

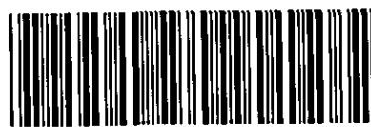
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ANNUAL REPORT AND ACCOUNTS 2010

The leading transport operator
in the UK and North America

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COMPANIES HOUSE

FirstGroup plc is the leading transport operator in the UK and North America with annualised revenues of **over £6 billion** a year. We employ more than **130,000 staff** throughout the UK and North America and transport some **2.5 billion passengers** a year.

Our core values of safety and customer service are at the heart of our business and underpin everything we do. There is no higher priority than the safety and security of our passengers and our staff.

OPERATING AND FINANCIAL REVIEW

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Financial highlights

| | 2010 | 2009 |
|--|----------------|----------------|
| Revenue (£m) | 6,319.3 | 6,187.3 |
| Adjusted EBITDA¹ (£m) | 769.6 | 772.2 |
| Adjusted operating profit² (£m) | 453.9 | 497.5 |
| Operating profit (£m) | 368.5 | 371.1 |
| Adjusted profit before tax² (£m) | 264.0 | 326.4 |
| Profit before tax (£m) | 179.6 | 200.0 |
| Adjusted basic EPS² (pence) | 39.5 | 48.6 |
| Basic EPS (pence) | 27.5 | 30.2 |
| Proposed final dividend per share (pence) | 14.0 | 12.7 |
| Net debt³ (£m) | 2,281.5 | 2,503.5 |

¹ Adjusted operating profit plus depreciation

² Before amortisation charges, hedge ineffectiveness on financial derivatives, non-recurring bid costs, other non-recurring items and (loss)/profit on disposal of properties

³ Net debt is stated excluding accrued interest

Our Group

FirstGroup plc is the leading transport operator in the UK and North America with revenues of over £6 billion a year. We employ more than 130,000 staff throughout the UK and North America and transport some 2.5 billion passengers a year.

NORTH AMERICA CONTRACT BUSINESS

We are the leading provider of transportation services in North America. First Student is the largest provider of student transport with a fleet of approximately 60,000 yellow school buses operating every day across the US and Canada.

First Transit is one of the largest private sector providers of transit management and contracting, managing public transport systems on behalf of Transit Authorities. We are one of the largest providers of airport shuttle bus services in the US and also manage call centres, paratransit operations and other light transit activities.

First Services is the largest private sector provider of vehicle maintenance and ancillary support services in the US.

GREYHOUND

Greyhound is the only national provider of scheduled intercity coach transportation services in the US and Canada. Greyhound provides scheduled passenger services to 3,800 destinations throughout North America carrying some 20 million passengers annually.

We also operate BoltBus, a network of low cost, high quality intercity coach services linking city pairs within the North East corridor of the US.

We have three operating subsidiaries in the US: Valley Transit Company (Texas-Mexico border), Crucero USA (southern California and Arizona into Mexico) and Americanos USA (Mexico from Texas and New Mexico). Greyhound PackageXpress provides package delivery services to thousands of destinations in North America.

UK BUS

We are the largest bus operator in the UK with a fleet of 8,500 buses and a market share of approximately 23%. We carry approximately 3 million passengers every day.

The majority of our operations are in urban areas where the bus is the most effective means of tackling traffic congestion. We are working with local authorities and other stakeholders to provide punctual and reliable services for our customers and we continue to develop and promote effective partnerships.

We also operate Greyhound UK providing regular intercity coach services on three routes between London and Bournemouth, Portsmouth and Southampton.

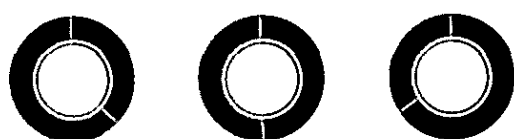
UK RAIL

Our UK Rail division operates passenger and freight services in the UK. We have a strong balanced portfolio of intercity, regional and commuter franchises. Passenger rail franchises consist of First Capital Connect, First Great Western, First ScotRail and First TransPennine Express and one open access operator First Hull Trains.

We also operate rail freight services through First GBRf and operate the London Tramlink network on behalf of Transport for London carrying 28 million passengers annually.

We are the UK's largest rail operator carrying over 280 million passengers a year.

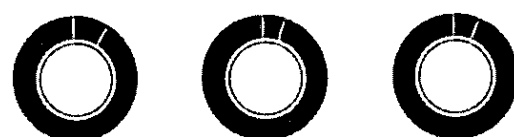
Revenue £2,333.7m Operating profit £233.9m Employees 87,000 Where we operate



Find out more on page 13

► www.firstgroup.com/north_america

Revenue £603.3m Operating profit £23.9m Employees 8,000 Where we operate



Find out more on page 15

► www.greyhound.com or www.greyhound.ca

Revenue £1,170.6m Operating profit £124.6m Employees 25,000 Where we operate



Find out more on page 16

► www.firstgroup.com/ukbus

Revenue £2,188.4m Operating profit £92.6m Employees 13,000 Where we operate



Find out more on page 18

► www.firstgroup.com/uktrain

Our markets

Our businesses in the UK and North America operate in local markets with different commercial and regulatory features. This overview illustrates the markets in which we operate, their scale and characteristics together with our position in each one.

Our position in the local bus and rail markets in the UK and in the student transportation, transit, vehicle services and intercity coach markets in the US and Canada provides us with unrivalled knowledge and experience of the many different commercial and regulatory frameworks in place and also puts us at the forefront in developing new and future opportunities.

Our portfolio of businesses is diversified by geography and customer base and structured in to four main operating divisions: UK Bus, UK Rail, North America contract businesses (Student transportation, Transit and Services) and Greyhound. We also have small bus operations in Germany and Ireland and are joint venture partners in rail operations in Denmark and Sweden.

Our strength lies in our diversity. The Group has a balanced portfolio of operations providing a mix of contract-backed and passenger revenues. During these challenging economic times this mix of operations has provided strength and resilience against a fast changing trading backdrop.

UK BUS

Local bus services in the UK operate on two very different models. Outside London the market is deregulated and within London the market is regulated and competitively tendered.

The market Outside London

Local bus services in the UK, outside London, were deregulated in the mid-1980s. The market is highly competitive between commercial bus operators – large and small – and between the bus and the private car. Revenue principally comes directly from fare paying passengers and indirectly from reimbursement by local authorities for concessionary passengers. Bus operators take revenue risk and cost risk.

Bus markets are local and are affected by local issues from demographics to politics to topography. Local bus services operate on a flexible model with bus operators setting fares, frequencies and routes on a commercial basis to meet customer demand and also running "socially necessary" local bus services under contract to local authorities.

London

Bus services in London are operated on behalf of Transport for London (TfL). Contracts are gross cost and typically five years in length. TfL specifies fares, routes, timetables and vehicles, takes the revenue risk and pays operators for running services with a bonus and penalty regime linked to service quality.

Our market share

- ▶ We are the UK's largest bus operator
- ▶ We operate one in five of all local bus services
- ▶ Our operations are diversified by geography – 40 major towns and cities – and by customer and journey purpose
- ▶ We operate a modern fleet at half life
- ▶ We also operate Greyhound intercity coach services in the UK

Approximate market share

23%

Approximate passengers we carry per day

3 million

Market features

- ▶ High customer satisfaction
- ▶ Investment in new vehicles
- ▶ Innovation in ticketing, marketing and information

Changes in market during 2009/10

- ▶ Lower passenger revenue growth as a result of economic weakness and higher unemployment
- ▶ Mileage reduced in response to fall in passenger demand
- ▶ OFT report and Competition Commission investigation in to local bus services in the UK
- ▶ Local Transport Act provisions enacted
- ▶ Passenger Focus became statutory watchdog

UK RAIL

The operation of passenger rail services in the UK is mainly competitively tendered and also includes a limited number of open access companies.

The market

Privatised in the mid-1990s the UK rail market is a competitive environment between transport operators for the award of passenger rail franchises (contracts with the Department for Transport – and other franchising authorities – for the provision of services) and between rail services and other modes of transport.

Revenue comes directly from fare paying passengers or from franchising authorities. Train operators share revenue risk with franchising authorities – this is referred to as revenue support or revenue share – but bear cost risk. Franchises are net cost contracts of variable length – often seven years plus a possible three year extension if performance targets are met.

Rail markets vary but are often grouped into three sectors – London and South East commuter services, regional and long distance. Some passenger rail franchises pay a premium to the franchising authority while others receive a subsidy. In some franchises the premium increases (or subsidy decreases) over the duration of the franchise and in some franchises the level of premium or subsidy is constant.

Operators are responsible for the day to day management of train services and while many elements of the service provided to passengers are mandated as part of the contract, other features are left to the commercial judgment of operators.

Our market share

- ▶ We are the UK's largest rail operator
- ▶ Our operations are diversified by sector and by customer and journey purpose
- ▶ We operate First Hull Trains, an open access passenger rail service, and First GBRf, a rail freight operator
- ▶ Through our joint venture with Danish State Railways we operate passenger rail services in Denmark and Sweden

Approximate market share

23%

Approximate passengers we carry per year

280 million

Market features

- ▶ Growing passenger numbers
- ▶ Increasing customer satisfaction
- ▶ Investment in new rolling stock
- ▶ Innovation in customer service

Changes in market during 2009/10

- ▶ Lower passenger revenue growth as a result of economic weakness and higher unemployment
- ▶ Start of Control Period 4, Network Rail's access charging regime
- ▶ DfT publication of the 'Future of Franchising' consultation paper
- ▶ Refranchising of Essex Thameside, Greater Anglia and InterCity East Coast franchises
- ▶ Publication of new High Speed line proposals

SCHOOL BUSES IN NORTH AMERICA

The market

Yellow school buses provide home to school transportation to millions of students across the US and Canada. There are over 15,000 school districts in North America responsible for providing approximately 534,000 school buses each day.

In total, the North American market is estimated to be worth \$22 billion per annum. However, only around 30% of school districts have outsourced their operations – approximately 183,000 school buses – to the private sector. The private outsourced sector market is highly fragmented with only ten operators running more than 1,000 buses.

School districts provide transportation for students depending on varying criteria determined at State level and contracts are typically awarded for three to five years. School districts receive funding for their activities including school transportation primarily from State and local sources, including property taxes.

Our market share

- ▶ We are the largest private sector operator of school buses in North America – more than four times bigger than the next largest competitor
- ▶ We operate approximately 60,000 yellow school buses – with an average fleet age of 6.5 years
- ▶ We operate in 42 States in the US and eight Provinces in Canada
- ▶ We have more than 1,600 different contracts in 650 locations
- ▶ We consistently retain over 90% of our contracts that come up for renewal
- ▶ We provide charter hire services for school and non-school activities
- ▶ Our scale enables us to develop value added services for existing and potential customers to provide greater on demand information and operating efficiencies

NORTH AMERICA INTERCITY COACH

The market

Greyhound is the only national provider of scheduled intercity coach transportation in the US and Canada. Intercity coach transportation competes with many other modes of mid to long distance travel and Greyhound serves a diverse, value-oriented customer base by offering scheduled passenger services with an unrivalled network and route coverage. The majority of revenue is generated from passenger services but Greyhound also provides package express services, charter services and, in many terminals, food services.

In 2008 Greyhound launched BoltBus, a low cost, premium coach operation in the North East of the US. The region is the most dense travel corridor in the country and is a highly competitive intercity coach market. BoltBus operates between key city pair destinations such as New York and Boston and attracts a different customer demographic to Greyhound with yield managed fares, online reservation and a package of features including free wireless internet on all buses.

Our market share

- ▶ We are the only national provider of scheduled intercity coach transportation services in the US and Canada
- ▶ We carry approximately 20 million passengers per annum
- ▶ We have a fleet of approximately 2,200 vehicles with an average fleet age of 9.9 years

Approximate share of total market

11%

Approximate students we carry per day

6 million

Market features

- ▶ Contracted revenue
- ▶ Safety and security is a priority
- ▶ Trusted operator in the local community
- ▶ Innovation and investment in technology

Changes in market during 2009/10

- ▶ Unprecedented pressure on public spending budgets as a result of economic weakness
- ▶ Reduction in school and non-school charter services as a result of recession

Approximate passengers we carry per year

20 million

Market features

- ▶ Passenger revenues
- ▶ Highly flexible operating model – ability to match services to changing passenger demand, particularly in the US
- ▶ Value for money
- ▶ Main reason for travel is to see family and friends

Changes in market during 2009/10

- ▶ Reduced passenger revenues as a result of weaker economy and increased unemployment
- ▶ Mileage reduced in response to fall in passenger demand
- ▶ Agreement with Canadian Provinces to reduce mileage or receive financial support to run certain, low-utilised services in specific areas
- ▶ New BoltBus destinations launched

NORTH AMERICA TRANSIT AND SERVICES

TRANSIT CONTRACTING AND MANAGEMENT

The market

The transit contracting and management services market includes fixed route bus services, paratransit bus services, airport, university and private shuttle services. The North American transit market is estimated to be worth \$21 billion per annum with approximately 30% in the private outsourced sector. It is a fragmented market with the three largest private sector companies operating less than 35% of the total outsourced market.

Private transportation companies manage, operate, maintain and organise transportation services under contract to customers including Transit Authorities, Departments of Transportation, Federal, State and local agencies, as well as private institutions. The Americans with Disabilities Act requires public authorities operating fixed route transit to provide complementary paratransit services for eligible citizens. Contracts are typically for three to five years.

Our market share

- ▶ We operate 226 locations in 45 US States, Puerto Rico and five Canadian Provinces and Territories
- ▶ We operate and manage 10,800 buses
- ▶ Our strategy is to grow in the light transit market
- ▶ We are one of the largest providers of airport shuttle services in the US

VEHICLE MAINTENANCE AND SUPPORT SERVICES

The market

First Vehicle Services is one of a number of companies that provide fleet vehicle maintenance services under contract to private and public sector clients including the Federal Government, cities and Fire and Police Departments. We estimate the vehicle maintenance market to be worth \$2.9 billion per annum in total with approximately 38% contracted out to private sector providers.

First Support Services provides operations and maintenance services, including facilities management and warehousing and supply to agencies of Federal, State and local governments as well as to businesses in the private sector.

Our market share

- ▶ We operate over 150 facilities in 33 US States and five international locations
- ▶ We maintain over 43,000 vehicles
- ▶ We provide fleet maintenance services for public and private sector customers
- ▶ We provide support services including logistics support and facilities management to public and private sector clients including the US Navy and Air Force

Approximate share of outsourced transit market

12%

Approximate share of outsourced vehicle maintenance market

12%

Approximate passengers we carry a year

**300
million**

Number of maintained vehicles

**Over
43,000**

Market features

- ▶ Contracted revenue
- ▶ High level of customer service and retention
- ▶ Typically low capital investment

Changes in market during 2009/10

- ▶ Pressure on public spending budgets as a result of economic weakness

Delivering our key priorities

Our strategy is to provide safe, reliable, innovative and sustainable transport services and to deliver long term value for shareholders through profitable growth in our core markets.

There can be no doubt that continued economic uncertainty made 2009/10 a challenging year. Our strategy to build a balanced, diverse portfolio, together with the actions we have taken, has provided resilience in a difficult economic environment.

Our clear strategy to manage the Group through these challenging times enabled us to take swift, decisive action to mitigate the effects of the recession on trading.

MANAGING OUR COSTS

With our experience and strong track record in cost management and improving operating efficiencies we were able to take prompt action to reduce costs throughout the Group. These actions mitigated the impact of the weaker economy and higher hedged fuel costs, which increased by approximately £90m during the year.

At the start of the year we had already devised and implemented comprehensive plans to reduce costs throughout the UK and North America. Throughout the year we continued to bear down on costs, reducing overheads and increasing operating efficiencies. As a result of the relentless focus and drive throughout the business we have exceeded our original cost reduction target and achieved annual savings of £228m.

STRENGTHENING OUR FINANCIAL POSITION – REDUCING NET DEBT

Net debt reduction is a key priority for the Group. Despite the challenging trading environment we were pleased to increase net cash generation during the year which was used to reduce net debt. We are confident of further opportunities to increase net cash generation within the Group to accelerate our deleveraging plans.

Our robust financial position was strengthened during the year as we made further progress in executing our strategy to extend the maturity profile of the Group's debt and reduce reliance on bank finance. The Group's recent bond issues in the capital markets attracted strong support from fixed income investors and demonstrated the continued confidence in the underlying strength and resilience of the Group.

MAXIMISING THE FLEXIBILITY IN OUR BUSINESSES

In those areas of our business that are dependent on passenger revenues we responded quickly to the challenges presented by the recession and the adverse impact on passenger volumes. As well as rigorous cost control we focused on network management and targeted mileage reduction which protected revenue per mile, while ensuring that we retained the capability to restore service levels when demand returns.

In UK Bus we reduced mileage, primarily through service frequency adjustments while remaining focused on operating performance and customer service. At Greyhound where, as we anticipated, passenger revenues were adversely impacted as a result of the weak economic environment and increased unemployment, we were able to maximise the highly flexible operating model. With approximately 60% of the cost base being variable we were able to manage service provision on a route by route basis to match any changing demand.

DELIVERING PROFITABLE GROWTH

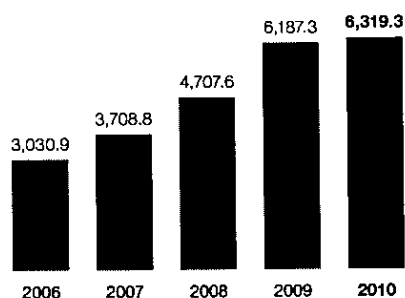
As we expected, the continued economic weakness presented a number of challenges during the year. The Group delivered a resilient performance with overall trading in line with management expectations. In this tough trading environment we exceeded our cash target for the year and expect to return to earnings growth in 2010/11.

The Board is confident in the underlying strength of the businesses which, combined with the many actions we have taken to mitigate the adverse effects of recession, will ensure the Group continues to trade robustly through the economic cycle and deliver long term value for shareholders.

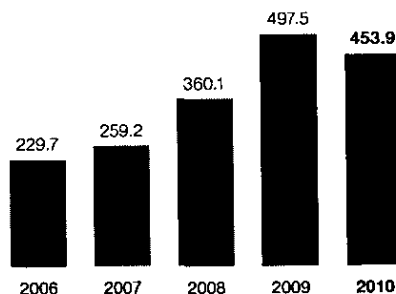
KEY PERFORMANCE INDICATORS

The Group's management use a wide range of financial and non-financial key performance indicators to assess our performance during the year.

Revenue (£m)



Adjusted operating profit (£m)

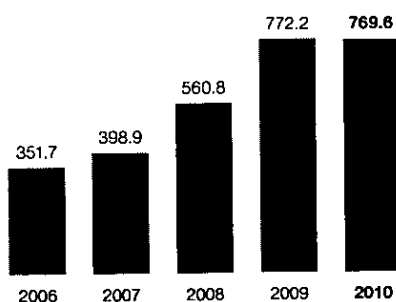


Reduction in Lost Time Injuries

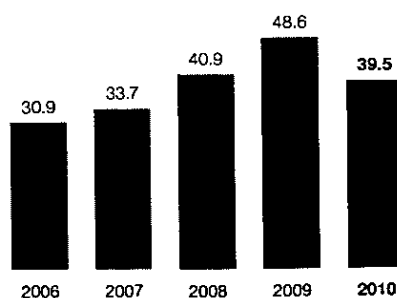
18%

We are committed to a targeted reduction in workplace accidents across the Group and this year achieved an 18% reduction in Lost Time Injuries.

Adjusted EBITDA (£m)



Adjusted basic earnings per share (pence)



Contract retention in North America

>90%

Contract retention in both First Student and First Transit remained strong during the year at over 90%.

Chairman's statement

The Board is confident in the underlying strength and resilience of the business which will ensure the Group is well placed to continue to deliver long term value for our shareholders.

MARTIN GILBERT

As we expected, the continued economic weakness presented a number of challenges for the Group during the year. The impact of the recession on passenger volumes in the UK and North America and pressures on public spending in North America were combined with significantly higher hedged fuel costs during the year. Our strategy to build a diverse portfolio of operations has delivered a resilient performance during the year despite the tough trading environment and, as parts of our business moved through the economic cycle at different times, ensured that the Group is not wholly dependent on one market.

We had a clear strategy to lead the Group through these challenging times and took prompt and decisive action to mitigate the effects of the recession. A significant programme of cost reduction was delivered during the year together with rigorous network management to ensure that service provision was closely matched to changing demand. Against this backdrop we continued to focus on safety and customer service. The provision of safe, high quality and reliable services is our key priority and during the year we made further advances in these areas as we continue to develop our industry-leading initiatives.

The Group's capital structure was further strengthened during the year as we made progress in executing our plan to extend the maturity profile of our net debt and reduce reliance on bank finance with the issue of £350m and £200m bonds in April and September 2009 respectively. Both bond issues attracted strong support from fixed income investors demonstrating the continued confidence in the underlying strength and resilience of the Group. The maturity profile of the Group's net debt is now 6.3 years. In addition, the Group continues to have a strong liquidity position with over £1bn of headroom available under committed revolver facilities.

Net debt reduction is a key priority for the Group. Despite the challenging trading environment during the year I am delighted that we have exceeded our target for net cash generation which will be used to reduce net debt. Furthermore, we are confident of the opportunities to increase net cash generation within the Group and to accelerate our deleveraging plans.

In line with our stated commitment the Board has proposed a final dividend, subject to approval by shareholders, of 14.0p, an increase of 10%, making a full year payment of 20.65p. It will be paid on 20 August 2010 to shareholders on the register at 16 July 2010. The dividend is covered 1.9 times by adjusted basic EPS.

Looking ahead, the Board recognises the importance of dividends to shareholders and we remain committed to delivering sustained real growth in the dividend. Our confidence in the inherent strength and resilience of the Group, an expected return to earnings growth and strong cash generation supports the Board's commitment to dividend growth of at least 7% over the next three years.

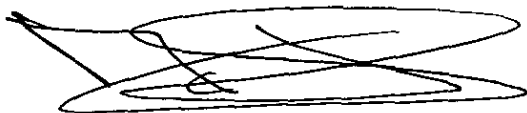
In March 2010 Ellis Watson, Group Marketing and Business Development Director, stepped down from the Board to take up the position of Chief Executive Officer of Syco Entertainment. We thank him for his contribution and wish him every success in his new role.

The performance of the Group is underpinned by the strong management team we have established. Their range of skills and experience, from both within and outside the industry, and track record of achievement have been fundamental to the performance of the Group this year and going forward will drive its successful future development.

On behalf of the Board I would like to extend sincere thanks to all of our employees across the Group. Their ongoing commitment and professionalism have enabled us to report a resilient performance against the weaker economic backdrop. We recognise the vital role they have played during the year in establishing an even stronger base from which the Group will continue to build.

Looking ahead we anticipate the new financial year will continue to be challenging as the global economic outlook remains uncertain. However, the Group will continue to benefit from the diverse portfolio of operations, with contract-backed and passenger revenues. Our management team have demonstrated their skill and experience in cost control and network management. We will continue to implement the necessary actions to reduce our cost base and increase operating efficiencies as well as closely manage service provision against changing demand.

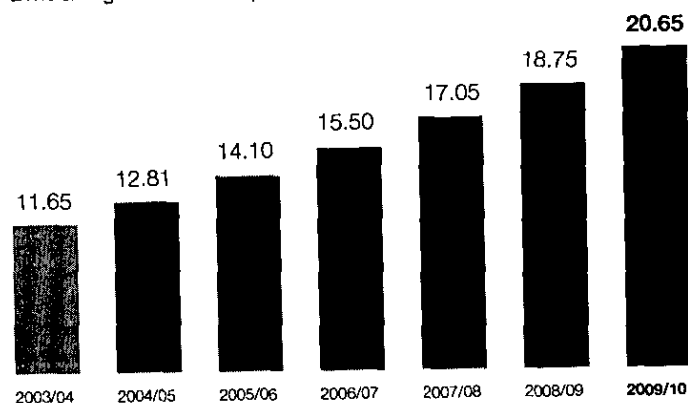
The Board is confident in the underlying strength and resilience of the business which, combined with the actions taken to mitigate the adverse impacts of the recession, will ensure the Group is well placed to continue to deliver long term value for our shareholders.



Martin Gilbert
Chairman

Dividend per share (pence)

Dividend growth of 10% per annum since 2003/04.



*Operating profit referred to throughout the Chairman's statement. Chief Executive's operating review and Finance Director's review refers to operating profit before amortisation charges, hedge ineffectiveness on financial derivatives, non-recurring bid costs, other non-recurring items and (loss)/profit on disposal of properties. EBITDA is adjusted operating profit plus depreciation.

Chief Executive's operating review

Overview

This performance is underpinned by the Group's diverse portfolio of operations together with the decisive and pre-emptive action we took to mitigate the effects of the weaker economy on trading and the increased fuel costs.

SIR MOIR LOCKHEAD

SAFETY

Within the Group safety is a core value. Ensuring that our customers and employees remain safe and secure while travelling on our services or working in our businesses lies at the heart of our strategy and underpins everything we do. The industry-leading initiatives that we have established support our zero tolerance approach to unsafe acts and practices. I am pleased to report that during the year Lost Time Injuries reduced by 18%. During the year we continued to engage with our staff to ensure that support is provided through ongoing training and education. We continually monitor and review safety performance trends to inform the ongoing development of our safety programmes. Further details of our safety initiatives and achievements during the year can be found on our website www.firstgroup.com

Safety is our highest priority. Ensuring our customers and employees are safe and secure is at the heart of our business and underpins everything we do. This year we achieved an 18% reduction in Lost Time Injuries across the Group.

RESULTS

I am pleased to report a robust performance against a backdrop of economic weakness creating a difficult trading environment and higher hedged fuel costs which increased by approximately £90m in the year.

Group revenue was £6,319.3m (2009: £6,187.3m) an increase of 2.1% and includes £176.3m of favourable foreign exchange movements. Operating profit reduced to £453.9m (2009: £497.5m) as a result of the impact of the recession on trading and increased fuel costs, however, the effect was significantly mitigated by the positive impact of our cost reduction programme. The unusually severe weather which significantly disrupted our networks in the UK and North America during the fourth quarter of our financial year (Q4) also had an adverse impact on operating profit of £16m. Statutory profit before taxation was £179.6m (2009: £200.0m) reflecting the lower operating profit and higher net finance costs as a result of the issue of bonds in September 2008, April 2009 and September 2009. Adjusted basic EPS was 39.5p (2009: 48.6p). EBITDA was £769.6m (2009: £772.2m). We have set out our clear priorities of continuing to deliver strong cash generation and reducing the Group's net debt. I am delighted to report a strong performance with net cash generation of £136.3m which exceeded our targets and was used to reduce net debt.

This performance is underpinned by the Group's diverse portfolio of operations together with the decisive and pre-emptive action we took to mitigate the effects of the weaker economy on trading and the increased fuel costs. During the year we successfully delivered a cost reduction programme which produced annual savings of over £200m. Reductions in overheads and increased operating efficiencies have been key to achieving our plans. Headcount across the Group was reduced by more than 5,000.

North America contract businesses

Our North American contract businesses provide diversity alongside the passenger revenue businesses within the Group.

RESULTS

Revenue from our contract businesses was \$3,704.8m or £2,333.7m (2009: \$3,739.0m or £2,224.1m). Operating profit reduced to \$365.5m or £233.9m (2009: \$391.8m or £246.1m) reflecting the impact of reduced ancillary revenues as a result of budgetary pressure at school board level and increased hedged fuel costs. During Q4 the unusually severe weather which affected the vast majority of US States led to a higher than normal amount of lost operating days in our contract businesses. EBITDA was \$608.7m or £386.4m (2009: \$609.2m or £374.2m).

First Student continues to invest in industry-leading safety and customer service technology. We are rolling out FOCUS, a new system that combines GPS and other on board data with back office systems, to further improve our operating performance and deliver increased efficiencies.

FIRST STUDENT

US Dollar revenue reduced by 3.2% to \$2,544.7m (2009: \$2,629.5m) and the operating margin reduced to 11.0% (2009: 12.6%). Our focus on customer service and operational performance, together with the value-added services and sustainable economies that we can pass on to customers, has delivered another period of strong contract retention of over 90%.

The core provision of contracted services remained largely resilient during the year. However, we have seen the effects of economic weakness in North America as lower State and local tax receipts have resulted in unprecedented levels of pressure on school board budgets, particularly during the second half of the year. As a result, ancillary revenues from charter and additional routes to existing contracts were reduced and pricing pressure has been a feature of the recent bid season. In this environment our focus is on managing our cost base and maintaining our industry-leading margins. As the economy strengthens we expect revenues to recover although it is our view that the pressure on school board budgets will continue during 2010/11.

We continued to win new business including contract awards to operate more than 600 buses in Wichita, Kansas and 300 buses in Detroit, Michigan where the school district chose to outsource transportation.

With only 30% of the school bus market currently outsourced significant growth opportunities remain. We continue to progress a pipeline of potential conversion contracts that are currently operated within the public sector. While the levels of interest around outsourcing are very high, particularly during this challenging economic cycle, the quantity of conversions remains small in absolute terms and is often slow to materialise.

As the market leader First Student is uniquely placed to pass on its significant scale benefits to new and existing customers through cost and operating efficiencies and procurement savings. The scope and breadth of our operations provides an overview of the marketplace and enables us to respond to changing trends and to the needs of our customers.

First Student was awarded a contract to provide transportation for Detroit Public Schools, the largest school district in Michigan. The contract to operate approximately 300 school buses is a 'conversion' from the public sector as a result of the school district choosing to outsource its provision of student transportation.

We continue to develop and implement a number of initiatives to enhance operating performance and increase efficiencies. As part of our drive to create value-added services for customers and to increase efficiencies across our 650 locations we have developed a GPS-based technology system called FOCUS which will be rolled out to our entire yellow school bus fleet. FOCUS provides enhanced operational data that enables us to closely monitor key performance indicators as well as deliver improved real time information to customers.

Notwithstanding the current economic environment, the North American school bus market provides significant opportunities for future growth. However, against the backdrop of public spending pressure, rigorous cost management to protect operating margin remains a key priority. The actions we are taking to reduce costs will build on the cost synergies already achieved across the business. We believe that there is further scope to develop a more efficient operation and to provide an enhanced platform for growth as the economy strengthens.

FIRST TRANSIT

First Transit now generates over \$1.1bn of annual revenues and provides prospects to deliver further profitable growth with minimal capital investment. During the year we delivered a strong performance with US Dollar revenue increased by 4.6%. The operating margin increased to 7.3% (2009: 5.4%).

While we have seen the effects of the recession also impacting Transit Authorities as they come under pressure to reduce their budgets, we have responded by implementing actions that have reduced our cost base and increased operating efficiencies, while retaining a strong focus on customer service and operational performance.

I am pleased to report that contract retention remained high at over 90% and we were pleased to be awarded new business during the year including a significant conversion from the public sector in San Diego, California. We have also increased our share of the paratransit market with new contracts in New Jersey and Oregon. We are particularly pleased that First Transit is now the sole operator in both contracts where previously there were multiple providers of the paratransit services.

First Vehicle Services continued to build on its market share during the year with the award of new business including two conversion contracts that were previously operated within the public sector in Michigan and Florida.

During the year First Transit revenue increased to over \$1.1bn as we continued to expand in the higher margin paratransit and shuttle bus markets with the award of new paratransit contracts in New Jersey and Oregon. We are pleased that we are now the sole operator in both contracts where previously there were multiple providers.

Greyhound



During the year we took prompt action to utilise the highly flexible operating model at Greyhound and match service provision to any changing demand.

RESULTS

Greyhound performed in line with our expectations despite the significant impact of the weaker North America economy on trading. Revenue was \$963.4m or £603.3m (2009: \$1,114.0m or £642.4m), a reduction of 13.9% at constant US Dollar:Canadian Dollar exchange rates. Passenger revenue, on a like-for-like basis, increased during Q4 and we are encouraged by trends which show continuing progress. Despite the significant reduction in revenues a creditable operating profit was achieved of \$39.6m or £23.9m (2009: \$91.7m or £48.5m) supported by the cost reduction and network management actions taken.

During the year we took prompt action to utilise the highly flexible operating model at Greyhound and match service provision to any changing demand. As a result, bus miles were reduced by 11.4% in the US and 10.7% in Canada, while retaining capability to restore service levels when demand returns. Through rigorous management of the network and targeted mileage reductions we maintained revenue per mile which is now ahead of prior year despite the difficult trading environment.

In Canada, where the market is more regulated, we made good progress during the year with some important agreements reached with the Canadian Provinces that enabled us to reduce mileage or receive a subsidy to operate certain routes that were not financially viable. As a result, the Canadian business model has been significantly strengthened and is now more robust for the future.

We also implemented a number of actions across the business which have considerably reduced our operating costs including overhead reductions and increased operating efficiencies. In addition, we made further progress in lowering the cost of sale through agency commission rates.

Whilst mitigating the impact of the weak economy and transforming Greyhound's operating model, we retained a strong focus on customer service and reliability. I am pleased to report that On Time Performance has continued to improve across Greyhound's US and Canadian operations.

BoltBus, our low cost, high quality coach service operating between city pair destinations in the North East continues to perform well. We added 38 new coaches to support growth during the year. The customer response to BoltBus remains extremely positive with consistently good average loadings and we are actively developing plans to expand BoltBus to new destinations.

The adjustments we made to the network enabled us to retire a number of the oldest buses in the fleet. In addition, we recently implemented a programme of refurbishment for 250 coaches over the next year which will improve operational performance and greatly enhance the customer experience.

Greyhound launched its newly branded Lucky Streak casino service – a low cost, high quality transportation alternative to Atlantic City from New York, Philadelphia and Washington. Lucky Streak includes exclusive casino deals and on board free WiFi and power outlets.

The actions we have taken during the year have ensured the sustained cash generation and profitability of the business. As a result, we have established a considerably stronger and lower cost base. Greyhound is on a firmer footing with improved operating leverage and is well placed to realise the benefits of future economic recovery.

UK Bus

Our UK Bus division delivered a steady and resilient performance despite the challenging trading environment as we focused on cost control and mileage reduction to protect margin.

RESULTS

Like-for-like passenger revenue increased by 1.9%. Total revenue was reduced slightly to £1,170.6m (2009: £1,182.0m) and operating profit was £124.6m (2009: £134.0m). However, despite the impact of the recession on revenues and increased hedged fuel costs, the actions we took to reduce costs and mileage delivered a strong operating margin performance of 10.6% (2009: 11.3%).

The impact of lower economic activity in the towns and cities where we operate, together with increased hedged fuel costs, was mitigated by our management actions to reduce our cost base and increase operational efficiencies. Initiatives such as new DriveGreen technology, which we rolled out across our entire bus fleet, is delivering greater fuel efficiency as well as improving driving styles and reducing the carbon footprint of our buses. During the year driver turnover continued to reduce from 19% to below 17% as a result of our initiatives to improve recruitment and retention as well as the current labour market conditions.

During the year we made use of the flexible operating model to carry out targeted mileage reductions. This action to match service provision to changes in demand on a route by route basis led to an overall reduction in mileage of 5% across the business and protected revenue per mile. We will be able to increase the frequency of our services and grow our networks as the economic recovery continues and passenger journeys increase.

OUR CUSTOMERS

We continue to focus on operational performance and delivering our promise to our customers. In February we welcomed Passenger Focus as the new statutory watchdog for bus, coach and tram customers outside of London. The first research published by Passenger Focus into passengers' priorities for improvement highlighted 'more punctual buses' as the top priority with 'more frequent services to a wider range of destinations' and 'better value for money fares' as important. We look forward to working with Passenger Focus as its bus passenger satisfaction survey is developed and we were pleased with the initial

results which showed overall bus passenger satisfaction at 90% for all local bus services in the first six areas surveyed. The results of the research into both customer satisfaction and customers' priorities for improvement accord with feedback from our customers and the results of our own research carried out over a number of years.

Despite the recessionary environment and increased hedged fuel costs, we are trialling fares initiatives to stimulate passenger revenue growth in many parts of the country. For example, in Bristol we are focusing on popular multi-journey tickets and are pleased with the encouraging results since the trial began in February. We are also working with the West of England Joint Transport Committee to develop plans for the introduction of a Travel+ smartcard for Bath & North East Somerset, Bristol, North Somerset and South Gloucestershire. The Committee received £2.2m of funding from the Department for Transport (DfT) to set up the necessary back office systems.

In March we launched the First SuperBus ticket in Bristol, a groundbreaking integrated transport initiative. First SuperBus offers train passengers spending £25 or more on a ticket to Bristol from any station within the First Great Western network inclusive onward bus travel in the Bristol area at no extra cost. The scheme will operate for an initial three month trial period.

We also launched a new ticket for young people aged 16-18 in Greater Glasgow offering discounted travel to the standard adult equivalent tickets. We are pleased with sales of this new product which is increasing loyalty in this key demographic group.

In partnership with the other major public transport groups we launched 'Greener Journeys', a campaign encouraging people to get out of their cars and on to buses and coaches. The campaign aims to reduce carbon emissions by changing travel behaviour and by switching one in 25 journeys from car to bus or coach. This would mean one billion fewer car journeys on our roads over the next three years.

INTERURBAN SERVICES

We are pleased with the performance of Greyhound UK, our high quality, low cost services operating between London and Portsmouth and London and Southampton. The first services were launched in September 2009 and we have built on the success of this new initiative with the introduction of a new service between London and Bournemouth in May 2010.

We continue to develop opportunities for further interurban services and in April 2009 we introduced a new limited stop service between Leeds and York. During the year we also improved links between Liverpool and Chester and developed our successful interurban services in the East of England by extending the Stansted Aircoach route from Colchester to Clacton and by doubling the frequency of services between Norwich and Lowestoft on Sundays.

All of our UK Bus fleet has now been fitted with DriveGreen, a new technology that provides real time feedback to bus drivers. DriveGreen will help to reduce fuel use and CO₂ emissions and improve the journey experience of our customers.

LONDON AND OTHER MAJOR CONTRACTS

In London our priority remains to deliver excellent operational performance and improve operating and cost efficiencies. We retained a number of key contracts during the year and reached agreement with Transport for London to construct a new maintenance and refuelling facility at Lea Interchange depot and to operate five hydrogen fuel cell powered buses on a central London route.

Following a competitive tender process, the Olympic Delivery Authority confirmed that the Group will transport spectators during the London 2012 Games. We will provide around 500 buses and coaches for venue shuttle services and venue Park & Ride, around 90 buses and coaches for Park & Ride services aimed to connect parking sites on the periphery of the M25 with the Olympic Park and Ebbsfleet and around 300 coaches, sub-contracted from fleets up and down the country, to operate a network of express coach services to the Olympic Park and Weymouth and Portland. In addition, we will provide management of Direct Coach operations, a bus and coach reservations and ticketing system and operational support staff at all bus and coach locations to manage the fleet.

INVESTMENT

We continued to make selected capital investment to support future growth. Investment has been focused on the major towns and cities where our partnerships with local authorities can deliver sustained real passenger growth. During the period we invested in new environmentally friendly vehicles for our operating companies in West and North Yorkshire, Bristol, Somerset and Avon, Glasgow and Hampshire and Dorset.

PARTNERSHIPS

We believe that voluntary quality partnerships are the quickest and most effective route to increase bus patronage and address the twin challenges of climate change and congestion in our towns and cities. Some of our partnerships with local authorities have been tested this year as we had to reduce our mileage to match services to changing demand. During the year we continued to work with our partners in local government to deliver more bus priority measures to improve the punctuality and reliability of our services. Our experience demonstrates that bus priority improves customer satisfaction and also attracts car users to bus services by providing an attractive alternative to travelling by car.

We have had constructive discussions with Metro, the West Yorkshire Passenger Transport Executive (PTE), on our Growth and Co-Investment proposal and look forward to working with our partners in the region to take this initiative forward. We are also supporting the DfT's £19.8m of funding for a Quality Bus Corridor in Leeds which will provide a real alternative to car travel and help tackle traffic congestion by reducing bus journey times at peak periods.

We are also supporting Greater Manchester PTE's plans to facilitate cross-city bus journeys through investment in three of the busiest corridors in the region to improve reliability and end to end journey times.

In Glasgow we continued to develop our network and are participating in a Bus Working Group chaired by Glasgow City Council with support from Strathclyde Partnership for Transport to progress bus travel and modal shift in the city. We were delighted to win Public Transport Operator of the Year in the Scottish Transport Awards.

