First
transforming travel

ANNUAL REPORT AND ACCOUNTS 2009

The leading transport operator in the UK and North America

OPERATING AND FINANCIAL REVIEW

REPORT OF THE DIRECTORS

FINANCIAL STATEMENTS

About First

FirstGroup plc is the leading transport operator in the UK and North America with annualised revenues of **over £6 billion** a year. We employ some **136,000 staff** throughout the UK and North America and transport more than **2.5 billion passengers** a year.

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

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

FIRST STUDENT

FIRST TRANSIT

FIRST SERVICES

GREYHOUND

ABOUT US

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 22 million passengers annually.

KEY STATISTICS

First Student	First Transit	First Services	Greyhound
60,000 yellow school buses	Operates some **7,000** buses	Maintains over **50,000** vehicles	**3,100** destinations
4m students to and from school every day	Manages and operates in **235** locations	Operates in **150** locations	**22m** passengers per year
68,000 employees	**15,500** employees	**3,500** employees	**9,000** employees

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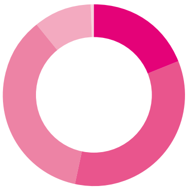
FIND OUT MORE ON PAGE 11

FIND OUT MORE ON PAGE 12

REVENUE



- **UK Bus** £1,182.0m
- **UK Rail** £2,121.5m
- **North America** £2,224.1m
- **Greyhound** £642.4m
- **Other** £17.3m

ADJUSTED OPERATING PROFIT[1]

- **UK Bus** £134.0m
- **UK Rail** £94.2m
- **North America** £246.1m
- **Greyhound** £48.5m

1 Excludes £25.3m of Group items

UK BUS

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.

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 services for our customers through Punctuality Improvement Partnerships, bus priority and other traffic management schemes.

We operate more than one in five of all local bus services

3m passengers every day

26,500 employees

FIND OUT MORE ON PAGE 13

UK RAIL

We are the UK's largest rail operator, running nearly a quarter of the passenger rail network and carrying over 285 million passengers a year.

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.

We operate four passenger rail franchises – **First Capital Connect, First Great Western, First ScotRail and First TransPennine Express** – and one open access operator, **First Hull Trains**. We also operate rail freight services through **First GBRf**, and operate the **Croydon Tramlink** network on behalf of Transport for London carrying nearly 28 million passengers a year.

We operate one quarter of the UK passenger rail network

285m passengers a year

13,500 employees

FIND OUT MORE ON PAGE 17

Measuring our performance against 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.

The continued strength and resilience of the Group is the result of our strategy to build a balanced portfolio of operations. The Group continues to benefit from a diverse revenue stream which is balanced between contract-backed and passenger revenues. It is this diversity that mitigates the impact of an uncertain economic environment. Together with the management actions we have already started to implement, the Group will continue to build on its market leading position and deliver a strong operating and trading performance.

31.4%
increase in revenue to £6,187.3m

38.2%
increase in adjusted operating profit to £497.5m

26%
reduction in Lost Time Injuries

37.7%
increase in adjusted EBITDA to £772.2m

18.8%
increase in adjusted basic earnings per share to 48.6p

>90%
contract retention in First Student

	2009	2008
Revenue (£m)	6,187.3	4,707.6
Adjusted operating profit[1] (£m)	497.5	360.1
Operating profit (£m)	371.1	267.5
Adjusted profit before taxation[1] (£m)	326.4	249.0
Profit before taxation (£m)	200.0	151.9
Adjusted basic EPS[1] (pence)	48.6	40.9
Basic EPS (pence)	30.2	27.7
Adjusted EBITDA[2] (£m)	772.2	560.8
Adjusted EBITDA: interest cover[3]	4.5x	5.0x
Net debt[4] (£m)	(2,503.5)[5]	(2,161.0)

1 Before amortisation charges, non-recurring bid costs, other non-recurring items and profit 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
5 After adverse foreign exchange movements of £614.9m
Results for the year to 31 March 2009 include a full year contribution from the Laidlaw businesses compared to only a six month contribution in 2008

Chairman's statement

I am delighted to report another strong performance from the Group, delivering continued growth and solid results despite the more challenging economic backdrop.

While the current macro-economic conditions present short term challenges they also highlight the strength and resilience of our business. As a result of our strategy to build a balanced portfolio of operations we now have some 50% of Group revenues secured under medium term contracts providing a visible revenue stream and insulation against a fast changing economic environment. Our strategy to deliver long term sustainable growth in the UK and North America has ensured that the Group is not solely dependent on one market or operating division.

We have a clear strategy to provide safe, high quality and reliable services and deliver profitable growth in our core markets. Our twin objectives of safety and customer service are at the heart of our business and underpin everything we do. There is no higher priority than the safety and security of our passengers and our staff and therefore I am pleased that we continue to find ways to engage with our employees in this key area and make further strides with our industry-leading initiatives and programmes.

Across the Group we have taken action to reduce our cost base, giving us the ability to respond quickly and dynamically to changing market conditions and ensuring that the business remains robust in this more challenging economic environment. I am pleased to report that we have made excellent progress in implementing our refinancing strategy during the year. In April 2009 we announced the successful launch of a £350m 12 year bond, which was more than 50% oversubscribed, demonstrating the strength of the Group and the continued support from fixed income investors. The bond launch represented further progression of our strategy to reduce reliance on bank debt and extend our average debt maturity profile.

Across our business trading has been strong. Adjusted basic earnings per share increased by 18.8% to 48.6p (2008: 40.9p). The Board is recommending a final dividend, subject to approval by shareholders, of 12.7p making a full year payment of 18.75p, an increase of 10%. It will be paid on 21 August 2009 to shareholders on the register on 17 July 2009. In line with the Board's previously stated dividend commitment, this is now the fifth consecutive year that we have increased dividends by 10%, representing an increase of £8.2m in the year on a like for like basis and is supported by strong performance in the year from the Group's resilient and stable portfolio of operations.

We have further strengthened the Board with the announcement of four new appointments. In January 2009 Nicola Shaw was appointed to the Board as Director responsible for Bus in the UK, Ireland and Germany. Having joined the Group in 2005 she was previously Managing Director UK Bus and has led the focus on service quality and operational performance that underpins the strong growth achieved by the division.

Tim O'Toole and Colin Hood joined the Board as Independent Non-Executive Directors in May 2009. They both bring significant experience together with a strong track record of achievement in their respective industries and I am confident they will make a significant contribution to the Group.

David Dunn and Jim Forbes will retire as Independent Non-Executive Directors at the Annual General Meeting in July, having joined the Board in December 1999 and April 2000 respectively. On behalf of the Board I would like to thank David and Jim for their contribution as Non-Executive Directors during which time the Group has benefited from their independent judgement, experience and support.

Jeff Carr will join the Board as Finance Director. Jeff joins from easyJet plc where he has been Group Finance Director since 2005. He is expected to join the Group in the next few months. His financial leadership, extensive background in consumer facing companies and international experience, particularly in North America, will be of great benefit to the Group and its continued successful development.

On behalf of the Board I would like to thank Nick Chevis for his contribution as Acting Finance Director during which time he has ensured the continuation of strong financial control and leadership and the Group has successfully implemented its refinancing strategy against a challenging economic backdrop.

David Leeder stepped down from the Board in September 2008 to pursue alternative business interests. I would like to thank David for his contribution to the Group over seven years, initially as Managing Director UK Bus and latterly as International Development Director.

Dean Finch, Chief Operating Officer, left the Group at the beginning of May 2009 to take up the role of Chief Executive of Tube Lines Limited. I would like to thank Dean for his unique contribution to the development of the Group over the past 10 years and wish him every success in his new role.

The Group's continued success is achieved only by the hard work and dedication of our employees. On behalf of the Board I would like to thank all of our staff across the Group for their continued commitment to providing safe, high quality and reliable services.

Looking ahead the Group continues to benefit from a diverse revenue stream that is well balanced between contract-backed and passenger revenues. The strength of our order book in North America demonstrates the success of our strategy to expand our presence in this large, resilient, contract-backed transportation market. In those areas of our business that are less immune to economic downturn we have taken swift and decisive action to reduce costs and to closely match supply to demand to ensure that we remain in a strong position to continue to deliver profitable growth.

While no business can be immune from this recessionary environment, the Board is confident in the underlying strength of the business and that the Group is well positioned to withstand the current economic headwinds and to deliver long term, sustainable growth.

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 on disposal of properties. EBITDA is adjusted operating profit plus depreciation.

Chief Executive's operating review

Ensuring the safety and security of our passengers and employees is the driving force at the heart of our business and it forms the basis of everything that we do.

OVERVIEW

Safety

We have made great advances in achieving our aim of embedding a rigorous culture of safety throughout the Group. During the year I am pleased to report that we made further advances in this key area and continue to implement industry-leading safety initiatives. However, this is an area where we constantly strive to find new ways to improve and enhance our processes. I am pleased to report that during the year Lost Time Injuries reduced by 26%. I was delighted to receive the Green Cross Safety Award from the National Safety Council in the US in April 2009, in recognition of our commitment to health and safety in the workplace. Despite the good progress we have made we are never complacent in working towards the goal of finding the safest possible way of conducting our business for our passengers and staff. Further details of our safety initiatives and achievements during the year can be found on our website at **www.firstgroup.com**

Results

I am delighted to report another year of strong trading across the Group, despite a weaker economic backdrop, with results in line with our expectations. The results incorporate a full year of the enlarged North American operations compared to a six month contribution last year.

Group revenue increased by 31.4% to £6,187.3m (2008: £4,707.6m). Operating profit rose to £497.5m (2008: £360.1m) an increase of 38.2%. The Group operating margin increased to 8.0% (2008: 7.6%). Profit before tax increased by 31.7% to £200.0m (2008: £151.9m). We achieved record EBITDA (operating profit plus depreciation) of £772.2m (2008: £560.8m) an increase of 37.7%. This continued strong performance, together with a focus on cost control and budgetary discipline, has enabled us to continue to deliver our cash generation targets which will be applied to reduce net debt.

2009 marks the 20th anniversary of FirstGroup. Twenty years ago Sir Moir Lockhead, then Managing Director of Grampian Regional Transport, and his team of Directors completed an ambitious and groundbreaking employee and management buy-out of the Company.

SPOTLIGHT ON

Customer service

Delivering our promise to our customers is one of our core values. We aim to deliver a high standard of customer service and are focused on improving our performance against our timetable or contract.

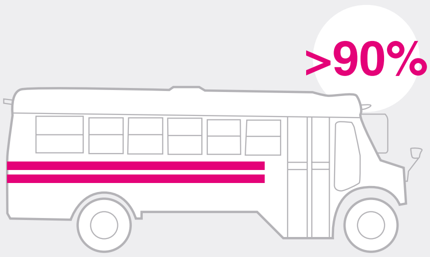
Investment is a key factor in improving service delivery and achieving customer service excellence. Over the last year we have made significant investments in our vehicles, property and the development and training of our employees to improve customer service. We collect feedback from our customers through passenger satisfaction surveys, meet the manager sessions and focus groups and in our contract businesses through formal review processes.

INVESTMENT

INVESTMENT FOR IMPROVED CUSTOMER SERVICE
In May 2008 First Student completed one of the largest fleet purchase deals in school bus industry history in a potential $1.2bn deal with Navistar Inc. The agreement will enhance our fleet and our service to our customers over four years.

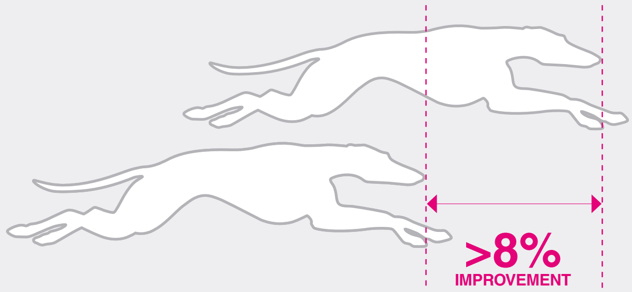
CONTRACTS

CONTRACT RETENTION IN NORTH AMERICA
First Student successfully retained over 90% contracts that came up for bid during the year.

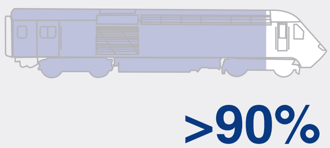


PERFORMANCE

ON TIME PERFORMANCE
We continue to focus on improving Greyhound's operational performance. In the US On Time Performance has improved by more than 8% to nearly 80% and in Canada On Time Performance has remained high at nearly 90%.



PUNCTUALITY AND RELIABILITY
The Public Performance Measure was above 90% on a moving annual average basis at each of our rail franchises at the end of 2008/09.



STAFF

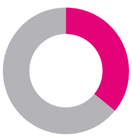
FRESH START
'Fresh Start' delivers buses that are consistently clean and fresh and provide the best environment for our UK Bus customers to travel in. The project has received positive feedback from customers and staff alike.

PUTTING CUSTOMERS FIRST
First Great Western's 'Putting Customers First' development programme is designed to give operational employees the skills to deliver great customer service.

NORTH AMERICA

The Group is the leading provider of transportation services in North America. First Student is the largest provider of student transportation with approximately 60,000 yellow school buses operating every day across the US and Canada. We operate a transit contracting and management business and a vehicle fleet maintenance and support services division. More than 80% of earnings from our North American business are contract backed, providing substantial visibility and stability with no exposure to passenger demand.

Revenue
£2,224.1m

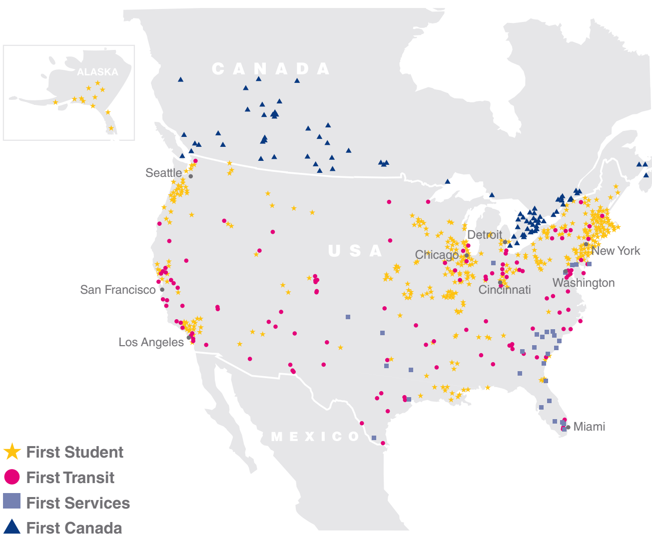


Operating profit
£246.1m

Key highlights

- **Laidlaw acquisition successfully integrated – $150m per annum synergy targets achieved early**
- **Student delivered margin improvement to 12.6% and contract retention of over 90%, supported by our unique scale and economies**
- **Transit margin improvement to 7.6%, new paratransit and shuttle bus contract wins**

Where we operate



Find out more

www.firstgroup.com/north_america

Results

Revenue from our Student, Transit and Services businesses was £2,224.1m or $3,739.0m (2008: £1,370.3m or $2,753.2m). Operating profit increased to £246.1m or $391.8m (2008: £130.7m or $262.6m) representing an increase of 49.2% at constant exchange rates. The results incorporate a full year of the enlarged North American operations compared to only six months contribution last year.

