitted under the rules of the scheme, cash payments equal to the market value of the shares comprised in the awards at the date of payment (£2.85 per share) were made in the 2001/02 financial year to participants in lieu of shares. The amounts received by each Director (which equate to a pre-tax gain) were Moir Lockhead: £47,028, Robbie Duncan: £39,190, Mike Mitchell: £15,513 and Tony Osbaldiston: £41,801. Graeme Varley, who was a Director of the Company until his retirement on 31 August 1998, also received a cash payment of £28,740 in respect of the LTIP awards made to him in 1998.

[2]The figures shown represent the number of nil cost options which were granted under the deferred share element of the Executive Bonus Plan in respect of the 2000/01 financial year. The cash values of the 2001/02 award are Moir Lockhead: £73,000, Robbie Duncan: £50,000, Iain Lanaghan: £37,000 and Mike Mitchell: £49,000. These awards will take the form of nil cost options over shares which will, subject to satisfying the requirements of the Plan, vest on 15 May 2005, with the number of shares under option depending on the market price of shares at the close of business on 15 May 2002.

Executive Share Option Scheme (ESOS)

In the year, awards were made to the Executive Directors under the Company's new ESOS, which was approved by shareholders at the 2001 Annual General Meeting. Under this scheme, options to acquire ordinary shares in the Company may be granted to Executive Directors and other senior executives at the discretion of the Remuneration Committee. The Remuneration Committee has the power under the rules of the scheme to make annual awards of up to 200% of salary. The price at which shares may be acquired on exercise of an option is determined at the time of grant and 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. Options become exercisable if certain preset performance targets are satisfied.

The performance target for the options granted under this scheme during the year is that 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 over the same period by an average of at least three per cent per annum. If at the end of that three-year period, the performance target has not been met, the EPS will be measured over an additional year and must show an average growth of three per cent in excess of RPI over the full four-year period. If the performance target is not met at the end of the four-year period, the options will lapse.

An option may normally be exercised only if and insofar as the performance target is met. No option may be exercised more than ten years after its date of grant. If the option 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 specified 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.

Long-Term Incentive Plan (LTIP)

The LTIP was introduced in 1997. Awards under the LTIP are satisfied through the transfer of shares held by the Employee Benefit Trust at the discretion of the Trustees, subject to certain performance criteria being met. No exercise price is payable on shares transferred pursuant to the LTIP. In normal circumstances, awards may vest under this scheme no earlier than three years from the date of award. The number of shares which may vest is based on the total shareholder return measured against a comparator group of companies in the FTSE 250 index. The last awards were made under this scheme in 2000 and no further awards are planned.

Other Executive Options

Tony Osbaldiston held options under the Badgerline Group plc Executive Share Option Scheme. No further options are outstanding under that scheme and no further awards of options will be made under it. In addition, a one-off grant of options over 147,059 shares was made to Tony Osbaldiston in February 2000. Details are set out in the following table:

	At beginning of year	Exercised during year	At end of year	Exercise price (p)	Date from which exercisable	Expiry date	Pre tax gain on exercise £
Badgerline executive	13,530	13,530	nil	123.51	3.4.98	2.4.05	19,285
2000 award	147,059	–	147,059	nil	31.9.02[1]	see note[1]	–

[1]Options over 100,000 of such shares will vest and become fully exercisable in September 2002. As to the remaining 47,059 shares, the options will become exercisable as soon as reasonably practicable after 30 September 2002 provided that over the three-year period commencing 1 October 1999, the Company's EPS has grown by an amount not less than the growth in RPI over the same period.

Employee Share Ownership Plan (ESOP)

Under this scheme, the Board allocated an annual sum equal to five per cent of the Group's UK profit before taxation to the trustees of the ESOP. The trustees use the funds received to acquire shares in the Company which are held in trust and apportioned equally amongst the Group's participating UK employees. An appropriation under this scheme took place in June 2001 in respect of the year ended 31 March 2001. All of the Executive Directors waived their right to participate in the scheme in respect of this appropriation and have indicated that they do not intend to take part in the 2002 ESOP appropriation. Following changes in the statutory framework governing employee share schemes, the last allocation under the ESOP will be made in summer 2002 in respect of the financial year ended 31 March 2002.
No further allocations will be made under this scheme.

Remuneration Report

Share Incentive Plan
It is intended that an all-employee Share Incentive Plan will be introduced during the next financial year for UK employees.

Savings Related Share Option Scheme (SAYE)
Grants of options under the SAYE took place in October 1995 and June 1999. None of the Directors have any outstanding grants under these schemes other than George Law, who holds 1,303 options with an exercise price of 107.72p and a maturity date of November 2002, and 323 options with an exercise price of 359.73p and a maturity date of September 2002.

The market price of FirstGroup plc shares at 28 March 2002 (being the last trading day before the end of the financial year) was 302p and the range during the year was 243p to 364.5p.

Executive Service Contracts and Non-Executive Directors' Contracts
Each of the Executive Directors' service contracts is terminable by the Group or by the individual on giving not less than one year's notice. The service contracts of all the Executive Directors contain rights of summary dismissal by the Group without compensation in certain circumstances.

Executive Directors are permitted under their contracts to accept a limited number of outside Non-Executive Directorships, recognising that this is an effective way to broaden knowledge and expertise. However, all such appointments need formal Board approval. Fees for such appointments may be retained unless the appointment is in connection with Group business, in which case, any fee is remitted to the Company.

Non-Executive Directors do not have formal service contracts but do have written terms of appointment. The term of appointment for Martin Gilbert expires on 31 July 2004. The appointments of David Dunn and George Law end on 31 December 2002, that of Jim Forbes expires on 30 April 2003 and that of John Sievwright expires on 30 April 2005. The appointment of each Non-Executive Director is subject to early termination (without compensation) if he is not reappointed at an Annual General Meeting.

Directors' Report

Directors' Report

The Directors have pleasure in submitting their Annual Report and Financial Statements for the year ended 31 March 2002.

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 22.

The Directors recommend payment of a final dividend of £29.3 million (7.0p per share), which, with the interim dividend of £13.9 million (3.3p per share) paid on 13 February 2002, gives a total dividend of £43.2 million (10.3p per share) for the year. There is also a £0.1 million credit in respect of the prior year final dividend due to the repurchase and cancellation of shares, giving a net dividend charge for the year of £43.1 million. The proposed final dividend, if approved, will be payable on 30 August 2002 to shareholders on the register at the close of business on 26 July 2002.

Share capital

Details of changes in share capital are set out in note 23 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 2001 were Robbie Duncan, David Dunn, Jim Forbes, Martin Gilbert, Iain Lanaghan, George Law, Moir Lockhead, Mike Mitchell, Tony Osbaldiston (left 30 November 2001) and John Sievwright (appointed 9 May 2002).

In accordance with the Company's Articles of Association, John Sievwright, 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, Martin Gilbert and Moir Lockhead will be retiring by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election. Biographical details of the Directors to be 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 Remuneration Report on pages 12 to 16.

Directors' interests

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

	Ordinary 5p shares			
	At end of year		At beginning of year or subsequent appointment	
	Beneficial	Non-beneficial	Beneficial	Non-beneficial
Robbie Duncan	3,828,234	–	3,838,234	–
David Dunn	8,000	–	8,000	–
Jim Forbes	–	–	–	–
Martin Gilbert	19,285	–	19,285	–
Iain M Lanaghan	6,036	–	6,036	–
George Law	510	–	465	–
Moir Lockhead	1,440,723	470,690	1,450,723	470,690
Mike Mitchell	115,395	–	115,395	–

Details of the Directors' share options are given in the Remuneration Report on pages 12 to 16. Moir Lockhead also holds nominal non-beneficial interests in a number of subsidiary undertakings.

During the year, Moir Lockhead and Robbie Duncan each donated 10,000 ordinary shares to the Archie Foundation, an Aberdeen charity.

Directors' Report

Between 1 April and 14 May 2002, the Directors' interests shown remained unchanged. On 9 May 2002 John Sievwright, who holds 7,500 shares in the Company, was appointed to the Board.

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

Significant interests

At 14 May 2002 the Company had not been advised of any notifiable interests in its ordinary share capital.

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 and will allocate 5% of the Group's UK profits for this year to its Employee Share Ownership Plan (ESOP). The trustees of the ESOP will use this to acquire shares in the Company, which will then be allocated to participating UK employees. This will be the final appropriation under the ESOP and the Group is currently developing an all-employee Share Incentive Plan, which, subject to Inland Revenue approval, will be introduced for UK employees during the coming year. The Company also operates a Save As You Earn scheme, details of which are given in Note 33 to the financial statements.

The Group recognises its obligations to give disabled persons full and fair consideration for all vacancies where possible. Wherever reasonable and practicable, the Group will retain newly disabled employees and at the same time provide full and fair opportunities for the career development of disabled people.

Social responsibility

The system of internal control described on pages 10 and 11 covers significant risks associated with social, environmental and health and safety matters. The Company's reporting on such matters will be developed in line with the recently issued ABI disclosure guidelines. A separate report on social, environmental and health and safety matters, 'People, Community & Environment', is available on our web site www.firstgroup.com.