Our long term partnership with the City and County of Swansea has delivered a number of initiatives this year. In September we officially launched our firmetro project in Swansea. Together with the Council and the Welsh Assembly Government we delivered a £14m package to improve public transport in Swansea including dedicated infrastructure and new vehicles as well as upgrading the engineering and parking facilities at our depot. We are delighted that the firmetro is delivering increased passenger journeys and believe that the successful initiative demonstrates the benefits of working in partnership.

WORKING WITH GOVERNMENT

In early December the DfT announced the winners of the £30m Green Bus Fund. We are pleased that two of our submissions were successful and we will receive funding towards the cost of new 'low carbon' buses in Leeds and Manchester.

In January the Office of Fair Trading referred the local bus service market to the Competition Commission. We believe that there is intense competition both between bus operators and 'for the road' between bus operators and other modes of transport, particularly the private car. We also believe that the Competition Commission should take into account the considerable effect of the Local Transport Act 2008 on deregulated services including, for example, the greater use of voluntary quality partnerships.

UK Rail

The strong performance of our UK Rail division was supported by the successful delivery of our programme to reduce costs which substantially offset the impact of lower volume growth during the year.

RESULTS

Our UK Rail division delivered a strong performance ahead of our expectations with a 2.3% increase in like-for-like passenger revenue for the year, despite the reduction in regulated fares in January.

Revenue was £2,188.4m (2009: £2,121.5m) and operating profit was £92.6m (2009: £94.2m). This strong performance was supported by the successful delivery of our programme to reduce addressable costs which substantially offset the impact of lower volume growth during the year.

During the year, as our customers faced recessionary pressures, we experienced strong demand for advance purchase and other discounted tickets and a reduced take up of First Class fares. Our portfolio of rail franchises, which includes London commuter, intercity and regional train services, provides a balanced mix of operations and mitigates reliance on any one specific market. All of our franchises are delivering growth, particularly First ScotRail and First TransPennine Express. In addition, the revenue support arrangements within our franchise agreements with the DfT continue to ensure significant insulation from passenger revenues that are lower than the target revenues in our franchise bids. First Capital Connect and First Great Western are receiving revenue support at the 80% level.

Overall, our operational performance has improved during the year and the Public Performance Measure (PPM) on a moving annual average basis is over 90% at First Great Western, First ScotRail and First TransPennine Express. First Capital Connect's PPM is recovering after a period of significant disruption, caused by unofficial industrial action and damage to rolling stock as a result of severe weather, which impacted performance.

We were delighted with our success at the Rail Business Awards in February with finalists in every category and a number of awards. First Capital Connect won Internal Communication Excellence for its innovative one-stop employee information shop and extranet and First TransPennine Express received the Environmental Innovation award for a unique Eco Drive and Driving Fuel Efficiency programme to save fuel and money and to reduce carbon emissions on our Class 185 trains. First Great Western won Train Operator of the Year and FirstGroup won the Rail Business of the Year award, which recognised our market leading position. We were also delighted that First ScotRail won Passenger Operator of the Year at the National Rail Awards in September, the only Train Operating Company to receive the award for two consecutive years. First ScotRail was also named Public Transport Operator of the Year at the National Transport Awards in July.

We are the UK's largest rail operator and have established a track record of prudent bidding and delivering profitable growth. As a long term player in the rail market we are well positioned to continue to benefit from the exciting opportunities from future franchise competitions.

FIRST SCOTRAIL

Like-for-like passenger revenue growth was 3.2% during the year. We celebrated the fifth anniversary of the First ScotRail franchise in October and, working with Transport Scotland and our other partners, we continue to invest in the future of Scotland's railways. We were delighted to record an overall customer satisfaction score of 90% in the National Passenger Survey.

In May 2009 we delivered a new summer timetable with extra East Coast commuter services and improvements for our customers in Fife, the Highlands and on the West Coast. In December we added a new hourly service between Glasgow and Edinburgh via Shotts as part of an ambitious package of improvements between Glasgow and Edinburgh, identified in the Scottish Government's Strategic Transport Projects Review. The new timetable also included a much improved service between Glasgow and Kilmarnock and better connections from Ayr and Gourock into Glasgow and between Dumfries and Carlisle and North Berwick and Edinburgh for early morning services to London.

First ScotRail was named Passenger Operator of the Year – for an unprecedented second consecutive year – at the 2009 National Rail Awards. The judges recognised its record highs for both customer satisfaction and punctuality and reliability.

During the year we completed a series of investments across the business including improvements to our rolling stock, new engineering equipment at our depots and upgrading stations and car parks to enhance reliability and customer service. We continue to work on a range of projects to deliver further improvements. We are trialling smartcard technology on the Edinburgh-Glasgow route and will issue 10,000 smartcards later this year. Transport Scotland is also funding the development of our Shields depot in preparation for the delivery of a new fleet of 38 Class 380 electric trains to run between Glasgow Central, Ayrshire, Inverclyde and Renfrewshire. The £200m investment by Transport Scotland will add some 7,500 seats to Scotland's rail network from September 2010. The new trains will allow other rolling stock to be released to the £300m Airdrie-Bathgate line, which will open in December 2010.

FIRST TRANSPENNINE EXPRESS

Like-for-like passenger revenues increased by 5.6% and operational performance has continued to improve at First TransPennine Express throughout the year. We delivered our best ever levels of train punctuality and reliability improving PPM on a moving annual average basis to over 92%, despite the poor winter weather this year.

First TransPennine Express received the Environmental Innovation award at the Rail Business Awards for saving over 5m litres of fuel through Eco Drive – a ground breaking new technology – and its Driving Fuel Efficiency programme.

We were pleased to achieve an overall customer satisfaction score of 89% in the National Passenger Survey, the best autumn result in the history of First TransPennine Express and a six point improvement year on year. Our areas of significant improvement included the frequency of trains, punctuality and reliability, connections and value for money.

Strong passenger revenue growth at First TransPennine Express has been driven by the continued development of our services between Manchester Airport and Scotland and by achieving volume growth through modal shift on journeys to and from the airport, despite a fall in the number of air passengers. In December we increased the number of weekday services on this route which improved our competitive position and allowed us to stimulate further the high passenger demand that exists on this corridor.

First TransPennine Express has stimulated passenger revenue growth through a range of successful marketing campaigns. With the Lake District and many seaside resorts on our network we continue to target our marketing efforts on leisure promotions and special offers including 'Kids Go Free' and 'Club 55'. In January we offered passengers a 25% discount on advance purchase tickets.

FIRST GREAT WESTERN

Like-for-like passenger revenue increased by 1.3% and operational performance has consistently improved over the year. PPM on a moving annual average basis is over 92% and our National Passenger Survey results are also improving. The autumn 2009 survey highlighted that 82% of First Great Western customers are satisfied with our service, an increase of two percentage points on last year and an improvement of eight percentage points on 2007.

First Great Western continued to improve its operational performance with 92.43% of services arriving on time in 2009/10, its best year ever. The National Passenger Survey showed that customer satisfaction has also increased.

We continue to invest in the franchise and have started an £8m programme to improve our Class 16x fleet, which carry more than 36 million passengers a year in the London and Thames Valley area. We are upgrading on board facilities and refreshing the interior which will improve the environment for our customers. The first two vehicles were launched in April 2010 and the entire fleet will be upgraded by March 2012.

We introduced WebCIS, our Customer Information System, to a number of smaller stations on our network including Hanborough, Ivybridge and Radley and ten stations on the Severn Beach Line in Bristol. Feedback from our customers has been very positive and we are developing plans to roll out the system further.

Following the success of Volo TV on our Sleeper services, we introduced the on demand entertainment service to the back of seats in some Standard Class carriages on our High Speed Trains in November and the roll out will be completed by December 2010. We are also nearing completion of our programme to improve on board catering on High Speed Trains by introducing 19 Express Cafés and refreshing ten First Class buffets.

In March we signed an agreement with the DfT to secure the long term future of 30 vehicles in our West fleet. These will replace the trains currently on short term lease from other Train Operating Companies which have allowed us to deliver extra capacity on the Cardiff-Portsmouth route and travel to work services in the Exeter area.

FIRST CAPITAL CONNECT

Like-for-like passenger revenue growth was 2.6% during the year. As a result of unofficial industrial action by our train drivers and damage to rolling stock and infrastructure caused by extreme winter weather, First Capital Connect's customers on the Thameslink route experienced an unacceptable level of service from October to January. During this period we operated a reduced timetable with a high level of cancellations and a significant decline in PPM. This was reflected in an overall satisfaction score of 75% in the most recent National Passenger Survey. Operational performance has now improved with PPM on the Thameslink route at 92% in March and April 2010 and we will continue to work hard to restore customer confidence.

First Capital Connect secured agreement with the Department for Transport to enhance capacity on the Great Northern route. More than £27m of Government funding will create around 6,500 extra seats on peak time services.

In March First Capital Connect announced a programme of investment and customer benefits which, in total, are worth over £10m. The investment will be spread between improvements to the Customer Information Systems, a modification and renewal package for Class 319 trains on the Thameslink route to resolve reliability issues and introduction of ticket barriers at stations on our network. First Capital Connect also enhanced the discount scheme for Thameslink customers.

We have introduced a comprehensive driver recruitment and training programme and are working with Network Rail through our Joint Performance Improvement Plan to return the Thameslink route to more stable levels of performance. The delivery of the final Class 377/5 Electrostar in January allowed First Capital Connect to fully resource the 'Key Output 0' timetable on the Thameslink network and provide almost 5,000 additional seats at the busiest times of the day.

Operational performance on the Great Northern route has been consistently strong, however peak time capacity remains a key issue for our customers. In May 2009 we introduced 'Seats for You', a major timetable change on the route, to reduce overcrowding. The new timetable, together with additional carriages and upgraded infrastructure, allowed First Capital Connect to strengthen trains to eight or 12 car formations and introduce additional services with an overall 15% increase in peak seats.

In March we reached an agreement with the DfT to implement further capacity enhancement schemes on the Great Northern route. The DfT has provided £27m of funding to secure 41 additional carriages which will create around 6,500 extra seats on peak time services into London Kings Cross and London Moorgate. The improvements will be implemented in stages from December 2010 to December 2013.

FIRST HULL TRAINS

The number of passenger journeys on First Hull Trains continued to grow although the demand for First Class fares was weaker as passengers sought value from discounted fares. We were pleased to conclude negotiations with the Office of Rail Regulation and Network Rail to extend our Track Access Contract to 2016. We have now started a project to refresh our Class 180 trains and are currently at the tendering stage of this important investment programme.

FIRST GBRF

We are pleased with the continued development of our rail freight business. During the year First GBRf signed new contracts with Network Rail, MSC, EDF and Lafarge. We also signed a ten year contract with Drax Power Limited to operate four trains a day moving renewable biomass material by rail from the Port of Tyne to Drax Power Station in North Yorkshire. First GBRf is providing locomotives, carriages and train crew for passenger services between Taunton and Cardiff for First Great Western. The contract is expected to continue until the end of July 2010.

Corporate Social Responsibility

We are committed to providing safe, reliable, innovative and sustainable transport services. Corporate Social Responsibility (CSR) is central to the Group and informs how we achieve our commitments and how we do business.

Safety is our key priority and our industry-leading Injury Prevention initiative continues to underpin our approach to targeted safety improvements. During the year we reduced our Lost Time Injury rate by 18% and our passenger injury rate by 9%. Over the last four years our Lost Time Injury rate has halved and we continue our efforts to eliminate workplace accidents and injuries.

Key stakeholders

We work with a range of bodies in each of our markets. Understanding and managing our stakeholders' expectations is pivotal to our success and therefore continual engagement is vital. Some of our key stakeholder groups are:

- ▶ Employees
- ▶ Customers
- ▶ Investors
- ▶ Government and local authorities
- ▶ Supply chain
- ▶ Community

CSR guides the non-financial key performance indicators we use to manage our business – our efforts to meet the needs of our customers and communities, the management of our people and our environmental impact and our strategy for future growth.

The challenging economic environment has continued during the year. We have achieved our target to reduce our cost base by more than £200m as we matched service provision to lower customer demand and repositioned our businesses to be more competitive and ready for the economic recovery. Inevitably, some of the difficult decisions we have taken, particularly reducing our service frequencies or changing our routes in response to the recession, have impacted our customers, our communities and our stakeholders. However, we are committed to working with our partners to reintroduce services as the economy grows and passenger demand increases.

Safety and customer service are our core values and we continue to make progress against our non-financial key performance indicators. During the year we achieved many of the challenging objectives and targets we set out in our 2008/09 CSR Report. A detailed review of our performance is available in the full report on our website at www.firstgroup.com and we also publish a summary of our objectives, activities and how we have performed against our targets.

We know from our customer research and our partnerships with Passenger Focus and other passenger groups that the punctuality and reliability of our services drive overall customer satisfaction levels. Our UK Bus division continues to be the only major bus operator to publish data on the punctuality and reliability of local bus services on our websites. This information is also shared with our local authority partners to identify measures for improving performance. Despite adverse winter weather conditions, particularly in Q4, we have continued to improve our punctuality. However, overall reliability reduced slightly as a result of the poor road conditions. Our UK Rail division has improved overall. First Great Western and First TransPennine Express demonstrated strong performance despite heavy snowfall this winter, however First Capital Connect's PPM suffered as a result of unofficial industrial action by train drivers and substantial damage to our train fleet from the severe winter weather conditions.

In North America, On Time Performance at Greyhound continues to improve and in our contracted businesses we have continued to improve against our performance targets and contract retention remains high.

We recognise that our people are the key to delivering improved customer satisfaction. We want to be the employer of choice in our industry and we continue to engage with our employees on improving our learning and development, recognition and communication programmes. However, we also appreciate that this has been a difficult year for our staff as we managed our business through the recession and implemented a cost reduction programme, which led to a reduction in our employee numbers, particularly in back office functions.

Bus and rail services in the UK and North America play a key role in reducing the environmental impacts from travel by providing a low carbon alternative to cars and aviation. Our challenge is to maintain this carbon advantage and we are working to reduce our own emissions through our carbon reduction strategy. Since 2006 we have improved fuel efficiency in our UK Rail division by an average of 6% and emissions per passenger journey from our diesel operated fleet have reduced by approximately 9% during the same period. In our UK Bus division we have improved fuel efficiency by 1.5% and achieved a 5.8% reduction in our emissions per passenger kilometre in the last two years. Next year we will also have data for North America.

The transport services we provide are vital to communities, keeping the economy moving and bringing people together. We are therefore critical to the economic competitiveness of communities, transporting millions of people to work, school and other destinations every day. As well as providing transport connections we support the communities where we operate through broader community and charity partnerships. During the year we renewed our partnership with Save the Children for a further two years and continued our partnership with the Children's Miracle Network in North America. We measure our contributions using the London Benchmarking Group model and this year our community contributions total an estimated £1,847,807.

As well as providing vital transport links we also support the communities we serve through broader social and charitable partnerships. During the year we contributed an estimated £1,847,807 to a range of education, health and environmental projects. We measure our total community contributions using the London Benchmarking Group model.

Next year we will continue to work towards our goal of eliminating injuries and we plan to survey Group-wide employee engagement to inform our employee development programmes. We are working to improve further our service performance and customer satisfaction and we will continue to develop our services to encourage greater use of public transport.

Group outlook

Looking ahead we anticipate the new financial year will remain challenging. While we are encouraged by improving revenue trends in parts of our business, consistent with economic recovery, the global economic outlook remains uncertain and we expect the pressure on public spending in North America to continue. Against this backdrop we expect moderate earnings growth. The Group will continue to benefit from a diverse portfolio of businesses providing strength and resilience as they continue to trade robustly through the economic cycle.

We have set out our clear priorities to increase net cash generation and reduce net debt. We have increased the Group's net cash generation target to £150m for 2010/11. The continued strong cash generation supports our objectives of targeted capital investment, accelerating our deleveraging plans and delivering sustained real dividend growth for investors.

Looking ahead the Board is confident that the inherent strength and resilience of the Group, an expected return to earnings growth and our strong net cash generation supports the Board's commitment to dividend growth of at least 7% per annum over the next three years.

We have established leading positions and critical mass in all our core markets and believe that each of our businesses has significant potential for long term growth. The actions we have taken have created a stronger, more efficient base and will ensure that the Group is well placed to continue to deliver long term value for shareholders.



Sir Moir Lockhead
Chief Executive
12 May 2010

Finance Director's review

The Group has delivered a robust set of results against a challenging economic backdrop. Strong cash generation underpins the Group's commitment to deliver sustained real growth in the dividend while also reducing net debt.

JEFF CARR

OVERVIEW

The Group has delivered a robust set of results against a challenging economic backdrop, approximately £90m of increased hedged fuel costs and the impact of severe weather conditions across the UK and North America during Q4. Cost reduction actions have delivered £228m of savings during the year to partially mitigate these issues and deliver adjusted EPS of 39.5p per share, in line with our expectations.

The Group continues to prioritise improvements in cash performance and as a result generated net cash of £136.3m which was significantly ahead of our target. Next year's cash target has been raised to £150m. Strong cash generation underpins the Group's commitment to deliver sustained real growth in the dividend while also reducing net debt.

Further progress was made with debt financing during the year. Two long term sterling bonds were issued for a total of £550m to replace short term bank debt, increasing average debt duration from 4.6 years to 6.3 years. Headroom under committed revolver facilities at March 2010 was in excess of £1bn.

RESULTS

Group revenue was £6,319.3m (2009: £6,187.3m), an increase of 2.1% and includes £176.3m of favourable foreign exchange movements, representing a reduction of 0.7% at constant currencies. Operating profit was £453.9m (2009: £497.5m), a reduction of 8.8% principally due to the impact of the recession, in particular on Greyhound revenues, and the higher hedged fuel costs across the Group of approximately £90m which were partly mitigated by cost reduction actions across all the divisions. Statutory operating profit was £368.5m (2009: £371.1m).

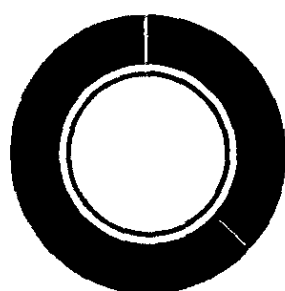
North American contract business revenue was \$3,704.8m or £2,333.7m (2009: \$3,739.0m or £2,224.1m), an increase of 4.9% in Sterling terms but a reduction of 0.9% in US Dollar terms. Operating profit was \$365.5m or £233.9m (2009: \$391.8m or £246.1m), a decrease of 5.0% in Sterling terms and 6.7% in US Dollar terms. Revenue was marginally down on last year due to school board budgetary pressures resulting in lower levels of high margin charter work and contract 'add ons'. Operating profit was impacted by higher fuel costs and, during the fourth quarter, bad weather impacted results by \$14m or £8.8m. In addition there were a lower number of student operating days due to the timing of school holidays.

Divisional results

| | Year to 31 March 2010 | | | Year to 31 March 2009 | | |
|--------------------|-----------------------|--|---------------------------------------|-----------------------|--|---------------------------------------|
| | Revenue £m | Operating profit ¹ £m | Operating margin ¹ % | Revenue £m | Operating profit ¹ £m | Operating margin ¹ % |
| North America | 2,333.7 | 233.9 | 10.0 | 2,224.1 | 246.1 | 11.1 |
| Greyhound | 603.3 | 23.9 | 4.0 | 642.4 | 48.5 | 7.5 |
| UK Bus | 1,170.6 | 124.6 | 10.6 | 1,182.0 | 134.0 | 11.3 |
| UK Rail | 2,188.4 | 92.6 | 4.2 | 2,121.5 | 94.2 | 4.4 |
| Group ² | 23.3 | (21.1) | - | 17.3 | (25.3) | - |
| Total Group | 6,319.3 | 453.9 | 7.2 | 6,187.3 | 497.5 | 8.0 |

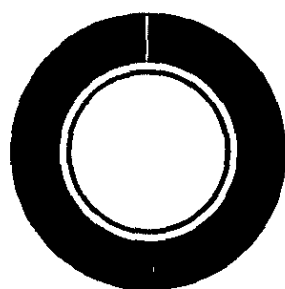
1 Before amortisation charges, hedge ineffectiveness on financial derivatives, non-recurring bid costs, other non-recurring items and (loss)/profit on disposal of properties

2 Tram operations, German Bus, central management and other items



Revenue by division

- North America £2,333.7m
- Greyhound £603.3m
- UK Bus £1,170.6m
- UK Rail £2,188.4m
- Other £23.3m



Operating profit¹

- North America £233.9m
- Greyhound £23.9m
- UK Bus £124.6m
- UK Rail £92.6m

¹ Excludes £21.1m of Group items

Greyhound revenue was \$963.4m or £603.3m (2009: \$1,114.0m or £642.4m) and operating profit was \$39.6m or £23.9m (2009: \$91.7m or £48.5m). Revenue fell as a result of the weak US economy and resultant increased unemployment. Encouragingly, revenue trends became positive in the final quarter of the year and network management ensured that the revenue per mile run-rate is ahead of prior year. Bus mileage was reduced by 11.3% during the year and there was an excellent performance on costs with reductions in overheads and swift actions taken on variable costs.

UK Bus revenue was £1,170.6m (2009: £1,182.0m), a reduction of 1.0%. Like-for-like passenger revenue was up 1.9% on the preceding year. Operating profit was £124.6m (2009: £134.0m), a reduction of 7.0% principally due to the impact of the recession on revenues, mileage reduction of 5% as service provision was flexed in line with demand, together with significantly increased hedged fuel costs and severe weather which impacted results by approximately £6m in the second half of the year. However, despite this tough trading environment the actions we took to improve operating efficiencies and reduce overheads delivered a good operating margin performance of 10.6% (2009: 11.3%).

UK Rail revenue was £2,188.4m (2009: £2,121.5m), an increase of 3.2%. A change in the Control Period (CP4) charging arrangements with Network Rail meant a £59.0m reduction in both DfT grant revenue and Network Rail charges with no impact on operating profit. Operating profit was £92.6m (2009: £94.2m), a decrease of 1.7%. Like-for-like passenger revenue growth across our rail business was 2.3%. Despite the clear impact of the weaker economy on the UK's railways, we were substantially insulated from the full effects of the recession by revenue support receipts at FGW and FCC. Revenue trends in the final quarter of the year were encouraging with adjusted revenue growth of 3.7% despite the reduction in regulated fares of 0.4%. The cost base continues to benefit from overhead cost reductions and other direct cost savings.

NON-RECURRING ITEMS AND AMORTISATION CHARGES

| | 2010 £m | 2009 £m |
|--|------------|------------|
| North American integration costs | 15.5 | 70.1 |
| North American restructuring costs | 15.9 | 9.9 |
| UK Bus restructuring costs | 6.8 | 2.1 |
| UK Rail restructuring costs | 2.5 | 10.3 |
| Fuel hedge ineffectiveness | 4.8 | 23.1 |
| Competition Commission costs | 3.8 | - |
| European bid costs | 0.3 | 3.5 |
| Total non-recurring items | 49.6 | 119.0 |
| Amortisation charges | 34.7 | 33.1 |
| | 84.3 | 152.1 |
| Loss/(profit) on disposal of properties | 1.1 | (25.7) |
| Hedge ineffectiveness on financial derivatives | (1.0) | - |
| | 84.4 | 126.4 |

North American integration costs

| | 2010 £m | 2009 £m |
|------------------------------------|------------|------------|
| Redundancy and staff related costs | 1.1 | 17.3 |
| IT costs | 5.9 | 15.3 |
| Legal and professional costs | 2.3 | 14.8 |
| Safety expenses | 0.1 | 9.0 |
| Rebranding costs | 0.1 | 3.1 |
| Relocation of offices | - | 2.9 |
| Other integration costs | 6.0 | 7.7 |
| | 15.5 | 70.1 |

These costs reflect the conclusion of the Laidlaw integration process and we do not anticipate any further such costs to be separately disclosed in future.

Restructuring costs

Restructuring costs were £25.2m (2009: £22.3m) and represent redundancy and related costs in respect of headcount reductions across all businesses as part of the cost reduction action plan.

Fuel hedge ineffectiveness

During the year a charge of £4.8m (2009: £23.1m) was made in respect of reduced 2009/10 fuel volumes principally due to changes to the terms of certain First Student and First Transit contracts whereby the Group has less 'at risk' fuel than it had when 2009/10 hedges were originally taken out.

Competition Commission costs

Costs of £3.8m (2009: £nil) have either already been incurred or are committed to be spent on the ongoing Competition Commission investigation into the local bus market in the UK.

European bid costs

Bid costs of £0.3m (2009: £3.5m) represent the non-recurring costs of business development opportunities in mainland Europe.

Amortisation charges

Amortisation charges for the year were £34.7m (2009: £33.1m) with the increase due to the impact of foreign exchange movements.

Loss/(profit) on disposal of properties

A loss on disposal of properties of £1.1m (2009: profit of £25.7m) was recorded during the year. Due to market conditions there were no significant disposals of properties during the year either in the UK or North America. The principal disposals in the prior year were the Southampton depot within UK Bus and a Greyhound site in Seattle.

Hedge ineffectiveness on financial derivatives

Due to the ineffective elements of the fair value movements on financial derivatives there was a £1.0m credit to the income statement during the year (2009: £nil).

FINANCE COSTS AND INVESTMENT INCOME

The net finance cost was £188.9m (2009: £171.1m) with the increase principally due to the issue of long term bonds in September 2008, April 2009 and September 2009 and foreign exchange on US Dollar denominated interest costs.

PROFIT BEFORE TAX

Adjusted profit before tax was lower than the prior year at £264.0m (2009: £326.4m) due principally to lower operating profit and higher net finance costs. Amortisation charges and net exceptional costs of £84.4m (2009: £126.4m) resulted in statutory profit before tax of £179.6m (2009: £200.0m).

TAX

The tax charge, on adjusted profit before tax, for the year was £59.1m (2009: £81.6m) and results in an effective rate of 22.4% (2009: 25.0%). The reduction in the effective rate is principally due to lower North American profits. There was a tax credit of £26.6m (2009: £38.6m) relating to amortisation charges and non-recurring items. This resulted in a total tax charge of £32.5m (2009: £43.0m). Last year there was a one-off deferred tax charge due to an increase in the UK deferred tax liability arising on the abolition of Industrial Buildings Allowances.

The actual tax paid during the year was £1.3m (2009: £8.9m). North American cash tax remains low due to tax losses brought forward and tax depreciation in excess of book depreciation. We expect the North American cash tax rate to remain low for the medium term. The UK cash tax for the year was low mainly due to pension payments exceeding pension charges and interest payments. UK cash tax is likely to be higher in the year to March 2011.

DIVIDENDS

In line with our stated commitment the Board has proposed a final dividend, subject to approval by shareholders, of 14.0p, an increase of 10%, making a full year payment of 20.65p. It will be paid on 20 August 2010 to shareholders on the register at 16 July 2010. The dividend is covered 1.9 times by adjusted basic EPS.

EPS

The adjusted basic EPS was 39.5p (2009: 48.6p), a reduction of 18.7%. Basic EPS was 27.5p (2009: 30.2p), a reduction of 8.9%.

CASH FLOW

Net cash inflow was £136.3m (2009: £51.1m) during the year. This contributed to a net debt reduction of £222.0m (2009: increase of £342.5m) as detailed below:

| | 2010 £m | 2009 £m |
|---|------------|------------|
| Adjusted EBITDA | 769.6 | 772.2 |
| Non-recurring items | (53.1) | (67.6) |
| Pension payments in excess of income statement charge | (42.1) | (50.7) |
| Working capital outflow | (76.0) | (23.7) |
| Other non-cash income statement items | 6.3 | 9.5 |
| Operational cash flow | 604.7 | 639.7 |
| Capital expenditure and acquisitions | (201.7) | (358.9) |
| Interest, tax and other | (154.5) | (135.8) |
| Dividends | (112.2) | (93.9) |
| Net cash inflow | 136.3 | 51.1 |
| Foreign exchange and other | 85.7 | (624.4) |
| Proceeds of share issue | - | 230.8 |
| Reduction/(increase) in net debt | 222.0 | (342.5) |

OPERATING CASH FLOW

Cash generated by operations reduced slightly to £604.7m (2009: £639.7m). The principal reason for the reduction was the increased working capital outflow from £23.7m to £76.0m. The main reason for the increase was the timing of payments and cash receipts due to the change to the CP4 charging mechanism and the increased level of revenue support. However, working capital outflow was lower than management expectations for the year.

EBITDA

Adjusted EBITDA by division is set out below:

| | Year to 31 March 2010 | | | Year to 31 March 2009 | | |
|---------------|-----------------------|--------------|--------------------------|-----------------------|---------------------------|--------------------------|
| | Revenue £m | EBITDA £m | EBITDA ¹ % | Revenue £m | EBITDA ¹ £m | EBITDA ¹ % |
| North America | 2,333.7 | 386.4 | 16.6 | 2,224.1 | 374.2 | 16.8 |
| Greyhound | 603.3 | 52.6 | 8.7 | 642.4 | 76.6 | 11.9 |
| UK Bus | 1,170.6 | 200.2 | 17.1 | 1,182.0 | 205.4 | 17.4 |
| UK Rail | 2,188.4 | 147.6 | 6.7 | 2,121.5 | 137.2 | 6.5 |
| Group | 23.3 | (17.2) | - | 17.3 | (21.2) | - |
| Total Group | 6,319.3 | 769.6 | 12.2 | 6,187.3 | 772.2 | 12.5 |

¹ Operating profit before amortisation charges, hedge ineffectiveness on financial derivatives, non-recurring bid costs, other non-recurring items and (loss)/profit on disposal of properties plus depreciation

CAPITAL EXPENDITURE

Efficient network management and lower passenger demand during the year enabled a reduction in fleet renewals. Accordingly capital expenditure was reduced across the Group. Cash capital expenditure was £201.7m (2009: £358.9m) and comprised UK Bus £32.5m (2009: £115.2m), UK Rail £36.3m (2009: £53.2m), North America £99.8m (2009: £180.8m), Greyhound £30.0m (2009: £4.0m) and Group items £3.1m (2009: £5.7m).

FUNDING AND RISK MANAGEMENT

At the year end, total bank borrowing facilities amounted to £2,110.0m (2009: £2,401.6m) of which £2,066.4m (2009: £2,328.2m) is committed. Of these committed facilities, £1,053.1m (2009: £1,745.2m) were utilised at 31 March 2010 leaving committed headroom of £1,013.3m (2009: £583.0m). Largely due to seasonality in the North American school bus business, committed headroom typically reduces during the financial year up to October and increases thereafter. Group Treasury policy requires a minimum of £175m of committed headroom at all times.

During the year we continued our strategy to extend the maturity profile of our debt whilst reducing reliance on the bank market. In April 2009 we issued £350m of 12-year bonds and in September 2009 we issued £200m of 15-year bonds. Both these issues were significantly oversubscribed. As a result of these actions the Group's average debt maturity has been increased to 6.3 years (2009: 4.6 years). The Group's main revolving bank facilities expire in February 2012 and we are planning to implement replacement facilities well in advance.

As the Group is a net borrower, we minimise cash and bank deposits, which arise principally in the UK Rail companies. The Group can only withdraw cash and bank deposits from the UK Rail companies on a permanent basis to the lower of retained profits or the amount determined by prescribed liquidity ratios.

The Group does not enter into speculative financial transactions and uses only authorised financial instruments for certain risk management purposes.

Interest rate risk

The Group reduces exposure by using a combination of fixed rate debt and interest rate derivatives to achieve an overall fixed rate position over the medium term of between 75% and 100% of net debt. At 31 March 2010 100% (2009: 94%) of net debt was fixed and in excess of 70% of net debt is fixed for the next two years.

Fuel price risk

In the UK, crude oil costs were hedged at an average rate of \$111 per barrel during the year. At the end of the year we have hedged 84% of our 'at risk' UK crude requirements for the year to 31 March 2011 (2.5m barrels p.a.) at \$76 per barrel and 31% of our requirements for the year to 31 March 2012 at \$85 per barrel.

In North America crude oil costs were hedged at an average rate of \$116 per barrel during the year. At the end of the year we have hedged 88% of the 'at risk' volume for the year to 31 March 2011 (1.7m barrels p.a.) at \$89 per barrel. In addition we have hedged 38% of 'at risk' volumes for the year to 31 March 2012 at \$101 per barrel.

Foreign currency risk

Group policies on foreign currency risk affecting cash flow, profits and net assets are maintained to minimise exposures to the Group by using a combination of natural hedge positions and derivative instruments where appropriate. Translation risk relating to US Dollar earnings arising in the US is largely offset by US Dollar denominated costs incurred in the UK, principally UK fuel costs, US Dollar interest and tax costs so that exposure to EPS on a year to year basis is not significant.

With regard to balance sheet translation risk, the Group hedges part of its exposure to the impact of exchange rate movements on translation of foreign currency net assets by holding currency swaps and net borrowings in foreign currencies. At 31 March 2010 foreign currency net assets were 63% (2009: 81%) hedged.

NET DEBT

The Group's net debt at 31 March 2010 was £2,281.5m (2009: £2,503.5m) and is set out in the table below. We are focused on reducing our leverage. At 31 March 2010 net debt to EBITDA was 2.96 times (March 2009: 3.24 times) and it is expected that this ratio will continue to decrease in the year to 31 March 2011.

| Net debt | Fixed £m | Variable £m | Total £m | 2009 £m |
|--|----------------|----------------|----------------|----------------|
| Cash | – | (76.0) | (76.0) | (109.7) |
| UK Rail ring-fenced cash and deposits | – | (234.2) | (234.2) | (184.8) |
| Other ring-fenced cash and deposits | – | (24.8) | (24.8) | (28.0) |
| Sterling bond (2013) ¹ | 297.5 | – | 297.5 | 296.9 |
| Sterling bond (2018) ² | 350.7 | – | 350.7 | 364.9 |
| Sterling bond (2019) ² | – | 294.2 | 294.2 | 305.9 |
| Sterling bond (2021) ² | 341.3 | – | 341.3 | – |
| Sterling bond (2024) ¹ | 198.9 | – | 198.9 | – |
| Sterling bank loans and overdrafts | – | 10.5 | 10.5 | 117.8 |
| US Dollar bank loans and overdrafts ³ | – | 699.0 | 699.0 | 1,350.4 |
| Canadian Dollar bank loans and overdrafts | – | 156.3 | 156.3 | 122.9 |
| Euro and other bank loans and overdrafts | – | 30.2 | 30.2 | 27.8 |
| HP contracts and finance leases | 116.7 | 110.7 | 227.4 | 228.9 |
| Loan notes | 8.7 | 1.8 | 10.5 | 10.5 |
| Interest rate swaps | 1,006.8 | (1,006.8) | – | – |
| Total | 2,320.6 | (39.1) | 2,281.5 | 2,503.5 |

¹ Excludes accrued interest

² Stated excluding accrued interest, swapped or partially swapped to US Dollars and adjusted for movements on associated derivatives

³ Includes £46.2m of Euro bank loans swapped into US Dollars

SHARES IN ISSUE

As at 31 March 2010 there were 480.2m shares in issue (2009: 480.8m), excluding treasury shares and own shares held in trust for employees of 1.9m (2009: 1.3m). The weighted average number of shares in issue for the purpose of basic EPS calculations (excluding treasury shares and own shares held in trust for employees) was 480.5m (2009: 474.8m).

TOTAL EQUITY

Total equity has increased by £106.2m since the start of the year. The principal reasons for this are an increase in the hedging reserve of £238.8m, retained profits of £147.1m partly offset by actuarial losses on defined benefit pension schemes, net of tax, of £150.7m, dividend payments of £112.2m and an unfavourable movement in the translation reserve of £18.8m.

FOREIGN EXCHANGE

The most significant exchange rates to Sterling for the Group, for Balance Sheet and Income Statement translation, were as follows:

| | Year to 31 March 2010 | | Year to 31 March 2009 | |
|-----------------|-----------------------|----------------|-----------------------|----------------|
| | Closing rate | Effective rate | Closing rate | Effective rate |
| US Dollar | 1.49 | 1.57 | 1.43 | 1.63 |
| Canadian Dollar | 1.53 | 1.60 | 1.78 | 1.95 |

PENSIONS

The net pension deficit, before deferred tax, of £169m at the beginning of the year has moved to a deficit of £331m at the end of the year principally due to a reduction in the discount rate from 6.75% to 5.60%, partly offset by improvements in asset returns over the period.

The main factors that influence the net balance sheet deficit or surplus for pensions and the sensitivities to their movement are set out below:

| | Movement | Impact |
|---------------|----------|--------------------------|
| Discount rate | + 0.1% | Reduce deficit by £32m |
| Inflation | + 0.1% | Increase deficit by £25m |

SEASONALITY

The First Student business generates lower revenues and profits in the first half of our financial year than in the second half as the school summer holidays fall into the first half.

GOING CONCERN

The Group has established a strong balanced portfolio of businesses with approximately 50% of Group revenues secured under medium term contracts with government agencies and other large organisations in the UK and North America.

The Group has a diversified funding structure with an average life of 6.3 years at March 2010, and which is largely represented by medium term unsecured syndicated committed bank facilities and long term unsecured bond debt. The Group has £505m and \$1,500m of committed revolving banking facilities of which £1,013m was undrawn at the year end. These facilities expire in February 2012 and the Directors believe that there is every likelihood that they will be replaced by similar financing arrangements.

The Directors have carried out a detailed review of the Group's budget for the year to 31 March 2011 and medium term plans, with due regard for the risks and uncertainties to which the Group is exposed, the uncertain economic climate and the impact that this could have on trading performance.

Based on this review, the Directors believe that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis, and details of the going concern review are shown in the Directors' Report in the Group's Annual Report and Accounts.



Jeff Carr
Finance Director
12 May 2010

Board of Directors

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

1 MARTIN GILBERT LLd MA LLB CA**Chairman****Chairman of the Nomination Committee³**

A Chartered Accountant, he is one of the founders and Chief Executive of Aberdeen Asset Management PLC. He was appointed to the Board of FirstGroup plc in 1995. He is Chairman of Chaucer Holdings PLC and a director of a number of investment trusts. He is a Non-Executive Director of Primary Health Properties PLC and Aberdeen Football Club plc.

2 SIR MOIR LOCKHEAD OBE**Deputy Chairman and Chief Executive****Chairman of the Executive Safety Committee⁴**

Chief Executive and Deputy Chairman since the Group's formation in 1995. Originally a mechanical engineer he joined Grampian Transport in 1985 as General Manager and went on to lead the successful employee buy-out of GRT Bus Group PLC. In 1996 he was awarded the OBE for services to the bus industry and in 2008 he was awarded a Knighthood for services to transport. He is a past President of the Confederation of Passenger Transport and currently President of the Chartered Institute of Logistics and Transport and Senior Governor of the University of Aberdeen.

3 SIDNEY BARRIE LLB**Commercial Director; Company Secretary^{4,5}**

Appointed to the Board in August 2005 as Commercial Director and subsequently Company Secretary. He joined the Group from Paull & Williamsons, solicitors in Aberdeen, where he was a senior partner and Head of Corporate acting for a number of listed and private companies. He had a long association with the Group in an advisory capacity going back to the original employee buy-out of GRT Bus Group PLC. In his current role he has responsibility for a range of commercial activities across the Group.

4 JEFF CARR BEng ACMA**Finance Director^{4,5}**

Appointed to the Board in September 2009 as Finance Director, he joined the Group from easyJet plc where he was Group Finance Director since 2005. Prior to that he held a number of senior financial roles at Associated British Foods plc, Reckitt Benckiser Group plc, Grand Metropolitan PLC and Unilever plc.

5 NICOLA SHAW BA MST**Director Bus UK, Ireland and Germany^{4,5}**

Appointed to the Board in January 2009 as Director responsible for Bus in the UK, Ireland and Germany. She joined the Group in May 2005 as Managing Director UK Bus from the Strategic Rail Authority where she was Managing Director of Operations. Her career in the public transport sector, both in the UK and overseas, has included roles at the Office of the Rail Regulator, Bechtel, Halcrow, the World Bank and London Transport. She is a Non-Executive Director of Aer Lingus Group plc.

6 AUDREY BAXTER DBA LLd DipAcc BA**Non-Executive Director^{1,2,3}****Chairman of the Remuneration Committee**

Appointed to the Board as Non-Executive Director in August 2006. She is Chairman and Chief Executive of W.A. Baxter & Sons Limited. She has held a number of non-executive positions and was formerly a member of the Scottish Business Forum and the Scottish Economic Council.

