



Our business

FirstGroup plc is the leading transport operator in the UK and North America with annualised revenues of over £5 billion a year. We employ over 137,000 staff throughout the UK and North America and transport more than 2.5 billion passengers a year.

We are the leader in safe, reliable, innovative and sustainable transport services – global in scale and local in approach.

The safety of our passengers and employees is our highest priority and we strive to lead the industry in this area and achieve the highest possible standards across the Group.

Operating and financial review

- 2** Delivering our strategy
- 3** Chairman's statement
- 4** Chief Executive's operating review
- 22** Finance Director's review

Report of the Directors

- 28** Board of Directors
- 30** Corporate governance
- 37** Directors' remuneration report
- 42** Directors' report
- 45** Directors' responsibilities

Financial statements

- 46** Consolidated income statement
- 47** Consolidated statement of recognised income and expense
- 48** Consolidated balance sheet
- 49** Consolidated cash flow statement
- 50** Notes to the consolidated financial statements
- 90** Independent auditors' report
- 92** Group financial summary
- 93** Company balance sheet
- 94** Notes to the Company financial statements
- 100** Independent auditors' report
- 101** Glossary
- 102** Shareholder information
- 103** Financial calendar
- 104** Find out more about First

Group overview



TRANSFORMING TRAVEL



First wants to lead the way in transforming the way people travel and the way they feel about public transport.

By aiming for the top in everything we do – and helping each other – we can deliver the highest levels of safety and service and give greater customer and employee satisfaction.

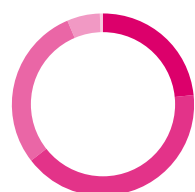
OUR VALUES

Our core values, which underpin everything that we do, are:

- **Safety:**
If you cannot do it safely – don't do it!
- **Customer service:**
Delivering our promise.

BUSINESSES	UK BUS	UK RAIL
		
ABOUT US	<p>We are the UK's largest bus operator running more than one in five of all local bus services. A fleet of nearly 9,000 buses carries some 3 million passengers a day in more than 40 major towns and cities.</p> <p>The majority of our operations are in urban areas where the bus is the most effective means of tackling traffic congestion. We continue to develop and promote effective partnerships and we are working with local authorities and other stakeholders to provide punctual and reliable service for our customers through Punctuality Improvement Partnerships, bus priority and other traffic management schemes.</p>	<p>We are the UK's largest rail operator, running nearly a quarter of the passenger rail network and carrying over 275 million passengers a year.</p> <p>We have a strong, balanced portfolio and we are the only operator to run every type of overground rail service in the UK, from high speed intercity trains and overnight sleeper services to local branch lines, regional and commuter services and open access, light rail and freight operations.</p> <p>We operate four passenger rail franchises – First Capital Connect, First Great Western, First ScotRail and First TransPennine Express – and one open access operator, Hull Trains. We also operate rail freight services through First GBRf, and operate the Croydon Tramlink network on behalf of Transport for London carrying over 26 million passengers a year.</p>
KEY STATISTICS	<div><div>3m</div><div>passengers every day</div></div> <div><div>We operate more than one in five of all local bus services</div></div> <div><div>25,000</div><div>employees</div></div>	<div><div>275m</div><div>passengers a year</div></div> <div><div>We operate one quarter of the UK passenger rail network</div></div> <div><div>13,000</div><div>employees</div></div>
	FIND OUT MORE ON PAGE 10	FIND OUT MORE ON PAGE 14

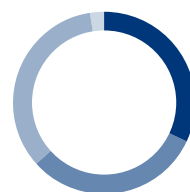
REVENUE



UK Bus £1,104.9m
UK Rail £1,937.0m
North America £1,370.3m¹
Greyhound £280.8m¹
Other £14.6m

¹ Includes a six month contribution from the Laidlaw acquisition

ADJUSTED OPERATING PROFIT²



UK Bus £122.0m
UK Rail £120.0m
North America £130.7m¹
Greyhound £8.8m¹

¹ Includes a six month contribution from the Laidlaw acquisition

² Excludes £21.4m of Group items

FIRST STUDENT



FIRST TRANSIT



FIRST SERVICES



GREYHOUND



NORTH AMERICA: We built on the success of our North American business with the acquisition of Laidlaw International, Inc. This transformational acquisition established us as the market leader in North America and gives us the scale and opportunities to generate increased value and returns and create a solid platform for future growth. The four FirstGroup America businesses – First Student, First Transit, First Services and Greyhound – operate across the US and Canada.

First Student is the largest provider of student transportation in North America with a fleet of approximately 60,000 yellow school buses, carrying 4 million students 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 city 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. We provide fleet maintenance for public sector customers such as the Federal Government, cities and fire and police departments. We also provide a range of support services including vehicle maintenance, logistics support and facilities management to public and private sector clients including the US Navy and US Air Force.

Greyhound is the only national provider of scheduled intercity coach transportation services in both the US and Canada. Based in Dallas, Greyhound provides scheduled passenger services to approximately 3,100 destinations throughout the US and Canada carrying over 25 million passengers annually.

60,000
yellow school buses

4m
students to and from
school every day

72,000
employees

operates over
7,000 buses

**Manages and operates
in over 262 locations**

13,000
employees

maintains over
51,000 vehicles

**Operates in
146 locations**

4,000
employees

3,100
destinations

25m
passengers
per year

10,000
employees

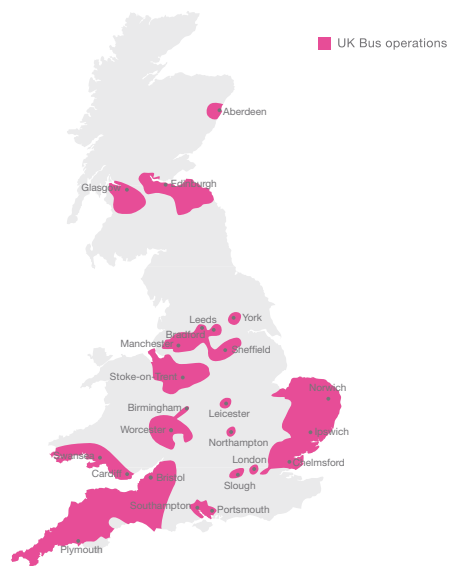
FIND OUT MORE ON PAGE 7

FIND OUT MORE ON PAGE 8

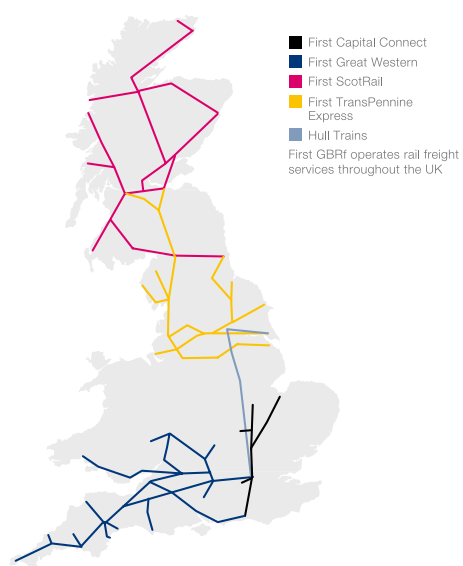
FIND OUT MORE ON PAGE 8

FIND OUT MORE ON PAGE 9

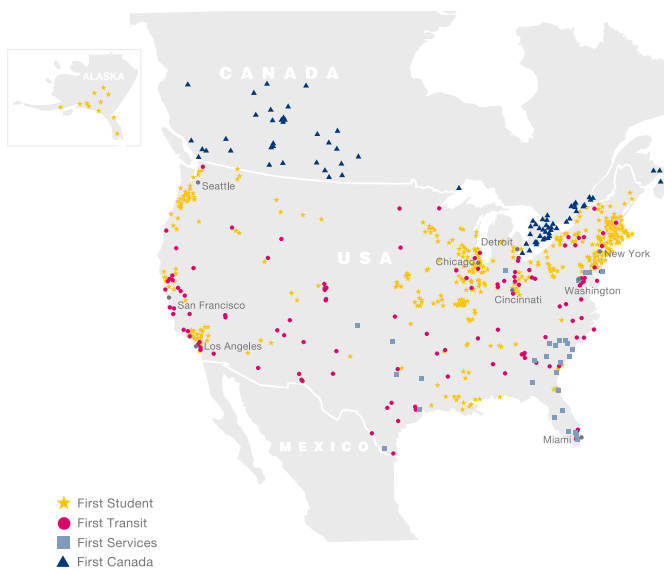
UK BUS



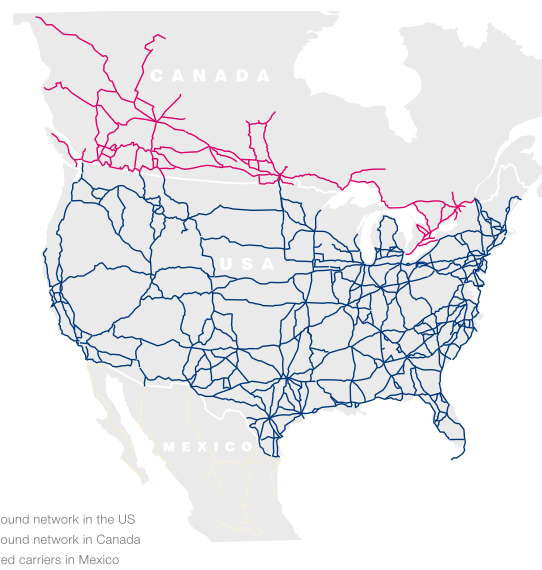
UK RAIL



NORTH AMERICA



GREYHOUND



Delivering our strategy

We are the leading transport operator in the UK and North America. Our strategy is to provide safe, reliable, innovative and sustainable services and to increase shareholder value through profitable growth in our core markets.

This has been a year of significant achievement for the Group. We established our position as the market leader in North America through our acquisition of Laidlaw. We lead the industry with our safety initiatives and continue to strive to find ways in which we can achieve the highest possible standards. We are focused on delivering safe, high quality and reliable services and have made significant investment in our people and our business to support this objective.

21.4%

increase in adjusted basic earnings per share to 40.9p

26.9%

increase in revenue to £4,707.6m

23%

reduction in Lost Time Injuries

38.9%

increase in adjusted operating profit to £360.1m

40.6%

increase in adjusted EBITDA to £560.8m

>90%

contract retention in First Student

	2008	2007
Revenue (£m)	4,707.6	3,708.8
Adjusted operating profit ¹ (£m)	360.1	259.2
Operating profit (£m)	267.5	203.6
Adjusted profit before taxation ¹ (£m)	249.0	195.8
Profit before taxation (£m)	151.9	140.2
Adjusted basic EPS ¹ (pence)	40.9	33.7
Basic EPS (pence)	27.7	23.1
Adjusted EBITDA ² (£m)	560.8	398.9
Adjusted EBITDA: interest cover ³	5.0x	6.3x
Net debt ⁴ (£m)	(2,161.0)	(516.2)

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

2 Adjusted operating profit plus depreciation

3 Adjusted EBITDA divided by the net of finance costs and investment income

4 Net debt is stated excluding accrued interest

I am delighted to report another successful year for the Group. Our strategy is to provide safe, high quality and reliable services and to deliver increased value for shareholders through profitable growth in our core markets.

This has been a very busy and exciting period for the Group. During the year we completed the \$3.5bn (including transaction costs) acquisition of Laidlaw International, Inc. In bringing together FirstGroup America and Laidlaw we have created a stronger, more robust business operating in a vast, highly fragmented marketplace with clear opportunities for growth. Our strategy is to create value through leveraging scale and to increase earnings through improved operating efficiencies and the delivery of substantial synergies. We have created a strong platform to significantly improve our offering to new and existing customers through the provision of a high quality operation, a greater range of services, operational and cost synergies and scale economies.

During the year we joined the FTSE 100 index in the UK. This significant achievement recognises the considerable strength of the Group, which has grown to become a market leader in the UK and North America in less than 20 years.

Across our business trading has been strong. Adjusted basic earnings per share increased by 21.4% to 40.9p (2007: 33.7p). The Board is recommending a final dividend, subject to approval by shareholders, of 11.55p making a full year payment of 17.05p, an increase of 10%. It will be paid on 22 August 2008 to shareholders on the register on 18 July 2008. The Board's commitment to increase dividends by at least 10% per annum is underpinned by our confidence of the Group's prospects.

The achievements of the Group are realised only by the dedication and hard work of our workforce made up of 137,000 employees. This has been a year of considerable change for the Group, particularly in North America as we integrate former Laidlaw businesses and employees into FirstGroup America operations. I would like to extend a warm welcome to those employees who joined the Company during the year. On behalf of the Board I would like to thank all of our staff across the Group for their continued commitment in delivering another successful year of trading.

I am delighted with the progress we have made in delivering our clear strategy for profitable growth in our core markets. We are well advanced with integrating the business we acquired in North America. In the UK we are focused on delivering a consistently high level of service to our customers and continue to invest in our employees and services to support this aim. Our strong portfolio of operations provides us with a unique opportunity to share best practice across the Group. We strive to lead the industry with our safety programmes and we continuously seek ways in which we can achieve the highest possible standards. We are committed to achieving world-class safety and customer service levels throughout all of our operations.

Looking ahead we are well placed to benefit from the many exciting opportunities for the Group. Our balanced portfolio of businesses continues to generate strong operating cash flows and good opportunities for future growth. Approximately 50% of Group revenues are secured under medium-term contracts. The Group's contracts with government agencies and other large organisations in the UK and North America represent a robust annual revenue stream worth £2.8bn. The Board is confident about the prospects for the business and the year ahead.



Martin Gilbert
Chairman



*Operating profit referred to throughout this document refers to operating profit before amortisation charges, non-recurring bid costs, other non-recurring items and profit/(loss) on disposal of properties.

Chief Executive's operating review

This has been a year of significant achievement with record performance across all of our businesses. Our balanced portfolio of operations continues to generate strong operating cash flows with good opportunities for future growth.

Overview

Safety

Safety is the cornerstone of our business. The provision of safe and secure services for our passengers and staff underpins everything we do. This year we made further progress to embed a culture of safety throughout the Group and rigorously apply a 'zero tolerance' stance on unsafe acts and practices. Our goal is to be known as the leader in our industry in this area. During the year we introduced a number of initiatives and policies, such as a Group-wide mobile phone ban while driving on company business, which we believe will contribute to a safer environment. One of our key priorities this year was to ensure the timely roll-out of best practice to our new North American operations. I am pleased to report that our Injury Prevention programme was implemented across the enlarged FirstGroup America business within one month of completing the acquisition, promoting proactive communication on safety issues and good safety practices. I am committed to supporting safety as the highest priority at every level in our organisation. During the year we continued to make good progress,

however, we are never complacent. This is a process of continuous improvement and we continually seek to find ways to improve our practices to provide the safest services for passengers and staff.

Results

I am delighted to report another year of record trading across the Group with results in line with our expectations. These results include, for the first time, a contribution from former Laidlaw businesses following our completion of the acquisition at the beginning of the second half of this trading year. Group revenue increased by 26.9% to £4,707.6m (2007: £3,708.8m). Adjusted operating profit rose to £360.1m (2007: £259.2m) an increase of 38.9%. The Group operating margin increased to 7.6% (2007: 7.0%). Profit before tax was £151.9m (2007: £140.2m). We achieved record adjusted EBITDA (adjusted operating profit plus depreciation) growth of 40.6% to £560.8m (2007: £398.9m). This continued strong performance enabled us to make targeted capital investment in the business and increase annual dividends by 10% for the fourth consecutive year.

North America

The Group is the leading provider of transportation services in North America. First Student is now the largest provider of student transportation with approximately 60,000 yellow school buses operating across the US and Canada. We also operate a transit contracting and management business, a vehicle fleet maintenance and support services division and Greyhound, the only national provider of intercity coach services in the US and Canada.

Results

We were delighted to receive the necessary regulatory approvals to enable us to complete our \$3.5bn (including transaction costs) acquisition of Laidlaw International, Inc. on 1 October 2007. This transformational acquisition establishes us as the market leader in North America and provides a stronger platform to develop in this attractive market.

Our entry to the FTSE 100 demonstrates the strength of the Group which has grown to become the market leader in the UK and North America in less than 20 years.



The key focus for our North American operations has been to ensure the timely and efficient integration of the new business into FirstGroup America's operations. This is a substantial task and I am pleased to report that we have made good progress in implementing our integration plans. Dean Finch has been seconded to North America as Chief Operating Officer and under his leadership we are well advanced with our plans to leverage value through our scale and continue to grow earnings through improved operating efficiencies and the extraction of substantial synergies.

This has been a period of significant change within our North American operations as we integrate two businesses and cultures. These results include a six month contribution from the enlarged North American business including the former Laidlaw operations. Both school bus and Greyhound businesses are highly seasonal. First Student generates a greater proportion of its revenue and earnings in the second half of the year and Greyhound has a bias towards the first half, with a greater proportion of its revenue and earnings achieved during the summer months.

Revenue from our four businesses of Student, Transit, Services and Greyhound was £1,651.1m or \$3,319.0m (2007: £802.9m or \$1,522.4m). Operating profit increased to £139.5m or \$280.3m (2007: £68.2m or \$130.5m) representing an increase of 115% at constant exchange rates.

Integration update

Since we acquired Laidlaw in October last year, we have worked hard to implement our integration plans. I am pleased to report that we have made excellent progress and have completed our initial key priorities. We have restructured the organisations to establish a single management board and one head office. A great deal of work has been done to harmonise financial, operational and safety systems and processes to ensure effective management and control of the enlarged business.

"I am pleased to report that we have made excellent progress and have completed our initial key priorities."

In addition to the consolidation of headquarters, which resulted in the closure of Laidlaw's corporate office, the former Laidlaw school bus and Transit head office locations have been closed and their operations fully integrated into FirstGroup America. We have secured new, larger office space in Cincinnati to accommodate the increased number of employees and achieve the benefits of operating Student, Transit and Services businesses from one location. New regional structures have been implemented for the enlarged Student and Transit businesses

which will enable us to deliver an efficient, consistent level of service and operational performance.

The first phase of our branch consolidation strategy is now complete. Where we have former Laidlaw sites within a close proximity to First Student locations we are, in some cases, able to consolidate the operations to deliver efficiencies, improve facilities and reduce property overheads. We believe there is further scope to consolidate branch operations and improve our offering to customers and we are focused on a medium-term strategy to deliver this goal. During the period we also progressed our plans to rationalise the spare bus fleet across the combined student business. Both First Student and Laidlaw carried an excess spare fleet, which by combining the businesses, we were able to reduce without impacting service quality. We are well advanced with our plans to reduce our fleet by 2,000 buses without an impact to service quality.

During the integration process a key priority is to ensure that none of our activities disrupt the operations of the business or negatively impact relationships with customers. We have carried out an extensive customer satisfaction survey engaging with over 1,500 customers, the output of which will continue to inform our strategy for service provision.

Research shows that using your phone while driving makes you four times more likely to have an accident. That's why we have banned all our staff from using hands free mobile phones when driving on company business.

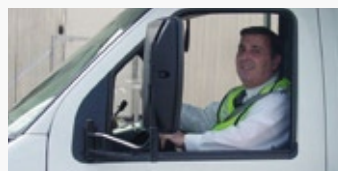


A key priority during the integration of our enlarged North American business is to maintain our high record of customer retention. First Student successfully retained over 90% of contracts that came up for bid during the year.



Spotlight on integration

This has been a busy and exciting time for the Group. During the year we completed the acquisition of Laidlaw International, Inc., which transformed our business and established the Group as the leading provider of transportation in North America.



Market context

The North America transportation market is vast and fragmented. More than 500,000 yellow school buses transport students to and from school every day across the US and Canada. In bringing together FirstGroup America and Laidlaw we have created a stronger, more robust business operating in a large, fragmented marketplace with clear opportunities for growth.

Integration

Since we acquired the business in October last year, we have worked hard to implement our integration plans. We have made excellent progress so far and have already completed our initial key priorities:

- 1 We have established a new, single management board and head office operation. Financial, operational and safety systems and processes have been harmonised to ensure effective management and control of the enlarged business.
- 2 The headquarters of the former Laidlaw operations have been closed and their operations fully integrated into FirstGroup America. New regional structures have also been implemented for the enlarged Student and Transit businesses to deliver an efficient, consistent level of service and operational performance.
- 3 We have completed the first phase of our branch consolidation strategy where some former Laidlaw sites, within a close proximity to First Student locations, have been consolidated into one operation to deliver efficiencies, improve facilities and reduce property overheads.

Strategy

Our strategy is to continue to provide safe, high quality services for customers; create value through leveraging scale and increase earnings through improved operating efficiencies and the delivery of substantial synergies. We have created a solid platform to make a compelling service offering to new and existing customers through a high quality operation, a greater range of services and products, operational and cost efficiencies and scale economies.

- 4 We have advanced our plans to roll-out best practice. A key priority is to ensure that all operations meet our high standards of safety and security. We appointed experts from both companies, together with industry specialists, to identify the best safety practices to be used by the combined business. Within one month of the acquisition closing we rolled out the First Safety Principles and Injury Prevention and distributed high-visibility vests to all operating locations.
- 5 With an annual third party expenditure of \$1.8bn, the combined business has a considerable opportunity to generate cost savings and benefits of scale from procurement synergies. We implemented a formal programme to analyse annual expenditure and identify areas with potential to achieve significant cost savings. To date we have targeted product and contract requirements for fuel, vehicles, parts and services and have completed supplier negotiations for the first phase of contracts.
- 6 During the integration process a key priority is to ensure that none of our integration activities could disrupt the operations of the business or negatively impact relationships with customers. We have carried out an extensive customer satisfaction survey engaging with over 1,500 customers, the output of which will continue to inform our strategy for service provision.



60,000
yellow
school buses



99,000
employees

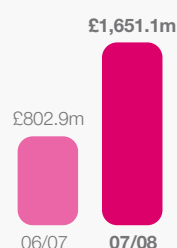
4 divisions:

- Student
- Transit
- Services
- Greyhound

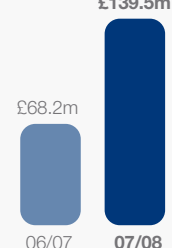
Synergies:

\$150m
per annum
from April
2009

Revenue*



Adjusted operating profit*



*Includes a six month contribution from the Laidlaw acquisition

We are well advanced with our plans to roll-out best practice across the business as part of our commitment to ensure that all of our operations meet our high standards of safety and security. We appointed experts from both companies together with external specialists to identify the best safety practices to be used by the combined business. Within one month of the acquisition closing we rolled out the First Safety Principles and Injury Prevention to all operating locations. A substantial re-branding programme, to bring former Laidlaw operations in step with the First brand, will be completed by July 2008.

Combining the businesses enables First Student to make a compelling offering to customers. Our scale enables us to develop systems and software to provide an enhanced level of service for customers and differentiate our business from our competitors. We have conducted a best practice review of both FirstGroup America and Laidlaw GPS-based operational systems and established a strategy to integrate the systems and to provide analytical and operational tools to improve our operations, deliver greater efficiencies and provide us with a competitive edge in offering additional services to our customers.

The combined business has an annual third party expenditure of \$1.8bn. This provides considerable opportunity to generate cost savings and benefits of scale from procurement synergies. We have implemented a formal programme to analyse annual expenditure and identify areas where there is potential to achieve significant improvements to existing purchasing activity. To date the team has targeted product and contract requirements for fuel, vehicles, parts and services and has completed supplier negotiations for the first phase of contracts. This is a substantial programme and will take some time to realise the full benefits. Further work is ongoing to ensure that we lever the strengths of the new company so that we can share the benefits with our customers and stakeholders.

“During the year we continued our strong retention record with First Student retaining over 90% of contracts that came up for renewal.”

I am very pleased with the progress so far and believe that we have successfully achieved all of our early priorities. We will continue to build on this excellent progress and momentum to ensure the successful integration of our enlarged North American business. We are delivering better than anticipated synergies

and expect to achieve synergies of \$150m per annum from April 2009.

First Student

We operate approximately 60,000 yellow school buses providing home to school transport on behalf of school boards and authorities across the US and Canada. Contracts are usually for between three and five years and I am pleased to report that during the year we continued our strong retention record with First Student retaining over 90% of contracts that came up for renewal.

During the year US Dollar revenue increased by 118.6% and operating profit by 127.5% and the operating margin increased to 11.3% (2007: 10.9%). Our focus is to deliver safe, high quality services and embed processes to tightly control the cost base and achieve productivity efficiencies. While progressing the roll-out of Zonar, GPS equipment that will deliver safety and efficiency improvements, we have also conducted a best practice review of First Student and former Laidlaw Education Services to establish a strategy for incorporating separate GPS-based operational systems into one solution. First Student now operates in 40 States in the US and nine Provinces in Canada and the scale of our business creates a significant opportunity to establish protocols and systems to enhance the safety, quality, efficiency and consistency of our services.

First Student's commitment to safety and security has led to the installation of Child Check-Mate, an electronic system that reminds drivers to check for sleeping children when their routes are complete.



Child Check-Mate, pioneered by and specially designed for First Student, is an electronic 'child reminder' system designed to ensure that no child is ever left unattended on a school bus and has been further rolled out during the year. Our scale makes it feasible for us to develop products to give us greater assurance that our services are as safe as they can be and that are attractive to existing and potential customers. We continue to invest in new vehicles to increase quality and reliability and support future growth. During the year we invested \$148m in 2,470 new yellow school buses.

As we anticipated, during the year we experienced some contract attrition and forced divestment, as a result of the Antitrust review process in the US, which represented 3% of the school bus fleet of the combined business. This was significantly less onerous than the assumptions made by us at the time of the acquisition announcement in February 2007.

We were pleased to continue our high business retention track record including contracts in California and Missouri and also to expand our services with new contract wins in New Mexico, Connecticut and Wisconsin. During the year we also completed four tuck-in acquisitions, adding over 550 revenue vehicles in New Jersey and Pennsylvania in the US and Manitoba and Ontario in Canada.