Charitable and political contributions

The Group made various donations to UK charities totalling approximately £143,000 (2001: £80,900) during the year. There were no payments made for political purposes. In accordance with the Political Parties, Elections and Referendums Act 2000 shareholder approval of EU political expenditure will be sought at the 2002 Annual General Meeting.

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 2002, the Group had 38 days' (2001: 36 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 4 July 2002 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
14 May 2002

395 King Street
Aberdeen
AB24 5RP

Directors









1 **Martin Gilbert LLD MA LLB CA**
Non-Executive Chairman; Chairman of the Nominations Committee[1,3]
He is one of the founding directors and Chief Executive of Aberdeen Asset Management PLC, who have assets under management in excess of £25 billion. He was appointed to the Board of GRT Bus Group PLC at the time of the employee buy-out, which was partly funded by Aberdeen Asset Management. He is a director of a number of investment trusts and is a non-executive director of Lombard International Assurance SA, Primary Health Properties PLC and Scottish Medical PLC. Age 46.

2 **Moir Lockhead OBE**
Deputy Chairman and Group Chief Executive; Chairman of the Safety Committee[4,5]
Chief Executive and Deputy Chairman since the Group's formation in 1995, having been Executive Chairman of the GRT Bus Group PLC from 1989 when he led the successful employee buy-out. He joined Grampian Regional Transport as General Manager in 1985 after following a career in engineering. He was Chairman of Scottish Enterprise Grampian until December 2001 and a director since 1993. He has been non-executive Chairman of the ASCo Group since 1997. In 1996 he was awarded the OBE for services to the bus industry and he is a past President of the Confederation of Passenger Transport. Age 57.

3 **Robbie Duncan BCom CA**
Business Change Director; Acting President, FirstGroup America[4,5]
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 qualified in Glasgow as a chartered accountant with Coopers & Lybrand where he worked overseas for four years and then had five years in industry. Age 51.

4 **Iain M Lanaghan MA CA**
Group Finance Director[5]
Appointed to the Board in August 2000 as Group Finance Director. He joined the Group from Atlantic Power Group, a subsidiary of Petroleum Geo-Services (PGS) in Aberdeen where he was Finance Director. Previously he was Finance Director of PowerGen International. He is a Chartered Accountant, having qualified with KPMG in London and Europe. Age 46.

5 **Mike Mitchell MA MBA PhD MCIT MILT**
Chief Operating Officer UK[4,5]
Began his career as a graduate management trainee with British Rail in 1970 and progressed in rail operations management. In 1986 he was appointed Operations Manager of Eastern Scottish Omnibuses Limited in Edinburgh, which was later acquired by GRT Bus Group. After senior management roles within the bus division in Aberdeen and Manchester 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. Appointed Chief Operating Officer in April 2001, assuming responsibility for all UK Bus and Rail operations. Age 54.

6 **David Dunn CA**
Non-executive; 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 57.

7 **James Forbes MSc BSc CEng MIEE**
Non-Executive; Chairman of the Remuneration Committee[1,2,3]
He is 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. He is also on the Board of the Electricity Association Limited. Age 55.

8 **John Sievwright MA CA**
Non-Executive Director[1,2,3]
Appointed to the Board on 9 May 2002. A Chartered Accountant he has held various positions in banking most recently at Merrill Lynch. Specialising in capital markets and equity derivatives, he worked in various senior management positions in London, New York and Dublin, and in 1998 was appointed President and Chief Operating Officer, Merrill Lynch Japan Securities in Tokyo, with responsibility for all aspects of that firm's institutional business in Japan. He retired from Merrill Lynch 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 47.

9 **George Law**
Non-Executive Employee Director[1,2,3]
Appointed to the Board as Employee Director in January 2000. He has worked as a bus driver for FirstGroup in Aberdeen for over 30 years. Age 49.

[1] Member of the Audit Committee
[2] Member of the Remuneration Committee
[3] Member of the Nominations Committee
[4] Member of the Safety Committee
[5] Member of the Executive Committee

Directors' Responsibilities

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

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal controls, for safeguarding 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 2002 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds and the related notes 1 to 33. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the statement of Directors' responsibilities, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements, 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 are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the Corporate Governance statement on pages 9 to 11 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules 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, including the corporate governance statement and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2002 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche
Chartered Accountants and Registered Auditors
Hill House
1 Little New Street
London
EC4A 3TR

14 May 2002

Consolidated profit and loss account

For the year ended 31 March 2002

	Notes	**Before goodwill and exceptional items 2002 £m**	**Goodwill and exceptional items 2002 £m**	**Total 2002 £m**	Before goodwill and exceptional items 2001 Restated £m	Goodwill and exceptional items 2001 Restated £m	Total 2001 Restated £m
Turnover							
Continuing operations		**2,159.4**	**–**	**2,159.4**	2,019.1	–	2,019.1
Acquisitions		**4.7**	**–**	**4.7**	–	–	–
		2,164.1	**–**	**2,164.1**	2,019.1	–	2,019.1
Discontinued operations		**–**	**–**	**–**	34.9	–	34.9
Group turnover	2	**2,164.1**	**–**	**2,164.1**	2,054.0	–	2,054.0
Share of turnover of joint ventures		**0.1**	**–**	**0.1**	2.1	–	2.1
Total turnover		**2,164.2**	**–**	**2,164.2**	2,056.1	–	2,056.1
Operating profit							
Continuing operations		**214.2**	**(46.1)**	**168.1**	202.8	(79.4)	123.4
Acquisitions		**0.8**	**(0.1)**	**0.7**	–	–	–
		215.0	**(46.2)**	**168.8**	202.8	(79.4)	123.4
Discontinued operations		**–**	**–**	**–**	11.5	–	11.5
Group operating profit	2	**215.0**	**(46.2)**	**168.8**	214.3	(79.4)	134.9
Group operating profit before goodwill and exceptional costs		**219.2**	**–**	**219.2**	218.5	–	218.5
FNW franchise amendment	4	**–**	**–**	**–**	–	(39.9)	(39.9)
Other exceptional costs	4	**–**	**(18.9)**	**(18.9)**	–	(13.6)	(13.6)
Goodwill amortisation	2	**–**	**(27.3)**	**(27.3)**	–	(25.9)	(25.9)
Employees' profit sharing scheme	2	**(4.2)**	**–**	**(4.2)**	(4.2)	–	(4.2)
Group operating profit	2	**215.0**	**(46.2)**	**168.8**	214.3	(79.4)	134.9
Share of operating losses of joint ventures		**(1.6)**	**–**	**(1.6)**	(0.8)	–	(0.8)
Share of operating losses of associate		**(0.4)**	**–**	**(0.4)**	(0.2)	–	(0.2)
Amortisation of goodwill on associate		**–**	**(1.4)**	**(1.4)**	–	(1.8)	(1.8)
Amortisation of goodwill on joint ventures		**–**	**(0.6)**	**(0.6)**	–	(0.1)	(0.1)
Total operating profit		**213.0**	**(48.2)**	**164.8**	213.3	(81.3)	132.0
Profit on disposal of businesses – discontinued operations	6	**–**	**–**	**–**	–	69.4	69.4
Profit/(loss) on disposal of fixed assets – continuing operations		**–**	**1.0**	**1.0**	–	(0.1)	(0.1)
Profit on ordinary activities before interest	2	**213.0**	**(47.2)**	**165.8**	213.3	(12.0)	201.3
Net interest payable and similar charges	7	**(56.3)**	**–**	**(56.3)**	(64.5)	–	(64.5)
Profit on ordinary activities before taxation	8	**156.7**	**(47.2)**	**109.5**	148.8	(12.0)	136.8
Tax on profit on ordinary activities	9	**(48.1)**	**14.2**	**(33.9)**	(46.0)	(9.2)	(55.2)
Profit on ordinary activities after taxation		**108.6**	**(33.0)**	**75.6**	102.8	(21.2)	81.6
Equity minority interests		**(0.1)**	**–**	**(0.1)**	(3.9)	–	(3.9)
Profit for the financial year		**108.5**	**(33.0)**	**75.5**	98.9	(21.2)	77.7
Equity dividends paid and proposed	10	**(43.1)**	**–**	**(43.1)**	(38.8)	–	(38.8)
Retained profit for the financial year	24	**65.4**	**(33.0)**	**32.4**	60.1	(21.2)	38.9

		Adjusted		**Actual**	Adjusted		Actual
Basic earnings per share	11	**25.8p**		**18.0p**	23.4p		18.4p
Cash earnings per share	11	**48.5p**		**–**	44.1p		–
Diluted earnings per share		**–**		**17.9p**	–		18.3p