7 PROFESSOR DAVID BEGG DSC BA**Non-Executive Director^{1,2,3}**

Appointed to the Board as Non-Executive Director in August 2005. He is Chairman of Tube Lines Limited and Northern Way Transport Compact and a Director of Portobello Partnership. He is a visiting professor at Plymouth University and an adviser to Greater Manchester Passenger Transport Executive. He is also the publisher of Transport Times. Until 2005 he was Chairman of the Commission for Integrated Transport and a Non-Executive Director of the Strategic Rail Authority.

8 COLIN HOOD BSc MSc FIET**Non-Executive Director^{1,2,3}**

Appointed to the Board as a Non-Executive Director in May 2009, he is a Director and Chief Operating Officer of Scottish and Southern Energy plc. He is a Director of Scotia Gas Networks.

9 TIM O'TOOLE CBE JD**Non-Executive Director^{1,2,3}**

Appointed to the Board as a Non-Executive Director in May 2009, he was, until the end of April 2009, Managing Director, London Underground. He joined Transport for London in 2003 prior to which he was President and Chief Executive of Consolidated Rail Corporation, one of America's most successful rail networks.

10 JOHN SIEVWRIGHT MA CA**Senior Independent Non-Executive Director^{1,2,3}****Chairman of the Audit Committee**

Appointed to the Board in May 2002, he was, until 2008, a Senior Vice President and Chief Operating Officer of International for Merrill Lynch & Co. A Chartered Accountant, he has held various senior management positions in banking in London, New York, Dublin and Japan. He is a member of the North American Board of the Michael Smurfit Business School, Dublin and a Non-Executive Director of ICAP plc.

11 MARTYN WILLIAMS**Non-Executive Employee Director**

Appointed to the Board as Employee Director in January 2003, he is currently serving a third term as Employee Director. He is employed as a customer services supervisor in Swansea and has worked for the Group for 32 years.

Corporate governance

The Company applies all of the main and supporting principles of good governance set out in section 1 of the Combined Code on Corporate Governance issued by the Financial Reporting Council in 2006 (the 'Code'). The way in which it applies those principles is set out below. Except as described in paragraph 1.1 (b) below, the Company complies with all of the provisions of section 1 of the Code.

1 THE BOARD AND ITS PRINCIPAL COMMITTEES

Details of the Board, its members and its principal committees are set out below.

1.1 The Board

(a) Board structure and responsibilities

The Board currently consists of the Chairman, four Executive Directors and six Non-Executive Directors. The Board meets at least nine times each year and is responsible for setting and reviewing the Company's strategy and objectives, reviewing the financial and operational performance of each of the Group's business units, agreeing and reviewing progress against the Group's annual budgets and setting and reviewing on a regular basis its longer term business plans. It also has a schedule of matters specifically reserved to it including approval of the half-year and full-year financial statements, financing arrangements, material capital commitments, business acquisitions and disposals, relationships with regulatory authorities and operating and accounting policies.

During the year, the Board met nine times and all members of the Board attended all meetings except for Colin Hood who was absent from one of those meetings. The Board also held a number of separate strategy meetings.

On 1 May 2009, Dean Finch, Chief Operating Officer, resigned as a Director.

On 7 May 2009, Colin Hood and Tim O'Toole were appointed as Non-Executive Directors.

On 23 July 2009, Ellis Watson was appointed as Marketing and Business Development Director. He subsequently resigned on 22 March 2010 to take up a new role as Chief Executive Officer of a company in the media and music industry.

On 29 September 2009, Jeff Carr was appointed as Finance Director. Until then, Nick Chevis, Acting Finance Director, attended all meetings of the Board, although not as a member of the Board.

(b) Board balance and independence

The independence of the Non-Executive Directors has been reviewed against the definition of independence in the Code. David Begg, John Sievwright, Audrey Baxter, Colin Hood and Tim O'Toole are considered to be independent within this definition.

As Martyn Williams is an employee of one of the Group's subsidiaries, he cannot be considered to be independent. However, the Board feels strongly that it is beneficial for its employees to be represented on the Board in this way so that important employee-related issues can be raised at the highest level and a two-way communication process between the management of the Company and its employees is maintained.

Prior to the resignation of Ellis Watson, the Company did not technically comply with the Code provision that at least one half of the Board, excluding the Chairman, is made up of Non-Executive Directors who are considered by the Board to be independent. That would also be the case upon the appointment of any successor Marketing and Business Development Director. However, the Directors are satisfied that the effective contribution of the independent Non-Executive Directors ensures that the process and operations of the Board are conducted in the interests of shareholders as a whole and that the Board possesses the breadth of business, financial and international experience necessary to manage effectively an organisation of the size and complexity of the Group.

(c) Roles of the Chairman and Chief Executive

The Chairman

The Chairman of the Board is Martin Gilbert. He has a written statement of responsibilities which has been approved by the Board:

The Chairman is responsible for:

- ▶ leadership of the Board, ensuring its effectiveness on all aspects of its role and setting its agenda, taking into account the issues relevant to the Group and the concerns of all Board members;
- ▶ ensuring, with the Chief Executive and Company Secretary, the provision of accurate, timely and clear information to the Board;
- ▶ ensuring effective communication with shareholders and that the Board develops an understanding of the views of major investors;
- ▶ managing the Board, ensuring that sufficient time is allowed for the discussion of complex or contentious issues;
- ▶ ensuring a regular evaluation of the performance of the Board as a whole, its Committees and individual Directors;
- ▶ taking the lead in identifying and meeting the development needs of individual Directors and the Board as a whole, with a view to enhancing the overall effectiveness of the team;
- ▶ facilitating the effective contribution of Non-Executive Directors and ensuring constructive relations between Executive and Non-Executive Directors;
- ▶ ensuring, with the Chief Executive and Company Secretary, that new Directors receive a comprehensive induction programme to ensure their early contribution to the Board; and
- ▶ encouraging active engagement by all members of the Board.

The Board is of the opinion, reinforced by the performance evaluation review referred to below, that Martin Gilbert's significant and in-depth knowledge and experience of the Group's business, combined with his external business experience, enables him to provide effective leadership of the Board and to continue to make a positive contribution to the Group's ongoing business.

The Chairman's other significant business commitments, which remain relatively unchanged from last year, are described in his biography on page 29. The Board performance evaluation process referred to below confirmed that the other Board members are satisfied that Martin Gilbert has the necessary time available to devote to the proper performance of his duties as Chairman.

The Chief Executive

The Chief Executive is Sir Moir Lockhead. He also has a written statement of responsibilities which has been approved by the Board:

The Chief Executive is responsible for:

- ▶ running the day-to-day business of the Group, within the authorities delegated to him by the Board;
- ▶ ensuring implementation across the Group of the policies and strategy set by the Board for the Group;
- ▶ day-to-day management of the executive and senior management team;
- ▶ leading the development of senior management within the Group with the aim of assisting the training and development of suitable individuals for future Director roles;
- ▶ ensuring that the Chairman is kept apprised in a timely manner of the issues facing the Group and of any important events and developments; and
- ▶ leading the development of the Group's future strategy including identifying and assessing opportunities for the growth of its business and reviewing the performance of its existing businesses.

(d) Senior Independent Non-Executive Director

John Sievwright, who chairs the Audit Committee, is the Senior Independent Non-Executive Director. He is available to shareholders if they have concerns that contact through the normal channels of Chairman, Chief Executive or Finance Director has failed to resolve or for which such contact is inappropriate.

(e) Information and professional development of Board members

The Board receives detailed papers on the business to be conducted at each meeting well in advance and individual Board members have direct access to senior executives should they wish to receive additional information on any of the items for discussion. The head of each operating division attends Board meetings on a regular basis to ensure that the Board is properly informed about the performance of and current issues facing that division. Management give presentations on current issues facing the business.

All Directors have access to the advice and services of the Company Secretary and, if necessary, can seek independent professional advice at the Company's expense in the furtherance of their duties. The Company Secretary is responsible for advising the Board on corporate governance matters and for ensuring compliance with Board procedures.

Directors receive induction on appointment to the Board, which is tailored to their individual needs. This includes meetings with senior management and relevant external advisers. In addition, information is provided on their responsibilities and obligations under law, regulation and best practice guidelines. The induction process is supported during the year by the programme of business presentations described above.

The Board also receives updates, as required, on changes to the law and the regulatory regimes affecting the Group.

(f) Performance evaluation

During the course of the year, the Board undertook an evaluation of its performance. The Chairman led the process, assisted by the Company Secretary. The objectives of this exercise were to ensure that the Board, its Committees and each individual Director continued to act effectively and to fulfil the duties and responsibilities expected of them and to identify any additional training requirements. A tailored questionnaire was developed, which each Director completed. The responses were analysed and discussed at a meeting of the Board. The Senior Independent Non-Executive Director led a process of evaluation of the performance of the Chairman. No significant issues were raised in the course of the evaluation process.

(g) Re-election of Directors

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 re-appointment by shareholders at the next Annual General Meeting. The biographical details of all the Directors, including those seeking re-election at the 2010 Annual General Meeting, are set out on pages 28 and 29.

(h) Appointment of Non-Executive Directors

Non-Executive Directors are appointed by the Board for an initial term of three years, subject to re-appointment by shareholders. They have letters of appointment which are available on request for inspection.

(i) Directors' and Officers' liability insurance

The Company maintained Directors' and Officers' liability insurance cover throughout the year as permitted by the Companies Act 2006. The cover was renewed on 1 April 2010.

2 COMMITTEES OF THE BOARD

In addition to the Audit, Remuneration and Nomination Committees, the terms of reference for which are published on the Company's website and details of which are set out below, the Board has also delegated certain matters to Committees. The principal such Committees are:

2.1 Executive Safety Committee ('ESC')

The ESC is chaired by the Chief Executive and meets on a monthly basis. It comprises the Executive Directors, other senior managers and safety officers. The ESC reviews the Group's safety performance and practices, develops safety policies and procedures and follows up on outstanding issues. During the year a number of meetings were attended by independent safety experts and senior representatives of relevant industry bodies, including the Health & Safety Executive.

2.2 Executive Management Board ('EMB')

The EMB, which comprises the Executive Directors and certain senior business managers, is chaired by the Chief Executive. It acts as a general operating management committee and meets on a monthly basis to review outstanding issues and to consider the Group's operational and financial performance.

2.3 Executive Committee

The Executive Committee comprises the Executive Directors and meets on an ad hoc basis to consider matters which arise in the ordinary course of the Group's operations. It is chaired by the Chief Executive and has specific delegated powers within prescribed limits to deal with matters arising in the ordinary course of business which need to be considered before the next scheduled Board meeting.

2.4 Nomination Committee and appointments to the Board

The Nomination Committee is chaired by Martin Gilbert, the Chairman, and includes David Begg, John Sievwright, Audrey Baxter, Colin Hood and Tim O'Toole. Sir Moir Lockhead attends meetings of the Committee at the invitation of the Chairman of the Committee and Martyn Williams also attends such meetings at the invitation of the Chairman of the Committee to represent the Group's employees. The Committee meets as required to discuss appointments to the Board of both Executive and Non-Executive Directors. Its recommendations are then put to the full Board for consideration. External search consultants are used to assist the process, where appropriate.

During the year the Committee met three times and all members of the Committee attended each meeting held whilst they were Directors.

The Employee Director is elected by the Employee Directors' forum, which comprises the Employee Directors and representatives of each of the Company's UK subsidiaries, and serves a maximum of three three-year terms.

The Company's policy is to permit Executive Directors to accept a limited number of outside non-executive directorships, recognising that this is an effective way to broaden their knowledge and expertise. However, no such appointment can be taken up without prior Board approval. The Company's policy on fees relating to such outside directorships is set out on page 40 of the Directors' Remuneration Report.

2.5 Remuneration Committee

The Remuneration Committee, under the chairmanship of Audrey Baxter, met eight times during the year and all members of the Committee attended all of its meetings held whilst they were Directors except for Audrey Baxter, Colin Hood and Tim O'Toole, who were each absent from one of these meetings. Details of the membership of the Committee are set out in the Directors' Remuneration Report on pages 38 to 43, together with a statement of the Group's remuneration strategy and policy. Full details of Directors' remuneration appear on page 41.

2.6 Audit Committee

The Audit Committee is chaired by John Sievwright and includes David Begg, Audrey Baxter, Colin Hood and Tim O'Toole. It met three times during the year and all members attended each meeting held whilst they were Directors except for Colin Hood who was absent from one of these meetings. The Group Director of Internal Audit and the Company's external auditors attended all of these meetings. Executive Directors and other senior managers attended where requested and as appropriate.

The Board considers that each member of the Committee has sufficient and recent financial experience to enable the Committee to discharge its functions effectively.

Under its remit, the Committee keeps under review the effectiveness of the Company's financial reporting and internal control policies and procedures for the identification, assessment and reporting of risk. It also keeps under review the nature, scope and results of the audits conducted by the internal audit department and the external auditors, the consistency of accounting policies and reporting across the Group and the half-year and full-year financial statements before they are presented to the Board.

The Committee considers the Group's compliance with the Code and its related guidance and oversees the objectivity and effectiveness of internal audit. 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 Committee and the Board. Reports are sent to senior executives of the Group and subsidiary units and there is a follow-up process to ensure that actions to resolve identified control weaknesses are implemented. The Group Director of Internal Audit has the right of direct access to the Chairman of the Audit Committee.

The Committee is responsible for making recommendations to the Board in respect of the appointment or re-appointment of the Group's external auditors and recommends to the Board the audit fee to be paid to the external auditors. The Board's decision on these matters is subject to the approval of shareholders. The independence, objectivity and effectiveness of the external auditors have been examined by the Committee and discussions were held regarding their terms of engagement, remuneration and proposal for partner rotation. The appointment of Senior Statutory Auditor is rotated every five years and, on that basis, the 2009/10 audit will be the last year of Nigel Mercer's tenure; he will be replaced by Graham Richardson, subject to shareholders' approval of Deloitte LLP's reappointment at the 2010 Annual General Meeting.

The majority of non-audit work is put out to tender, with the exception of due diligence work on acquisitions or potential acquisitions in both the UK and overseas, where the current auditors' knowledge of the Company's business processes and controls means that they are best placed to undertake this work cost-effectively on the Company's behalf. Details of the audit and non-audit fees, including a breakdown of the non-audit fee, are set out in note 6 to the financial statements. The Committee concluded that the nature and extent of the non-audit fees did not compromise audit independence.

The 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. If necessary, the external auditors also meet separately with the Committee and/or the Chairman, Chief Executive and Finance Director. The Annual Report and Accounts and Half-yearly Financial Report go through a detailed verification and due diligence process involving external advisers.

The Committee may request the Executive Directors and any other officers of the Group to attend its meetings but none has the right of attendance. Committee meetings may be requested by the external or internal auditors if they consider it necessary.

The business considered and discussed by the Committee during the year included the reports of the external auditors on the half-year and full-year results, the 2010/11 Internal Audit Plan and budget, papers concerning any regular and special audits and an executive summary of each internal audit report, risk analysis assessments and a review of the implications of changes in accounting standards.

3 FINANCIAL REPORTING

The Directors have a commitment to best practice in the Group's external financial reporting in order to present a balanced and comprehensible 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 half-yearly financial statements, regulatory news announcements and other public information. A statement of the Directors' responsibilities for preparing the financial statements may be found on page 47.

4 INTERNAL CONTROLS

The Board has established procedures to provide an ongoing process for identifying, evaluating and managing any significant risks faced by the Group and to meet the requirements of the Code and its related guidance on internal controls. These procedures are subject to regular review.

4.1 Responsibility

The Board has overall responsibility for the system of internal control and assessing risk. The responsibility for establishing detailed control and risk management procedures within each subsidiary lies with the Executive Directors and 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.

The Board has continued to strengthen the ongoing process for identifying, evaluating and managing the significant risks faced by the Group. As part of this process a Risk Group, comprising senior management representatives from all of the Group's main businesses as well as from the finance, treasury, legal, insurance and internal audit functions, reviews the significant risks facing the Group. The Risk Group meets at least four times annually and reports to the Board with the express purpose of reviewing the risk and control procedures in each of the business areas and support functions. As an integral part of planning and review, management from each of the business areas and support functions identify the risks facing their operations, as well as the controls in place to

mitigate those risks. The probability of risks occurring as well as the likely impact on the Group's business, should the risks occur, are also assessed and documented. These risks are assessed on a regular basis, taking into account changes in both external and internal circumstances, which may include alterations to regulatory requirements, disruption to information systems, industrial relation issues, control breakdowns, as well as changes in the economic climate and social, ethical and environmental issues. From the reports submitted to it by the Risk Group the Board is able to keep under regular review the major risks and mitigating controls facing the Group.

4.2 Control environment

The Board is committed to business integrity, high ethical and moral values and professionalism in all its activities, principles with which all managers and employees are required to comply. The Group has a Code of Business Ethics, which is part of the Group's Corporate Social Responsibility Policy and applies to all of its subsidiary undertakings, a copy of which is available on the Company's website.

In addition, the Board has established a Group Hospitality and Gifts Register which records all hospitality or gifts, the value of which exceeds a de minimis amount, given or received by all Board and EMB members. Additional Hospitality and Gift Registers are also maintained at the divisional level ensuring that all senior management in the Group are required to disclose hospitality or gifts given or received.

The Group has a defined divisional organisational structure with lines of authority and delegated responsibility which allows the Board to plan, execute, control and monitor the business in a manner consistent with the Group's objectives. The day-to-day business management is delegated to the Executive Directors and subsidiary unit managing directors under the overall direction of the Chief Executive. As noted above, the Board reserves to itself a number of specific items, which ensures that it retains control over key business decisions 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 is monitored by an Executive Director.

4.3 Monitoring

The Group adopts a financial reporting and information system which complies with generally accepted accounting practice. The Group Finance Manual, circulated by the Group Finance function to all subsidiaries, details the Group accounting policies and procedures with which subsidiaries must comply. These are also available on the Group's intranet. Budgets are prepared by subsidiary company management and are subject to review by both Group management and the Executive Directors. Regular forecast updates are completed during the year and compared against actions required. Each subsidiary unit prepares a monthly report of operating performance, with a commentary on variances against budget and prior year. Similar reports are prepared at a Group level. Key performance indicators, both financial and operational, are monitored on a weekly basis. In addition, business units participate in strategic reviews which include consideration of long term financial projections and the evaluation of business alternatives.

Throughout the year Internal Audit conduct a comprehensive programme of reviews of internal controls within the operating units. These reviews invariably bring to light a number of minor control weaknesses. These are discussed with management and remedial action plans are agreed. Where appropriate, follow up visits to the operating entity then confirm that the action plans have been completed and that the controls that have been put in place are working effectively. No material losses, contingencies or uncertainties that would require disclosure in the Group's Annual Report and Accounts have resulted from this process.

4.4 Risks and Uncertainties

There are a number of key potential risks and uncertainties that without effective management could have an adverse impact on the Group's performance.

Competitive pressures

All of the Group's businesses compete in the areas of pricing and service and face competition from a number of sources.

In UK Bus, the main competitor remains the car. The cost of driving a car is generally perceived as being lower than travelling by bus, especially if there is more than one person in the car. To make bus travel a viable alternative to the car the Company continues to work with local authorities to introduce bus priority measures and effect infrastructure changes promoting bus patronage. In addition the UK Bus market is deregulated and very competitive. There are over 500 bus operators in the UK and in all markets in which the Group operates it faces competition. The success of deregulation is demonstrated by high levels of satisfaction amongst customers where there are low public subsidies. Notwithstanding this there is currently ongoing a Competition Commission Inquiry into the supply of local bus services in the United Kingdom, excluding Northern Ireland and London. The notification of provisional findings is not expected before October 2010.

The main competitor to the Group's UK Rail businesses is again the car and, to a lesser extent, long-distance coach and budget airlines. To help mitigate the risks posed by these pressures the Group is working with a number of local and national bodies to ensure that the services provided meet, or exceed, the requirements of our stakeholders.

In North America, the Group's businesses cover a wide geographic spread competing with several large companies as well as a substantial number of smaller, locally owned or government owned operators. Our competitors in the yellow school bus business also include school districts which self-operate approximately two thirds of yellow school buses in North America. Similarly, while there is a significant amount of transit and service businesses operated by private entities, including several large companies, our First Transit and First Services businesses also compete with many public authorities which self-operate their service. Our Greyhound coach operations face competition from a number of other coach operators in North America as well as from budget airlines. In North America all of our businesses continue to compete on service, quality and price.

Rail franchise agreements

The Group is required to comply with certain conditions as part of its rail franchise agreements. If it fails to comply with these conditions it may be liable to penalties including the potential termination of one or more of the rail franchise agreements. This would result in the Group losing the right to continue operating the affected operations and, consequently, the related revenues or cash flows. The Group may also lose some or all of the amounts set aside as security for performance bonds and season ticket bonds.

Compliance with franchise conditions is closely managed and monitored on a monthly basis by senior management and procedures are in place to minimise the risk of non-compliance.

Legislation and regulation

Our businesses are subject to numerous laws regulating safety procedures, equipment specifications, employment requirements, environmental procedures, insurance coverage and other operating issues and considerations. These laws and regulations are constantly subject to change. The costs associated with complying with the adoption of new legislation, regulation or other laws could adversely impact the results of our operations.

To help mitigate the risk of legislative or regulatory changes the Group regularly lobbies both Government and transport bodies.

Labour costs and employee relations

Labour costs represent the largest component of the Group's operating costs. Future labour shortages or decreasing unemployment rates could hinder the Group's ability to recruit and retain qualified employees leading to a higher than expected increase in the cost of recruitment, training and other staff costs. In addition, it is important for a labour intensive Group that good employee relations are maintained. The Group seeks to mitigate these risks by its recruitment and retention policies, training schemes and working practices.

Fuel costs

Fuel prices and supply levels can be influenced significantly by international, political and economic circumstances. If fuel supply shortages were to arise because of national strikes, world supply difficulties, disruption of refining capacity or oil imports, the resultant higher fuel prices and disruption to services could adversely impact the Group's operating results.

To mitigate the risks of rising fuel costs the Group regularly enters into forward contracts to buy fuel at fixed prices. In addition, the Group seeks to limit the impact of unexpected fuel price rises through efficiency and pricing measures.

Treasury risks and insurance costs

The Board has set a comprehensive policy for the management of risks arising from treasury operations. These include risks associated with foreign exchange rate fluctuations, changes in fuel prices, interest rate movements and liquidity. This is set out in more detail in note 25 to the financial statements. A Group Treasury Policy has been formulated and adopted to ensure compliance with best practice and to control and monitor effectively the risks attendant upon treasury and banking operations.

| RISK | IMPACT | MITIGATING CONTROL |
|---|---|--|
| Competitive pressures | Loss of business | Focus on stakeholder requirements including service, quality and price |
| Rail franchise agreements | Potential termination of one or more of the rail franchise agreements | Close monitoring and management of all franchise obligations |
| Legislation and regulation | Adverse impact on our ability to operate | Regular lobbying of both Government and transport bodies and monitoring of quality procedures |
| Labour costs and employee relations | Inability to recruit and retain qualified employees reduces | Adoption of appropriate recruitment and retention, training and working practices |
| Fuel costs | Adverse impact on operating results | Adoption of forward contracts to buy fuel at fixed costs together with efficiency and pricing measures |
| Treasury risks and insurance costs | Funding not achieved/adverse impact on operating results | Comprehensive treasury management policies, monitoring and oversight, and Group emphasis on safety |
| Pensions | Material changes to accounting cost and cash requirements | Diversification of investments and regular review of investment positions |
| Terrorism | Reputational damage and the demand for our services | Implementation of security measures and the training of employees |
| Retention of key management | Inability to execute Group strategy | Adoption of market based compensation packages |
| Customer service and associated contract retention | Revenue levels reduce and impact on brand image | Intensive staff training on service requirements and close monitoring of service KPIs |
| Environmental | Financial loss/reputational damage | Detailed fuel handling procedures, monitoring of utilities usage, adoption of emission reduction policies and comprehensive Corporate Social Responsibility programmes |
| Economy | Loss of business | Organisational structure of businesses and close monitoring of prices, capacity and demand |

The Group has three main insurable risks: third party claims arising from vehicle and general operations, employee injuries and property damage. The size of the Group's operations is such that there is a high frequency of low value claims which the Group self-insures up to certain limits, and purchases insurance above these limits from reputable global insurance firms.

Although the Group seeks to mitigate the risk of rising insurance costs through its emphasis on safety, there can be no assurance that future self-insurance and external insurance costs may not adversely impact the Group's business and results of operations. In addition, material levels of insurance cover for loss of profits and cash flows associated with business interruption events is not generally available in the insurance market for transportation businesses.

Pensions

The Group has significant defined benefit pension obligations relating to its UK Bus, Rail and Greyhound businesses. Under the franchise arrangements the UK Rail business is not responsible for any residual deficit at the end of a franchise so there is only short term cash-flow risk within this business. For both UK Bus and Greyhound the volatility of the underlying investments and liabilities can create material changes in the accounting cost and cash requirements in subsequent years. Through diversification of investments the Group seeks to mitigate these impacts, although in extreme market conditions it is not possible to completely negate these.

Terrorism

The threat from terrorism remains a concern in the countries in which we operate. We recognise that public transport has been subject to attack previously and it is important we take all reasonable steps to help guard against such activity on any of the services we operate. Taking these steps helps protect our customers and staff, provides reassurance and supports our commitment to safety and security. Our Group Head of Security leads this and coordinates the work needed to respond effectively to this threat. This includes developing and applying good practice and training our employees so that they can respond effectively to any perceived threat or incident.

Retention of key management

Attracting and keeping key members of senior management is vital in ensuring that the Group continues to have the necessary expertise and continuity to execute its strategy. In order that management have diverse and challenging careers they are given autonomy, within parameters set by the Board, to run their businesses. The Group also offers market based compensation packages consisting of an appropriate mix of long and short term incentives.

Customer service and associated contract retention

The Group's revenues are at risk if it does not continue to provide the level of service expected by customers. This could result in contracts not being renewed in the case of our North American business and passengers no longer using our services in the UK and North America. To mitigate this risk all staff undertake intensive training programmes to ensure they are aware of and abide by the levels of service that are required by our customers in each business. The Board also monitors in detail a series of customer service KPIs at each meeting to ensure strict targets are being met.

Environmental

We store and manage large quantities of fuel at our maintenance sites, which presents a potential regulatory and financial risk in the event of significant loss or spillage. To mitigate these risks our storage facilities are subject to regular inspection and all fuel handling operations are subject to detailed operating procedures.

We are subject to ongoing changes in environmental regulations. In the coming year we will be subject to the Carbon Reduction Commitment Energy Efficiency Scheme, which came into force in April 2010. We have put in place a comprehensive data management and reporting package for monitoring the utilities usage covered by the regulations and have taken early action which will favour our ranking in the public league table. We continuously review regulatory changes through our CSR Steering Committee that reports directly to the EMB and the Board.

In line with all businesses we face the challenge of addressing climate change, both managing its impact and reducing emissions, in line with the targets established in the Climate Change Act. Climate change has the potential to impact on our UK and North American operations, a risk we need to keep under review. We are seeking to reduce our own emissions in line with Government targets but are also seeking to ensure we capitalise on the opportunities the need to reduce carbon emissions brings for a business such as ours that offers low carbon solutions to people's mobility needs.

Economy

An economic downturn, whether at a global, regional or national level could have a negative impact on the Group's businesses and the opportunity to grow existing contracts. The level of economic activity affects the number of bus and train journeys taken by passengers in the UK and North America. Many areas of the Group's business offer a certain degree of protection against economic downturn in specific geographic markets, in particular the North American school bus business and the revenue support and profit sharing arrangements in place in certain rail franchises, the ability of most UK Bus operating companies to modify services on giving 56 days' notice and the even greater flexibility given to the Greyhound operations, particularly in North America.

4.5 Whistleblowing

The Group has well established procedures whereby employees may, in confidence, raise concerns relating to personal issues, potential fraud, health and safety, harassment, discrimination, security or any other matter. The confidential hotline covers all businesses across the Group and each country in which it operates.

The Group is confident that these 'whistleblowing' arrangements are satisfactory and will enable a proportionate and independent investigation of such matters and appropriate follow-up action to be taken.

4.6 Review of effectiveness of financial controls

The Directors confirm that they have reviewed the effectiveness of the system of internal controls for the year under review and to the date of approval of the Annual Report and Accounts through the monitoring process described above. In addition, the Directors confirm that they have kept under regular review the effectiveness of the Group's internal audit function.

4.7 Treasury operations

The Board has set a policy for the management of the risks from treasury operations and this is set out in more detail in note 25 to the financial statements. A Group Treasury Policy has been formulated and adopted to ensure compliance with best practice and to control and monitor effectively the risks attendant upon treasury and banking operations.

Currency exchange rate fluctuation and exposure

The Group's principal operations are in the UK, the US and Canada and are therefore subject to currency fluctuations, both in terms of its trading activities and the translation of its financial statements. The Group currently has a significant natural hedge arising from dollar-denominated earnings in the US businesses offset by dollar-denominated interest costs and fuel costs in its UK businesses.

4.8 Significant agreements – change of control

(a) Financing agreements

The Group has a number of syndicated facilities (including the US \$1,500m multi-currency revolving credit and guarantee facility between, amongst others, the Company and HSBC Bank plc, JP Morgan plc and The Royal Bank of Scotland plc dated 9 February 2007). The relevant syndicated financing agreements contain provisions entitling the lenders to exercise termination or other rights in the event of a change of control of the Company. Following any change of control of the Company, the majority of the lenders are obliged to negotiate with the Company with a view

to resolving any concerns arising from such change of control and, if the matter has not been resolved to the reasonable satisfaction of the majority of the lenders in that time, then, if the majority of the lenders so require, the agent must cancel the total commitments under the facility and require prepayment of all outstanding amounts. The Company's bilateral financing agreements contain similar provisions and, following a change of control of the Company, the banks shall negotiate with the Company with a view to resolving any concerns arising from such change of control and, if the matter has not been resolved to the reasonable satisfaction of the banks in that time, they may (if they so require) cancel the total commitments under the facilities and require prepayment of all outstanding amounts.

The £300m 6.875% bonds due 2013, the £250m 6.125% bonds due 2019, the £300m 8.125% bonds due 2018, the £350m 8.750% bonds due 2021 and the £200m 6.875% bonds due 2024 issued by the Company may also be affected by a change of control of the Company. A change of control in respect of the £300m 6.875% bonds due 2013 and the £250m 6.125% bonds due 2019 may result in an increase in the interest rate payable on those bonds of 1.5% per annum. However, the interest rate on the bonds will only be so increased if certain further conditions in relation to the credit rating of the bonds are also satisfied. In respect of the £300m 8.125% bonds due 2018, the £350m 8.750% bonds due 2021 and the £200m 6.875% bonds due 2024, upon a change of control of the Company, together with the satisfaction of certain further conditions in relation to the credit rating of the bonds, the bondholders have the option to require the Company to redeem the bonds.

(b) UK Rail

The Group's franchised passenger rail operators, First Capital Connect, First ScotRail, First TransPennine Express and First Great Western, are each party to a franchise agreement with Scottish Ministers (in respect of First ScotRail) and with the Secretary of State for Transport (in respect of the other operators). These franchise agreements are subject to termination clauses which may apply on a change of control. These operators and the Group's non-franchised rail operators, First Hull Trains and First GBRf, each hold railway licences as required by the Railways Act 1993 (as amended); these licences may be revoked on three months' notice if a change of control occurs without the approval of the Office of Rail Regulation. All of these operators also require and hold track access agreements with Network Rail Infrastructure Limited under which they are permitted to access railway infrastructure. Failure by any of the operators to maintain its railway licence is a potential termination event under the terms of the track access agreements. The Group's railway operators also lease rolling stock from specialist rolling stock leasing companies HSBC Rail (UK) Limited (which is currently undergoing restructuring and rebranding as Eversholt Rail Group), Porterbrook Leasing Company Limited and Angel Trains Limited. A material number of the individual leasing agreements include change of control provisions.

(c) Joint venture agreements

The Company has joint venture agreements with Keolis (UK) Limited in relation to First TransPennine Express and with DSB in relation to DSB/First Aps and DSB Sverige AB. As is customary, these joint venture agreements include provisions addressing change of control.

(d) London bus contracts

The Group's UK Bus business operates London bus routes with London Bus Services Limited. These agreements include change of control provisions and are significant when all the routes are considered together.

4.9 Auditors

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

5 RELATIONS WITH SHAREHOLDERS

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

All investors are kept informed of key business activities, decisions, appointments etc. via regulatory news and press releases and the Group's website. There is also regular dialogue with institutional shareholders throughout the year and general presentations are made by the Chief Executive and Finance Director following the announcement of the half-year and full-year results. Other Directors, including Non-Executive Directors, attend meetings with major shareholders if requested.

Regular reports on investor relations activity and feedback from investors are submitted to the Board and senior management. The Non-Executive Directors have also had informal contact with major shareholders regarding the Group during the year and they expect that informal dialogue to continue.

6 ANNUAL GENERAL MEETING

All shareholders have the opportunity to put questions to the Directors at the Company's Annual General Meeting, at which a report is made on the highlights of the key business developments during the year under review. The Chairmen of the Nomination, Remuneration and Audit Committees attend the Annual General Meeting to answer specific questions from shareholders. All Directors who then held office were present at the 2009 Annual General Meeting.

Notice of the Annual General Meeting is circulated to all shareholders at least 20 working days prior to the meeting. Separate resolutions are proposed at the Annual General Meeting on each substantially separate issue. Proxy votes are counted on all resolutions and, where votes are taken on a show of hands, the proxy results are subsequently announced to the meeting.

Directors' remuneration report

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 (the 'Regulations'). It also meets the requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the main supporting principles of the Combined Code on Corporate Governance issued by the Financial Reporting Council in 2006 (the 'Code') relating to Directors' remuneration. The Company complies with all of the provisions of the Code in respect of the Directors' Remuneration Report. A resolution to approve this report will be proposed at the Company's Annual General Meeting to be held on 8 July 2010.

The Regulations require the Company's auditors to report to the Company's shareholders on the 'auditable' part of the Directors' Remuneration Report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 2006. This report has therefore been divided into separate sections for audited and unaudited information.

UNAUDITED INFORMATION

Remuneration Committee

The Remuneration Committee is chaired by Audrey Baxter. The other current members of the Committee are David Begg, John Sievwright, Colin Hood and Tim O'Toole. The Board considers each of the members of the Committee to be independent in accordance with the Code. None of the members of the Committee has any personal financial interest (other than as a shareholder) in the matters to be decided, conflict of interest arising from cross-directorships or any involvement in the day-to-day running of the business.

The terms of reference of the Committee were updated and adopted in October 2009 and are available on request and are also published on the Company's website. These terms of reference will be kept under review to take into account any changes to the Code and corporate governance practice.

The principal purpose of the Committee is to consider matters related to the remuneration of the Executive Directors and senior management below Board level.

The Committee met eight times during the year and all members attended each meeting held whilst they were Directors except for Audrey Baxter, Colin Hood and Tim O'Toole who were each absent from one of these meetings.

Remuneration policy

Aim

The aim of the Committee is to design remuneration packages for the Company's Executives which attract, retain and motivate the high calibre individuals necessary to maintain the Group's position as a leader in the public transportation industry. In implementing its policy, the Committee has given full consideration to the Principles of Good Governance of the Code with regard to Directors' remuneration.

Structure of remuneration packages

There are currently five main elements to the executive remuneration package:

- ▶ basic salary and benefits in kind;
- ▶ annual cash and deferred share bonus (both paid under the Executive Annual Bonus Plan);
- ▶ long term incentive plan;
- ▶ share schemes; and
- ▶ retirement benefits.

The Committee considers the remuneration package as a whole, balancing each of the individual elements to ensure that, overall, the remuneration received by each Executive Director is competitive but not excessive, contains an appropriate balance between fixed and variable (performance-related) remuneration and that each Executive Director will have sufficient long term incentive to ensure that his interests are aligned with those of shareholders.

The remuneration of the Executive Directors is made up of the following components:

Basic salary and benefits in kind

The basic salary and benefits in kind for each Executive Director are determined by the Committee for each financial year and when an individual changes position or responsibility. In determining appropriate levels, the Committee considers the Group as a whole and also the packages received by similar individuals at the Company's peers in the public transport sector and other companies of comparable market capitalisation. Details of the salaries and benefits in kind received by each of the Executive Directors in the year are shown on page 41.

In view of current wider economic conditions the Committee had previously decided that no increases in basic salary should be awarded to the Executive Directors and senior management at the time of review of such salaries in 2009. However, as a result of a review of then current and forecast inflation rates the Committee decided that an increase in basic salary of 2.5% should be awarded at the time of such review on 1 April 2010. This is the same increase as was awarded to employees generally across the Group.

Executive Annual Bonus Plan ('EABP')

The Group operates a discretionary performance-related bonus plan for its senior management under which payment of bonuses is linked to achievement of budgeted annual Group operating profit targets and other objectives (including safety and customer service targets). Where an Executive Director is also directly responsible for one or more operating division(s), payment of a proportion of the bonus is also linked to the profitability of those divisions.

Each year, the Board sets challenging budget targets for the Group as a whole and for each business unit within the Group. The Committee's policy had been that bonuses should be payable for Group performance against budget of between 90% and 110%, with the level of bonus payable being heavily skewed towards performance in excess of 100% of budget. 70% of any bonus payable was dependent upon Group performance and the balance upon the achievement of safety and customer service objectives. The maximum potential bonus which can be awarded to Executive Directors is 100% of basic salary and 110% of basic salary in the case of the Chief Executive.

In respect of the year ended 31 March 2010, in view of wider economic conditions and shareholder aspirations, the Committee decided to vary the strict formulaic approach towards the assessment of such bonus awards for Executive Directors and senior management and instead apply a wider discretion in the assessment of such awards taking into account all relevant factors, including the Group's financial performance (which would continue to be the predominant element in the consideration of any such awards), safety and customer service objectives and personal performance as well as other factors to ensure that any bonus awards were fair and appropriate to the circumstances.

To the extent any bonus awards were decided upon by the Committee they would not, in any event, exceed the maximum amounts referred to above.

Bonus payments comprise a mixture of cash and deferred share awards. The deferral period in respect of that part of any bonus award comprising deferred shares is three years. The same deferral period also applies to senior management within the Group. Share awards will lapse if the relevant individual leaves the Group during the deferral period for any reason other than redundancy, retirement or ill-health. The Committee considers it is appropriate for a proportion of the annual bonus to be taken in the form of deferred shares as this acts as a retention mechanism and also aligns Executives' longer term interests with those of the Company's shareholders.

As the award of any bonus is already dependent on the achievement of stringent targets, the Committee considers that it is not appropriate to attach further performance conditions on vesting of the deferred share element of any bonus other than that the relevant Executive remains employed by the Group and has not tendered his resignation at the end of the deferral period.

The level of bonus paid to the Executive Directors in the year to 31 March 2010 was considerably lower than that paid last year. The awards for the year were 8.8% of basic salary in the case of the Finance Director (appointed 29 September 2009), 10% in the case of the Director Bus and 17.5% in the case of the Commercial

Director. Each of the Executive Directors will receive 50% of their bonus in cash and the remaining 50% in the form of deferred shares. A bonus of 6.1% of basic salary was paid to Ellis Watson, Marketing and Business Development Director (appointed 23 July 2009) who resigned on 22 March 2010. Such bonus was paid wholly in cash.

Sir Moir Lockhead, Chief Executive, decided to waive any entitlement to bonus for the year.

Long Term Incentive Plan ('LTIP')

The LTIP was established in 2008 and provides for the award of nil-cost options to acquire shares, exercisable at the end of a three-year performance period subject to the satisfaction of performance conditions and continued employment. 50% of the award is subject to growth in the Company's earnings per share ('EPS') and the remaining 50% of the award is subject to the Company's total shareholder return ('TSR').

Details of the vesting targets for both parts of the 2008 award were set out in last year's Directors' Remuneration Report. The part of the 2009 award which is subject to EPS growth will vest in full if EPS at the end of the performance period is not less than 57.53p. If EPS is not less than 52.3p then 25% of that part of the award will vest. That part of the award will vest on a straight-line basis if EPS at the end of the performance period is between 52.3p and 57.53p. There will be no vesting if EPS is less than 52.3p.