First Transit's strategy to grow through new contract wins, organic growth and acquisition progressed with record new business worth \$45m per annum and expansion of its paratransit business to Jacksonville, Florida and Tulsa, Oklahoma during the year.

First Transit

First Transit has delivered another successful year of growth with US Dollar revenue increased by 45.8% and operating profit by 75.3%. First Transit has successfully implemented a programme to substantially reduce costs and increase efficiencies across the business that has achieved consistent margin improvement. During the year this progress continued with further margin increase achieved and the business is well placed to deliver further profitable growth.

The first phase of the integration of former Laidlaw Transit Services (LTS) businesses into First Transit operations has been successfully completed. The former head office of LTS in Kansas has been closed, along with residual offices in Illinois and California, and their operations integrated with First Transit in Cincinnati.

"We successfully retained our focus on growing our share of the transit market with record new business worth \$45m per annum won."

I am pleased to report that during the year, while integrating the businesses, we successfully retained our focus on growing our share of the transit market with record new business worth \$45m per annum won. During the period a significant fixed route transit contract was won in Arizona with further transit

management and contracting business won in Maryland, Massachusetts, North Carolina and Wisconsin. We continued to grow our share of the paratransit market with new contracts gained in Florida and Oklahoma. Our acquisition of Cognisa last year significantly enhanced our profile in the attractive shuttle bus market. This year we continued to build on our position as the market leader in private shuttle bus services in the US by expanding our business to Alabama, Texas, Georgia and renewing a significant airport shuttle contract in Maryland.

First Services

First Services revenue grew by 8.8% during the year and continued to achieve recognition for its best practice approach to operations and service. Our vehicle fleet maintenance business continued to win new contracts for municipal customers in Louisiana, Indiana, Oklahoma, Georgia, California and Illinois. I am pleased to report that 36 First Vehicle Services locations were listed in the "Top 100 Fleet in America" in Government Fleet magazine. Our Mobile Technologies business also won new contracts to provide and fit specialist mobile communications equipment for police force agencies in Kansas, New Jersey, California and Virginia. First Support Services, which operates in the large Federal market, won new business with the US Navy in Louisiana and also with the US Air Force at their base in Spain and additional add-on services to the contract at Diego Garcia.

↑ FURTHER EXPANSION
← NEW CONTRACTS



Greyhound

Greyhound is the only national provider of scheduled intercity coach transportation services in the US and Canada. Greyhound provides scheduled passenger services to approximately 3,100 destinations throughout the US and Canada carrying approximately 25 million passengers annually.

Greyhound revenue, for the six months since acquisition, was £280.8m or \$565.8m. The business is highly seasonal with a bias towards the first half of our financial year as a greater proportion of its revenue and earnings are achieved during the summer months. When we acquired the business in October 2007 revenue trends had been weakening. Since then actions we have taken have stabilised the business and I am pleased to report that during the last three months of the financial year we delivered year on year revenue growth.

Since the acquisition we have conducted a strategic review of Greyhound to identify opportunities to develop the business and establish practices that will underpin its future success. Substantial value exists in

Greyhound's extensive property portfolio and we believe that the business is ripe for modernisation. Greyhound operates with a high cost model, inconsistent operating performance and has an under-developed revenue base. The strategic review coupled with the results of initiatives we have already implemented give us confidence that there is a significant opportunity to increase value and generate further profitable growth from Greyhound.

We have completed a substantial amount of work to identify and target cost reductions and are already well underway with our plans. Since completing the acquisition we have consolidated Greyhound's head office in Dallas from two separate properties to one single location and have relocated its call centre. Other initiatives implemented such as a comprehensive review of ticket agents commission rates and arrangements, the consolidation of back office functions of subsidiary brands and bringing in-house some functions such as vehicle cleaning have already achieved significant cost savings.

There is a substantial opportunity to stimulate revenue growth at Greyhound and we are encouraged by the response to some of the initiatives we have already introduced. Earlier this year we launched a new product called BoltBus within Greyhound. Operating a 'curbside' service on routes to and from New York and Washington DC, Philadelphia and Boston, it is already proving highly successful. We have invested in 33 new vehicles to offer a high quality product with leather seats, extra leg-room, free Wi-Fi and power outlets. We are encouraged by advance booking trends which show that new passengers are being attracted with yield-managed fares, a loyalty programme and an online internet reservations system.

We have also made a number of small changes to our service offering, which have proved successful, such as the priority seating programme which enables Greyhound customers to pre-select their seats on the bus for a \$5 fee in advance of the journey. This has proved to be successful and as a result has been expanded to cover more than 70% of Greyhound's major locations. Similarly, we have introduced an 'excess baggage' charge limiting the number of free 'checked' bags that customers can store on the vehicle.

BoltBus the new non-stop services between New York and Washington DC, Philadelphia and Boston are already a big success. Providing exceptional service, luxury and convenience with fares as low as \$1 for tickets purchased in advance.



Prior to our acquisition, Greyhound had adopted a national pricing strategy. We have carried out a review of pricing and ticketing activity and identified a significant opportunity to maximise yield management and increase the range of online products offered. We have already implemented a number of changes to the ticketing structure and enhanced our web-based partnerships to encourage advance and online purchases. A wider range of products has been introduced enabling us to offer discounted fares to customers and appropriately priced tickets during peak times and holidays.

Our cross-border operations between the US and Mexico have benefited from a restructuring of the organisation to provide greater frequencies and through-services for customers. The service has been refocused and the brand developed allowing us to compete more effectively in this market with a service that is more attractive to the customer base.

We are encouraged by the potential to develop Greyhound. The strategic review gives us confidence that there are clear opportunities to reduce costs, stimulate sustained revenue and volume growth and generate further strong operating cash flows. We have a separate team focusing on the opportunities at Greyhound, in order to prevent any distraction from achieving our objectives for the Student and Transit businesses, and will continue to focus on maximising value for our shareholders.

UK Bus

The Group is the largest bus operator in the UK with a fleet of nearly 9,000 buses and a market share of approximately 23%. We carry approximately three million passengers every day.

Results

Our UK Bus division continues to deliver a strong trading performance. Revenue increased to £1,104.9m (2007: £1,073.7m) as a result of revenue and passenger growth initiatives and increased journeys including concessions and pricing. Operating profit rose by 18.4% to £122.0m (2007: £103.0m). I am pleased to report that we made further progress in delivering our margin enhancement programme which achieved an increase of 1.4% in the operating margin.

Increased operating profit and margins are a result of our continued focus on service quality, operational performance, delivering more efficient working practices and the success of our turnaround strategy in our regional bus operations. We continue to bear down on controllable costs in the face of expected headwinds this year, principally increased fuel costs.

We continue to target higher levels of fleet presentation and invested £71m in new vehicles to support passenger growth and partnership opportunities in Bradford, Bristol, Glasgow, Leeds, Manchester and South Yorkshire. We will continue to target our

investment in towns and cities with potential for passenger growth. Investment in new vehicles, together with initiatives to further improve our maintenance and engineering functions, has delivered lower lost mileage and improved levels of punctuality and reliability.

Partnerships

We believe that effective voluntary quality partnerships between bus operators and local authorities offer the best way of delivering high quality bus services in support of the Government's objectives of tackling climate change and congestion in our towns and cities by increasing bus patronage. We continue to see strong passenger growth in many of our operating companies in metropolitan, urban and rural locations where we have forged successful partnerships to deliver improved services.

Our pioneering Route Development Plan (RDP) in Greater Glasgow was backed by the introduction of 62 new double deck vehicles to deliver additional capacity and has resulted in strong passenger growth. Customer and stakeholder reaction has been very positive with the views and support we received for changes to the bus network leading to improvements in access to hospitals, colleges and shopping areas across the city and the launch of Strathclyde's first ever Park & Ride facility. This year's RDP will focus on the new travel patterns to work, health, leisure or shopping and aims to get people out of their cars and on to public transport.

FirstGroup were among the international organisations to sign up to the European Road Safety Charter creating a taskforce to share best practice to improve road safety across the European Union.



This year we announced our biggest ever investment in new buses. Over £100m will be invested in new vehicles for 2008/09. An industry record that will see more than 700 new buses take to our roads.



In July 2007 we announced the introduction of 200 new buses for Greater Manchester to increase capacity at peak times by 25%. The investment also demonstrates our commitment to a package of measures developed by the Greater Manchester Bus Operators' Association to deliver a series of significant improvements to the bus networks and service provision. The proposals will deliver a truly integrated and improved public transport network in the region and are designed to support Greater Manchester's Transport Innovation Fund bid and preparation for the possible introduction of congestion charging.

We are pleased to achieve encouraging passenger growth in Doncaster. Our Overground concept of 'turn up and go' services continues to deliver benefits for customers. In addition, the completion of the Frenchgate Centre, with its integral Transport Interchange, has made the town a more attractive retail destination. This has led to further investment and redevelopment in the town centre and we have improved Sunday frequencies as shopping and other leisure activities continue to increase. We are also pleased with the performance of our dedicated services to the refurbished racecourse and stadium that are proving highly successful. The development of Robin Hood Airport is also having a positive impact on bus patronage.

"We believe that effective voluntary quality partnerships between bus operators and local authorities offer the best way of delivering high quality bus services."

The Sheffield Bus Agreement, our comprehensive Voluntary Quality Partnership with Sheffield City Council and South Yorkshire Passenger Transport Authority, celebrated its first anniversary at the end of April 2008. Passenger growth has been achieved by joint marketing campaigns, agreed network improvements, infrastructure changes and new camera enforcement of bus priority measures. The service between Sheffield, Rotherham and Doncaster has benefited from the partnership and a fleet of new vehicles has helped deliver passenger growth of 16%. The first English Statutory Quality Partnership was introduced on Barnsley Road in North Sheffield in November delivering higher standards on this corridor.

We continue to work in partnership with local authorities to deliver the Greater Bristol bus network. Patronage on the first 'Showcase' route has increased by 12% and, in December 2007, we were pleased to launch 'Showcase 2', with Bristol City Council and South Gloucestershire Council. The first

four months of 'Showcase 2' has seen encouraging results with 5% passenger growth on the corridor. We expect this to continue when all of the benefits of the initiative are fully realised.

We also worked with Somerset County Council on the development of the service linking Taunton and Yeovil that has resulted in passenger growth of 9% on the corridor. Somerset County Council has invested over £1m in bus services in and around the Taunton area to substantially improve the overall offering to customers in the town.

In December 2007 we signed a landmark agreement with Norfolk County Council and Norwich City Council to deliver improved bus services through a 'Joint Investment Plan' which includes a range of measures to improve reliability, increase frequencies for some city services and provide more low floor buses to boost accessibility. We are providing new vehicles for our flagship Excel service linking Lowestoft, Great Yarmouth, Norwich, King's Lynn and Peterborough and doubling frequencies on a core section to meet growing passenger demand.

In South Yorkshire we worked with the Passenger Transport Executive to improve our Sheffield to Doncaster service. Our £3m new bus investment and a joint marketing campaign delivered passenger growth of 16% on the route.



We launched a new network in Plymouth in April 2008. The changes are as a result of a year long exercise talking to customers, local stakeholders and user groups as well as an analysis of customer travel patterns across the city. The 'ugobus' branded network has started well and shows encouraging signs of growing passenger numbers. During the year, in partnership with Plymouth City Council, we celebrated the first anniversary of the upgraded Park & Ride services. The investment in nine leather seated double deck vehicles and a joint marketing campaign has delivered passenger growth of 25%.

London and other major contracts

In London we are pleased with new contract wins that reflect our focus on improving performance and operational efficiencies. We are pleased with the performance of our operations in East London in the Transport for London (TfL) league tables. However, our West London operations have been adversely affected by continuing work to upgrade London's utilities and infrastructure. We continue to work with TfL to prepare for Crossrail and other major infrastructure projects including the Olympic and Paralympic Games. We were pleased to gain planning approval for our new Hackney depot last year and are currently relocating our operations in phases to maintain good operating performance. During the year we also closed our Acton depot and migrated services into our newly developed Hayes site.

We are pleased with the renewal of contracts for Dublin Airport car parks and the York Park & Ride schemes.

New services

We continue to develop new services and products to enhance our offering to passengers. Our ftr services in York and Leeds continue to deliver good passenger growth. Since the launch of the full ftr service in Leeds we have seen passenger growth of 15% and customer satisfaction scores on both routes remain high. We are delighted that the vehicles are being used to provide an improved customer experience, higher capacity and greater frequency on the shuttle service for First Capital Connect customers arriving at Luton Airport Parkway station and the airport. We continue to develop plans for an ftr scheme in Swansea and are in discussion with local authorities in Glasgow and Manchester to introduce this high quality, tram-like vehicle to additional cities across the UK. York Aircoach, our frequent, express, direct coach service between York rail station and Leeds Bradford International Airport continues to deliver passenger growth.

Performance

We are working with our local authority partners to improve punctuality and reliability, reduce journey times and minimise the impact of highway improvement and infrastructure works. We believe that working together we can increase patronage by offering punctual and reliable services to our customers. We continue to progress Punctuality Improvement Partnerships with local authorities in our operating areas and, together with our continued management focus on operational performance, we are pleased to report an increase in the number of bus services meeting the standards we set on punctuality and reliability.

Working with Government

We continue to work with the Department for Transport and interested Parliamentarians as the Local Transport Bill progresses through the House of Commons. We support the Government's objective of increasing bus patronage through more effective voluntary quality partnerships and we welcome changes to competition law that will enable bus operators and local authorities to work together on integrated timetabling and other initiatives that can benefit bus passengers.

We welcomed the expansion of the national concessionary scheme for England in April 2008 that gives additional benefits to old aged and disabled people across England. We will respond to the Department for Transport's consultation on the options for reform of local bus service support and welcome moves to lessen the administrative burden of existing mechanisms.

In July 2007 we announced the launch of the Yellow School Bus Commission, chaired by the Rt. Hon. David Blunkett MP, to examine the issue of home to school transport. During the year the Commission visited many yellow school bus schemes across the UK and in the US and received evidence from students, teachers, parents and other interested parties. The Commission is expected to publish its report in the summer.

Our entire UK Bus fleet now uses a 5% biodiesel mix. We are auditing our suppliers to ensure that fuel is derived from genuinely sustainable sources.



Spotlight on investment

This has been a busy year for the company and in every division we have invested for growth and to improve our offering to our customers.



Market context

We invest millions of pounds every year to deliver on our core values of safety and customer service. We are the market leader in safe, reliable, innovative, sustainable transport services. We continue to invest in new vehicles, in our facilities, in technology and in our people to meet the expectations of our customers, stakeholders and employees. Our programme of investment is key to our strategy of sustainable, profitable growth in our core markets.

Investment in UK Rail

We invested £130m in our UK Rail division in the year to improve our train fleet, to deliver customer service improvements and to make travelling by rail safer and more secure for our customers and our employees.

- 1 During the year we finished the complete interior refresh and engine overhaul of First Great Western's High Speed Train fleet and started a programme of improvements to the West Country regional train fleet.
- 2 At First Capital Connect we continued with our work to improve reliability and to refresh the interiors of trains operating on both the Thameslink and Great Northern routes.
- 3 We completed our investment programme in First ScotRail's Sleeper and Class 318 fleet and, working with Transport Scotland, we are refreshing the interiors of our Class 156 and Class 158 trains to improve the customer experience.
- 4 We expanded our First TransPennine Express fleet as we began operating services between Manchester Airport and Glasgow and Edinburgh.
- 5 We continue to invest in stations across our four rail franchises to improve facilities, enhance the environment and install additional safety and security measures.

Investment in UK Bus

In UK Bus we invested £71m in new vehicles to support passenger growth initiatives and to improve accessibility for customers and environmental performance.

- 1 New buses have been introduced in many of the major towns and cities where we operate and we are pleased that this year we have seen an increase in bus patronage.
- 2 In February we announced investment of over £100m in more than 700 new vehicles for next year. This is our largest new bus order and the biggest order in the history of the bus industry.
- 3 Our investment in our ftr service in York and Leeds has increased passenger numbers and improved our performance in customer satisfaction surveys.

Investment in North America

Following our acquisition of Laidlaw we are the leader in the North American transport market. We have created a strong platform to make a compelling offering to new and existing customers through the provision of a high quality, safe operation and a greater range of services.

- 1 We invested \$148m in 2,470 new yellow school buses to meet our customers' requirements and continued to roll-out Child Check-Mate, an electronic 'child reminder' system designed for First Student that ensures that all children have safely disembarked the bus upon the completion of each run.
- 2 We have invested in 33 new, high quality vehicles for our new BoltBus services between New York and Washington DC, Boston and Philadelphia. BoltBus offers on-board amenities such as extra leg room, free Wi-Fi and power outlets.
- 3 We are investing in over 13,000 new school buses for our First Student business over the next three years. This investment demonstrates our commitment to high standards of safety and quality and will ensure that our fleet is environmentally and technologically advanced.



£71m

New vehicle investment in UK Bus in 2007/08



£130m

Investment in our UK Rail franchises in 2007/08



\$148m

Investment in new yellow school buses in 2007/08

UK Rail

The 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. We also operate Hull Trains, a non-franchised open access intercity passenger train operator, and we provide rail freight services through First GBRf. We are the UK's largest rail operator carrying approximately 275 million passengers per annum.

Results

Our UK Rail division continues to deliver growth as demand for our services, and the appetite for rail travel, continues to be strong. We are committed to the long-term development of railways in the UK and are investing to deliver improved services for passengers. We are the only operator to run every type of overground rail service in the UK, from high speed intercity trains and overnight sleepers to local branch lines, regional and commuter services and open access, light rail and freight operations. We continue to target investment to deliver customer service and innovation improvements and increased capacity.

Revenue in the UK Rail division increased by 6.2% to £1,937.0m (2007: £1,824.1m) and operating profit increased by 10.3% to £120.0m (2007: £108.8m) reflecting strong volume growth across all of our rail operations together with new services and additional capacity introduced during the year.

First Great Western

We are working hard to improve performance and customer service at First Great Western which has fallen short of our own standards and the expectations of our passengers. We have committed to provide £29m, as part of a remedial action plan agreed with the Department for Transport, to implement a substantial package of passenger benefits to improve punctuality, improve customer service and reduce overcrowding. We are recruiting more drivers, guards and technicians to improve the reliability of train services; upgrading Customer Information Systems at stations across the network; hiring more trains to increase seating capacity on some of our busiest services, including the key Cardiff-Portsmouth route; implementing an enhanced training programme for all customer facing staff; and the London and Thames Valley regional fleet of Turbo trains will now receive a much more comprehensive interior refresh to improve the on-train environment for passengers.

A number of new appointments have been made to strengthen the management team at First Great Western. Our customer service function is now based at London Paddington – our busiest station – and we have a new, dedicated Performance Director and team. Brand new route directors have also been recruited for intercity, London and Thames Valley and the West Country to concentrate on improving performance in a geographically diverse franchise.

We continue to focus on improving First Great Western's performance and delivering consistent levels of customer service. We are encouraged by significantly reduced delays and cancellations in recent months and are pleased to report that punctuality and reliability are showing signs of improvement. However there is still much more work to be done and our management team are committed to ensuring that recent reductions in delays and cancellations continue so that performance improvements are sustained in the long term.

Last December we introduced a new timetable, which has improved punctuality and increased seating capacity on the busiest parts of our network. This year we also completed a substantial programme of refurbishment of our High Speed Train (HST) fleet, started significant work to improve our fleet of West Country regional trains and progressed with our £40m station improvement plan.

As part of the £200m investment pledged in our franchise plans, our entire HST fleet has now been completely overhauled with bright, comfortable interiors and more seats in 405 carriages and new more reliable, environmentally friendly engines in 117 power cars. The new engines have improved operating performance, doubled reliability, cut carbon emissions by 64% and smoke emissions by 42%. This programme was recognised in the prestigious annual HSBC Rail Business Awards, winning the Rolling Stock Excellence and Engineering Excellence awards.



The refresh of our West Country regional train fleet is well underway with 15 refurbished trains now in service. Due for completion early in 2009, this programme is providing a more comfortable and cleaner on-board environment for passengers and includes a range of technical improvements to make the trains more reliable.

We have progressed our station improvement programme, over the past year, refurbishing facilities in the Thames Valley, Oxfordshire, Gloucestershire and the South West. We have also increased car parking at Tiverton Parkway and Kemble stations and completed the installation of more than 120 additional ticket vending machines at stations across the network. Our franchise commitment to improve safety and security at our stations by rolling out Secure Station status is being met with 108 stations accredited by the end of March 2008.

Throughout the year we have worked closely with Network Rail to tackle the significant railway infrastructure challenges. A number of initiatives have been designed to improve performance including the upgrade of the Reading to London relief line to 90mph. Due to be completed this summer the upgrade will create greater capacity, reliability and improved journey times for passengers in the Thames Valley.

First Capital Connect

In April 2008 First Capital Connect celebrated its second anniversary and the franchise goes from strength to strength. Our commitment to exceeding our challenging performance targets to provide customers with a punctual and reliable service is delivering results. First Capital Connect's PPM, the recognised industry performance measure, is over 90% with peak performance on the Bedford to London section of the Thameslink route seeing the most significant improvement.

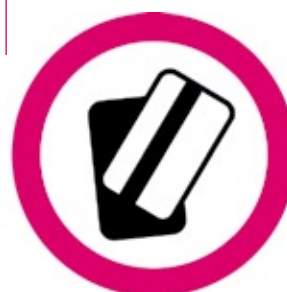
However, we recognise the challenge faced by First Capital Connect in addressing overcrowding on the network and we are working with our industry partners to ensure that additional capacity is provided for our customers on both routes. Since the start of the franchise First Capital Connect has secured five additional Class 319 units to strengthen services and a further eight units will be transferred to the company in December 2008. This will allow us to strengthen more trains from a four car to eight car operation and to increase further capacity for Thameslink route customers.

We are actively working with the Department for Transport to implement the Thameslink Programme, which will provide the longer-term solution to easing overcrowding through greatly increased capacity. The first phase of works is due to commence in March 2009 and platform lengthening work has already begun at stations along the Thameslink route.

We have received approval for the Cambridge & Peterborough Capacity Study, which will enable us to run additional trains on the Great Northern route. The study recommended measures to reduce overcrowding including the introduction of a new timetable to match supply of trains to customer needs, to lengthen platforms and upgrade power supply to accommodate longer trains and more frequent services.

There will be two additional trains in the morning peak and five additional trains in the evening peak with some trains strengthened from eight to 12-car operation. The Cambridge & Peterborough Capacity study will deliver 1,779 extra seats in the morning peak and 2,490 in evening peak – a 15% increase in seats.

First Capital Connect is progressing its commitment to improve security and protect revenue. So far 13 stations have been fitted with automatic ticket gates with a further two to go live by summer 2008.



We have now invested more than £44m in First Capital Connect's stations and trains since the start of the franchise. Customer service is at the centre of these decisions which has already provided refurbished toilets, waiting rooms and shelters as well as introducing additional help points, new CCTV cameras, ticket vending machines and Customer Information Systems.

First Capital Connect relocated from King's Cross Thameslink station to St Pancras International station on 9 December 2007. The new station is one of the largest transport hubs in Europe with links to Eurostar, long distance rail and six London Underground lines. The new station complies with the Disability Discrimination Act with spacious platforms accessible by escalator and lifts.

We continue to introduce improvements in safety and security at stations and on trains which, together with our partnership with the British Transport Police, has delivered a 44% reduction in anti-social behaviour and a 15% reduction in crime. We continue to invest in the provision of five British Transport Police Officers and 24 Police Community Support Officers for the network.

We have introduced automatic ticket gates at 13 stations across the network and since the start of the franchise achieved Secure Station status at 47 stations. We have also recently achieved ParkMark accreditation at more stations with 26 station car parks now accredited.

First ScotRail

We are delighted that the Scottish Government has extended our successful First ScotRail franchise for a further three years to November 2014. The franchise extension agreement creates an investment fund of more than £70m, for control by Transport Scotland, to further improve Scotland's railway. The fund can be used for additional train services, to improve journey times, connections and quality of services which will bring direct passenger benefits.

“We are delighted that the Scottish Government has extended our successful First ScotRail franchise for a further three years.”

Performance continues to improve with a record PPM for First ScotRail of 93.8% in March 2008. Since we commenced operation of the franchise in October 2004 we have reduced the delays, for which we are responsible, by 50% compared with a commitment of 2% per annum.

The number of passengers using First ScotRail services has grown by 19% since the start of the franchise as a result of our good performance and award winning marketing campaigns. We expect passenger numbers to continue to rise with the opening of the Stirling-Alloa line on 19 May 2008. The new

line connects Clackmannanshire to the passenger rail network for the first time in 40 years with an hourly service linking Alloa to Glasgow. We are procuring, for Transport Scotland, a fleet of new electric trains to increase capacity on our Ayrshire routes as well as providing for the new Airdrie-Bathgate services and the Glasgow Airport Rail Link.

In May 2008 First ScotRail began operating additional morning and evening peak express services between Edinburgh and Glasgow and a summer only service on the Inverness to Kyle of Lochalsh line. We expect to introduce a new timetable in December 2008 with the recast of our Edinburgh-Fife-Aberdeen services to offer greater capacity and shorter journey times.

Since the start of the franchise we have invested more than £25m in Scotland's railways and this year completed our refurbishment of the Sleeper and Class 318 units. Our Class 156 units have also been refurbished, with Transport Scotland funding, and a programme of interior improvements for the Class 158 units is now underway.

We are delighted that First ScotRail will be operating Scotland's railway during the Commonwealth Games in Scotland in 2014 and look forward to being able to contribute to the success of this prestigious event.

First ScotRail's franchise was extended for a further three years until 2014. The agreement with Transport Scotland creates an investment fund of more than £70m for a comprehensive package of enhancements.



First TransPennine Express

Our First TransPennine Express franchise continues to deliver excellent results with passenger growth of over 11% and improved operating performance with PPM at nearly 92% over the year.

In the recent National Passenger Survey overall customer satisfaction with First TransPennine Express was 86%, an improvement of 12% since the start of the franchise in February 2004. The survey also highlighted improved satisfaction with stations reflecting our investment of more than £12m in improving the environment of the 30 stations we manage across the North.