Consolidated balance sheets

At 31 March 2002

	Notes	Group 2002 £m	Group 2001 Restated £m	Company 2002 £m	Company 2001 £m
Assets employed:					
Fixed assets					
Intangible assets	12	**547.0**	573.6	**–**	–
Tangible assets	13	**797.5**	742.0	**–**	–
Investments					
– Joint ventures		**–**	–	**–**	5.4
– Goodwill		**–**	2.6	**–**	–
– Share of gross assets		**–**	35.1	**–**	–
– Share of gross liabilities		**–**	(34.3)	**–**	–
– Shareholder loans		**–**	1.1	**–**	–
		–	4.5	**–**	5.4
– Other		**1.5**	7.6	**1,660.3**	1,411.4
	14	**1.5**	12.1	**1,660.3**	1,416.8
		1,346.0	1,327.7	**1,660.3**	1,416.8
Current assets					
Stocks	15	**25.0**	23.5	**–**	–
Debtors	16	**285.9**	279.3	**909.9**	1,138.2
Investments	17	**60.4**	11.8	**5.3**	0.2
Cash at bank and in hand	18	**41.0**	66.6	**1.4**	19.0
		412.3	381.2	**916.6**	1,157.4
Creditors: amounts falling due within one year	19	**(537.4)**	(591.8)	**(849.6)**	(910.1)
Net current (liabilities)/assets					
Due within one year		**(155.1)**	(237.2)	**66.9**	246.9
Amounts due after more than one year	16	**30.0**	26.6	**0.1**	0.4
Net current (liabilities)/assets		**(125.1)**	(210.6)	**67.0**	247.3
Total assets less current liabilities		**1,220.9**	1,117.1	**1,727.3**	1,664.1
Creditors: amounts falling due after more than one year	19	**(687.9)**	(622.6)	**(611.6)**	(484.9)
Provisions for liabilities and charges	21	**(110.7)**	(93.8)	**–**	–
		422.3	400.7	**1,115.7**	1,179.2
Financed by:					
Capital and reserves					
Called up share capital	23	**21.0**	21.1	**21.0**	21.1
Share premium account	24	**236.7**	236.7	**236.7**	236.7
Revaluation reserve	24	**3.6**	3.6	**–**	–
Other reserves	24	**3.5**	3.4	**261.0**	260.9
Profit and loss account	24	**156.5**	135.0	**597.0**	660.5
Equity shareholders' funds		**421.3**	399.8	**1,115.7**	1,179.2
Equity minority interests		**1.0**	0.9	**–**	–
		422.3	400.7	**1,115.7**	1,179.2

These financial statements were approved by the Board of Directors on 14 May 2002 and were signed on its behalf by:

Moir Lockhead Director

Iain M Lanaghan Director

Consolidated cash flow statement

For the year ended 31 March 2002

	Notes	2002 £m	2001 £m
Net cash inflow from operating activities	25(a)	**310.3**	261.8
Returns on investments and servicing of finance	25(b)	**(65.8)**	(54.6)
Taxation			
Corporation tax paid		**(37.6)**	(20.3)
Capital expenditure and financial investment	25(c)	**(140.3)**	(50.4)
Acquisitions and disposals	25(d)	**(14.0)**	151.2
Equity dividends paid		**(40.7)**	(36.9)
Cash inflow before use of liquid resources and financing		**11.9**	250.8
Management of liquid resources			
Increase in bank deposits		**(48.6)**	(0.6)
Financing	25(e)	**13.8**	(227.5)
(Decrease)/increase in cash in year		**(22.9)**	22.7

Reconciliation of net cash flows to movements in net debt

For the year ended 31 March 2002

	Notes	2002 £m	2001 £m
(Decrease)/increase in cash in year		**(22.9)**	22.7
Cash (inflow)/outflow from (increase)/decrease in debt and hire purchase contract and finance lease financing		**(21.5)**	199.8
Movement in current asset investments		**48.6**	(37.0)
Debt and hire purchase contracts and finance leases acquired with subsidiary undertakings and businesses		**–**	(2.2)
Inception of hire purchase contracts and finance leases		**–**	(42.5)
Fees on issue of Bond		**5.2**	–
Amortisation of debt issuance fees		**(1.1)**	(0.4)
Foreign exchange difference		**(0.1)**	(21.3)
Movement in net debt in year		**8.2**	119.1
Net debt at beginning of year	26	**(660.7)**	(779.8)
Net debt at end of year	26	**(652.5)**	(660.7)

Consolidated statement of total recognised gains and losses

For the year ended 31 March 2002

	Group		Company	
	2002	2001 Restated	**2002**	2001 Restated
	£m	£m	**£m**	£m
Profit for the year attributable to shareholders	**75.5**	77.7	**(13.1)**	578.9
Foreign exchange differences	**(3.2)**	60.0	**0.5**	31.1
Tax on foreign exchange	–	–	**(0.1)**	(9.4)
Total recognised gains and losses	**72.3**	137.7	**(12.7)**	600.6
Prior period adjustment on adoption of FRS 19	**(58.8)**			
Total recognised gains and losses since the last annual report	**13.5**			

Reconciliation of movements in shareholders' funds

For the year ended 31 March 2002

	Group		Company	
	2002	2001 Restated	**2002**	2001 Restated
	£m	£m	**£m**	£m
Profit for the financial year	**75.5**	77.7	**(13.1)**	578.9
Dividends	**(43.1)**	(38.8)	**(43.1)**	(38.8)
	32.4	38.9	**(56.2)**	540.1
Shares issued:				
– to QUEST	**–**	2.6	**–**	2.6
– in respect of exercise of savings related and executive share options	**–**	0.5	**–**	0.5
Own shares purchased and cancelled	**(7.7)**	(31.1)	**(7.7)**	(31.1)
Write down of own shares held by QUEST	**–**	(1.5)	**–**	–
Goodwill written back on disposal of businesses	**–**	39.8	**–**	–
Foreign exchange differences	**(3.2)**	60.0	**0.5**	31.1
Tax on foreign exchange	**–**	–	**(0.1)**	(9.4)
Net addition to/(deduction from) shareholders' funds	**21.5**	109.2	**(63.5)**	533.8
Shareholders' funds at beginning of year	**399.8**	290.6	**1,179.2**	645.4
Shareholders' funds at end of year	**421.3**	399.8	**1,115.7**	1,179.2

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

Notes to the financial statements

1 Principal accounting policies

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

(a) Basis of preparation

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of land and buildings, and in accordance with applicable accounting standards.

(b) Basis of consolidation

The consolidated financial statements incorporate the accounts of the Company and all of its subsidiary undertakings; all accounts are made up to 31 March 2002.

The results of subsidiary undertakings are included in the financial statements under the principles of FRS 6 (merger or acquisition accounting as appropriate) from the date control passes.

Undertakings, other than subsidiary undertakings, in which the Group has an investment, held for the long term, over which it exercises significant influence are treated as associates. Undertakings in which the Group has an investment that is held for the long term and which are jointly controlled by the Group and one or more other venturers under a contractual arrangement are treated as joint ventures. The Group's share of profits and losses of associates and joint ventures are included in the consolidated profit and loss account, and the Group's share of their net assets is included in the consolidated balance sheet, based on the latest available accounts for these undertakings.

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

In the accounts of the Company, investments in subsidiary and associated undertakings are stated at cost less amounts written off. Dividends received and receivable are credited to the profit and loss account to the extent that they represent a realised profit for the Company.

(c) Goodwill

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

Where capitalised goodwill is regarded as having a limited useful economic life, it is amortised over that life. 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 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 re-instated on the balance sheet. On disposal of the businesses concerned this goodwill is included in determining the gain or loss on disposal in the profit and loss account.

(d) Turnover

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

(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

1 Principal accounting policies continued

Passenger carrying vehicles	– 7 to 15 years straight line
Other plant and equipment	– 3 to 25 years straight line

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

Surpluses or deficits arising on the revaluation of tangible fixed assets are credited or debited to a revaluation reserve. On a subsequent disposal of a revalued asset, the revaluation surplus or deficit relating to this asset is transferred to the profit and loss account reserve.

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

(f) Hire purchase contracts and leases

Assets held under hire purchase contracts and under finance leases, which are those leases where substantially all the risks and rewards of ownership of the asset have passed to the Group are recorded in the balance sheet as tangible fixed assets. Depreciation is provided on these assets over their estimated useful lives or lease term, as appropriate.

Future obligations under hire purchase contracts and finance leases are included in creditors, net of finance charges. Payments are apportioned between the finance element, which is charged to the profit and loss account as interest, and the capital element, which reduces the outstanding obligations. The finance charges are calculated in relation to the reducing amount of obligations outstanding and are charged to the profit and loss account on the same basis.

All other leases are operating leases and the rental charges are taken to the profit and loss account on a straight line basis over the life of the lease.

(g) Government grants and subsidies

Rail support grants and amounts receivable for tendered services and concessionary fare schemes are included in turnover.

(h) Stocks and work in progress

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

(i) 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. Under FRS 19, 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.

The Group has adopted FRS 19, which has involved moving from a partial provision basis for deferred tax to a full provision basis, and prior year comparatives have been restated to reflect this change. The restatement of the tax charge has resulted in an increase of £13.2m for the year to 31 March 2001. The restatement of the deferred tax provision at 31 March 2001 has resulted in an increase of £58.8m to £71.1m and a reduction in equity shareholders' funds of £58.8m to £399.8m.