In relation to that part of the 2009 award which is subject to TSR, it will vest if the Company's TSR over the three year performance period falls within the top half of a ranking of the TSR of the companies within a comparator group. The comparator group is made up from a mixture of the 75 largest companies in the FTSE 250 and the companies in the lower quartile of the FTSE 100 (excluding investment trusts) at the commencement of the performance period. If the Company's TSR falls within the upper quartile of the comparator group that part of the award will vest in full. If it falls at median, only 25% of it will vest. If the Company's TSR falls between median and the upper quartile, straight-line apportionment will be applied. There will be no vesting if the Company's TSR is below median. These vesting criteria are the same as for that part of the 2008 award which is subject to TSR.

As with the 2008 award the foregoing EPS vesting targets for the 2009 award and the level of the award as a factor of salary in relation to the Executive Directors were agreed by the Committee following consultation with the six largest shareholders of the Company.

Awards will lapse at the end of the performance period to the extent that the performance conditions have not been satisfied. There will be no re-testing.

The Committee can set different performance conditions from those described above and may also vary or adjust the performance conditions applying to awards which have been made to take account of events the Committee considers exceptional, including technical events, such as changes in accounting standards and treatment and the take-over of a company in the TSR comparator group, provided that in the opinion of the Committee the amended condition is fair and reasonable and no less challenging than the original condition would have been but for the event.

Generally awards under the LTIP to any participant in any one financial year cannot exceed one and a half times basic salary at the time of the award. However, in exceptional circumstances, this may be increased to up to two times basic salary. Awards under the LTIP are not pensionable.

Share Schemes

Executive Share Option Scheme

The Company operated an Executive Share Option Scheme ('ESOS') up to June 2004 for Executive Directors and other senior management. In common with other large companies the Company has not granted any further awards to Executive Directors or senior management under the ESOS after 2004.

Save As You Earn ('SAYE') Scheme

The Company operated a SAYE Scheme for eligible employees during the year under review under which options may be granted on an annual basis at a discount of up to 20% of market value. As with the previous scheme the Executive Directors are eligible to participate in the current scheme.

Buy As You Earn ('BAYE') Scheme

The Company operates a Share Incentive Plan under the title 'Buy As You Earn'. The scheme, which is open to all UK employees of the Group, enables employees (including the Executive Directors) to purchase partnership shares from their gross income (before income tax and National Insurance deductions). The Company provides two matching shares for every three partnership shares, subject to a maximum Company contribution of shares to the value of £20 a month. The shares are held in trust for up to five years, in which case, no income tax or National Insurance will be payable. The matching shares will be forfeited if the corresponding partnership shares are removed from trust within three years from award.

Retirement benefits

Executive Directors are members of a number of defined benefit Group pension schemes. Their dependants are eligible for dependants' pensions and the payment of a lump sum in the event of death in service. Further details are set out on page 43.

Shareholding guidelines

Following the establishment of the LTIP in 2008, shareholding guidelines for Executive Directors were introduced. These provide for Executive Directors to retain at least 50% of the shares, net of tax, vesting under an LTIP award, or any other vesting of an award under any other executive share plan, or otherwise acquire shares in the Company over a period of five years until a shareholding with a market value (calculated by reference to purchase price) equal to 100% of basic salary is achieved. The Remuneration Committee reserves the right to relax or waive the application of such guidelines in certain circumstances, including the impending retirement of any Executive Director.

Service contracts

It is the Company's policy to restrict notice periods for Executive Directors to a maximum of 12 months. In line with this policy, all of the Executive Directors have service contracts with an undefined term but which provide for a notice period of 12 months.

The contracts contain a provision, exercisable at the discretion of the Company, to pay an amount in lieu of notice on early termination of the contract. Such payments are limited to basic salary plus certain benefits but would not include entitlement to bonus or share options. There are no contractual provisions governing payment of compensation on early termination of the contracts. If it becomes necessary to consider early termination of a service contract, the Company will have regard to all the circumstances of the case, including mitigation, when determining any compensation to be paid. Details of the Executive Directors' contracts are set out below:

| Director | Date of service contract |
|---|--------------------------|
| Sir Moir Lockhead | 5 March 2001 |
| Dean Finch (resigned 1 May 2009) | 26 February 2004 |
| Sidney Barrie | 31 August 2005 |
| Nicola Shaw | 13 May 2009 |
| Ellis Watson (appointed 23 July 2009; resigned 22 March 2010) | 10 September 2009 |
| Jeff Carr (appointed 29 September 2009) | 29 June 2009 |

Where Board approval is given for an Executive Director to accept an outside non-executive directorship, unless the appointment is in connection with Group business, the individual Director is entitled to retain any fees received.

Non-Executive Directors

All Non-Executive Directors have a letter of appointment and their fees are determined by the Board based on surveys of fees paid to non-executive directors of comparable companies. These letters of appointment are available for inspection at the Company's registered office during normal business hours and will be made available at the Annual General Meeting.

Details of the fees paid to Non-Executive Directors are set out on page 41. No increase in such fees has been made in respect of the financial year commencing on 1 April 2010.

Non-Executive Directors, other than the Group Employee Director, cannot participate in any of the Company's share option schemes and are not eligible to join a Company pension scheme. Each of the Non-Executive Directors (other than Audrey Baxter and Colin Hood who receive all of their fees in the form of shares in the Company) has elected to receive 40% of his fees in the form of shares in the Company in order to ensure that their interests are more closely aligned to those of the Company's shareholders. The shares are purchased on a monthly basis in the market. The appointment of each of the Non-Executive Directors is subject to early termination without compensation if he/she is not re-appointed at a meeting of shareholders where he/she is up for re-election.

Total shareholder return

The graph opposite shows, for the last five financial years of the Company, the total shareholder return on a holding of shares in the Company as against that of a hypothetical holding of shares made up of shares of the same kinds and number as those by reference to which the FTSE 100 Index, the FTSE 250 Index and the FTSE All-Share Transport Index are calculated.

This graph is included to meet the relevant legislative requirements and is not directly relevant to the performance criteria used for the Company's ESOS or the LTIP. Nonetheless, the indices used were selected as the Company believes that they are the most appropriate and representative indices against which to measure the Company's performance for this purpose.

AUDITED INFORMATION**Market price of FirstGroup plc shares**

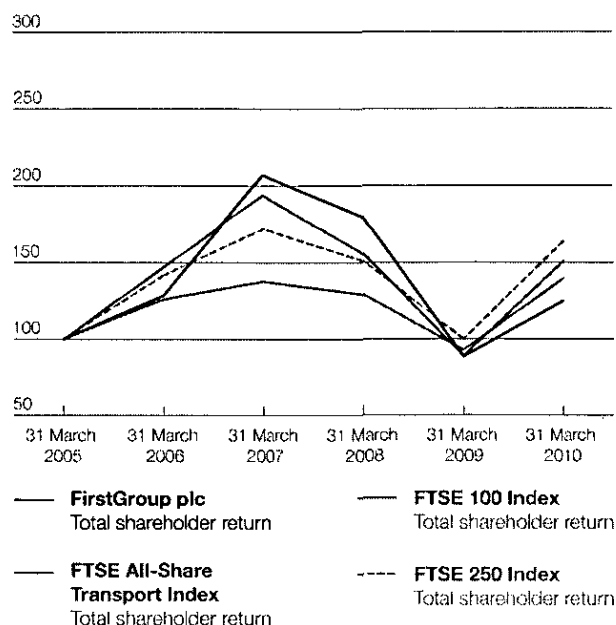
The market price of FirstGroup plc shares at 31 March 2010 was 359p and the range during the year was 288p to 442.30p.

Directors' remuneration

Details of the Directors' remuneration for the year ended 31 March 2010 are set out on the following pages.

Emoluments and compensation

The total salaries, fees and benefits paid to, or received by, those persons who served as a Director of the Company at any time during the year for the period of such directorship are shown in the table below. These include any and all payments for services as a Director of the Company, its subsidiaries or otherwise in connection with the management of the Group.

Total shareholder return

| | Salary 2010 ^{1,4} £000 | Compensatory bonus 2010 ² £000 | Cash bonus 2010 ⁴ £000 | Benefits in kind 2010 ^{3,4} £000 | Fees 2010 £000 | Total 2010 £000 | Total 2009 £000 |
|--|---------------------------------------|--|--|--|----------------------|-----------------------|-----------------------|
| Executive Directors | | | | | | | |
| Sir Moir Lockhead | 609 | — | — | 34 | — | 643 | 802 |
| Dean Finch (resigned 1 May 2009) | 46 | — | — | 2 | — | 48 | 494 |
| Sidney Barrie | 303 | — | 27 | 11 | — | 341 | 386 |
| Nicola Shaw | 299 | — | 15 | 13 | — | 327 | 119 |
| Jeff Carr (appointed 29 September 2009) | 213 | 314 | 19 | 1 | — | 547 | — |
| Ellis Watson (appointed 23 July 2009; resigned 22 March 2010) | 243 | 250 | 22 | 1 | — | 516 | — |
| Non-Executive Directors | | | | | | | |
| Martin Gilbert | — | — | — | — | 186 | 186 | 186 |
| David Dunn (retired 16 July 2009) | — | — | — | — | 17 | 17 | 52 |
| Jim Forbes (retired 16 July 2009) | — | — | — | — | 17 | 17 | 52 |
| Colin Hood (appointed 7 May 2009) | — | — | — | — | 39 | 39 | — |
| Tim O'Toole (appointed 7 May 2009) | — | — | — | — | 39 | 39 | — |
| John Sievwright | — | — | — | — | 50 | 50 | 44 |
| David Begg | — | — | — | — | 44 | 44 | 44 |
| Audrey Baxter | — | — | — | — | 50 | 50 | 44 |
| Martyn Williams | — | — | — | — | 33 | 33 | 33 |
| Total | 1,713 | 564 | 83 | 62 | 475 | 2,897 | 2,256 |

1 Ellis Watson received a non-pensionable disturbance allowance of £24,000.

2 The compensatory bonus payable to Jeff Carr and Ellis Watson comprised amounts paid to them in compensation for equivalent amounts of bonus foregone by them in relation to employment with their respective previous employers immediately before joining the Company.

3 The Directors received the following non-cash benefits in the year: Sir Moir Lockhead: £27,000 company car, £6,000 private fuel and £1,000 medical insurance for himself and spouse; Dean Finch: £2,000, being a proportion of the annual value of company car, private fuel and medical insurance for himself and family; Jeff Carr: £1,000 medical insurance for himself; Ellis Watson: £1,000 medical insurance for himself and spouse; Sidney Barrie: £10,000 car allowance and £1,000 medical insurance for himself and spouse; Nicola Shaw: £12,000 car allowance and £1,000 medical insurance for herself.

4 David Leeder, formerly International Development Director, resigned on 15 September 2008. In terms of an agreement with him he was entitled to receive his then salary and other benefits until 14 September 2009 subject to certain mitigating provisions in respect of any alternative remunerated position acquired by him before then. During the year ended 31 March 2010 he received £140,000 by way of salary, a cash bonus of £12,000 and benefits in kind of £9,000.

Directors' share options

The outstanding share options under the ESOS, deferred share bonus under the EABP, LTIP and SAYE Scheme granted to each of the serving Directors are set out in the table below. No price was paid for the award of any option. There have been no changes to the terms and conditions of any option awarded to Directors.

| Directors | Scheme | | At beginning of year or date of appointment ^{1,3} (number of shares) | Granted during the year (number of shares) | Exercised during the year (number of shares) | Lapsed/ waived during the year (number of shares) | At end of year or date of retirement ^{2,3} (number of shares) | Exercise price (pence) | Date from which exercisable | Expiry date |
|-------------------|--------------------------------------|---------|--|---|---|--|---|------------------------|-----------------------------|-------------|
| Sir Moir Lockhead | ESOS: | 2001 | 130,985 | - | - | - | 130,985 | 346.5 | 15.8.04 | 15.8.11 |
| | | 2002 | 173,784 | - | - | - | 173,784 | 269 | 21.6.05 | 21.6.12 |
| | | 2003 | 166,958 | - | - | - | 166,958 | 287 | 18.11.06 | 18.11.13 |
| | | 2004 | 193,277 | - | - | - | 193,277 | 275.08 | 10.6.07 | 10.6.14 |
| | Deferred share bonus: ⁴ | 2004 | 34,062 | - | - | - | 34,062 | nil | 1.4.07 | 1.4.14 |
| | | 2005 | 36,787 | - | - | - | 36,787 | nil | 1.4.08 | 1.4.15 |
| | | 2006 | 61,567 | - | - | - | 61,567 | nil | 1.4.11 | 1.4.16 |
| | | 2007 | 37,362 | - | - | - | 37,362 | nil | 1.4.12 | 1.4.17 |
| | | 2008 | 24,145 | - | - | - | 24,145 | nil | 1.4.11 | 1.4.18 |
| | | 2009 | - | 14,628 | - | - | 14,628 | nil | 1.4.12 | 1.4.19 |
| | LTIP: ⁵ | 2008 | 174,033 | - | - | - | 174,033 | nil | 1.4.11 | 1.4.12 |
| | | 2009 | - | 232,833 | - | - | 232,833 | nil | 1.4.12 | 1.4.13 |
| Dean Finch | Deferred share bonus: ^{4,7} | 2006 | 37,313 | - | - | - | 37,313 | nil | 1.4.11 | 1.4.16 |
| | | 2007 | 24,342 | - | - | - | 24,342 | nil | 1.4.12 | 1.4.17 |
| | | 2008 | 13,710 | - | - | - | 13,710 | nil | 1.4.11 | 1.4.18 |
| | LTIP: ^{5,8} | 2008 | 102,659 | - | - | 102,659 | - | nil | 1.4.11 | 1.4.12 |
| | Special share award: ⁸ | 2006 | 200,000 | - | - | 200,000 | - | nil | 31.3.11 | 30.3.12 |
| Jeff Carr | LTIP: ⁵ | 2009 | - | 162,486 | - | - | 162,486 | nil | 1.4.12 | 1.4.13 |
| Sidney Barrie | Deferred share bonus: ⁴ | 2006 | 18,657 | - | - | - | 18,657 | nil | 1.4.11 | 1.4.16 |
| | | 2007 | 16,983 | - | - | - | 16,983 | nil | 1.4.12 | 1.4.17 |
| | | 2008 | 11,632 | - | - | - | 11,632 | nil | 1.4.11 | 1.4.18 |
| | | 2009 | - | 6,605 | - | - | 6,605 | nil | 1.4.12 | 1.4.19 |
| | LTIP: ⁵ | 2008 | 86,445 | - | - | - | 86,445 | nil | 1.4.11 | 1.4.12 |
| | | 2009 | - | 115,652 | - | - | 115,652 | nil | 1.4.12 | 1.4.13 |
| | SAYE: ⁶ | 2005/06 | 678 | - | 678 | - | - | 325 | 1.5.09 | 31.10.09 |
| Nicola Shaw | Deferred share bonus: ⁴ | 2006 | 22,803 | - | - | - | 22,803 | nil | 1.4.11 | 1.4.16 |
| | | 2007 | 15,096 | - | - | - | 15,096 | nil | 1.4.12 | 1.4.17 |
| | | 2008 | 9,617 | - | - | - | 9,617 | nil | 1.4.11 | 1.4.18 |
| | | 2009 | - | 14,276 | - | - | 14,276 | nil | 1.4.12 | 1.4.19 |
| | LTIP: ⁵ | 2008 | 72,013 | - | - | - | 72,013 | nil | 1.4.11 | 1.4.12 |
| | | 2009 | - | 110,796 | - | - | 110,796 | nil | 1.4.12 | 1.4.13 |
| | SAYE: | 2005/06 | 678 ⁹ | - | - | 678 | - | 325 | 1.5.09 | 31.10.09 |
| Ellis Watson | LTIP: ^{5,8} | 2009 | - | 133,812 | - | 133,812 | - | nil | 1.4.12 | 1.4.13 |
| Martyn Williams | SAYE: | 2005/06 | 345 ⁹ | - | - | 345 | - | 325 | 1.5.09 | 31.10.09 |
| | | 2006/07 | 340 | - | - | - | 340 | 444 | 1.2.10 | 31.7.10 |
| | | 2007/08 | 263 | - | - | - | 263 | 583 | 1.2.11 | 31.7.11 |
| | | 2008/09 | 414 | - | - | - | 414 | 371 | 1.2.12 | 31.7.12 |
| | | 2009/10 | - | 468 | - | - | 468 | 310 | 1.2.13 | 31.7.13 |

1 Jeff Carr was appointed on 29 September 2009.

2 Dean Finch resigned as a Director on 1 May 2009.

3 Ellis Watson was appointed on 23 July 2009 and resigned as a Director on 22 March 2010.

4 The figures shown represent the number of nil-cost options which were granted under the deferred share element of the EABP in respect of the relevant financial year. The cash values of the 2009/10 awards are: Jeff Carr: £19,000, Sidney Barrie: £26,000 and Nicola Shaw: £14,000. These awards will take the form of nil-cost options over shares which will, subject to satisfaction of the requirements of the plan, vest on 1 April 2013. The number of shares under option will depend on the market price of shares at the close of business on 12 May 2010.

5 The figures shown represent the number of nil-cost options which were granted under the LTIP in respect of the relevant financial year.

6 Exercised on 1 June 2009. The closing price on the date of exercise was 390 pence per share.

7 The Remuneration Committee exercised its discretion to permit Dean Finch to retain all deferred share bonus awards made under the EABP following his resignation on 1 May 2009 subject to the EABP rules.

8 Lapsed on his resignation as a Director.

9 Lapsed on 1 November 2009.

Retirement benefits

Details of the retirement benefits for each of the Directors are set out in the table below:

| Director | Directors' contributions during the year for relevant defined benefit scheme ¹ £ | Accrued pension at 31 March 2010 £ | Increase in accrued pension £ | Increase in accrued pension (net of inflation) ⁷ £ | Transfer value of increase in accrued pension and cash (net of inflation) £ | Transfer value at 31 March 2009 £ | Transfer value at 31 March 2010 £ | Increase in transfer value less Directors' contributions £ |
|---------------------------|--|---------------------------------------|----------------------------------|--|--|--------------------------------------|--------------------------------------|---|
| Sir Moir Lockhead | 75,165 | 325,213 ⁵ | 11,582 ⁶ | 7 | (35,169) | 7,330,290 ⁸ | 7,513,012 ⁸ | 107,557 |
| Dean Finch ² | 1,460 | 25,660 | (800) | (1,713) | (20,618) | 185,193 | 308,854 | 122,201 |
| Sidney Barrie | 18,540 | 14,420 | 3,640 | 3,127 | 70,032 | 180,753 | 329,333 | 130,040 |
| Nicola Shaw | 8,652 | 11,948 | 2,932 | 2,507 | 18,482 | 46,439 | 110,656 | 55,565 |
| Jeff Carr ³ | 8,343 | 1,545 | 1,545 | 1,490 | 18,947 | – | 19,646 | 11,303 |
| Ellis Watson ⁴ | 10,300 | 2,060 | 2,060 | 1,987 | 18,302 | – | 18,977 | 8,677 |

1 The above Directors, with the exception of Sir Moir Lockhead, participated in salary sacrifice arrangements during the year. The defined benefit contributions in the table above and the Group SIPP Director contributions referred to below have been paid via salary sacrificed by the Directors with an equivalent contribution being paid directly to the pension schemes by the Company.

2 Dean Finch resigned as a Director on 1 May 2009. The calculations above have been based on actual final pensionable salary which uses a three year average of pensionable salary. Previous years' figures have been based on annual pensionable salary.

3 Jeff Carr was appointed on 29 September 2009.

4 Ellis Watson was appointed on 23 July 2009 and resigned as a Director on 22 March 2010.

5 Sir Moir Lockhead also has a cash benefit of £943,516 in the Local Government Pension Scheme.

6 Increase in cash is £2,616. Increase in cash net of inflation is (£30,961).

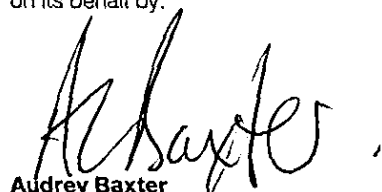
7 The inflation assumption is 3.69% using the annual change in RPI as at February 2010.

8 Transfer values assume immediate retirement at both dates as Sir Moir Lockhead can retire immediately without reduction.

The Group does not have one pension scheme but instead operates a number of different schemes. All of the schemes in which the Executive Directors participate are defined benefit schemes and are not limited in membership to Executive Directors.

Dean Finch, Sidney Barrie, Nicola Shaw, Jeff Carr and Ellis Watson participated in a final salary arrangement restricted through a scheme earnings cap (based on the previous HMRC definition). To reflect the need to provide a competitive pensions package, from 1 April 2008 a Group SIPP arrangement was introduced, in which these individuals were allowed to participate. Each individual contributes a minimum of 5% of their basic salary in excess of the scheme earnings cap and the Company contributes 20% on the same basis. This amounted to a Company contribution during the financial year of £3,927 in respect of Dean Finch, £35,780 in respect of Sidney Barrie, £35,130 in respect of Nicola Shaw, £30,140 in respect of Jeff Carr and £11,200 in respect of Ellis Watson.

This report was approved by the Board of Directors, on the recommendation of the Remuneration Committee, on 6 May 2010 and signed on its behalf by:



Audrey Baxter
Chairman of the Remuneration Committee

Directors' report

The Directors have pleasure in submitting their Annual Report and Accounts for the year ended 31 March 2010.

PRINCIPAL ACTIVITY

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

REVIEW OF THE BUSINESS

Reviews of the business and principal events and likely future developments are given in the Chairman's statement, Chief Executive's operating review and in the Finance Director's review set out on pages 10 to 27. Our review of the principal risks and uncertainties of the business is set out on pages 34 to 36.

RESULTS AND DIVIDENDS

The results for the year are set out in the consolidated income statement on page 48. The Directors recommend payment of a final dividend of £67.2m (14.0p per share) which, with the interim dividend of £32.0m (6.65p per share) paid on 3 February 2010, gives a total dividend of £99.2m (20.65p per share) for the year. The proposed final dividend, if approved, will be paid on 20 August 2010 to shareholders on the register at the close of business on 16 July 2010.

SHARE CAPITAL

Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year, are set out in note 28 to the financial statements. The Company has one class of ordinary shares which carry no right to fixed income. As at 12 May 2010, there were 482,067,170 ordinary shares of 5p each in issue including 976,181 ordinary shares held in treasury.

Shareholders who are present at a general meeting and duly appointed proxies present at a general meeting can vote on a show of hands. They will have one vote each. On a poll, every shareholder present in person or by proxy will have one vote for every share he/she holds. The Notice of the 2010 Annual General Meeting accompanying this document specifies the deadlines for exercising voting rights. All proxy votes are counted and the number for, against and withheld in relation to each resolution are announced at the meeting and published on the Company's website after the meeting.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the articles of association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out on page 40 and in note 35 to the financial statements.

Kleinwort Benson (Guernsey) Trustees Limited, as trustee of FirstGroup plc Employee Benefit Trust, holds shares in the Company in trust in order to satisfy awards made to participants in the Company's LTIP, ESOS and EABP and abstain from voting.

Under the rules of the FirstGroup plc Share Incentive Plan ('BAYE'), employees buy shares and receive free matching shares in the Company. In order to preserve certain tax benefits these shares are held in a trust by Yorkshire Building Society for employees. Whilst these shares are held in trust, the voting rights attached to them are exercised by the trustee but only at the direction of the employees. The trustee does not vote on the shares if no direction is given to it.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

AUTHORITY FOR THE COMPANY TO PURCHASE ITS OWN SHARES

At the Annual General Meeting of the Company in 2009 authority was granted for the Company to purchase up to 10% of its ordinary shares. During the year, 1,430,000 ordinary shares were purchased. Under the existing authority, the Company may purchase up to 47,800,000 ordinary shares. This authority remains in place until the 2010 Annual General Meeting, when it is intended to seek a further renewal.

DIRECTORS

The Directors of the Company who served during the year were Martin Gilbert, Sir Moir Lockhead, Sidney Barrie, Jeff Carr (appointed 29 September 2009), Ellis Watson (appointed 23 July 2009; resigned 22 March 2010), Audrey Baxter, David Begg, Dean Finch (resigned 1 May 2009), Nicola Shaw, John Sievwright, Colin Hood (appointed 7 May 2009), Tim O'Toole (appointed 7 May 2009), Martyn Williams, David Dunn (retired 16 July 2009) and Jim Forbes (retired 16 July 2009). Biographical details of all the serving Directors are set out on pages 28 and 29.

With regard to the appointment and replacement of Directors, the Company is governed by its articles of association, the Combined Code, the Companies Acts and related legislation. The Company shall be managed by the Directors, who may exercise all powers of the Company which are not required to be exercised by the shareholders of the Company by voting in general meeting.

Senior executives of FirstGroup America and its operating units have been provided with executive employment agreements that provide, in part, some compensation for any termination other than a termination for cause. Severance payments range from one to two years in duration. This is customary practice in the US market.

There are no other agreements between the Company and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid.

In accordance with the Company's articles of association, Martin Gilbert, Sir Moir Lockhead, Audrey Baxter and John Sievwright will retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. Jeff Carr, having been appointed to the Board since the last Annual General Meeting will offer himself for election at the forthcoming Annual General Meeting.

Details of the fees and remuneration of the Directors and their service contracts or terms of appointment are set out in the Directors' Remuneration Report on pages 38 to 43.

DIRECTORS' INTERESTS

The Directors who held office at the end of the year had the following interests in the ordinary shares of the Company. See table below.

Details of the Directors' share options are set out in the Directors' Remuneration Report on pages 38 to 43. Sir Moir Lockhead also holds nominal non-beneficial interests in a number of the Company's subsidiary undertakings.

Between 1 April 2010 and 12 May 2010, the following changes occurred to Directors' interests:

On 23 April 2010, Martin Gilbert acquired 1,587 shares, each of David Begg and Tim O'Toole acquired 372 shares, Colin Hood acquired 470 shares, John Sievwright acquired 438 shares, Martyn Williams acquired 162 shares and Audrey Baxter acquired 568 shares under the standing arrangements whereby they have elected to receive 40% (except for Audrey Baxter and Colin Hood who have elected to receive 100%) of their monthly fees in the form of shares in the Company.

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

SIGNIFICANT INTERESTS

At 12 May 2010, the Company had been notified of the following interests in its shares which represent 3% or more of the voting rights in the Company:

| Institution | Ordinary 5p shares | % |
|---------------------------------------|--------------------|------|
| Capital Research Management Company | 31,300,000 | 6.51 |
| AXA S.A. | 24,649,680 | 5.12 |
| BlackRock, Inc. | 24,105,791 | 5.01 |
| Lloyds Banking Group plc | 23,464,316 | 4.88 |
| Standard Life Investments Limited | 23,409,623 | 4.87 |
| JP Morgan Chase & Co | 21,423,964 | 4.45 |
| Artemis Investment Management Limited | 20,586,417 | 4.28 |
| Legal & General Group Plc | 19,264,804 | 4.00 |

EMPLOYEES

The Group is committed to employee involvement and uses a variety of methods to inform, consult and involve its employees in the business. These include subsidiary company newsletters and circulars and also First Edition, a Group-wide newsletter, which is sent to all employees across the Group on a biannual basis. Senior managers within each division meet regularly to discuss current issues and employees are encouraged to discuss any issues with management at any time. Each division also operates a confidential hotline which staff can use to report health and safety, employment-related and other issues concerning them.

The Group also has a regular dialogue with employees and representatives from trades unions. Most operating companies have either an elected Company Council or, more typically, an Employee Director on its board. This principle extends to the plc Board where one of the Employee Directors is elected by his or her peers to represent employees across the Group.

Each division has its own information and consultation arrangements and levels of employee involvement in the business differ. However, in the UK, the Group has worked with trades unions to set up a number of joint schemes, including workplace learning, credit unions, new national policies on assaults, drugs and alcohol, the restructuring of Group pension schemes and a joint committee to review staff uniform procedures.

Directors' interests

| | Ordinary 5p shares | | | |
|---|--|----------------|----------------|----------------|
| | At beginning of year or subsequent appointment | | At end of year | |
| | Beneficial | Non-beneficial | Beneficial | Non-beneficial |
| Sidney Barrie | 20,000 | — | 20,678 | — |
| Audrey Baxter | 13,545 | — | 21,246 | — |
| David Begg | 12,371 | — | 16,998 | — |
| Jeff Carr (appointed 29 September 2009) | — | — | 15,000 | — |
| Martin Gilbert | 114,259 | — | 138,828 | — |
| Colin Hood (appointed 7 May 2009) | — | — | 5,891 | — |
| Sir Moir Lockhead | 1,174,412 | 470,690 | 1,174,412 | — |
| Tim O'Toole (appointed 7 May 2009) | — | — | 4,060 | — |
| Nicola Shaw | 5,084 | — | 5,084 | — |
| John Sievwright | 35,056 | — | 40,249 | — |
| Martyn Williams | 4,084 | — | 6,104 | — |

The Group is committed to wide employee share ownership. During the year, employees continued to have the opportunity to participate in the Group's Save As You Earn and Buy As You Earn schemes, details of which are set out in note 35 to the financial statements.

The Group is committed to equality of opportunity in all its employment practices, policies and procedures. To this end, within the framework of the law, we are committed wherever practicable to achieving and maintaining a workforce which broadly reflects the local catchment area within which we operate. We aim to ensure that no employee or potential employee will receive less favourable treatment due to their race, colour, nationality, ethnic origin, religion, sex, gender reassignment, sexual orientation, marital status, trade union membership, age or disability.

CORPORATE SOCIAL RESPONSIBILITY

The system of internal controls described on pages 33 to 37 covers significant risks associated with social, environmental and health and safety issues. The Group publishes a separate Corporate Social Responsibility Report covering these matters, which is available on our website at www.firstgroup.com.

CHARITABLE AND POLITICAL CONTRIBUTIONS

The Group made various donations to UK charities totalling approximately £64,000 during the year (2009: £107,000). No payments were made for political purposes.

CREDITORS

It is the Group's policy to abide by the payment terms agreed with suppliers wherever it is satisfied that the supplier has provided goods and services in accordance with agreed terms and conditions. A number of significant purchases including fuel, tyres and commitments under hire purchase contracts, finance leases and operating leases are paid by direct debit. At 31 March 2010, the Group had the equivalent of 31 days' (2009: 30 days') purchases outstanding, based on the ratio of Group trade creditors at the end of the year to the amounts invoiced during the year by trade creditors. The Company does not have any trade creditors in its balance sheet.

AUDIT INFORMATION

In the case of each of the persons who are Directors of the Company at the date when this report was approved:

- ▶ so far as each of the Directors is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- ▶ each of the Directors has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with section 418 of the Companies Act 2006.

FORWARD-LOOKING STATEMENTS

Where the Directors' Report contains forward-looking statements these are made by the Directors in good faith based upon the information available at the time of their approval of this report. These statements will not be updated or reported upon further. Consequently such statements should be treated with caution due to the inherent uncertainties, including both economic and

business risk factors, underlying such forward-looking statements or information and nothing in this report should be construed as a profit forecast.

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 8 July 2010 at 11.00 am. The Notice of Annual General Meeting is contained in a separate letter from the Chairman accompanying this report.

GOING CONCERN

The Directors have acknowledged the guidance on going concern and financial reporting published by the Financial Reporting Council in October 2009.

Whilst the Group is not wholly immune to macroeconomic developments, it has established a strong balanced portfolio of businesses with approximately 50% of Group revenues secured under medium term contracts with government agencies and other large organisations in the UK and North America.

While any changes in economic activity will impact UK Bus and Rail passenger numbers the potential risk of this is reduced by the availability of revenue support for certain rail franchises and, in UK Bus, by the ability of the Group to modify services giving 56 days' notice of such modifications. In North America, the First Student business is highly contracted and, whilst Greyhound is more susceptible to the economy, its costs are largely variable.

The Group has a diversified funding structure which is largely represented by medium term unsecured syndicated committed bank facilities and long term unsecured bond debt. The Group has £505m and US \$1,500m of banking facilities of which £1,013m was undrawn at the year end. These facilities expire in February 2012 and the Directors believe that there is every likelihood that they will be replaced by similar financing arrangements.

The Group's management of exposure to financial risk, including liquidity, currency, interest rate and commodity risks, is disclosed in note 25 to the financial statements.

The Directors have carried out a detailed review of the Group's 2010/11 budget and medium term plans, with due regard for the risks and uncertainties to which the Group is exposed (which are set out on pages 34 to 36), the uncertain economic climate and the impact that this could have on trading performance.

Based on this review, the Directors believe that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

By order of the Board



Sidney Barrie
Company Secretary
12 May 2010

395 King Street
Aberdeen
AB24 5RP

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have chosen to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent company financial statements, the Directors are required to:

- ▶ select suitable accounting policies and then apply them consistently;
- ▶ make judgements and accounting estimates that are reasonable and prudent;
- ▶ state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- ▶ prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- ▶ properly select and apply accounting policies;
- ▶ present information including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- ▶ provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- ▶ make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

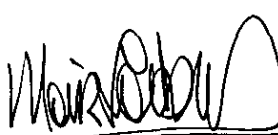
The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- ▶ the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- ▶ the management report, which is incorporated into the Directors' Report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board



Sir Moir Lockhead
Chief Executive
12 May 2010



Jeff Carr
Finance Director
12 May 2010

Consolidated income statement

| | Notes | Adjusted results ¹ 2010 £m | Adjustments ² 2010 £m | Total 2010 £m | Adjusted results ¹ 2009 £m | Adjustments ² 2009 £m | Total 2009 £m |
|--|-------|--|--|---------------------|--|--|---------------------|
| Revenue | 3,4 | 6,319.3 | - | 6,319.3 | 6,187.3 | - | 6,187.3 |
| Operating costs before (loss)/profit on disposal of properties | | (5,865.4) | (84.3) | (5,949.7) | (5,689.8) | (152.1) | (5,841.9) |
| Operating profit before (loss)/profit on disposal of properties | | 453.9 | (84.3) | 369.6 | 497.5 | (152.1) | 345.4 |
| Amortisation charges | 14 | - | (34.7) | (34.7) | - | (33.1) | (33.1) |
| Non-recurring bid costs | 5 | - | (0.3) | (0.3) | - | (3.5) | (3.5) |
| Other non-recurring items | 5 | - | (49.3) | (49.3) | - | (115.5) | (115.5) |
| | | - | (84.3) | (84.3) | - | (152.1) | (152.1) |
| (Loss)/profit on disposal of properties | 5 | - | (1.1) | (1.1) | - | 25.7 | 25.7 |
| Operating profit | 4,6 | 453.9 | (85.4) | 368.5 | 497.5 | (126.4) | 371.1 |
| Investment income | 3,8 | 1.8 | - | 1.8 | 7.9 | - | 7.9 |
| Finance costs | 9 | (191.7) | 1.0 | (190.7) | (179.0) | - | (179.0) |
| Profit before tax | | 264.0 | (84.4) | 179.6 | 326.4 | (126.4) | 200.0 |
| Tax | 10 | (59.1) | 26.6 | (32.5) | (81.6) | 38.6 | (43.0) |
| Profit for the year | | 204.9 | (57.8) | 147.1 | 244.8 | (87.8) | 157.0 |
| Attributable to: | | | | | | | |
| Equity holders of the parent | | 189.7 | (57.6) | 132.1 | 230.9 | (87.6) | 143.3 |
| Minority interests | | 15.2 | (0.2) | 15.0 | 13.9 | (0.2) | 13.7 |
| | | 204.9 | (57.8) | 147.1 | 244.8 | (87.8) | 157.0 |
| Adjusted/basic earnings per share | 11 | 39.5p | (12.0)p | 27.5p | 48.6p | (18.4)p | 30.2p |
| Adjusted/diluted earnings per share | 11 | 39.3p | (12.0)p | 27.3p | 48.3p | (18.3)p | 30.0p |

All results relate to continuing operations.

Dividends of £93.1m (2009: £84.6m) were paid during the year. Dividends of £67.2m (2009: £61.1m) are proposed for approval in respect of the year.

1 Adjusted trading results before items noted in 2 below.

2 Amortisation charges, hedge ineffectiveness on financial derivatives, non-recurring bid costs, other non-recurring items and (loss)/profit on disposal of properties as set out in note 5 to the financial statements.

Consolidated statement of comprehensive income

| | 2010 £m | 2009 restated ¹ £m |
|---|--------------|-------------------------------------|
| Profit for the period | 147.1 | 157.0 |
| Other comprehensive income | | |
| Derivative hedging instrument movements | 339.2 | (539.6) |
| Deferred tax on derivative hedging instrument movements | (100.4) | 137.1 |
| Exchange differences on translation of foreign operations | (18.5) | 409.6 |
| Unrealised losses on executive deferred compensation plans | (0.5) | (3.1) |
| Actuarial losses on defined benefit pension schemes | (204.3) | (308.3) |
| Deferred tax on actuarial losses on defined benefit pension schemes | 53.6 | 102.2 |
| Other comprehensive income for the period | 69.1 | (202.1) |
| Total comprehensive income for the period | 216.2 | (45.1) |
| Attributable to: | | |
| Equity holders of the parent | 200.9 | (60.7) |
| Minority interests | 15.3 | 15.6 |
| | 216.2 | (45.1) |

¹ Amounts disclosed in the consolidated statement of recognised income and expense in 2009 have been restated to include foreign exchange movements on minority interests as explained in note 2.

Consolidated balance sheet

| | Notes | 2010 £m | 2009 restated ¹ £m | 2008 restated ¹ £m |
|--|-------|----------------|-------------------------------------|-------------------------------------|
| Non-current assets | | | | |
| Goodwill | 13 | 1,754.9 | 1,820.0 | 1,310.1 |
| Other intangible assets | 14 | 415.9 | 456.7 | 367.5 |
| Property, plant and equipment | 15 | 2,284.1 | 2,398.1 | 1,919.8 |
| Deferred tax assets | 26 | 30.4 | 50.2 | - |
| Retirement benefit assets | 36 | 3.1 | 111.5 | 186.2 |
| Derivative financial instruments | 25 | 33.0 | 24.8 | 45.4 |
| Investments | | 4.8 | 5.1 | 4.0 |
| | | 4,526.2 | 4,866.4 | 3,833.0 |
| Current assets | | | | |
| Inventories | 17 | 92.7 | 110.0 | 82.7 |
| Trade and other receivables | 18 | 602.5 | 610.3 | 590.2 |
| Cash and cash equivalents | 21 | 335.0 | 322.5 | 242.3 |
| Assets held for sale | 19 | 3.9 | 4.2 | 10.2 |
| Derivative financial instruments | 25 | 32.1 | 3.1 | 78.1 |
| | | 1,066.2 | 1,050.1 | 1,003.5 |
| Total assets | | 5,592.4 | 5,916.5 | 4,836.5 |
| Current liabilities | | | | |
| Trade and other payables | 20 | 1,120.0 | 1,124.7 | 1,035.8 |
| Tax liabilities | | 36.1 | 47.2 | 46.8 |
| Financial liabilities – bank overdrafts and loans | 22 | - | 210.7 | 26.4 |
| – bonds | 22 | 73.3 | 36.0 | 23.2 |
| – obligations under HP contracts and finance leases | 23 | 34.6 | 34.3 | 32.4 |
| – loan notes | 24 | 0.8 | - | 4.6 |
| Derivative financial instruments | 25 | 85.2 | 304.5 | 36.9 |
| | | 1,350.0 | 1,757.4 | 1,206.1 |
| Net current liabilities | | 283.8 | 707.3 | 202.6 |
| Non-current liabilities | | | | |
| Financial liabilities – bank loans | 22 | 896.0 | 1,408.1 | 1,745.1 |
| – bonds | 22 | 1,414.1 | 870.2 | 545.9 |
| – obligations under HP contracts and finance leases | 23 | 192.8 | 194.6 | 70.8 |
| – loan notes | 24 | 9.7 | 10.5 | 10.5 |
| Derivative financial instruments | 25 | 121.1 | 243.6 | 27.8 |
| Retirement benefit liabilities | 36 | 333.9 | 280.2 | 97.2 |
| Deferred tax liabilities | 26 | 63.9 | 20.6 | 159.9 |
| Provisions | 27 | 300.4 | 327.0 | 268.4 |
| | | 3,331.9 | 3,354.8 | 2,925.6 |
| Total liabilities | | 4,681.9 | 5,112.2 | 4,131.7 |
| Net assets | | 910.5 | 804.3 | 704.8 |
| Equity | | | | |
| Share capital | 28 | 24.1 | 24.1 | 21.9 |
| Share premium | 29 | 676.4 | 676.4 | 447.8 |
| Hedging reserve | 29 | (114.0) | (352.8) | 49.7 |
| Other reserves | 29 | 4.6 | 4.6 | 4.6 |
| Own shares | | (6.5) | (3.4) | (7.6) |
| Translation reserve | 30 | 318.6 | 337.4 | (70.3) |
| Retained earnings | | (8.4) | 98.5 | 245.5 |
| Equity attributable to equity holders of the parent | | 894.8 | 784.8 | 691.6 |
| Minority interests | | 15.7 | 19.5 | 13.2 |
| Total equity | | 910.5 | 804.3 | 704.8 |

¹ Presentation of certain line items has been revised as explained in note 2.