In December 2007 we successfully launched new services from Manchester Airport to Glasgow and Edinburgh. The new services are fully integrated into our existing North West routes with additional drivers, conductors and managers at key locations to ensure efficient operation. We are marketing the new journey opportunities to and from Scotland with a range of promotional offers and are pleased with the response from our customers and stakeholders. The new services will contribute an additional £10m of revenue per annum.

First TransPennine Express was short-listed for four categories at the prestigious HSBC Rail Business Awards and won the award for 'Station of the Year' for its contribution to Hull Paragon Transport Interchange. The accolade recognised the recent £18m redevelopment of the station which brought train, bus and coach services together.

We were also highly commended in the 'Train Operating Company of the Year' category and, in partnership with Siemens Transportation Systems, in the 'Environmental Innovation of the Year' category for reducing the fuel consumption of our Class 185 units by 7% per kilometre.

We are pleased to support Liverpool as this year's European Capital of Culture with its music, arts, sport and maritime heritage.

First GBRf

First GBRf had another successful year of growth including an increase in services for Royal Mail, three new coal contracts and investment in fleet expansion with the purchase of 90 coal hoppers and five new locomotives.

First GBRf has increased mail services between Royal Mail's London and Glasgow depots from two to five journeys a day and has also increased its share of the UK coal market with new contracts with British Energy, Alcan and Drax Power taking our proportion of the coal freight market to 12% in under two years.

Hull Trains

I am pleased with the performance of our open access operator Hull Trains which continues to achieve passenger volume growth. This year we carried nearly 700,000 passengers, compared to 80,000 in our first year of operation. We introduced two Class 180 Adelante trains into service in April 2008 alongside our fleet of three Class 222 Pioneer trains, which will add capacity to the route.

We worked closely with First TransPennine Express to ensure that Hull's new Paragon Transport Interchange suited the needs of the modern passenger. The redevelopment provides passengers with an increased level of comfort and additional facilities.

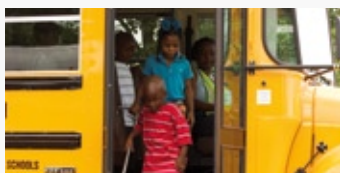
We introduced a new, significantly reduced evening single fare to provide customers with a new value alternative and to reduce overcrowding on peak services. We also formed a partnership with Eurostar to connect Hull Trains customers with Eurostar's new services from St Pancras International. The partnership means that travellers can book through-fares from Hull, Selby, Doncaster, Retford and Grantham to the continent, allowing travel by rail to be as quick, easy and seamless as possible.

In December 2007 we expanded the reach of our First TransPennine Express network with the introduction of new services from Manchester Airport to Glasgow and Edinburgh.



Spotlight on safety

As the leading transport provider more than 2.5 billion passengers travel on our services across the UK and North America every year. The safety of our passengers and staff is our highest priority, that's why safety is the cornerstone of our business and underpins everything that we do.



Embedding safety across our business

We rigorously apply a 'zero tolerance' approach to unsafe acts and practices. Injury Prevention, our industry-leading initiative, is embedded across our entire Group with the clear aim of engaging all employees in safety. Our safety principles are clear and simple: **'If you cannot do it safely, don't do it'**.

All our staff worldwide carry the Injury Prevention handbook containing the First Safety Principles and specific safety information. The handbook also contains a 'safety contact' section that staff are required to use to report any safety or security concerns. To encourage further awareness across the Group we are introducing additional training in personal risk assessment and safety planning and enhancing the 'safety contact' process.

Continual improvement

We continually seek to find ways to improve our services and working practices to ensure they are the safest they can be. We have made good progress with further safety initiatives and achievements during the year including:

- 1 The launch of a new Group-wide mobile phone policy prohibiting the use of 'hands free' mobile phones whilst driving on company business. Supported by a comprehensive internal communications campaign, the aim of this policy is to ensure the safety of our employees and promote a greater awareness of safe behaviour.
- 2 One of our key priorities this year was to ensure the timely and effective roll-out of Injury Prevention to our new North American operations. Within one month of completing the acquisition of Laidlaw, we introduced Injury Prevention to all of our new operating locations and employees.

- 3 Our signing of the European Road Safety Charter, along with other international organisations, creates a taskforce to share best practice and help improve road safety across Europe.
- 4 The Smith System Defensive Driving programme has been rolled out to our UK Bus division. This training, which focuses on the 'five keys' of safe driving, has already proved highly effective in our North American business. By June 2008 all of our bus drivers in the UK will have completed Smith System training.
- 5 Train simulators are now in use across all of our rail franchises to ensure the highest possible training and safety standards for our drivers. Designed to complement training in a real cab they recreate real life situations and difficult scenarios that might not otherwise be experienced. This year we introduced two new simulators to First Capital Connect providing new and experienced drivers with excellent ongoing training.

More detailed information on our safety initiatives, activities and targets can be found in our separate Corporate Social Responsibility Report available online at www.firstgroup.com

Lost Time Injuries:
reduced by
23% this year

During the year Lost Time Injuries (over one day)
per 1,000 employees per year were 15.8 (2007: 20.5)

Injury Prevention

If you cannot do it safely, don't do it

**Injury Prevention rolled out
to 137,000 employees**

Europe

While North America continues to be our primary focus for growth and international development, during the year we continued our strategy to explore opportunities in new markets. We were pleased to be awarded, with our partner DSB, the Øresund rail franchise to provide coastal and Copenhagen Airport links in Denmark and Sweden. The new franchise commences operation in January 2009 and will run until 2017.

Group outlook

This has been a year of significant achievement with record performance across all of our businesses, demonstrating the strength of the Group and a focus on our strategy to achieve profitable growth in our core markets. Our balanced portfolio of operations continues to generate strong operating cash flows with good opportunities for future growth. The Board is confident of the future prospects for the Group and has committed to dividend growth of 10% per annum for the fourth consecutive year. Looking ahead we continue to bear down on controllable costs and to seek further efficiencies across the business in the face of expected headwinds, most notably fuel cost increases. Despite the weaker economic backdrop the Group is well positioned with a balanced portfolio of operations and approximately 50% of the Group's revenues secured under medium-term contracts in the UK and North America. Although it is early in the new financial year, the Group continues to trade well and the outlook remains positive.

Corporate Social Responsibility

We view Corporate Social Responsibility (CSR) as integral to our strategy to deliver sustainable growth. Our CSR strategy is linked to our vision to Transform Travel. We seek to achieve this by being the leader in providing transport services that are safe, customer focused, innovative and sustainable.

We take seriously our responsibility as the leading provider of transportation in the UK and North America. Public transport services play a key role in supporting the economy. Within the UK our businesses make a significant contribution to Gross Domestic Product and our activities generate substantial indirect and wider economic benefits. Our customers complete over one billion bus journeys and 275 million rail journeys each year. We recognise that our business activities take us in to the heart of local communities. Our services provide a vital link for people and we want to contribute to the communities we serve by providing safe, high quality and reliable services that will encourage greater use of public transport and of which our employees can be proud.

We are pleased to be included in the FTSE4Good, the Dow Jones Sustainability and the Business in the Community Corporate Responsibility Indices.

“We want to contribute to the communities we serve by providing safe, high quality and reliable services that will encourage greater use of public transport and of which our employees can be proud.”

The focus on CSR has grown in recent years with shareholders and other stakeholders showing an increasing interest in the non-financial aspects of our Group's performance. We also publish a Corporate Social Responsibility Report which can be found on our website www.firstgroup.com together with more detailed information on our activities, objectives and how we have performed against our targets.

Building on our renowned workplace learning programme we signed the UK Government's 'Skills Pledge', a voluntary, public commitment by companies to support their employees in developing basic skills including literacy and numeracy.



Skills Pledge



Our CSR report is structured around the five key areas which are central to our business and to our strategy:

- 1 Managing the safety and security of our staff and customers
- 2 Delivering high quality customer service
- 3 Recognising the value of our employees
- 4 Minimising the impact of our operations on the environment
- 5 Engaging with the community.

Safety

Safety is our highest priority. We believe that Injury Prevention, our Group-wide initiative to engage our employees in safety, leads the industry. The aim of Injury Prevention is to ensure that action is taken to report any matters of safety and to resolve them promptly in order to prevent any harm from occurring to anyone. This year we rolled out Injury Prevention across our enlarged North American business and we have introduced a new system to log the outcome of 'safety conversations'. I am pleased to report a further reduction in Lost Time Injuries across the Group which reduced by 23% this year.

A co-ordinated CSR programme enables us to share best practice across our business. We have introduced the Smith System Defensive Driving programme to our UK Bus division. This training programme, which focuses on the 'five keys' of safe driving, has been highly effective in our North American operations. By June 2008 all of our bus drivers in the UK will have completed Smith System training.

Customer service

Our core values of safety and customer service underpin everything that we do. Providing a high quality, reliable service will attract more customers to public transport. We seek to forge strong relationships with our customers to understand and respond to their travel needs, which is key to delivering long-term sustainable growth. Effective engagement with customers is essential to this goal. We seek regular customer feedback through a range of mediums including customer surveys, focus groups, meet the manager sessions, customer panels and the use of 'mystery travellers'. Ultimately, customer satisfaction is determined by our ability to deliver our promise. Providing a punctual and reliable service is key and therefore developing effective partnerships to help achieve this is essential.

Across all areas of our business we develop and nurture partnerships to support our business aims. In UK Bus we work closely with local authorities and invest to provide a sustainable network of bus services, a modern attractive fleet and seek to encourage bus priority schemes to lessen the impact of traffic congestion on our services. In UK Rail we work closely with Network Rail, the railway infrastructure provider, to establish better ways of managing the rail network such as joint control centres to improve the management and communication of disruption. In North

America we view our contracts as partnerships and work closely with our customers on a daily basis to ensure our service delivery meets their requirements and that we respond effectively to the day-to-day issues that are part of providing a dynamic transportation service.

Employees

Our aim is to be the employer of choice in our industry – recruiting and retaining high performing, motivated employees. Our employees are often the first point of contact between our customers and our business and are vital to our success. Their commitment, dedication and effort are crucial if we are to meet our customers' expectations and ensure that we are known as the leader in safe, reliable, innovative, sustainable transport services. We are committed to supporting our employees to develop and reach their full potential. We continue to invest in the training and development of our employees across the Group. In the UK we recently signed the Government's Skills Pledge, a voluntary public commitment by companies to support employees in developing basic skills including literacy and numeracy.

A shortage of drivers and high staff turnover has been an issue for the bus industry in the UK. We have pro-actively addressed this issue in our business. Our European recruitment initiative continues to be recognised as best practice with dedicated training centres, language tuition and induction programmes contributing to consistent service delivery and

The Yellow School Bus Commission is assessing the benefits of US-style home to school transport. The Rt. Hon. David Blunkett MP, Chairman, and the Committee are reviewing the yellow school bus model in the US and the UK.



reduced driver turnover. We were delighted to win a National Training Award in 2007 for our initiative to improve recruitment and induction processes within our UK Bus division. We are pleased that our efforts have resulted in a significant reduction in driver turnover over the past four years.

This has been a challenging year for employees in North America as we have integrated two businesses and cultures. We recognise the need to ensure that our employees are satisfied and motivated in the workplace. In order to better understand the needs and concerns of our enlarged North American workforce we have conducted an initial employee opinion survey that is informing the development of a people strategy for the business.

“We have a well-established environmental management system to monitor our activities, their impact and to provide the framework to implement our environmental strategy.”

Environment

As a public transport operator we support the development of more sustainable travel solutions to lessen the reliance on the private car. We continue to seek ways to reduce the impact of our operations on the environment and have a well-established environmental management system to monitor our activities,

their impact and to provide the framework to implement our environmental strategy. Each of our operating companies is required to meet the environmental standards set by the Group. We are committed to achieving ISO14001 accreditation within all of our UK companies by April 2009, demonstrating international standards in environmental management.

Earlier this year we commissioned a poll by YouGov to measure attitudes to public transport and the environment in the UK. We are encouraged by the results which showed that 50% of the population are becoming increasingly concerned about environmental issues and of those people 61% said they were considering switching some or all of their journeys to public transport. Last year we published our Climate Change Strategy setting out how we intend to reduce carbon emissions from our operations. Full details of our Climate Change Strategy including our targets for reduction of emissions can be found on our website www.firstgroup.com

Communities

Our services are an integral part of the communities we serve. Connecting with and supporting local communities is encouraged at every level in our organisation. As a business which is global in scale but local in approach, a great deal of support is carried out at local level. Management are empowered to support events and activities in their communities.

During the year the Group established a national partnership with Save the Children. The funds we raise through the partnership are being used to appoint three new members of staff to expand the work of the charity in helping some of the poorest children in the UK. Our first major funding event was the ‘Monster Challenge’ duathlon around the shores of Loch Ness in Scotland. In addition, six of our buses have been branded with Save the Children’s identity to promote our partnership and raise awareness of child poverty in the UK.

Our CSR strategy supports our vision to Transform Travel. We have a well-established framework to support and manage our CSR activities and objectives. This enables us to share best practice across the Group and continually assess our performance to seek ways in which we can continue to improve and develop in this key area.



Moir Lockhead
Chief Executive

As part of our core value of safety we have rolled out Injury Prevention training to all 137,000 employees across the Group.



Finance Director's review

The transformational acquisition of Laidlaw for \$3.5bn (including transaction costs) on 1 October 2007 and continued strong performance in the UK businesses have resulted in all our divisions reporting record earnings.

Overview

Adjusted basic EPS of 40.9p is an increase of 21.4% year on year and EBITDA was £560.8m representing an increase of 40.6% over last year. This is after the consolidation of six months results of the Laidlaw businesses.

We are now the largest operator of Yellow School Buses in North America. Going forward, with a full year of the Laidlaw businesses, approximately 50% of Group revenues and operating profit will come from North America. The combining of our existing businesses with Laidlaw has progressed well, generating significant value through integration synergies and building a solid foundation for further growth opportunities in the future. Our scale, expertise and focus on service delivery means that we have the ability to offer our customers further operational and cost efficiencies, better quality and a greater range of services.

The revenue and cost actions in UK Bus have progressed throughout the year and we are pleased to report that operating margin has risen from 9.6% to 11.0%. Within UK Rail we have experienced strong passenger revenue growth and this has accelerated in the second half of the year.

Year end net debt was £2,161m up from £516m last year mainly due to additional borrowings taken on to fund the Laidlaw acquisition.

Non-recurring items were principally £55.5m of integration costs on the Laidlaw acquisition and £16.8m relating to the First Great Western remedial plan which was agreed with the DfT. Based on the synergies achieved to date, and those projected, the Laidlaw integration costs represent an excellent investment.

On 14 May 2008 we announced our intention to raise funds with the issue of equity from a placing of shares representing up to 10% of the Group's current issued share capital. The proceeds of the placing will be used to refinance, in part, debt raised to finance the acquisition of Laidlaw, which was announced on 9 February 2007, and which completed 1 October 2007. The effect of the issue will be to strengthen the capital structure of the company and the Group, at a time when it continues to invest for growth and to enhance shareholder value. The refinancing of the Laidlaw acquisition debt, as well as benefiting from the proceeds of the share issue, will also include proceeds from new medium term bank facilities of some £225m and the disposal of surplus properties.

Results

Revenue was £4,707.6m (2007: £3,708.8m), an increase of 26.9%. Adjusted operating profit was £360.1m (2007: £259.2m), an increase of 38.9%. Adjusted operating profits and margins were higher at each division. Margin growth was particularly impressive in UK Bus and North America. Profit before tax was £151.9m (2007: £140.2m), an increase of 8.3%.

UK Bus revenue was £1,104.9m (2007: £1,073.7m), an increase of 2.9%. Operating profit was £122.0m (2007: £103.0m), an increase of 18.4%. Operating margin increased by 1.4% to 11.0%. Good margin growth was achieved in inner-city areas and in London. In our rural operations margins have also improved but are still lower than in the urban areas. Overall passenger revenues increased by 5.0% year on year with passenger volume growth of approximately 1%. Passenger revenue growth continues to be strongest in city centre locations and high density areas and especially where we work closely with the local authorities to invest in public transport and traffic management systems. UK Bus management has continued to invest in quality and operational performance and focus on service delivery. As a result our lost mileage



Divisional results

	Year to 31 March 2008			Year to 31 March 2007		
	Revenue £m	Adjusted operating profit ¹ £m	Operating margin ¹ %	Revenue £m	Adjusted operating profit ¹ £m	Operating margin ¹ %
UK Bus	1,104.9	122.0	11.0	1,073.7	103.0	9.6
UK Rail	1,937.0	120.0	6.2	1,824.1	108.8	6.0
North America	1,370.3	130.7	9.5	802.9	68.2	8.5
Greyhound	280.8	8.8	3.1	—	—	—
Other ²	14.6	(21.4)	—	8.1	(20.8)	—
Total Group	4,707.6	360.1	7.6	3,708.8	259.2	7.0

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

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

Throughout the Finance Director's review, operating profit, operating margin and EBITDA are defined as being before amortisation charges, non-recurring bid costs, other non-recurring items and profit/(loss) on disposal of properties

has continued at historically low levels of less than 1%. Drivers' and engineering efficiencies also contributed to the results in a year of fuel price stability as a result of our hedged position.

UK Rail revenue was £1,937.0m (2007: £1,824.1m), an increase of 6.2%. Operating profit was £120.0m (2007: £108.8m), an increase of 10.3%. Overall our Train Operating Companies delivered passenger volume and revenue growth of 6.9% and 10.8% respectively. The main growth drivers in UK Rail were improved performance and quality, revenue protection measures taken and the overall appetite for rail travel. Further automated ticket gates were rolled out during the year at several stations at both FCC and FGW. Investment in rolling stock and station improvements continued during the year and the £200m High Speed Train refurbishment programme at FGW was completed. These contributed to total capital expenditure of

£130.0m and this represents the highest investment ever in the UK Rail division. It is anticipated that capital expenditure will revert to more normal maintenance levels during 2008/09 and thereafter.

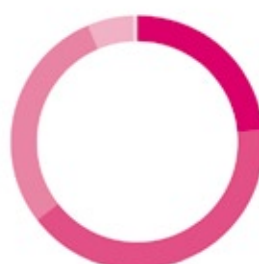
North American revenue was £1,370.3m or \$2,753.2m (2007: £802.9m or \$1,522.4m) representing an increase of 80.8% at constant exchange rates. Operating profit was £130.7m or \$262.6m (2007: £68.2m or \$130.5m). In US Dollar terms this represents an increase in operating profit of 101.2% and margin improved by 1.0% to 9.5%. The results incorporate six months of the Laidlaw acquisition. During the first part of the year, our legacy First Student's bid season was affected by the US Department of Justice review of our acquisition of Laidlaw. This resulted in abnormal contract attrition last spring which impacted the legacy First Student operating profit by approximately \$11.0m compared to the prior year. Increased

fuel costs in the year reduced profits at our legacy First Student business by approximately \$8m compared to the prior year, net of hedges put in place. The current bid season, which is the first as a combined business, has begun strongly with contract retention rates of over 90%.

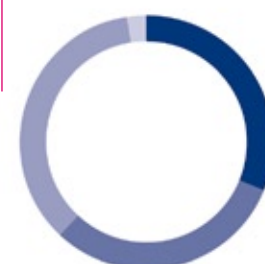
The Laidlaw businesses contributed strongly to growth in the second half of the year as shown in Note 31 to the accounts. Synergies achieved in the year were above our initial expectation contributing \$30m in the period to 31 March 2008. Based on our current run-rate, annualised savings are approximately \$100m per annum. These synergies are principally in the areas of administration costs and salaries, branch and facilities consolidation, insurance and procurement initiatives. The calculations of these savings are based on comparing the budgeted costs in our legacy FirstGroup businesses and the

Revenue by division

- UK Bus £1,104.9m
- UK Rail £1,937.0m
- North America £1,370.3m
- Greyhound £280.8m
- Other £14.6m

Adjusted operating profit¹

- UK Bus £122m
- UK Rail £120m
- North America £130.7m
- Greyhound £8.8m



¹ Excludes £21.4m of Group items

Non-recurring items and amortisation charges

	2008 £m	2007 £m
North American integration	55.5	1.0
UK Rail	16.8	21.3
European bid costs	3.7	4.8
UK Rail bid costs	3.5	14.5
(Profit)/loss on disposal of properties	(5.8)	3.7
Short term bank facility costs	4.5	—
Total non-recurring items	78.2	45.3
Amortisation of intangible assets	18.9	10.3
Total	97.1	55.6

independently prepared Laidlaw budget for each area, before the combination of the businesses, to those costs in the enlarged business.

Greyhound revenue was £280.8m or \$565.8m and operating profit was £8.8m or \$17.7m. In the months preceding the acquisition Greyhound revenues were showing a downwards trend against the prior year. During the first three months following acquisition measures were put in place to address this issue which have resulted in revenues growing by 3% compared to last year in the final three months of the year. Greyhound's business is seasonal with typically over 75% of operating profit in the first half of our financial year. As a result of the strategic review we believe that there are significant value opportunities within Greyhound both in terms of cost reduction opportunities and further revenue initiatives.

Non-recurring items and amortisation charges

North American integration

These reflect costs directly attributable to the integration of Laidlaw and include legal and professional fees, relocation of US head office, redundancy and IT costs, rebranding and the costs directly associated with disposing of excess buses in the legacy First Student fleet as a result of the combination of the two fleets.

UK Rail

These represent the one-off costs directly associated with the First Great Western remedial plan, agreed with the DfT to address the poor performance in relation to cancellations and the subsequent contravention of the Franchise Agreement. Of the total cost of £29m, £16.8m has been treated as a non-recurring charge as the items relate to past events for which the company

has agreed to compensate passengers by way of reduced fares, carriage refurbishment and certain other measures. The balance will be charged to the income statement as the costs are incurred or capitalised and depreciated over the remaining period of the franchise as appropriate.

European bid costs

Bid costs of £3.7m (2007: £4.8m) represent the non-recurring costs of bidding for contracts and potential acquisitions in Germany and other European countries.

UK Rail bid costs

Bid costs of £3.5m (2007: £14.5m) were incurred during the year on our unsuccessful bid for the InterCity East Coast franchise. Last year's bid costs reflect significant bidding activity for three large franchises.

Profit/loss on disposal of properties

A profit on disposal of properties of £5.8m (2007: loss of £3.7m) was recorded during the year. The principal disposal was the UK Bus depot in Acton, London. These operations were transferred to our Hayes depot.

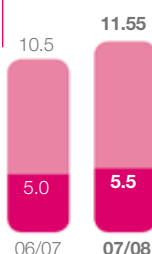
Short term bank facility costs

As part of the funding of the Laidlaw acquisition a short term loan facility was taken out which was subsequently extended. Due to the short term nature of this facility the arrangement fee and other costs associated with the facility have been treated as a non-recurring item.

Dividends

pence

■ Interim
■ Final



Amortisation of intangible assets

The increase in this charge is mainly due to a six month charge for amortisation of customers contracts and trade-name intangibles arising on the Laidlaw acquisition.

Finance costs and investment income

The net interest charge, excluding the non-recurring facility cost described above, was £111.1m (2007: £63.4m) with the increase due to higher debt levels following the Laidlaw acquisition partly mitigated by lower interest rates on US Dollar denominated debt. The net interest charge is covered 5.0 times (2007: 6.3 times) by earnings before interest, taxation, depreciation and amortisation (EBITDA).

Taxation

The taxation charge on profit before intangible amortisation, non-recurring bid costs and other non-recurring items was £58.2m (2007: £51.1m) representing an effective rate of 23.4% (2007: 26.1%). Tax relief on non-recurring bid costs and other non-recurring items, a tax credit on US intangible amortisation and a one-off credit for deferred tax reduced the tax charge to £18.6m (2007: £38.1m). The one-off credit is an adjustment of £8.6m to the UK deferred tax liability arising on the reduction in the corporation tax rate from 30% to 28% which will apply from April 2008 onwards. After adding back this one-off credit, the tax rate on unadjusted profit before tax was 17.9% (2007: 27.2%).

The actual cash effect of taxation to the group was a cost of £9.4m (2007: £5.5m). The UK cash cost of taxation was low due to pension payments and interest paid on higher debt levels. It is anticipated that the tax to be paid for 2008/09 will remain low. The Group pays a minimal amount of tax on its profits in the US due to tax losses brought forward and we believe that this level will remain low for the medium term.

The abolition of Industrial Buildings Allowances in the UK, which has been announced, but is expected to be substantially enacted in the year ending 31 March 2009, will have the effect of increasing the Group's deferred tax liability and hence is expected to give rise to a non-recurring tax charge during financial year 2008/09.

Dividends

The final dividend of 11.55 pence (2007: 10.5 pence) per ordinary share together with the interim dividend of 5.5 pence (2007: 5.0 pence) per ordinary share, gives a full year dividend of 17.05 pence (2007: 15.5 pence), an increase of 10.0%. In accordance with IFRS the final dividend has not been provided for in the 2008 balance sheet. The final dividend will be paid on 22 August 2008 to shareholders on the register of members at the close of business on 18 July 2008.

EPS

Adjusted basic EPS, before amortisation charges, non-recurring bid costs, other non-recurring items and profit/loss on disposal of properties, was 40.9 pence (2007: 33.7 pence), an increase of 21.4%. Basic EPS was 27.7 pence (2007: 23.1 pence), an increase of 19.9%.

EBITDA

The Group's businesses continue to generate strong operating profits which are converted into cash. EBITDA for the year was £560.8m (2007: £398.9m) up 40.6%. EBITDA from North American operations was up 108.8% in US Dollar terms. EBITDA by division is set out on page 26.

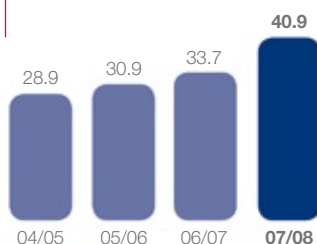
Cash flow

Cash generated by operations increased to £470.8m (2007: £367.9m) as a result of the higher EBITDA noted above being partially offset by the cash spend on non-recurring items.