During the year we successfully integrated the contract business operations of our Laidlaw acquisition into FirstGroup America. I am delighted with the excellent progress made in delivering this considerable task in accordance with our plans and in securing the synergies from the combined operations. I am pleased to report that our target of $150m per annum run rate was achieved during the first half of the year, ahead of our original estimates.

In addition to driving out the considerable cost synergies the focus for our North American contract businesses of Student, Transit and Services has been to ensure consistency of customer service, operational excellence and contract retention during the integration process and during this period of consolidation.

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. The school bus market in the US and Canada is estimated to be worth approximately $22bn per annum. With government mandates for schools to provide transportation for students, contracts are typically between three and five years. This stable business comprises a large number of individual contracts which, in previous periods of economic downturn or instability, has remained resilient. I am pleased to report that our focus on customer service and operational performance has delivered another year of strong retention, with First Student retaining over 90% of contracts that came up for renewal.

During the year US Dollar revenue increased by 41.4% and operating profit by 57.3% and our continued focus on improving profitability resulted in a strong increase in the operating margin to 12.6% (2008: 11.3%).

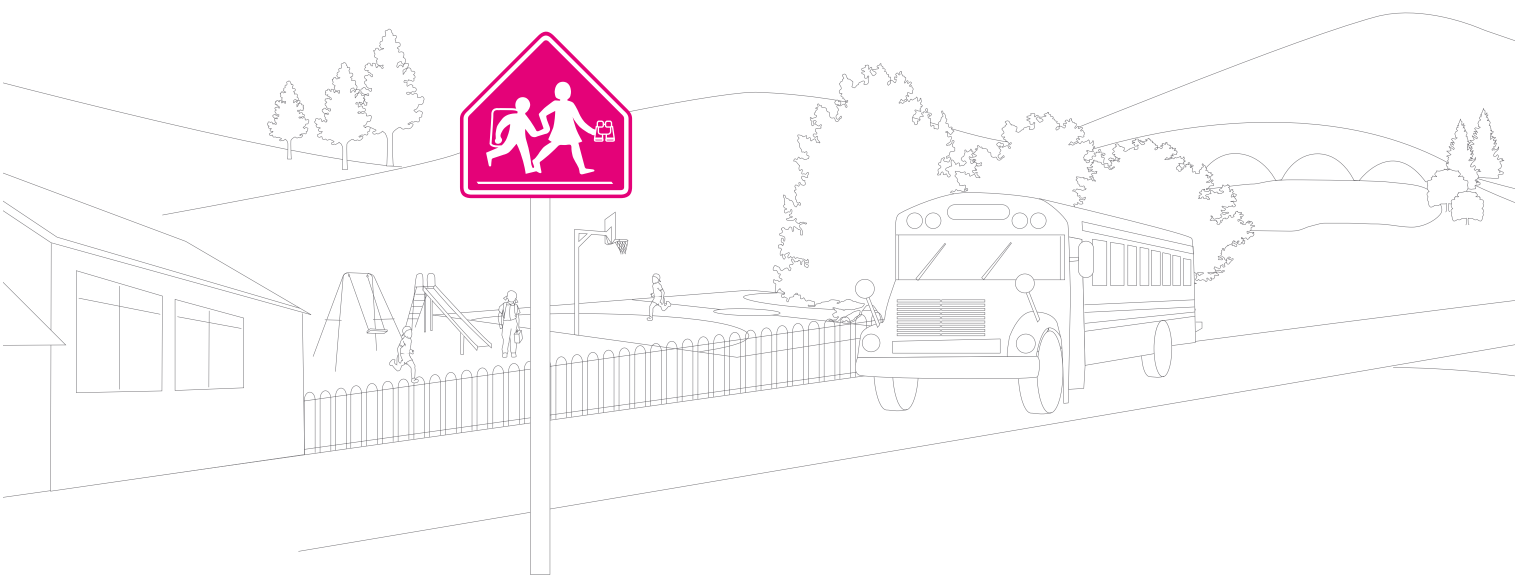
Within First Student, we have reviewed areas for potential cost reduction and implemented a restructuring programme that will deliver further savings across our enlarged school bus business. This restructuring allows us to reduce headcount within central functions at First Student while ensuring that our front line operations remain focused on customer service and delivery.

FIRST STUDENT CAN DELIVER SIGNIFICANT SAVINGS TO CUSTOMERS AS A RESULT OF OUR SCALE AND EXPERTISE AND WE CONTINUE TO PURSUE OPPORTUNITIES TO INCREASE MARKET SHARE.

The scale of our operations and the significant cost efficiencies we can achieve have supported our success in the most recent school bus bid season. We are pleased to have won new contracts during the bid season to operate school buses on behalf of new customers in States including Kansas, Illinois and Ohio. In addition, we were pleased to secure the first 'State-wide' contract in Rhode Island. During the period we also successfully retained a number of contracts in States including Oregon, California and Indiana.

As we indicated in our half-yearly report 2008, we have experienced a marked increase in the number of 'expressions of interest' received from school boards in respect of outsourcing school transportation. We believe this reflects the current economic climate and pressures on public spending which is leading a number of school boards to tender their transportation or commence dialogue with private operators. First Student can deliver significant savings to customers as a result of our scale and expertise and we continue to pursue the opportunities this current recessionary environment presents. We have a dedicated and experienced team who are actively progressing opportunities to increase our share of the market that is currently 'in-sourced' and have established a solid platform from which to develop this pipeline of potential new business. In our experience the shift from 'in-sourced' to 'outsourced' can be slow to materialise. However, we are encouraged by the steady stream of new contract awards to operate buses in States including Michigan and California that were previously operated within the public sector.

First Student is targeting conversion opportunities and has also developed 'unbundled' services to offer specific products to a wider customer base. We now offer school boards routing software, fleet maintenance and bus leasing support. First Student also established a network of centres to increase our share of the school bus charter market.



We continue to create opportunities to expand our services by increasing the range of products we offer customers. We were pleased to win new business to operate charter bus services, where school buses are hired for 'charter journeys' such as day trips or after school activities, including the provision of spectator transport to the Senior PGA Open, the US Women's Open Championship and the National Avon Walk for Breast Cancer.

First Transit and Services

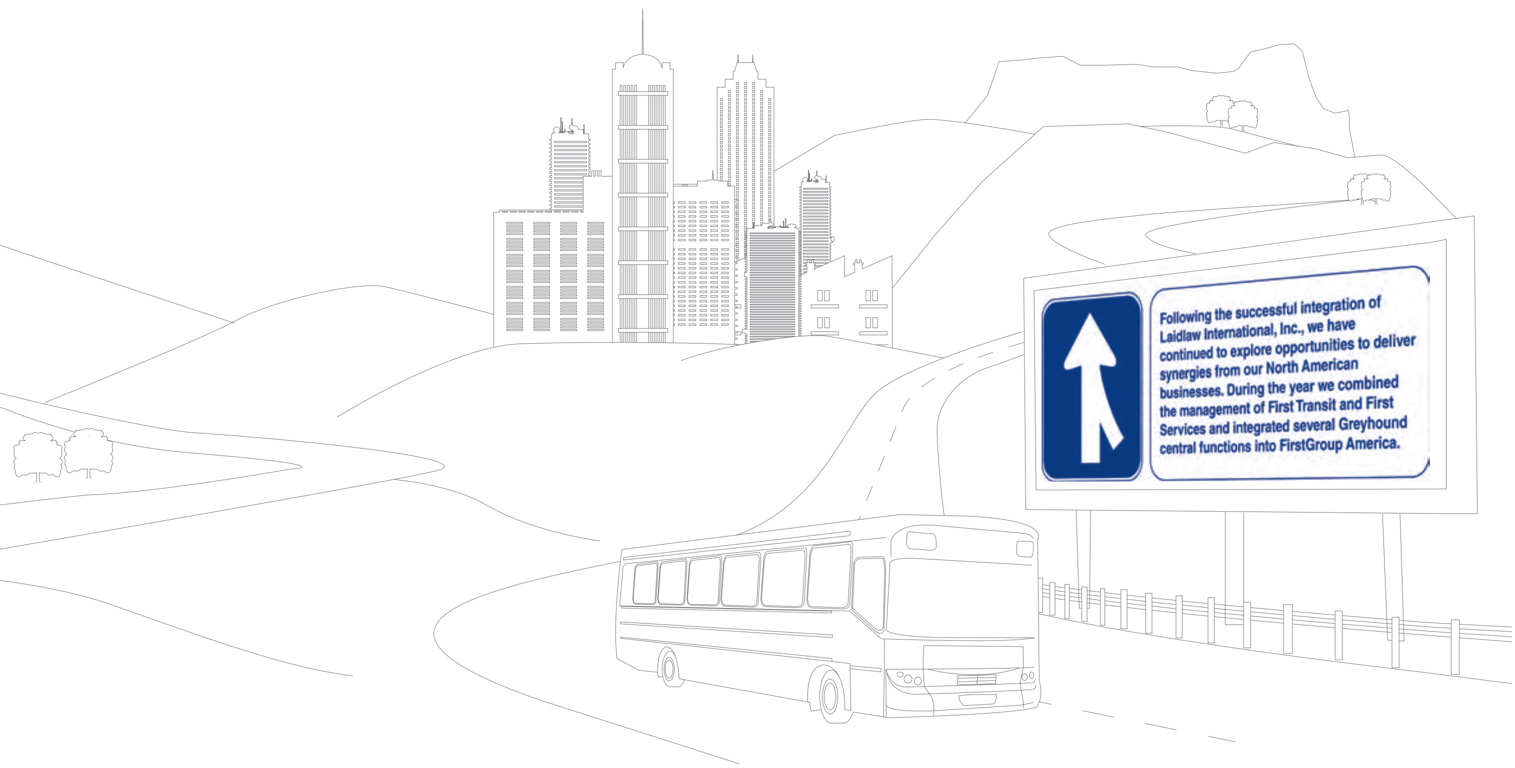
First Transit delivered a further year of successful growth with US Dollar revenue increased by 31.8% and operating profit by 71.1% and continued to improve its operating margin.

I am pleased to report that during the period we continued to win new business and increase our share of the outsourced transit market with the award of new contracts. In keeping with our strategy to grow our presence in the higher margin paratransit and shuttle bus businesses we were pleased to win contracts to operate paratransit services in Philadelphia and New Jersey. In addition, we were awarded the contract to provide shuttle bus services at the prestigious Princeton University in New Jersey. Contract retention remained strong at over 90% with a number of contracts renewed in States including Colorado and California.

First Services revenue grew by 4.7% during the year and as previously indicated in our half-yearly report 2008, operating profit was impacted by the loss of a legal dispute and additional costs incurred in respect of a small number of contracts that expired during the period.

During the period we were pleased to be awarded the contract to become the sole provider of vehicle maintenance to DHL. This new contract builds on the strong track record of performance we had achieved as one provider, among several, who previously maintained the DHL fleet.

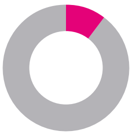
A continued focus on customer service led to First Services being awarded a number of accolades during the year including 26 of the fleets maintained by First Vehicle Services being named among the 'Top 100 Fleets in North America' by Government Fleet Magazine. Our First Vehicle Services locations in Longview, Texas and Claremore, Oklahoma achieved the Blue Seal Award from the National Institute for Automotive Service Excellence.



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 some 22 million passengers annually.

Revenue
£642.4m

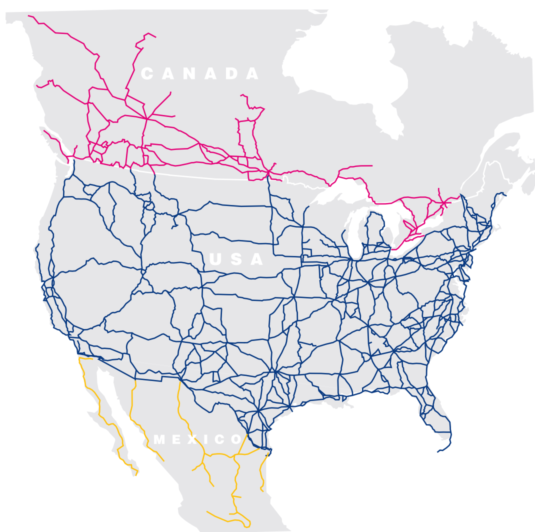


Operating profit
£48.5m

Key highlights

- **Improved year on year profitability and cash generation**
- **Highly flexible operating model – rapid response to changing demand has maintained revenue per mile**

Where we operate



Greyhound network in the US
Greyhound network in Canada
Affiliated carriers in Mexico

Find out more

www.greyhound.com or www.greyhound.ca

Greyhound, which contributes less than 10% of Group operating profit, experienced reduced revenue from the third quarter of the year as a result of the marked deterioration in the fast changing US economy. Revenue from our first full year of ownership of Greyhound increased to £642.4m or $1,114.0m (2008: £280.8m or $565.8m) and operating profit rose to £48.5m or $91.7m (2008: £8.8m or $17.7m) representing a full 12 months' contribution compared to six months in the previous year.

The unique qualities of Greyhound, in particular the highly flexible business model, have enabled us to take swift and decisive action to mitigate the impact on profitability. Approximately 60% of the cost base is variable which has enabled us to rapidly match the supply to demand. We have reduced mileage by 7.6% in the US and in Canada, where we have to seek regulatory approval prior to network changes, we have reduced mileage by approximately 3.5%. These cost actions have maintained revenue per mile and further reductions are planned as appropriate.

In addition, we have taken a number of actions to reduce operating costs including further restructuring of offices and functions. We have integrated a number of central functions from our Greyhound offices in Dallas and in Canada into our FirstGroup America headquarters in Cincinnati and have combined some operations in Canada to one location. As a result of challenging market conditions affecting Greyhound and to ensure the business remains cost efficient we have implemented a substantial programme to reduce headcount by 1,100 by June 2009.

We have also progressed our plans to decrease indirect costs and to reduce agency commission on ticket sales through rate reductions. We are encouraged by our experience with BoltBus, our low cost, high quality coach operation, where passengers are attracted to our yield managed fares and book their tickets using an online internet reservation system.

In March 2009 BoltBus, operating between its New York hub and three other markets in the North East, celebrated its first anniversary. The response to BoltBus has been extremely positive with monthly revenues exceeding $1.5m. Since the start up we have carried over 800,000 customers, achieved high average loadings and have introduced a further ten new and six refurbished vehicles bringing the current BoltBus fleet to 49. In May 2009 we launched a new route operating seven services per day from New York to Baltimore and are currently developing opportunities to expand BoltBus into other markets this year.