Sir Moir Lockhead Jeff Carr

[Signature] *[Signature]*

Consolidated statement of changes in equity

| | Share capital £m | Share premium £m | Hedging reserve £m | Other reserves £m | Own shares £m | Trans- lation reserve £m | Retained earnings £m | Total £m | Minority interests £m | Total equity £m |
|---|---------------------|---------------------|-----------------------|----------------------|------------------|-----------------------------------|----------------------------|--------------|-----------------------------|-----------------------|
| Balance at 1 April 2008 | 21.9 | 447.8 | 49.7 | 4.6 | (7.6) | (70.3) | 245.5 | 691.6 | 13.2 | 704.8 |
| Total comprehensive income for the period | – | – | (402.5) | – | – | 407.7 | (65.9) | (60.7) | 15.6 | (45.1) |
| Issue of share capital | 2.2 | 228.6 | – | – | – | – | – | 230.8 | – | 230.8 |
| Dividends paid | – | – | – | – | – | – | (84.6) | (84.6) | (9.3) | (93.9) |
| Movement in Employee Benefit Trust and treasury shares | – | – | – | – | 4.2 | – | (3.9) | 0.3 | – | 0.3 |
| Share-based payments | – | – | – | – | – | – | 6.3 | 6.3 | – | 6.3 |
| Deferred tax on share-based payments | – | – | – | – | – | – | (1.7) | (1.7) | – | (1.7) |
| Current tax on share-based payments | – | – | – | – | – | – | 0.1 | 0.1 | – | 0.1 |
| Current tax on foreign exchange movements | – | – | – | – | – | – | 2.7 | 2.7 | – | 2.7 |
| Balance at 31 March 2009 | 24.1 | 676.4 | (352.8) | 4.6 | (3.4) | 337.4 | 98.5 | 784.8 | 19.5 | 804.3 |
| Total comprehensive income for the period | – | – | 238.8 | – | – | (18.8) | (19.1) | 200.9 | 15.3 | 216.2 |
| Dividends paid | – | – | – | – | – | – | (93.1) | (93.1) | (19.1) | (112.2) |
| Movement in Employee Benefit Trust and treasury shares | – | – | – | – | (3.1) | – | (0.6) | (3.7) | – | (3.7) |
| Share-based payments | – | – | – | – | – | – | 5.5 | 5.5 | – | 5.5 |
| Deferred tax on share-based payments | – | – | – | – | – | – | 0.4 | 0.4 | – | 0.4 |
| Balance at 31 March 2010 | 24.1 | 676.4 | (114.0) | 4.6 | (6.5) | 318.6 | (8.4) | 894.8 | 15.7 | 910.5 |

Consolidated cash flow statement

| | Note | 2010 £m | 2009 restated ¹ £m |
|--|------|------------|-------------------------------------|
| Net cash from operating activities | 32 | 452.3 | 494.4 |
| Investing activities | | | |
| Interest received | | 1.6 | 9.0 |
| Proceeds of disposal of property, plant and equipment | | 35.6 | 54.7 |
| Purchases of property, plant and equipment | | (205.6) | (320.2) |
| Disposal of subsidiary | | 0.4 | – |
| Acquisition of businesses | | (0.1) | (6.5) |
| Net cash used in investing activities | | (168.1) | (263.0) |
| Financing activities | | | |
| Shares purchased by Employee Benefit Trust | | (6.1) | – |
| Monies received on exercise of share options | | 2.4 | 0.5 |
| Dividends paid | | (93.1) | (84.6) |
| Dividends paid to minority shareholders | | (19.1) | (9.3) |
| Repayments under HP contracts and finance leases | | (30.0) | (43.3) |
| Repayment of loan notes | | – | (4.6) |
| Fees for bank facility amendments and bond issues | | (5.0) | (10.4) |
| Proceeds from sale and leaseback of buses | | – | 70.3 |
| Net proceeds from issue of share capital | | – | 230.8 |
| Repayment of bank debt | | (707.4) | (1,062.4) |
| Proceeds from existing bank facilities | | 40.5 | 6.4 |
| Proceeds from new bank facilities | | – | 436.1 |
| Proceeds from bond issues | | 550.0 | 300.0 |
| Net cash flow from financing activities | | (267.8) | (170.5) |
| Net increase in cash and cash equivalents before foreign exchange movements | | 16.4 | 60.9 |
| Cash and cash equivalents at beginning of year | | 322.5 | 239.7 |
| Foreign exchange movements | | (3.9) | 21.9 |
| Cash and cash equivalents at end of year | | 335.0 | 322.5 |

Cash and cash equivalents are all included within current assets on the consolidated balance sheet.

¹ Restated to show proceeds of bond issues on a gross basis as explained in note 2.

Note to the consolidated cash flow statement – reconciliation of net cash flows to movement in net debt

Year ended 31 March 2010

| | 2010 £m | 2009 £m |
|---|------------|------------|
| Increase in cash and cash equivalents in year before foreign exchange movements | 16.4 | 60.9 |
| Decrease in debt and finance leases | 146.9 | 369.8 |
| Inception of new HP contracts and finance leases | (32.0) | (155.9) |
| Debt assumed on acquisition of businesses and subsidiary undertakings | – | (1.3) |
| Fees capitalised against bank facilities and bond issues | 5.0 | 8.4 |
| Other non-cash movements in relation to financial instruments | (4.6) | (9.5) |
| Foreign exchange movements | 90.3 | (614.9) |
| Movement in net debt in year | 222.0 | (342.5) |
| Net debt at beginning of year | (2,503.5) | (2,161.0) |
| Net debt at end of year | (2,281.5) | (2,503.5) |

Notes to the consolidated financial statements

1 GENERAL INFORMATION

FirstGroup plc is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is 395 King Street, Aberdeen AB24 5RP. The nature of the Group's operations and its principal activities are set out in the Chief Executive's review on pages 12 to 22.

These financial statements are presented in pounds Sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the accounting policies set out in note 2.

The parent Company financial statements and notes thereto are shown separately under UK GAAP on pages 99 to 105.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared in accordance with the recognition and measurement criteria of IFRSs adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments, and on a going concern basis as described in the going concern statement in the Directors' Report on page 46. The principal accounting policies adopted are set out below.

The figures for the year to 31 March 2010 include the results of the rail businesses for the year to 31 March 2010 and the results of all the other businesses for the 52 weeks ended 27 March 2010.

Standards affecting presentation and disclosure

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the disclosures in these financial statements.

IAS1 (revised 2007) Presentation of Financial Statements – IAS 1 (2007) has introduced a number of changes in the format and content of the financial statements. As a result the Group now presents a consolidated statement of comprehensive income and a consolidated statement of changes in equity. In addition the revised Standard has required the presentation of a third balance sheet and the balance sheet presentation of certain line items has been revised as explained below.

IFRS 8 Operating Segments – IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Executive and are used to allocate resources to the segments and to assess their performance.

Improving Disclosures about Financial Instruments (Amendments to IFRS 7 Financial Instruments: Disclosures) – The amendments to IFRS 7 expand the disclosures required in respect of fair value measurements and liquidity risk. The Group has elected not to provide the comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments.

The Directors have revised the balance sheet presentation of assets classified as held for sale to be shown within current assets and retirement benefit assets and deferred tax assets are now included as non-current assets. Prior year balance sheets have also been revised. The Directors have revised the consolidated cash flow statement for the year to 31 March 2009 to show proceeds from bond issues on a gross basis with an equal increase in fees for bond issue costs. The Directors have also revised the presentation of minority interests in the consolidated statement of comprehensive income to include foreign exchange gains and losses on translation of foreign minority interests. None of these revisions to the balance sheet have impacted the Group's net assets or the minority interests in the Group.

The Directors have changed the disclosures of Group retirement benefit schemes in note 36 to separately disclose UK Bus, UK Rail and North America scheme details to enable a better understanding of Group pension arrangements.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Minority interests in the net assets of the consolidated subsidiaries are identified separately from the Group's equity interest therein. Minority interests consist of those interests at the date of the original business combination and the minority's share of the changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation, and is able to make an additional investment, to cover the losses.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

2 SIGNIFICANT ACCOUNTING POLICIES *continued*

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business combinations* are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisitions is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Assets held for sale

Assets held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year of the date of classification.

Goodwill and intangible assets

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently where there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

The existing finite life intangible assets have a residual value of nil and are amortised over their useful economic lives as follows:

| | |
|--------------------------------|--|
| Customer contracts | over the life of the contract (9 to 20 years) |
| Greyhound brand and trade name | over the life of the brand (20 years) |
| Franchise agreements | over the term of the franchise (6 to 10 years) |

Revenue recognition

Revenue principally comprises revenue from train passenger and freight services, road passenger transport, and certain management and maintenance services in the UK and North America. Where appropriate, amounts are shown net of rebates and sales taxes.

Revenue is recognised by reference to the stage of completion of the customers' travel or services provided under contractual arrangements as the proportion of total services to be provided. Receipts for season tickets and travel cards are deferred within "accruals and deferred income" and recognised in the income statement over the period covered by the relevant ticket.

Revenue in UK Rail includes franchise subsidy receipts from the Department for Transport (DfT) and Transport Scotland and amounts receivable under franchise revenue support arrangements. Franchise premium payments to the DfT for amounts due under the terms of a franchise are included in operating costs. Revenue also includes amounts attributable to the train operating companies ("TOCs"), predominantly based on models of route usage, by the Railway Settlement Plan in respect of passenger receipts.

2 SIGNIFICANT ACCOUNTING POLICIES *continued*

UK Bus revenue principally comprises amounts receivable from ticket sales and concessionary fare schemes. Concessionary amounts are recognised in the period in which the service is provided based on a predetermined formula as agreed with the relevant local authority. Greyhound coach revenue mainly comprises of amounts receivable from ticket sales. Other Bus, including North America, and services revenue from contracts with government bodies and similar organisations is recognised as the services are provided.

Interest income is recognised on an accruals basis.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases and the rental charges are charged against income on a straight-line basis over the life of the lease.

Assets held under hire purchase contracts and finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below).

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds Sterling, which is the functional currency of the company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than pounds Sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

In order to hedge its exposure to certain foreign exchange risks, the Group holds currency swaps and borrowings in foreign currencies (see note 25 for details of the Group's policies in respect of foreign exchange risks).

On consolidation, the assets and liabilities of the Group's overseas operations are translated at the closing exchange rates on the balance sheet date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising from the average or actual exchange rates used and the period end rate, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Operating profit

Operating profit is stated after amortisation charges, non-recurring bid costs and other non-recurring items but before investment income and finance costs.

Non-recurring items

Non-recurring items are material items of income or expenditure which due to their size, nature and/or infrequency, require separate identification on the face of the income statement to allow a better understanding of the financial performance in the year, in comparison to prior years.

2 SIGNIFICANT ACCOUNTING POLICIES continued

Retirement benefit costs

The Group operates or participates in a number of pension schemes, which include both defined benefit schemes and defined contribution schemes.

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. There is no legal or constructive obligation to pay additional contributions into a defined contribution scheme if the fund has insufficient assets to pay all employees benefits relating to employee service in the current and prior periods.

For defined benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial updates being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement and presented in the consolidated statement of comprehensive income.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit position recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

Various TOCs in the UK Rail business participate in the Railways Pension Scheme, which is an industry-wide defined benefit scheme. The Group is obligated to fund the relevant section of the scheme over the period for which the franchise is held. The full liability is recognised on the balance sheet, which is then reduced by a franchise adjustment so that the net liability reflects the Group's obligations to fund the scheme over the franchise term.

Tax

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill, or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Property, plant and equipment

Properties for provision of services or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Passenger carrying vehicles and other plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

2 SIGNIFICANT ACCOUNTING POLICIES *continued*

Depreciation is charged so as to write off the cost of assets, other than freehold land, the land element of long leasehold properties or on assets in the course of construction, over their estimated useful lives, using the straight-line method, on the following bases:

| | |
|-----------------------------|-----------------------------|
| Freehold buildings | 50 years straight line |
| Long leasehold buildings | 50 years straight line |
| Short leasehold properties | period of lease |
| Passenger carrying vehicles | 7 to 15 years straight line |
| Other plant and equipment | 3 to 25 years straight line |

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Government grants

Government grants relating to property, plant and equipment are treated as deferred income and released to the income statement over the expected useful lives of the assets concerned.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately except in the case of goodwill, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

The Group measures financial assets on initial recognition at fair value, and determines the classification of such assets at initial recognition and on any subsequent reclassification event.

Where there is no active market for a financial asset, fair value is determined using valuation techniques including recent commercial transactions and discounted cash flows. Otherwise financial assets are carried at amortised cost.

Financial assets are classified into one of four primary categories:

Fair value through profit and loss

This covers any financial asset designated on initial recognition to be measured at fair value with fair value changes to go through the profit and loss, and financial assets acquired principally for the purpose of trading in the short term.

2 SIGNIFICANT ACCOUNTING POLICIES *continued*

Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified here when the Group has the intention and ability to hold to maturity. These financial assets are held at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the investments are derecognised or impaired as well as through amortisation.

Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market have not been designated as either fair value through profit or loss or available for sale. Such assets are carried at amortised cost. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired as well as through amortisation.

The most significant financial assets under this category are trade receivables and bank deposits.

Trade receivables are measured at fair value, i.e. original invoice amount, less an allowance for uncollectable amounts. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

Bank deposits are included within cash and cash equivalents. Cash and cash equivalents as defined for the cash flow statement comprise cash in hand, cash held at bank with immediate access, other short-term investments and bank deposits with maturities of three months or less from the date of inception and bank overdrafts. In the consolidated balance sheet cash and cash equivalents exclude bank overdrafts. Bank overdrafts that have no legal right of set-off against cash and cash equivalents are included within borrowings in current liabilities. All are carried on the balance sheet at cost. Cash and cash equivalents includes ring-fenced cash. The most significant ring-fenced cash balances are held by the Group's UK Rail subsidiaries. Under the terms of the Rail franchise agreements, cash can only be distributed by the train operating companies up to the lower of the amount of retained profits or the amount determined by prescribed liquidity ratios. The ring-fenced cash represents that which is not available for distribution or the amount required to satisfy the contractual liquidity ratio at the balance sheet date.

Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are designated as such, or that are not classified in any of the other categories. After initial recognition these assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or the investment is determined to be impaired, at which time the previously reported cumulative gain or loss is included in the income statement.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received net of direct issue costs.

Financial liabilities

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs.

Sterling bonds and loan notes

These are measured either on an amortised cost basis or at fair value, if adopted.

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments to hedge interest rate risks, foreign currency risks and fuel price risks. Use of such financial instruments is governed by policies and delegated authorities approved by the Board. The Group does not use derivative financial instruments for speculative purposes.

The main derivative financial instruments used by the Group are interest rate swaps, fuel swaps, and cross currency interest rate swaps. Such instruments are initially recognised at fair value and subsequently re-measured to fair value at the reported balance sheet date. The fair values are calculated by reference to market exchange rates, interest rates and fuel prices at the period end, and supported by counter-party confirmations. The interest rate swaps are designated as cash flow hedges for interest rate risk on certain floating rate debt, and fair value hedges for fair value risk relating to the LIBOR element of a fixed rate financial liability. The fuel swaps are designated as cash flow hedges of fuel price risks or otherwise used as economic hedges of such risks. The cross currency swaps are designated as hedges of the foreign exchange risk relating to part of the Group's net investment in US Dollar assets.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting as cash flow hedges or foreign currency hedges of a foreign net investment are recognised in the income statement as they arise.

2 SIGNIFICANT ACCOUNTING POLICIES *continued*

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material. Amounts due within 12 months of the balance sheet date are considered to be reliably measured and are therefore included within accruals and deferred income.

Insurance

The Group's policy is to self-insure high frequency, low value claims within the businesses. To provide protection above these types of losses, cover is obtained through third-party insurance policies. Provision is made under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* for the estimated cost of settling uninsured claims for incidents occurring prior to the balance sheet date.

Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and is adjusted for the effects of non-market-based vesting conditions.

Fair value is measured by use of a Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

New standards and interpretations not applied

The International Accounting Standards Board and the International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards and interpretations with effective dates as noted below:

| IAS/IFRS standards | | Effective for accounting periods starting on or after |
|------------------------|---|---|
| Amendment to IFRS 2 | Share-Based Payments | 1 January 2010 |
| IFRS 3 (Revised) | Business Combinations | 1 July 2009 |
| IFRS 9 | Financial Instruments | 1 January 2013 |
| Improvements to IFRSs | | 1 July 2009 |
| IAS 24 (Revised) | Related Party Disclosures | 1 January 2011 |
| Amendments to IAS 27 | Consolidated and Separate Financial Statements | 1 July 2009 |
| Amendment to IAS 32 | Classification of Rights Issues | 1 February 2010 |
| Amendment to IAS 39 | Eligible Hedged Items | 1 July 2009 |
| Interpretations | | Effective for accounting periods starting on or after |
| Amendments to IFRIC 14 | Prepayments of a Minimum Funding Requirement | 1 January 2011 |
| IFRIC 17 | Distributions of Non-cash Assets to Owners | 1 July 2009 |
| IFRIC 18 | Transfers of Assets from Customers | 1 July 2009 |
| IFRIC 19 | Extinguishing Financial Liabilities with Equity instruments | 1 July 2010 |

The Directors do not anticipate that the adoption of these standards will have a material impact on the Group's accounts in the period of initial application with the exception of the treatment of acquisition of subsidiaries under IFRS 3 (revised 2008). This comes into effect for business combinations for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 July 2009. This will be effective for our year ending 31 March 2011.

2 SIGNIFICANT ACCOUNTING POLICIES *continued***Critical accounting judgements and key sources of estimation uncertainty**

In the process of applying the Group's accounting policies which are described above, management has made the following judgements and estimates that have the most significant effect on the amounts recognised in the financial statements.

Impairment of intangible assets (including goodwill)

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which the goodwill has been allocated. The value in use requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was £1,754.9m (2009: £1,820.0m; 2008: £1,310.1m) as set out in note 13 and the carrying amount of other intangible assets at the balance sheet date was £415.9m (2009: £456.7m; 2008: £367.5m) as set out in note 14. The sensitivities on the key assumptions used in the goodwill impairment testing are also set out in note 13.

Defined benefit pension arrangements

Measurement of defined benefit pension obligations requires estimation of a suitable discount rate, the expected return on scheme assets, expected rate of inflation of future salary and pension costs along with assumptions about mortality rates. The most significant of these are the discount rate and inflation rate assumptions. A 0.1% movement in the discount rate would impact operating profit and the balance sheet position by approximately £1m and £32m respectively. A 0.1% movement in the inflation rate would impact operating profit and the balance sheet position by approximately £3m and £25m respectively. The net pension deficit as at the balance sheet date was £330.8m (2009: £168.7m; 2008: net surplus of £89.0m) as set out in note 36.

Self-insurance

Provision is made for all known incidents for which there is self-insurance using management's best estimate of the likely settlement of these incidents. The estimated settlement is reviewed on a regular basis with independent actuarial advice and the amount provided is adjusted as required. The Group's total self-insurance provisions, including those classified within accruals and deferred income, as at the balance sheet date were £375.2m (2009: £403.1m; 2008: £316.7m) as set out in note 27.

3 REVENUE

| | 2010 £m | 2009 £m |
|--------------------------------------|------------|------------|
| Services rendered | 6,319.3 | 6,187.3 |
| Investment income (note 8) | 1.8 | 7.9 |
| Total revenue (as defined in IAS 18) | 6,321.1 | 6,195.2 |

Revenue includes rail franchise subsidy receipts of £367.8m (2009: £437.2m) and rail revenue support receipts of £172.8m (2009: £46.9m).

Revenue by business segment is set out in note 4.

4 BUSINESS SEGMENTS AND GEOGRAPHICAL INFORMATION

Business segments

For management purposes, the Group is organised into four operating divisions – UK Bus, UK Rail, North America and Greyhound. These business segments are managed separately in line with the differing services that they provide and the geographical markets which they operate in. The principal activities of these divisions are set out in the Chief Executive's operating review.

Segment information about these businesses is set out below.

The segment results for the year to 31 March 2010 are as follows:

| | UK Bus £m | UK Rail £m | North America £m | Greyhound £m | Group items ² £m | Total £m |
|--|----------------------|-----------------------|---------------------------------|-------------------------|--|---------------------|
| Revenue | 1,170.6 | 2,188.4 | 2,333.7 | 603.3 | 23.3 | 6,319.3 |
| EBITDA | 200.2 | 147.6 | 386.4 | 52.6 | (17.2) | 769.6 |
| Depreciation | (75.6) | (55.0) | (152.5) | (28.7) | (3.9) | (315.7) |
| Segment results¹ | 124.6 | 92.6 | 233.9 | 23.9 | (21.1) | 453.9 |
| Amortisation charges | – | (7.1) | (24.6) | (3.0) | – | (34.7) |
| Non-recurring bid costs | – | – | – | – | (0.3) | (0.3) |
| Other non-recurring items | (6.8) | (2.5) | (28.1) | (8.1) | (3.8) | (49.3) |
| (Loss)/profit on disposal of properties | (1.3) | – | – | 0.2 | – | (1.1) |
| Operating profit | 116.5 | 83.0 | 181.2 | 13.0 | (25.2) | 368.5 |
| Investment income | | | | | | 1.8 |
| Finance costs | | | | | | (191.7) |
| Hedge ineffectiveness on financial derivatives | | | | | | 1.0 |
| Profit before tax | | | | | | 179.6 |
| Tax | | | | | | (32.5) |
| Profit for the year | | | | | | 147.1 |
| Other information | UK Bus £m | UK Rail £m | North America £m | Greyhound £m | Group items² £m | Total £m |
| Capital additions | 65.4 | 39.7 | 93.2 | 33.9 | 19.5 | 251.7 |
| Balance sheet | UK Bus £m | UK Rail £m | North America £m | Greyhound £m | Group items² Eliminations £m | Total £m |
| Total assets | 1,168.5 | 780.3 | 3,204.9 | 719.9 | 3,151.5 (3,463.1) | 5,562.0 |
| Unallocated corporate items ³ | | | | | | 30.4 |
| Total assets | | | | | | 5,592.4 |
| Liabilities | 1,109.9 | 720.5 | 3,701.2 | 366.9 | 2,182.6 (3,463.1) | 4,618.0 |
| Unallocated corporate items ³ | | | | | | 63.9 |
| Total liabilities | | | | | | 4,681.9 |

¹ Segment results are defined as operating profit before amortisation charges, non-recurring bid costs, other non-recurring items and (loss)/profit on disposal of properties.

² Group items comprise Tram operations, German Bus, central management and other items.

³ Deferred tax.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

4 BUSINESS SEGMENTS AND GEOGRAPHICAL INFORMATION *continued*

The segment results for the year to 31 March 2009 are as follows:

| | UK Bus £m | UK Rail £m | North America £m | Greyhound £m | Group items ² £m | Total £m |
|------------------------------------|--------------|---------------|------------------------|-----------------|-----------------------------------|-------------|
| Revenue | 1,182.0 | 2,121.5 | 2,224.1 | 642.4 | 17.3 | 6,187.3 |
| EBITDA | 205.4 | 137.2 | 374.2 | 76.6 | (21.2) | 772.2 |
| Depreciation | (71.4) | (43.0) | (128.1) | (28.1) | (4.1) | (274.7) |
| Segment results¹ | 134.0 | 94.2 | 246.1 | 48.5 | (25.3) | 497.5 |
| Amortisation charges | – | (7.1) | (23.1) | (2.9) | – | (33.1) |
| Non-recurring bid costs | – | – | – | – | (3.5) | (3.5) |
| Other non-recurring items | (9.5) | (12.7) | (70.1) | (23.2) | – | (115.5) |
| Profit on disposal of properties | 9.2 | – | 3.0 | 13.5 | – | 25.7 |
| Operating profit | 133.7 | 74.4 | 155.9 | 35.9 | (28.8) | 371.1 |
| Investment income | | | | | | 7.9 |
| Finance costs | | | | | | (179.0) |
| Profit before tax | | | | | | 200.0 |
| Tax | | | | | | (43.0) |
| Profit for the year | | | | | | 157.0 |

| | UK Bus £m | UK Rail £m | North America £m | Greyhound £m | Group items ² £m | Total £m |
|--------------------------|--------------|---------------|------------------------|-----------------|-----------------------------------|-------------|
| Other information | | | | | | |
| Capital additions | 139.0 | 71.3 | 194.1 | 26.2 | 6.3 | 436.9 |

| | UK Bus £m | UK Rail £m | North America £m | Greyhound £m | Group items ² £m | Eliminations £m | Total £m |
|--|--------------|---------------|------------------------|-----------------|-----------------------------------|--------------------|-------------|
| Balance sheet | | | | | | | |
| Total assets | 1,404.9 | 798.9 | 4,191.8 | 930.1 | 2,476.4 | (3,935.8) | 5,866.3 |
| Unallocated corporate items ³ | | | | | | | 50.2 |
| Total assets | | | | | | | 5,916.5 |
| Liabilities | 1,150.6 | 736.7 | 4,638.0 | 435.3 | 2,061.5 | (3,935.8) | 5,086.3 |
| Unallocated corporate items ³ | | | | | | | 25.9 |
| Total liabilities | | | | | | | 5,112.2 |

1 Segment results are defined as operating profit before amortisation charges, non-recurring bid costs, other non-recurring items and profit on disposal of properties.

2 Group items comprise Tram operations, German Bus, central management and other items.

3 Deferred tax.

Other non-cash items, included within Group items in segment results, include the following charges:

| | 2010 £m | 2009 £m |
|---|------------|------------|
| Share-based payments | 5.5 | 6.3 |
| Loss on disposal of plant and equipment | 0.8 | 3.2 |
| | 6.3 | 9.5 |

4 BUSINESS SEGMENTS AND GEOGRAPHICAL INFORMATION continued**Geographical information**

The Group's operations are located predominantly in the United Kingdom, United States of America and Canada. The following table provides an analysis of the Group's revenue by geographical market:

| Revenue | 2010 £m | 2009 £m |
|--------------------------|--------------------|--------------------|
| United Kingdom | 3,382.3 | 3,320.8 |
| United States of America | 2,505.0 | 2,441.9 |
| Canada | 432.0 | 424.6 |
| | 6,319.3 | 6,187.3 |

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

| Assets | Carrying amount of segment assets | | Additions to property, plant and equipment and intangible assets | |
|-----------------------------|--|--------------------|---|--------------------|
| | 2010 £m | 2009 £m | 2010 £m | 2009 £m |
| United Kingdom | 5,100.3 | 4,680.2 | 124.6 | 216.6 |
| United States of America | 3,364.0 | 4,611.9 | 112.6 | 175.0 |
| Canada | 560.8 | 510.0 | 14.5 | 45.3 |
| Eliminations | (3,463.1) | (3,935.8) | – | – |
| Unallocated corporate items | 30.4 | 50.2 | – | – |
| | 5,592.4 | 5,916.5 | 251.7 | 436.9 |

5 NON-RECURRING ITEMS AND AMORTISATION CHARGES

| | 2010 £m | 2009 £m |
|--|--------------------|--------------------|
| North America integration costs | 15.5 | 70.1 |
| North America restructuring costs | 15.9 | 9.9 |
| UK Bus restructuring costs | 6.8 | 2.1 |
| UK Rail restructuring costs | 2.5 | 10.3 |
| Fuel hedge ineffectiveness | 4.8 | 23.1 |
| Competition Commission costs | 3.8 | – |
| European bid costs | 0.3 | 3.5 |
| Total non-recurring items | 49.6 | 119.0 |
| Amortisation charges | 34.7 | 33.1 |
| | 84.3 | 152.1 |
| Loss/(profit) on disposal of properties | 1.1 | (25.7) |
| Hedge ineffectiveness on financial derivatives | (1.0) | – |
| | 84.4 | 126.4 |

5 NON-RECURRING ITEMS AND AMORTISATION CHARGES *continued*

| North America integration costs | 2010 £m | 2009 £m |
|--|--------------------|--------------------|
| Redundancy and staff related costs | 1.1 | 17.3 |
| IT costs | 5.9 | 15.3 |
| Legal and professional costs | 2.3 | 14.8 |
| Safety expenses | 0.1 | 9.0 |
| Rebranding costs | 0.1 | 3.1 |
| Relocation of offices | - | 2.9 |
| Other integration costs | 6.0 | 7.7 |
| | 15.5 | 70.1 |

These costs reflect the conclusion of the Laidlaw integration process and we do not anticipate any further such costs to be separately disclosed in future.

Restructuring costs

Restructuring costs were £25.2m (2009: £22.3m) and represent redundancy and related costs in respect of headcount reductions across all businesses as part of the cost reduction action plan.

Fuel hedge ineffectiveness

During the year a charge of £4.8m (2009: £23.1m) was made in respect of 2009/10 fuel volumes principally due to changes to contractual terms in certain First Student and First Transit contracts whereby the Group has less 'at risk' fuel than it had when 2009/10 hedges were originally taken out.

Competition Commission costs

Costs of £3.8m (2009: £nil) either already incurred or committed to be spent on the ongoing Competition Commission investigation into the UK Bus market.

European bid costs

Bid costs of £0.3m (2009: £3.5m) represent the non-recurring costs of business development opportunities in mainland Europe.

Amortisation charges

The charge for the year was £34.7m (2009: £33.1m) with the increase mainly due to the impact of foreign exchange movements.

Loss/(profit) on disposal of properties

A loss on disposal of properties of £1.1m (2009: profit of £25.7m) was recorded during the year. Principally due to market conditions there were no significant disposals of properties during the year either in the UK or North America.

Hedge ineffectiveness on financial derivatives

Due to the ineffective element of the fair value movements on financial derivatives there was a £1.0m credit to the income statement during the year (2009: £nil).

Tax

The tax benefit as a result of this non-recurring expenditure was a credit of £26.6m (2009: credit of £53.8m). In addition in 2009 there was a one-off tax charge of £15.2m as a result of the abolition of Industrial Buildings Allowances.

6 OPERATING PROFIT

Operating profit has been arrived at after charging:

| | 2010 £m | 2009 £m |
|---|----------------|----------------|
| Depreciation of property, plant and equipment (note 15) | 315.7 | 274.7 |
| Operating lease charges (note 34) | 639.6 | 846.5 |
| Amortisation charges (note 14) | 34.7 | 33.1 |
| Cost of inventories recognised as an expense | 829.1 | 669.2 |
| Staff costs (note 7) | 2,768.5 | 2,670.0 |
| Auditors' remuneration for audit services (see below) | 1.5 | 1.7 |
| UK Rail franchise payments | 286.0 | 53.4 |
| Other operating costs | 1,074.6 | 1,293.3 |
| | 5,949.7 | 5,841.9 |

Amounts payable to Deloitte LLP and their associates by the Company and its subsidiary undertakings in respect of audit and non-audit services are shown below:

| | 2010 £m | 2009 £m |
|---|------------|------------|
| Fees payable to the Company's auditors for the audit of the Company's annual accounts | 0.1 | 0.1 |
| Fees payable to the Company's auditors and their associates for the audit of the Company's subsidiaries pursuant to legislation | 1.4 | 1.6 |
| Total audit fees | 1.5 | 1.7 |
| – Accounting and advisory services | 0.3 | 0.2 |
| – Tax services | 0.1 | 0.3 |
| Total non-audit fees | 0.4 | 0.5 |

A description of the work of the Audit Committee is set out in the corporate governance statement on pages 32 and 33 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

7 STAFF COSTS

The average monthly number of employees (including Executive Directors) was:

| | 2010 Number | 2009 Number |
|----------------|----------------|----------------|
| Operational | 126,592 | 128,877 |
| Administration | 6,602 | 6,930 |
| | 133,194 | 135,807 |

Their aggregate remuneration (including Executive Directors) comprised:

| | 2010 £m | 2009 £m |
|-------------------------------|----------------|----------------|
| Wages and salaries | 2,521.7 | 2,460.8 |
| Social security costs | 200.1 | 172.6 |
| Other pension costs (note 36) | 46.7 | 36.6 |
| | 2,768.5 | 2,670.0 |

Wages and salaries include a charge in respect of share-based payments of £5.5m (2009: £6.3m).

Disclosures on Directors' remuneration, share options, long term incentive schemes and pension entitlements required by the Companies Act 2006 and those specified for audit by the Financial Services Authority are contained in the tables/notes within the Directors' remuneration report on pages 38 to 43 and form part of these audited financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

| 8 INVESTMENT INCOME | 2010 £m | 2009 £m |
|---|--------------------|--------------------|
| Bank interest receivable | 1.8 | 7.9 |
| 9 FINANCE COSTS | 2010 £m | 2009 £m |
| Bonds | 85.2 | 44.9 |
| Bank borrowings | 80.3 | 106.6 |
| Loan notes | 1.1 | 1.2 |
| Finance charges payable in respect of HP contracts and finance leases | 7.6 | 7.5 |
| Total borrowing costs | 174.2 | 160.2 |
| Notional interest on long term provisions | 17.5 | 18.8 |
| Total finance costs before non-recurring items | 191.7 | 179.0 |
| Hedge ineffectiveness on financial derivatives | (1.0) | – |
| | 190.7 | 179.0 |

Finance costs are stated after charging fee expenses of £4.6m (2009: £9.5m). There was no interest capitalised into qualifying assets in either the year ended 31 March 2009 or 31 March 2010.

| 10 TAX ON PROFIT ON ORDINARY ACTIVITIES | 2010 £m | 2009 £m |
|--|--------------------|--------------------|
| Current tax | 5.4 | 7.3 |
| Deferred tax (note 26) | 27.1 | 35.7 |
| | 32.5 | 43.0 |

UK Corporation tax is calculated at 28% (2009: 28%) of the estimated assessable profit for the year.

Tax for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The charge for the year can be reconciled to the profit per the income statement as follows:

| | 2010 £m | 2010 % | 2009 £m | 2009 % |
|--|--------------------|-------------------|--------------------|-------------------|
| Profit before tax | 179.6 | 100 | 200.0 | 100 |
| Tax at the UK corporation tax rate of 28% (2009: 28%) | 50.3 | 28.0 | 56.0 | 28.0 |
| Tax effect of expenses that are not deductible in determining taxable profit | 3.5 | 1.9 | 5.4 | 2.7 |
| Income not subject to tax | – | – | (9.3) | (4.6) |
| Reduced tax in subsidiaries operating in other jurisdictions | (17.7) | (9.8) | (13.9) | (7.0) |
| Impact of abolition of Industrial Buildings Allowances on deferred tax | – | – | 15.2 | 7.6 |
| Adjustments to tax in respect of prior years | (3.6) | (2.0) | (10.4) | (5.2) |
| Tax charge and effective tax rate for the year | 32.5 | 18.1 | 43.0 | 21.5 |

In addition to the amount charged to the income statement, deferred tax relating to share-based payments £0.4m (2009: £1.1m), actuarial gains/losses £53.6m (2009: £102.2m) and cash flow and net investment hedges £100.4m (2009: £137.1m), amounting to a charge of £46.4m (2009: credit of £240.4m) has been taken directly to equity.

11 EARNINGS PER SHARE (EPS)

EPS is calculated by dividing the profit attributable to equity shareholders of £132.1m (2009: £143.3m) by the weighted average number of ordinary shares of 480.5m (2009: 474.8m). The numbers of ordinary shares used for the basic and diluted calculations are shown in the table below.

The difference in the number of shares between the basic calculation and the diluted calculation represents the weighted average number of potentially dilutive ordinary share options.

| | 2010 Number m | 2009 Number m |
|---|-----------------------|-----------------------|
| Weighted average number of shares used in basic calculation | 480.5 | 474.8 |
| SAYE share options | 0.2 | 0.6 |
| Executive share options | 2.5 | 2.6 |
| Weighted average number of shares used in diluted calculation | 483.2 | 478.0 |
| Diluted EPS | 2010 pence | 2009 pence |
| Diluted EPS | 27.3 | 30.0 |
| Adjusted diluted EPS | 39.3 | 48.3 |

The adjusted basic EPS and adjusted cash EPS are intended to highlight the recurring results of the Group before amortisation charges, non-recurring bid costs, other non-recurring items and loss/(profit) on disposal of properties. A reconciliation of the earnings used in these bases is set out below:

| | 2010 | | 2009 | |
|---|--------|------------------------|--------|------------------------|
| | £m | Earnings per share (p) | £m | Earnings per share (p) |
| Profit for basic EPS calculation | 132.1 | 27.5 | 143.3 | 30.2 |
| Amortisation charges ¹ | 34.5 | 7.2 | 32.9 | 6.9 |
| Non-recurring bid costs | 0.3 | 0.1 | 3.5 | 0.7 |
| Other non-recurring items | 49.3 | 10.3 | 115.5 | 24.3 |
| Loss/(profit) on disposal of properties | 1.1 | 0.2 | (25.7) | (5.4) |
| Hedge ineffectiveness on financial derivatives | (1.0) | (0.2) | - | - |
| Tax effect of adjustments | (26.6) | (5.6) | (53.8) | (11.3) |
| Non-recurring tax charge ² | - | - | 15.2 | 3.2 |
| Profit for adjusted basic EPS calculation | 189.7 | 39.5 | 230.9 | 48.6 |
| Depreciation ³ | 314.9 | 65.5 | 273.6 | 57.7 |
| Profit for adjusted cash EPS calculation ⁴ | 504.6 | 105.0 | 504.5 | 106.3 |

1 Amortisation charges of £34.7m per note 14 less £0.2m (2009: £33.1m less £0.2m) attributable to equity minority interests.

2 Tax charge in 2009 arising on abolition of Industrial Buildings Allowances in the UK.

3 Depreciation charge of £315.7m per note 15 less £0.8m (2009: £274.7m less £1.1m) attributable to equity minority interests.

4 Excludes working capital movements.

12 DIVIDENDS

| | 2010 £m | 2009 £m |
|---|------------|------------|
| Amounts recognised as distributions to equity holders in the period: | | |
| Final dividend for the year ended 31 March 2009 of 12.7p (2008: 11.55p) per share | 61.1 | 55.5 |
| Interim dividend for the year ended 31 March 2010 of 6.65p (2009: 6.05p) per share | 32.0 | 29.1 |
| | 93.1 | 84.6 |
| Proposed final dividend for the year ended 31 March 2010 of 14.0p (2009: 12.7p) per share | 67.2 | 61.1 |

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

| | 2010 £m | 2009 £m | 2008 £m |
|---|----------------|----------------|----------------|
| 13 GOODWILL | | | |
| Cost | | | |
| At 1 April | 1,820.0 | 1,310.1 | 468.8 |
| Additions | – | 6.5 | 829.0 |
| Reclassifications (to)/from other intangible assets (note 14) | – | (9.1) | 3.0 |
| Foreign exchange movements | (65.1) | 512.5 | 9.3 |
| At 31 March | 1,754.9 | 1,820.0 | 1,310.1 |
| Accumulated impairment losses | | | |
| At 31 March | – | – | – |
| Carrying amount | | | |
| At 31 March | 1,754.9 | 1,820.0 | 1,310.1 |

Details of acquisitions in the year are shown in note 31. During the year, goodwill was reviewed for impairment in accordance with IAS 36 *Impairment of Assets*. For the purposes of this impairment review goodwill has been tested for impairment on the basis of discounted future cash flows arising in each relevant cash-generating unit. The Group prepares cash flow forecasts derived from the most recent budget for 2010/11 and Five Year Plan projections for 2011/12 and then extrapolates cash flows for subsequent years based on estimated growth rates of 2.5% (2009: 2.5%) for the United Kingdom and 3.0% (2009: 3.0%) for North America. A pre-tax discount rate of 10.0% (2009: 10.0%) was used in arriving at the value in use for each of the cash-generating units. The calculation of value in use for each cash-generating unit is most sensitive to the principal assumptions of discount rate, growth rates and margins achievable. The Directors consider the assumptions to be reasonable based on the historic performance of each cash-generating unit and to be realistic in light of economic and industry forecasts.