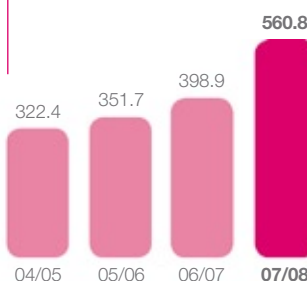
Capital expenditure and acquisitions

Capital expenditure, as set out in note 15 to the financial statements, was £310.4m (2007: £321.6m). Capital expenditure in North America was £106.4m (2007: £48.1m), UK Bus was £70.9m (2007: £161.7m), UK Rail was £130.0m (2007: £110.0m) and Group was £3.1m (2007: £1.8m).

Adjusted basic EPS
pence



EBITDA
£m



EBITDA

	Year to 31 March 2008			Year to 31 March 2007		
	Turnover £m	EBITDA £m	EBITDA %	Turnover £m	EBITDA £m	EBITDA %
UK Bus	1,104.9	193.5	17.5	1,073.7	173.6	16.2
UK Rail	1,937.0	148.7	7.7	1,824.1	122.4	6.7
North America	1,370.3	213.6	15.6	802.9	119.2	14.8
Greyhound	280.8	22.6	8.0	—	—	—
Other	14.6	(17.6)	—	8.1	(16.3)	—
Total Group	4,707.6	560.8	11.9	3,708.8	398.9	10.8

EBITDA for 2008 includes six months of the acquired Laidlaw businesses.

On 1 October 2007, the Group acquired Laidlaw International, Inc for a total consideration (excluding acquired debt) of £1,449.5m. An extensive exercise was undertaken to arrive at the fair value of the acquired business. Where necessary, third party experts were used to value certain categories of assets and liabilities, principally in the areas of property, plant and equipment, intangible assets and environmental liabilities. Further details of all fair value adjustments are set out in note 31. After adjusting for fair values on acquisition and certain GAAP adjustments, the fair value of net assets on acquisition was £673.5m giving rise to provisional goodwill of £776.0m.

In addition to the Laidlaw acquisition the Group acquired four small yellow school bus operations in North America, two bus operators in the UK and one bus operator in Germany. The total consideration for all other acquisitions made during the year was £25.5m and the provisional goodwill arising on these acquisitions amounted to £24.2m.

Funding and risk management

At the year-end, total bank borrowing facilities amounted to £2,471.5m of which £2,394.6m is committed. Of these committed facilities, £1,807.4m was utilised at 31 March 2008 leaving committed headroom of £587.2m.

The maturity profile of committed banking facilities is regularly reviewed and well in advance of their expiry such facilities are extended or replaced. At 31 March 2008 the Group's average debt maturity was 3.5 years (2007: 6.4 years).

As the Group is a net borrower, it minimises cash and bank deposits, which arise principally in the Rail companies. The Group can only withdraw cash and bank deposits from the 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 financial instruments for certain risk management purposes only.

Interest rate risk

With regard to net interest rate risk, the Group reduces exposure by using a combination of fixed rate debt and interest rate derivatives to achieve an overall hedged position over the medium term of between 75% to 100%.

Commodity price risk

In the UK, crude oil costs were hedged at \$67 per barrel in both 2007/08 and 2006/07. We have now hedged 100% of our UK requirements for 2008/09 (2.7m barrels) at \$76 per barrel and 10% of our 2009/10 requirements at \$85 per barrel.

In North American operations certain contracts provide fuel price protection through contract escalation clauses, fuel cost pass-through arrangements or where the customer supplies fuel directly. Of our total annual usage of 4.3m barrels, 1.9m barrels have such protection. We have now hedged 100% of the "at risk" volume for 2008/09 (2.4m barrels) at \$84 per barrel and we have hedged 10% of 2009/10 "at risk" volumes at \$84 per barrel. We are constantly monitoring the current high cost levels of fuel and appropriate pricing and hedging actions will be put in place as necessary.

Capital expenditure

as set out in note 15 to the financial statements, was £310.4m (2007: £321.6m).

£310.4m

Analysis of net debt

	Fixed £m	Variable £m	Total £m
Cash	–	76.3	76.3
Rail ring-fenced cash and deposits	–	156.3	156.3
Other ring-fenced cash and deposits	–	9.7	9.7
Sterling bond (2013 6.875%) ¹	(296.6)	–	(296.6)
Bond (2019 6.125%) ²	(216.9)	–	(216.9)
Sterling bank loans and overdrafts	–	(201.6)	(201.6)
US Dollar bank and other loans and overdrafts	(1,374.7)	(73.8)	(1,448.5)
Canadian Dollar bank and other loans and overdrafts	(1.2)	(100.6)	(101.8)
Euro bank loans and overdrafts	–	(19.6)	(19.6)
HP and finance leases	(31.3)	(71.9)	(103.2)
Loan notes	(8.7)	(6.4)	(15.1)
Total	(1,929.4)	(231.6)	(2,161.0)

1 Excludes accrued interest

2 Stated excluding accrued interest and adjusted for currency and coupon swaps

Foreign currency risk

Group policies on currency risk affecting cash flow and profits are maintained to minimise exposures to the Group by using a combination of hedge positions and derivative instruments where appropriate.

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 2008 foreign currency net assets were hedged 85% (2007: 33%).

Net debt

Net debt increased over the year by £1,645m. This increase is mainly explained by the debt assumed on the Laidlaw acquisition. The Group's net debt at 31 March 2008 was £2,161.0m and was comprised as above.

Balance sheet and net assets

Net assets increased by £97.5m over the year reflecting retained profits of £120.4m, actuarial gains on defined pension arrangements (net of tax) of £26.7m, favourable hedging reserve movements (net of tax) of £23.0m, partly offset by dividend payments of £69.5m.

Shares in issue

During the year 2.9m treasury shares were used to either satisfy the exercise of save as you earn (SAYE) options on the maturity of the 2004 SAYE scheme or were transferred to the employee benefit trust to satisfy the exercise of executive share options and deferred bonus shares. As at 31 March 2008 there were 436.6m (2007: 434.0m) shares in issue, excluding treasury shares and own shares held in trust for employees. At 31 March 2008 1.7m shares (2007: 4.3m shares) were either held as treasury shares or held in trust for employees. The weighted average number of shares in issue for the purpose of EPS calculations (excluding own shares held in trust for employees and treasury shares) was 434.8m (2007: 397.9m).

Foreign exchange

The results of the North American businesses have been translated at an average rate of £1:\$2.01 (2007: £1:\$1.89). The period end rate was £1:\$2.00 (2007: £1:\$1.96).

Pensions

The net pension surplus increased by £65.2m during the year to £89.0m with the increase being principally due to additional cash payments in UK Bus pension schemes, as well as changes to the actuarial assumptions to reflect current market expectations.



Nick Chevis
Acting Finance Director

Subsequent to the Directors' approval of the Accounts in May 2008 the Company issued approximately 43.8m shares and, based on the placing price, the gross proceeds were approximately £236m.

£236m



Board of Directors

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. Age 52.

2 Moir Lockhead OBE

**Deputy Chairman and Chief Executive;
Chairman of the Safety Committee^{4,5}**

Chief Executive and Deputy Chairman since the Group's formation in 1995. 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 he is a past President of the Confederation of Passenger Transport. Age 63.

3 Dean Finch BSc MBA ACA

Chief Operating Officer, North America^{4,5}

Appointed to the Board as Commercial Director in February 2004 and subsequently appointed Finance Director later that year. He also had responsibility for all of the Group's rail activities including refranchising. He joined the Company in 1999 as Commercial Director of the Rail Division and was subsequently appointed Managing Director of the Rail Division in August 2001. He qualified as a Chartered Accountant with KPMG where he worked for 12 years specialising in Corporate Transaction Support Services including working for the Office of Passenger Rail Franchising on the privatisation of train operating companies. In 2007 he was appointed as Chief Operating Officer, North America, responsible for the integration of the businesses of Laidlaw International, Inc. in the enlarged North American operations of the Group. Age 41.

4 David Leeder BSc FILT

Director of International Development^{4,5}

Appointed to the Board in May 2004. He joined the Group in 2001 as Managing Director UK Bus and assumed his present role as Director of International Development and Marketing in 2005. He has held various senior posts in the transport industry including Chief Executive of Travel West Midlands and subsequently Group Marketing Director of National Express Group plc. He is Vice Chair of the Commission for Integrated Transport. A Fellow of the Chartered Institute of Logistics and Transport, he is also a past President of the Confederation of Passenger Transport. Age 42.

5 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. Age 57.

6 Nicholas Chevis FCMA

Acting Finance Director^{4,5}

Appointed Acting Finance Director in August 2007 prior to which he was Group Financial Controller. He joined the Group in 1997 as Finance Director of one of the Group's train operating companies. He was subsequently appointed Finance Director of the Group's rail division following the acquisition of Great Western Holdings in 1998 and was also responsible for the Group's light rail operations. During this time he was also a key member of the Group's rail franchising team including the bidding for and integration of the Group's new rail businesses. He has held senior finance and planning positions in a number of sectors including at Volvo Car UK and Revlon Max Factor. Age 44.



7 David Dunn CA

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

Appointed to the Board as a Non-Executive Director in December 1999. He is a Chartered Accountant and is Non-Executive Chairman of Brammer plc. He is also a Non-Executive Director of Croda International plc. Age 63.

8 James Forbes CBE MSc BSc CEng MIEE

Non-Executive Director;
Chairman of the Remuneration Committee^{1,2,3}

Appointed to the Board in April 2000, he is the former Chief Executive of Scottish and Southern Energy plc. His career began with the South of Scotland Electricity Board and he has since held various senior posts in the electricity industry. Age 61.

9 John Sievwright MA CA

Non-Executive Director^{1,2,3}

Appointed to the Board in May 2002, he is 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. Age 53.

10 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. Age 51.

11 Audrey Baxter DBA LLD DipAcc BA

Non-Executive Director^{1,2,3}

Appointed to the Board as Non-Executive Director in August 2006. She is Chief Executive of Baxters Food Group. She has held a number of non-executive positions and was formerly a member of the Scottish Business Forum and the Scottish Economic Council. Age 47.

12 Martyn Williams

Non-Executive Employee Director

Appointed to the Board as Employee Director in January 2003, he is currently serving a second term as Employee Director. He is employed as a customer services supervisor in Swansea and has worked for the Group for 30 years. Age 53.

1 Member of the Audit Committee

2 Member of the Remuneration Committee

3 Member of the Nomination Committee

4 Member of the Safety Committee

5 Member of the Executive Committee



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 eight 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 annual and interim 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 eight times and all members of the Board attended all meetings except for David Begg and John Sievwright each of whom was absent from one of those meetings.

The Board also held a number of separate strategy meetings.

In August 2007 Dean Finch was appointed as Chief Operating Officer, North America, overseeing the integration of the businesses of Laidlaw International, Inc. in the enlarged North American operations of the Group and the management of those operations following the closing of the acquisition on 1 October 2007.

Simultaneously with that appointment the Board appointed Nick Chevis as Acting Finance Director, in which capacity he has attended all meetings of the Board since then, 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, David Dunn, Jim Forbes, John Sievwright and Audrey Baxter 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 very strongly that it is extremely 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.

Therefore, the Company complies 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. The Directors are satisfied that the current 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, 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 unchanged from last year, are described in his biography on page 28. The Board performance evaluation process 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 Moir Lockhead. The Chief Executive 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

David Dunn, 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, Finance Director or Acting 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. A number of Board meetings each year are held on site at operating locations in the UK and US allowing the Directors to visit the Group's operations and to discuss key issues with local operational management and stakeholders.

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 and operational visits 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 also 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 2008 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 2008.

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, David Dunn, Jim Forbes, John Sievwright and Audrey Baxter. 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 all of its meetings.

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 two 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 39 of the Directors' Remuneration Report.

2.5 Remuneration Committee

The Remuneration Committee, under the chairmanship of Jim Forbes, met four times during the year and all members of the Committee attended all of its meetings except for John Sievwright who was absent from one of these meetings. Details of the membership of the Committee are set out in the Directors' Remuneration Report on pages 37 to 41, together with a statement of the Group's remuneration strategy and policy. Full details of Directors' remuneration appear on page 40.

2.6 Audit Committee

The Audit Committee is chaired by David Dunn and includes David Begg, Jim Forbes, John Sievwright and Audrey Baxter. It met three times during the year and all members attended each of those meetings except for Audrey Baxter and David Begg who were absent from one of these meetings and John Sievwright who was absent from two of these meetings. The Group Director of Internal Audit and the Company's external auditors attended each of those 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 it reviews 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 Committee is also charged with monitoring the independence of the external auditors and the objectivity and effectiveness of the external audit process. The objectivity and independence of the external auditors is considered on a regular basis, with particular regard to the level of non-audit fees. 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. The majority of the non-audit work undertaken

by the auditors during the year was associated with acquisition-related due diligence. 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 external auditors have direct access to the Committee to raise any matters that may concern them.

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, Finance Director or Acting Finance Director. The Annual Report and Financial Statements and interim results 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 2008/09 Group 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 and the application and implementation of International Financial Reporting 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 interim financial statements, regulatory news announcements and other public information. A statement of the Directors' responsibility for preparing the financial statements may be found on page 45.

4 Internal controls

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

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 on-going process for identifying, evaluating and managing the significant risks faced by the Group. As part of this process a Risk Group has been established, comprising senior management representatives from all of the Group's main businesses as well as from the finance, insurance and Group internal audit functions. The Risk Group meets 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 relations issues, control breakdowns 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.

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. Monthly forecasts 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, forecasts and prior year. Similar reports are prepared at a Group level. Key performance indicators, both financial and operational, are monitored on a weekly basis. In addition, business units participate in strategic reviews which include consideration of long-term financial projections and the evaluation of business alternatives.

A process of annual self-assessment and hierarchical reporting provides for a documented and auditable trail of accountability from the subsidiary units to senior management to the Executive Directors.

A Control Assurance Questionnaire is completed by each operating entity on an annual basis confirming that management have reviewed the effectiveness of the systems of internal controls during the year. Both from this process and as a result of planned reviews of operating units by Internal Audit staff, invariably a number of minor control weaknesses are identified. These weaknesses are discussed with management and actions are agreed to address any weaknesses identified. Follow-up visits to the operating entity then ensure that the additional controls have been put in place and are working effectively. No such weaknesses have resulted in any material losses, contingencies or uncertainties that would require disclosure in the Group's Annual Report.

4.4 Risks and uncertainties

There are a number of potential risks and uncertainties that could have an impact on the Group's long-term performance.

Competitive pressures

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

In UK Bus, our 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 we continue to work with local authorities to introduce bus priority measures and effect infrastructure changes promoting bus patronage.

The main competitor to our UK Rail businesses is again the car, and to a lesser extent, long-distance coach operators 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 our 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 can also include school districts since most school districts also operate their own school buses. Similarly, while the majority of transit and service business streams are operated by private entities, including several large companies, our Transit and Services businesses also compete with many municipalities. Our recently acquired 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 the season ticket bonds.

Compliance with franchise conditions are 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, regulations 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

Labour costs represent the largest component of the Group's operating costs. Labour shortages, or low 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.

To mitigate this risk, the Group seeks to structure our recruitment and retain the right people.

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.

Insurance costs

Insurance reserves are made from estimates of losses that we will ultimately incur on accidents or incidents that have been reported but not paid and accidents or incidents that have taken place but have not yet been reported.

These reserves are based on actuarial valuations that are prepared regularly by independent actuaries. The actuarial valuations are prepared after a number of factors are considered, including, historical claim payment patterns and changes in case reserves, the assumed rate of increase in medical treatment cost, property damage repairs and ultimate compensation. Historical experience and recent trends are the most significant factors considered in the

determination of these reserves. Given the magnitude of the claims involved and the length of time until the ultimate cost is known, the use of any estimation technique is inherently uncertain.

The Group seeks to mitigate the risk of rising insurance costs by promoting a culture of safety in everything that we do, through the ESC that is headed up by the Chief Executive.

Terrorism

Terrorist acts and the public's concerns about potential attacks could adversely affect demand for our services. More particularly if we were to be perceived as not taking all reasonable precautions to guard against potential terrorist acts this could adversely affect our reputation with the public. The Group has a Head of Security who is responsible for improved security awareness, the application of good practice in the implementation of security measures, and the development and training of 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 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. 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.

Economy

The level of economic activity affects the number of bus and train journeys taken by passengers in the UK. Any changes in economic activity may impact upon the passenger numbers and hence our UK operations. The potential impact of this is reduced on certain rail franchises due to the existence of revenue-share arrangements. In most UK Bus operating companies the Group has the ability to modify services by giving 45 days' notice of such modifications.

4.5 Whistleblowing

The Group has established procedures whereby employees of the Group 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 control for the year under review and to the date of approval of the Annual Report and Financial Statements through the monitoring process described above. In addition, the Directors confirm that they have conducted a specific annual review of the effectiveness of the Group's internal audit function.

4.7 Treasury operations

The Board has set a policy for the management of those risks 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.

4.8 Change of control

(a) Financing agreements

The Group's financing agreements, including the US \$2,250m multi-currency term loan facility and US \$1,500m multi-currency revolving credit and guaranty facility between the Company and HSBC Bank plc, JP Morgan plc and The Royal Bank of Scotland plc dated 9 February 2007, 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 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, the total commitments under the facility are cancelled and all outstanding amounts become repayable.

The £300m 6.875% bonds due 2013 and the £250m 6.125% bonds due 2019 issued by the Company may also be affected by a change of control of the Company. Such a change of control 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.

(b) UK Rail

The Group's franchised passenger rail operators, First Capital Connect, First ScotRail, First Transpennine Express and First Great Western, are each subject to termination clauses in their franchise agreements which may apply on a change of control. These operators and the Group's non franchised rail operators, Hull Trains and First GBRf, each hold railway licences as required by the Railways Act 1993 which may be revoked on three months' notice if a change of control occurs without the approval of the Office of Rail Regulation. The Group's railway operators also lease rolling stock from specialist rolling stock leasing companies HSBC Rail (UK) Limited, 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

It is customary for joint venture arrangements to include provisions addressing change of control. The Company's joint venture arrangements with Keolis (UK) Limited in relation to First Transpennine Express and with DSB in relation to DSB/First Aps and DSB Sverige AB contain such provisions.

(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, which are significant when all the routes are considered together.

4.9 Auditors

Deloitte & Touche 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 Financial Statements are made available to all shareholders and an Interim 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 or Acting Finance Director following the announcement of the full and half-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 each 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 2007 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.

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. A resolution to approve this report will be proposed at the Company's Annual General Meeting to be held on 10 July 2008.

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 1985 (as amended by the Regulations). This report has therefore been divided into separate sections for audited and unaudited information.

Unaudited information Remuneration Committee

The Remuneration Committee is chaired by Jim Forbes. The other current members of the Committee are David Begg, David Dunn, John Sievwright and Audrey Baxter. 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 remit of the Committee was adopted in March 2004 in the light of the revisions to the Code and its terms of reference 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 four times during the year and all members attended each meeting held whilst they were Directors except for John Sievwright who was 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 four 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);
- share options; and
- pension provision.

In 2007 the Committee decided to undertake a special review of executive remuneration in order to reflect the increased scope of responsibilities of the Executive Directors in the acquisition of Laidlaw International, Inc. and the impending entry of the Group to the FTSE 100. The Committee wished to ensure that whilst the executive remuneration remained competitive they also wished to ensure that the total remuneration packages of Executive Directors were in line with the aims of the Company and its shareholders. The Committee appointed MCG Consulting (part of the DLA Piper law group) to provide advice as part of that review. The review process involved consideration of publicly available information, including the remuneration packages of those holding equivalent posts at the Company's peers within the transport industry and other companies of comparable market capitalisation. The Committee's objective was to propose payment of base salaries for the Executive Directors at the median of the peer

group with variable additional remuneration to reflect outstanding performance.

The peer comparator group comprised a sample of smaller FTSE 100 companies and an additional sample of FTSE 250 companies of similar size to the Company from the transport and other sectors.

Following the review certain adjustments were made to the base salaries of the Executive Directors to bring them into line with those of the peer group and the adjustments are reflected in the Executive Directors' remuneration for the year set out on page 40. In particular, the Committee felt that the base salary of the Chief Executive had fallen significantly behind those holding equivalent positions in the peer group.

In addition the review concluded that there was a requirement to extend the incentive nature of the total executive remuneration package in order to further align such remuneration with the interests of shareholders and detailed proposals in respect of a Long Term Incentive Plan ('LTIP') are contained in the notice of Annual General Meeting for the consideration and approval of shareholders at the forthcoming Annual General Meeting. The Company's major shareholders have been consulted in relation to the proposals in respect of the LTIP.

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. A high proportion of each Director's potential remuneration is performance-related.

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 40.

Executive Annual Bonus Plan

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 personal objectives (including safety 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. The Committee considers and agrees the Group and divisional objectives for all Executive Directors and the personal objectives for the Chief Executive. The Chief Executive, in consultation with the Committee, agrees the personal objectives for the other Executive Directors.

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 continues to be that bonuses will be payable for Group performance against budget of between 90% and 110% although the level of bonus payable is heavily skewed towards performance in excess of 100% of budget. 70% of any bonus payable is dependent upon Group performance and the balance upon the achievement of safety objectives (up to 20%) and personal objectives (up to 10%).

Bonus payments comprise a mixture of cash and deferred share awards. 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 that 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 payable to Executive Directors in the year to 31 March 2008 was 93.5% of basic salary in the case of the Chief Executive, 90% in the case of the Chief Operating Officer, North America, 90% in the case of the Director of International Development and 95% in the case of the Commercial Director. Each of the Chief Executive and the other Executive Directors would receive 75% of their bonus in cash and the remaining 25% in the form of deferred shares.

For all Executive Directors, up to 25% of any bonus award will be payable in shares. The deferral period for these shares was previously five years in order to provide a long-term lock-in and to further align the Executive Directors' interests with those of shareholders. The same deferral period also applied to senior management within the Group. The review of remuneration referred to above concluded that the deferral period for awards made in 2008 and thereafter be reduced to three years to reflect current practice among the peer comparator group and to align it with the proposed LTIP referred to above.

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 larger companies no further awards were granted under the ESOS after 2004 and the Remuneration Committee has no present intention of granting any further awards.

The incentive to be provided by the proposed LTIP referred to above will effectively replace the incentive previously provided by the ESOS.

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.

Special Share Award

In 2006 the Company declared a special bonus of deferred nil-cost options over 200,000 ordinary shares in the capital of the Company in favour of Dean Finch.

These options will vest on 31 March 2011 but only to the extent that certain performance criteria are satisfied based on targets relating to the profitability of First Greater Western Limited and the EPS growth of the Company over a five-year performance period which commenced on 1 April 2006.

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 40.

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:

	Date of service contract
Moir Lockhead	5 March 2001
Dean Finch	26 February 2004
David Leeder	3 September 2001
Sidney Barrie	31 August 2005

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.

During 2007 the Board, excluding the Non-Executive Directors, undertook a review of the level of fees paid to non-executive directors and requested assistance from MCG Consulting (referred to above) in the review process. That review concluded that such fees should be increased, based upon the level of fees paid to non-executive directors of companies of comparable market capitalisation.

Details of the fees paid to Non-Executive Directors are set out on page 40.

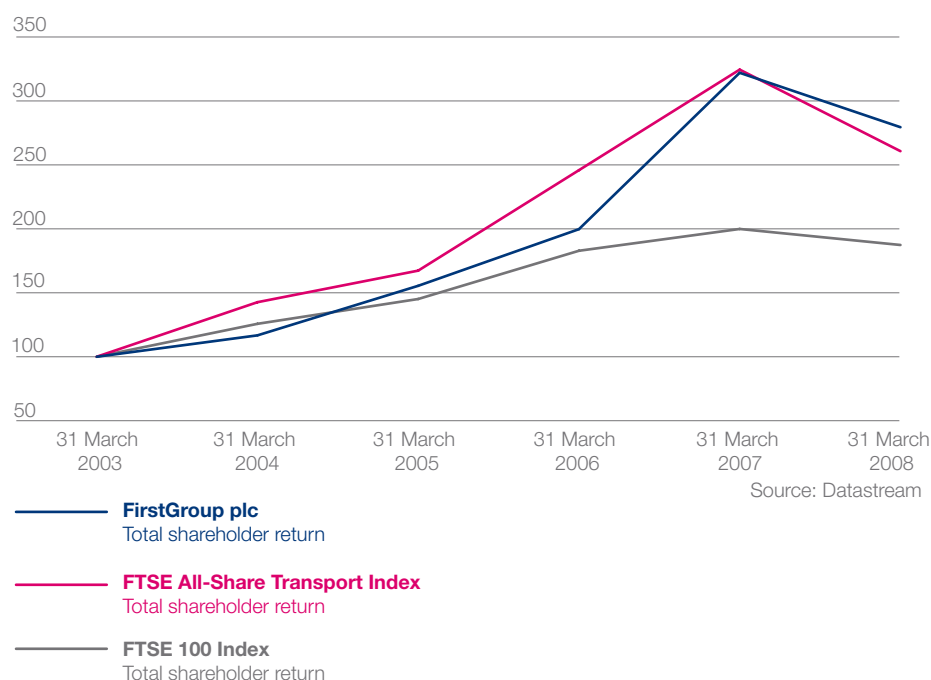
Non-Executive Directors, other than the Group Employee Director, cannot participate in any of the Company's share option schemes or the proposed LTIP and are not eligible to join a Company pension scheme. Each of the Non-Executive Directors (other than David Dunn, who, with effect from January 2006 elected to receive all of his fees in cash and Audrey Baxter, who receives all of her 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 the case of Martyn Williams, with effect from January 2006) 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 following graph shows, for the last five financial years of the Company, the total shareholder return on a holding of shares in the Company as against that of a hypothetical holding of shares made up of shares of the same kinds and number as those by reference to which the FTSE 100 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 Executive Share Option Scheme. 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.

Total shareholder return



Audited information

Market price of FirstGroup plc shares

The market price of FirstGroup plc shares at 31 March 2008 was 563.50p and the range during the year was 496.75p to 815p.