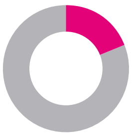
During the year we ordered 140 new vehicles that will be used to replace old Greyhound fleet and provide additional vehicles for BoltBus services. The new vehicles will enhance operating performance and will also reduce our carbon footprint with improved fuel efficiency.

We are delaying any major capital expenditure programmes while the economy remains weak and will continue to implement further actions to ensure that Greyhound is in a position of strength during this recessionary period. We remain confident that the business now has a solid base on which to continue to deliver profitable growth and strong cash generation.

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 3 million passengers every day.

Revenue
£1,182.0m

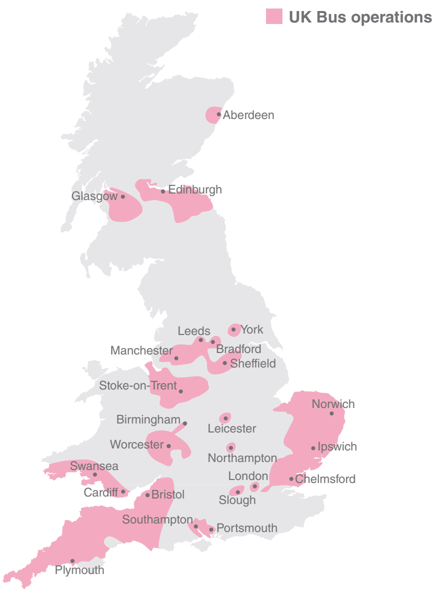


Operating profit
£134.0m

Key highlights

- **Passenger revenues up 7.4%**
- **Flexible operating model, can quickly match supply to any changing demand**

Where we operate



Find out more

www.firstgroup.com/ukbus

Results

This year our UK Bus division delivered a good trading performance. Revenue increased by 7.0% to £1,182.0m (2008: £1,104.9m) as a result of revenue growth initiatives and increased passenger journeys including concessions. Operating profit rose by 9.8% to £134.0m (2008: £122.0m).

The increased operating profit and margin is the result of our improvements in service quality and operational performance, more efficient working practices and investment in new vehicles. Our turnaround strategy has continued to deliver margin improvement at our regional bus operations. Our UK Bus division has significant flexibility to respond quickly to any changing market conditions and we are undertaking a comprehensive cost reduction programme to ensure that we remain resilient in this more challenging economic environment.

During the year we restructured our operating companies in Bradford, Halifax and Huddersfield, Leeds and York into one company to improve efficiency and streamline the business. Since the year end we have also merged our Eastern Counties and Essex operating companies.

Safety and customer service

During the year we completed the rollout of the Smith System Defensive Driving programme to all of our UK Bus operating companies. In addition, all of our UK Bus drivers will complete the Certificate of Professional Competence (CPC) including enhanced safety training and our bespoke customer service training programme. Our 'You are the difference' course, developed in partnership with Bus Users UK, is designed to enhance our customer service by providing first-hand experience. We have also introduced a new complaints handling system that captures more accurate and complete data. I am pleased to report that overall, complaints have reduced during the year.

Investment

This year through targeted capital expenditure we invested £77m in new vehicles to support passenger growth, reduce our environmental impact and develop partnership opportunities in our operating companies in Aberdeen, Bradford, Bristol, Eastern Counties, Glasgow, Hampshire and Dorset, Leeds, Manchester, South Yorkshire and York. We also invested £28m in new buses to support contract wins in London.

Our investment in new vehicles and improved maintenance and engineering performance has reduced lost mileage and, together with our continued focus on service delivery, has led to increased punctuality and reliability.

Partnerships

We believe working with local authorities through voluntary quality partnerships is the most effective way to deliver punctual and reliable bus services and increase passenger numbers. Successful partnerships will lead to a reduction in carbon dioxide emissions by reducing congestion and car use in our towns and cities. This year we have seen an increase in passenger journeys in many of our operating companies, despite the challenging economic environment.

We published our second Route Development Plan (RDP) in Greater Glasgow during the year with a new leisure route to the coast at Largs, an enhanced service between the city and Glasgow Airport and a new intercity overnight coach service between Glasgow and London. In addition we enhanced our local networks in Govan, Kirkintilloch and Lanarkshire and completed a major initiative to upgrade and rebrand the commuter coach service between Motherwell and Glasgow. Our close working relationship with Glasgow City Council and Strathclyde Partnership for Transport has delivered an increase in passenger numbers and better punctuality and reliability, despite rising traffic congestion, for the third year in a row. In April 2009 we submitted a planning application to Glasgow City Council for a major new bus depot and company headquarters for our Glasgow business. If approved, our investment of more than £25m will replace our existing Larkfield site with a new development at Gushetfaulds to provide larger and more efficient, modern facilities and enable us to maintain, improve and expand our operations in the Glasgow area.

We introduced 122 double deckers on our high frequency Overground routes between Bolton and Oldham and Manchester to provide additional capacity, reduce congestion and carbon dioxide emissions. We were disappointed with the result of the referendum on the Transport Innovation Fund in December. We believe this was a great opportunity to improve Manchester's transport system to help drive economic development in Manchester and the surrounding region. We will continue to work in partnership with Greater Manchester Passenger Transport Executive (GMPTE) and the local authorities in Greater Manchester to deliver excellent service quality and improved reliability for our customers. In partnership with GMPTE and another operator we are exploring the possibility of introducing new orbital bus routes to serve Greater Manchester.

We are the leading operator on the first Statutory Quality Partnership Scheme in North Sheffield. 80% of our fleet across South Yorkshire is now low floor following our investment across the region with 58 new buses in Sheffield and new vehicles to operate the A638 corridor and Park & Ride services in Doncaster. We continue to invest in our people and run training courses in partnership with South Yorkshire Passenger Transport Executive (SYPTE) to improve the skills of our staff including the highly successful 'Ambassador Training' programme. Over the initial two years of the Sheffield Bus Agreement, our voluntary quality partnership with Sheffield City Council and SYPTE, we have fulfilled our commitment to invest in new vehicles and improve driver training. We want to work together on an Agreement that continues to meet the objectives and purpose of the partnership.

WE ARE WORKING WITH LOCAL AUTHORITIES TO DELIVER PUNCTUAL AND RELIABLE BUS SERVICES AND TO INCREASE PASSENGER NUMBERS.

In May 2008 the Department for Transport (DfT) announced £42m to fund the next stage of the Greater Bristol Bus Network. The programme will fund new priority measures such as bus lanes and intelligent traffic signals to minimise delays and improve journey times on ten new route corridors and also introduce Real Time Passenger Information. We are investing £20m in new vehicles with easy access low floors, lower emissions and improved comfort and cleanliness. The Greater Bristol Bus Network will build on the success of the two existing Showcase routes in improving punctuality and reliability and growing passenger numbers.

We are looking forward to the phased introduction of the 'ftrmetro' project in Swansea throughout the summer. The joint £14m investment with the City and County of Swansea is aimed at improving the public transport network in the city by providing a frequent 'turn up and go' service with improved and reliable journey times ensured through vehicles running on segregated 'fast-track' bus lanes wherever possible and with effective priority over other traffic elsewhere.

Our aim is to attract and retain the best people in the industry. This year driver turnover in our UK Bus division has reduced to less than 20%.

We have been working together with Hampshire County Council and Transport for South Hampshire on the initial planning of the South East Hampshire Bus Rapid Transit scheme. In March 2009 the Government announced £20m from the Community Infrastructure Fund to support the first phase of the scheme which will provide a new, dedicated route for reliable and frequent bus travel between Gosport and Fareham, reduce congestion and traffic delays and improve access to education and health services, local employment and housing areas, local shopping centres and other important locations.

Interurban services

In August 2008, in partnership with BAA, we upgraded our X30 Aircoach service from Southend to Stansted Airport. The introduction of five new high specification coaches with leather reclining seats, free WiFi internet access, extra luggage space and leg room, wheelchair accessibility and on-board up to date travel information added capacity to a popular and fast growing route. In May 2009 we launched our new X40 Aircoach service from Basildon to Stansted Airport, our fourth route from Essex to the UK's third busiest airport.

In October 2008 17 new double decker buses were introduced to the flagship Excel X1 route from Lowestoft to Peterborough as part of our Joint Investment Plan with Norfolk County Council and Norwich City Council. The route has grown 15% year on year. Overall, the Joint Investment Plan will deliver a combined investment of £27m over the next few years.

In March 2009 we introduced new coaches on the X11 Lanarkshire Express service between Newmains and Glasgow as part of a package of service improvements including more peak hour journeys to and from Glasgow as well as the introduction of a new return journey from Cleland and Coltness.

In April 2009 we introduced a new half hourly limited stop, express bus service between Leeds and York.

London and other major contracts

We are pleased with new contract wins in London that reflect our ongoing efforts to improve operational performance and increase efficiencies. We were pleased to take over the 195 route from another operator on a short term contract with Transport for London (TfL). We continue to focus on the quality of our operations and are pleased with our performance in TfL's revised Quality Incentive Contracts.

In partnership with our staff and their representatives we are trialling the GreenRoad system at our Northumberland Park depot. The system evaluates a driver's performance against a range of safety, fuel efficiency and environmental objectives and provides results directly to the driver. If the trial is successful, we plan to roll out the system to all of our operations.

From the end of March 2008 to the beginning of April 2009 we started the new contracts to operate the Chester, Doncaster, Ipswich, Swansea and York Park & Ride services and, with our local authority partners, supported the relaunched schemes with substantial investment in new vehicles.

Working with Government

The Local Transport Act introduced new policies in several important areas that could potentially affect our relationships with local authorities. The Act gives local authorities the power to intervene in local bus markets and to propose new governance arrangements to support more coherent planning and delivery of local transport. Passenger Focus, the statutory rail consumer watchdog, will also represent the interests of bus passengers from spring 2010. We look forward to working with Passenger Focus this year on its research of bus and coach passenger needs and priorities.

In September 2008 the Yellow School Bus Commission, chaired by the Rt. Hon. David Blunkett MP, published its report into the issue of home to school transport. We welcomed the Commission's recommendations to reduce congestion caused by cars on the school run and bring about an overall increase in the number of children walking, cycling and taking the bus to school.

During the year our UK Bus division has invested over £100m in new, environmentally friendly vehicles to improve service quality and to support new contracts across the UK.

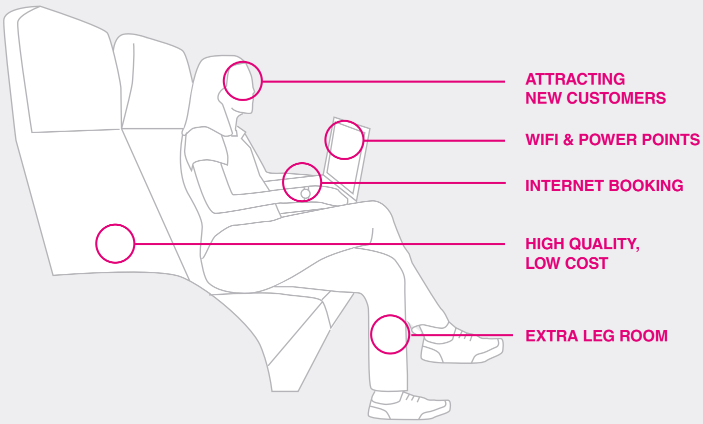
SPOTLIGHT ON

Partnerships

Our partnership with Save the Children has raised over £1m in cash donations, fundraised monies and gifts in kind.

Across the Group we work with our stakeholders including central and local government, suppliers and other companies to deliver safe, reliable and high quality services to our customers. Our aim is to be easy to do business with and it is only by working in partnership that we will be able to deliver our promise to our customers.

A NEW KIND OF BUS SERVICE
Greyhound has worked with affiliates to create BoltBus and NeOn, two new high quality, low cost coach services with WiFi, power points and extra leg room. Together we are attracting new customers on routes between Baltimore, Boston, Philadelphia, Toronto, Washington and New York.



IMPROVING GLASGOW'S BUS NETWORK
The Route Development Plan is key to the success of our relationship with Glasgow City Council and Strathclyde Partnership for Transport. The plan resulted in new routes, more low floor buses with increased capacity and improved punctuality and reliability. This year passenger numbers increased by over 4%.

>4%
INCREASE IN PASSENGER NUMBERS

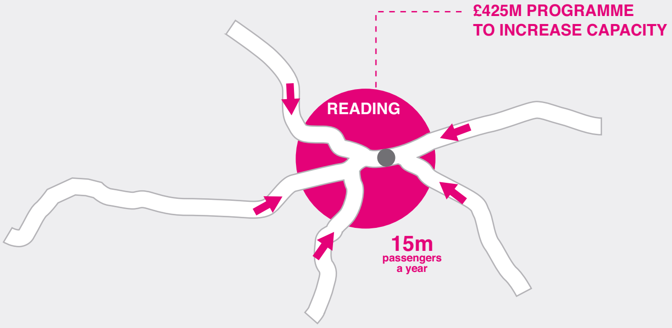
PARTNERSHIP WITH SAVE THE CHILDREN
Our partnership with Save the Children has raised over £1m in cash donations, fundraised monies and gifts in kind and raised awareness of the charity's mission to eradicate child poverty both in the UK and abroad.

FRANCHISE EXTENSION FOR FIRST CAPITAL CONNECT
The Department for Transport has extended our First Capital Connect franchise until the end of 2012. This demonstrates that we have continued to deliver service improvements and, working in partnership with Network Rail, achieve our performance targets since the franchise began.

MINIMISING OUR ENVIRONMENTAL IMPACT
Our 'Small Change, Big Difference' campaign aims to reduce the impact we have on the environment. We are working in partnership with our supply chain to improve the fuel efficiency of our vehicles, explore alternative fuel technologies and increase our recycling.

USING NEW LEGISLATIVE TOOLS TO DELIVER BETTER BUS SERVICES
We are working with local authorities across the country to use new powers in the Local Transport Act to deliver voluntary partnership agreements. We are committed to working with our partners in government to achieve our shared objectives of tackling congestion and improving the quality of local bus services.

TACKLING THE BOTTLENECK AT READING
The track and signalling at Reading limits the number of train services on the Great Western Main Line and affects punctuality and reliability for our customers. First Great Western is working in partnership with the Department for Transport, Network Rail and Reading Borough Council to deliver the Government's £425m programme to increase capacity at the station and across the network.



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 First 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 some 285 million passengers per annum.