The headroom by the principal cash-generating units and sensitivities thereon, which are shown on a mutually exclusive basis, are as follows:

| | UK Bus £m | UK Rail £m | First Student £m | First Transit £m | Greyhound £m |
|---|--------------|---------------|------------------------|------------------------|-----------------|
| Carrying value ¹ | 665 | 196 | 1,911 | 415 | 416 |
| Headroom | 990 | 273 | 630 | 189 | 199 |
| Value in use | 1,655 | 469 | 2,541 | 604 | 615 |
| Headroom after increasing discount rate by 1.0% | 921 | 243 | 521 | 163 | 172 |
| Headroom after a 1.0% reduction in assumed growth rates | 954 | 263 | 574 | 176 | 186 |
| Headroom after a 1.0% reduction in margin | 870 | 128 | 444 | 103 | 123 |

¹ Net assets including goodwill below but excluding inter-company balances.

The goodwill is split as follows:

| | 2010 £m | 2009 £m | 2008 £m |
|----------------------------|----------------|----------------|----------------|
| Carrying amount | | | |
| UK Bus | 95.5 | 95.7 | 90.4 |
| UK Rail | 19.8 | 19.8 | 19.8 |
| First Student | 1,117.9 | 1,161.9 | 811.5 |
| First Transit ¹ | 271.1 | 282.0 | 201.7 |
| Greyhound | 244.3 | 254.2 | 181.9 |
| Germany | 6.3 | 6.4 | 4.8 |
| | 1,754.9 | 1,820.0 | 1,310.1 |

¹ First Transit includes First Services as these are now managed as a single business. Up to 31 March 2009 First Transit and First Services were classed as separate cash generating units. Comparative figures for 2009 and 2008 have been amended to represent the sum of the individual amounts for First Transit and First Services that were previously disclosed separately.

14 OTHER INTANGIBLE ASSETS

| | Customer contracts £m | Greyhound brand and trade name £m | Rail franchise agreements £m | Total £m |
|----------------------------|--------------------------|--------------------------------------|---------------------------------|--------------|
| Cost | | | | |
| At 1 April 2009 | 412.1 | 65.9 | 56.3 | 534.3 |
| Foreign exchange movements | (4.5) | 0.1 | – | (4.4) |
| At 31 March 2010 | 407.6 | 66.0 | 56.3 | 529.9 |
| Amortisation | | | | |
| At 1 April 2009 | 44.6 | 5.0 | 28.0 | 77.6 |
| Charge for year | 24.6 | 3.0 | 7.1 | 34.7 |
| Foreign exchange movements | 1.4 | 0.3 | – | 1.7 |
| At 31 March 2010 | 70.6 | 8.3 | 35.1 | 114.0 |
| Carrying amount | | | | |
| At 31 March 2010 | 337.0 | 57.7 | 21.2 | 415.9 |

| | Customer contracts £m | Greyhound brand and trade name £m | Rail franchise agreements £m | Total £m |
|--|--------------------------|--------------------------------------|---------------------------------|--------------|
| Cost | | | | |
| At 1 April 2008 | 297.4 | 49.2 | 56.3 | 402.9 |
| Reclassifications to goodwill ¹ | 9.1 | – | – | 9.1 |
| Foreign exchange movements | 105.6 | 16.7 | – | 122.3 |
| At 31 March 2009 | 412.1 | 65.9 | 56.3 | 534.3 |
| Amortisation | | | | |
| At 1 April 2008 | 13.3 | 1.2 | 20.9 | 35.4 |
| Charge for year | 23.1 | 2.9 | 7.1 | 33.1 |
| Foreign exchange movements | 8.2 | 0.9 | – | 9.1 |
| At 31 March 2009 | 44.6 | 5.0 | 28.0 | 77.6 |
| Carrying amount | | | | |
| At 31 March 2009 | 367.5 | 60.9 | 28.3 | 456.7 |
| At 1 April 2008 | 284.1 | 48.0 | 35.4 | 367.5 |

¹ The reclassification of contracts acquired shown above related to reassessments of provisional values within twelve months of acquisition during the year to 31 March 2009. These amounts have been reclassified from goodwill (note 13).

Contracts acquired through the purchases of businesses and subsidiary undertakings are amortised on a straight-line basis over their useful lives which are between nine and twenty years.

The rail franchise agreement intangible asset represents the part of the economic benefit that is realised as a result of recognising our share of the rail pension deficit on the date of commencement of each respective franchise and is amortised on a straight-line basis over the initial term of each respective franchise. The largest elements of the franchise intangible relate to the First Great Western franchise (carrying amount £11.4m (2009: £15.3m)) and the First ScotRail franchise (carrying amount £5.9m (2009: £7.2m)).

15 PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings £m | Passenger carrying vehicle fleet £m | Other plant and equipment £m | Total £m |
|--|-----------------------------|--|---------------------------------------|----------------|
| Cost | | | | |
| At 1 April 2009 | 531.5 | 2,598.1 | 514.4 | 3,644.0 |
| Additions in the year | 24.7 | 161.6 | 65.4 | 251.7 |
| Disposals | (4.7) | (86.4) | (23.1) | (114.2) |
| Transfers | 5.0 | (1.5) | (3.5) | - |
| Reclassified as held for sale | - | (23.6) | - | (23.6) |
| Foreign exchange movements | (1.3) | (3.9) | (3.3) | (8.5) |
| At 31 March 2010 | 555.2 | 2,644.3 | 549.9 | 3,749.4 |
| Accumulated depreciation and impairment | | | | |
| At 1 April 2009 | 51.6 | 974.7 | 219.6 | 1,245.9 |
| Charge for year | 13.9 | 231.5 | 70.3 | 315.7 |
| Disposals | (1.6) | (59.2) | (20.5) | (81.3) |
| Transfers | 4.2 | (1.4) | (2.8) | - |
| Reclassified as held for sale | - | (20.1) | - | (20.1) |
| Foreign exchange movements | 0.4 | 5.4 | (0.7) | 5.1 |
| At 31 March 2010 | 68.5 | 1,130.9 | 265.9 | 1,465.3 |
| Carrying amount | | | | |
| At 31 March 2010 | 486.7 | 1,513.4 | 284.0 | 2,284.1 |

| | Land and buildings £m | Passenger carrying vehicle fleet £m | Other plant and equipment £m | Total £m |
|---|-----------------------------|--|---------------------------------------|----------------|
| Cost | | | | |
| At 1 April 2008 | 417.9 | 1,981.7 | 413.0 | 2,812.6 |
| Subsidiary undertakings and businesses acquired | - | 2.2 | 0.1 | 2.3 |
| Additions in the year | 48.9 | 276.5 | 105.0 | 430.4 |
| Disposals | (13.7) | (33.7) | (36.7) | (84.1) |
| Reclassified as held for sale | - | (19.3) | - | (19.3) |
| Foreign exchange movements | 78.4 | 390.7 | 33.0 | 502.1 |
| At 31 March 2009 | 531.5 | 2,598.1 | 514.4 | 3,644.0 |
| Accumulated depreciation and impairment | | | | |
| At 1 April 2008 | 35.3 | 700.8 | 156.7 | 892.8 |
| Charge for year | 14.3 | 201.3 | 59.1 | 274.7 |
| Disposals | (2.0) | (32.6) | (13.5) | (48.1) |
| Reclassified as held for sale | - | (14.9) | - | (14.9) |
| Foreign exchange movements | 4.0 | 120.1 | 17.3 | 141.4 |
| At 31 March 2009 | 51.6 | 974.7 | 219.6 | 1,245.9 |
| Carrying amount | | | | |
| At 31 March 2009 | 479.9 | 1,623.4 | 294.8 | 2,398.1 |
| At 1 April 2008 | 382.6 | 1,280.9 | 256.3 | 1,919.8 |

The carrying amount of property, plant and equipment includes an amount of £238.5m (2009: £217.5m; 2008: £100.8m) in respect of assets held under HP contracts and finance leases.

At 31 March 2010 the Group had entered into contractual capital commitments amounting to £86.8m (2009: £146.7m; 2008: £150.5m), principally representing buses ordered in the United Kingdom and commitments under the First Great Western franchise.

16 SUBSIDIARIES

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given in note 4 to the Company's separate financial statements on page 102.

17 INVENTORIES

| | 2010 £m | 2009 £m | 2008 £m |
|---------------------------------------|------------|------------|------------|
| Spare parts and consumables | 91.5 | 108.0 | 75.3 |
| Property development work in progress | 1.2 | 2.0 | 7.4 |
| | 92.7 | 110.0 | 82.7 |

In the view of the Directors there is no material difference between the balance sheet value of inventories and their replacement cost. There was no material write down of inventories during the current or prior year. The provision for stock obsolescence at the balance sheet date was £7.7m (2009: £6.0m; 2008: £5.5m).

18 TRADE AND OTHER RECEIVABLES

| | 2010 £m | 2009 £m | 2008 £m |
|--------------------------------------|------------|------------|------------|
| Amounts due within one year | | | |
| Trade receivables | 462.2 | 461.8 | 429.8 |
| Provision for doubtful receivables | (6.5) | (8.8) | (5.0) |
| Other receivables | 57.3 | 67.2 | 95.1 |
| Other prepayments and accrued income | 89.5 | 90.1 | 70.3 |
| | 602.5 | 610.3 | 590.2 |

Credit risk

Credit risk is the risk that financial loss arises from failure by a customer or counterparty to meet its obligations under a contract.

Credit risk exists in relation to the Group's financial assets, which comprise trade and other receivables of £602.5m (2009: £610.3m; 2008: £590.2m), cash and cash equivalents of £335.0m (2009: £322.5m; 2008: £242.3m) and derivative financial instruments of £65.1m (2009: £27.9m; 2008: £123.5m).

The Group's maximum exposure to credit risk for all financial assets at the balance sheet date was £1,002.6m (2009: £971.2; 2008: £959.8m). The exposure is spread over a large number of unconnected counter-parties and the maximum single concentration with any one counter-party was £50.0m (2009: £50.0m; 2008: £60.8m) at the balance sheet date.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment. The provision for doubtful receivables at the balance sheet date was £6.5m (2009: £8.8m; 2008: £5.0m).

Most trade receivables are with public or quasi public bodies, principally the UK Department for Transport, Network Rail, Transport for London, Transport Scotland, UK city councils and school bus boards and city municipal authorities in North America. The Group does not consider any of these counterparties to be a significant risk. Each division within the Group has a policy governing credit risk management on trade receivables.

The counter-parties for bank balances and derivative financial instruments are mainly represented by large banks with a minimum of 'A' credit ratings assigned by international credit rating agencies. These counter-parties are subject to approval by the Board. Group Treasury policy limits the maximum deposit amount with any one counter-party to £75 million, and limits the maximum term to three months. The term of the bank deposits is typically less than one month.

18 TRADE AND OTHER RECEIVABLES *continued*

An analysis of financial assets which are past due but not impaired and movements in the provision for doubtful receivables are set out below.

| | 2010 £m | 2009 £m | 2008 £m |
|--|-------------|-------------|-------------|
| Ageing of past due but not impaired trade receivables | | | |
| Less than 30 days | 33.9 | 32.8 | 39.9 |
| 30 – 90 days | 11.4 | 12.8 | 12.8 |
| 90 – 180 days | 11.1 | 2.5 | 9.2 |
| 180+ days | 4.4 | 1.6 | 11.3 |
| Total | 60.8 | 49.7 | 73.2 |
| | 2010 £m | 2009 £m | 2008 £m |
| Movement in the provision for doubtful receivables | | | |
| Balance at the beginning of the year | 8.8 | 5.0 | 2.3 |
| Subsidiary undertakings acquired | – | 0.1 | 2.8 |
| Amounts written off during the year | (3.4) | (1.9) | (1.3) |
| Amounts recovered during the year | (0.2) | (0.9) | (0.1) |
| Increase in allowance recognised in the income statement | 1.5 | 5.1 | 1.2 |
| Foreign exchange movements | (0.2) | 1.4 | 0.1 |
| Balance at the end of the year | 6.5 | 8.8 | 5.0 |

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

19 ASSETS HELD FOR SALE

| | 2010 £m | 2009 £m | 2008 £m |
|-------------------------|------------|------------|------------|
| Assets as held for sale | 3.9 | 4.2 | 10.2 |

These comprise North American yellow school buses which are surplus to requirements and are being actively marketed on the Internet. Gains or losses arising on the disposal of such assets are included in arriving at operating profit in the income statement. The Group expects to sell such yellow school buses within 12 months of them going onto the 'for sale' list. The value at each balance sheet date represents management's best estimate of their resale value. There are no liabilities associated with these held for sale assets.

20 TRADE AND OTHER PAYABLES

| | 2010 £m | 2009 £m | 2008 £m |
|--|----------------|----------------|----------------|
| Amounts falling due within one year | | | |
| Trade payables | 288.9 | 314.5 | 247.6 |
| Other payables | 145.1 | 129.2 | 115.7 |
| Accruals and deferred income | 627.5 | 623.0 | 616.3 |
| Season ticket deferred income | 58.5 | 58.0 | 56.2 |
| | 1,120.0 | 1,124.7 | 1,035.8 |

Trade payables and accruals principally comprise of amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 31 days (2009: 30 days; 2008: 30 days). The Group has controls in place to ensure that all payments are paid within the appropriate credit time-frame.

The Directors consider that the carrying amount of trade payables approximates to their fair value.

21 CASH AND CASH EQUIVALENTS

| | 2010 £m | 2009 £m | 2008 £m |
|---------------------------|------------|------------|------------|
| Cash and cash equivalents | 335.0 | 322.5 | 242.3 |

The fair value of cash and cash equivalents approximates to the carrying value. Cash and cash equivalents includes ring-fenced cash of £259.0m (2009: £212.8m; 2008: £166.0m). The most significant ring-fenced cash balances are held by the Group's UK Rail subsidiaries. Under the terms of the Rail franchise agreements, cash can only be distributed by the TOCs either up to the amount of retained profits or the amount determined by prescribed liquidity ratios. The ring-fenced cash represents that which is not available for distribution or the amount required to satisfy the liquidity ratios at the balance sheet date.

22 FINANCIAL LIABILITIES – BORROWINGS

| | 2010 £m | 2009 £m | 2008 £m |
|---|----------------|----------------|----------------|
| Current financial liabilities | | | |
| Short-term bank loans | – | 210.7 | 23.8 |
| Bank overdrafts | – | – | 2.6 |
| | – | 210.7 | 26.4 |
| Bond 6.875% (repayable 2013) – accrued interest | 20.2 | 20.2 | 20.2 |
| Bond 6.125% (repayable 2019) – accrued interest | 3.0 | 3.0 | 3.0 |
| Bond 8.125% (repayable 2018) – accrued interest | 12.8 | 12.8 | – |
| Bond 8.75% (repayable 2021) – accrued interest | 30.1 | – | – |
| Bond 6.875% (repayable 2024) – accrued interest | 7.2 | – | – |
| | 73.3 | 36.0 | 23.2 |
| HP contracts and finance leases (note 23) | 34.6 | 34.3 | 32.4 |
| Loan notes (note 24) | 0.8 | – | 4.6 |
| Total current financial liabilities | 108.7 | 281.0 | 86.6 |
| Non-current financial liabilities | | | |
| Syndicated and bilateral unsecured bank loans | 896.0 | 1,406.6 | 1,742.3 |
| Other loans | – | 1.5 | 2.8 |
| | 896.0 | 1,408.1 | 1,745.1 |
| Bond 6.875% (repayable 2013) | 297.4 | 296.9 | 296.6 |
| Bond 6.125% (repayable 2019) | 274.8 | 277.3 | 249.3 |
| Bond 8.125% (repayable 2018) | 296.2 | 296.0 | – |
| Bond 8.75% (repayable 2021) | 346.8 | – | – |
| Bond 6.875% (repayable 2024) | 198.9 | – | – |
| | 1,414.1 | 870.2 | 545.9 |
| HP contracts and finance leases (note 23) | 192.8 | 194.6 | 70.8 |
| Loan notes (note 24) | 9.7 | 10.5 | 10.5 |
| Total non-current financial liabilities | 2,512.6 | 2,483.4 | 2,372.3 |
| Total financial liabilities | 2,621.3 | 2,764.4 | 2,458.9 |
| Gross borrowings repayment profile | | | |
| Within one year or on demand | 108.7 | 281.0 | 86.6 |
| Between one and two years | 607.4 | 44.9 | 1,387.1 |
| Between two and five years | 720.4 | 1,798.3 | 438.3 |
| Over five years | 1,184.8 | 640.2 | 546.9 |
| | 2,621.3 | 2,764.4 | 2,458.9 |

The non-current bond repayable in 2013 is measured on an amortised cost basis and had a par value of £300.0m. Interest on this bond is payable annually in April and the fair value is £346.9m (2009: £319.8m; 2008: £324.0m). The non-current bond repayable in 2019 is measured on an amortised cost basis, adjusted for certain fair value movements on the bond that are fully and effectively hedged by swaps. This bond had a par value of £250.0m and interest is payable annually in January. The fair value of this bond is £261.1m (2009: £217.4m; 2008: £234.1m). The non-current bond repayable in 2018 is measured on an amortised cost basis and had a par value of £300.0m. Interest is payable annually in September and the fair value of this bond is £365.5m (2009: £316.3m). The non-current bond repayable in 2021 is measured on an amortised cost basis and has a par value of £350.0m. Interest is payable annually in September. The fair value of this bond is £461.2m. The non-current bond repayable in 2024 is measured on an amortised cost basis and has a par value of £200.0m. Interest is payable annually in September. The fair value of this bond is £220.7m.

The Group considers that there is no material difference between the fair value of the short term loans, the syndicated loans and bilateral loans, and their carrying amount in the balance sheet.

22 FINANCIAL LIABILITIES – BORROWINGS continued**Effective interest rates**

The effective interest rates at the balance sheet dates were as follows:

| | 2010 | 2009 | 2008 |
|---------------------------------|---|--|--|
| Bank overdraft | LIBOR + 1% | LIBOR + 1% | LIBOR + 1% |
| Bank borrowings | LIBOR + 0.55% to 1.7% | LIBOR + 0.5% to 1.75% | LIBOR + 0.225% to 0.75% |
| Bond 2013 | 7.10% | 7.10% | 7.10% |
| Bond 2019 | 6.18% | 6.18% | 6.18% |
| Bond 2018 | 8.32% | 8.32% | – |
| Bond 2021 | 8.87% | – | – |
| Bond 2024 | 6.95% | – | – |
| HP contracts and finance leases | LIBOR up to average fixed rate of 8.0% | LIBOR up to average fixed rate of 7.89% | LIBOR up to average fixed rate of 6.95% |
| Loan notes | LIBOR – 0.5% up to total fixed rate of 11.0% | LIBOR – 0.5% up to total fixed rate of 11.0% | LIBOR – 0.5% up to total fixed rate of 11.0% |

| | 2010 £m | 2009 £m | 2008 £m |
|---|----------------|------------|------------|
| Carrying value of gross borrowings by currency | | | |
| Sterling | 1,618.9 | 1,165.0 | 859.5 |
| Euros | 93.4 | 74.4 | 19.6 |
| US Dollar | 749.6 | 1,399.7 | 1,474.0 |
| Canadian Dollar | 159.4 | 125.3 | 105.8 |
| | 2,621.3 | 2,764.4 | 2,458.9 |

| | 2010 | | | | |
|---|-----------------|----------------------|------------------|----------------|----------------|
| | Bank debt £m | Finance leases £m | Loan notes £m | Bonds £m | Total £m |
| Maturity of non-current financial liabilities | | | | | |
| Due in more than one year but not more than two years | 559.9 | 37.8 | 9.7 | – | 607.4 |
| Due in more than two years but not more than five years | 336.1 | 86.9 | – | 297.4 | 720.4 |
| Due in more than five years | – | 68.1 | – | 1,116.7 | 1,184.8 |
| Total | 896.0 | 192.8 | 9.7 | 1,414.1 | 2,512.6 |

| | 2009 | | | | |
|---|-----------------|----------------------|------------------|--------------|----------------|
| | Bank debt £m | Finance leases £m | Loan notes £m | Bonds £m | Total £m |
| Due in more than one year but not more than two years | 1.3 | 33.1 | 10.5 | – | 44.9 |
| Due in more than two years but not more than five years | 1,406.7 | 95.0 | – | 296.9 | 1,798.6 |
| Due in more than five years | 0.1 | 66.5 | – | 573.3 | 639.9 |
| Total | 1,408.1 | 194.6 | 10.5 | 870.2 | 2,483.4 |

| | 2008 | | | | |
|---|-----------------|----------------------|------------------|--------------|----------------|
| | Bank debt £m | Finance leases £m | Loan notes £m | Bonds £m | Total £m |
| Due in more than one year but not more than two years | 1,357.7 | 18.9 | 10.5 | – | 1,387.1 |
| Due in more than two years but not more than five years | 387.3 | 50.9 | – | – | 438.2 |
| Due in more than five years | 0.1 | 1.0 | – | 545.9 | 547.0 |
| Total | 1,745.1 | 70.8 | 10.5 | 545.9 | 2,372.3 |

Borrowing facilities

The Group had £1,013.3m (2009: £583.0m; 2008: £587.2m) of undrawn committed borrowing facilities as at 31 March 2010. Total bank borrowing facilities at 31 March 2010 stood at £2,110.0m (2009: £2,401.6m; 2008: £2,471.5m) of which £2,066.4m (2009: £2,328.2m; 2008: £2,394.6m) was committed and £43.6m (2009: £73.4m; 2008: £76.9m) was uncommitted.

23 HP CONTRACTS AND FINANCE LEASES

The Group had the following obligations under HP contracts and finance leases as at the balance sheet dates:

| | 2010 Minimum payments £m | 2010 Present value of payments £m | 2009 Minimum payments £m | 2009 Present value of payments £m | 2008 Minimum payments £m | 2008 Present value of payments £m |
|--|-----------------------------------|---|-----------------------------------|---|-----------------------------------|---|
| Maturing in less than one year | 40.2 | 34.6 | 39.0 | 34.3 | 34.8 | 32.4 |
| Maturing in more than one year but not more than two years | 42.7 | 37.8 | 37.0 | 33.1 | 19.8 | 18.9 |
| Maturing in more than two years but not more than five years | 97.2 | 86.9 | 103.1 | 95.0 | 51.3 | 50.9 |
| Maturing in more than five years | 71.6 | 68.1 | 69.0 | 66.5 | 1.0 | 1.0 |
| | 251.7 | 227.4 | 248.1 | 228.9 | 106.9 | 103.2 |
| Less future financing charges | (24.3) | - | (19.2) | - | (3.7) | - |
| Present value of minimum lease payments | 227.4 | 227.4 | 228.9 | 228.9 | 103.2 | 103.2 |

The lease obligations are denominated in Sterling, US Dollars and Canadian Dollars. Sterling fixed rate leases of £1.1m (2009: £2.3m; 2008: £1.8m) have an average remaining life of three years (2009: three years; 2008: five years) and an effective borrowing rate of 6.94% (2009: 7.87%; 2008: 6.77%). US Dollar fixed rate leases of £113.7m (2009: £95.9m; 2008: £25.6m) have an average remaining life of four years (2009: four years; 2008: two years) and an effective borrowing rate of 4.71% (2009: 4.45%; 2008: 7.33%). Canadian Dollar fixed rate leases of £1.9m (2009: £2.5m; 2008: £4.0m) have an average remaining life of two years (2009: two years; 2008: three years) and an effective borrowing rate of 7.07% (2009: 7.75%; 2008: 7.85%). The Group considers there to be no material difference between the fair values of the Sterling and Canadian Dollar finance leases and the carrying amount in the balance sheet. The US Dollar finance leases have a fair value of £117.5m (2009: £100.1m; 2008: £25.6m).

24 LOAN NOTES

The Group had the following loan notes issued as at the balance sheet dates:

| | 2010 £m | 2009 £m | 2008 £m |
|---|------------|------------|------------|
| Due in less than one year | 0.8 | - | 4.6 |
| Due in more than one year but not more than two years | 9.7 | 10.5 | 10.5 |
| Total | 10.5 | 10.5 | 15.1 |

The loan notes have been classified by reference to the earliest date on which the loan note holder can request redemption. Loan notes of £9.5m (2009: £9.5m; 2008: £9.7m) are supported by unsecured bank guarantees.

The loan notes have an average effective borrowing rate of 9.40% (2009: 10.14%; 2008: 8.52%) and an average remaining term of 10 years (2009: 12 years; 2008: 8 years) assuming that holders do not request redemption. The fair value of the loan notes has been determined to be £16.3m (2009: £16.4m; 2008: £20.1m). This has been calculated by discounting future cash flows that will arise under the loan notes.

25 DERIVATIVE FINANCIAL INSTRUMENTS**Derivatives designated and effective as hedging instruments carried at fair value****Non-current assets**

| | | | |
|---|------|------|------|
| Cross currency swaps (net investment hedge) | 13.3 | - | 23.9 |
| Coupon swaps (fair value hedge) | 15.7 | 19.9 | 1.5 |
| Fuel derivatives (cash flow hedge) | 4.0 | 3.1 | 20.0 |
| | 33.0 | 23.0 | 45.4 |

Current assets

| | | | |
|---|------|-----|------|
| Cross currency swaps (net investment hedge) | 3.6 | 0.9 | 10.5 |
| Coupon swaps (fair value hedge) | 10.6 | 2.1 | - |
| Fuel derivatives (cash flow hedge) | 15.7 | - | 67.6 |
| | 29.9 | 3.0 | 78.1 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

| | 2010 £m | 2009 £m | 2008 £m |
|---|--------------|--------------|--------------|
| 25 DERIVATIVE FINANCIAL INSTRUMENTS <i>continued</i> | | | |
| Current liabilities | | | |
| Interest rate swaps (cash flow hedge) | 42.9 | 50.4 | 26.7 |
| Cross currency swaps (net investment hedge) | 2.9 | 2.0 | – |
| Coupon swaps (fair value hedge) | – | – | 7.4 |
| Fuel derivatives (cash flow hedge) | 39.4 | 252.1 | – |
| Currency forwards (cash flow hedge) | – | – | 0.5 |
| | 85.2 | 304.5 | 34.6 |
| Non-current liabilities | | | |
| Interest rate swaps (cash flow hedge) | 10.7 | 38.1 | 27.8 |
| Cross currency swaps (net investment hedge) | 91.9 | 123.6 | – |
| Fuel derivatives (cash flow hedge) | 18.5 | 81.9 | – |
| | 121.1 | 243.6 | 27.8 |
| Derivatives classified as held for trading | | | |
| Non-current assets | | | |
| Cross currency swaps | – | 1.8 | – |
| Current assets | | | |
| Cross currency swaps | 2.2 | 0.1 | – |
| Current liabilities | | | |
| Interest rate collars | – | – | 2.3 |
| Total non-current assets | 33.0 | 24.8 | 45.4 |
| Total current assets | 32.1 | 3.1 | 78.1 |
| Total assets | 65.1 | 27.9 | 123.5 |
| Total current liabilities | 85.2 | 304.5 | 36.9 |
| Total non-current liabilities | 121.1 | 243.6 | 27.8 |
| Total liabilities | 206.3 | 548.1 | 64.7 |

Total cash flow hedges are a liability of £91.8m (2009: liability of £419.4m; 2008: asset of £32.6m). Total fair value hedges are an asset of £26.3m (2009: asset of £22.0m; 2008: liability of £5.9m). Total net investment hedges are a liability of £77.9m (2009: liability of £124.7m; 2008: asset of £34.4m).

During the year £1.9m was credited to the hedging reserve in respect of cash flow hedges (2009: £377.4m debit; 2008: £28.2m credit).

The fair value measurements of the financial derivatives held by the Group have been derived based on observable market inputs (as categorised within Level 2 of the fair value hierarchy under IFRS 7 (2009)).

(Losses) and gains transferred from equity into profit or loss during the period are included in the following line items on the face of the income statement.

| | 2010 £m | 2009 £m | 2008 £m |
|-----------------|----------------|-------------|--------------|
| Finance costs | (53.4) | (26.8) | (2.8) |
| Operating costs | (249.0) | 65.0 | 2.4 |
| | (302.4) | 38.2 | (0.4) |

The following gains and (losses) on derivatives have been charged through the income statement in the year:

| | 2010 £m | 2009 £m | 2008 £m |
|--|------------|---------------|------------|
| (Losses)/gains on hedging instruments in fair value hedges | (2.7) | 28.0 | 6.2 |
| Gains/(losses) on hedged item attributable to hedged risk (Bond 2019) in fair value hedges | 2.7 | (28.0) | (6.2) |
| Ineffectiveness arising from cash flow hedges | (2.0) | (26.2) | 1.4 |
| Ineffectiveness arising from net investment hedges | 4.9 | (2.2) | (0.3) |
| | 2.9 | (28.4) | 1.1 |

25 DERIVATIVE FINANCIAL INSTRUMENTS *continued***Financial risk management**

The Group is exposed to financial risks including liquidity risk, credit risk and certain market based risks principally being the effects of changes in foreign exchange rates, interest rates and fuel prices. The Group manages these risks within the context of a set of formal policies established by the Board. Certain risk management responsibilities are formally delegated by the Board, principally to a sub-committee of the Board and to the Group Finance Director.

Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulty in meeting obligations associated with financial liabilities. The objective of the Group's liquidity risk management is to ensure sufficient committed liquidity resources exist. The Group has a diversified debt structure largely represented by medium term unsecured syndicated and bilateral committed bank facilities and long term unsecured bond debt. It is a policy requirement that refinancing obligations must be addressed well in advance of their due dates.

Group treasury policy requires a minimum of £175m of committed liquidity headroom at all times within medium term bank facilities and such facilities must be renewed or replaced well before their expiry dates. At 31 March 2010, the total amount of these facilities stood at £2,066.4m (2009: £2,328.2m; 2008: £2,394.6m), and committed headroom was £1,013.3m (2009: £583.0m; 2008: £587.2m). Of these facilities, the next material contractual expiry is in February 2012. Largely due to the seasonality of the North American school bus business, headroom tends to reduce from March to October and increase again by March.

The average duration of net debt (excluding ring-fenced cash) at 31 March 2010 was 6.3 years (2009: 4.6 years; 2008: 3.5 years).

The following tables detail the Group's expected maturity for its non-derivative financial liabilities. The tables have been prepared on an undiscounted cash flow basis.

| | 2010 | | | | | |
|---------------------------------|-----------------|-------------------|--------------------|--------------------|-----------------|----------------|
| | On demand £m | < 1 year £m | 1-2 years £m | 2-5 years £m | > 5 years £m | Total £m |
| Bank debt – revolver | – | – | 341.8 | – | – | 341.8 |
| – other | – | – | 218.1 | 336.1 | – | 554.2 |
| HP contracts and finance leases | – | 34.6 | 37.8 | 86.9 | 68.1 | 227.4 |
| Loan notes | – | 0.8 | 9.7 | – | – | 10.5 |
| Bonds | – | 73.3 | – | 297.4 | 1,116.7 | 1,487.4 |
| Trade payables | 288.9 | – | – | – | – | 288.9 |
| Total | 288.9 | 108.7 | 607.4 | 720.4 | 1,184.8 | 2,910.2 |

| | 2009 | | | | | |
|---------------------------------|-----------------|-------------------|--------------------|--------------------|-----------------|----------------|
| | On demand £m | < 1 year £m | 1-2 years £m | 2-5 years £m | > 5 years £m | Total £m |
| Bank debt – term | – | 209.5 | – | – | – | 209.5 |
| – revolver | – | – | – | 857.8 | – | 857.8 |
| – other | – | 1.2 | 1.3 | 548.9 | 0.1 | 551.5 |
| HP contracts and finance leases | – | 34.3 | 33.1 | 95.0 | 66.5 | 228.9 |
| Loan notes | – | – | 10.5 | – | – | 10.5 |
| Bonds | – | 36.0 | – | 296.9 | 573.3 | 906.2 |
| Trade payables | 314.5 | – | – | – | – | 314.5 |
| Total | 314.5 | 281.0 | 44.9 | 1,798.6 | 639.9 | 3,078.9 |

| | 2008 | | | | | |
|---------------------------------|-----------------|-------------------|--------------------|--------------------|-----------------|----------------|
| | On demand £m | < 1 year £m | 1-2 years £m | 2-5 years £m | > 5 years £m | Total £m |
| Bank debt – term | – | – | 1,124.8 | – | – | 1,124.8 |
| – revolver | – | – | 231.5 | 386.0 | – | 617.5 |
| – other | 24.6 | 1.8 | 1.4 | 1.3 | 0.1 | 29.2 |
| HP contracts and finance leases | – | 32.4 | 18.9 | 50.9 | 1.0 | 103.2 |
| Loan notes | – | 4.6 | 10.5 | – | – | 15.1 |
| Bonds | – | 23.2 | – | – | 545.9 | 569.1 |
| Trade payables | 247.6 | – | – | – | – | 247.6 |
| Total | 272.2 | 62.0 | 1,387.1 | 438.2 | 547.0 | 2,706.5 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

25 DERIVATIVE FINANCIAL INSTRUMENTS *continued*

The following tables detail the Group's expected maturity of payables/(receivables) for its derivative financial instruments. The amounts in these tables are different to the balance sheet as the table is prepared on an undiscounted cash flow basis.

| | 2010 | | | | |
|----------------------|-------------------|--------------------|--------------------|-----------------|-------------|
| | < 1 year £m | 1-2 years £m | 2-5 years £m | > 5 years £m | Total £m |
| Interest rate swaps | 42.9 | 11.0 | (0.2) | – | 53.7 |
| Coupon swaps | (15.3) | (15.3) | (45.9) | (61.2) | (137.7) |
| Coupon swaps | 4.6 | 6.4 | 34.1 | 64.1 | 109.2 |
| Cross currency swaps | (97.5) | (301.2) | (571.9) | – | (970.6) |
| Cross currency swaps | 94.5 | 344.3 | 609.6 | – | 1,048.4 |
| Fuel derivatives | 23.7 | 14.5 | – | – | 38.2 |
| | 52.9 | 59.7 | 25.7 | 2.9 | 141.2 |

| | 2009 | | | | |
|----------------------|-------------------|--------------------|--------------------|-----------------|-------------|
| | < 1 year £m | 1-2 years £m | 2-5 years £m | > 5 years £m | Total £m |
| Interest rate swaps | 50.6 | 32.7 | 6.2 | – | 89.5 |
| Coupon swaps | (15.3) | (15.3) | (45.9) | (76.6) | (153.1) |
| Coupon swaps | 13.0 | 7.4 | 34.5 | 71.8 | 126.7 |
| Cross currency swaps | (38.6) | (79.2) | (628.1) | – | (745.9) |
| Cross currency swaps | 39.5 | 78.4 | 760.2 | – | 878.1 |
| Fuel derivatives | 252.1 | 54.6 | 24.2 | – | 330.9 |
| | 301.3 | 78.6 | 151.1 | (4.8) | 526.2 |

| | 2008 | | | | |
|-----------------------|-------------------|--------------------|--------------------|-----------------|-------------|
| | < 1 year £m | 1-2 years £m | 2-5 years £m | > 5 years £m | Total £m |
| Interest rate swaps | 26.9 | 21.3 | 9.5 | – | 57.7 |
| Coupon swaps | (15.3) | (15.3) | (45.9) | (91.9) | (168.4) |
| Coupon swaps | 22.4 | 14.3 | 45.2 | 90.0 | 171.9 |
| Cross currency swaps | (18.4) | (14.3) | (264.8) | – | (297.5) |
| Cross currency swaps | 7.6 | 7.9 | 227.8 | – | 243.3 |
| Interest rate collars | 2.3 | – | – | – | 2.3 |
| Fuel derivatives | (67.6) | (10.0) | (10.0) | – | (87.6) |
| | (42.1) | 3.9 | (38.2) | (1.9) | (78.3) |

Total amounts payable per the tables are £1,249.5m (2009: £1,425.2m; 2008: £475.2m). Total amounts receivable per the table are £1,108.3m (2009: £899.0m; 2008: £553.5m). For all years above the tables include the settlement of principal amounts at the end of the term of the cross currency swaps.

No derivative financial instruments had collateral requirements or were due on demand in any of the years.

Currency risk

Currency risk is the risk of financial loss to foreign currency net assets, earnings and cash flows reported in Sterling due to movements in exchange rates.

The Group's principal operations outside the UK are in the US and Canada, with the US being the most significant. Consequently the principal currency risk relates to movements in the US Dollar to Sterling.

Group treasury policy requires a minimum of 30% foreign currency denominated net assets to be hedged.

As at 31 March 2010, 63% (2009: 81%; 2008: 84%) of foreign currency denominated net assets were hedged with related foreign currency debt, debt and currency swaps.

Group treasury policy aims to protect EPS from currency movements. US Dollar earnings arising in the US are substantially protected by US Dollar denominated costs incurred in the UK, principally UK fuel costs and US Dollar interest costs and US Dollar tax costs so that exposure to EPS on a year to year basis is not material. Cash flow exposures are not material.

25 DERIVATIVE FINANCIAL INSTRUMENTS *continued*

IFRS 7 requires the Group to show the impact on profit after tax and hedging reserve on financial instruments from a movement in exchange rates. The following analysis details the Group's sensitivity to a 10% strengthening in Sterling against the US Dollar. The analysis has been prepared based on the change taking place at the beginning of the financial year and being held constant throughout the reporting period. A positive number indicates an increase in earnings or equity where Sterling strengthens against the US Dollar. In this case the impact on profit after tax relates only to fuel derivatives for the UK businesses.

| | 2010 £m | 2009 £m | 2008 £m |
|----------------------------|------------|------------|------------|
| Impact on profit after tax | 15.7 | 11.6 | (0.1) |
| Impact on hedging reserve | 13.1 | 36.2 | (4.6) |

Interest rate risk

The Group has variable rate debt and cash and therefore its net income is exposed to the effects of changes to interest rates. The Group treasury policy objective is to maintain fixed interest rates at a minimum average of 75% of on-balance sheet net debt over the medium term, so that volatility is substantially reduced year on year to EPS. The main floating rate benchmarks on variable rate debt are US Dollar LIBOR and Sterling LIBOR.

The policy objective is achieved through fixed rate debt and cash flow hedge financial instruments, being interest rate swaps and collars. The interest rate swaps cover periods from April 2010 to March 2013.

At 31 March 2010, 100% (2009: 94%; 2008: 89%) of net debt was fixed. This fixed rate protection had an average duration of 5.5 years (2009: 3.2 years; 2008: 2.7 years).

Interest rate risk within operating leases is hedged 100% by agreeing fixed rentals with the lessors prior to inception of the lease contracts.

Fair value changes in the £250m Sterling bond relating to the LIBOR element are hedged with coupon swaps. These swaps match the fair value movements in the bond in the income statement and have the same term as the bond. Interest income is received in January and payments made in March and September each year.

The following sensitivity analysis details the Group's sensitivity to a 100 basis point (1%) increase in interest rates throughout the reporting period with all other variables held constant.

| | 2010 £m | 2009 £m | 2008 £m |
|----------------------------|------------|------------|------------|
| Impact on profit after tax | (0.4) | (1.4) | 0.5 |
| Impact on hedging reserve | 10.8 | 19.5 | 19.2 |

Interest rate hedges

The following table details the notional amounts of interest rate swap contracts outstanding at the reporting date. The average interest rate is based on the outstanding balances at the reporting date. The fair value of interest rate swaps is determined by discounting the future cash flows.

The interest rate swaps settle on a quarterly or semi-annual basis. The differences between the fixed and floating rates are settled on a net basis.

| | Average fixed rate | | | Notional principal amount | | | Fair value asset/(liability) | | |
|----------------------|--------------------|-----------|-----------|---------------------------|------------|------------|------------------------------|------------|------------|
| | 2010 % | 2009 % | 2008 % | 2010 £m | 2009 £m | 2008 £m | 2010 £m | 2009 £m | 2008 £m |
| Less than one year | 4.33 | 4.03 | 3.72 | 1,007 | 873 | 250 | (42.9) | (51.6) | (25.8) |
| One to two years | 2.51 | 4.33 | 4.03 | 336 | 1,047 | 625 | (11.3) | (31.1) | (20.0) |
| Two to five years | 2.45 | – | 5.26 | 134 | – | 500 | 0.6 | (5.8) | (8.7) |
| More than five years | 6.13 | 6.13 | 6.13 | 250 | 250 | 250 | 26.3 | 22.0 | (5.9) |

The interest rate swaps with a duration of more than five years are fair value hedges of the LIBOR element within the £250 million bond and the fixed rate represents interest receivable. All other swaps are cash flow hedges of variable rate interest where the fixed rate is interest payable.