Directors' remuneration

Details of the Directors' remuneration for the year ended 31 March 2008 are set out on the following pages.

Emoluments and compensation

The total salaries, fees and benefits paid to, or receivable by, each person who served as a Director of the Company at any time during the year 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.

	Salary 2008 ¹ £000	Cash bonus 2008 £000	Benefits in kind 2008 ² £000	Fees 2008 £000	Total 2008 £000	Total 2007 £000
Executive Directors						
Moir Lockhead	580	407	30	–	1,017	745
Dean Finch	365	231	20	–	616	493
David Leeder	292	197	19	–	508	442
Sidney Barrie	275	196	11	–	482	357
Non-Executive Directors						
Martin Gilbert	–	–	–	180	180	132
David Begg	–	–	–	43	43	38
David Dunn	–	–	–	50	50	43
Jim Forbes	–	–	–	50	50	43
John Sievwright	–	–	–	43	43	38
Audrey Baxter	–	–	–	43	43	25
Martyn Williams	–	–	–	32	32	28
Total	1,512	1,031	80	441	3,064	2,384

¹ Dean Finch received a non-pensionable disturbance allowance of £59,322.

² The Directors received the following non-cash benefits in the year: Moir Lockhead: £24,000 company car, £5,000 private fuel and £1,000 medical insurance for himself and spouse; Dean Finch: £14,000 company car, £5,000 private fuel and £1,000 medical insurance for himself and family; David Leeder: £13,000 company car, £5,000 private fuel and £1,000 medical insurance for himself; Sidney Barrie: £10,000 car allowance and £1,000 medical insurance for himself and spouse.

Retirement benefits

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

	Moir Lockhead	Dean Finch	David Leeder	Sidney Barrie
	1	2	2	2
Scheme				
Normal retirement age	65 ³	60	60	60
Directors' contributions during the year (£)	36,213	14,100	14,100	16,290
Increase in accrued pensions during the year (net of inflation) (£ pa)	51,368	2,666	2,675	2,699
Increase in accrued pension during the year (£ pa)	62,708	3,555	3,397	2,995
Accrued pension as at 31 March 2008 (£ pa)	287,920	22,560	18,330	7,520
Transfer value of increase in accrued pension (net of inflation) during the year (£)	963,095	16,526	16,632	45,656
Transfer value of accrued pension at 31 March 2007 (£)	4,192,178	142,698	112,839	73,377
Transfer value of accrued pension at 31 March 2008 (£)	5,359,466	139,824	113,962	127,215
Increase/(decrease) in transfer value over the year, net of Director's contributions (£ pa)	1,131,075	(16,974)	(12,977)	37,548

¹ Aberdeen City Council No.2 Pension Fund.

² FirstGroup Flexible Benefits Scheme.

³ Normal retirement age under relevant scheme is 65 but benefits can be taken without reduction at 60 so transfer values for the purpose of this table have been calculated assuming immediate retirement. Guaranteed Minimum Pensions have been ignored for the purpose of the transfer value calculations.

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.

Directors' share options

The outstanding share options under the ESOS, deferred share bonus 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 (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 (number of shares)	Exercise price (pence)	Date from which exercisable	Expiry date
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 ¹ :	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
Sidney Barrie	Deferred share bonus ¹ :	2006	18,657	–	–	–	18,657	nil	1.4.11	1.4.16
		2007	–	16,983	–	–	16,983	nil	1.4.12	1.4.17
	SAYE:	2005/06	678	–	–	–	678	325	1.5.09	31.10.09
Dean Finch	ESOS:	2004	90,883 ²	–	90,883	–	–	275.08	10.6.07	10.6.14
	Deferred share bonus ¹ :	2004	27,029 ²	–	27,029	–	–	nil	1.4.07	1.4.14
		2005	38,344	–	–	–	38,344	nil	1.4.08	1.4.15
		2006	37,313	–	–	–	37,313	nil	1.4.11	1.4.16
		2007	–	24,342	–	–	24,342	nil	1.4.12	1.4.17
	Special share award:	2006	200,000	–	–	–	200,000	nil	31.3.11	30.3.12
David Leeder	ESOS:	2002	26,914	–	–	–	26,914	269	21.6.05	21.6.12
		2003	64,643	–	–	–	64,643	287	18.11.06	18.11.13
		2004	90,883 ²	–	90,883	–	–	275.08	10.6.07	10.6.14
	Deferred share bonus ¹ :	2004	19,941 ²	–	19,941	–	–	nil	1.4.07	1.4.14
		2005	29,311	–	–	–	29,311	nil	1.4.08	1.4.15
		2006	31,872	–	–	–	31,872	nil	1.4.11	1.4.16
		2007	–	20,792	–	–	20,792	nil	1.4.12	1.4.17
	SAYE:	2005/06	678	–	–	–	678	325	1.5.09	31.10.09
Martyn Williams	SAYE:	2004/05	567 ³	–	567	–	–	267	1.2.08	31.07.08
		2005/06	345	–	–	–	345	325	1.5.09	31.10.09
		2006/07	340	–	–	–	340	444	1.2.10	31.07.10
		2007/08	–	263	–	–	263	583	1.2.11	31.07.11

¹ The figures shown represent the number of nil-cost options which were granted under the deferred share element of the Executive Annual Bonus Plan in respect of the 2003/04, 2004/05, 2005/06 and 2006/07 financial years. The cash values of the 2007/08 award are Moir Lockhead: £135,575., Sidney Barrie: £65,313, Dean Finch: £76,980 and David Leeder: £65,753. 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 2011. The number of shares under option will depend on the market price of shares at the close of business on 14 May 2008.

² Exercised on 21 December 2007. The closing price on the date of exercise was 808.5p.

³ Exercised on 4 February 2008. The closing price on the date of exercise was 680.5p.

This report was approved by the Board of Directors, on the recommendation of the Remuneration Committee, on 8 May 2008 and signed on its behalf by



James Forbes
Chairman of the
Remuneration Committee

Directors' report

The Directors have pleasure in submitting their Annual Report and Financial Statements for the year ended 31 March 2008.

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 review and in the Finance Director's review set out on pages 3 to 27. Our review of the principal risks and uncertainties of the business is set out on pages 34 to 35.

Results and dividends

The results for the year are set out in the consolidated income statement on page 46. The Directors recommend payment of a final dividend of £50.4m (11.55p per share), which, with the interim dividend of £23.9m (5.5p per share) paid on 6 February 2008, gives a total dividend of £74.3m (17.05p per share) for the year. The proposed final dividend, if approved, will be paid on 22 August 2008 to shareholders on the register at the close of business on 18 July 2008.

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 13 May 2008, there were 438,278,798 ordinary shares of 5 pence each in issue including 395,071 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 2008 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 38 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 Executive Share Option Scheme and Executive Annual Bonus Plan 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 2007 authority was granted under section 166 of the Companies Act 1985 for the Company to purchase up to 10% of its ordinary shares. During the year, no ordinary shares were purchased. Under the existing authority, the Company may purchase up to 43,750,000 ordinary shares. This authority remains in place until the 2008 Annual General Meeting, when it is intended to seek a further renewal.

Articles of Association

The Articles of Association may be amended by special resolution of the shareholders. At the forthcoming Annual General Meeting, a resolution will be proposed to amend the existing Articles of Association to incorporate changes introduced by the Companies Act 2006. Further details are set out in the notice of Annual General Meeting accompanying this document.

Directors

The Directors of the Company who served during the year were Martin Gilbert, Moir Lockhead, Sidney Barrie, Audrey Baxter, David Begg, David Dunn, Dean Finch, Jim Forbes, David Leeder, John Siewwright and Martyn Williams. 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, David Dunn and David Begg will retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

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 37 to 41.

Directors' interests

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

	Ordinary 5p shares			
	At beginning of year or subsequent appointment		At end of year	
	Beneficial	Non-beneficial	Beneficial	Non-beneficial
Sidney Barrie	20,000	—	20,000	—
Audrey Baxter	3,619	—	7,281	—
David Begg	5,603	—	8,149	—
David Dunn	24,837	—	24,837	—
Dean Finch	16,411	—	66,650	—
Jim Forbes	21,467	—	24,470	—
Martin Gilbert	85,328	—	96,229	—
David Leeder	15,260	—	27,327	—
Moir Lockhead	1,174,412	470,690	1,174,412	470,690
John Sievwright	28,288	—	30,834	—
Martyn Williams	3,422	—	4,319	—

Details of the Directors' share options are set out in the Directors' Remuneration Report on pages 37 to 41. Moir Lockhead also holds nominal non-beneficial interests in a number of the Company's subsidiary undertakings.

Between 1 April 2008 and 14 May 2008, the following changes occurred to Directors' interests:

David Leeder acquired 25 shares on 25 April 2008 and 25 shares on 1 May 2008 pursuant to the Company's Buy As You Earn Scheme. On 25 April 2008, Martin Gilbert acquired 1,140 shares, Jim Forbes acquired 315 shares, each of David Begg and John Sievwright acquired 267 shares, Martyn Williams acquired 116 shares and Audrey Baxter acquired 396 shares under the standing arrangements whereby they have elected to receive 40% (except for Audrey Baxter who has 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 14 May 2008, 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	%
Ameriprise Financial, Inc.	35,070,076	8.01
Lloyds TSB Group plc	30,098,851	6.87
AXA S.A.	25,591,363	5.84
JP Morgan Chase & Co	21,423,964	4.89
Standard Life Investments Ltd	17,766,759	4.06
Legal & General plc	17,446,053	3.98
Resolution Investment Services Limited	13,759,891	3.14

Employees

The Group is committed to employee involvement and uses a variety of methods to inform, consult and involve its employees in the business. 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.

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 35 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 £120,000 during the year (2007: £100,000). 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 2008, the Group had the equivalent of 30 days' (2007: 31 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 (as defined in the Companies Act 1985) 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.

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, 10 July 2008 at 11.00 am. The notice of Annual General Meeting is contained in a separate letter from the Chairman accompanying this report.

Going concern

Whilst any consideration of future matters involves making a judgement, at a particular point in time, about future events which are inherently uncertain, after making enquiries, the Directors have formed the judgement, at the time of approving these financial statements, that there is a reasonable expectation that the Company and the Group have adequate resources to continue operating for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing these financial statements.

By order of the Board



Sidney Barrie
Company Secretary
14 May 2008

395 King Street
Aberdeen
AB24 5RP

Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the accounts. The Directors are required to prepare accounts for the Group in accordance with International Financial Reporting Standards ('IFRS') and have chosen to prepare Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice ('UK GAAP').

In the case of UK GAAP accounts, the Directors are required to prepare financial statements for each financial year which 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 these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In the case of IFRS accounts, International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'.

In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. Directors are also required to:

- 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 IFRS is 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
- prepare the accounts on a going concern basis unless, having assessed the ability of the Company to continue as a going concern, management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' report and Directors' remuneration report which comply with the requirements of the Companies Act 1985.

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

Consolidated income statement

Year ended 31 March 2008

	Notes	Adjusted results ¹ 2008 £m	Adjustments ² 2008 £m	Total 2008 £m	Adjusted results ¹ 2007 £m	Adjustments ² 2007 £m	Total 2007 £m
Revenue							
Continuing operations	3	4,707.6	–	4,707.6	3,708.8	–	3,708.8
Operating costs before profit/(loss) on disposal of properties							
Continuing operations		(4,347.5)	(98.4)	(4,445.9)	(3,449.6)	(51.9)	(3,501.5)
Operating profit before profit/(loss) on disposal of properties							
Continuing operations		360.1	(98.4)	261.7	259.2	(51.9)	207.3
Amortisation charges	14	–	(18.9)	(18.9)	–	(10.3)	(10.3)
Non-recurring bid costs	5	–	(7.2)	(7.2)	–	(19.3)	(19.3)
Other non-recurring items	5	–	(72.3)	(72.3)	–	(22.3)	(22.3)
		–	(98.4)	(98.4)	–	(51.9)	(51.9)
Profit/(loss) on disposal of properties		–	5.8	5.8	–	(3.7)	(3.7)
Operating profit	6	360.1	(92.6)	267.5	259.2	(55.6)	203.6
Investment income	3,8	14.9	–	14.9	9.4	–	9.4
Finance costs	9	(126.0)	(4.5)	(130.5)	(72.8)	–	(72.8)
Profit before tax		249.0	(97.1)	151.9	195.8	(55.6)	140.2
Tax	10	(58.2)	39.6	(18.6)	(51.1)	13.0	(38.1)
Profit for the year from continuing operations		190.8	(57.5)	133.3	144.7	(42.6)	102.1
Attributable to:							
Equity holders of the parent		177.7	(57.3)	120.4	134.1	(42.4)	91.7
Minority interests		13.1	(0.2)	12.9	10.6	(0.2)	10.4
		190.8	(57.5)	133.3	144.7	(42.6)	102.1
Basic earnings per share	11			27.7p			23.1p
Diluted earnings per share	11			27.4p			22.8p

Dividends of £69.5m (2007: £57.1m) were paid during the year. Dividends of £50.4m (2007: £45.6m) were proposed for approval in respect of the year.

1 Adjusted trading results before items noted in 2 below.

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

Consolidated statement of recognised income and expense

Year ended 31 March 2008

	2008 £m	2007 £m
Derivative hedging instrument movements	33.2	22.8
Deferred tax on derivative hedging instrument movements	(10.2)	2.0
Exchange differences on translation of foreign operations	(12.5)	(85.5)
Unrealised gains on executive deferred compensation plans	1.2	–
Actuarial gains on defined benefit pension schemes	37.1	116.9
Deferred tax on actuarial gains on defined benefit pension schemes	(10.4)	(35.0)
Net income recognised directly in equity	38.4	21.2
Profit for the year	133.3	102.1
Total recognised income and expense for the year	171.7	123.3
Attributable to:		
Equity holders of the parent	158.8	112.9
Minority interests	12.9	10.4
	171.7	123.3

Consolidated balance sheet

As at 31 March 2008

	Notes	2008 £m	2007 £m
Non-current assets			
Goodwill	13	1,281.3	468.8
Other intangible assets	14	367.5	60.8
Property, plant and equipment	15	1,923.7	1,059.7
Financial assets – derivative financial instruments	25	45.4	27.7
Investments		4.0	–
		3,621.9	1,617.0
Current assets			
Inventories	17	83.6	64.6
Trade and other receivables	18	594.0	377.3
Financial assets – cash and cash equivalents	21	242.3	411.2
– derivative financial instruments	25	78.1	8.3
		998.0	861.4
Non-current assets classified as held for sale	19	10.2	7.5
Retirement benefit surplus	36	186.2	57.1
Total assets		4,816.3	2,543.0
Current liabilities			
Trade and other payables	20	1,016.8	695.1
Tax liabilities		46.8	49.7
Financial liabilities – bank overdrafts and loans	22	26.4	1.8
– bonds	22	23.2	23.1
– obligations under finance leases	23	32.4	11.5
– loan notes	24	4.6	5.2
– derivative financial instruments	25	36.9	5.0
		1,187.1	791.4
Net current (liabilities)/assets		(189.1)	70.0
Non-current liabilities			
Financial liabilities – bank loans	22	1,745.1	310.5
– bonds	22	545.9	539.3
– obligations under finance leases	23	70.8	70.4
– loan notes	24	10.5	10.6
– derivative financial instruments	25	27.8	4.3
Retirement benefit obligation	36	97.2	33.3
Deferred tax liabilities	26	177.2	142.7
Long-term provisions	27	249.9	33.2
		2,924.4	1,144.3
Total liabilities		4,111.5	1,935.7
Net assets		704.8	607.3
Equity			
Share capital	28	21.9	21.9
Share premium account	29	447.8	447.8
Hedging reserves	29	49.7	26.7
Other reserves	29	4.6	4.6
Own shares	29	(7.6)	(17.4)
Translation reserves	30	(70.3)	(57.8)
Retained earnings	29	245.5	170.4
Equity attributable to equity holders of the parent		691.6	596.2
Minority interests		13.2	11.1
Total equity		704.8	607.3

Moir Lockhead

Dean Finch

Consolidated cash flow statement

Year ended 31 March 2008

Financial statements

	Note	2008 £m	2007 £m
Net cash from operating activities	32	365.8	295.5
Investing activities			
Interest received		14.0	9.4
Proceeds of disposal of property, plant and equipment		32.5	18.3
Purchases of property, plant and equipment		(302.6)	(251.2)
Grants received		–	29.1
Investment in joint venture		(1.2)	–
Acquisition of businesses		(1,464.1)	(17.9)
Net cash used in investing activities		(1,721.4)	(212.3)
Financing activities			
Monies received on exercise of share options		5.5	2.8
Dividends paid		(69.5)	(57.1)
Dividends paid to minority shareholders		(11.1)	(11.3)
Repayment of obligations under finance leases		(17.5)	(14.4)
Repayment of loan notes		(0.7)	(4.8)
Payment of new bank facility issue costs		(9.6)	–
Proceeds on issue of shares		–	216.9
Release of insurance captive assets		115.7	–
Repayment of borrowings		(377.4)	–
Proceeds of bank borrowings		1,556.1	22.4
Net cash from financing activities		1,191.5	154.5
Net (decrease)/increase in cash and cash equivalents before foreign exchange movements		(164.1)	237.7
Cash and cash equivalents at beginning of year		410.3	169.9
Effect of foreign exchange rate changes		(6.5)	2.7
Cash and cash equivalents at end of year		239.7	410.3
Cash and cash equivalents for cash flow statement purposes comprises:		2008 £m	2007 £m
Cash and cash equivalents per balance sheet		242.3	411.2
Overdrafts		(2.6)	(0.9)
		239.7	410.3

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

Year ended 31 March 2008

	2008 £m	2007 £m
Net (decrease)/increase in cash and cash equivalents in year before foreign exchange movements	(164.1)	237.7
Increase in debt and finance leases	(1,160.5)	(3.2)
Inception of new finance leases	–	(84.0)
Debt assumed on acquisition of businesses and subsidiary undertakings	(300.1)	–
Fees on issue of new loan facility	9.6	–
Other non-cash movements in relation to financial instruments	(2.1)	(0.8)
Foreign exchange differences	(27.6)	38.5
Movement in net debt in year	(1,644.8)	188.2
Net debt at beginning of year	(516.2)	(704.4)
Net debt at end of year	(2,161.0)	(516.2)

Notes to the consolidated financial statements

1 General information

FirstGroup plc is a company incorporated in the United Kingdom under the Companies Act 1985. 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 4 to 21.

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 93 to 100.

2 Significant accounting policies

Basis of accounting

The financial statements have been prepared in accordance with 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. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 March each year. 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.

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.

2 Significant accounting policies continued

Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current 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 from 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 which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement 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 IFRSs 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 (7 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 in UK Rail includes franchise agreement receipts from the Department for Transport (DfT) and Transport Scotland. 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. Where season tickets are issued in excess of one week's duration, the attributable share of income is deferred within creditors and is recognised in the income statement over the period covered by the season ticket.

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 are 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.

2 Significant accounting policies continued

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 the income statement for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the income statement 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 net foreign 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 exchange rates prevailing 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 spot 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 the income statement in the period in which they are incurred.

Operating profit

Operating profit is stated after charging intangible asset amortisation, 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 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 valuations 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 statement of recognised income and expense.

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 obligation 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.

Taxation

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 taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2 Significant accounting policies continued

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.

Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

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 the income statement.

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.

2 Significant accounting policies continued

Financial assets are classified into one of four primary categories:

Fair value through the income statement

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

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.

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 the income statement or Available For Sale. Such assets are carried at amortised cost. Gains and losses are recognised in the income statement to the extent that receivables are impaired.

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 the income statement 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 TOC's 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.

2 Significant accounting policies continued

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 counterparty 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.

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.

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 for the estimated cost of settling uninsured claims for incidents occurring prior to 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 determined at the grant date of the equity-settled share-based payments 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 date
IFRS 8	Operating segments	1 January 2009
Amendments to IAS 1	Presentation of financial statements	1 January 2009
Amendments to IAS 23	Borrowing costs	1 January 2009
Amendment to IFRS 2	Share-Based Payment: Vesting conditions and cancellations	1 January 2009
Amendments to IAS 32 and IAS 1	Puttable financial instruments and obligations arising on liquidation	1 January 2009
IFRS 3	Business combinations	1 July 2009
Amendments to IAS 27	Consolidated and separate financial statements	1 July 2009

2 Significant accounting policies continued

Interpretations		Effective date
IFRIC 12	Service concession arrangements	1 January 2008
IFRIC 14	IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction	1 January 2008
IFRIC 13	Customer loyalty programmes	1 July 2008

The Directors do not anticipate that the adoption of these standards or interpretations will have a material impact on the Group's accounts in the period of initial application.

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.

Laidlaw International, Inc fair value exercise

In accordance with International Financial Reporting Standard 3 Business combinations ("IFRS 3"), the Group has performed an exercise to fair value the assets and liabilities of Laidlaw International, Inc. which was acquired on 1 October 2007 (See note 31). The key sources of estimation and uncertainty in relation to this are as follows:

- IFRS 3 requires the identification and valuation of intangible assets. The techniques used to value these intangible assets are in line with internationally used models, which require an estimate of future cash flows from the acquired business and an allocation of this to the intangible. These estimates directly impact the valuation.
- The fair value of the provision required for litigation requires the estimation of liabilities likely to arise on legal claims. It is performed with reference to both in-house and external legal advice and the likely payout across a number of legal claims. The actual amount settled in respect of these claims may be different than the amount reserved.
- The fair value of the provision required for any remediation work in respect of environmental matters relating to acquired property, requires the identification of environmental matters and the estimate of costs of remediation. This has been done with reference to work performed by external environmental consultants. The actual amount paid in respect of this work may be different than the amount reserved.
- The self-insurance provision is management's best estimate of the likely settlement of incidents. The fair value of this provision has been based on independent actuarial advice.
- The fair value of deferred tax assets and liabilities is based on management's understanding of all transactions that have occurred, and their treatment under tax law. The amount of tax recoverable or payable may vary from the amount recognised dependent upon tax authorities' view of the treatment of these past transaction.

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 £1,281.3m (2007: £468.8m) as set out in note 13 and the carrying amount of other intangible assets at balance sheet date was £367.5m (2007: £60.8m) as set out in note 14.

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 future salary and pension increases along with assumptions about mortality rates. The most significant of these are the discount rate and inflation assumptions. A movement of 0.1% in the discount rate applied would impact operating profit and the balance sheet position by approximately £1.8m and £19m respectively. A movement of 0.1% in the inflation rate would impact operating profit and the balance sheet surplus by £2.7m and £11m respectively. The net pension surplus as at the balance sheet date was £89.0m (2007: net surplus of £23.8m) 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 insurance reserves as at the balance sheet date were £310.3m (2007: £70.9m) as set out in note 27.

3 Revenue

	2008 £m	2007 £m
Services rendered	4,707.6	3,708.8
Investment income (note 8)	14.9	9.4
Total revenue (as defined in IAS 18)	4,722.5	3,718.2

Revenue by business segment is set out in note 4 below.

4 Business and geographical segments

Business segments

Following the Laidlaw acquisition, for management purposes, the Group is now organised into four operating divisions – UK Bus, UK Rail, North America and Greyhound. These divisions are the basis on which the Group reports its primary segment information. 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 2008 are as follows:

	UK Bus £m	UK Rail £m	North America ² £m	Greyhound ² £m	Group items ³ £m	Total £m
Revenue	1,104.9	1,937.0	1,370.3	280.8	14.6	4,707.6
Segment results¹	122.0	120.0	130.7	8.8	(21.4)	360.1
Amortisation of intangible assets	–	(8.2)	(9.5)	(1.2)	–	(18.9)
Non-recurring bid costs	–	(3.5)	–	–	(3.7)	(7.2)
Other non-recurring items	–	(16.8)	(52.2)	(3.3)	–	(72.3)
Profit on disposal of properties	5.8	–	–	–	–	5.8
Operating profit	127.8	91.5	69.0	4.3	(25.1)	267.5
Investment income						14.9
Finance costs						(126.0)
One-off finance costs						(4.5)
Profit before tax						151.9
Tax						(18.6)
Profit for the year						133.3

	UK Bus £m	UK Rail £m	North America ² £m	Greyhound ² £m	Group items ³ £m	Total £m
Other information						
Capital additions	73.4	130.0	1,544.6	471.0	9.9	2,228.9
Depreciation, amortisation and impairment	71.5	36.9	97.7	15.0	3.9	225.0

	UK Bus £m	UK Rail £m	North America £m	Greyhound £m	Group items ³ £m	Eliminations £m	Total £m
Balance sheet							
Total assets	954.0	695.0	3,558.3	534.7	1,752.5	(2,678.2)	4,816.3
Liabilities	547.6	623.8	3,625.7	454.3	1,347.2	(2,678.2)	3,920.4
Unallocated corporate items							191.1
Total liabilities							4,111.5

1 Before amortisation charges, non-recurring bid costs, other non-recurring items and profit on disposal of properties.

2 Results of the acquired Laidlaw businesses have been consolidated from 1 October 2007 and therefore represent one half year's trading.

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

4 Business and geographical segments continued

The segment results for the year to 31 March 2007 are as follows:

	UK Bus £m	UK Rail £m	North America £m	Group items ² £m	Total £m
Revenue	1,073.7	1,824.1	802.9	8.1	3,708.8
Segment results¹	103.0	108.8	68.2	(20.8)	259.2
Amortisation of intangible assets	–	(8.2)	(2.1)	–	(10.3)
Non-recurring bid costs	–	(14.5)	–	(4.8)	(19.3)
Other non-recurring items	–	(21.3)	(1.0)	–	(22.3)
Loss on disposal of properties	(3.7)	–	–	–	(3.7)
Operating profit	99.3	64.8	65.1	(25.6)	203.6
Investment income					9.4
Finance costs					(72.8)
Profit before tax					140.2
Tax					(38.1)
Profit for the year					102.1

	UK Bus £m	UK Rail £m	North America £m	Group items ² £m	Total £m
Other information					
Capital additions	161.7	145.3	69.3	1.8	378.1
Depreciation and amortisation	70.7	21.8	53.0	4.5	150.0

	UK Bus £m	UK Rail £m	North America £m	Group items ² £m	Eliminations £m	Total £m
Balance sheet						
Total assets	1,378.0	561.3	1,307.7	191.6	(895.6)	2,543.0
Liabilities	1,042.8	491.6	758.3	379.0	(895.6)	1,776.1
Unallocated corporate items						159.6
Total liabilities						1,935.7

¹ Before amortisation charges, non-recurring bid costs, other non-recurring items and loss on disposal of properties.