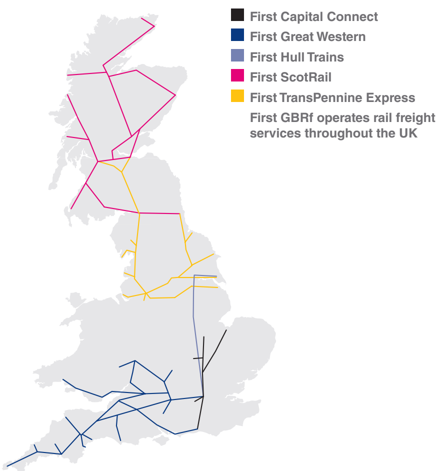
Revenue
£2,121.5m

Operating profit
£94.2m

Key highlights

- **Passenger revenues up 7.7%**
- **Continued revenue growth, albeit at a slower rate, with significant downside protection through revenue support**

Where we operate



Find out more

www.firstgroup.com/uktrain

Results

Our UK Rail division continues to deliver good revenue growth, albeit at a slower rate than last year due to the challenging economic environment. The impact of the weakening economy is reflected across the UK rail industry. The unique position of our rail franchises in relation to revenue support and share mechanisms will considerably mitigate the impact of the recession on our rail revenues. First Great Western has received revenue support at the 80% level from the DfT since 1 April 2008 and First Capital Connect became eligible for revenue support at a similar level on 1 April 2009.

Revenue in the Group's rail division increased by 9.5% to £2,121.5m (2008: £1,937.0m). Operating profit was £94.2m (2008: £120.0m) reflecting the impact of the weakening economy on our rail operations and in particular on our franchises serving London. Despite the high fixed cost nature of the rail industry we are committed to a substantial cost reduction programme to ensure that we remain in a position to respond to economic conditions in the year ahead. We have already implemented significant cost efficiency actions this year, including a headcount reduction programme, and will continue to focus on our addressable cost base in the year ahead.

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 deliver improvements in customer service, performance and increased capacity. In partnership with the DfT, Transport Scotland, Network Rail and other organisations, we are at the forefront of some of the largest long term improvements to the rail network in the UK.

First Great Western

We are pleased with First Great Western's improved performance and customer service but we believe there is more to do and we remain committed to achieving further progress. As a result of our investment and the changes we made last year First Great Western's Public Performance Measure (PPM) has improved from just over 83% at the start of the year to over 90% at the year end on a Moving Annual Average (MAA) basis. This represents a significant improvement and First Great Western has improved its position from the bottom of the national rail industry league table to be in line with the industry average. First Great Western's punctuality and reliability levels are ahead of the targets we agreed with the DfT in February 2008 as part of an action plan to improve performance.

80% of First Great Western customers interviewed for the autumn 2008 National Passenger Survey (NPS) thought the overall service was either good or satisfactory. This is a seven point improvement on First Great Western's NPS scores in spring 2008 and autumn 2007. Over the next two years all of our first line teams will go through our £4m 'Putting Customers First' development programme that was designed to further increase customer satisfaction levels.

We continue to invest in our fleet to improve our customers' experience of travelling with First Great Western. The refresh of our West Country regional train fleet is almost complete. The programme provides a more comfortable and cleaner on-board environment for passengers and includes a range of technical improvements to make the trains more reliable. We recently completed the development of our St Philips Marsh depot in Bristol to support the maintenance and servicing of the West Country regional fleet. During the year we also invested £2m to refresh the Sleeper fleet which runs between London Paddington and Penzance and leased five Class 150 units from Arriva Trains Wales to strengthen capacity on the busy Cardiff-Portsmouth services. Passengers on branch lines in Devon have also benefited from capacity increases, especially in the Exeter area.

We have continued to deliver better facilities for our customers. Maidenhead station received major improvements and an extension to the platform allowing High Speed Trains to stop during engineering work. We have also created a new waiting room at Swindon station and upgraded facilities at Newbury and Cheltenham. Stations on the Heart of Wessex route have seen substantial improvements including repainting, new shelters and waiting rooms. In addition, car parks at Didcot Parkway, Pewsey, Stroud and Twyford stations have been refurbished. Our franchise commitment to improve safety and security at our stations by achieving Secure Station status has been met with 171 stations accredited by the end of March 2009.

First Great Western continues to work in partnership with Network Rail to address the challenges posed by the ageing infrastructure on the Western route. We are pleased that the £7m joint investment by First Great Western and Network Rail to upgrade the majority of the Reading to London Paddington relief line to 90mph was completed during the year. The upgrade has increased capacity and improved journey times for passengers in the Thames Valley and on longer distance high speed services.

We are working closely with Network Rail on plans to improve the North Cotswolds Line. This summer Network Rail intends to complete the first phase of engineering works in preparation for the restoration of a two-track railway between Charlbury and Evesham during 2010. This will ease congestion on the line, help improve punctuality and could also lead to an increase in the number of train services and a reduction in journey times.

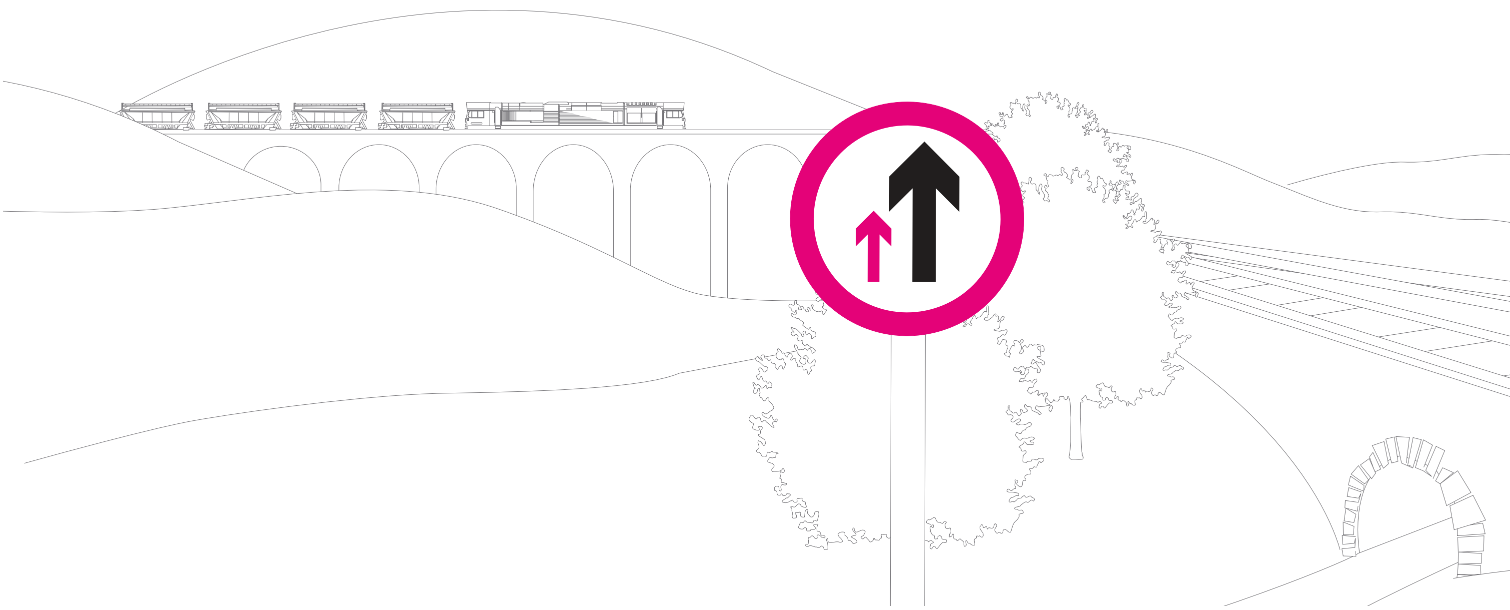
First Great Western is also working with the DfT, Network Rail and Reading Borough Council on the £425m Reading remodelling project. The current track layout and signalling severely limits the number of services that can travel through the station and the Government funded programme will tackle this bottleneck. This investment will benefit passengers across the First Great Western network by increasing capacity and improving reliability.

First Capital Connect

In February 2009 the DfT confirmed that our First Capital Connect franchise would be extended until the end of 2012 as a result of successfully achieving our performance targets during the first three years of operation. This is a great achievement and demonstrates that we have continued to deliver service improvements and improve our performance since the franchise began. In January 2009 First Capital Connect achieved the best ever operational performance on the Thameslink and Great Northern routes, with PPM MAA above 92%.

In March 2009 First Capital Connect successfully delivered a new timetable on the Thameslink route. The timetable change created new cross-London routes between First Capital Connect stations north of London and Southeastern destinations in Kent and south east London, almost doubled the number of peak hour trains across London and added over 2,500 more peak hour seats.

Passenger numbers at First ScotRail have increased by some 3% this year and more than 20% since the start of the franchise in October 2004. This is due to improved operational performance and customer service and investment from Transport Scotland in new trains, additional services and reopening lines.



The new timetable marks the first milestone in the Government funded £5.5bn Thameslink Programme to increase capacity for passengers travelling to and through London by providing more frequent, new 12 carriage trains and delivering new or improved stations at Farringdon, Blackfriars and London Bridge by 2015. As a result of the Thameslink Programme the Farringdon-Moorgate branch line was permanently closed to passengers and there will be significant disruption for customers until the Programme is completed. However, we successfully raised customer awareness ahead of the timetable changes through a new communication campaign and our initiatives to manage the potential for overcrowding at Blackfriars and Farringdon stations, including additional customer service assistants, has helped to mitigate the negative aspects of this major change.

In May 2009 we will implement the recommendations of the Cambridge and Peterborough Capacity Study to address overcrowding on the Great Northern route. Network Rail has successfully completed work to lengthen platforms and upgrade the power supply to enable First Capital Connect to introduce five additional trains and a new timetable which will deliver over 2,500 seats in the morning peak and over 3,000 seats in the evening peak.

First Capital Connect continues to invest in the future success of the franchise. This year we invested £2.2m in extending our Cauldwell Walk depot in Bedford and £1.2m in a new Performance and Training Academy and Simulator Centre at our Hornsey depot that will be used to teach the new drivers required for the Thameslink Programme and help to support our team of 700 drivers. We also opened a new training centre in Kentish Town to deliver induction, customer service and revenue protection training to new recruits. The centre will also offer development programmes and safety training to all of First Capital Connect's employees.

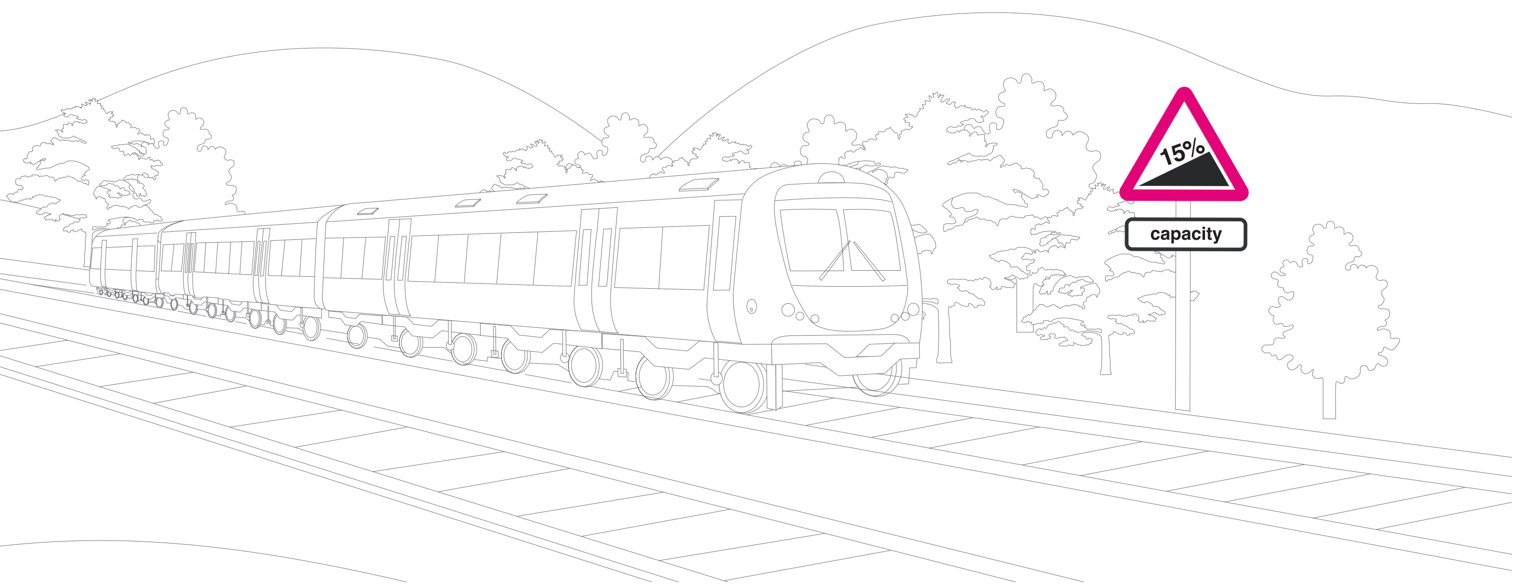
This year First Capital Connect has invested £10.5m in improvement work at our stations. This includes the delivery of accessibility improvements across over 70 stations, including two new bus/rail interchange schemes at Hitchin and Potters Bar stations, as part of the DfT's 'Access for All' initiative. This year we introduced automatic ticket gates at three further stations and have now delivered 15 new gateline schemes since the start of our franchise in April 2006. We also completed the installation of 190 new CCTV cameras, 69 Help Points and 56 additional Customer Information System screens and replaced 96 older screens with Enhanced Display Screens at 16 Thameslink route stations. The screens offer live journey information, London Underground updates and news on service alterations during disruption.

We were delighted to win the London Team of the Year at the National Rail Awards 2008 for our work with British Transport Police to reduce crime and anti-social behaviour on our network. As part of our 'Keeping you safe with us' campaign First Capital Connect has invested in five British Transport Police officers and 24 Police Community Support Officers to patrol our network. A new CCTV Control Centre operated by our staff and a British Transport Police officer now monitors our stations and car parks 24 hours a day.

First ScotRail

In April 2008 the Scottish Government announced its decision to extend our successful First ScotRail franchise for a further three years to November 2014. We were pleased that First ScotRail scored a customer satisfaction rating of 90% in the National Passenger Survey. This is our best ever NPS score, up six percentage points year on year. We continue our efforts to improve customer service and investing in our people is a key part of our commitment. We were delighted to achieve Investor in People accreditation. We also opened new Rail Learning Centres at Dumfries, Ayr, Yoker and Inverness.

First Capital Connect introduced a new timetable in March to add new capacity on peak services through London. The changes form a key part of the £5.5bn Government funded Thameslink Programme to reduce overcrowding on the Bedford to Brighton commuter route.



During the year First ScotRail achieved a record single period PPM of 94.2%. We continue to improve our reliability and our maintenance depots have made strong progress this year. Our Haymarket depot has recorded a 34% reduction in delay minutes for the Class 170 train fleet.

WE CONTINUE TO DELIVER IMPROVEMENTS IN CUSTOMER SERVICE, OPERATIONAL PERFORMANCE AND INCREASED CAPACITY.

Passenger growth continues at First ScotRail with additional morning and evening peak express services between Edinburgh and Glasgow and over 400,000 passenger journeys on the new Stirling-Alloa service. The line was opened on 19 May 2008 with an hourly service linking Alloa to Glasgow reconnecting Clackmannanshire to the passenger rail network for the first time in 40 years.