25 DERIVATIVE FINANCIAL INSTRUMENTS continued**Fuel price risk**

The Group purchases diesel fuel on a floating price basis in its UK Bus, UK Rail, US and Canadian bus operations and therefore is exposed to changes in diesel prices, of which the most significant element is crude oil price risk. The Group's policy objective is to maintain a significant degree of fixed price protection in the short term with lower levels of protection over the medium term, so that the businesses affected are protected from any sudden and significant increases and have time to prepare for potentially higher costs, whilst retaining some access for potentially lower costs over the medium term. The Group primarily uses fixed rate swap instruments to achieve significant fixed price certainty. During the year to 31 March 2010, the Group was hedged 100% on fuel price risk.

The Group has also entered into swaps for periods from April 2010 to March 2012 with the majority of these swaps relating to the year to 31 March 2011. The swaps give rise to monthly cash flow exchanges with counterparties to offset the underlying settlement of floating price costs, except where they have a deferred start date. Gains or losses on fuel derivatives are recycled from equity to the income statement on qualifying hedges to achieve fixed rate fuel costs within operating results.

The following analysis details the Group's sensitivity on profit after tax and equity if the price of crude oil had been \$10 per barrel higher at the year end.

| | 2010 £m | 2009 £m | 2008 £m |
|----------------------------|------------|------------|------------|
| Impact on profit after tax | - | 2.1 | (3.4) |
| Impact on hedging reserve | 23.2 | 39.5 | 22.1 |

The impact on profit after tax in the above table for 2008 is a loss mainly because an element of the Laidlaw fuel consumption was not hedged.

Volume at risk for the year to 31 March 2011 is 4.2m barrels (2010: 4.5m; 2009: 5.1m) for which 86% is hedged to diesel price risk.

26 DEFERRED TAX

The major deferred tax liabilities and (assets) recognised by the Group and movements thereon during the current and prior reporting periods are as follows:

| | Accelerated tax depreciation £m | Other temporary differences £m | Tax losses £m | Total £m |
|----------------------------|---------------------------------------|---|---------------------|-------------|
| At 1 April 2008 | 248.9 | 70.8 | (159.8) | 159.9 |
| Charge/(credit) to income | 49.1 | 42.7 | (56.1) | 35.7 |
| Credit to equity | - | (237.6) | - | (237.6) |
| Foreign exchange movements | 61.7 | 5.6 | (54.9) | 12.4 |
| At 31 March 2009 | 359.7 | (118.5) | (270.8) | (29.6) |
| Charge/(credit) to income | (39.9) | 58.5 | 8.5 | 27.1 |
| Charge to equity | - | 46.4 | - | 46.4 |
| Foreign exchange movements | (10.0) | (2.5) | 2.1 | (10.4) |
| At 31 March 2010 | 309.8 | (16.1) | (260.2) | 33.5 |

Certain deferred tax (assets) and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) and for financial reporting purposes.

| | 2010 £m | 2009 £m | 2008 £m |
|--------------------------|------------|------------|------------|
| Deferred tax assets | (30.4) | (50.2) | - |
| Deferred tax liabilities | 63.9 | 20.6 | 159.9 |
| | 33.5 | (29.6) | 159.9 |

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was £142.0m (2009: £325.0m; 2008: £199.0m). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary difference and it is probable that such differences will not reverse in the foreseeable future.

No deferred tax asset has been recognised in respect of £5m (2009: £5m; 2008: £70m) of capital losses.

| 27 PROVISIONS | 2010 £m | 2009 £m | 2008 £m |
|----------------------|--------------------|--------------------|--------------------|
| Insurance claims | 243.9 | 262.0 | 208.1 |
| Legal and other | 51.4 | 59.5 | 54.4 |
| Pensions | 5.1 | 5.5 | 5.9 |
| Non-current | 300.4 | 327.0 | 268.4 |

| | Insurance Claims¹ £m | Legal and other² £m | Pensions £m | Total £m |
|------------------------------------|----------------------------|---------------------------|----------------|--------------|
| At 1 April 2009 | 262.0 | 59.5 | 5.5 | 327.0 |
| Provided in the year | 133.7 | 3.6 | – | 137.3 |
| Utilised in the year³ | (161.4) | (17.8) | (0.4) | (179.6) |
| Transfer from current liabilities⁴ | – | 8.2 | – | 8.2 |
| Notional interest | 17.5 | – | – | 17.5 |
| Foreign exchange movements | (7.9) | (2.1) | – | (10.0) |
| At 31 March 2010 | 243.9 | 51.4 | 5.1 | 300.4 |

1 Insurance claims accruals due within one year at 31 March 2010 amounted to £131.3m (2009: £141.1m; 2008: £108.6m) and are included in "accruals and deferred income" within note 20. The amount included within provisions above represents the estimate of amounts due after more than one year.

2 Legal and other accruals due within one year at 31 March 2010 amounted to £5.4m (2009: £12.9m; 2008: £8.5m) and are included in "accruals and deferred income" within note 20. The amount included within provisions above represents the estimate of amounts due after more than one year.

3 During the year £7.5m of fair value provisions established on the Laidlaw acquisition, relating principally to legal and environmental matters, were released to the income statement as the actual liabilities were settled during the period at a lower level than had been provided for.

4 During the year the timing of the settlement of certain legal and other claims was reassessed and amounts previously included within "accruals and deferred income" (note 20) have been transferred to provisions.

The insurance claims provision arises from estimated exposures for incidents occurring prior to balance sheet date. It is anticipated that the majority of such claims will be settled within the next six years.

Legal and other provisions relate to estimated exposures for cases filed or thought highly likely to be filed for incidents that occurred prior to the balance sheet date. It is anticipated that most of these items will be settled within ten years. Also included are provisions in respect of costs anticipated on the exit of surplus properties which are expected to be settled over the remaining terms of the respective leases.

The pensions provision relates to un-funded obligations that arose on the acquisition of certain UK Bus companies. It is anticipated that this will be utilised over ten to twenty years.

| 28 CALLED UP SHARE CAPITAL | 2010 £m | 2009 £m | 2008 £m |
|--|--------------------|--------------------|--------------------|
| Authorised: | | | |
| 650m (2009: 650m; 2008: 4,600m) ordinary shares of 5p each | 32.5 | 32.5 | 230.0 |
| Allotted, called up and fully paid: | | | |
| 482.1m (2009: 482.1m; 2008: 438.3m) ordinary shares of 5p each | 24.1 | 24.1 | 21.9 |

| | Number m | £m |
|---|--------------|-------------|
| At 1 April 2008 | 438.3 | 21.9 |
| At 31 March 2010 and 31 March 2009 | 482.1 | 24.1 |

The Company has one class of ordinary shares which carries no right to fixed income.

29 RESERVES

The hedging reserve records the movement on designated hedging items.

The share premium account represents the premium on shares issued since 1999 and arose principally on the rights issue on the Ryder acquisition in 1999, the rights issue in respect of the Laidlaw International, Inc acquisition and the share placing described above. The reserve is non-distributable.

The own shares reserve represents the cost of shares in FirstGroup plc purchased in the market and either held as treasury shares or held in trust to satisfy the exercise of share options.

Hedging reserve

The movements in the hedging reserve were as follows:

| | 2010 £m | 2009 £m | 2008 £m |
|--|------------|------------|------------|
| Balance at 1 April | (352.8) | 49.7 | 26.7 |
| Gains/(losses) recognised: | | | |
| Interest rate swaps | (15.7) | (48.6) | (54.5) |
| Currency forwards | - | 29.8 | - |
| Cross currency swaps | 34.9 | (153.9) | 4.6 |
| Fuel derivatives | 17.6 | (328.7) | 82.7 |
| Charged/(credited) to income statement: | | | |
| Interest rate swaps | 53.4 | 26.3 | - |
| Currency forwards | - | 0.5 | 2.8 |
| Fuel derivatives | 249.0 | (65.0) | (2.4) |
| Tax on derivative hedging instrument movements | (100.4) | 137.1 | (10.2) |
| Balance at 31 March | (114.0) | (352.8) | 49.7 |

Own shares

The number of own shares held by the Group at the end of the year was 1,860,479 (2009: 1,286,546; 2008: 1,686,884) FirstGroup plc ordinary shares of 5p each. Of these, 851,506 (2009: 981,352; 2008: 1,199,318) were held by the FirstGroup plc Employee Benefit Trust, 32,520 (2009: 32,520; 2008: 32,520) by the FirstGroup plc Qualifying Employee Share Ownership Trust and 976,453 (2009: 272,674; 2008: 455,046) were held as treasury shares. Both trusts and treasury shares have waived the rights to dividend income from the FirstGroup plc ordinary shares. The market value of the shares at 31 March 2010 was £6.7m (2009: £3.4m; 2008: £9.5m).

| | Capital redemption reserve £m | Capital reserve £m | Total other reserves £m |
|---|--|--------------------------|-------------------------------|
| Other reserves | | | |
| At 31 March 2010, 31 March 2009 and 31 March 2008 | 1.9 | 2.7 | 4.6 |

There have been no movements on the capital redemption reserve or capital reserve during the year ended 31 March 2010. The capital redemption reserve represents the cumulative par value of all shares bought back and cancelled. The reserve is non-distributable. The capital reserve arose on acquisitions in 2000. The reserve is non-distributable.

30 TRANSLATION RESERVE

| | £m |
|---------------------------------|--------------|
| At 1 April 2008 | (70.3) |
| Movement for the financial year | 407.7 |
| At 31 March 2009 | 337.4 |
| Movement for the financial year | (18.8) |
| At 31 March 2010 | 318.6 |

The translation reserve records exchange differences arising from the translation of the balance sheets of foreign currency denominated subsidiaries offset by movements on loans used to hedge the net investment in those foreign subsidiaries.

31 ACQUISITION AND DISPOSAL OF BUSINESSES AND SUBSIDIARY UNDERTAKINGS

| Acquisition of businesses and subsidiary undertakings | 2010 £m | 2009 £m | 2008 £m |
|--|--------------------|--------------------|--------------------|
| Provisional fair values of net assets acquired: | | | |
| Property, plant and equipment | - | 2.3 | 789.0 |
| Intangible assets | - | - | 325.4 |
| Other current assets | - | 0.7 | 350.2 |
| Cash at bank and in hand | - | - | 0.2 |
| Other liabilities | - | (1.7) | (219.9) |
| Net debt | - | (1.3) | (300.1) |
| Pension deficit | - | - | (23.0) |
| Provisions | - | - | (292.0) |
| Deferred tax | - | - | 16.2 |
| | - | - | 646.0 |
| Goodwill (note 13) | - | 6.5 | 829.0 |
| Satisfied by cash paid and payable | - | 6.5 | 1,475.0 |

The businesses and subsidiary undertakings acquired during the year contributed £nil (2009: £2.0m; 2008: £125.1m) to the Group's net operating cash flows and utilised £nil (2009: £0.5m; 2008: £35.6m) for capital expenditure.

The businesses acquired during the year contributed £nil (2009: £7.4m; 2008: £872.1m) to Group revenue and £nil (2009: £0.2m; 2008: £84.3m) to Group adjusted operating profit from date of acquisition to 31 March 2010.

If the acquisitions of the businesses and subsidiary undertakings acquired during the year had been completed on the first day of the financial year, Group revenue from these acquisitions for the period would have been £nil (2009: £8.6m; 2008: £1,643.4m) and the Group adjusted operating profit from these acquisitions attributable to equity holders of the parent would have been £nil (2009: £0.3m; 2008: £146.4m).

| Disposal of businesses and subsidiary undertakings | 2010 £m | 2009 £m | 2008 £m |
|---|--------------------|--------------------|--------------------|
| Provisional fair values of net assets disposed of: | | | |
| Property, plant and equipment | 0.4 | - | - |
| Other current assets | 0.9 | - | - |
| Cash and cash equivalents | 0.4 | - | - |
| Other liabilities | (0.9) | - | - |
| | 0.8 | - | - |
| Gain on disposal | - | - | - |
| Satisfied by cash received and receivable | 0.8 | - | - |
| Net cash inflow arising on disposal: | | | |
| Cash consideration | 0.8 | - | - |
| Cash and cash equivalents disposed of | (0.4) | - | - |
| | 0.4 | - | - |

On 9 January 2010, the Group disposed of its interest in FirstInfo Limited at approximately its net book value.

During the year, FirstInfo Limited contributed £0.4m (2009: £0.1m; 2008: £1.3m) to the Group's net operating cash flows, paid £nil (2009: £nil; 2008: £nil) in respect of investing activities and paid £nil (2009: £nil; 2008: £nil) in respect of financing activities.

| | 2010 £m | 2009 £m |
|---|--------------|--------------|
| 32 NET CASH FROM OPERATING ACTIVITIES | | |
| Operating profit before profit on disposal of properties | 369.6 | 345.4 |
| Adjustments for: | | |
| Depreciation charges | 315.7 | 274.7 |
| Amortisation charges | 34.7 | 33.1 |
| Share-based payments | 5.5 | 6.3 |
| Loss on disposal of plant and equipment | 0.8 | 3.2 |
| Operating cash flows before working capital | 726.3 | 662.7 |
| Decrease/(increase) in inventories | 14.8 | (17.2) |
| (Increase)/decrease in receivables | (5.4) | 114.7 |
| Decrease in payables | (54.8) | (34.0) |
| Decrease in provisions | (34.1) | (35.8) |
| Defined benefit pension payments in excess of income statement charge | (42.1) | (50.7) |
| Cash generated by operations | 604.7 | 639.7 |
| Corporation tax paid | (1.3) | (8.9) |
| Interest paid | (142.9) | (129.0) |
| Interest element of HP contracts and finance leases | (8.2) | (7.4) |
| Net cash from operating activities | 452.3 | 494.4 |

33 CONTINGENT LIABILITIES AND ASSETS

To support subsidiary undertakings in their normal course of business, the Company and certain subsidiaries have indemnified certain banks and insurance companies who have issued performance bonds for £458.2m (2009: £569.8m; 2008: £383.5m) and letters of credit for £335.1m (2009: £331.5m; 2008: £245.1m). The performance bonds relate to the North American businesses of £260.0m (2009: £373.3m; 2008: £231.4m) and the UK Rail franchise operations of £198.2m (2009: £196.5m; 2008: £152.1m). The letters of credit relate substantially to insurance arrangements in the UK and North America.

The Company has provided unsecured loan facilities of £96.4m (2009: £103.0m; 2008: £103.0m) to First Greater Western Limited, a £46.0m (2009: £46.0m; 2008: £46.0m) unsecured loan facility to First Capital Connect Limited, a £3.2m (2009: £3.2m; 2008: £3.2m) unsecured loan facility to First/Keolis TransPennine Limited, and a £13.6m (2009: £13.6m; 2008: £13.6m) unsecured loan facility to First ScotRail Limited. Under these facilities, £96.4m (2009: £103.0m; 2008: £72.0m) was drawn at 31 March 2010 by First Greater Western Limited and £35.0m (2009: £25.0m; 2008: £21.0m) was drawn at 31 March 2010 by First Capital Connect Limited.

The Company is party to certain unsecured guarantees granted to banks for overdraft and cash management facilities provided to itself and subsidiary undertakings. The Company has given certain unsecured guarantees for the liabilities of its subsidiary undertakings arising under certain loan notes, hire purchase contracts, finance leases, operating leases and certain pension scheme arrangements. It also provides unsecured cross guarantees to certain subsidiary undertakings as required by VAT legislation. UK Bus subsidiaries have provided unsecured guarantees on a joint and several basis to the Trustees of the UK Bus Occupational Pension Scheme.

Certain of the Company's subsidiaries have issued unsecured guarantees to the Company's Sterling bondholders, to lenders participating in the Group's £1,511.8m (2009: £1,777.0m; 2008: £2,394.5m) syndicated unsecured bank facilities and to lenders of certain bilateral bank facilities for £554.5m (2009: £551.2m; 2008: £nil).

In its normal course of business UK Rail has ongoing contractual negotiations with governmental and other organisations including the Great Western Trains network change claim against Network Rail.

34 OPERATING LEASE ARRANGEMENTS

| | 2010 £m | 2009 £m | 2008 £m |
|---|--------------|--------------|--------------|
| Minimum lease payments made under operating leases recognised in the income statement for the year: | | | |
| Plant and machinery | 14.8 | 21.5 | 17.1 |
| Track and station access | 388.4 | 608.5 | 553.1 |
| Hire of rolling stock | 163.7 | 152.3 | 147.8 |
| Other assets | 72.7 | 64.2 | 36.6 |
| | 639.6 | 846.5 | 754.6 |

At the balance sheet dates, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

| | 2010 £m | 2009 £m | 2008 £m |
|--|----------------|----------------|----------------|
| Within one year | 642.4 | 624.7 | 731.0 |
| In the second to fifth years inclusive | 1,881.4 | 2,223.0 | 2,700.1 |
| After five years | 134.7 | 308.5 | 99.8 |
| | 2,658.5 | 3,156.2 | 3,530.9 |

Included in the above commitments are contracts held by the UK Rail businesses with Network Rail for access to the railway infrastructure track, stations and depots of £1,757.9m (2009: £2,081.1m; 2008: £2,580.0m). They also have contracts under which they lease rolling stock of £555.9m (2009: £689.9m; 2008: £675.0m).

35 SHARE-BASED PAYMENTS**Equity-settled share option plans**

The Group recognised total expenses of £5.5m (2009: £6.3m; 2008: £4.2m) related to equity-settled share-based payment transactions.

(a) Save as you earn (SAYE)

The Group operates an Inland Revenue approved savings related share option scheme. Grants were made in December 2002, December 2003, December 2004, April 2006, December 2006, December 2007, December 2008 and December 2009. The scheme is based on eligible employees being granted options and their agreement to opening a sharesave account with a nominated savings carrier and to save weekly or monthly over a specified period. Sharesave accounts are held with Lloyds TSB and Yorkshire Building Society. The right to exercise the option is at the employee's discretion at the end of the period previously chosen for a period of six months.

| | SAYE April 2006 Options Number | SAYE Dec 2006 Options Number | SAYE Dec 2007 Options Number | SAYE Dec 2008 Options Number | SAYE Dec 2009 Options Number |
|--|---|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| Outstanding at the beginning of the year | 1,600,018 | 1,978,079 | 1,774,431 | 2,494,322 | - |
| Awarded during the year | - | - | - | - | 2,938,166 |
| Exercised during the year | (724,134) | (334) | (315) | (584) | - |
| Lapsed during the year | (874,619) | (188,382) | (259,500) | (269,123) | (37,472) |
| Outstanding at the end of the year | 1,265 | 1,789,363 | 1,514,616 | 2,224,615 | 2,900,694 |
| Exercisable at the end of the year | 1,265 | 1,789,363 | - | - | - |
| Weighted average exercise price (pence) | 325.0 | 444.0 | 583.0 | 371.0 | 310.0 |
| Weighted average share price at date of exercise (pence) | 385.0 | 374.1 | 396.0 | 385.8 | N/A |

(b) Executive share option scheme (ESOS)

Options are exercisable between three and ten years of the date of grant provided that the pre-determined performance criteria are met.

| | ESOS 2001 Options Number | ESOS 2002 Options Number | ESOS 2003 Options Number | ESOS 2004 Options Number |
|--|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Outstanding at the beginning of the year | 248,911 | 349,362 | 480,376 | 588,489 |
| Forfeited during the year | - | - | (2,805) | (1,934) |
| Exercised during the year | - | - | (20,989) | (85,579) |
| Outstanding at the end of the year | 248,911 | 349,362 | 456,582 | 500,976 |
| Exercisable at the end of the year | 248,911 | 349,362 | 456,582 | 500,976 |
| Weighted average exercise price (pence) | 346.5 | 269.0 | 287.0 | 275.1 |
| Weighted average share price at date of exercise (pence) | N/A | N/A | 383.3 | 374.6 |

35 SHARE-BASED PAYMENTS continued**(c) Deferred bonus shares (DBS)**

| | DBS 2004 Options Number | DBS 2005 Options Number | DBS 2006 Options Number | DBS 2007 Options Number | DBS 2008 Options Number | DBS 2009 Options Number |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Outstanding at the beginning of the year | 55,125 | 110,855 | 658,032 | 502,612 | 419,475 | – |
| Granted during the year | – | – | – | – | – | 399,890 |
| Forfeited during the year | – | – | (22,715) | (22,682) | (22,449) | (29,223) |
| Exercised during the year | (7,616) | (15,662) | – | – | – | – |
| Outstanding at the end of the year | 47,509 | 95,193 | 635,317 | 479,930 | 397,026 | 370,667 |
| Exercisable at the end of the year | 47,509 | 95,193 | – | – | – | – |
| Weighted average exercise price (pence) | Nil | Nil | Nil | Nil | Nil | Nil |
| Weighted average share price at date of exercise (pence) | 369.5 | 378.0 | N/A | N/A | N/A | N/A |

(d) Buy As You Earn (BAYE) scheme

BAYE enables eligible employees to purchase shares from their gross income. The Company provides two matching shares for every three shares bought by employees, subject to a maximum Company contribution of shares to the value of £20 per employee per month. If the shares are held in trust for five years or more, no income tax and national insurance will be payable. The matching shares will be forfeited if the corresponding partnership shares are removed from trust within three years of award.

At 31 March 2010 there were 7,833 (2009: 7,436; 2008: 6,388) participants in the BAYE scheme who have cumulatively purchased 4,583,431 (2009: 3,494,553; 2008: 2,643,102) shares with the Company contributing 1,349,661 (2009: 1,011,049; 2008: 755,953) matching shares on a cumulative basis.

(e) Long Term Incentive Plan (LTIP)

Awards under the LTIP scheme vest over the three year periods to 31 March 2011 and 31 March 2012 with 50% of the award being dependent upon EPS performance over the vesting period and the other 50% being dependent upon total shareholder return over the same period compared to the comparator group of 100 companies.

| | LTIP 2008 Options Number | LTIP 2009 Options Number |
|--|--------------------------------|--------------------------------|
| Outstanding at the beginning of the year | 1,733,667 | – |
| Granted during the year | – | 3,696,075 |
| Forfeited during the year | (201,227) | (202,358) |
| Outstanding at the end of the year | 1,532,440 | 3,493,717 |

(f) Dean Finch options

| | 2010 Number | 2009 Number | 2008 Number | Award price (p) |
|------------------------|----------------|----------------|----------------|--------------------|
| At the end of the year | – | 200,000 | 200,000 | nil |

The options lapsed during the year on Dean Finch's departure from the Group.

35 SHARE-BASED PAYMENTS *continued*

The fair values of the options granted during the last two years were measured using a Black-Scholes model. The inputs into the Black-Scholes model were as follows:

| | 2010 | 2009 |
|--|---------|---------|
| Weighted average share price (pence): | | |
| – DBS | 365.0 | 564.0 |
| – SAYE December 2008 | – | 407.3 |
| – SAYE December 2009 | 395.0 | – |
| – LTIP | 392.3 | 564.0 |
| Weighted average exercise price (pence): | | |
| – DBS | – | – |
| – SAYE December 2008 | – | 371.0 |
| – SAYE December 2009 | 310.0 | – |
| – LTIP | – | – |
| Expected volatility | | |
| – DBS | 35% | 25% |
| – SAYE December 2008 | – | 30% |
| – SAYE December 2009 | 35% | – |
| – LTIP | 35% | 25% |
| Expected life | | |
| – SAYE schemes | 3 years | 3 years |
| – DBS | 3 years | 3 years |
| – LTIP | 3 years | 3 years |
| Rate of interest | | |
| – DBS | 2.0% | 4.0% |
| – SAYE December 2008 | – | 2.7% |
| – SAYE December 2009 | 2.0% | – |
| – LTIP | 2.0% | 4.0% |
| Expected dividend yield | | |
| – DBS | 3.0% | 3.0% |
| – SAYE December 2008 | – | 3.0% |
| – SAYE December 2009 | 4.8% | – |
| – LTIP | 4.8% | 3.0% |

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous five years. The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Allowances have been made for the SAYE schemes for the fact that, amongst a group of recipients some are expected to leave before an entitlement vests. The accounting charge is then adjusted over the vesting period to take account of actual forfeitures, so although the total charge is unaffected by the pre-vesting forfeiture assumption, the timing of the recognition of the expense will be sensitive to it. Fair values for the SAYE include a 10% p.a. pre-vesting leaver assumption whereas the Executive, LTIP and deferred share plans exclude any allowance for pre-vesting forfeitures.

The Group used the inputs noted above to measure the fair value of the new share options.

36 RETIREMENT BENEFIT SCHEMES**Defined contribution schemes**

The Group operates defined contribution retirement benefit schemes for all qualifying employees. The assets of the schemes are held separately from those of the Group in funds under the control of trustees. Where there are employees who leave the schemes prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

The total cost charged to income of £4.0m (2009: £6.3m; 2008: £3.5m) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans.

Defined benefit 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 either career average or 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.

The disclosures of Group defined benefit schemes have been revised to separately disclose UK Bus, UK Rail and North America scheme details to enable a better understanding of Group pension arrangements.

The various defined benefit schemes include six 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.

First Greater Western Limited, First Capital Connect Limited, First ScotRail Limited, GB Rail and TransPennine Express have sections in the Railways Pension Scheme (RPS), which is an industry-wide arrangement. Under the terms of the RPS, any fund deficit or surplus is shared by the employer (60%) and the employees (40%). In calculating the Group's pension obligations in respect of the RPS the Group has calculated the total pension deficits in each of the RPS sections in accordance with IAS 19. These deficits are reduced by a "franchise adjustment" which is that portion of the deficit which is projected to exist at the end of the franchise and for which the Group will not be required to fund. The franchise adjustment, which has been calculated by the Group's actuaries, is offset against the present value of the RPS liabilities so as to fairly present the financial performance, position and cash flows of the Group's obligations.

At their last triennial valuations, the defined benefit schemes had funding levels between 74.0% and 122.4% (2009: 74.0% and 122.4%; 2008: 79.0% and 122.3%). The market value of the assets at 31 March 2010 for all defined benefit schemes totalled £3,127m (2009: £2,465m; 2008: £2,911m).

Contributions are paid to all defined benefit schemes in accordance with rates recommended by the schemes' actuaries. The valuations are made using the Projected Unit Credit Method.

The valuation assumptions used for accounting purposes have been made uniform to Group standards, as appropriate, when each scheme is actuarially valued.

| | UK Bus 2010 % | UK Rail 2010 % | North America 2010 % | UK Bus 2009 % | UK Rail 2009 % | North America 2009 % | UK Bus 2008 % | UK Rail 2008 % | North America 2008 % |
|-----------------------------------|------------------------|-------------------------|-------------------------------|------------------------|-------------------------|-------------------------------|------------------------|-------------------------|-------------------------------|
| Key assumptions used: | | | | | | | | | |
| Discount rate | 5.60 | 5.60 | 5.65 | 6.75 | 6.75 | 6.15 | 6.85 | 6.85 | 6.0 |
| Expected return on scheme assets | 7.9 | 7.9 | 7.4 | 7.75 | 7.75 | 7.5 | 7.85 | 7.85 | 7.5 |
| Expected rate of salary increases | 4.4 | 4.4 | – | 4.1 | 4.1 | 3.0 | 4.8 | 4.8 | 3.5 |
| Inflation | 3.4 | 3.4 | 2.0 | 2.6 | 2.6 | 2.0 | 3.3 | 3.3 | 2.5 |
| Future pension increases | 3.4 | 3.4 | – | 2.5 | 2.5 | – | 3.3 | 3.3 | – |

36 RETIREMENT BENEFIT SCHEMES continued**(a) Income statement**

Amounts (charged)/credited to the income statement in respect of these defined benefit schemes are as follows:

| | UK Bus £m | UK Rail £m | North America £m | Total £m |
|----------------------------------|--------------|---------------|------------------------|-------------|
| Year to 31 March 2010 | | | | |
| Current service cost | (17.6) | (36.7) | (2.4) | (56.7) |
| Interest cost | (83.0) | (37.6) | (30.3) | (150.9) |
| Expected return on scheme assets | 98.9 | 37.3 | 23.6 | 159.8 |
| Interest on franchise adjustment | – | 5.1 | – | 5.1 |
| | (1.7) | (31.9) | (9.1) | (42.7) |
| Year to 31 March 2009 | | | | |
| Current service cost | (20.6) | (44.8) | (4.7) | (70.1) |
| Interest cost | (85.6) | (40.7) | (32.3) | (158.6) |
| Expected return on scheme assets | 110.2 | 50.0 | 36.0 | 196.2 |
| Interest on franchise adjustment | – | (0.8) | – | (0.8) |
| Past service cost | – | – | 3.0 | 3.0 |
| | 4.0 | (36.3) | 2.0 | (30.3) |

Actuarial gains and losses have been reported in the consolidated statement of comprehensive income.

The actual return on scheme assets was:

| | 2010 £m | 2009 £m |
|---------------|------------|------------|
| UK Bus | 307.5 | (178.0) |
| UK Rail | 251.6 | (269.9) |
| North America | 122.1 | 12.8 |
| | 681.2 | (435.1) |

36 RETIREMENT BENEFIT SCHEMES continued**(b) Balance sheet**

The amounts included in the balance sheet arising from the Group's obligations in respect of its defined benefit pension schemes are as follows:

| At 31 March 2010 | UK Bus £m | UK Rail £m | North America £m | Total £m |
|--|--------------|---------------|------------------------|-------------|
| Fair value of schemes' assets | 1,605.9 | 1,026.3 | 494.5 | 3,126.7 |
| Present value of defined benefit obligations | (1,734.9) | (1,388.9) | (651.8) | (3,775.6) |
| Deficit before adjustments | (129.0) | (362.6) | (157.3) | (648.9) |
| UK Rail franchise adjustment (table (e)) (60%) | - | 173.0 | - | 173.0 |
| Adjustment for employee share of RPS deficits (40%) | - | 145.1 | - | 145.1 |
| Deficit in schemes | (129.0) | (44.5) | (157.3) | (330.8) |
| Liability recognised in the balance sheet | (129.0) | (44.5) | (157.3) | (330.8) |
| This amount is presented in the consolidated balance sheet as follows: | | | | |
| Non-current assets | 3.1 | - | - | 3.1 |
| Non-current liabilities | (132.1) | (44.5) | (157.3) | (333.9) |
| | (129.0) | (44.5) | (157.3) | (330.8) |

| At 31 March 2009 | UK Bus £m | UK Rail £m | North America £m | Total £m |
|--|--------------|---------------|------------------------|-------------|
| Fair value of schemes' assets | 1,296.8 | 744.1 | 424.0 | 2,464.9 |
| Present value of defined benefit obligations | (1,257.8) | (944.3) | (587.5) | (2,789.6) |
| (Deficit)/surplus before adjustments | 39.0 | (200.2) | (163.5) | (324.7) |
| UK Rail franchise adjustment (table (e)) (60%) | - | 75.9 | - | 75.9 |
| Adjustment for employee share of RPS deficits (40%) | - | 80.1 | - | 80.1 |
| (Deficit)/surplus in schemes | 39.0 | (44.2) | (163.5) | (168.7) |
| (Liability)/asset recognised in the balance sheet | 39.0 | (44.2) | (163.5) | (168.7) |
| This amount is presented in the consolidated balance sheet as follows: | | | | |
| Non-current assets | 91.2 | - | 20.3 | 111.5 |
| Non-current liabilities | (52.2) | (44.2) | (183.8) | (280.2) |
| | 39.0 | (44.2) | (163.5) | (168.7) |

| At 31 March 2008 | UK Bus £m | UK Rail £m | North America £m | Total £m |
|--|--------------|---------------|------------------------|-------------|
| Fair value of schemes' assets | 1,477.1 | 977.7 | 456.6 | 2,911.4 |
| Present value of defined benefit obligations | (1,276.1) | (1,003.8) | (508.4) | (2,788.3) |
| Surplus/(deficit) before adjustments | 201.0 | (26.1) | (51.8) | 123.1 |
| UK Rail franchise adjustment (table (e)) (60%) | - | (13.8) | - | (13.8) |
| Irrecoverable surplus ¹ | (30.7) | - | - | (30.7) |
| Adjustment for employee share of RPS deficits (40%) | - | 10.4 | - | 10.4 |
| Surplus/(deficit) in schemes | 170.3 | (29.5) | (51.8) | 89.0 |
| Asset/(liability) recognised in the balance sheet | 170.3 | (29.5) | (51.8) | 89.0 |
| This amount is presented in the consolidated balance sheet as follows: | | | | |
| Non-current assets | 178.2 | - | 8.0 | 186.2 |
| Non-current liabilities | (7.9) | (29.5) | (59.8) | (97.2) |
| | 170.3 | (29.5) | (51.8) | 89.0 |

¹ The irrecoverable surplus represents the amount of the surplus that the Group could not recover through reducing future company contributions to Local Government Pension Schemes.

36 RETIREMENT BENEFIT SCHEMES continued**(c) Defined benefit obligations (DBO)**

Movements in the present value of DBO were as follows:

| | UK Bus £m | UK Rail £m | North America £m | Total £m |
|--|----------------|----------------|------------------------|----------------|
| At 1 April 2009 | 1,257.8 | 944.3 | 587.5 | 2,789.6 |
| Current service cost | 17.6 | 36.7 | 2.4 | 56.7 |
| Interest cost | 83.0 | 37.6 | 30.3 | 150.9 |
| Employee contributions | 25.4 | 22.7 | 1.2 | 49.3 |
| Employee share of change in DBO (not attributable to franchise adjustment) | – | 165.6 | – | 165.6 |
| Actuarial loss | 405.9 | 214.2 | 89.3 | 709.4 |
| Benefit payments | (54.8) | (32.2) | (66.6) | (153.6) |
| Currency loss | – | – | 7.7 | 7.7 |
| At 31 March 2010 | 1,734.9 | 1,388.9 | 651.8 | 3,775.6 |
| | UK Bus £m | UK Rail £m | North America £m | Total £m |
| At 1 April 2008 | 1,276.1 | 1,003.8 | 508.4 | 2,788.3 |
| Current service cost | 20.6 | 44.8 | 4.7 | 70.1 |
| Past service cost | – | – | (3.0) | (3.0) |
| Interest cost | 85.6 | 40.7 | 32.3 | 158.6 |
| Employee contributions | 23.6 | 22.2 | 1.6 | 47.4 |
| Employee share of change in DBO (not attributable to franchise adjustment) | – | (38.4) | – | (38.4) |
| Actuarial gain | (94.4) | (104.1) | (50.7) | (249.2) |
| Benefit payments | (53.7) | (24.7) | (58.2) | (136.6) |
| Settlements | – | – | (3.2) | (3.2) |
| Currency loss | – | – | 155.6 | 155.6 |
| At 31 March 2009 | 1,257.8 | 944.3 | 587.5 | 2,789.6 |
| | UK Bus £m | UK Rail £m | North America £m | Total £m |
| At 1 April 2007 | 1,438.4 | 1,024.1 | 26.0 | 2,488.5 |
| Acquisitions | 1.4 | – | 489.9 | 491.3 |
| Current service cost | 27.4 | 45.0 | 2.5 | 74.9 |
| Past service cost | (1.6) | – | (0.1) | (1.7) |
| Interest cost | 77.2 | 33.0 | 15.2 | 125.4 |
| Employee contributions | 23.1 | 19.5 | 0.8 | 43.4 |
| Employee share of change in DBO (not attributable to franchise adjustment) | – | (18.6) | – | (18.6) |
| Actuarial gain | (246.6) | (74.3) | (8.5) | (329.4) |
| Benefit payments | (43.2) | (24.9) | (21.6) | (89.7) |
| Currency loss | – | – | 4.2 | 4.2 |
| At 31 March 2008 | 1,276.1 | 1,003.8 | 508.4 | 2,788.3 |

36 RETIREMENT BENEFIT SCHEMES continued

(d) Fair value of schemes' assets

Movements in the fair value of schemes' assets were as follows:

| | UK Bus £m | UK Rail £m | North America £m | Total £m |
|------------------------------------|----------------|----------------|------------------------|----------------|
| At 1 April 2009 | 1,296.8 | 744.1 | 424.0 | 2,464.9 |
| Expected return on assets | 98.9 | 37.3 | 23.6 | 159.8 |
| Company contributions | 31.0 | 40.1 | 13.7 | 84.8 |
| Employee contributions | 25.4 | 22.7 | 1.2 | 49.3 |
| Employee share of return on assets | – | 100.6 | – | 100.6 |
| Actuarial gain on assets | 208.6 | 113.7 | 83.2 | 405.5 |
| Benefits paid from schemes | (54.8) | (32.2) | (66.6) | (153.6) |
| Currency gain | – | – | 15.4 | 15.4 |
| At 31 March 2010 | 1,605.9 | 1,026.3 | 494.5 | 3,126.7 |
| | UK Bus £m | UK Rail £m | North America £m | Total £m |
| At 1 April 2008 | 1,477.1 | 977.7 | 456.6 | 2,911.4 |
| Expected return on assets | 110.2 | 50.0 | 36.0 | 196.2 |
| Company contributions | 27.7 | 38.9 | 14.4 | 81.0 |
| Employee contributions | 23.6 | 22.2 | 1.6 | 47.4 |
| Employee share of return on assets | – | (108.0) | – | (108.0) |
| Actuarial loss on assets | (288.1) | (212.0) | (140.4) | (640.5) |
| Benefits paid from schemes | (53.7) | (24.7) | (58.2) | (136.6) |
| Settlements | – | – | (3.2) | (3.2) |
| Currency gain | – | – | 117.2 | 117.2 |
| At 31 March 2009 | 1,296.8 | 744.1 | 424.0 | 2,464.9 |
| | UK Bus £m | UK Rail £m | North America £m | Total £m |
| At 1 April 2007 | 1,485.7 | 998.6 | 22.4 | 2,506.7 |
| Acquisitions | 1.3 | – | 467.0 | 468.3 |
| Expected return on assets | 112.3 | 45.0 | 17.1 | 174.4 |
| Company contributions | 49.8 | 20.7 | 4.9 | 75.4 |
| Employee contributions | 23.0 | 19.5 | 0.8 | 43.3 |
| Employee share of return on assets | – | (14.5) | – | (14.5) |
| Actuarial loss on assets | (151.8) | (66.7) | (37.7) | (256.2) |
| Benefits paid from schemes | (43.2) | (24.9) | (21.6) | (89.7) |
| Currency gain | – | – | 3.7 | 3.7 |
| At 31 March 2008 | 1,477.1 | 977.7 | 456.6 | 2,911.4 |

36 RETIREMENT BENEFIT SCHEMES continued**(e) UK Rail franchise adjustment**

Movements in the total UK Rail franchise adjustment were as follows:

| | 2010 £m | 2009 £m | 2008 £m |
|--|------------|------------|------------|
| At 1 April | 126.5 | (23.0) | 3.7 |
| Interest on franchise adjustment | 5.1 | (0.8) | 0.1 |
| Employee share of change in franchise adjustment | 64.7 | 59.6 | (10.7) |
| Actuarial gain/(loss) on franchise adjustment | 92.0 | 90.7 | (16.1) |
| At 31 March | 288.3 | 126.5 | (23.0) |

Under the terms of the RPS cost sharing this franchise adjustment is split 60:40 between the employer and the employees. This is reflected in table (b) which shows the Group's 60% share of the franchise adjustment.