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

Geographical segments

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

	2008 £m	2007 £m
Revenue		
United Kingdom	3,056.5	2,905.9
North America	1,651.1	802.9
	4,707.6	3,708.8

4 Business and geographical segments continued

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:

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2008 £m	2007 £m	2008 £m	2007 £m
United Kingdom	2,281.8	1,458.8	213.3	308.8
North America	2,534.5	1,084.2	2,015.6	69.3
	4,816.3	2,543.0	2,228.9	378.1

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

	2008 £m	2007 £m
Share-based payments	4.2	3.2
Loss on disposal of plant and equipment	1.4	1.9
	5.6	5.1

5 Non-recurring items and amortisation charges

	2008 £m	2007 £m
North America	55.5	1.0
UK Rail	16.8	21.3
European bid costs	3.7	4.8
UK Rail bid costs	3.5	14.5
(Profit)/loss on disposal of properties	(5.8)	3.7
Short term bank facility costs	4.5	—
Total non-recurring items	78.2	45.3
Amortisation of intangible assets	18.9	10.3
	97.1	55.6

North America

These reflect costs directly attributable to the integration of Laidlaw:

	£m
Legal and professional costs	16.5
Redundancy and staff related costs	11.5
Provision for excess buses	5.4
IT costs	5.6
Relocation of US head office	5.0
Safety expenses	3.0
Rebranding costs	2.2
Greyhound restructuring	1.9
Other integration costs	4.4
	55.5

Legal and professional costs comprise consultants and legal fees involved in planning and managing the integration. Redundancy and staff related costs reflect severance payments, relocation expenses, retention bonuses, recruitment costs and travel expenses. The impairment of excess buses represents write-down of the legacy First Student fleet having taken into account the Laidlaw fleet acquired. IT costs comprise primarily the costs of systems integration. Relocation of US head office reflects the remaining lease costs of premises which were closed down shortly after acquisition. Safety expenses include the costs of bringing the former Laidlaw businesses into line with FirstGroup standards and rebranding costs reflect the rebranding of primarily buses and signage.

UK Rail

UK Rail non-recurring costs of £16.8m (2007: £21.3m) were incurred during the year. These costs represent the one-off costs directly associated with the First Great Western remedial action plan which in total will cost £29m as agreed with the DfT. The 2007 UK Rail non-recurring charge related to the integration and other related costs of the First Capital Connect and First Great Western franchises.

5 Non-recurring items and amortisation charges continued

European bid costs

Bid costs of £3.7m (2007: £4.8m) represent the non-recurring costs of bidding for contracts and potential acquisitions in Germany and other European countries.

UK Rail bid costs

Bid costs of £3.5m (2007: £14.5m) were incurred during the year on our unsuccessful bid for the InterCity East Coast franchise. Last year's bid costs reflect significant bidding activity for three large franchises.

Profit/loss on disposal of properties

A profit on disposal of properties of £5.8m (2007: loss of £3.7m) was recorded during the year. The only significant disposal was the Acton Depot in London.

Short term bank facility costs

As part of the funding of the Laidlaw acquisition a short term loan facility was taken out which was subsequently extended. Due to the short term nature of this initial facility the arrangement fee and other costs associated with the facility have been recorded as a non-recurring cost within finance costs.

Amortisation of intangible assets

The charge for the year was £18.9m (2007: £10.3m) with the increase mainly due to the charge for amortisation of contract and trade-name intangibles arising on the Laidlaw acquisition in the six month period since acquisition.

Taxation

The tax benefit as a result of this non-recurring expenditure was a credit of £31.0m (2007: credit of £12.5m). In addition, there was also a one-off deferred tax credit of £8.6m as a result of the reduction in the corporation tax rate from 30% to 28%.

6 Operating profit

Operating profit has been arrived at after charging/(crediting):

	2008 £m	2007 £m
Depreciation of property, plant and equipment (note 15)	200.7	139.7
Impairment of property, plant and equipment (note 15)	5.4	–
Amortisation of intangible assets (note 14)	18.9	10.3
Cost of inventories recognised as an expense	490.2	370.0
Staff costs (note 7)	1,983.4	1,489.6
Auditors' remuneration for audit services (see below)	1.4	0.8
(Gains)/losses on hedging instruments in fair value hedges	(6.2)	14.3
Losses/(gains) on hedged item attributable to hedged risk (Bond 2019) in fair value hedges	6.2	(14.3)
Ineffectiveness arising from cashflow hedges	(1.4)	1.6
Ineffectiveness arising from net investment hedges	0.3	(0.3)

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

	2008 £m	2007 £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	1.3	0.7
Total audit fees	1.4	0.8
– Accounting and advisory services	0.3	–
– Tax services	0.6	0.1
– Due diligence	–	0.5
Total non-audit fees	0.9	0.6

In addition to the above, there are other fees incurred of £0.5m (2007: £2.6m) in respect of the Laidlaw acquisition which have been capitalised as goodwill.

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:

	2008 Number	2007 Number
Operational	100,048	69,874
Administration	5,637	4,359
	105,685	74,233

Their aggregate remuneration (including Executive Directors) comprised:

	2008 £m	2007 £m
Wages and salaries	1,820.1	1,362.4
Social security costs	135.7	101.6
Other pension costs (note 36)	27.6	25.6
	1,983.4	1,489.6

Wages and salaries include a charge in respect of share-based payments of £4.2m (2007: £3.2m).

Disclosures on Directors' remuneration, share options, long term incentive schemes and pension entitlements required by the Companies Act 1985 and those specified for audit by the Financial Services Authority are contained in the tables/notes within the Directors' remuneration report on pages 37 to 41 and form part of these audited financial statements.

8 Investment income

	2008 £m	2007 £m
Bank interest receivable	14.9	9.4

9 Finance costs

	2008 £m	2007 £m
Bond and bank borrowings	107.3	59.8
Loan notes	1.5	1.4
Finance charges payable in respect of finance leases	5.9	4.7
Total borrowing costs	114.7	65.9
Notional interest on long term provisions	11.3	6.9
Total finance costs before non-recurring items	126.0	72.8
Short term bank facility costs	4.5	—
	130.5	72.8

Finance costs are stated after charging fee expenses of £2.1m (2007: £0.8m). There was no interest capitalised into qualifying assets in either the year ended 31 March 2007 or 31 March 2008.

10 Tax on profit on ordinary activities

	2008 £m	2007 £m
Current tax	9.4	5.5
Deferred tax (note 26)	9.2	32.6
	18.6	38.1

UK corporation tax is calculated at 30% (2007: 30%) of the estimated assessable profit for the year.

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

10 Tax on profit on ordinary activities continued

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

	2008 £m	2008 %	2007 £m	2007 %
Profit before tax	152.0	100.0	140.2	100.0
Tax at the UK corporation tax rate of 30%	45.6	30.0	42.1	30.0
Tax effect of expenses that are not deductible in determining taxable profit	1.8	1.2	1.1	0.8
Income not subject to tax	(1.7)	(1.1)	(3.2)	(2.3)
Reduced tax in subsidiaries operating in other jurisdictions	(10.4)	(6.9)	3.0	2.2
Impact of reduction in UK tax rate on prior years' deferred tax	(8.6)	(5.7)	–	–
Impact of reduction in UK tax rate on current year's deferred tax	(1.4)	(0.9)	–	–
Adjustments to tax in respect of prior years	(6.7)	(4.4)	(4.9)	(3.5)
Tax expense and effective tax rate for the year	18.6	12.2	38.1	27.2

In addition to the amount charged to the income statement, tax relating to share-based payments, actuarial gains and cash flow and net investment hedges, amounting to £23.1m (2007: £28.9m) has been charged directly to equity.

11 Earnings per share (EPS)

Basic EPS is calculated by dividing the profit attributable to equity shareholders of £120.4m (2007: £91.7m) by the weighted average number of ordinary shares of 434.8m (2007: 397.9m).

Diluted EPS is calculated by dividing the profit attributable to equity shareholders of £120.4m (2007: £91.7m) by the weighted average number of ordinary shares of 439.8m (2007: 402.0m). 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. A reconciliation of the number of shares used in the basic and diluted measures is set out below:

	2008 Number m	2007 Number m
Weighted average number of shares used in basic calculation	434.8	397.9
SAYE share options	3.8	2.5
Executive share options	1.2	1.6
	439.8	402.0

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

	2008 £m	2008 Earnings per share pence	2007 £m	2007 Earnings per share pence
Profit for basic EPS calculation	120.4	27.7	91.7	23.1
Amortisation of intangible assets ¹	18.7	4.3	10.1	2.5
Non-recurring bid costs	7.2	1.6	19.3	4.9
Other non-recurring items	76.8	17.7	22.3	5.6
(Profit)/loss on disposal of properties	(5.8)	(1.3)	3.7	0.9
Taxation effect of adjustments	(31.0)	(7.1)	(13.0)	(3.3)
Non-recurring tax credit on change of UK rate	(8.6)	(2.0)	–	–
Profit for adjusted basic EPS calculation	177.7	40.9	134.1	33.7
Depreciation ²	199.8	45.9	138.8	34.9
Profit for adjusted cash EPS calculation ³	377.5	86.8	272.9	68.6

¹ Amortisation charge of £18.9m (2007: £10.3m) per note 14 less £0.2m (2007: £0.2m) attributable to equity minority interests.

² Depreciation charge of £200.7m (2007: £139.7m) per note 15 less £0.9m (2007: £0.9m) attributable to equity minority interests.

³ Excludes working capital movements.

Diluted EPS

	2008 pence	2007 pence
Diluted basic EPS	27.4	22.8
Diluted adjusted basic EPS	40.4	33.4

12 Dividends

	2008 £m	2007 £m
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 March 2007 of 10.5p (2006: 9.55p) per share	45.6	37.5
Interim dividend for the year ended 31 March 2008 of 5.5p (2007: 5.0p) per share	23.9	19.6
	69.5	57.1
Proposed final dividend for the year ended 31 March 2008 of 11.55p (2007: 10.5p) per share	50.4	45.6

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.

13 Goodwill

	2008 £m	2007 £m
Cost		
At 1 April	468.8	503.1
Additions	800.2	9.1
Reclassifications (note 14)	3.0	—
Exchange rate differences	9.3	(43.4)
At 31 March	1,281.3	468.8

Accumulated impairment losses

At 31 March	—	—
-------------	---	---

Carrying amount

At 31 March	1,281.3	468.8
-------------	---------	-------

Details of acquisitions in the year are shown in note 31. During the year, goodwill was reviewed for impairment in accordance with IAS 36. For the purposes of this impairment review goodwill has been valued 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 five year plan for the next four years and extrapolates cash flows for the following six years based on estimated growth rates of 2.5% for the United Kingdom and 3.0% for North America. A discount rate of 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 goodwill is split as follows:

	2008 £m	2007 £m
Carrying amount		
UK Bus	90.4	87.4
UK Rail	19.8	19.8
First Student	792.4	255.3
First Transit	147.8	54.7
First Services	50.6	51.6
Greyhound	175.5	—
Germany	4.8	—
	1,281.3	468.8

14 Other intangible assets

	Customer contracts £m	Greyhound brand and trade name £m	Franchise agreements £m	Total £m
Cost				
At 1 April 2007	21.2	–	56.3	77.5
Additions	276.6	48.8	–	325.4
Reclassifications ¹	(3.0)	–	–	(3.0)
Exchange rate differences	2.6	0.4	–	3.0
At 31 March 2008	297.4	49.2	56.3	402.9
Amortisation				
At 1 April 2007	4.0	–	12.7	16.7
Charge for year	9.5	1.2	8.2	18.9
Exchange rate differences	(0.2)	–	–	(0.2)
At 31 March 2008	13.3	1.2	20.9	35.4
Carrying amount				
At 31 March 2008	284.1	48.0	35.4	367.5

1 The reclassification of contracts acquired shown above relate to reassessments of provisional values within 12 months of acquisition. These amounts have been reclassified into goodwill (note 13).

	Customer contracts £m	Franchise agreements £m	Total £m
Cost			
At 1 April 2006	15.7	21.0	36.7
Additions	7.1	35.3	42.4
Exchange rate differences	(1.6)	–	(1.6)
At 31 March 2007	21.2	56.3	77.5
Amortisation			
At 1 April 2006	2.2	4.5	6.7
Charge for year	2.1	8.2	10.3
Exchange rate differences	(0.3)	–	(0.3)
At 31 March 2007	4.0	12.7	16.7
Carrying amount			
At 31 March 2007	17.2	43.6	60.8

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 derived from the rail franchise agreement that is realised as a result of recognising our share of the rail pension deficit and is amortised on a straight-line basis over the initial term of the franchise. The largest elements of the franchise intangible relates to the First ScotRail franchise (carrying amount £8.5m (2007: £11.0m)) and the First Great Western franchise (carrying amount £19.1m (2007: £22.9m)) which are being amortised on a straight-line basis over the initial term of each respective franchise.

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 2007	181.7	1,389.9	286.0	1,857.6
Subsidiary undertakings and businesses acquired	204.9	561.5	26.5	792.9
Additions in the year	11.7	142.3	156.4	310.4
Transfers from property development work in progress	22.9	—	—	22.9
Disposals	(5.8)	(82.3)	(48.9)	(137.0)
Reclassifications	2.8	—	(2.8)	—
Reclassified as held for sale	—	(28.7)	—	(28.7)
Exchange rate differences	(0.3)	(1.0)	(0.3)	(1.6)
At 31 March 2008	417.9	1,981.7	416.9	2,816.5
Accumulated depreciation and impairment				
At 1 April 2007	25.6	645.5	126.8	797.9
Charge for year	12.1	144.3	44.3	200.7
Impairment	—	5.4	—	5.4
Disposals	(1.7)	(74.9)	(13.4)	(90.0)
Reclassified as held for sale	—	(18.5)	—	(18.5)
Exchange rate differences	(0.7)	(1.0)	(1.0)	(2.7)
At 31 March 2008	35.3	700.8	156.7	892.8
Carrying amount				
At 31 March 2008	382.6	1,280.9	260.2	1,923.7

	Land and buildings £m	Passenger carrying vehicle fleet £m	Other plant and equipment £m	Total £m
Cost				
At 1 April 2006	157.0	1,331.9	203.7	1,692.6
Subsidiary undertakings and businesses acquired	—	5.0	—	5.0
Additions in the year	28.6	178.8	114.2	321.6
Disposals	(5.1)	(43.1)	(22.8)	(71.0)
Reclassifications	4.1	—	(4.1)	—
Reclassified as held for sale	—	(24.5)	—	(24.5)
Exchange rate differences	(2.9)	(58.2)	(5.0)	(66.1)
At 31 March 2007	181.7	1,389.9	286.0	1,857.6
Accumulated depreciation and impairment				
At 1 April 2006	22.1	621.1	122.9	766.1
Charge for year	5.2	107.7	26.8	139.7
Disposals	(0.9)	(38.7)	(19.8)	(59.4)
Reclassified as held for sale	—	(18.1)	—	(18.1)
Exchange rate differences	(0.8)	(26.5)	(3.1)	(30.4)
At 31 March 2007	25.6	645.5	126.8	797.9
Carrying amount				
At 31 March 2007	156.1	744.4	159.2	1,059.7

The carrying amount of the Group's passenger carrying vehicle fleet includes an amount of £100.8m (2007: £103.0m) in respect of assets held under finance leases.

At 31 March 2008 the Group had entered into contractual commitments amounting to £150.5m (2007: £224.0m), 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 pages 95 and 96.

17 Inventories

	2008 £m	2007 £m
Spare parts and consumables	76.2	48.1
Property development work in progress	7.4	16.5
	83.6	64.6

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 £5.5m (2007: £4.3m).

18 Trade and other receivables

	2008 £m	2007 £m
Amounts due within one year		
Trade receivables	429.8	265.0
Provision for doubtful receivables	(5.0)	(2.3)
Other receivables	95.1	61.8
Other prepayments and accrued income	74.1	52.8
	594.0	377.3

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 £594.0m, bank balances and cash of £242.3m, and derivative financial instruments of £123.5m.

The Group's maximum exposure to credit risk for all financial assets at the balance sheet date was £959.8m (2007: £824.5m). The exposure is spread over a large number of unconnected counterparties and the maximum single concentration with any one counterparty was £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 £5.0m (2007: £2.3m).

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, 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 counterparties for bank balances and derivative financial instruments are largely represented by banks with strong credit ratings assigned by international credit rating agencies. These counterparties are subject to approval by the Board of Directors. Board approved treasury policies require these institutions to have a credit rating of at least 'AA-' from an international credit rating agency. The term of the bank deposits is typically less than one month. Group Treasury policy limits the maximum deposit amount with any one counterparty to £50m and limits the maximum term to one month.

The movement in the provision for doubtful receivables and an analysis of financial assets which are past due but not impaired is set out on page 68.

18 Trade and other receivables continued

	2008 £m	2007 £m
Movement in the provision for doubtful receivables		
Balance at the beginning of the year	2.3	2.1
Subsidiary undertakings acquired	2.8	—
Amounts written off during the year	(1.3)	(0.4)
Amounts recovered during the year	(0.1)	(0.4)
Increase in allowance recognised in the income statement	1.2	1.1
Exchange	0.1	(0.1)
Balance at the end of the year	5.0	2.3
	2008 £m	2007 £m
Ageing of past due but not impaired trade receivables		
Less than 30 days	39.9	11.9
30 – 90 days	12.8	6.3
90 – 180 days	9.2	1.3
180+ days	11.3	5.0
Total	73.2	24.5

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

19 Non-current assets classified as held for sale

Non-current assets held for sale comprise North American yellow school buses which are surplus to requirements and are being actively marketed. 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 on to 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 resale assets.

20 Trade and other payables

	2008 £m	2007 £m
Amounts falling due within one year		
Trade payables	247.6	194.5
Other payables	115.7	104.7
Accruals and deferred income	597.3	346.4
Season ticket deferred income	56.2	49.5
	1,016.8	695.1

Trade payables and accruals principally comprise of amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 30 days (2007: 31 days). The Group has controls in place to ensure that all payments are paid within the appropriate credit timeframe.

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

21 Cash and cash equivalents

	2008 £m	2007 £m
Cash and cash equivalents	242.3	411.2

The fair value of cash and cash equivalents approximates to the carrying value.

Cash and cash equivalents includes ring-fenced cash of £166.0m (2007: £139.6m). 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 ratio at the balance sheet date.

22 Financial liabilities – borrowings

	2008 £m	2007 £m
Current financial liabilities		
Short-term bank loans	23.8	0.9
Bank overdrafts	2.6	0.9
	26.4	1.8
Finance leases (note 23)	32.4	11.5
Loan notes (note 24)	4.6	5.2
Bond 6.875% (repayable 2013) – accrued interest	20.2	20.1
Bond 6.125% (repayable 2019) – accrued interest	3.0	3.0
	23.2	23.1
Total current financial liabilities	86.6	41.6
Non-current financial liabilities		
Syndicated unsecured bank loans	1,742.3	308.2
Other loans	2.8	2.3
	1,745.1	310.5
Finance leases (note 23)	70.8	70.4
Loan notes (note 24)	10.5	10.6
Bond 6.875% (repayable 2013)	296.6	296.3
Bond 6.125% (repayable 2019)	249.3	243.0
	545.9	539.3
Total non-current financial liabilities	2,372.3	930.8
Total financial liabilities	2,458.9	972.4
Gross borrowings repayment profile		
Within one year or on demand	86.6	41.6
Between one and two years	1,387.1	24.5
Between two and five years	438.3	351.1
Over five years	546.9	555.2
	2,458.9	972.4

Included in the table above is the \$2,250m bank facility repayable in February 2009 with an unconditional call option by the Group to extend the facility on the same terms for one year to February 2010. This loan has been categorised as falling between one and two years on the basis that the option will be exercised, in accordance with IAS 1 Presentation of Financial Statements.

The non-current bond repayable in 2013 is measured on an amortised cost basis and had a par value of £300.0m. Interest on the 2013 bond is payable annually in April. The fair value of this bond is £324.0m (2007: £330.6m). 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. The 2019 bond had a par value of £250.0m. Interest on the 2019 bond is payable annually in January. The fair value of this bond is £234.1m (2007: £253.6m).

The Group considers that there is no material difference between the fair value of the short-term loans, the syndicated loans and the other 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:

	2008	2007
Bank overdraft	LIBOR + 1%	LIBOR + 1%
Bank borrowings	LIBOR + 0.225% to 0.75%	LIBOR + 0.225% to 0.35%
Bond 2013	7.10%	7.10%
Bond 2019	6.18%	6.18%
Finance leases	LIBOR up to average fixed rate of 6.95%	LIBOR up to average fixed rate of 6.85%
Loan notes	LIBOR – 0.5% up to total fixed rate of 11.0%	LIBOR – 0.5% up to total fixed rate of 11.0%

Carrying value of gross borrowings by currency

	2008 £m	2007 £m
Sterling	859.5	923.3
Euro	19.6	9.4
US Dollar	1,474.0	1.2
Canadian Dollar	105.8	38.5
Currency Swaps		
US Dollar	250.0	250.0
Sterling	(250.0)	(250.0)
	2,458.9	972.4

	2008					2007				
Maturity of non-current financial liabilities	Debt £m	Finance leases £m	Loan notes £m	Bonds £m	Total £m	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	1.0	12.9	10.6	–	24.5
Due in more than two years but not more than five years	387.3	50.9	–	–	438.2	309.4	41.7	–	–	351.1
Due in more than five years	0.1	1.0	–	545.9	547.0	0.1	15.8	–	539.3	555.2
Total	1,745.1	70.8	10.5	545.9	2,372.3	310.5	70.4	10.6	539.3	930.8

Borrowing facilities

The Group had £587.2m (2007: £201.3m) of undrawn committed borrowing facilities as at 31 March 2008. Total bank borrowing facilities at 31 March 2008 stood at £2,471.5m (2007: £596.0m) of which £2,394.6m (2007: £520.0m) was committed and £76.9m (2007: £76.0m) was uncommitted.

23 Finance leases

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

	2008 £m	2007 £m
Due in less than one year	32.4	11.5
Due in more than one year but not more than two years	18.9	12.9
Due in more than two years but not more than five years	50.9	41.7
Due in more than five years	1.0	15.8
Total	103.2	81.9

The lease obligations are denominated in Sterling, US Dollars and Canadian Dollars. The Sterling fixed rate leases of £1.8m (2007: £2.5m) have an average remaining life of five years and an effective borrowing rate of 6.77% (2007: 6.85%). The US Dollar fixed rate leases of £25.6m (2007: £nil) have an average remaining life of two years and an effective borrowing rate of 7.33%. The Canadian Dollar fixed rate leases of £4.0m (2007: £1.2m) have an average remaining life of three years and an effective borrowing rate of 7.85% (2007: 6.70%). The Group considers there to be no material difference between the fair value of the finance leases and the carrying amount in the balance sheet.

24 Loan notes

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

	2008 £m	2007 £m
Due in less than one year	4.6	5.2
Due in more than one year but not more than two years	10.5	10.6
Total	15.1	15.8

The loan notes have been classified by reference to the earliest date on which the loan note holder can request redemption. Loan notes of £9.7m (2007: £14.9m) are supported by unsecured bank guarantees.

The loan notes have an average effective borrowing rate of 8.52% (2007: 8.20%) and an average remaining term of eight years (2007: 10 years) assuming that holders do not request redemption. The fair value of the loan notes has been determined to be £20.1m (2007: £20.7m). 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)	23.9	24.9
Coupon swaps (fair value hedge)	1.5	–
Fuel derivatives (cash flow hedge)	20.0	2.8
	45.4	27.7

Current assets

Cross currency swaps (net investment hedge)	10.5	2.9
Coupon swaps (fair value hedge)	–	1.2
Fuel derivatives (cash flow hedge)	67.6	4.2
	78.1	8.3

Total assets	123.5	36.0
---------------------	--------------	-------------

Current liabilities

Interest rate swaps (cash flow hedge)	26.7	0.3
Coupon swaps (fair value hedge)	7.4	–
Fuel derivatives (cash flow hedge)	–	1.4
Currency forwards (cash flow hedge)	0.5	3.3
	34.6	5.0

Non-current liabilities

Interest rate swaps (cash flow hedge)	27.8	–
Coupon swaps (fair value hedge)	–	4.1
	27.8	4.1

Derivatives classified as held for trading

Current liabilities

Interest rate collars	2.3	–
-----------------------	-----	---

Non-current liabilities

Interest rate collars	–	0.2
Total current liabilities	36.9	5.0
Total non-current liabilities	27.8	4.3

Total liabilities	64.7	9.3
--------------------------	-------------	------------

Total cash flow hedges are £32.6m (2007: £2.0m). Total fair value hedges are £(5.9)m (2007: £(2.9)m). Total net investment hedges are £34.4m (2007: £27.8m).

The fair value of derivative financial instruments is determined by counterparties with whom the Group holds the derivative.

During the year £28.2m was credited to the hedging reserve in respect of cash flow hedges (2007: £1.5m debit).

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

25 Derivative financial instruments continued

	2008 £m	2007 £m
Finance cost	(2.8)	(0.8)
Operating cost before profit/(loss) on disposal of properties	2.4	5.4
	(0.4)	4.6

Financial risk management

In addition to certain pension risks, the most material financial risks faced by the Group are 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 treasury 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 Group has a diversified funding structure largely represented by medium-term unsecured syndicated committed bank facilities and long-term unsecured bond debt.