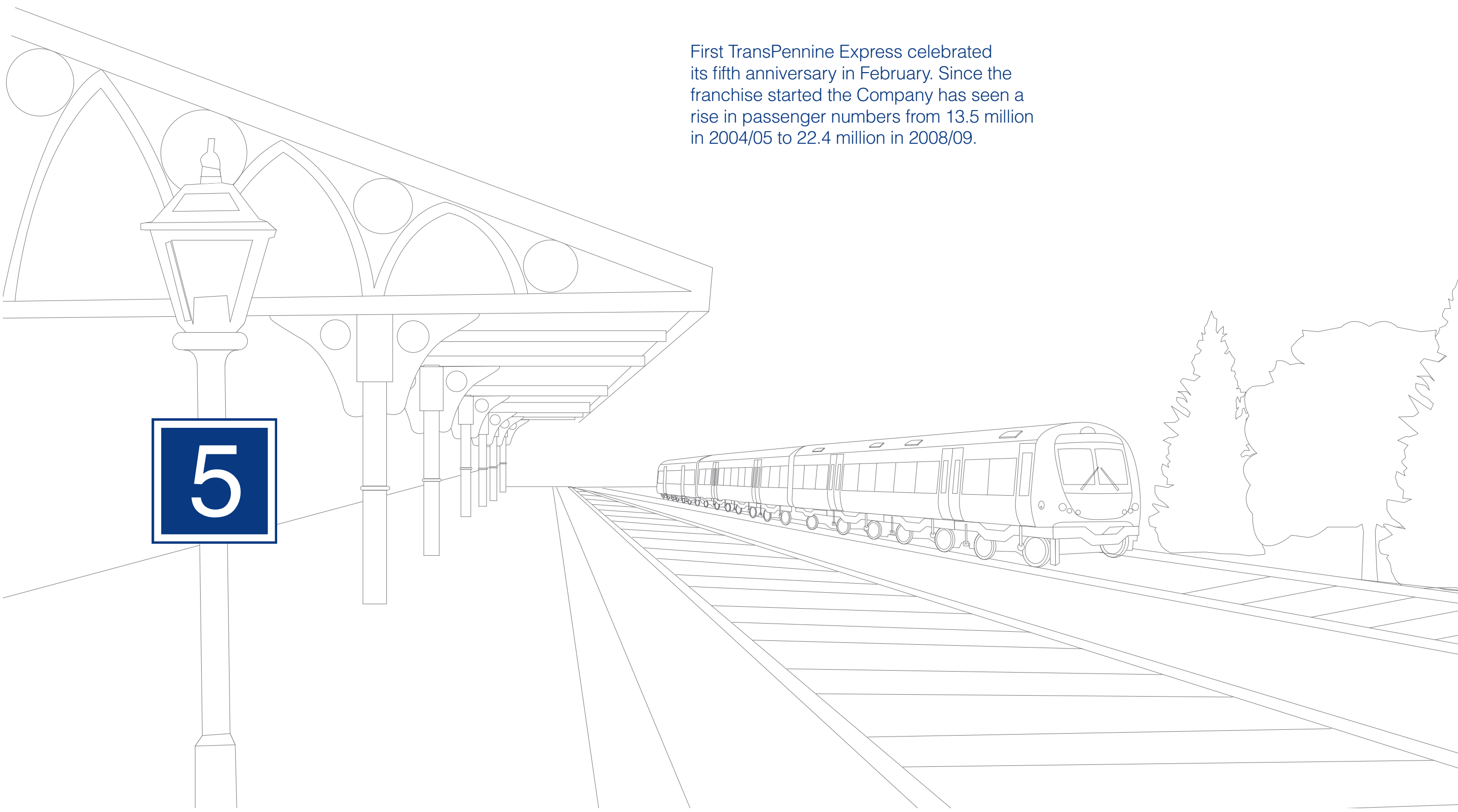
First ScotRail introduced a new timetable in December 2008 with the most comprehensive changes to services in a decade. We doubled the frequency of services linking Edinburgh with both Perth and Dundee, reduced journey times and overcrowding on the Edinburgh-Aberdeen route and introduced an hourly Aberdeen-Inverurie service. For the first time ever, both Kyle of Lochalsh and Wick now have four trains a day Monday to Saturday, all year round, to and from Inverness.

Service enhancements will continue in the May 2009 timetable with further improvements between Edinburgh and Aberdeen via Fife. In addition, there will be a new, direct morning commuter service from Alloa to Edinburgh and an evening peak return. Services between Glasgow Central and Ardrossan Town are being extended to Ardrossan Harbour to provide more robust sailing connections. On 17 May 2009 Laurencekirk station will open, the first new station in the north east of Scotland for almost 25 years.

We continue to invest in improving passenger facilities at our stations. Every First ScotRail controlled station now has a Help Point and during the year we opened a new First Class lounge at Aberdeen station and completed car park extensions for Transport Scotland at Cupar, Stonehaven and Musselburgh stations.

We are delighted that First ScotRail's success has been recognised with a host of awards including Passenger Operator of the Year and Outstanding Personal Contribution at the National Rail Awards and Passenger Operator of the Year and Transport Employee of the Year at the Scottish Transport Awards.

First TransPennine Express celebrated its fifth anniversary in February. Since the franchise started the Company has seen a rise in passenger numbers from 13.5 million in 2004/05 to 22.4 million in 2008/09.



First TransPennine Express

Our First TransPennine Express franchise celebrated its fifth anniversary in February. We continue to deliver passenger growth and this year carried over 22 million passengers on our network.

Performance dipped towards the end of 2008 with delays due to line side cable theft, infrastructure failures in poor weather and unexpectedly high levels of driver sickness. We are working with Network Rail to identify problem areas and to restore the previous trend of improving punctuality and reliability.

Our new timetable in December 2008 introduced additional services between Manchester Airport and Edinburgh, earlier morning trains from Manchester to Edinburgh and Glasgow and a new early morning service from Edinburgh to Manchester. We also cut journey times by 20 minutes. The timetable changes also improved service frequencies on Sundays between Newcastle and Manchester Airport and between Manchester and York.

In January 2009 the Secretary of State for Transport, the Rt. Hon. Geoff Hoon MP, officially opened the new third platform at Manchester Airport. Network Rail, GMPTE and the Northern Way funded the £15m project to deliver additional capacity for customers arriving at the airport and to ease pressure on Manchester Piccadilly Station.

We are working with the DfT on the introduction of additional carriages to the First TransPennine Express network as part of the High Level Output Specification.

First GBRf

We were delighted that First GBRf won the Freight Achievement of the Year award at the National Rail Awards for its performance in the coal sector. First GBRf achieved a five year extension to its contract with British Gypsum for the movement of desulphogypsum from West Burton power station in July 2008 and in October 2008 won new contracts with Bombardier and Wabtec. In April 2009 First GBRf signed a new five year contract with container liner MSC to increase our services from the Port of Felixstowe to five per day. In April 2009 we were delighted to renew our contract to operate and manage the Whitemoor infrastructure terminal in Cambridgeshire, for a further two year term, on behalf of Network Rail. In addition a four year haulage contract to operate infrastructure maintenance trains for Network Rail in Cambridgeshire, Hampshire and Kent was also secured.

First Hull Trains

First Hull Trains continues to achieve passenger growth and carried more than 700,000 passengers in a year for the first time. In May 2008 we added an additional Sunday service from Hull to London King's Cross and during the year replaced our fleet of Class 222 Pioneer trains with Class 180 Adelante trains to deliver more than 50% additional capacity for our customers.

We were very pleased that in February 2009 the Office of Rail Regulation approved the continuation of our access rights for seven weekday and five weekend services each way between Hull and London King's Cross until December 2016.

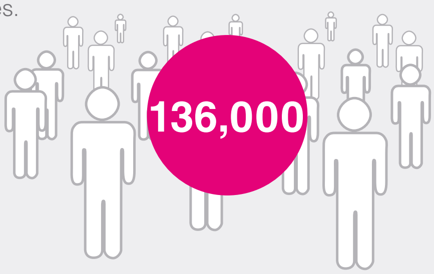
First Great Western achieved over 90% PPM, the measure of punctuality and reliability, over the year. This is a significant improvement in operational performance.

SPOTLIGHT ON

Our people

Our employees are vital to the success of our business and are at the centre of everything we do at FirstGroup. Our 136,000 employees across the UK, North America and Europe help to ensure that some 8 million people get to their destination every day.

Our people are the key to delivering on our core values of safety and customer service. We are committed to recruiting and retaining the best people in the industry and to enabling our employees to reach their full potential through industry leading learning and development programmes.



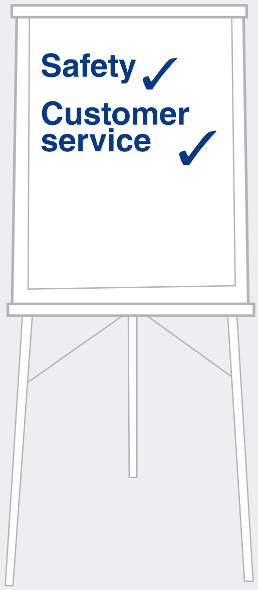
INVESTING IN PEOPLE

SUPPORTING SKILLS FOR LIFE

We actively support the UK Government's Skills for Life agenda. This year we opened our 51st Learning and Development centre at Croydon Tramlink offering learning opportunities for our staff.

IMPROVING BUS DRIVER SKILLS

The new Certificate of Professional Competence is designed to enhance the skills of bus drivers in the UK. All of our UK Bus drivers will receive training on safety and customer service.



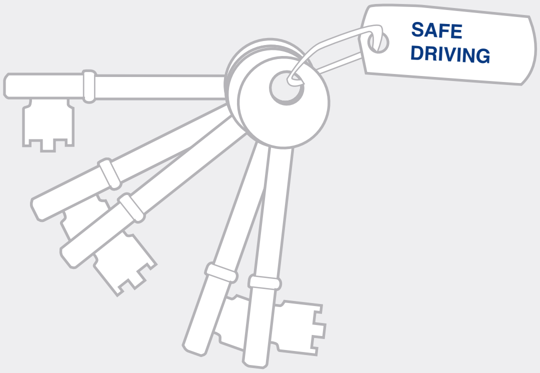
FIRSTGROUP AMERICA'S PEOPLE STRATEGY

We aim to be the employer of choice in the North American transportation industry. We have used the results of our first employee survey to enhance our people strategy and to develop our rewards and recognition programmes.

SETTING STANDARDS

COMMITTED TO SAFER DRIVING

The Smith System of Defensive Driving contributed to a reduction in accidents in our First Student business. The programme focuses on the 'five keys' of safe driving and has now been rolled out across our UK Bus division.



RECOGNITION

RECOGNISING GREAT SERVICE

Our UK Bus customers and staff can nominate our employees as Superstars. Each of our Train Operating Companies recognise staff who go the extra mile in delivering excellent customer service.

INVESTOR IN PEOPLE

This year First ScotRail achieved Investor in People accreditation. Each of our Train Operating Companies is working towards this standard which recognises business improvement through people.

CSR

Corporate Social Responsibility (CSR) is fundamental to our business and our objective of sustainable growth. We aim to provide transport services that are safe, reliable, customer focused, innovative and sustainable.

Over the last ten years we have expanded our non-financial reporting as part of our strategy to engage with shareholders and other stakeholders on the non-financial performance of our Company.

Our full CSR Report is available on our website at www.firstgroup.com and we also publish a summary of our objectives, activities and how we have performed against our targets.

Key CSR areas

- **Minimising our environmental impact**
- **Valuing our employees**
- **Delivering our customer service promise**
- **Our role in the community**

Dow Jones Sustainability Indexes

FTSE4Good

Business in the Community

Children's Miracle Network® Hospitals Helping Local Kids

Save the Children

Find out more

www.firstgroup.com/corporate/csr

As the leading transport operator in the UK and North America we understand that public transport keeps the economy moving, brings communities together and makes a massive contribution to reducing society's impact on the environment. This year our customers completed over one billion bus journeys and over 285 million rail journeys in the UK. In North America we transported four million children to school every day, operated transit and services contracts for our customers in the public sector and carried some 22 million passengers on our Greyhound intercity coach network. Our services provide opportunities for people to travel to workplaces, to schools, colleges and universities, to utilise essential public services and for leisure. The transport connections we provide are vital to local communities and to the economy. We are committed to doing what we can to increase the use of public transport and to tackle the social and economic costs of congestion and climate change.

We published our environment statement in 1998 'to provide an overview of our commitment to environmental management' and we published our first environmental report in 1999. Over the last ten years we have expanded our non-financial reporting as part of our strategy to engage with shareholders and other stakeholders on the non-financial performance of our Company. Our full CSR Report is available on our website at **www.firstgroup.com** and we also publish a summary of our objectives, activities and how we have performed against our targets.

Safety and customer service are our core values. Through Injury Prevention, our industry leading safety initiative, we continue to identify and implement measures to provide a safe and reliable high quality transport environment for our employees and our customers. We are committed to a targeted reduction in workplace accidents and this year achieved a 26% reduction in Lost Time Injuries across the Group.

We have a key role to play in reducing the environmental impact of travel and we are committed to reducing our own contribution. All but one of our UK Bus and Rail division companies has achieved ISO14001 accreditation for environmental management systems. In May 2008 our operations in the UK were accredited under the Energy Efficiency Accreditation Scheme. This leading independent emission reduction award scheme recognises organisations that can demonstrate energy savings through management commitment and investment in energy efficiency measures. We are the first transport company to complete the accreditation since the scheme was extended to include transport emissions. This year we have established new arrangements in North America to monitor energy and water consumption at all of our properties. This will allow us to report baseline data for the first time. We have also negotiated total waste management contracts in both our UK Rail and North America divisions and can now monitor waste arising and recycling rates across the Group. We are updating our climate change strategy to reflect the work we have undertaken since its launch two years ago. Full details of our climate change strategy including our targets for reduction of emissions can be found on our website at **www.firstgroup.com**

Our employees are central to delivering our core values of safety and customer service. We aim to be the employer of choice in the transport industry and we are committed to building a workforce that is highly motivated, customer focused and proud to work for us. This has been a challenging year for some of our employees as we reshape our business to reflect changing patterns of demand and strive for greater efficiency and cost effectiveness across the Group. However, employee turnover has reduced during the year and, in particular, driver turnover at our UK Bus division has reduced from 31% in 2004/05 to less than 20% this year.

WE HAVE A KEY ROLE TO PLAY IN REDUCING THE ENVIRONMENTAL IMPACT OF TRAVEL AND WE ARE COMMITTED TO REDUCING OUR OWN CONTRIBUTION.