(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.

(l) Financial instruments

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

2 Profit and loss account analysis and segmental information

	Continuing operations £m	Acquisitions £m	Total 2002 £m	Continuing operations £m	Discontinued operations £m	Total 2001 £m
Group turnover	**2,159.4**	**4.7**	**2,164.1**	2,019.1	34.9	2,054.0
Group operating costs						
– General	**(1,941.0)**	**(3.9)**	**(1,944.9)**	(1,812.1)	(23.4)	(1,835.5)
– Goodwill amortisation	**(27.2)**	**(0.1)**	**(27.3)**	(25.9)	–	(25.9)
– Exceptional costs (note 4)	**(18.9)**	**–**	**(18.9)**	(53.5)	–	(53.5)
– Employees' profit sharing scheme	**(4.2)**	**–**	**(4.2)**	(4.2)	–	(4.2)
Total Group operating costs (note 3)	**(1,991.3)**	**(4.0)**	**(1,995.3)**	(1,895.7)	(23.4)	(1,919.1)
Group operating profit	**168.1**	**0.7**	**168.8**	123.4	11.5	134.9

The discontinued operation in 2001 was Bristol International Airport.

	Turnover		Profit before interest		Net assets/(liabilities)	
Segmental information is as follows:	**2002 £m**	2001 £m	**2002 £m**	2001 £m	**2002 £m**	2001 Restated £m
UK Bus	**811.5**	788.6	**102.9**	95.8	**237.4**	146.2
UK Rail	**802.9**	761.2	**66.5**	16.2	**4.3**	(80.2)
North America	**542.9**	462.7	**27.3**	25.7	**521.9**	305.4
Airport	**–**	34.9	**–**	11.5	**–**	–
Group items	**6.8**	6.6	**(30.9)**	52.1	**(342.3)**	28.4
	2,164.1	2,054.0	**165.8**	201.3	**421.3**	399.8

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 2002 £m	Continuing operations £m	Discontinued operations £m	Total 2001 £m
Materials and consumables	**232.7**	**0.3**	**233.0**	234.9	1.1	236.0
Staff costs (note 5)	**942.5**	**2.5**	**945.0**	854.8	5.4	860.2
External charges	**682.2**	**0.7**	**686.9**	688.8	14.8	703.6
Depreciation, amortisation and other amounts written off fixed assets	**129.9**	**0.5**	**130.4**	117.2	2.1	119.3
	1,991.3	**4.0**	**1,995.3**	1,895.7	23.4	1,919.1

4 Exceptional costs

	UK Bus 2002 £m	UK Rail 2002 £m	North America 2002 £m	Other 2002 £m	Total 2002 £m	Total 2001 £m
FNW franchise amendment	**–**	**–**	**–**	**–**	**–**	39.9
Restructuring costs	**0.3**	**–**	**5.3**	**1.8**	**7.4**	5.6
St Louis strike	**–**	**–**	**1.5**	**–**	**1.5**	–
Provision against cost of investment in joint ventures	**–**	**–**	**–**	**8.0**	**8.0**	–
Transition costs	**–**	**–**	**–**	**–**	**–**	2.3
New train commissioning costs	**–**	**–**	**–**	**–**	**–**	2.5
Abortive bid costs	**–**	**2.0**	**–**	**–**	**2.0**	1.3
Tram start up costs	**–**	**–**	**–**	**–**	**–**	1.0
Other	**–**	**–**	**–**	**–**	**–**	0.9
	0.3	**2.0**	**6.8**	**9.8**	**18.9**	53.5

During the year cash payments of £48.5m (2001: £14.5m) were made in respect of restructuring and other exceptional costs. This included the payment of £37.0m made on 2 April 2001 in connection with the First North Western franchise amendment.

The tax effect in 2002 was a credit of £5.2m. No tax relief was accrued in 2001 on the cost of the First North Western franchise amendment. The tax effect of the other exceptional costs in 2001 was a credit of £3.9m.

5 Employees' and Directors' remuneration

The average number of persons employed by the Group (including Directors) during the year was as follows:	2002 No.	2001 No.
Operational	**51,272**	49,214
Administration	**4,566**	2,770
	55,838	51,984

The aggregate payroll costs of these persons were as follows:	2002 £m	2001 £m
Wages and salaries	**866.5**	785.9
Social security costs	**59.0**	55.0
Other pension costs	**19.5**	19.3
	945.0	860.2

Disclosure 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 in the Remuneration Report on pages 12 to 16 and form part of these audited financial statements.

6 Profit on disposal of businesses

	2002 £m	2001 £m
Bristol International Airport	**–**	55.6
New World First Holdings	**–**	13.8
	–	69.4

On 24 January 2001, the Group sold its 51% interest in Bristol International Airport plc for cash proceeds of £107.1m plus repayment of loans. On 15 May 2000, the Group sold its 26% interest in New World First Holdings Ltd for cash proceeds of HK$457m (£38.7m). The tax effect of these disposals in 2001 was a charge of £21.8m.

7 Net interest payable and similar charges

	2002 £m	2001 £m
Bank loans and overdrafts	**43.8**	49.4
Other loans	**2.1**	2.9
Finance charges payable in respect of hire purchase contracts and finance leases	**11.0**	14.8
	56.9	67.1
Income from short-term deposits and other investments	**(2.8)**	(4.4)
Notional interest on provisions	**2.2**	0.6
	56.3	63.3
Share of interest payable of joint ventures	**–**	1.2
Total	**56.3**	64.5

8 Profit on ordinary activities before taxation

Group profit on ordinary activities before taxation is stated after charging/(crediting) the following:	2002 £m	2001 £m
Depreciation and other amounts written off tangible fixed assets	**95.1**	93.4
Goodwill amortisation	**27.3**	25.9
Rentals payable under operating leases – plant and machinery	**9.1**	5.4
– track and station access	**268.3**	282.6
– hire of rolling stock	**127.8**	128.7
– other assets	**9.6**	8.0
Net rents receivable from property	**(0.3)**	(0.3)
Deloitte & Touche audit fee	**0.4**	0.4
Deloitte & Touche and associates' non-audit fees	**0.3**	0.8

The Company's audit fee amounted to £0.1m (2001: £0.1m).

Notes to the financial statements

9 Tax on profit on ordinary activities	2002 £m	2001 £m
Current taxation		
– UK corporation tax charge for the year	**25.9**	42.3
– Adjustment in respect of prior years	**(0.5)**	(0.5)
– Recoverable ACT previously written off	**(1.1)**	–
	24.3	41.8
Overseas taxation charge		
– Current year	**1.0**	0.9
– Prior years	**0.3**	0.2
	1.3	1.1
Total current taxation	**25.6**	42.9
Deferred taxation		
– Origination and reversal of timing differences	**9.1**	14.1
– Adjustment in respect of prior years	**(0.8)**	(1.8)
	8.3	12.3
Tax on profit on ordinary activities	**33.9**	55.2

The adoption of FRS 19 has required a change in the method of accounting for deferred taxation. As a result the comparative figure for the taxation on profit on ordinary activities for 2001 has been restated from the previously reported amount of £42.0m to £55.2m. The impact of adopting FRS 19 on the 2002 results is an increase in the taxation charge of £3.3m.

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

	2002 %	2001 %
Standard rate of taxation	**30.0**	30.0
Factors affecting charge		
– Disallowable expenses	**2.0**	2.8
– Capital allowances in excess of depreciation	**(20.7)**	(14.0)
– Other timing differences	**(4.8)**	(9.5)
– Share of operating losses of associates and joint ventures	**0.5**	0.2
– Provision against cost of investment in joint ventures	**2.2**	–
– Foreign tax charged at different rates	**2.4**	1.4
– Utilisation of tax losses brought forward	**(1.2)**	(0.8)
– Unrelieved tax losses carried forward	**14.2**	12.6
– FNW franchise amendment	**–**	8.8
– Prior years' tax charge	**(0.2)**	(0.1)
– Recoverable ACT previously written off	**(1.0)**	–
Current taxation rate for year	**23.4**	31.4

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 £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.

In the overseas subsidiaries the potential deferred tax assets exceed the deferred tax liabilities. There is no recognition of the deferred tax asset in relation to the excess on the grounds that there is insufficient evidence to determine that it is recoverable. The total amount of deferred tax assets that are not recognised in the financial statements amounts to £3.9m.

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.

10 Equity dividends

	2002 £m	2001 £m
Ordinary shares of 5p each		
– Interim paid (3.3p (2001: 3.0p) per share)	**13.9**	12.6
– Final proposed (7.0p (2001: 6.4p) per share)	**29.3**	26.9
– Adjustment to prior year dividend in respect of shares cancelled	**(0.1)**	(0.7)
	43.1	38.8

11 Earnings per share

Basic earnings per share is based on earnings of £75.5m (2001: £77.7m) and on the weighted average number of ordinary shares of 419.8m (2001: 422.2m) in issue. Diluted earnings per share is based on the same earnings and on the weighted average number of ordinary shares of 421.4m (2001: 424.6m).