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. The minimum headroom required by policy of £175m was increased from £100m in March 2008. At 31 March 2008, the total amount of these facilities stood at £2,395.0m, and headroom was £587.2m. Of these facilities, the earliest contractual expiry date relates to a \$2,250m bank facility, which was undertaken to part finance the Laidlaw International, Inc acquisition, which is due to expire in February 2010. Largely due to the seasonality of the US school bus business, headroom during an accounting period tends to reduce by September and increase again by March.

The average duration of net debt (excluding ring-fenced cash) at 31 March 2008 was 3.5 years (2007: 6.4 years). The reduction in duration is largely due to the acquisition bridge term loan of \$2,250m which expires in February 2010.

The following table details the Group's expected maturity for its non-derivative financial instruments. The table has been prepared on an undiscounted cash flow basis.

	2008						2007					
	On demand £m	<1 year £m	1-2 years £m	2-5 years £m	>5 years £m	Total £m	On demand £m	<1 year £m	1-2 years £m	2-5 years £m	>5 years £m	Total £m
Debt – Term	–	–	1,124.8	–	–	1,124.8	–	–	–	–	0.1	0.1
– Revolver	–	–	231.5	386.0	–	617.5	–	–	–	309.4	–	309.4
– Other	24.6	1.8	1.4	1.3	0.1	29.2	–	1.8	1.0	–	–	2.8
Finance leases	–	32.4	18.9	51.0	0.9	103.2	–	11.5	12.9	41.7	16.2	82.3
Loan notes	–	4.6	10.5	–	–	15.1	–	5.2	10.6	–	–	15.8
Bonds	–	23.1	–	–	545.9	569.0	–	23.1	–	–	539.3	562.4
Trade payables	247.6	–	–	–	–	247.6	194.5	–	–	–	–	194.5
Total	272.2	61.9	1,387.1	438.3	546.9	2,706.4	194.5	41.6	24.5	351.1	555.6	1,167.3

The following table details the Group's expected maturity for its derivative financial instruments excluding fuel derivatives. The amounts in this table are different to the balance sheet as the table is prepared on an undiscounted cash flow basis.

	2008					2007				
	<1 year £m	1-2 years £m	2-5 years £m	>5 years £m	Total £m	<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	0.3	–	–	–	0.3
Coupon swaps – receivable	(15.3)	(15.3)	(45.9)	(76.6)	(153.1)	(18.3)	(15.3)	(45.9)	(91.9)	(171.4)
Coupon swaps – payable	22.4	14.3	45.2	90.0	171.9	17.0	16.9	48.9	103.9	186.7
Cross currency swaps – receivable	(18.4)	(14.3)	(14.8)	–	(47.5)	(17.0)	(16.9)	(33.0)	–	(66.9)
Cross currency swaps – payable	7.6	7.9	9.8	–	25.3	14.0	13.0	26.8	–	53.8
Interest rate collars	2.3	–	–	–	2.3	–	0.2	–	–	0.2
	25.5	13.9	3.8	13.4	56.6	(4.0)	(2.1)	(3.2)	12.0	2.7

Total amounts payable per the above table are £257.2m (2007: £241.0m). Total amounts receivable per the table above are £200.6m (2007: £238.3m).

No derivative financial instruments were due on demand in either the year to 31 March 2008 or the year to 31 March 2007.

25 Derivative financial instruments continued

Currency risk

Currency risk is the risk of financial loss to net assets, earnings and cash flows reported in Sterling.

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% of US Dollar net assets and 75% of other currencies to be hedged.

As at 31 March 2008, 85% (2007: 33%) of US Dollar denominated net assets were hedged with US Dollar denominated debt and currency swaps. Net assets denominated in all other currencies were hedged above 75% with foreign currency debts.

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 so that exposure to EPS on a year-to-year basis is not material. Group treasury policy requires a minimum average of 25% of such exposure to be hedged on a rolling 18 month basis. Cash flow exposures are not material.

The following analysis details the Group's sensitivity to a 10% change 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.

	2008 £m	2007 £m
Impact on profit after taxation	(0.1)	4.7
Impact on hedging reserve	(4.6)	(2.7)

Interest rate risk

The Group has variable rate debt and variable rate cash, 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 2008 to March 2011.

At 31 March 2008, 89% (2007: 81%) of net debt was fixed. This fixed rate protection had an average duration of 2.7 years (2007: 3.4 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 1% increase in interest rates throughout the reporting period with all other variables held constant:

	2008 £m	2007 £m
Impact on profit after taxation	0.5	—
Impact on hedging reserve	19.2	—

It should be noted that the sensitivity analysis above may not be representative of future accounting periods, as variable rate debt undertaken to purchase Laidlaw International, Inc was entered into on 1 October 2007, and a full year effect is not included.

Before hedging actions, the Company's sensitivity to interest rates has increased during the current period due to an increase in floating rate debt.

25 Derivative financial instruments continued**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	
	2008 %	2007 %	2008 £m	2007 £m	2008 £m	2007 £m
Less than one year	3.72	6.26	250	57	(25.8)	—
One to two years	4.03	—	625	—	(20.0)	—
Two to five years	5.26	—	500	—	(8.7)	—
More than five years	6.13	6.13	250	250	(0.3)	(5.9)

The interest rate swaps with a duration of more than five years are fair value hedges of the LIBOR element within the £250m bond. All other swaps are cash flow hedges of variable rate interest.

Commodity 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, so that the businesses affected have time to prepare for potentially higher costs after the hedge expires. The Group uses a range of cash flow hedge financial instruments to achieve significant fixed price certainty. During the year to 31 March 2008, the Group hedged 100% of diesel price risk in the UK and 49.5% crude price risk in the US.

The Group has also entered into swaps for periods from April 2008 to March 2011 with the majority of these swaps relating to the year to 31 March 2009. 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 taxation, if the price of crude oil had been \$10 per barrel higher throughout the year and on equity if the price of crude oil had been \$10 per barrel higher at the year end.

	2008 £m	2007 £m
Impact on profit after taxation	(3.4)	5.8
Impact on hedging reserve	22.1	9.8

The impact on profit after taxation in the above table for 2008 is a loss mainly because an element of Laidlaw's fuel consumption was not hedged. This compares to a gain in 2007 arising from the value of non-qualifying fuel derivatives.

It should be noted that the sensitivity analysis above may not be an accurate guide to exposures for future periods, as Laidlaw International, Inc was purchased on 1 October 2007. Volumes at risk for the year to 31 March 2009 is 5,009,106 barrels of which 54.8% is hedged to diesel price risk and 45.2% is hedged to crude price risk.

Total volume hedged in the financial year to 31 March 2008 was 3,766,133 barrels.

26 Deferred tax

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

	Accelerated tax depreciation £m	Other temporary differences £m	Tax losses £m	Total £m
At 1 April 2006	172.1	(22.4)	(65.1)	84.6
Charge to income	4.0	20.7	7.9	32.6
Charge to equity	–	30.4	–	30.4
Exchange differences	(11.0)	(1.1)	7.2	(4.9)
At 31 March 2007	165.1	27.6	(50.0)	142.7
Charge to income	4.0	38.4	(33.2)	9.2
Charge to equity	–	25.1	–	25.1
Acquisition of subsidiaries	75.3	(4.0)	(70.2)	1.1
Exchange differences	(0.4)	(0.6)	0.1	(0.9)
At 31 March 2008	244.0	86.5	(153.3)	177.2

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 £199m (2007: £177m). 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.

The UK Government has announced that UK Industrial Buildings Allowances will be abolished. This change in tax law is expected to be enacted during the year ended 31 March 2009 and is expected to affect the carrying value of deferred tax at 31 March 2009. The deferred tax liability on UK property will increase at 31 March 2009 because there will be a reduction in the tax base of property that would have qualified for Industrial Buildings Allowances prior to abolition.

No deferred tax asset has been recognised in respect of £70m (2007: £10m) of capital losses.

	Insurance claims ¹ £m	Legal and other £m	Pensions £m	Total £m
At 1 April 2007	26.9	–	6.3	33.2
Provided in the year	83.6	–	–	83.6
Utilised in the year	(67.9)	(2.1)	(0.4)	(70.4)
Acquisition of subsidiaries	148.4	45.1	–	193.5
Notional interest	11.3	–	–	11.3
Exchange rate differences	(0.6)	(0.7)	–	(1.3)
At 31 March 2008	201.7	42.3	5.9	249.9

¹ Insurance claims accruals due within one year at 31 March 2008 amounted to £108.6m (2007: £44.0m) 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.

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 10 years. Other items also include 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 significant increases in the insurance claims and legal and other provisions are due to the acquisition of Laidlaw International, Inc during the year.

The pension provision relates to certain unfunded obligations that arose on the acquisition of certain UK Bus companies. It is anticipated that this will be utilised over 10 to 20 years.

28 Called up share capital**Authorised:**

	2008 £m	2007 £m
4,600m (2007: 600m) ordinary shares of 5p each	230.0	30.0

Allotted, called up and fully paid:

438.3m (2007: 438.3m) ordinary shares of 5p each	21.9	21.9
--	-------------	------

	Number m	£m
At 1 April 2007 and 31 March 2008	438.3	21.9

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

29 Statement of changes in equity

	Hedging reserve £m	Share premium account £m	Own shares £m	Retained earnings £m
At 1 April 2006	1.9	238.8	(26.6)	52.9
Retained profit for the financial year	–	–	–	91.7
Dividends paid	–	–	–	(57.1)
Premium arising on issue of equity shares	–	219.4	–	–
Expenses on issue of equity shares	–	(10.4)	–	–
Movement in EBT, QUEST and treasury shares during the year	–	–	9.2	(6.3)
Current tax on share-based payments	–	–	–	1.5
Actuarial gain on defined benefit pension schemes	–	–	–	116.9
Deferred tax on actuarial gains on defined benefit pension schemes	–	–	–	(35.0)
Derivative hedging instrument movements	22.8	–	–	–
Deferred tax on derivative hedging instrument movements	2.0	–	–	–
Share-based payments provision	–	–	–	3.2
Deferred tax on share-based payments	–	–	–	2.6
At 31 March 2007	26.7	447.8	(17.4)	170.4
Retained profit for the financial year	–	–	–	120.4
Dividends paid	–	–	–	(69.5)
Movement in EBT, QUEST and treasury shares during the year	–	–	9.8	(5.4)
Current tax on share-based payments	–	–	–	2.0
Actuarial gains on defined benefit pension schemes	–	–	–	37.1
Deferred tax on actuarial gains on defined benefit pension schemes	–	–	–	(10.4)
Unrealised gains on Executive Deferred Compensation Plans	–	–	–	1.2
Derivative hedging instrument movements	33.2	–	–	–
Deferred tax on derivative hedging instrument movements	(10.2)	–	–	–
Share-based payments provision	–	–	–	4.2
Deferred tax on share-based payments	–	–	–	(1.7)
Change in equity for change in UK corporation tax rate	–	–	–	(2.8)
At 31 March 2008	49.7	447.8	(7.6)	245.5

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 and last year's rights issue in respect of the Laidlaw International, Inc acquisition. 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.

29 Statement of changes in equity continued

The movement in the hedging reserve was as follows:

	2008 £m	2007 £m
Balance at beginning of financial year	26.7	1.9
Gains/(losses) recognised:		
Interest rate swaps	(54.5)	–
Currency forwards	–	(3.3)
Cross-currency swaps	4.6	28.8
Fuel derivatives	82.7	1.8
Transferred to income statement:		
Interest rate swaps	–	0.9
Currency forwards	2.8	–
Fuel derivatives	(2.4)	(5.4)
Tax on derivative hedging instrument movements	(10.2)	2.0
Balance at end of financial year	49.7	26.7

Own shares

The number of own shares held by the Group at the end of the year was 1,686,884 (2007: 4,318,925) FirstGroup plc ordinary shares of 5p each. Of these, 1,199,318 (2007: 951,998) were held by the FirstGroup plc Employee Benefit Trust, 32,520 (2007: 32,520) by the FirstGroup plc Qualifying Employee Share Ownership Trust and 455,046 (2007: 3,334,407) 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 2008 was £9.5m (2007: £28.7m).

	Capital redemption reserve £m	Capital reserve £m	Total other reserves £m
At 31 March 2008 and 31 March 2007	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 2008.

The capital redemption reserve represents the cumulative par value of all shares bought back and cancelled. The reserve is not distributable.

The capital reserve arose on acquisitions in 2000. The reserve is not distributable.

30 Translation reserves

	£m
At 1 April 2006	27.7
Movement for the financial year	(85.5)
At 31 March 2007	(57.8)
Movement for the financial year	(12.5)
At 31 March 2008	(70.3)

The translation reserve records exchange differences arising from the translation of the accounts of foreign currency denominated subsidiaries offset by movements on loans used to hedge the net investment in foreign subsidiaries.

31 Acquisition of businesses and subsidiary undertakings

	Laidlaw £m	Other £m	2008 Total £m	2007 £m
Provisional fair values of net assets acquired:				
Property, plant and equipment	784.3	8.6	792.9	5.0
Intangible assets	325.2	0.2	325.4	7.1
Other current assets	353.6	1.3	354.9	0.1
Cash at bank and in hand	–	0.2	0.2	–
Other creditors	(194.1)	(6.8)	(200.9)	(3.4)
Net debt	(298.5)	(1.6)	(300.1)	–
Pension deficit	(23.0)	–	(23.0)	–
Provisions for liabilities and charges	(273.5)	–	(273.5)	–
Deferred tax	(0.5)	(0.6)	(1.1)	–
	673.5	1.3	674.8	8.8
Goodwill (note 13)	776.0	24.2	800.2	9.1
Satisfied by cash paid and payable	1,449.5	25.5	1,475.0	17.9

The businesses and subsidiary undertakings acquired during the year contributed £125.1m (2007: £5.1m) to the Group's net operating cash flows and utilised £35.6m for capital expenditure. In addition £115.7m was released from the Laidlaw insurance captive.

If the acquisition of the businesses and subsidiary undertakings acquired during the year had been completed on the first day of the financial year, Group revenues from these acquisitions for the period would have been £1,643.4m and the Group adjusted operating profit from these acquisitions attributable to equity holders of the parent would have been £146.4m.

The businesses acquired during the year contributed £872.1m (2007: £10.3m) to Group revenue and £84.3m (2007: £2.5m) to Group adjusted operating profit from date of acquisition to 31 March 2008.

Businesses and subsidiary undertakings acquired were:

	% voting equity instruments acquired	Date acquired
Arthur Merl GmbH & Co KG	100	1 May 2007
Hutchison's Coaches (Overtown) Limited	100	28 June 2007
Quatrone Transportation, Inc	100	29 June 2007
Chester City Transport Limited	100	2 July 2007
Laidlaw International, Inc	100	1 October 2007
Romano School Bus Service, Inc	100	31 January 2008
King Transportation Limited	100	1 February 2008
Honey Harbour – Park Severn Bus Hires Limited	100	29 February 2008

31 Acquisition of businesses and subsidiary undertakings continued**Acquisition of Laidlaw International, Inc**

On 1 October 2007 the Group acquired Laidlaw International, Inc. The details of the acquisition, provisional fair value adjustments and GAAP adjustments are set out below:

		Book value 01/10/07 \$m	Fair value adjustments \$m	GAAP adjustments \$m	Acquired value \$m
Property, plant and equipment	a	1,623.7	(31.5)	–	1,592.2
Intangible assets	b	73.2	586.9	–	660.1
Current assets	c	736.9	(19.1)	–	717.8
Current liabilities	d	(349.7)	(137.3)	–	(487.0)
Insurance provision	e	(411.6)	(52.0)	–	(463.6)
Pension deficit	f	(27.7)	–	(19.0)	(46.7)
Deferred tax	g	201.1	(202.1)	–	(1.0)
Income taxes recoverable		1.7	(0.4)	–	1.3
Net debt	h	(539.2)	(66.8)	–	(606.0)
Net assets		1,308.4	77.7	(19.0)	1,367.1
Total cost of acquisition (excluding acquired debt)					2,941.5
Net assets at fair value					(1,367.1)
Provisional goodwill					1,574.4

The acquisition balance sheet has been adjusted to reflect fair values and GAAP adjustments. These adjustments represent:

- (a) Property, plant and equipment was valued at market value by third party specialists at date of acquisition. This includes the assets brought on to the balance sheet as a result of (h) below.
- (b) Intangible assets on acquisition represent customer contracts acquired in Laidlaw Educational Services and Laidlaw Transit Services and the Greyhound trade name.
- (c) Current assets were valued at the lower of cost or net realisable value.
- (d) Current liabilities represent additional liabilities for change of control payments arising on acquisition, environmental reserves, legal reserves, provision for safety-related items and provision for loss-making contracts.
- (e) Insurance reserves were established based on advice from third-party Actuaries.
- (f) Pension scheme assets and liabilities were valued on an IAS 19 basis by third party Actuaries at date of acquisition.
- (g) Deferred tax was provided on all fair value adjustments. In addition provision was made for specific tax risks.
- (h) Certain bus leases previously treated as operating leases were reclassified as finance leases.

Laidlaw International, Inc contributed \$1,732.9m of revenue and \$169.3m of adjusted operating profit in the period between the date of acquisition and the balance sheet date.

If the acquisition of Laidlaw International, Inc had been completed on the first day of the financial year, Group revenues for the period would have been \$3,242.1m and adjusted operating profit would have been \$289.9m based on actual results since date of acquisition and Laidlaw management accounts for the six months prior to acquisition reflecting, where appropriate, fair value adjustments.

32 Notes to the consolidated cash flow statement

	2008 £m	2007 £m
Operating profit before profit/(loss) on disposal of properties	261.7	207.3
Adjustments for:		
Depreciation charges	200.7	139.7
Impairment of fixed assets	5.4	–
Amortisation of intangible assets	18.9	10.3
Share-based payments	4.2	3.2
Loss on disposal of plant and equipment	1.4	1.9
Operating cash flows before working capital	492.3	362.4
Increase in inventories	(7.7)	(8.8)
Decrease/(increase) in receivables	6.2	(25.8)
(Decrease)/increase in payables	(20.0)	40.1
Cash generated by operations	470.8	367.9
Corporation tax paid	(6.7)	(5.5)
Interest paid	(93.9)	(62.3)
Interest element of finance lease payments	(4.4)	(4.6)
Net cash from operating activities	365.8	295.5

33 Contingent liabilities

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 £383.5m (2007: £264.1m) and letters of credit for £245.1m (2007: £123.6m). The performance bonds relate to the North American businesses of £231.4m (2007: £132.0m) and the UK Rail franchise operations of £152.1m (2007: £132.1m). The letters of credit relate substantially to insurance arrangements in the UK and North America.

The Company has provided unsecured loan facilities of £103.0m (2007: £103.0m) to First Greater Western Limited, a £46.0m (2007: £46.0m) unsecured loan facility to First Capital Connect Limited, a £3.2m (2007: £3.2m) unsecured loan facility to First/Keolis TransPennine Limited, and a £13.6m (2007: £13.6m) unsecured loan facility to First ScotRail Limited. Under these facilities, £72.0m (2007: £10.0m) was drawn at 31 March 2008 by First Greater Western Limited and £21.0m (2007: £nil) was drawn at 31 March 2008 by First Capital Connect Limited. These facilities represent contingent liabilities of the Company in relation to these subsidiaries, but they do not represent contingent liabilities of the Group.

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 £2,394.5m (2007: £520.0m) syndicated unsecured bank facilities.

34 Operating lease arrangements

	2008 £m	2007 £m
Minimum lease payments made under operating leases recognised in income statement for the year:		
Plant and machinery	17.1	8.0
Track and station access	553.1	540.1
Hire of rolling stock	147.8	152.3
Other assets	36.6	20.1
	754.6	720.5

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:

	2008 £m	2007 £m
Within one year	731.0	777.4
In the second to fifth years inclusive	2,700.1	2,727.9
After five years	99.8	402.4
	3,530.9	3,907.7

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 £2,580.0m (2007: £2,972.0m). They also have contracts under which they lease rolling stock of £675.0m (2007: £818.0m).

35 Share-based payments**Equity-settled share option plans****(a) Save as you earn (SAYE)**

The Group operates an Inland Revenue approved savings related share option scheme. The scheme is based on eligible employees being granted options and their agreement to opening a sharesave account with a nominated savings carrier and to save weekly or monthly over a specified period. Sharesave accounts are held with Equiniti 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.

Outstanding options are as follows:

	SAYE 2003 Options Number	SAYE 2004 Options Number	SAYE April 2006 Options Number	SAYE Dec 2006 Options Number	SAYE Dec 2007 Options Number
Outstanding at the beginning of the year	102,946	2,295,787	1,881,793	2,455,488	–
Awarded during the year	–	–	–	–	2,391,606
Exercised during the year	(49,288)	(2,037,986)	(9,424)	(4,842)	–
Lapsed during the year	(53,658)	(52,830)	(122,796)	(164,906)	(28,489)
Outstanding at the end of the year	–	204,971	1,749,573	2,285,740	2,363,117
Exercisable at the end of the year	–	204,971	–	–	–
Weighted average exercise price (pence)	232.0	267.0	325.0	444.0	583.0
Weighted average share price at date of exercise (pence)	665.9	623.7	641.2	625.0	N/A

35 Share-based payments continued**(b) Executive share option scheme (ESOS)**

Options are exercisable between three and 10 years of the date of grant.

Outstanding options are as follows:

	ESOS 2001 Options Number	ESOS 2002 Options Number	ESOS 2003 Options Number	ESOS 2004 Options Number
Outstanding at the beginning of the year	309,517	444,120	674,663	1,276,141
Forfeited during the year	–	–	(9,536)	(4,723)
Exercised during the year	(60,606)	(94,758)	(182,577)	(651,167)
Outstanding at the end of the year	248,911	349,362	482,550	620,251
Exercisable at the end of the year	248,911	349,362	482,550	620,251
Weighted average exercise price (pence)	346.5	269.0	287.0	275.1
Weighted average share price at date of exercise (pence)	732.0	728.2	720.5	735.5

(c) Deferred bonus shares (DBS)

	DBS 2004 Options Number	DBS 2005 Options Number	DBS 2006 Options Number	DBS 2007 Options Number
Outstanding at the beginning of the year	265,806	318,498	669,275	–
Granted during the year	–	–	–	520,775
Forfeited during the year	–	(1,227)	(10,923)	(5,255)
Exercised during the year	(195,521)	–	–	–
Outstanding at the end of the year	70,285	317,271	658,352	515,520
Exercisable at the end of the year	70,285	–	–	–
Weighted average exercise price (pence)	Nil	Nil	Nil	Nil
Weighted average share price at date of exercise (pence)	711.2	N/A	N/A	N/A

35 Share-based payments continued

The fair values of the options granted during 2007/08 and 2006/07 were measured using a Black-Scholes model. The inputs into the Black-Scholes model were as follows:

	2008	2007
Weighted average share price (pence):		
DBS	679.0	402.0
SAYE April 2006	–	406.2
Dean Finch options	–	402.0
SAYE December 2006	–	555.0
SAYE December 2007	714.0	–
Weighted average exercise price (pence):		
DBS	–	–
SAYE April 2006	–	325.0
Dean Finch options	–	–
SAYE December 2006	–	444.0
SAYE December 2007	583.0	–
Expected volatility – SAYE December 2007	25%	–
Expected volatility – all other options	35%	35%
Expected life		
– Dean Finch options	–	5 years
– SAYE schemes	3 years	3 years
– DBS	5 years	5 years
Rate of interest		
– DBS	5.6%	4.4%
– SAYE April 2006	–	4.4%
– SAYE December 2006	–	5.0%
– Dean Finch options	–	4.4%
– SAYE December 2007	4.5%	–
Expected dividend yield		
– DBS	2.0%	4.5%
– SAYE April 2006	–	4.5%
– SAYE December 2006	–	3.5%
– SAYE December 2007	2.5%	–
– Dean Finch options	–	4.5%

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 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.

35 Share based payments continued**(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 2008 there were 6,388 (2007: 6,609) participants in the BAYE scheme who have cumulatively purchased 2,643,102 (2007: 2,264,621) shares with the Company contributing 755,953 (2007: 679,416) matching shares on a cumulative basis.

The Group recognised total expenses of £4.2m (2007: £3.2m) related to equity-settled share-based payment transactions.

(e) LTIP

Options still unexercised under the LTIP are as follows:

	2008 Number	2007 Number	Award price pence
Date of award			
July 2000	–	95,370	236.0

(f) Dean Finch options

	2008 Number	2007 Number	Award price pence
At the end of the year	200,000	200,000	nil

The options have vesting conditions based on Group EPS targets being achieved and profit targets on the First Great Western franchise being achieved or exceeded.

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 £3.5m (2007: £3.1m) 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 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%).

At their last triennial valuations, the defined benefit schemes had funding levels between 79.0% and 122.3% (2007: 76.0% and 99.6%). The market value of the assets at 31 March 2008 for all defined benefit schemes totalled £2,911m (2007: £2,507m).

36 Retirement benefit schemes continued

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 2008 %	North America 2008 %	2007 %	2006 %	2005 %
Key assumptions used:					
Discount rate	6.85	6.0	5.45	5.0	5.5
Expected return on scheme assets	7.85	7.5	7.5	7.3	7.6
Expected rate of salary increases	4.8	3.5	4.3	4.1	4.1
Inflation	3.3	2.5	2.8	2.6	2.6
Future pension increases	3.3	–	2.8	2.6	2.6

Amounts recognised in the income statement in respect of these defined benefit schemes are as follows:

	2008 £m	2007 £m	2006 £m	2005 £m
Current service cost	74.9	75.2	53.4	46.1
Interest cost	125.4	102.0	89.0	80.0
Expected return on scheme assets	(174.4)	(140.5)	(107.6)	(87.9)
Interest on franchise adjustment	(0.1)	(1.0)	(2.3)	(1.5)
Past service cost	(1.7)	(13.2)	(16.6)	–
	24.1	22.5	15.9	36.7

Actuarial gains and losses have been reported in the statement of recognised income and expense.

The actual return on scheme assets was £(100.0)m (2007: £191.1m).