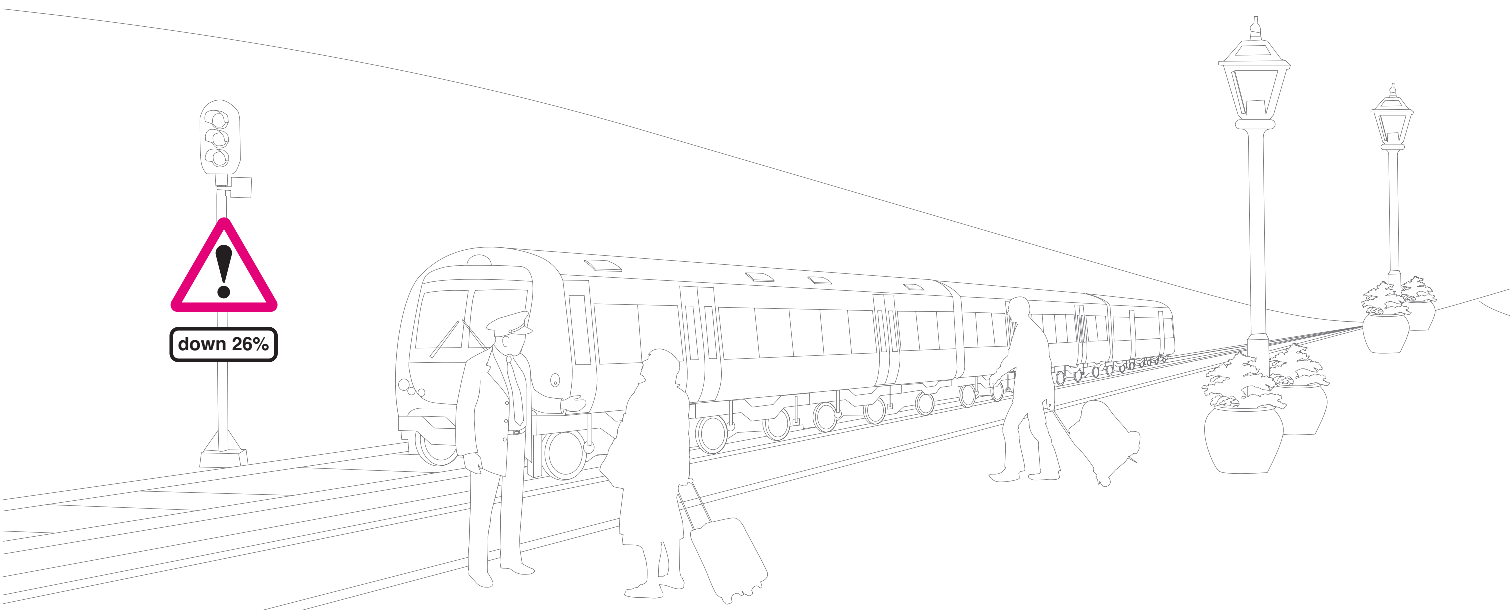
We have an active programme of employee engagement and this year completed employee surveys in each of our operating divisions. The results have been analysed at Group and operating company or site level and have informed our employee programmes with action plans to address lower scores. In our UK Rail division, overall employee satisfaction has either improved or remained constant at each of our Train Operating Companies. We were disappointed with the low response to the survey in our UK Bus division but pleased with the high scores for our commitment to safety and learning and development. We conducted some focus groups to gain a better understanding of the lower response rate and to obtain feedback on addressing this. The survey results were communicated to all Managing Directors and we developed employee posters, specific to each operating company, detailing survey results and management action plans. We were pleased with the response rate in North America and, overall, employee engagement scores were comparable with transport industry benchmarks. The main themes from the results were for improved two-way communication, local management training and development of FirstGroup America's rewards programme.

We are committed to improving the vocational skills of our employees with particular emphasis on safety and customer service and to improving the availability of learning and development opportunities. We continue to support the UK Government's Skills for Life agenda.

We are committed to delivering our promise to our customers – to meeting our timetable in UK Bus, UK Rail and Greyhound and to fulfilling our commitments in our contracted business in North America. We believe that delivering services that are safe, punctual and reliable will attract more customers to public transport. We continue to make targeted investment to improve our UK Bus fleet introducing new vehicles to increase capacity on busy routes and improve service quality and performance. Our investment in new buses is also improving accessibility by increasing the number of low floor vehicles in our fleet. The number of complaints we receive from our customers is reducing. In UK Rail we are investing in refreshing our rolling stock and, where possible, adding new services to meet high levels of demand particularly in the peak periods. We are pleased with the improvement of First Capital Connect, First Great Western and First ScotRail in the National Passenger Survey. We continue to work with Network Rail to improve the punctuality and reliability of our services and, at the year end, each of our franchised Train Operating Companies recorded Public Performance Measure scores of over 90% on a moving annual average basis.

In our North American contracted business there are different customer satisfaction measures but ultimately we believe that contract retention and our ability to win new contracts are key performance indicators. We are pleased to continue our record of strong contract retention of over 90% in First Student. In addition First Transit and First Services also achieved excellent retention rates of over 90%.

Injury Prevention, our industry leading safety programme, was introduced across the Group in 2007. This year our Lost Time Injury rate reduced by 26%.



Our role in the communities where we operate varies as we provide bus and rail services, we employ large numbers of people, we buy from suppliers and we interact with our neighbours. We are committed to playing a key part in our local communities but sometimes we face conflicting demands from our stakeholders, particularly on issues around accessibility, affordability and the environmental impact of our operations.

We have continued our partnership with Save the Children in the UK and have now established a similar relationship with the Children's Miracle Network in North America. Our partnership with Save the Children has raised more than £1m in cash donations, fundraised monies and gifts in kind contributions. We have also extended our First Football initiative to ten football clubs across the South West. All of our charitable donations are managed through our Charity and Sponsorship Committees in the UK and North America. The Committees are made up of employees and help to ensure that available funds are distributed in a fair and consistent way.

We are committed to developing a leadership position in relation to CSR and to sustainability issues more generally. In September 2008 we established an External CSR Advisory Group to support our work and to provide an external perspective on our current CSR activities and where we are heading in the future.

GROUP OUTLOOK

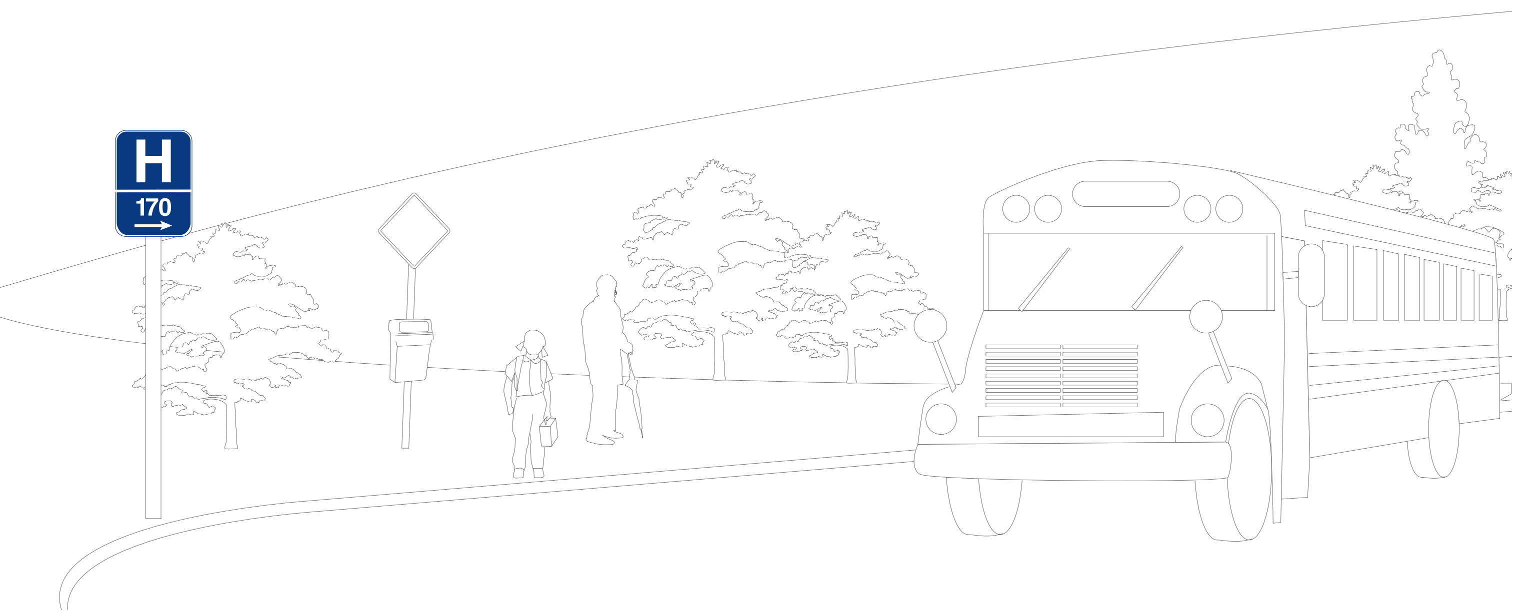
The continued strength and resilience of the Group is the result of our strategy to build a balanced portfolio of operations. The Group continues to benefit from a diverse revenue stream which is balanced between contract-backed and passenger revenues. It is this diversity that underpins the strength and resilience of the Group and mitigates the impact of an uncertain economic environment. Within our large contract-backed businesses, which account for 50% of Group revenues, we have clear visibility of revenues despite the challenging and fast changing economic conditions. In those areas of the business that are dependent on passenger revenue we have already taken action to implement a significant programme to reduce costs, match supply to demand and ensure that the Group has a robust and efficient base on which to continue to deliver long term, profitable growth.

During the year we made excellent progress in implementing our refinancing strategy to reduce reliance on bank debt and extend the maturity profile of the Group's debt and I am pleased to report we have achieved financing through to 2012. The actions we have taken will ensure that the Group is well placed to deliver its plans for cash generation and to reduce net debt.

Looking ahead, no business can regard itself as completely immune from the global economic downturn and across the sector there will be challenges to overcome. However, our diverse mix of businesses, together with the management actions we have already started to implement, will stand the Group in good stead to continue to build on its market leading position and will ensure that, not only are we well placed to withstand the economic headwinds, but to continue to deliver a strong operating and trading performance. While it is still early in the new financial year, overall the Group has continued to trade well and broadly in line with our expectations.

Sir Moir Lockhead
Chief Executive
13 May 2009

This year FirstGroup America announced a corporate partnership with the Children's Miracle Network; a leading charity that raises money for 170 children's hospitals in the US and Canada.



NICK CHEVIS

Finance Director's review

The Group has delivered another strong set of results in challenging economic conditions. The strength and resilience of our business is a result of our strategy of building a balanced portfolio of operations.

OVERVIEW

Approximately 50% of Group revenues are supported by medium or long term contracts providing stability against an uncertain economic background. During the year we have taken a significant number of actions across all Divisions and are implementing a plan to reduce costs by more than £200m annually. In our non-contracted businesses we have significant flexibility to manage our cost base which gives the Group the ability to match supply with demand in both our UK Bus and Greyhound businesses. These actions will ensure that the Group remains well placed to deliver a strong operating and trading performance.

The Group continues to generate strong cash flows which are used to enhance shareholder value and pay down debt. Throughout the year we repaid £1,062m of existing short term acquisition debt from new equity of £231m, new medium to long term debt and cash generation. Subsequent to year end we successfully issued a 12 year £350m bond, the proceeds of which were used to prepay the remaining balance on short term acquisition debt and to reduce drawings under our bank revolving facilities. The Group's debt maturity profile has been significantly improved during the period with the average duration increasing to 4.6 years (2008: 3.5 years). Following the issue of the £350m bond, the average debt duration has further increased to 6.0 years. The next major facilities do not fall due until February 2012. Liquidity under committed bank facilities is strong with £583m available at the year end.

The flexible nature of our businesses together with the actions we have implemented on costs and a strong focus on budgetary discipline will ensure that the Group is well placed to deliver our plans for cash generation and to continue to reduce net debt.

Results

Results include a full year contribution from the Laidlaw acquisition compared to only six months last year. Revenue was £6,187.3m (2008: £4,707.6m), an increase of 31.4%. Operating profit was

Divisional results

	Year to 31 March 2009			Year to 31 March 2008		
	Revenue £m	Operating profit[1] £m	Operating margin[1] %	Revenue £m	Operating profit[1] £m	Operating margin[1] %
UK Bus	**1,182.0**	**134.0**	**11.3**	1,104.9	122.0	11.0
UK Rail	**2,121.5**	**94.2**	**4.4**	1,937.0	120.0	6.2
North America	**2,224.1**	**246.1**	**11.1**	1,370.3	130.7	9.5
Greyhound	**642.4**	**48.5**	**7.5**	280.8	8.8	3.1
Other[2]	**17.3**	**(25.3)**	**–**	14.6	(21.4)	–
Total Group	**6,187.3**	**497.5**	**8.0**	4,707.6	360.1	7.6

1 Before amortisation charges, non-recurring bid costs, other non-recurring items and profit on disposal of properties
2 Tram operations, German Bus, central management and other items

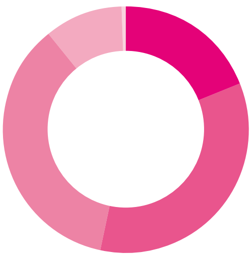
£497.5m (2008: £360.1m), an increase of 38.2%. Operating profits and margins were higher at UK Bus, North America and Greyhound which more than offset lower earnings in UK Rail. Profit before tax was £200.0m (2008: £151.9m), an increase of 31.7%. Adjusted basic EPS was 48.6 pence (2008: 40.9 pence), an increase of 18.8%.

UK Bus revenue was £1,182.0m (2008: £1,104.9m), an increase of 7.0%. Operating profit was £134.0m (2008: £122.0m), an increase of 9.8%. Operating margin increased by 0.3% to 11.3%. Overall passenger revenues have remained strong with an increase in like for like revenues of 7.4% year on year with passenger volume growth of approximately 2%. In addition to a strong focus on cost control we are continuing to implement actions within our bus operations to ensure that services match customer demand while continuing to promote bus travel as a good value, environmentally friendly alternative to the car.

UK Rail revenue was £2,121.5m (2008: £1,937.0m), an increase of 9.5%. Operating profit was £94.2m (2008: £120.0m) with the reduction reflecting the franchise bid profiles, lower passenger revenue growth and higher fuel costs. Overall our Train Operating Companies delivered like for like passenger volume and revenue growth of 4.2% and 7.7% respectively. Despite the weaker economy UK Rail is still delivering good revenue growth, albeit at a slower rate than earlier in the year. What differentiates the Group in the current economic climate is that all our franchises will be eligible for support from the DfT in the coming year. FGW is already receiving revenue support at 80%, FCC qualified from 1 April 2009 and we anticipate that it will also receive support at the 80% level. The two high subsidy franchises in the north of the UK benefit from relatively stable subsidy profiles. In addition TPE is currently sharing profit with the DfT and whilst FSR is eligible for revenue support, it continues to trade above its target revenue. These mechanisms provide significant downside protection in this difficult economic environment. Although there is a high fixed cost base in the rail industry we have implemented cost reduction measures in the addressable cost base which, together with the revenue support and share mechanisms in place across our franchises, will substantially mitigate the impact of a weakening economy on our rail operations.