A reconciliation of the number of shares used in the basic and diluted measures is set out below:	2002 Number (m)	2001 Number (m)
Weighted average number of shares used in basic calculation	**419.8**	422.2
SAYE share options	**1.0**	1.9
Executive share options	**0.3**	0.4
Long-term incentive plan awards	**0.3**	0.1
	421.4	424.6

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. 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:

	2002 £m	2002 Earnings per share (p)	2001 £m	2001 Earnings per share (p) Restated
Profit for basic earnings per share calculation	**75.5**	**18.0**	77.7	18.4
Goodwill amortisation	**29.3**	**7.0**	27.8	6.6
Taxation effect of this adjustment	**(9.0)**	**(2.2)**	(8.7)	(2.0)
FNW franchise amendment	**–**	**–**	39.9	9.4
Restructuring and other exceptional costs	**18.9**	**4.5**	13.6	3.2
Taxation effect of this adjustment	**(5.2)**	**(1.2)**	(3.9)	(0.9)
Profit on disposal of businesses	**–**	**–**	(69.4)	(16.4)
Taxation effect of this adjustment	**–**	**–**	21.8	5.1
(Profit)/loss on disposal of fixed assets	**(1.0)**	**(0.3)**	0.1	–
Profit for adjusted basic earnings per share calculation	**108.5**	**25.8**	98.9	23.4
Depreciation	**95.1**	**22.7**	88.4	20.9
Minority interests in this adjustment	**–**	**–**	(1.0)	(0.2)
Profit for adjusted cash earnings per share calculation	**203.6**	**48.5**	186.3	44.1

Notes to the financial statements

12 Intangible fixed assets

Group	Goodwill £m
Cost	
At beginning of year	615.4
Additions (note 28)	4.2
Exchange rate differences	(3.6)
At end of year	**616.0**
Amortisation	
At beginning of year	41.8
Charge for the year	27.3
Exchange rate differences	(0.1)
At end of year	**69.0**
Net book value	
At 31 March 2002	**547.0**
At 31 March 2001	573.6

13 Tangible fixed assets

Group	Land and buildings £m	Passenger carrying vehicle fleet £m	Other plant and equipment £m	Total £m
Cost or valuation				
At beginning of year	116.7	1,036.2	119.0	1,271.9
Subsidiary undertakings acquired	–	6.9	–	6.9
Additions	10.6	118.4	24.4	153.4
Disposals	(1.9)	(34.2)	(7.2)	(43.3)
Exchange rate differences	(0.6)	(1.3)	0.4	(1.5)
At end of year	**124.8**	**1,126.0**	**136.6**	**1,387.4**
Depreciation				
At beginning of year	15.8	441.6	72.5	529.9
Subsidiary undertakings acquired	–	3.3	–	3.3
Charge for the year	3.0	79.5	12.6	95.1
Disposals	(0.2)	(32.6)	(4.8)	(37.6)
Exchange rate differences	–	(0.7)	(0.1)	(0.8)
At end of year	**18.6**	**491.1**	**80.2**	**589.9**
Net book value				
At 31 March 2002	**106.2**	**634.9**	**56.4**	**797.5**
At 31 March 2001	100.9	594.6	46.5	742.0

The net book value of land and buildings comprises:	**2002 £m**	2001 £m
Freehold	**90.4**	85.2
Long leasehold	**10.6**	11.2
Short leasehold	**5.2**	4.5
	106.2	100.9

Depreciation is not provided on the land element of freehold and long leasehold property which amounts to £31.7m (2001: £33.0m).

13 Tangible fixed assets continued

The assets which have been revalued comprise the following land and buildings:	**2002 £m**	2001 £m
At 1993 professional valuations	**14.9**	15.5
Aggregate depreciation thereon	**(1.3)**	(1.2)
Net book value	**13.6**	14.3
Historical cost of revalued assets	**13.1**	13.6
Aggregate depreciation based on historical cost	**(3.1)**	(2.9)
Historical net book value	**10.0**	10.7

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

No provision is made for tax of £2.0m (2001: £2.4m) which would arise on disposal of revalued properties. The Group does not intend to dispose of these properties without re-investment of the sale proceeds.

£247.0m (2001: £297.4m) 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 £28.9m (2001: £32.2m).

14 Fixed asset investments

Group	Joint ventures £m	Associates £m	Other investments £m	Own shares £m	Total £m
Cost					
At beginning of year	5.5	7.9	–	2.3	15.7
Additions	2.7	–	–	–	2.7
Share of results	(1.6)	(0.4)	–	–	(2.0)
Disposals	(1.7)	–	–	–	(1.7)
Reclassification as subsidiary undertaking	(4.4)	–	–	–	(4.4)
Reclassification as investment	(0.5)	–	0.5	–	–
At end of year	**–**	**7.5**	**0.5**	**2.3**	**10.3**
Provision					
At beginning of year	(1.0)	(1.8)	–	(0.8)	(3.6)
Goodwill amortisation	(0.6)	(1.4)	–	–	(2.0)
Other charges	(3.7)	(4.3)	–	–	(8.0)
Reclassification as subsidiary undertaking	4.4	–	–	–	4.4
Reclassification as investment	0.5	–	(0.5)	–	–
Release of provision	0.4	–	–	–	0.4
At end of year	**–**	**(7.5)**	**(0.5)**	**(0.8)**	**(8.8)**
Total					
At 31 March 2002	**–**	**–**	**–**	**1.5**	**1.5**
At 31 March 2001	4.5	6.1	–	1.5	12.1

Included in the net book value of associates is goodwill of £nil (2001: £5.3m).

Notes to the financial statements

14 Fixed asset investments continued

Company	Unlisted subsidiary undertakings £m	Joint ventures £m	Associates £m	Own shares £m	Total £m
Shares					
Cost					
At beginning of year	1,401.8	5.4	8.1	2.3	1,417.6
Additions	257.0	1.7	–	–	258.7
Disposals	–	(1.7)	–	–	(1.7)
Reclassification as subsidiary undertaking	5.4	(5.4)	–	–	–
At end of year	**1,664.2**	**–**	**8.1**	**2.3**	**1,674.6**
Provision					
At beginning of year	–	–	–	(0.8)	(0.8)
Provided during year	–	(5.4)	(8.1)	–	(13.5)
Reclassification as subsidiary undertaking	(5.4)	5.4	–	–	–
At end of year	**(5.4)**	**–**	**(8.1)**	**(0.8)**	**(14.3)**
Total					
At 31 March 2002	**1,658.8**	**–**	**–**	**1.5**	**1,660.3**
At 31 March 2001	1,401.8	5.4	8.1	1.5	1,416.8

Subsidiary undertakings

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

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

North America school bus operators
Bruce Transportation Group, Inc.†
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.

14 Fixed asset investments continued

Joint ventures

Our joint venture totaljourney.com ceased operating during the year after the Office of the Rail Regulator ruled that the totaljourney web site could not have an exclusive link to the Railtrack National Enquiries web site, which had been a fundamental commercial requirement of the joint venture. As part of the settlement with Railtrack, the Group received £1.7m in full and final compensation for losses incurred in this abortive joint venture.

The unamortised investment in totaljourney.com was fully provided on cessation of trade. As part of the settlement with Railtrack we also received the other 50% of shares in the company and accordingly both historical cost and amounts provided have been reclassified to subsidiary undertakings.

During the year the Group also entered into a conditional sale agreement disposing of our interest in Tramtrack Croydon Limited (TCL). As a result the Group no longer has significant influence over TCL and it has been reclassified from a joint venture to an investment.

Associate

The interest in associates at the end of the year includes a 20% interest in the ordinary share capital of Prepayment Cards Limited (PCL), which is incorporated in Great Britain and registered in England and Wales.

After the year-end our shareholding in PCL was diluted to approximately 6%. As a result of this and our doubts over the recoverability of our investment, the Group has fully provided for the unamortised cost of this investment during the year to 31 March 2002.

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:

	2002		2001	
	Number (m)	**£m**	Number (m)	£m
Own shares held by trustees	**6.8**	**20.6**	7.4	22.6
Own shares vested unconditionally	**(5.8)**	**(17.5)**	(6.3)	(19.4)
	1.0	**3.1**	1.1	3.2

The own shares held by the Group at the end of the year were 1,010,837 (2001: 1,060,539) FirstGroup plc ordinary shares of 5p each. Of these, 567,450 (2001: 567,450) were held by the FirstGroup plc Employee Benefit Trust and 443,387 (2001: 493,089) 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 2002 was £3.1m (2001: £3.2m).

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

No further distributions will be made by the Group to the ESOP after the distribution in respect of the 2001/02 financial year.