(f) Asset allocation and expected return on assets

The analysis of the schemes' assets at the balance sheet dates and the expected rates of return on assets were as follows:

| | 2010 UK Bus | | 2010 UK Rail | | 2010 North America | | 2010 Total |
|----------------|----------------|---------|-----------------|---------|-----------------------|-------|---------------|
| | % | £m | % | £m | % | £m | £m |
| Equities | 9.05 | 773.4 | 9.05 | 682.7 | 9.0 | 246.9 | 1,703.0 |
| Bonds | 5.3 | 449.6 | 5.3 | 100.8 | 4.6 | 181.0 | 731.4 |
| Property | 7.6 | 103.5 | 7.6 | 87.9 | 7.5 | 11.9 | 203.3 |
| Cash | 4.4 | 105.9 | 4.4 | 1.0 | 3.5 | 10.9 | 117.8 |
| Infrastructure | 8.0 | – | 8.0 | 60.9 | 8.0 | – | 60.9 |
| Cash plus | 9.05 | 169.0 | 9.05 | 93.0 | 9.0 | 43.8 | 305.8 |
| Other | 1.0 | 4.5 | 1.0 | – | 1.0 | – | 4.5 |
| | | 1,605.9 | | 1,026.3 | | 494.5 | 3,126.7 |
| | 2009 UK Bus | | 2009 UK Rail | | 2009 North America | | 2010 Total |
| | % | £m | % | £m | % | £m | £m |
| Equities | 8.65 | 564.7 | 8.65 | 451.2 | 9.0 | 206.3 | 1,222.2 |
| Bonds | 6.5 | 447.8 | 6.5 | 75.0 | 5.5 | 175.6 | 698.4 |
| Property | 6.8 | 90.1 | 6.8 | 74.1 | 7.5 | 12.7 | 176.9 |
| Cash | 4.0 | 35.6 | 4.0 | 2.4 | 4.0 | 5.2 | 43.2 |
| Infrastructure | 8.0 | – | 8.0 | 61.2 | 8.0 | – | 61.2 |
| Cash plus | 8.65 | 133.7 | 8.65 | 80.2 | 9.0 | 24.2 | 238.1 |
| Other | 1.0 | 24.9 | 1.0 | – | 1.0 | – | 24.9 |
| | | 1,296.8 | | 744.1 | | 424.0 | 2,464.9 |
| | 2008 UK Bus | | 2008 UK Rail | | 2008 North America | | 2010 Total |
| | % | £m | % | £m | % | £m | £m |
| Equities | 8.95 | 822.9 | 8.95 | 626.6 | 9.0 | 239.8 | 1,689.3 |
| Bonds | 5.5 | 390.7 | 5.5 | 86.2 | 5.5 | 198.3 | 675.2 |
| Property | 6.8 | 111.5 | 6.8 | 96.1 | 7.5 | – | 207.6 |
| Cash | 5.0 | 112.7 | 5.0 | 2.2 | 5.5 | 17.1 | 132.0 |
| Infrastructure | 8.0 | – | 8.0 | 59.7 | 8.0 | – | 59.7 |
| Cash plus | 8.95 | – | 8.95 | 106.9 | 9.0 | – | 106.9 |
| Other | 5.0 | 39.3 | 5.0 | – | 5.5 | 1.4 | 40.7 |
| | | 1,477.1 | | 977.7 | | 456.6 | 2,911.4 |

The expected rates of return on assets at all balance sheet dates were determined by looking at the individual asset classes and applying a model developed by an independent firm of actuaries.

36 RETIREMENT BENEFIT SCHEMES continued**(g) History of experience adjustments**

The history of experience adjustments is as follows:

| | 2010 £m | 2009 £m | 2008 £m | 2007 £m | 2006 £m |
|---|------------|------------|------------|------------|------------|
| UK Bus | | | | | |
| Fair value of schemes' assets | 1,605.9 | 1,296.8 | 1,477.1 | 1,485.7 | 1,347.1 |
| Present value of defined benefit obligations | (1,734.9) | (1,257.8) | (1,276.1) | (1,438.4) | (1,462.7) |
| Irrecoverable surplus | – | – | (30.7) | (6.8) | – |
| (Deficit)/surplus in the schemes | (129.0) | 39.0 | 170.3 | 40.5 | (115.6) |
| Experience gain on scheme assets | | | | | |
| – Amount (£m) | 208.6 | (288.1) | (151.8) | (1.7) | 138.5 |
| – Percentage of scheme assets (%) | 13.0 | (22.2) | (10.3) | (0.1) | 10.3 |
| Experience gain on scheme liabilities | | | | | |
| – Amount (£m) | 38.3 | (30.2) | 33.7 | 27.8 | 8.9 |
| – Percentage of scheme liabilities (%) | 2.2 | (2.4) | 2.6 | 1.9 | 0.6 |
| UK Rail | | | | | |
| Fair value of schemes' assets | 1,026.3 | 744.1 | 977.7 | 998.6 | 624.3 |
| Present value of defined benefit obligations | (1,388.9) | (944.3) | (1,003.8) | (1,024.1) | (701.3) |
| Rail franchise adjustment (60%) | 173.0 | 75.9 | (13.8) | 2.2 | 38.3 |
| Adjustment for employee share of RPS deficits (40%) | 145.1 | 80.1 | 10.4 | 10.2 | 30.9 |
| Deficit in the schemes | (44.5) | (44.2) | (29.5) | (13.1) | (7.8) |
| Experience gain on scheme assets | | | | | |
| – Amount (£m) | 113.7 | (212.0) | (66.7) | 16.7 | 50.3 |
| – Percentage of scheme assets (%) | 18.5 | (47.5) | (11.4) | 2.8 | 13.4 |
| Experience gain on scheme liabilities | | | | | |
| – Amount (£m) | 25.4 | 74.3 | (12.3) | (15.4) | 3.9 |
| – Percentage of scheme liabilities (%) | 3.0 | 13.1 | (2.0) | (2.5) | 0.9 |
| Experience gain (including gain on franchise adjustment) on scheme liabilities | | | | | |
| – Amount (£m) | 117.3 | 164.9 | (28.4) | (13.6) | (1.7) |
| – Percentage of scheme liabilities (%) | 14.1 | 29.1 | (4.7) | (2.2) | (0.4) |
| The calculations of percentages of UK Rail scheme assets and liabilities, above, use 60% of the assets and 60% of the liabilities as the denominator. | | | | | |
| North America | | | | | |
| Fair value of schemes' assets | 494.5 | 424.0 | 456.6 | 22.4 | 21.2 |
| Present value of defined benefit obligations | (651.8) | (587.5) | (508.4) | (26.0) | (29.8) |
| Deficit in the schemes | (157.3) | (163.5) | (51.8) | (3.6) | (8.6) |
| Experience gain on scheme assets | | | | | |
| – Amount (£m) | 83.2 | (140.4) | (37.7) | 0.8 | (0.1) |
| – Percentage of scheme assets (%) | 16.8 | (33.1) | (8.3) | 3.6 | (0.5) |
| Experience gain on scheme liabilities | | | | | |
| – Amount (£m) | (20.4) | (6.1) | – | – | 0.8 |
| – Percentage of scheme liabilities (%) | (3.1) | (1.0) | – | – | 2.7 |

36 RETIREMENT BENEFIT SCHEMES continued

| Total Group | 2010 £m | 2009 £m | 2008 £m | 2007 £m | 2006 £m |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| Fair value of schemes' assets | 3,126.7 | 2,464.9 | 2,911.4 | 2,506.7 | 1,992.6 |
| Present value of defined benefit obligations | (3,775.6) | (2,789.6) | (2,788.3) | (2,488.5) | (2,193.8) |
| Rail franchise adjustment (60%) | 173.0 | 75.9 | (13.8) | 2.2 | 38.3 |
| Irrecoverable surplus | - | - | (30.7) | (6.8) | - |
| Adjustment for employee share of RPS deficits (40%) | 145.1 | 80.1 | 10.4 | 10.2 | 30.9 |
| (Deficit)/surplus in the schemes | (330.8) | (168.7) | 89.0 | 23.8 | (132.0) |
| Experience gain on scheme assets | | | | | |
| - Amount (£m) | 405.5 | (640.5) | (256.2) | 15.8 | 188.7 |
| - Percentage of scheme assets (%) | 14.9 | (29.6) | (10.1) | 0.7 | 10.8 |
| Experience gain on scheme liabilities | | | | | |
| - Amount (£m) | 43.3 | 38.0 | 21.4 | 12.4 | 13.6 |
| - Percentage of scheme liabilities (%) | 1.3 | 1.6 | 0.9 | 0.6 | 0.7 |
| Experience gain (including gain on franchise adjustment) on scheme liabilities | | | | | |
| - Amount (£m) | 135.2 | 128.6 | 5.2 | 14.2 | 8.0 |
| - Percentage of scheme liabilities (%) | 4.2 | 5.3 | 0.2 | 0.7 | 0.4 |

The calculations of percentages of Total Group scheme assets above, use 100% of UK Bus and North America assets and 60% of UK Rail assets as the denominator. The calculations of percentages of Total Group scheme liabilities above use 100% of UK Bus and North America liabilities and 60% of UK Rail liabilities as the denominator.

The estimated amounts of contributions expected to be paid to the schemes during the financial year to 31 March 2011 is £86.2m (year to 31 March 2010: £85.3m).

(h) Accounting for UK Rail pension arrangements

Had the Group accounted for UK Rail pensions as if the respective franchises had an indefinite duration, the impact on the financial statements would have been as follows:

| | 2010 £m | 2009 £m | 2008 £m |
|--|--------------------|--------------------|--------------------|
| Balance sheet | | | |
| Pension deficit | (173.0) | (75.9) | 13.8 |
| Intangible assets | (21.2) | (28.3) | (35.4) |
| Deferred tax | 54.4 | 29.2 | 6.0 |
| Impact on net assets | (139.8) | (75.0) | (15.6) |
| Income statement | | | |
| Unwinding of discount on franchise adjustment | (5.1) | 0.8 | (0.1) |
| Intangible asset amortisation | 7.1 | 7.1 | 8.2 |
| Deferred tax | (0.6) | (2.2) | (2.1) |
| Impact on profit for the period from continuing operations | 1.4 | 5.7 | 6.0 |
| Consolidated statement of comprehensive income | | | |
| Actuarial (gains)/losses on franchise adjustment | (92.0) | (90.7) | 16.1 |
| Deferred tax on actuarial (gains)/losses | 25.8 | 25.4 | (4.8) |
| | (66.2) | (65.3) | 11.3 |

37 RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Remuneration of key management personnel

The remuneration of the Directors, which comprise the plc Board and the Acting Group Finance Director (2009: plc Board and the Acting Group Finance Director), who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual Directors is provided in the Directors' Remuneration Report on pages 38 to 43.

| | Year to 31 March 2010 £m | Year to 31 March 2009 £m |
|-----------------------------|-----------------------------------|-----------------------------------|
| Basic salaries | 1.8 | 1.7 |
| Performance related bonuses | 0.1 | 0.4 |
| Compensatory bonuses | 0.6 | – |
| Benefits in kind | 0.1 | 0.1 |
| Fees | 0.5 | 0.5 |
| Termination benefits | – | 0.2 |
| Pension contributions | 0.4 | 0.3 |
| Share-based payment | 0.1 | 0.8 |
| | 3.6 | 4.0 |

Independent auditors' report to the members of FirstGroup plc

We have audited the Group financial statements of FirstGroup plc for the year ended 31 March 2010 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity and the consolidated cash flow statement, and the related notes 1 to 37. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

OPINION ON FINANCIAL STATEMENTS

In our opinion the Group financial statements:

- ▶ give a true and fair view of the state of the Group's affairs as at 31 March 2010 and of its profit for the year then ended;
- ▶ have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- ▶ have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

SEPARATE OPINION IN RELATION TO IFRSs AS ISSUED BY THE IASB

As explained in note 2 to the group financial statements, the group in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the Group financial statements comply with IFRSs as issued by the IASB.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the Group Financial Statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- ▶ certain disclosures of Directors' remuneration specified by law are not made; or
- ▶ we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- ▶ the Directors' statement contained within the Corporate Governance Report in relation to going concern; and
- ▶ the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

OTHER MATTER

We have reported separately on the parent company financial statements of FirstGroup plc for the year ended 31 March 2010 and on the information in the Directors' Remuneration Report that is described as having been audited.



Nigel Mercer (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
12 May 2010

Group financial summary

| Consolidated income statement | 2010 £m | 2009 £m | 2008 £m | 2007 £m | 2006 £m |
|--|------------|------------|------------|------------|------------|
| Group revenue | 6,319.3 | 6,187.3 | 4,707.6 | 3,708.8 | 3,030.9 |
| Operating profit before amortisation charges, non-recurring bid costs and other non-recurring items | 453.9 | 497.5 | 360.1 | 259.2 | 229.7 |
| Amortisation charges | (34.7) | (33.1) | (18.9) | (10.3) | (4.5) |
| Non-recurring bid costs | (0.3) | (3.5) | (7.2) | (19.3) | (28.5) |
| Other non-recurring items | (49.3) | (115.5) | (72.3) | (22.3) | – |
| Operating profit before (loss)/profit on disposal of properties | 369.6 | 345.4 | 261.7 | 207.3 | 196.7 |
| Operating profit | 368.5 | 371.1 | 267.5 | 203.6 | 210.7 |
| Net finance cost | (189.9) | (171.1) | (111.1) | (63.4) | (53.3) |
| Non-recurring finance items | 1.0 | – | (4.5) | – | – |
| Profit before tax | 179.6 | 200.0 | 151.9 | 140.2 | 157.4 |
| Tax | (32.5) | (43.0) | (18.6) | (38.1) | (40.0) |
| Profit after tax | 147.1 | 157.0 | 133.3 | 102.1 | 117.4 |
| EBITDA | 769.6 | 772.2 | 560.8 | 398.9 | 351.7 |
| Earnings per share | pence | pence | pence | pence | pence |
| Adjusted basic | 39.5 | 48.6 | 40.9 | 33.7 | 30.9 |
| Basic | 27.5 | 30.2 | 27.7 | 23.1 | 27.4 |
| Consolidated balance sheet | £m | £m | £m | £m | £m |
| Non-current assets | 4,526.2 | 4,866.4 | 3,833.0 | 1,681.6 | 1,474.7 |
| Net current (liabilities)/assets | (283.8) | (707.3) | (202.6) | 70.0 | (38.0) |
| Non-current liabilities | (2,967.6) | (3,007.2) | (2,497.3) | (968.4) | (982.6) |
| Provisions | (364.3) | (347.6) | (428.3) | (175.9) | (122.2) |
| Net assets | 910.5 | 804.3 | 704.8 | 607.3 | 331.9 |
| Share data | million | million | million | million | million |
| Number of shares in issue (excluding treasury shares and shares in trusts) | | | | | |
| At year end | 480.2 | 480.8 | 436.6 | 434.0 | 392.0 |
| Average | 480.5 | 474.8 | 434.8 | 397.9 | 392.6 |
| Share price | pence | pence | pence | pence | pence |
| At year end | 359 | 268 | 564 | 665 | 425 |
| High | 442 | 635 | 815 | 668 | 426 |
| Low | 288 | 198 | 497 | 381 | 311 |
| Market capitalisation | £m | £m | £m | £m | £m |
| At year end | 1,724 | 1,292 | 2,462 | 2,886 | 1,665 |

Company balance sheet

| | Notes | 2010 £m | 2009 restated ¹ £m |
|---|-------|------------|-------------------------------------|
| Fixed assets | | | |
| Investments | 4 | 1,709.2 | 1,703.8 |
| Current assets | | | |
| Cash and cash equivalents | | 0.8 | 19.0 |
| Derivative financial instruments – due within one year | 5 | 31.6 | 24.8 |
| – due after more than one year | 5 | 31.4 | 3.1 |
| Debtors – due within one year | 6 | 2,991.6 | 3,426.4 |
| – due after more than one year | 6 | 11.0 | 25.1 |
| | | 3,066.4 | 3,498.4 |
| Current liabilities | | | |
| Creditors: amounts falling due within one year | 8 | (643.1) | (1,030.8) |
| Financial liabilities – current bond liability | | (73.3) | (36.0) |
| Derivative financial instruments | 5 | (82.8) | (272.5) |
| | | (799.2) | (1,339.3) |
| Net current assets | | 2,267.2 | 2,159.1 |
| Total assets less current liabilities | | 3,976.4 | 3,862.9 |
| Creditors: amounts falling due after more than one year | 8 | (2,285.4) | (2,236.3) |
| Derivative financial instruments | 5 | (121.0) | (233.8) |
| Net assets | | 1,570.0 | 1,392.8 |
| Capital and reserves | | | |
| Called up share capital | 9 | 24.1 | 24.1 |
| Share premium | 10 | 676.4 | 676.4 |
| Other reserves | 10 | 176.9 | 115.1 |
| Own shares | 10 | (6.5) | (3.4) |
| Profit and loss account | 10 | 699.1 | 580.6 |
| Shareholders' funds | | 1,570.0 | 1,392.8 |

¹ Presentation of certain line items has been revised as explained in note 1.

Notes to the Company financial statements

1 SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial instruments and on a going concern basis as described in the going concern statement in the Directors' Report on page 46.

The Directors have revised the balance sheet presentation of Derivative Financial Instruments and Deferred Tax Assets within Current Assets split between under and over one year. Prior year balance sheet has also been revised. None of these revisions to the balance sheet have impacted the Company's net assets.

The following accounting policies have been used consistently throughout the year and the preceding year in accordance with UK GAAP.

Cash flow statement

The Company has taken the advantage of the exemption under FRS 1 (revised) not to disclose a cash flow statement.

Investments

Fixed asset investments in subsidiaries and associates are shown at cost less provision for impairment.

For investments in subsidiaries acquired for consideration, including the issue of shares qualifying for merger relief, cost is measured by reference to the nominal value only of the shares issued. Any premium is ignored.

Foreign currencies

Transactions in currencies other than Sterling are recorded at the rate of exchange on the date of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at the relevant balance sheet date. Exchange differences arising on the settlement of monetary items, and on the retranslation of non-monetary items at each balance sheet date are included in the profit or loss for the accounting period.

Tax

The charge for tax is based on the profit or loss for the year and takes into account tax deferred because of timing differences between the treatment of certain items for tax and accounting purposes. Provision is made for deferred tax on all timing differences except those arising from the revaluation of fixed assets for which there is no binding agreement to sell on property gains if it is anticipated that rollover relief will be available and 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.

Financial instruments

Derivative financial instruments are initially recorded at fair value and then for reporting purposes are remeasured to fair value at each subsequent balance sheet date.

Derivative financial instruments and hedge accounting

The Company uses derivative financial instruments to hedge interest rate risks, foreign currency risks and fuel price risks. Use of such financial instruments is governed by policies and delegated authorities approved by the Board. The Company does not use derivative financial instruments for speculative purposes. In relation to fuel price risks, the Company's profit and loss account is affected by transactions with affiliated companies that give rise to cash flow volatility associated with fuel price risk.

The main derivative financial instruments used by the Company are interest rate swaps and collars, fuel swaps and collars, and cross currency interest rate swaps. Such instruments are initially recognised at fair value and subsequently remeasured to fair value at the reported balance sheet date. The fair values are calculated by reference to market exchange rates, interest rates and fuel prices at the period end, and supported by counter-party confirmations.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting as cash flow hedges or foreign currency hedges of a foreign net investment are recognised in the profit and loss account as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the profit and loss account for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

1 SIGNIFICANT ACCOUNTING POLICIES continued**Related party transactions**

As permitted under FRS 8, *Related party transactions*, the Company has taken advantage of the exemption not to disclose transactions between Group companies.

Debt

Debt is initially stated at the amount of the net proceeds after the deduction of issue costs. The carrying amount is increased by the amortisation of debt issuance fees in respect of the accounting period and reduced by repayments made in the period.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

2 PROFIT FOR THE YEAR

As permitted by section 408 of the Companies Act 2006 the Company has elected not to present its own profit and loss account for the year. FirstGroup plc reported a profit for the financial year ended 31 March 2010 of £206.4m (2009: £11.6m).

Fees payable to the Company's auditors for the audit of the Company's annual financial statements was £0.1m (2009: £0.1m).

The Company had no employees in the current or preceding financial year.

3 DIVIDENDS

Amounts recognised as distributions to equity holders in the year:

| | 2010 £m | 2009 £m |
|---|------------|------------|
| Final dividend for the year ended 31 March 2009 of 12.7p (2008: 11.55p) per share | 61.1 | 55.5 |
| Interim dividend for the year ended 31 March 2010 of 6.65p (2009: 6.05p) per share | 32.0 | 29.1 |
| | 93.1 | 84.6 |
| Proposed final dividend for the year ended 31 March 2010 of 14.0p (2009: 12.7p) per share | 67.2 | 61.1 |

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

4 FIXED ASSET INVESTMENTS

| | Unlisted subsidiary undertakings £m | Other investments £m | Total £m |
|-----------------------------------|--|----------------------------|----------------|
| Cost | | | |
| At 1 April 2009 | 1,709.2 | 8.1 | 1,717.3 |
| Additions | 5.4 | – | 5.4 |
| At 31 March 2010 | 1,714.6 | 8.1 | 1,722.7 |
| Provisions | | | |
| At 1 April 2009 and 31 March 2010 | (5.4) | (8.1) | (13.5) |
| Net book value | | | |
| At 31 March 2010 | 1,709.2 | – | 1,709.2 |
| At 31 March 2009 | 1,703.8 | – | 1,703.8 |

4 FIXED ASSET INVESTMENTS *continued*

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

| | | |
|--|--|---|
| UK local bus and coach operators | North American school bus operators | Rail companies |
| CentreWest London Buses Limited | Cardinal Coach Lines Limited ² (60%) | First Capital Connect Limited |
| First Aberdeen Limited ¹ | FirstCanada ULC ² | First Greater Western Limited |
| First Beeline Buses Limited | First Student, Inc ³ | First/Keolis TransPennine Limited (55%) |
| First Bristol Limited | | First ScotRail Limited |
| First Capital East Limited | | GB Railfreight Limited |
| First Capital North Limited | | Hull Trains Company Limited (80%) |
| First Cymru Buses Limited | | |
| First Devon & Cornwall Limited | Transit contracting and fleet maintenance | European bus operators |
| First Eastern Counties Buses Limited | First Transit, Inc ³ | FirstGroup Rhein-Neckar GmbH ⁴ |
| First Scotland East Limited ¹ | First Support Services, Inc ³ | |
| First Essex Buses Limited | | |
| First Glasgow (No. 1) Limited ¹ | | |
| First Glasgow (No. 2) Limited ¹ | | |
| First Hampshire and Dorset Limited | North American coach operators | |
| First Manchester Limited | Americanos USA, Inc ³ | |
| First Midland Red Buses Limited | Greyhound Lines, Inc ³ | |
| First Potteries Limited | | |
| First Somerset & Avon Limited | | |
| First South Yorkshire Limited | | |
| First West Yorkshire Limited | | |
| First York Limited | | |
| Leicester CityBus Limited (94%) | | |
| Northampton Transport 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:

1 Registered in Scotland.

2 Registered in Canada.

3 Incorporated in the United States of America.

4 Registered in Germany.

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.

Advantage has been taken of section 410 of the Companies Act 2006 to list only those undertakings as are required to be mentioned in that provision, as an exhaustive list would involve a statement of excessive length.

Other investments

The interest in other investments at the end of the year is a 6% interest in the ordinary share capital of Prepayment Cards Limited, which is incorporated in Great Britain and registered in England and Wales.

5 DERIVATIVE FINANCIAL INSTRUMENTS**Derivatives designated and effective as hedging instruments carried at fair value****Assets due after more than one year**

| | 2010 £m | 2009 £m |
|---|------------|------------|
| Cross currency swaps (net investment hedge) | 13.3 | – |
| Coupon swaps (fair value hedge) | 15.7 | 19.9 |
| Fuel derivatives (cash flow hedge) | 2.4 | 3.1 |
| | 31.4 | 23.0 |

Assets due within one year

| | | |
|---|------|-----|
| Cross currency swaps (net investment hedge) | 3.6 | 0.9 |
| Coupon swaps (fair value hedge) | 10.6 | 2.1 |
| Fuel derivatives (cash flow hedge) | 15.2 | – |
| | 29.4 | 3.0 |

Creditors: amounts falling due within one year

| | | |
|---|------|-------|
| Interest rate swaps (cash flow hedge) | 42.9 | 50.4 |
| Cross currency swaps (net investment hedge) | 2.9 | 2.0 |
| Fuel derivatives (cash flow hedge) | 37.0 | 220.1 |
| | 82.8 | 272.5 |

Creditors: amounts falling due after more than one year

| | | |
|---|-------|-------|
| Interest rate swaps (cash flow hedge) | 10.7 | 38.1 |
| Cross currency swaps (net investment hedge) | 91.9 | 123.6 |
| Fuel derivatives (cash flow hedge) | 18.4 | 72.1 |
| | 121.0 | 233.8 |

Derivatives classified as held for trading**Assets due after more than one year**

| | | |
|----------------------|---|-----|
| Cross currency swaps | – | 1.8 |
|----------------------|---|-----|

Assets due within one year

| | | |
|---|------|------|
| Cross currency swaps | 2.2 | 0.1 |
| Total assets due after more than one year | 31.4 | 24.8 |
| Total assets due within one year | 31.6 | 3.1 |

Total assets

| | | |
|---|-------|-------|
| Total creditors: amounts falling due within one year | 82.8 | 272.5 |
| Total creditors: amounts falling due after more than one year | 121.0 | 233.8 |

Total creditors

| | | |
|--|-------|-------|
| | 203.8 | 506.3 |
|--|-------|-------|

Full details of the Group's financial risk management objectives and procedures can be found in note 25 of the Group accounts. As the holding company for the Group, the Company faces similar risks over foreign currency and interest rate movements.

The Company has taken advantage of the exemption under FRS 29 for parent company accounts. The disclosures are included within the Group accounts.

6 DEBTORS**Amounts due within one year**

| | 2010 £m | 2009 restated ¹ £m |
|--|------------|-------------------------------------|
| Amounts due from subsidiary undertakings | 2,969.2 | 3,347.1 |
| Other debtors | 0.6 | 0.7 |
| Deferred tax asset (note 7) | 14.2 | 75.2 |
| Corporation tax recoverable | 7.6 | 3.4 |
| | 2,991.6 | 3,426.4 |

Amounts due after more than one year

| | | |
|-----------------------------|------|------|
| Deferred tax asset (note 7) | 11.0 | 25.1 |
|-----------------------------|------|------|

¹ Presentation of deferred tax asset has been revised as explained in note 1.

7 DEFERRED TAX

The major deferred tax liabilities and (assets) recognised by the Company and the movements thereon during the current and prior reporting period are as follows:

| | Other temporary differences |
|------------------|-----------------------------|
| At 1 April 2009 | (100.3) |
| Charge to income | 64.6 |
| Charge to equity | 10.5 |
| At 31 March 2010 | (25.2) |

8 CREDITORS

| | 2010 £m | 2009 £m |
|--|--------------|----------------|
| Amounts due within one year | | |
| Bank loans and overdrafts | 403.5 | 447.3 |
| Other creditors | – | 2.8 |
| Amounts due to subsidiary undertakings | 223.0 | 577.7 |
| Accruals and deferred income | 16.6 | 3.0 |
| | 643.1 | 1,030.8 |

Amounts falling due after more than one year

| | | |
|---|----------------|----------------|
| Bank loans | | |
| – Due in more than two years but not more than five years | 871.3 | 1,366.1 |
| £300.0m Sterling bond – 6.875% 2013 | 297.4 | 296.9 |
| £250.0m Sterling bond – 6.125% 2019 | 274.8 | 277.3 |
| £300.0m Sterling bond – 8.125% 2018 | 296.2 | 296.0 |
| £350.0m Sterling bond – 8.750% 2021 | 346.8 | – |
| £200.0m Sterling bond – 6.875% 2024 | 198.9 | – |
| | 2,285.4 | 2,236.3 |

Borrowing facilities

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

| | 2010 £m | 2009 £m |
|---|----------------|--------------|
| Facilities maturing: | | |
| – Due in more than one year but less than two years | 1,013.3 | – |
| – Due in more than two years | – | 583.0 |
| | 1,013.3 | 583.0 |

9 CALLED UP SHARE CAPITAL

| | 2010 £m | 2009 £m |
|---|------------|------------|
| Authorised | | |
| 650m ordinary shares of 5p each | 32.5 | 32.5 |
| Allotted, called up and fully paid | | |
| Ordinary shares of 5p each | 24.1 | 24.1 |

The Company had 482.1m (2009: 482.1m) shares in issue at 31 March 2010 including 976,453 (2009: 272,674) shares held as treasury shares at this date. During the year no shares were allotted (2009: 43.8m shares were allotted for net proceeds of £230.8m).

| | Share premium £m | Own shares £m | Profit and loss account £m |
|---|---------------------|------------------|-------------------------------|
| 10 RESERVES | | | |
| At 1 April 2009 | 676.4 | (3.4) | 580.6 |
| Retained profit for the year | – | – | 206.2 |
| Share-based payment provision | – | – | 5.4 |
| Dividends paid | – | – | (93.1) |
| Movement in Employee Benefit Trust, QUEST and treasury shares during the year | – | (3.1) | – |
| At 31 March 2010 | 676.4 | (6.5) | 699.1 |

Own shares

The number of own shares held by the Company at the end of the year was 1,860,479 (2009: 1,286,546) FirstGroup plc ordinary shares of 5p each. Of these, 851,506 (2009: 981,352) were held by the FirstGroup plc Employee Benefit Trust, 32,520 (2009: 32,520) by the FirstGroup plc Qualifying Employee Share Ownership Trust and 976,453 (2009: 272,674) were held as treasury shares. Both trusts and treasury shares have waived the rights to dividend income from the FirstGroup plc shares. The market value of the shares at 31 March 2010 was £6.7m (2009: £3.4m).

| | Hedging reserve £m | Capital redemption reserve £m | Capital reserve £m | Merger reserve £m | Total other reserves £m |
|--|-----------------------|----------------------------------|-----------------------|----------------------|----------------------------|
| Other reserves | | | | | |
| At 1 April 2009 | (147.0) | 1.9 | 93.8 | 166.4 | 115.1 |
| Derivative hedging instrument movement | 61.8 | – | – | – | 61.8 |
| At 31 March 2010 | (85.2) | 1.9 | 93.8 | 166.4 | 176.9 |

11 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

| | 2010 £m | 2009 £m |
|---|----------------|----------------|
| Profit for the financial year | 206.2 | 11.6 |
| Share-based payments provision | 5.4 | 6.3 |
| Dividends | (93.1) | (84.6) |
| | 118.5 | (66.7) |
| Issue of equity shares | – | 230.8 |
| Movement in Employee Benefit Trust, QUEST and treasury shares during the year | (3.1) | 0.6 |
| Derivative hedging instrument movement | 61.8 | (107.7) |
| Net addition to shareholders' funds | 177.2 | 57.0 |
| Shareholders' funds at beginning of year | 1,392.8 | 1,335.8 |
| Shareholders' funds at end of year | 1,570.0 | 1,392.8 |

12 CONTINGENT LIABILITIES AND ASSETS

To support subsidiary undertakings in their normal course of business, the Company and certain subsidiaries have indemnified certain banks and insurance companies who have issued performance bonds for £458.2m (2009: £569.8m) and letters of credit for £335.1m (2009: £331.5m). The performance bonds relate to the North American businesses of £260.0m (2009: £373.3m) and the UK Rail franchise operations of £198.2m (2009: £196.5m). The letters of credit relate substantially to insurance arrangements in the UK and North America.

The Company has provided unsecured loan facilities of £96.4m (2009: £103.0m) to First Greater Western Limited, a £46.0m (2009: £46.0m) unsecured loan facility to First Capital Connect Limited, a £3.2m (2009: £3.2m) unsecured loan facility to First/Keolis TransPennine Limited, and a £13.6m (2009: £13.6m) unsecured loan facility to First ScotRail Limited. Under these facilities, £96.4m (2009: £103.0m) was drawn at 31 March 2010 by First Greater Western Limited and £35.0m (2009: £25.0m) was drawn at 31 March 2010 by First Capital Connect Limited.

The Company is party to certain unsecured guarantees granted to banks for overdraft and cash management facilities provided to itself and subsidiary undertakings. The Company has given certain unsecured guarantees for the liabilities of its subsidiary undertakings arising under certain loan notes, hire purchase contracts, finance leases, operating leases, supply contracts and certain pension scheme arrangements. It also provides unsecured cross guarantees to certain subsidiary undertakings as required by VAT legislation. UK Bus subsidiaries have provided unsecured guarantees on a joint and several basis to the Trustees of the UK Bus Occupational Pension Scheme.

Certain of the Company's subsidiaries have issued unsecured guarantees to the Company's Sterling bondholders and to lenders participating in the Group's £1,511.8m (2009: £1,777.0m) syndicated unsecured bank facilities.

In its normal course of business UK Rail has ongoing contractual negotiations with governmental and other organisations including the Great Western Trains network change claim against Network Rail.

Independent auditors' report to the members of FirstGroup plc

We have audited the parent company financial statements of FirstGroup plc for the year ended 31 March 2010 which comprise the balance sheet, and the related notes 1 to 12. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

OPINION ON FINANCIAL STATEMENTS

In our opinion the parent company financial statements:

- ▶ give a true and fair view of the state of the parent company's affairs as at 31 March 2010;
- ▶ have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- ▶ have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- ▶ the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- ▶ the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- ▶ adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- ▶ the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- ▶ certain disclosures of Directors' remuneration specified by law are not made; or
- ▶ we have not received all the information and explanations we require for our audit.

OTHER MATTER

We have reported separately on the Group financial statements of FirstGroup plc for the year ended 31 March 2010.



Nigel Mercer (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
12 May 2010

Glossary

Set out below is a guide to commonly used financial, industry and Company related terms in the Annual Report and Accounts. These are not precise definitions and are included to provide readers with a guide to the general meaning of these terms.

AGM

Annual General Meeting

BAYE

Buy As You Earn

BITC

Business in the Community is a membership organisation of over 800 of the UK's leading companies committed to improving their CSR impact on society

The Board

The Board of Directors of the Company

Combined Code

The Combined Code on Corporate Governance as published by the Financial Reporting Council

Company

FirstGroup plc, a company registered in Scotland with number SC157176 whose registered office is at 395 King Street, Aberdeen AB24 5RP

CSR

Corporate Social Responsibility refers to the way we manage the economic, social and environmental impacts of our activities

DfT

Department for Transport

Dividend

Amount payable per ordinary share on an interim and final basis

Dow Jones Sustainability Indexes

Tracker of the financial performance of the world's leading corporate sustainability-driven companies

EABP

Executive Annual Bonus Plan

EBT

Employee benefit trust

EBITDA

Earnings before interest, tax, depreciation and amortisation

EPS

Earnings per share

ESOS

Executive share option scheme

FTSE4Good Index Series

Designed to measure the performance of companies that meet globally recognised corporate responsibility standards

GPS

Global positioning system

Group

FirstGroup plc and its subsidiaries

HST

High Speed Train

IAS

International Accounting Standards

IFRS

International Financial Reporting Standards

IP

Injury Prevention

KPI

Key performance indicators are financial and non-financial metrics used to define and measure progress towards our objectives

Local authority

Local government organisations including unitary, Metropolitan, district and county councils

LTIs

Lost Time Injuries refer to any injury at work that has resulted in a staff member being unable to work for more than one day

LTIP

Long Term Incentive Plan

Network Rail

Owner and operator of Britain's rail infrastructure

Ordinary shares

FirstGroup plc ordinary shares of 5p each

PIP

Punctuality Improvement Partnership between a bus operator and a local authority to improve the punctuality of bus services

PPM

Public Performance Measure combines the punctuality and reliability of a Train Operating Company into a single performance measure

PTE

Passenger Transport Executives were established in the six Metropolitan areas of England to 'secure or promote the provision of a system of public transport which meets the needs of the area'

SAYE

Save As You Earn

TfL

Transport for London was created in 2000 as the integrated body responsible for the capital's transport system

TOC

Train Operating Company

TSR

Total shareholder return is the growth in value of a shareholding over a specified period assuming that dividends are reinvested to purchase additional shares

UK GAAP

UK Generally Accepted Accounting Principles

Voluntary quality partnership

Agreement between a bus operator and a local authority to improve the quality of bus services

Shareholder information

The Annual Report and Accounts, share price information, Company presentations, contact details and other shareholder information are available on the website at www.firstgroup.com

CONTACT INFORMATION

FIRSTGROUP OFFICES

Registered Office

FirstGroup plc

395 King Street
Aberdeen AB24 5RP
T. +44 (0)1224 650100
F. +44 (0)1224 650140

London Office

FirstGroup plc

50 Eastbourne Terrace
London W2 6LG
T. +44 (0)20 7291 0505
F. +44 (0)20 7436 3337

SHAREHOLDER ENQUIRIES

The Company's share register is maintained on our behalf by Equiniti, 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:

Equiniti

Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
T. 0871 384 2046*
(or from overseas on T. +44 (0)121 415 7050)

Employee share schemes

Employees with queries about shares held in the Company's employee share schemes should contact:

Yorkshire Building Society
Yorkshire Building Society Share Plans
1 Filey Street
Bradford BD1 5AT
T. 0845 1200 300
(or from overseas on T. +44 (0)1274 705758)

DUPLICATE SHAREHOLDER ACCOUNTS

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

UNSOLICITED MAIL

As the Company's share register is, by law, open to public inspection, shareholders may receive unsolicited mail from organisations that use it as a mailing list. To limit the amount of unsolicited mail you receive, write to the Mailing Preference Service, DMA House, 70 Margaret Street, London W1W 8SS or register online at www.mpsonline.org.uk

DIRECT DIVIDEND PAYMENTS

If you would like your dividend to be paid directly into your bank or building society account, you should contact the Registrar or complete the dividend mandate attached to your dividend cheque. Mandating your dividends has a number of advantages:

1. The dividend will go into your account on the payment date – there is no chance of it being delayed in the post and you do not have to wait for a cheque to clear.
2. The payment method is more secure than receiving a cheque through the post.
3. You still receive tax information about the dividend, which is sent directly to you at your registered address.

DIVIDEND REINVESTMENT PLAN ('DRIP')

The Company offers shareholders the option to participate in a DRIP. This enables shareholders to reinvest their cash dividends in FirstGroup plc shares. For more information please contact:

The Share Dividend Team

Equiniti

Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
T. 0871 384 2268*
(or from overseas on T. +44 (0)121 415 7173)

ONLINE INFORMATION

The Registrar also provides an online service enabling you to access details of your shareholding. To view your details, complete certain amendments instantly and access a range of general information about holding shares, visit www.shareview.co.uk

*Calls to this number are charged at 8p per minute from a BT landline; other telephone providers' costs may vary. Telephone lines are open from 8.30 am to 5.30 pm, Monday to Friday.

SHAREHOLDER PROFILE

At 30 April 2010

| | Number of shareholders | % | Shares held | % |
|---------------------------|---------------------------|-------|-------------|-------|
| By category | | | | |
| Individuals | 38,872 | 94.4 | 47,446,144 | 9.8 |
| Banks and nominees | 2,037 | 5.0 | 426,143,772 | 88.4 |
| Insurance and assurance | 1 | – | 300 | – |
| Other companies | 158 | 0.4 | 3,628,971 | 0.8 |
| Other institutions | 72 | 0.2 | 4,847,983 | 1.0 |
| | 41,140 | 100.0 | 482,067,170 | 100.0 |
| By size of holding | | | | |
| 1-1,000 | 31,746 | 77.2 | 8,370,706 | 1.7 |
| 1,001-5,000 | 7,218 | 17.5 | 15,733,483 | 3.3 |
| 5,001-10,000 | 1,055 | 2.6 | 7,289,949 | 1.5 |
| 10,001-100,000 | 760 | 1.8 | 21,793,615 | 4.5 |
| Over 100,000 | 361 | 0.9 | 428,879,417 | 89.0 |
| | 41,140 | 100.0 | 482,067,170 | 100.0 |

ELECTRONIC COMMUNICATION

The Company's articles of association permits the Company to use electronic communication when sending information to its shareholders. Using electronic communications helps us reduce the environmental impact of our business by limiting the amount of paper we use and it assists us in managing our costs. We periodically consult with shareholders to check how they wish to receive information from us and a shareholder is taken to have agreed to website communications if a response has not been received.

Any document or information required to be sent to shareholders is made available on the Company's website and a notification of availability is sent. Shareholders who receive such a notification are entitled to request a hard copy of the document at any time and may also change the way they receive communications at any time by contacting Equiniti.

FIRSTGROUP POLICY ON DISCOUNTS FOR SHAREHOLDERS

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

**FIND OUT MORE ABOUT FIRST IN OUR
CSR REPORT AND ON OUR WEBSITE
WWW.FIRSTGROUP.COM**

FINANCIAL CALENDAR

| | |
|---|----------------|
| Annual General Meeting | 8 July 2010 |
| Shares trade ex dividend | 14 July 2010 |
| Record date for final dividend* | 16 July 2010 |
| Final dividend payment | 20 August 2010 |
| Half-year results announced | November 2010 |
| Interim dividend paid | February 2011 |
| Preliminary announcement of full year results | May 2011 |

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



PRINCIPAL AND REGISTERED OFFICE

FirstGroup plc

395 King Street

Aberdeen AB24 5RP

T. +44 (0)1224 650100

F. +44 (0)1224 650140

Registered in Scotland
number SC157176

LONDON OFFICE

FirstGroup plc

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www.firstgroup.com



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