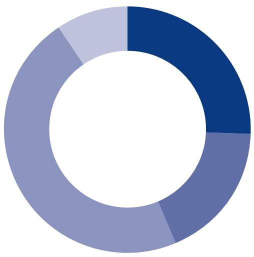
North American revenue (excluding Greyhound) was £2,224.1m or $3,739.0m (2008: £1,370.3m or $2,753.2m) representing an increase of 62.3% or 35.8% at constant exchange rates. Operating profit was £246.1m or $391.8m (2008: £130.7m or $262.6m), an increase of 88.3% in Sterling terms or 49.2% at constant exchange rates. Margin improved by 1.6% to 11.1%. We reached our annualised synergy target of $150m in the first half of the year which was significantly ahead of the acquisition model. These synergies together with our margin improvement plans saw the First Student margin improve by 1.3% to 12.6%. Our focus on customer service and operational performance ensures that we remain on course to retain over 90% of First Student contracts that are up for renewal and we remain optimistic about further conversion opportunities. First Transit delivered a further year of successful growth and improved margins but results at First Services were impacted by the loss of a legal dispute and additional costs on a small number of contracts nearing the end of their respective terms, which have now been rectified. The vast majority of non-Greyhound revenues are derived from a contracted base which limits exposure to changes in passenger revenues.

Greyhound revenue was £642.4m or $1,114.0m (2008: £280.8m or $565.8m) and operating profit was £48.5m or $91.7m (2008: £8.8m or $17.7m). Again this year represents a full year of the Greyhound business compared with only six months last year. The results, which represent just under 10% of Group earnings, demonstrate the seasonal nature of this business where the majority of profit is generated in the first half of the year over the busier summer months. Greyhound's highly flexible business model, with approximately 60% of the cost base being variable, has enabled us to rapidly match supply to demand and to take out mileage as necessary during the second half of the year as the number of passenger journeys taken in North America reduced due to the adverse economic conditions. The mileage reductions together with the significant cost actions we have taken will ensure that the business is well placed during the current recession.



Revenue by division

- UK Bus £1,182.0m
- UK Rail £2,121.5m
- North America £2,224.1m
- Greyhound £642.4m
- Other £17.3m



Operating profit[1]

- UK Bus £134.0m
- UK Rail £94.2m
- North America £246.1m
- Greyhound £48.5m

1 Excludes £25.3m of Group items

NON-RECURRING ITEMS AND AMORTISATION CHARGES

	2009 £m	2008 £m
North American integration costs	**70.1**	55.5
Fuel hedge ineffectiveness	**23.1**	–
UK Rail restructuring costs	**10.3**	16.8
North American restructuring costs	**9.9**	–
UK Bus restructuring costs	**2.1**	–
European bid costs	**3.5**	3.7
UK Rail bid costs	**–**	3.5
Short term bank facility costs	**–**	4.5
Total non-recurring items	**119.0**	84.0
Amortisation charges	**33.1**	18.9
	152.1	102.9
Profit on disposal of properties	**(25.7)**	(5.8)
	126.4	97.1

North American integration costs

These reflect costs directly attributable to the integration of Laidlaw:

	2009 £m	2008 £m
Redundancy and staff related costs	**17.3**	11.5
IT costs	**15.3**	5.6
Legal and professional costs	**14.8**	16.5
Greyhound	**–**	1.9
Safety expenses	**9.0**	3.0
Rebranding costs	**3.1**	2.2
Relocation of offices	**2.9**	5.0
Provision for excess buses	**–**	5.4
Other integration costs	**7.7**	4.4
	70.1	55.5

The integration costs of £70.1m were incurred principally in the generation of synergies. Redundancy and staff related costs reflect severance payments, relocation expenses, retention bonuses and travel expenses. IT costs comprise primarily the costs of systems integration. Legal and professional costs comprise consultants and legal fees involved in planning and managing the integration. Safety expenses include the costs of bringing the former Laidlaw businesses into line with FirstGroup standards and rebranding costs relate primarily to buses and signage. Relocation of offices reflects the remaining lease costs of premises which were closed down during the integration process.

Fuel hedge ineffectiveness

Fuel volumes for 2009/10 were hedged at fixed rates prior to the full impact of the economic downturn being known. As a result of necessary mileage reductions across the business, particularly in UK Bus and Greyhound, the Group's fuel requirements for 2009/10 will be lower than the original volumes hedged. Accordingly, this element of the fuel volume will not qualify for hedge accounting and a one-off charge of £23.1m has been provided based on our latest estimates of fuel usage for 2009/10. This charge comprises UK Bus £7.4m, UK Rail £2.4m and Greyhound £13.3m.

UK Rail restructuring costs

UK Rail non-recurring costs of £10.3m (2008: £16.8m) were incurred during the year, reflecting principally redundancy and associated costs in relation to the cost reduction action plan. The 2008 non-recurring costs represented the one-off costs directly associated with the First Great Western remedial action plan.

North American restructuring costs

The restructuring costs of £9.9m (2008: £nil) consist primarily of severance and relocation in relation to the cost reduction action plan.

UK Bus restructuring costs

UK Bus restructuring costs of £2.1m (2008: £nil) were incurred during the year comprising redundancy and associated costs in relation to the cost reduction action plan.

European bid costs

Bid costs of £3.5m (2008: £3.7m) represent the non-recurring costs of bidding for contracts and potential acquisitions in Germany and other European countries. Following the conclusion of our current European bidding activity we do not anticipate any further activity in the coming year.

UK Rail bid costs

Bid costs of £nil (2008: £3.5m) were incurred during the year. Last year's bid costs were spent on our unsuccessful bid for the InterCity East Coast franchise.

Short term bank facility costs

Short term bank facility costs of £nil (2008: £4.5m) were incurred during the year. Last year a short term facility was taken out as part of the Laidlaw acquisition. Due to the short term nature of this facility, the arrangement fee and other associated costs were treated as a non-recurring item.

Amortisation charges

The charge for the year was £33.1m (2008: £18.9m) with the increase mainly due to a full year charge for amortisation of contract and trade-name intangibles arising on the Laidlaw acquisition as well as the impact of foreign exchange movements.

Profit on disposal of properties

A profit on disposal of properties of £25.7m (2008: £5.8m) was recorded during the year. The principal disposals were the UK Bus depot relocation in Southampton and a Greyhound site in Seattle in the US.

FINANCE COSTS AND INVESTMENT INCOME

The net interest charge was £171.1m (2008: £111.1m) with the increase due to a full year of higher debt levels following the Laidlaw acquisition and the impact of the strengthening of the US Dollar which were partly mitigated by lower interest rates on US Dollar denominated debt. The net interest charge is covered 4.5 times (2008: 5.0 times) by earnings before interest, tax, depreciation and amortisation (EBITDA).

TAX

The tax charge on profit before amortisation charges, non-recurring bid costs, other non-recurring items and profit on disposal of properties was £81.6m (2008: £58.2m) representing an effective rate of 25.0% (2008: 23.4%). Tax relief on non-recurring bid costs and other non-recurring items, a tax credit on US intangible amortisation and a one-off deferred tax charge of £15.2m due to the abolition of Industrial Buildings Allowances (2008: one-off tax credit of £8.6m arising on the reduction in the UK corporation tax rate from 30% to 28%) reduce the tax charge to £43.0m (2008: £18.6m). Including these one-off items, the Group's effective tax rate was 21.5% (2008: 12.2%).

The actual cash tax paid by the Group was £8.9m (2008: £6.7m). The UK tax paid was low principally due to pension and interest payments. It is anticipated that the tax to be paid for 2009/10 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 should remain low for the medium term.

DIVIDENDS

The final dividend of 12.70 pence (2008: 11.55 pence) per ordinary share together with the interim dividend of 6.05 pence (2008: 5.50 pence) per ordinary share, gives a full year dividend of 18.75 pence (2008: 17.05 pence), an increase of 10.0%. In accordance with IFRS the final dividend has not been provided for in the 2009 balance sheet. The final dividend will be paid on 21 August 2009 to shareholders on the register of members at the close of business on 17 July 2009.

EPS

Adjusted basic EPS before amortisation charges, non-recurring bid costs, other non-recurring items and profit on disposal of properties, was 48.6 pence (2008: 40.9 pence), an increase of 18.8%. Basic EPS was 30.2 pence (2008: 27.7 pence), an increase of 9.0%.

CASH FLOW

We continue to generate strong cash flows. Cash generated by operations increased to £639.7m (2008: £470.8m) as a result of higher EBITDA noted below being partially offset by a higher cash spend on non-recurring items.

EBITDA for the year was £772.2m (2008: £560.8m) up 37.7%, driven by North America (including Greyhound) up 57.8% in US Dollar terms and 90.9% in Sterling. EBITDA and capital expenditure by division is set out below.

CAPITAL EXPENDITURE AND ACQUISITIONS

Overall net cash capital expenditure before acquisitions of businesses was £351.1m (2008: £270.1m). This includes buses acquired using finance leases, in North America, of £85.6m (2008: £nil) and is net of property and bus disposals proceeds of £54.7m (2008: £32.5m). Capital expenditure in UK Bus increased by £36.5m due to a higher number of bus purchases. During the year 692 (2008: 394) buses were purchased principally in London, Manchester and South Yorkshire. UK Rail capital expenditure was £52.9m lower due to reduced commitments under the FGW and FCC franchises. For UK Rail this was the last year of major franchise commitments and capital expenditure will revert to maintenance levels going forward. North American capital expenditure increased principally as a result of a full year of the acquired Laidlaw businesses.

Disposal proceeds include £37.1m (2008: £10.5m) from property disposals relating to the relocation of the UK Bus depot in Southampton and a Greyhound property in Seattle. In the prior year disposal proceeds related mainly to a UK Bus depot in London. Due to the flexible characteristics of our capital expenditure, in the current economic climate, we intend to reduce capital expenditure to maximise cash generation.

During the year the Group acquired one small UK Bus operation and one yellow school bus business. The total consideration for these acquisitions including debt assumed was £7.8m (2008: £1,475.0m). The prior year amount related principally to the Laidlaw acquisition.

FUNDING AND RISK MANAGEMENT

At the year end, total bank borrowing facilities amounted to £2,401.6m (2008: £2,471.5m) of which £2,328.2m (2008: £2,394.6m) is committed. Of these committed facilities, £1,745.2m (2008: £1,807.4m) were utilised at 31 March 2009 leaving committed headroom of £583.0m (2008: £587.2m).

EBITDA

	Year to 31 March 2009				Year to 31 March 2008			
	Revenue £m	EBITDA £m	EBITDA %	Capital expenditure £m	Revenue £m	EBITDA £m	EBITDA %	Capital expenditure £m
UK Bus	**1,182.0**	**205.4**	**17.4**	**109.4**	1,104.9	193.5	17.5	72.9
UK Rail	**2,121.5**	**137.2**	**6.5**	**53.2**	1,937.0	148.7	7.7	106.1
North America	**2,224.1**	**374.2**	**16.8**	**178.8**	1,370.3	213.6	15.6	81.5
Greyhound	**642.4**	**76.6**	**11.9**	**4.0**	280.8	22.6	8.0	6.8
Other	**17.3**	**(21.2)**	**–**	**5.7**	14.6	(17.6)	–	2.8
Total Group	**6,187.3**	**772.2**	**12.5**	**351.1**	4,707.6	560.8	11.9	270.1

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

During the year the Group implemented its funding strategy to reduce refinancing risk. This has been achieved through an equity placing and long term bond issues as well as new bilateral bank facilities, all of which were used to prepay short term acquisition debt. As a result at 31 March 2009 the Group's average debt maturity was 4.6 years (2008: 3.5 years). Subsequent to the issue of the £350m bond in April 2009 the Group's average debt maturity further increased to 6.0 years. The next main facilities fall due in February 2012 and are largely with our relationship banks.

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 risk management purposes only.

Interest rate risk
The Group reduces exposure by using a combination of fixed rate debt and interest rate derivatives to achieve an overall fixed rate position over the medium term of between 75% and 100% of net debt. At 31 March 2009 94% (2008: 89%) of net debt was fixed and in excess of 90% of net debt is fixed for 2009/10 and 2010/11.

Commodity price risk
Fuel as a percentage of revenues is approximately 10% of UK Bus, approximately 8% of North American school bus, approximately 11% of Greyhound and less than 5% of UK Rail.

In the UK, crude oil costs were hedged at an average rate of $76 per barrel in 2008/09. At the end of the year we have hedged 100% of our 'at risk' UK crude requirements for 2009/10 (2.6m barrels p.a.) at $111 per barrel and 63% of our 2010/11 requirements at $77 per barrel.

In North America crude costs were hedged at an average rate of $84 per barrel in 2008/09. At the end of the year we have hedged 100% of the 'at risk' volume for 2009/10 (2.0m barrels p.a.) at $116 per barrel. In addition we have hedged 58% of 2010/11 'at risk' volumes at $94 per barrel.

Fuel cost increases which will be incurred in 2009/10 are anticipated to reverse in 2010/11.

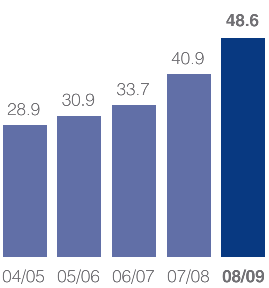
Currency risk
Group policies on currency risk affecting cash flow and profits are maintained to minimise exposures to the Group by using a combination of hedge positions and derivative instruments where appropriate. US Dollar earnings arising in the US are largely protected by US Dollar denominated costs 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.

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 2009 foreign currency net assets were hedged 81% (2008: 84%).

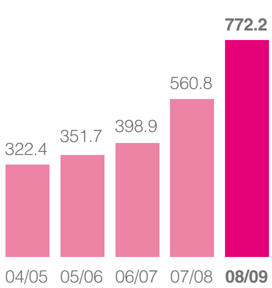
DERIVATIVE HEDGING INSTRUMENTS MOVEMENTS
In accordance with the Group risk management policy, in order to achieve a significant degree of fixed price protection, the Group increased hedging to 100% of its fuel price exposure in the UK and North America for 2009/10 during the period to 30 September 2008. Details of this hedging are set out above. Since September 2008, the price of crude has decreased to approximately $52 per barrel at 31 March 2009. This is the principal reason for the £539.6m of adverse derivative hedging movements impacting the Group's consolidated statement of recognised income and expense in the year, representing £393.8m of the movement. Of this amount, £328.8m will be recycled in future years to the income statement as the fuel is consumed. The fuel derivative contracts do not contain obligations for collateral to be provided to counterparties.

The remainder of the £539.6m movement relates to the impact of cross-currency swaps designated as net investment hedges and interest rate swaps. This movement is due to the weakening of Sterling against US Dollar and lower US Dollar interest rates in the period.