15 Stocks

	Group	
	2002 £m	2001 £m
Spare parts and consumables	**23.1**	21.0
Property development work in progress	**1.9**	2.5
	25.0	23.5

Notes to the financial statements

16 Debtors	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Amounts due within one year				
Trade debtors	**177.9**	176.1	**–**	–
Amounts due from subsidiary undertakings	**–**	–	**900.6**	582.3
Corporation tax recoverable	**–**	–	**8.7**	–
Dividends receivable from subsidiary undertakings	**–**	–	**–**	554.2
Other debtors	**19.1**	26.9	**–**	–
Deposit paid for rolling stock	**16.7**	23.4	**–**	–
Pension fund prepayments	**5.7**	3.2	**–**	–
Other prepayments and accrued income	**36.5**	23.1	**0.2**	0.2
Deferred taxation	**–**	–	**0.3**	1.1
	255.9	252.7	**909.8**	1,137.8
Amounts due after more than one year				
Pension fund prepayments	**28.3**	25.0	**–**	–
Other prepayments and accrued income	**1.7**	1.6	**0.1**	0.4
	30.0	26.6	**0.1**	0.4
	285.9	279.3	**909.9**	1,138.2

17 Current asset investments	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Bank deposits	**60.4**	11.8	**5.3**	0.2

18 Cash at bank and in hand	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Ring fenced cash	**36.2**	50.2	**–**	–
Other cash	**4.8**	16.4	**1.4**	19.0
	41.0	66.6	**1.4**	19.0

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

19 Creditors	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Amounts falling due within one year				
Bank loans and overdrafts	**7.5**	41.1	**91.6**	53.5
Obligations under hire purchase contracts and finance leases	**57.3**	65.2	**–**	–
Loan notes	**1.2**	10.2	**–**	10.0
Trade creditors	**122.8**	113.1	**–**	–
Amounts due to subsidiary undertakings	**–**	–	**719.9**	775.8
Corporation tax	**23.8**	36.0	**–**	11.8
Other tax and social security	**16.4**	15.6	**–**	–
Other creditors	**21.9**	21.9	**0.8**	5.3
Pension fund creditors	**8.5**	7.8	**–**	–
Accruals and deferred income	**210.2**	178.8	**7.9**	26.7
FNW franchise amendment accrual	**–**	37.0	**–**	–
Season ticket deferred income	**38.4**	38.1	**–**	–
Proposed dividends	**29.4**	27.0	**29.4**	27.0
	537.4	591.8	**849.6**	910.1

19 **Creditors** continued	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £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**	60.9	**24.2**	60.9
Due in more than two years but not more than five years	**283.4**	414.8	**283.4**	414.8
Obligations under hire purchase contracts and finance leases				
Due in more than one year but not more than two years	**34.3**	58.7	**–**	–
Due in more than two years but not more than five years	**27.6**	61.8	**–**	–
Due in more than five years	**0.4**	0.7	**–**	–
Loan notes				
Due in more than one year but not more than two years	**23.2**	25.5	**9.2**	9.2
Due in more than two years but not more than five years	**–**	0.2	**–**	–
£300.0m Bond – 6.875% 2013	**294.8**	–	**294.8**	–
	687.9	622.6	**611.6**	484.9

Bond

The Bond is repayable in March 2013 and is shown net of £5.2m of issue-related costs which are being amortised over the term of the Bond. The Bonds were issued by the Company during the year and certain of its subsidiaries issued guarantees to the Company's Bondholders. These guarantees rank pari passu with guarantees provided by those subsidiaries to the Group's other major lenders.

Bank loans and overdrafts

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

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

	2002 £m	2001 £m
Facilities maturing:		
Within one year	**87.5**	64.1
Between one and two years	**30.8**	42.1
More than two years	**131.6**	202.4
	249.9	308.6

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 four and twelve years.

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 £21.7m (2001: £32.0m) are backed by guarantees provided under the banking facilities.

20 Financial assets and liabilities

Foreign currencies

At 31 March 2002, the Group's profit and loss account was not exposed to material exchange rate risk from monetary assets and liabilities denominated in foreign currencies as all material balances are used to hedge the Group's overseas net assets.

Interest rates

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

	Total financial liabilities £m	Floating rate £m	Fixed rate £m	Fixed rate liabilities: Weighted average interest rate %	Fixed rate liabilities: Weighted average period Years
At 31 March 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**		
At 31 March 2001					
Sterling	547.6	119.0	428.6	6.93	3.7
US dollars	183.6	–	183.6	6.28	3.7
Canadian dollars	7.9	7.9	–	–	–
	739.1	126.9	612.2		

The weighted average interest rate of 8.03% on fixed rate liabilities includes the cost of the Group's interest rate hedging programme which accounts for 1%. The weighted average period of 10.2 years on fixed rate liabilities includes the period covered by derivatives adopted by the Group's interest rate hedging programme which accounts for 1.1 years.

Floating rate bank loans and overdrafts bear interest at between 0.20% and 0.875% above either LIBOR or, for foreign currency loans, the relevant inter-bank rate. Floating rate hire purchase contracts and finance leases are on normal commercial terms at negotiated rates, generally relative to LIBOR. Loan notes bear interest at between 0.75% below and 1% above various LIBOR term or bank base rates with £8.8m at a minimum of 11% (which have been treated as fixed rate liability). Bond interest is fixed over the term of the Bond (11 years) at 6.875%. This has had the effect of increasing both the weighted average interest rate and the weighted average period.

Financial assets, which consist wholly of cash on deposit and in hand of £101.4m (2001: £78.4m), are all denominated in sterling except £6.1m (2001: £0.1m) in US dollars and £0.6m (2001: £0.2m) in Canadian dollars, and are at normal commercial interest rates.

Fair values

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

	2002 Book value £m	**2002** Fair value £m	2001 Book value £m	2001 Fair value £m
Bank deposits	**60.4**	**60.4**	11.8	11.8
Cash at bank and in hand	**41.0**	**41.0**	66.6	66.6
Bank loans and overdrafts	**(315.1)**	**(315.1)**	(516.8)	(516.8)
Obligations under hire purchase contracts and finance leases	**(119.6)**	**(121.7)**	(186.4)	(189.6)
Loan notes	**(24.4)**	**(29.3)**	(35.9)	(41.6)
Interest rate swaps	**–**	**(19.3)**	–	(17.6)
£300.0m Bond – 6.875% 2013	**(294.8)**	**(299.3)**	–	–
	(652.5)	**(683.3)**	(660.7)	(687.2)

The book value of the Bond is stated at its par value of £300.0m less issue costs of £5.2m as required under FRS 4.

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

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

20 **Financial assets and liabilities** continued	Net unrecognised gains/(losses) 2002 £m	2001 £m
At beginning of year	**(26.5)**	1.4
Arising in previous years but recognised in the year	**8.0**	(2.1)
Arising before beginning of year and remaining at the end of the year	**(18.5)**	(0.7)
Arising in the year	**(12.3)**	(25.8)
At end of year	**(30.8)**	(26.5)

It is expected that £8.9m of the unrecognised losses (2001: £8.0m losses) will be recognised in the following year as part of the interest charge.

Further information on financial instruments is given in the Financial Review on pages 6 to 8.

21 Provisions for liabilities and charges

Group	Deferred tax £m	Insurance claims £m	Pensions £m	Total £m
At 31 March 2001 as previously reported	12.3	16.4	6.3	35.0
Prior year adjustment	58.8	–	–	58.8
At 31 March as restated	71.1	16.4	6.3	93.8
Provided in the year	8.3	9.1	–	17.4
Recoverable ACT	0.2	–	–	0.2
Utilised in the year	–	(2.6)	(0.4)	(3.0)
Notional interest	–	1.9	0.3	2.2
Exchange rate differences	–	0.1	–	0.1
At end of year	**79.6**	**24.9**	**6.2**	**110.7**

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

22 Deferred tax

Group	2002 £m	2001 £m
Capital allowances in excess of depreciation	**101.1**	77.4
Other timing differences	**11.1**	2.3
Trading losses	**(32.6)**	(11.1)
Recoverable ACT	**–**	(0.2)
Unrealised capital gains	**–**	2.7
Deferred tax provision	**79.6**	71.1

23 Called up share capital

Group and Company	2002 £m	2001 £m
Authorised		
Ordinary shares of 5p each	**30.0**	30.0
Allotted, called up and fully paid		
Ordinary shares of 5p each	**21.0**	21.1

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	422.4	21.1
Shares cancelled	(2.6)	(0.1)
At end of year	**419.8**	**21.0**

23 Called up share capital continued

Between 3 April 2001 and 14 January 2002, 2,543,000 ordinary shares were repurchased at a total cost of £7.7m and cancelled.

During the year no ordinary shares were issued to the FirstGroup plc Qualifying Employee Share Ownership Trust (QUEST) (2001: 1.1m shares). The shares held by the Quest are held in trust and are being used to satisfy exercises of savings related share options (see note 33).

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

Scheme	Number	Consideration £000	Consideration per share (p)
Badgerline executive	13,530	16.7	123.51

Details of share options are given in note 33.