The amount included in the balance sheet arising from the Group's obligations in respect of its defined benefit pension schemes is as follows:

	2008 £m	2007 £m	2006 £m	2005 £m
Fair value of schemes' assets	2,911.4	2,506.7	1,992.6	1,578.4
Present value of defined benefit obligations	(2,788.3)	(2,488.5)	(2,193.8)	(1,881.8)
Rail franchise adjustment (60%)	(13.8)	2.2	38.3	41.7
Irrecoverable surplus ¹	(30.7)	(6.8)	–	–
Adjustment for employee share of RPS deficits (40%)	10.4	10.2	30.9	40.6
Surplus/(deficits) in schemes	89.0	23.8	(132.0)	(221.1)
Asset/(liability) recognised in the balance sheet	89.0	23.8	(132.0)	(221.1)
This amount is presented in the balance sheet as follows:				
Non-current assets	186.2	57.1	–	–
Non-current liabilities	(97.2)	(33.3)	(132.0)	(221.1)
	89.0	23.8	(132.0)	(221.1)

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

Movements in the present value of defined benefit obligations (DBO) were as follows:

	2008 £m	2007 £m	2006 £m	2005 £m
At 1 April	2,488.5	2,193.8	1,881.8	1,415.8
Acquisitions	491.3	—	—	—
Cessation of rail franchises	—	(332.9)	—	—
New rail franchises	—	594.8	—	294.2
Current service cost	74.9	75.2	53.4	46.1
Past service cost	(1.7)	(13.2)	(16.6)	—
Interest cost	125.4	102.0	89.0	80.0
Employee share of change in DBO (not attributable to franchise adjustment)	24.8	53.5	73.6	45.0
Actuarial (gain)/loss	(329.4)	(133.6)	145.8	38.4
Benefit payments	(89.7)	(47.8)	(35.0)	(36.9)
Currency loss/(gain)	4.2	(3.3)	1.8	(0.8)
At 31 March	2,788.3	2,488.5	2,193.8	1,881.8

Movements in the fair value of scheme assets were as follows:

	2008 £m	2007 £m	2006 £m	2005 £m
At 1 April	2,506.7	1,992.6	1,578.4	1,137.0
Acquisitions	468.3	—	—	—
Cessation of rail franchises	—	(289.5)	—	—
New rail franchises	—	524.0	—	246.6
Expected return on assets	174.4	140.5	107.6	87.9
Company contributions	75.4	95.3	68.3	54.8
Employee contributions	43.3	41.0	32.9	26.2
Employee share of return on assets	(14.5)	37.6	50.5	15.6
(Loss)/gain on assets	(256.2)	15.8	188.7	47.6
Benefits paid from schemes	(89.7)	(47.8)	(35.0)	(36.9)
Currency gain/(loss)	3.7	(2.8)	1.2	(0.4)
At 31 March	2,911.4	2,506.7	1,992.6	1,578.4

Movements in the franchise adjustment were as follows:

	2008 £m	2007 £m	2006 £m	2005 £m
At 1 April	3.7	63.9	69.2	31.9
Cessation of rail franchises	—	(43.4)	—	—
New rail franchises	—	11.7	—	16.3
Interest on franchise adjustment	0.1	1.0	2.3	1.5
Employee share of change in DBO (attributable to franchise adjustment)	(10.7)	(11.4)	(2.0)	8.3
Actuarial (loss)/gain on franchise adjustment	(16.1)	(18.1)	(5.6)	11.2
At 31 March	(23.0)	3.7	63.9	69.2

36 Retirement benefit schemes continued

The analysis of the scheme assets and the expected rate of return at the balance sheet dates were as follows:

	Expected return¹ 2008 %	Fair value of assets 2008 £m	Expected return 2007 %	Fair value of assets 2007 £m	Expected return 2006 %	Fair value of assets 2006 £m	Expected return 2005 %	Fair value of assets 2005 £m
Equity instruments	8.95	1,689.3	8.45	1,756.9	8.35	1,444.8	8.8	1,094.4
Debt instruments	5.5	675.2	4.8	362.0	4.3	317.6	4.7	282.4
Property	6.3	207.6	6.3	256.2	6.3	135.9	6.8	121.8
Other assets	6.0	339.3	4.0	131.6	3.6	94.3	3.6	79.8
		2,911.4		2,506.7		1,992.6		1,578.4

The expected rates of return on assets at all period end dates were determined by looking at the individual asset classes and applying a model developed by an independent firm of Actuaries.

The 2008 expected return is a weighted average between the UK and North America as follows:

	UK 2008 %	North America 2008 %
Equity instruments	8.95	9.0
Debt instruments	5.5	5.5
Property	6.8	N/A
Other – cash	5.0	5.5
– infrastructure	8.0	N/A
– cash plus	8.95	N/A
– other	5.0	5.5

The history of experience adjustments is as follows:

	2008 £m	2007 £m	2006 £m	2005 £m
Fair value of schemes' assets	2,911.4	2,506.7	1,992.6	1,578.4
Present value of defined benefit obligations	(2,788.3)	(2,488.5)	(2,193.8)	(1,881.8)
Rail franchise adjustment (60%)	(13.8)	2.2	38.3	41.7
Irrecoverable surplus	(30.7)	(6.8)	–	–
Adjustment for employee share of RPS deficits (40%)	10.4	10.2	30.9	40.6
Surplus/(deficits) in the schemes	89.0	23.8	(132.0)	(221.1)
Experience gain on scheme assets:				
Amount (£m)	(260.5)	15.8	188.7	47.6
Percentage of scheme assets (%)	(8.9)	0.6	9.5	3.0
Experience gain on scheme liabilities:				
Amount (£m)	21.4	12.4	13.6	15.5
Percentage of scheme liabilities (%)	(0.8)	0.5	0.6	0.8
Experience gain on scheme liabilities after franchise adjustment:				
Amount (£m)	5.2	14.2	8.0	26.7
Percentage of scheme liabilities (%)	0.2	0.6	0.4	1.4

36 Retirement benefit schemes continued

The estimated amounts of contributions expected to be paid to the schemes during the financial year to 31 March 2009 is £78.4m (year to 31 March 2008: £74.1m).

Accounting for UK Rail pension arrangements

The Group recognises its share of TOC's deficits that the Group expects to fund over the term of the respective franchises. This is accounted for by way of a franchise adjustment.

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:

	2008 £m	2007 £m	2006 £m	2005 £m
Balance sheet				
Pension deficit	13.8	(2.2)	(38.3)	(41.7)
Intangible assets	(35.4)	(43.6)	(16.5)	(19.4)
Deferred taxation	6.0	13.7	16.4	18.3
Impact on net assets	(15.6)	(32.1)	(38.4)	(42.8)
Income statement				
Unwinding of discount on franchise adjustment	(0.1)	(1.0)	(2.3)	(1.5)
Intangible asset amortisation	8.2	8.2	2.9	1.6
Deferred taxation	(2.1)	(2.2)	(0.2)	–
Impact on profit for the period from continuing operations	6.0	5.0	0.4	0.1
Statement of recognised income and expense				
Actuarial losses/(gains) on franchise adjustment	16.1	18.1	5.6	(11.2)

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 for 2008 comprise the plc Board and the Acting Group Finance Director (2007: plc Board only), 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 37 to 41.

	Year to 31 March 2008 £m	Year to 31 March 2007 £m
Basic salaries	1.7	1.3
Performance related bonuses	1.2	0.7
Benefits in kind	0.1	0.1
Fees	0.4	0.3
Pension contributions	0.3	0.2
Share-based payments	0.5	0.5
	4.2	3.1

38 Subsequent events

On 14 May 2008 we announced our intention to raise funds with the issue of equity from a placing of shares representing a maximum of approximately 10% of the Group's current issued shared capital. The proceeds of the placing will be used to refinance, in part, debt raised to finance the acquisition of Laidlaw International, Inc which was announced on 9 February 2007, and which completed 1 October 2007. The effect of this issue will be to strengthen the capital structure of the Group at a time when it continues to invest for growth and enhance shareholder value.

Subsequent to the balance sheet date, the Company entered into two new term loan facilities totalling \$450m US Dollars. The purpose of these facilities is to partially prepay the \$2,250m US Dollar term loan due February 2010, thus improving the Company's debt maturity. The two new facilities have a term of five years with equal annual instalments payable at the end of the last three years.

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 2008 which comprise the Group Income Statement, the Group Statement of Recognised Income and Expense, the Group Balance Sheet, the Group Cash Flow Statement and the related notes 1 to 38. These Group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the parent Company financial statements of FirstGroup plc for the year ended 31 March 2008.

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

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view, whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the part of the Directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Group financial statements. In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Director's remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited Group financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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



Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 March 2008 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the part of the Directors' Remuneration Report described as having been audited has been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Group financial statements.

Separate opinion in relation to IFRSs

As explained in Note 2 to the Group financial statements, the Group in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board.

In our opinion the Group financial statements give a true and fair view, in accordance with IFRSs, of the state of the Group's affairs as at 31 March 2008 and of its profit for the year then ended.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
United Kingdom
14 May 2008

Group financial summary

	IFRS				UK GAAP
	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Consolidated income statement					
Group revenue	4,707.6	3,708.8	3,030.9	2,693.4	2,479.0
Operating profit before amortisation charges, non-recurring bid costs and other non-recurring items	360.1	259.2	229.7	214.8	204.1
Amortisation charges	(18.9)	(10.3)	(4.5)	(2.2)	(25.9)
Non-recurring bid costs	(7.2)	(19.3)	(28.5)	(11.9)	(6.7)
Other non-recurring items, net	(72.3)	(22.3)	–	–	(6.8)
Operating profit before profit/(loss) on disposal of properties	261.7	207.3	196.7	200.7	164.7
Operating profit	267.5	203.6	210.7	204.0	184.3
Net finance cost	(111.1)	(63.4)	(53.3)	(48.3)	(42.8)
Exceptional finance cost	(4.5)	–	–	–	(18.7)
Profit before taxation	151.9	140.2	157.4	155.7	122.8
Taxation	(18.6)	(38.1)	(40.0)	(41.1)	(30.6)
Profit after taxation	133.3	102.1	117.4	114.6	92.2
EBITDA	560.8	398.9	351.7	322.4	307.1
Earnings per share					
	pence	pence	pence	pence	pence
Adjusted basic	40.9	33.7	30.9	28.9	27.3
Basic	27.7	23.1	27.4	27.1	22.3
Adjusted cash	86.8	68.6	61.9	55.8	52.4
Consolidated balance sheets					
	£m	£m	£m	£m	£m
Non-current assets	3,818.3	1,681.6	1,474.7	1,335.4	1,258.8
Net current (liabilities)/assets	(189.1)	70.0	(38.0)	(58.1)	(92.9)
Creditors: amounts due after more than one year	(2,497.3)	(968.4)	(982.6)	(977.4)	(682.8)
Provision for liabilities and charges	(427.1)	(175.9)	(122.2)	(75.4)	(128.1)
Equity minority interests	(13.2)	(11.1)	(12.7)	(10.6)	(2.1)
Equity shareholders' funds	691.6	596.2	319.2	213.9	352.9
Share data					
Number of shares in issue (excluding treasury shares and shares in trusts)	million	million	million	million	million
At year end	436.6	434.0	392.0	393.6	403.0
Average	434.8	397.9	392.6	399.2	410.0
Share price					
	pence	pence	pence	pence	pence
At year end	564	665	425	343	268
High	815	668	426	379	306
Low	497	381	311	256	219
Market capitalisation					
	£m	£m	£m	£m	£m
At year end	2,462	2,886	1,665	1,369	1,078

The amounts disclosed for 2004 are stated on the basis of UK GAAP because it is not practicable to restate amounts for periods prior to the date of transition to IFRSs.

Company balance sheet

At 31 March 2008

Financial statements

	Notes	2008 £m	2007 £m
Fixed assets			
Investments	4	1,697.5	1,693.3
Current assets			
Financial assets – cash and cash equivalents		3.0	213.1
– derivative financial instruments	5	110.4	35.0
Debtors	6	2,352.7	973.1
		2,466.1	1,221.2
Creditors: amounts falling due within one year	7	(448.8)	(699.7)
Financial liabilities – derivative financial instruments	5	(36.9)	(5.0)
– current bond liability		(23.1)	(23.1)
		(508.8)	(727.8)
Net current assets		1,957.3	493.4
Total assets less current liabilities		3,654.8	2,186.7
Creditors: amounts falling due after more than one year	7	(2,288.2)	(847.6)
Financial liabilities – derivative financial instruments	5	(27.8)	(4.3)
Provisions for liabilities and charges		(3.0)	–
		1,335.8	1,334.8
Financed by:			
Capital and reserves			
Called up share capital	8	21.9	21.9
Share premium account	9	447.8	447.8
Other reserves	9	222.8	262.1
Own shares	9	(7.6)	(17.4)
Profit and loss account	9	650.9	620.4
Equity shareholders' funds		1,335.8	1,334.8

Notes to the Company financial statements

1 Significant accounting policies

Basis of accounting

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.

Taxation

The charge for taxation is based on the profit or loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax on all timing differences except those arising from the revaluation of fixed assets for which there is no binding agreement to sell 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.

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 counterparty 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 profit and loss account.

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 230 of the Companies Act 1985 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 2008 of £112.3m (2007: profit of £85.4m).

The auditors' remuneration for audit services to the Company was £0.1m (2007: £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:

	2008 £m	2007 £m
Final dividend for the year ended 31 March 2007 of 10.5p (2006: 9.55p) per share	45.6	37.5
Interim dividend for the year ended 31 March 2008 of 5.5p (2007: 5.0p) per share	23.9	19.6
	69.5	57.1
Proposed final dividend for the year ended 31 March 2008 of 11.55p (2007: 10.5p) per share	50.4	45.6

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

Cost

	Unlisted subsidiary undertakings £m	Other investments £m	Total £m
At 1 April 2007	1,698.7	8.1	1,706.8
Additions	4.2	–	4.2
At 31 March 2008	1,702.9	8.1	1,711.0

Provisions

At 1 April 2007 and 31 March 2008	(5.4)	(8.1)	(13.5)
-----------------------------------	-------	-------	--------

Net book value

At 31 March 2008	1,697.5	–	1,697.5
At 31 March 2007	1,693.3	–	1,693.3

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

CentreWest London Buses Limited
 First Aberdeen Limited¹
 First Beeline Buses Limited
 First Bristol Limited
 First Capital East Limited
 First Capital North Limited
 First Cymru Buses Limited
 First Devon & Cornwall Limited
 First Eastern Counties Buses Limited
 First Edinburgh Limited¹
 First Essex Buses Limited
 First Glasgow (No. 1) Limited¹
 First Glasgow (No. 2) Limited¹
 First Hampshire and Dorset Limited
 First Manchester Limited
 First Midland Red Buses Limited
 First PMT Limited
 First Somerset & Avon Limited
 First South Yorkshire Limited
 First Wessex Limited
 First West Yorkshire Limited
 First York Limited
 Leicester CityBus Limited (94%)
 Northampton Transport Limited

North American school bus operators

Cardinal Coach Lines Limited² (60%)
 Cardinal Transportation Group, Inc³
 First Student, Inc³
 FirstBus Canada Limited²
 Laidlaw Transit, Inc³
 Laidlaw Transit Limited²

Transit contracting and fleet maintenance

First Transit, Inc³
 Laidlaw Transit Services, Inc³
 SafeRide Services, Inc³
 SKE Support Services, Inc³

North American coach operators

Americanos USA, Inc³
 Greyhound Canada Limited²
 Greyhound Lines, Inc³

Rail companies

First Capital Connect Limited
 First Greater Western Limited
 FirstInfo Limited
 First/Keolis TransPennine Limited (55%)
 First ScotRail Limited
 GB Railfreight Limited
 Hull Trains Company Limited (80%)

European bus operators

FirstGroup Rhein-Neckar GmbH⁴

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 231(5) of the Companies Act 1985 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.

5 Derivative financial instruments

	2008 £m	2007 £m
Derivatives designated and effective as hedging instruments carried at fair value		
Non-current assets		
Cross currency swaps (net investment hedge)	23.9	24.9
Coupon swaps (fair value hedge)	1.5	–
Fuel derivatives (cash flow hedge)	19.1	2.8
	44.5	27.7
Current assets		
Cross currency swaps (net investment hedge)	10.5	2.9
Coupon swaps (fair value hedge)	–	1.2
Fuel derivatives (cash flow hedge)	55.4	3.2
	65.9	7.3
Total assets	110.4	35.0
Current liabilities		
Interest rate swaps (cash flow hedge)	26.7	0.3
Coupon swaps (fair value hedge)	7.4	–
Fuel derivatives (cash flow hedge)	–	1.4
Currency forwards (cash flow hedge)	0.5	3.3
	34.6	5.0
Non-current liabilities		
Interest rate swaps (cash flow hedge)	27.8	–
Coupon swaps (fair value hedge)	–	4.1
	27.8	4.1
Derivatives classified as held for trading		
Current liabilities		
Interest rate collars	2.3	–
Non-current liabilities		
Interest rate collars	–	0.2
Total current liabilities	36.9	5.0
Total non-current liabilities	27.8	4.3
Total liabilities	64.7	9.3

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

	2008 £m	2007 £m
Amounts due within one year		
Amounts due from subsidiary undertakings	2,348.4	972.6
Deferred tax asset	–	0.5
Corporation tax recoverable	4.3	–
	2,352.7	973.1

7 Creditors

	2008 £m	2007 £m
Amounts due within one year		
Bank loans and overdrafts	212.4	161.2
Loan notes	4.6	5.2
Corporation tax	–	2.3
Other creditors	0.6	0.8
Amounts due to subsidiary undertakings	215.0	526.1
Accruals and deferred income	16.2	4.1
	448.8	699.7

Amounts falling due after more than one year

Bank loans		
– Due in more than one year but less than two years	1,356.3	–
– Due in more than two years but not more than five years	386.0	308.3
£300.0m Sterling bond – 6.875% 2013	296.6	296.3
£250.0m bond – 6.125% 2019	249.3	243.0
	2,288.2	847.6

Included in the table above is the \$2,250m bank facility repayable in February 2009 with an unconditional call option by the Group to extend the facility on the same terms for one year to February 2010. This loan has been categorised as falling between one and two years on the basis that the option will be exercised, in accordance with IAS1 *Presentation of financial statements*.

Borrowing facilities

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

	2008 £m	2007 £m
Facilities maturing:		
– Due in more than one year but less than two years	278.1	–
– Due in more than two years	309.1	201.0
	587.2	201.0

8 Called up share capital

	2008 £m	2007 £m
Authorised		
4,600.0m (2007: 600.0m) ordinary shares of 5p each	230.0	30.0
Allotted, called up and fully paid		
Ordinary shares of 5p each	21.9	21.9

The Company had 438.3m (2007: 438.3m) shares in issue at 31 March 2008 including 455,046 (2007: 3,334,407) shares held as treasury shares at this date. During the year no shares were allotted (2007: 39.5m shares allotted with a nominal value of £2.0m for a gross consideration of £221m).

9 Reserves

	Share premium account £m	Own shares £m	Profit and loss account £m
At 1 April 2007	447.8	(17.4)	620.4
Retained profit for the year	–	–	112.3
Share-based payments provision	–	–	4.2
Dividends paid	–	–	(69.5)
Adjustment in respect of dividend received from subsidiaries in 2006/07	–	–	(16.5)
Movement in EBT, QUEST and treasury shares during the year	–	9.8	–
At 31 March 2008	447.8	(7.6)	650.9

9 Reserves continued**Own shares**

The number of own shares held by the Group at the end of the year was 1,686,884 (2007: 4,318,925) FirstGroup plc ordinary shares of 5p each. Of these, 1,199,318 (2007: 951,998) were held by the FirstGroup plc Employee Benefit Trust, 32,520 (2007: 32,520) by the FirstGroup plc Qualifying Employee Share Ownership Trust and 455,046 (2007: 3,334,407) 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 2007 was £9.5m (2007: £28.7m).

	Hedging reserve £m	Capital redemption reserve £m	Capital reserve £m	Merger reserve £m	Total other reserves £m
At 1 April 2007	–	1.9	93.8	166.4	262.1
Derivative hedging instrument movement	(39.3)	–	–	–	(39.3)
At 31 March 2008	(39.3)	1.9	93.8	166.4	222.8

10 Reconciliation of movement in equity shareholders' funds

	2008 £m	2007 £m
Profit for the financial year	112.3	85.4
Share-based payments provision	4.2	3.2
Dividends	(69.5)	(57.1)
Adjustment in respect of dividend received from subsidiaries in 2006/07	(16.5)	–
	30.5	31.5
Issue of equity shares	–	211.0
Movement in EBT, QUEST and treasury shares during the year	9.8	2.9
Derivative hedging instrument movement	(39.3)	0.6
Foreign exchange differences	–	2.3
Net addition to equity shareholders' funds	1.0	248.3
Equity shareholders' funds at beginning of year	1,334.8	1,086.5
Equity shareholders' funds at end of year	1,335.8	1,334.8

11 Contingent liabilities

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 £383.5m (2007: £264.1m) and letters of credit for £245.1m (2007: £123.6m). The performance bonds relate to the North American businesses of £231.4m (2007: £132.0m) and the UK Rail franchise operations of £152.1m (2007: £132.1m). The letters of credit relate substantially to insurance arrangements in the UK and North America.

The Company has provided unsecured loan facilities of £103.0m (2007: £103.0m) to First Greater Western Limited, a £46.0m (2007: £46.0m) unsecured loan facility to First Capital Connect Limited, a £3.2m (2007: £3.2m) unsecured loan facility to First/Keolis TransPennine Limited, and a £13.6m (2007: £13.6m) unsecured loan facility to First ScotRail Limited. Under these facilities, £72.0m (2007: £10.0m) was drawn at 31 March 2007 by First Greater Western Limited and £21.0m (2007: £nil) was drawn at 31 March 2008 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 £2,394.5m (2007: £520.0m) syndicated unsecured bank facilities.

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 2008 which comprise balance sheet and the related notes 1 to 11. These parent Company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of FirstGroup plc for the year ended 31 March 2008 and on the information in the Directors' Remuneration Report that is described as having been audited.

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

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the parent Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent Company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited parent Company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent Company financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent Company financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the parent Company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2008;
- the parent Company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the parent Company financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
United Kingdom
14 May 2008



Set out below is a guide to finance and FirstGroup plc related terms. These are not precise definitions but are included to provide assistance to readers as to the general meaning of terms commonly used throughout this Annual Report and Accounts or at FirstGroup plc.

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 or Group

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

DBS

Deferred bonus shares

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

Enlarged Group

The Company together with its subsidiaries and subsidiary undertakings, as enlarged by the acquisition

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

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

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, share price information, company presentations, contact details and other shareholder information are available on the website at www.firstgroup.com

Contact information

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
Lancing
West Sussex
BN99 6DA
T. +44 (0)871 384 2046

Employees with queries about shares held in the Company's employee share schemes should contact Equiniti at the same address or by telephoning:
T. +44 (0)871 384 2108

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 0512
F. +44 (0)20 7436 3337

Shareholder profile

At 30 April 2008

	Number of shareholders	%	Shares held	%
By category				
Individuals	39,426	94.3	48,937,605	11.2
Banks and nominees	2,182	5.2	382,317,435	87.2
Insurance and assurance	2	0.0	10,300	0.0
Other companies	224	0.5	7,006,410	1.6
Other institutions	3	0.0	7,048	0.0
	41,837	100.0	438,278,798	100.0
By size of holding				
1-1,000	32,328	77.3	8,464,740	1.9
1,001-5,000	7,293	17.4	15,976,087	3.7
5,001-10,000	1,111	2.7	7,743,165	1.8
10,001-100,000	758	1.8	21,229,836	4.8
Over 100,000	347	0.8	384,864,970	87.8
	41,837	100.0	438,278,798	100.0

Duplicate shareholder accounts

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

Direct dividend payments

If you would like your dividend to be paid directly into your bank or building society account, you should contact the Registrars or complete the dividend mandate attached to your dividend cheque. Mandating your dividends has a number of advantages:

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
Lancing
West Sussex
BN99 6DA
T. +44 (0)871 384 2268

Online information

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

FirstGroup policy on discounts for shareholders

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

Unsolicited mail

As the Company's share register is, by law, open to public inspection, shareholders may receive unsolicited mail from organisations that use it as a mailing list. To limit the amount of unsolicited mail you receive, write to the Mailing Preference Service, DMA House, 70 Margaret Street, London W1W 8SS or register online at www.mpsonline.org.uk

Financial calendar

Annual General Meeting	10 July 2008
Shares trade ex dividend	16 July 2008
Record date for final dividend*	18 July 2008
Final dividend payment	22 August 2008
Interim results announced	November 2008
Interim dividend paid	February 2009
Preliminary announcement of full year results	May 2009

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



Find out more about First

You can find out more about First in the following places.

Annual report

- Group overview
- Delivering our strategy
- Chairman's statement
- Chief Executive's operating review
- Finance Director's review
- Board of Directors
- Corporate governance
- Directors' remuneration report
- Directors' report
- Financial statements
- Independent auditors' report
- Shareholder information
- Financial calendar
- Glossary

Website

- www.firstgroup.com
- Our vision and values
- About First
- Bus and rail travel information
- Annual and interim reports
- Financial presentations
- Share price information
- Stock exchange announcements
- Shareholder information
- Media centre
- CSR policy and report
- Careers
- Contact details



CSR report

- Our approach to CSR
- Chief Executive's statement
- Our vision and values
- Our response to climate change
- Our CSR strategy and management framework
- Performance against our 2007/08 CSR goals
- Our 2008/09 CSR goals

FirstGroup's website gives additional information on the Group and its activities. Information made available on the website does not constitute part of this Annual Report and Accounts.

**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
50 Eastbourne Terrace
Paddington
London W2 6LG
T. +44 (0)20 7291 0505
F. +44 (0)20 7636 1338

www.firstgroup.com



Printed in the UK by Royle Print, a Carbon Neutral printing company, on material made from 100% post consumer waste; the printer and paper manufacturing mill are both accredited with ISO 14001. Environmental Management systems standard and both are Forestry Stewardship Council certified. When you have finished with this report, please dispose of it in your recycled waste stream.

.....
CarbonNeutral® printing company