24 Reserves

Group

	Share premium account £m	Revaluation reserve £m	Profit and loss account £m
At beginning of year as previously reported	236.7	3.6	193.8
Prior year adjustment	–	–	(58.8)
At beginning of year as restated	236.7	3.6	135.0
Cancellation of shares (i)	–	–	(7.7)
Retained profit for the year	–	–	32.4
Foreign exchange differences	–	–	(3.2)
At end of year	**236.7**	**3.6**	**156.5**

	Capital redemption reserve £m	Capital reserves £m	Total other reserves £m
At beginning of year	0.7	2.7	3.4
Cancellation of shares (i)	0.1	–	0.1
At end of year	**0.8**	**2.7**	**3.5**

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 (2001: £429.6m and £4.7m).

Company

	Share premium account £m	Profit and loss account £m
At beginning of year	236.7	660.5
Cancellation of shares (i)	–	(7.7)
Retained profit for the year	–	(56.2)
Foreign exchange differences	–	0.4
At end of year	**236.7**	**597.0**

	Capital redemption Reserve £m	Capital reserves £m	Merger reserve £m	Total other reserves £m
At beginning of year	0.7	93.8	166.4	260.9
Cancellation of shares (i)	0.1	–	–	0.1
At end of year	**0.8**	**93.8**	**166.4**	**261.0**

Notes:

(i) 2,543,000 ordinary shares were repurchased at a total cost of £7.7m and cancelled.

25 Notes to the consolidated cash flow statement

	2002 £m	2001 £m
(a) Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	**168.8**	134.9
Depreciation and other amounts written off tangible fixed assets	**95.1**	93.4
Amortisation charges	**27.3**	25.9
Write down of investment in joint venture and associate	**8.0**	0.9
Profit on sale of non-property fixed assets	**(0.7)**	(1.5)
Increase in stocks	**(2.1)**	(0.3)
Increase in debtors	**(12.8)**	(22.0)
Increase in creditors and provisions	**63.7**	30.5
FNW franchise amendment payment	**(37.0)**	–
Net cash inflow from operating activities	**310.3**	261.8
(b) Returns on investments and servicing of finance		
Interest received	**2.8**	4.7
Interest paid	**(52.0)**	(43.0)
Interest element of hire purchase contract and finance lease payments	**(11.5)**	(14.9)
Fees on issue of Bond	**(5.1)**	–
Dividends paid to minority shareholders	**–**	(1.4)
Net cash outflow from returns on investments and servicing of finance	**(65.8)**	(54.6)
(c) Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(154.7)**	(108.1)
Sale of fixed asset properties	**2.1**	2.4
Sale of other tangible fixed assets	**5.7**	10.7
Deposits for rolling stock	**6.6**	7.0
Decrease in other current asset investments	**–**	37.6
Net cash outflow from capital expenditure and financial investment	**(140.3)**	(50.4)
(d) Acquisitions and disposals		
Purchase of subsidiary undertakings	**(1.0)**	(11.6)
Net cash acquired with subsidiary undertakings	**–**	1.0
Net overdraft sold on disposal of subsidiary undertaking	**–**	22.9
Purchase of businesses	**(6.1)**	(1.5)
Sale of subsidiary undertaking	**–**	106.1
Sale of investment in joint ventures	**–**	38.5
Purchase of investment in joint ventures	**(4.9)**	(4.2)
Purchase of investment in associate	**(2.0)**	–
Net cash (outflow)/inflow from acquisitions and disposals	**(14.0)**	151.2
(e) Financing		
Issue of share capital	**–**	3.4
Own shares repurchased	**(7.7)**	(31.1)
Bond	**300.0**	–
New bank loans	**77.5**	24.4
Repayment of amounts borrowed – bank loans	**(277.7)**	(137.7)
– other loans	**(11.5)**	(16.7)
Capital element of hire purchase contract and finance lease payments	**(66.8)**	(69.8)
Net cash inflow/(outflow) from financing	**13.8**	(227.5)

26 Analysis of net debt	At beginning of year £m	Cash flow £m	Other non-cash changes £m	**At end of year £m**
Current asset investments	11.8	48.6	–	**60.4**
Cash at bank and in hand	66.6	(25.6)	–	**41.0**
Bank overdrafts	(2.7)	2.7	–	**–**
Cash	63.9	(22.9)	–	**41.0**
Bank loans due within one year	(38.4)	31.9	(1.0)	**(7.5)**
Bank loans due after one year	(475.7)	168.3	(0.2)	**(307.6)**
Bond	–	(294.8)	–	**(294.8)**
Obligations under hire purchase contracts and finance leases	(186.4)	66.8	–	**(119.6)**
Loans and loan notes	(35.9)	11.5	–	**(24.4)**
Financing	(736.4)	(16.3)	(1.2)	**(753.9)**
Net debt	(660.7)	9.4	(1.2)	**(652.5)**

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

27 Major non-cash transactions
During the year the Group entered into hire purchase contracts in respect of assets with a total capital value of £nil (2001: £42.5m).

28 Summary of purchase of subsidiary undertakings and businesses	**Total 2002 £m**	Total 2001 £m
Fair value of net assets acquired:		
Tangible fixed assets	**3.6**	6.2
Other current assets	**–**	2.0
Cash at bank and in hand	**–**	1.0
Bank loans and other loans	**–**	(1.9)
Obligations under hire purchase contracts and finance leases	**–**	(0.3)
Other creditors	**(1.7)**	(3.3)
Deferred taxation	**–**	0.1
	1.9	3.8
Goodwill	**4.2**	9.6
	6.1	13.4
Satisfied by:		
Cash paid and payable	**6.1**	13.2
Other	**–**	0.2
	6.1	13.4

The subsidiary undertakings acquired during the year contributed £1.2m (2001: £2.0m) to the Group's net operating cash flows, paid £nil (2001: £0.2m) in respect of net returns on investments and servicing of finance, paid £nil (2001: £0.5m) in respect of taxation, utilised £nil (2001: £0.2m) for capital expenditure and paid £nil (2001: £1.9m) in respect of financing.

The subsidiary undertakings acquired during the year and dates of acquisition were:

Verona Bus Company	16 August 2001
O'Connor Transportation	1 October 2001
Olson Bus Service	29 November 2001
Anderson Bus Lines	4 January 2002

29 Sale of subsidiary undertaking

	Total 2002 £m	Total 2001 £m
Net assets sold:		
Goodwill	–	37.2
Tangible fixed assets	–	55.9
Other current assets	–	4.8
Bank overdrafts	–	(22.9)
Pension funds' creditors	–	(5.1)
Other creditors	–	(7.8)
Deferred taxation	–	0.5
Minority interests	–	(12.8)
	–	49.8
Profit on disposal	–	55.6
	–	105.4
Satisfied by:		
Net cash receivable	–	105.4

The subsidiary undertaking sold during 2001 (Bristol International Airport plc) contributed £9.7m to the Group's net operating cash flows, paid £2.5m in respect of net returns on investments and servicing of finance, paid £1.0m in respect of taxation, paid £6.6m for capital expenditure and repaid £21.3m of Group funding.

30 Commitments

Capital commitments

Capital commitments at the end of the year for which no provision has been made are as follows:	2002 £m	2001 £m
Contracted for but not provided		
Year to 31 March 2002	–	67.3
Year to 31 March 2003	28.3	–
	28.3	67.3

At the year end there was £nil (2001: £63.6m) remaining to pay for the GWT rolling stock on order and not yet financed via an operating lease with a rolling stock company.

Operating leases

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

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

	2002 £m	2001 £m
Operating leases which expire:		
Within one year	20.7	0.5
From one to five years	145.9	248.0
Over five years	238.3	132.9
	404.9	381.4

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

	Land and buildings 2002 £m	Other 2002 £m	Land and buildings 2001 £m	Other 2001 £m
Operating leases which expire:				
Within one year	1.6	2.3	1.4	1.5
From one to five years	5.8	10.5	5.7	3.7
Over five years	1.6	1.1	2.1	1.9
	9.0	13.9	9.2	7.1

Notes to the financial statements

31 Contingent liabilities

FirstGroup plc has performance bonds for £33.0m (2001: £33.0m) backed by an insurance arrangement which have been provided to the Director of Passenger Rail Franchising in support of the Group's franchise obligations relating to Great Eastern Railway Limited (GER), Great Western Trains Company Limited (GWT) and North Western Trains Company Limited (NWT). FirstGroup plc has provided a £9.0m (2001: £9.0m) loan facility to GER, a £15.5m (2001: £15.5m) loan facility to GWT and a £6.5m (2001: £6.5m) loan facility to NWT as required by the Director of Passenger Rail Franchising. Neither of the GER or GWT loans were drawn at 31 March 2001 or 31 March 2002, while the NWT loan was undrawn at 31 March 2002 and fully drawn at 31 March 2001.

The Company is party to the guarantees in respect of bank overdraft facilities provided to itself and the Group's subsidiary undertakings. The Company has given guarantees for the liabilities of its subsidiary undertakings arising under certain hire purchase contracts and finance leases. It also provides cross guarantees to certain subsidiary undertakings under VAT group provisions.

The Group has provided a guarantee of £4.2m to Angel Trains in respect of obligations under a Reliability Modification Contract.

During the year certain of the Company's subsidiaries issued guarantees to the Company's Bondholders. These guarantees rank pari passu with guarantees provided by those subsidiaries to the Group's other major lenders.

32 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 80% and 119%. For those schemes that do not meet the minimum funding requirement, additional payments totalling £3.5m per annum are being made. The market value of the assets at 31 March 2002 for all defined benefit schemes totalled £1,285m (2001: £1,294m).

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 £18.2m (2001: £17.6m).

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 £19.3m (2001: £14.1m) is included in the Group's consolidated balance sheet in respect of the sum of the cumulative differences between contributions paid by the Group into the schemes and the charge to the profit and loss account, and the surpluses and deficits that have been recognised on acquisition.

Defined contribution schemes

In addition, the Group operates some defined contribution schemes, the assets of which are held in separately administered trusts. The cost of these in the year was £1.3m (2001: £1.7m).

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

32 Pension schemes continued

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:

Rate of increase in salaries	4.0%
Rate of increase of pensions in payment*	2.5%
Rate of increase of pensions in deferment	2.5%
Discount rate	6.0%
Inflation assumption	2.5%

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

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	UK Rail £m	North America £m	Total £m
Equities	8.0%	647.8	321.6	8.1	977.5
Bonds	5.1%	160.0	38.7	4.6	203.3
Property	6.6%	32.2	22.4	–	54.6
Other	4.5%	48.9	–	0.5	49.4
		888.9	382.7	13.2	1,284.8
Total market value of assets		888.9	382.7	13.2	1,284.8
Present value of scheme liabilities		(928.4)	(366.9)	(21.6)	(1,316.9)
Irrecoverable surplus		–	(6.2)	–	(6.2)
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 at 31 March 2002 would have been as follows:

	£m
Net assets excluding pension liability	422.3
Pension liability	(26.1)
	396.2
Less: SSAP 24 items included in net assets that will be reversed on implementation of FRS 17	(13.5)
Net assets on FRS 17 basis	**382.7**

	£m
Profit and loss reserve excluding pension liability	156.5
Pension reserve	(26.1)
	130.4
Less: SSAP 24 items included in net assets that will be reversed on implementation of FRS 17	(13.5)
Profit and loss reserve on FRS 17 basis	**116.9**

33 Share option schemes

(a) Savings related share option scheme

The Company has an Inland Revenue approved savings related share option scheme. The scheme is based on eligible employees being granted options and their agreement to opening a share save account with Halifax plc and to save weekly or monthly for three or five years. The right to exercise the option is at the employee's discretion for a period of six months at the end of the period previously chosen.

The first options under the scheme were issued on 5 October 1995 and were exercisable after either five or seven years. As at 31 March 2002 only the seven-year options remain. Further options were issued on 23 June 1999 and were exercisable after three years.

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

	2002		2001			
Issue date	**Number of employees**	**Ordinary 5p shares**	Number of employees	Ordinary 5p shares	Exercise price (p)	Earliest exercise date
October 1995	**956**	**1,459,146**	1,147	1,680,931	107.72	October 02
June 1999	**7,427**	**2,095,644**	8,799	2,480,144	359.73	June 02
	8,383	**3,554,790**	9,946	4,161,075		

(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 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 Remuneration Report.

In 1995, executives in the Badgerline Group plc executive share option scheme were offered and accepted options under similar terms over FirstGroup plc ordinary shares in exchange for the surrender of their existing options. The remaining 13,530 options under the Badgerline scheme were exercised by Tony Osbaldiston on 7 November 2001 at an option price of 123.51p.

Details of executive share options outstanding at 31 March 2002 are set out below:

	Ordinary 5p shares			
Scheme	**2002**	2001	Revised exercise price (p)	Date original option granted
FirstGroup Executive Share Option Scheme	**811,000**	–	346.50	August 01
Badgerline Executive	**–**	13,530	123.51	April 95
Tony Osbaldiston options	**147,059**	147,059	Nil	February 00
	958,059	160,589		

3

(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:

	Ordinary 5p shares		
Date of award	**2002**	2001	Award price (p)
12 August 1997	**145,268**	179,534	190.42
5 June 1998	**–**	120,358	397.82
24 May 1999	**–**	386,246	365.99
3 July 2000	**1,046,534**	1,163,272	236.00
	1,192,802	1,849,410	

33 Share option schemes (continued)

The performance period for the 1997 LTIP awards was extended by a further two years with the approval of the 2000 Annual General Meeting. 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 are entitled to 156% of the 1997 award, which is equivalent to 78% of the maximum number of shares. Executive Directors waived their entitlement to the 1997 award in the prior year.

For the three-year period ended 31 March 2001, FirstGroup's total shareholder return was 6.4%, which was the 43rd percentile of the index. As a result participants received 91% of the 1998 award which was equivalent to 46% of the maximum number of shares. The members of the 1998 LTIP scheme were made cash awards in lieu of their share entitlement.

The 1999 LTIP awards lapsed at the end of the year as the performance criteria for the three-year performance period ended 31 March 2002 had not been met.

Group financial summary

Consolidated profit and loss accounts	**2002 £m**	2001 £m	2000 £m	1999 £m	1998 £m
Group turnover	**2,164.1**	2,054.0	1,795.1	1,470.4	795.0
Operating profit before goodwill, ESOP and restructuring and other exceptional costs	**219.2**	218.5	190.9	144.8	95.9
Goodwill amortisation	**(27.3)**	(25.9)	(13.0)	–	–
ESOP costs	**(4.2)**	(4.2)	(5.2)	(5.0)	(3.8)
Restructuring and other exceptional costs	**(18.9)**	(53.5)	(11.6)	(17.9)	(10.9)
Operating profit	**168.8**	134.9	161.1	121.9	81.2
Profit before interest	**165.8**	201.3	165.5	123.5	89.0
Net interest payable	**(56.3)**	(64.5)	(44.0)	(28.3)	(16.5)
Profit before taxation	**109.5**	136.8	121.5	95.2	72.5
Taxation*	**(33.9)**	(55.2)	(32.0)	(30.4)	(23.6)
Profit after taxation*	**75.6**	81.6	89.5	64.8	48.9
Earnings per share‡*	**pence**	pence	pence	pence	pence
Adjusted basic	**25.8**	23.4	25.3	20.4	16.9
Basic	**18.0**	18.4	21.6	17.4	15.0
Cash	**48.5**	44.1	42.6	33.5	28.0
Dividend per share‡	**10.3**	9.4	8.5	7.3	6.4
Consolidated balance sheets	**£m**	£m	£m	£m	£m
Fixed assets	**1,346.0**	1,327.7	1,289.9	590.6	404.9
Net current liabilities	**(125.1)**	(210.6)	(153.1)	(168.5)	(171.7)
Creditors: amounts after more than one year	**(687.9)**	(622.6)	(750.9)	(338.1)	(232.5)
Provisions for liabilities and charges*	**(110.7)**	(93.8)	(85.5)	(68.3)	(49.8)
Equity minority interest	**(1.0)**	(0.9)	(9.8)	(7.6)	(5.3)
Equity shareholders' funds	**421.3**	399.8	290.6	8.1	(54.4)
Share data‡					
Number of shares in issue	**million**	million	million	million	million
At year end	**419.8**	422.4	433.5	355.9	349.1
Average	**419.8**	422.2	396.8	353.3	324.9
Share price	**pence**	pence	pence	pence	pence
At year end	**302**	305	174	397	351
High	**365**	312	399	489	352
Low	**243**	140	152	327	179
Market capitalisation	**£m**	£m	£m	£m	£m
At year end	**1,268**	1,288	754	1,414	1,224

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

* Prior years restated for adoption of FRS 19.

Financial calendar

Annual General Meeting	4 July 2002
Shares trade ex dividend	24 July 2002
Record date for final dividend*	26 July 2002
Final dividend paid	30 August 2002
Interim results announced	November 2002
Interim dividend paid	February 2003
Preliminary announcement of full year results	May 2003

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

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

The Group also publishes a separate Annual Review and a People, Community and Environment Report. These are available to download from the Group's website www.firstgroup.com

Shareholder profile

At 30 April 2002	Number of holders	%	Shares held (m)	%
By category				
Individuals	42,551	94.9	72.5	17.3
Banks and nominees	2,083	4.6	338.5	80.6
Insurance and assurance companies	2	–	–	–
Other companies	201	0.5	8.8	2.1
Other institutions	3	–	–	–
	44,840	**100.0**	**419.8**	**100.0**
By size of holding				
1-1,000	32,453	72.4	8.0	1.9
1,001-5,000	9,600	21.4	21.2	5.0
5,001-10,000	1,507	3.3	10.4	2.5
10,001-100,000	922	2.1	25.1	6.0
Over 100,000	358	0.8	355.1	84.6
	44,840	**100.0**	**419.8**	**100.0**

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Registered office
FirstGroup plc
395 King Street
Aberdeen AB24 5RP

Registered in Scotland
number SC157176

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

www.firstgroup.com

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