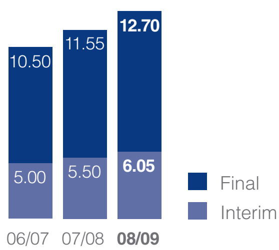
Adjusted basic EPS
pence



EBITDA
£m



Dividend per share
pence



4.6 yrs

The Group's debt maturity profile has been significantly improved during the period with the average duration increasing to 4.6 years. **Following the issue of the £350m bond in April 2009 the average debt duration has further increased to 6.0 years.**

NET DEBT
Our US Dollar debt and subsequent interest payments are supported by strong US Dollar cash flows from our North American businesses. Net debt increased over the year by £342.5m. This increase was mainly due to the weakening of Sterling, in particular against the US Dollar, which increased the Sterling value of foreign currency denominated debt by £614.9m. This was partly mitigated by the net proceeds of the share placing in May 2008 of £230.8m. Excluding these two items, underlying net debt reduced by £51.1m over the year.

The Group's net debt at 31 March 2009 was £2,503.5m and was comprised as set out below.

BALANCE SHEET AND NET ASSETS
Net assets increased by £99.5m over the year reflecting retained profits of £143.3m, favourable translation reserve movements of £407.7m, the net proceeds of the share placing of £230.8m partly offset by actuarial movements on defined pension arrangements (net of tax) of £206.1m, unfavourable hedging reserve movements (net of tax) of £402.5m and dividend payments of £84.6m.

SHARES IN ISSUE
In May 2008 43.8m shares were allotted for net proceeds of £230.8m. As at 31 March 2009 there were 480.8m (2008: 436.6m) shares in issue, excluding treasury shares and own shares held in trust for employees. At 31 March 2009 1.3m shares (2008: 1.7m 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 474.8m (2008: 434.8m).

FOREIGN EXCHANGE
The results of the North American businesses have been translated at an average rate of £1:$1.63 (2008: £1:$2.01). The period end rate was £1:$1.43 (2008: £1:$2.00).

PENSIONS
The net pension surplus of £89.0m at the start of the year has become a pre-tax net deficit of £168.7m as of 31 March 2009. The principal reasons for the deterioration in the pension position have been falls in equity markets and the strengthening of the US Dollar partly mitigated by favourable movements in certain of the underlying actuarial assumptions. Actuarial valuations are staggered over the next two years. This should smooth any potential cash flow implications.

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

The Group has taken significant actions in the year to refinance short term debt and as a consequence there are no major repayments until 2012.

The Directors have also carried out a detailed review of the Group's 2009/10 budget with due regard for the risks and uncertainties to which the Group is exposed, the uncertain economic climate and the impact that this could have on trading performance.

Based on this review, the Directors believe that the Company and the Group continue to have more than adequate resources at their disposal. The financial statements have been prepared on a going concern basis, and details of the going concern review are shown on page 50 of the Directors' Report.

Nick Chevis
Acting Finance Director

Analysis of net debt

	2009 Fixed £m	2009 Variable £m	2009 Total £m	2008 £m
Cash	–	(109.7)	(109.7)	(76.3)
Rail ring-fenced cash and deposits	–	(184.8)	(184.8)	(156.3)
Other ring-fenced cash and deposits	–	(28.0)	(28.0)	(9.7)
Bond (2013 6.875%)[1]	296.9	–	296.9	296.6
Bond (2018 8.125%)[2]	364.9	–	364.9	–
Bond (2019 6.125%)[3]	–	305.9	305.9	216.9
Sterling bank loans	–	117.8	117.8	201.6
US Dollar bank and other loans[4]	–	1,350.4	1,350.4	1,448.5
Canadian Dollar bank and other loans	1.5	121.4	122.9	101.8
Euro bank loans[4]	–	27.8	27.8	19.6
HP contracts and finance leases	100.6	128.3	228.9	103.2
Loan notes	8.7	1.8	10.5	15.1
Interest rate swaps	1,571.2	(1,571.2)	–	–
Total	2,343.8	159.7	2,503.5	2,161.0

1 Excludes accrued interest
2 Stated excluding accrued interest and adjusted for currency swaps
3 Stated excluding accrued interest and adjusted for currency and coupon swaps which leads them to be classified as variable
4 Euro bank loans of £46.6m (2008: £nil) have been swapped to US Dollars

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

1 MARTIN GILBERT LLD MA LLB CA
Chairman; Chairman of the Nomination Committee[3]

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.

2 SIR MOIR LOCKHEAD OBE
Deputy Chairman and Chief Executive; Chairman of the Executive 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 in 2008 he was awarded a Knighthood for services to transport. He is a past President of the Confederation of Passenger Transport.

3 SIDNEY BARRIE LLB
Commercial Director; Company Secretary[4,5]

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

4 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.

5 NICOLA SHAW BA MST
Director Bus – UK, Ireland and Germany[4,5]

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

6 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 Chairman and Chief Executive of W.A. Baxter & Sons Limited. She has held a number of non-executive positions and was formerly a member of the Scottish Business Forum and the Scottish Economic Council.

7 PROFESSOR DAVID BEGG DSc BA
Non-Executive Director[1,2,3]

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

8 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. Following more than nine years' service on the Board he will retire at the Annual General Meeting of the Company in July 2009 and will not seek re-election.

9 JAMES FORBES CBE BSc MSc CEng MIET
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. Following more than nine years' service on the Board he will retire at the Annual General Meeting of the Company in July 2009 and will not seek re-election.

10 COLIN HOOD BSc MSc FIET
Non-Executive Director[1,2,3]

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

11 TIM O'TOOLE CBE JD
Non-Executive Director[1,2,3]

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

12 JOHN SIEVWRIGHT MA CA
Non-Executive Director[1,2,3]

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

13 MARTYN WILLIAMS
Non-Executive Employee Director

Appointed to the Board as Employee Director in January 2003, he is currently serving a third term as Employee Director. He is employed as a customer services supervisor in Swansea and has worked for the Group for 31 years.

Corporate governance

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

1 THE BOARD AND ITS PRINCIPAL COMMITTEES

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

1.1 The Board

(a) Board structure and responsibilities

The Board currently consists of the Chairman, three Executive Directors and eight Non-Executive Directors. The Board meets at least nine times each year and is responsible for setting and reviewing the Company's strategy and objectives, reviewing the financial and operational performance of each of the Group's business units, agreeing and reviewing progress against the Group's annual budgets and setting and reviewing on a regular basis its longer term business plans. It also has a schedule of matters specifically reserved to it including approval of the 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 nine times and all members of the Board attended all meetings except for Audrey Baxter who was absent from one of those meetings. The Board also held a number of separate strategy meetings. In January 2009 Dean Finch was appointed as Chief Operating Officer, overseeing the operations of all the Group's businesses other than UK Rail, which reports to the Chief Executive.

Simultaneously with that appointment Nicola Shaw joined the Board as Director Bus – UK, Ireland and Germany following her role as Managing Director UK Bus which she had held since she joined the Group in May 2005.

Acting Finance Director Nick Chevis attended all meetings of the Board, although not as a member of the Board.

David Leeder, formerly Director of International Development, resigned from the Board on 15 September 2008.

Dean Finch, formerly Chief Operating Officer, resigned from the Board on 1 May 2009.

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

(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, Audrey Baxter, Colin Hood and Tim O'Toole are considered to be independent within this definition. As Martyn Williams is an employee of one of the Group's subsidiaries, he cannot be considered to be independent. However, the Board feels 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 33. 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 Sir 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 appraised 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. Following more than nine years' service on the Board, he will retire at the Annual General Meeting of the Company in July 2009 and will not seek re-election. He will be succeeded as Senior Independent Non-Executive Director by John Sievwright.

(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 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 2009 Annual General Meeting, are set out on pages 32 and 33. As indicated above, David Dunn and Jim Forbes will retire at the Annual General Meeting and will not seek re-election.

(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 2009.

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

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

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

The Company's policy is to permit Executive Directors to accept a limited number of outside non-executive directorships, recognising that this is an effective way to broaden their knowledge and expertise. However, no such appointment can be taken up without prior Board approval. The Company's policy on fees relating to such outside directorships is set out on page 44 of the Directors' Remuneration Report.

2.5 Remuneration Committee

The Remuneration Committee, under the chairmanship of Jim Forbes, met nine times during the year and all members of the Committee attended all of its meetings held whilst they were Directors except for Jim Forbes and Audrey Baxter who were each absent from one of these meetings. Details of the membership of the Committee are set out in the Directors' Remuneration Report on pages 42 to 47, together with a statement of the Group's remuneration strategy and policy. Full details of Directors' remuneration appear on page 46. Upon Jim Forbes's retiral from the Board the Remuneration Committee will be chaired by Audrey Baxter.

2.6 Audit Committee

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

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 tax advisory work. 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 2009/10 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 half-yearly financial statements, regulatory news announcements and other public information. A statement of the Directors' responsibilities for preparing the financial statements may be found on page 51.

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, treasury, legal, 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 relation issues, control breakdowns, as well as changes in the economic climate and social, ethical and environmental issues. From the reports submitted to it by the Risk Group the Board is able to keep under regular review the major risks and mitigating controls facing the Group.

4.2 Control environment

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

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

The Group has a defined divisional organisational structure with lines of authority and delegated responsibility which allows the Board to plan, execute, control and monitor the business in a manner consistent with the Group's objectives. The day-to-day business management is delegated to the Executive Directors and subsidiary unit managing directors under the overall direction of the Chief Executive. As noted above, the Board reserves to itself a number of specific items, which ensures that it retains control over key business decisions and significant transactions in terms of size, type or risk. A number of the Group's key functions, including treasury, taxation, insurance, corporate finance, legal, corporate communications and procurement are dealt with centrally. Each of these functions is monitored by an Executive Director.

4.3 Monitoring

The Group adopts a financial reporting and information system which complies with generally accepted accounting practice. The Group Finance Manual, circulated by the Group Finance function to all subsidiaries, details the Group accounting policies and procedures with which subsidiaries must comply. These are also available on the Group's intranet. Budgets are prepared by subsidiary company management and are subject to review by both Group management and the Executive Directors. 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.

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

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

In UK Bus, the main competitor remains the car. The cost of driving a car is generally perceived as being lower than travelling by bus, especially if there is more than one person in the car. To make bus travel a viable alternative to the car the Company continues to work with local authorities to introduce bus priority measures and effect infrastructure changes promoting bus patronage.

The main competitor to the Group's 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, the Group's businesses cover a wide geographic spread competing with several large companies as well as a substantial number of smaller, locally owned or government owned operators. Our competitors in the yellow school bus business 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 First Transit and First Services businesses also compete with many municipalities. Our Greyhound coach operations face competition from a number of other coach operators in North America as well as from budget airlines. In North America all of our businesses continue to compete on service, quality and price.

Rail franchise agreements

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

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

Labour costs and employee relations

Labour costs represent the largest component of the Group's operating costs. 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. In addition, it is important for a labour intensive Group that good employee relations are maintained. The Group seeks to mitigate these risks by its recruitment and retention policies, training schemes and working practices.

Fuel costs

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

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

Treasury risks and insurance costs

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

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

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

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

Pensions

The Group has significant defined benefit pension obligations relating to its UK Bus, Rail and Greyhound businesses. Under the franchise arrangements the UK Rail business is not responsible for any residual deficit at the end of a franchise, so there is only short term cash-flow risk within this area. For both UK Bus and Greyhound the volatility of the underlying investments and liabilities can create material changes in the accounting cost and cash requirements in subsequent years. Through diversification of investments the Group seeks to mitigate these impacts although, in extreme market conditions, such as those experienced over the previous 18 months, it is not possible to completely negate these.

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

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

We are subject to ongoing changes in environmental regulations. The most recent is the Carbon Reduction Commitment, which will come into force in April 2010. We have in place programmes for monitoring the utilities usage covered by the regulations and have taken early action which will favour our ranking in the public league table. We continuously review regulatory changes through our CSR Steering Committee that reports directly to the EMB and the Board.

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

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

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

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

4.8 Change of control
(a) Financing agreements
The Group has a number of syndicated facilities (including the US $2,250m multi-currency term loan facility (which was outstanding at 31 March 2009 but has since been repaid in full, following the £350m bond issued in April 2009) and the US $1,500m multi-currency revolving credit and guarantee facility between, amongst others, the Company and HSBC Bank plc, JP Morgan plc and The Royal Bank of Scotland plc dated 9 February 2007). The relevant syndicated financing agreements contain provisions entitling the lenders to

exercise termination or other rights in the event of a change of control of the Company. Following any change of control of the Company, the majority of the lenders are obliged to negotiate with the Company with a view to resolving any concerns arising from such change of control and, if the matter has not been resolved to the reasonable satisfaction of the majority of the lenders in that time, then, if the majority of the lenders so require, the total commitments under the facility are cancelled and all outstanding amounts become repayable. The Company's bilateral financing agreements contain similar provisions and following a change of control of the Company, the bank shall negotiate with the Company with a view to resolving any concerns arising from such change of control and, if the matter has not been resolved to the reasonable satisfaction of the bank in that time, the bank may (if the bank so requires) cancel the total commitments under the facility and require prepayment of all outstanding amounts.

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

(b) UK Rail

The Group's franchised passenger rail operators, First Capital Connect, First ScotRail, First TransPennine Express and First Great Western, are each 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, First 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 agreements to include provisions addressing change of control. The Company's joint venture agreements with Keolis (UK) Limited in relation to First TransPennine Express and with DSB in relation to DSB/First Aps and DSB Sverige AB 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 LLP (formerly 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 2008 Annual General Meeting.

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

Directors' remuneration report

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 (the 'Regulations'). It also meets the requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the main supporting principles of the Combined Code on Corporate Governance issued by the Financial Reporting Council in 2006 (the 'Code') relating to Directors' remuneration. The Company complies with all of the provisions of the Code in respect of the Directors' Remuneration Report. A resolution to approve this report will be proposed at the Company's Annual General Meeting to be held on 16 July 2009.

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

The 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 nine times during the year and all members attended each meeting held whilst they were Directors except for Jim Forbes and Audrey Baxter who were each absent from one of these meetings.

Remuneration policy

Aim

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

Structure of remuneration packages

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

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

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

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

Basic salary and benefits in kind

The basic salary and benefits in kind for each Executive Director are determined by the Committee for each financial year and when an individual changes position or responsibility. In determining appropriate levels, the Committee considers the Group as a whole and also the packages received by similar individuals at the Company's peers in the public transport sector and other companies of comparable market capitalisation. Details of the salaries and benefits in kind received by each of the Executive Directors in the year are shown on page 46.

In view of current wider economic conditions the Committee decided that no increases in basic salary should be awarded to the Executive Directors and senior management at the time of review of such salaries on 1 April 2009.

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 other objectives (including safety and customer service targets). Where an Executive Director is also directly responsible for one or more operating division(s), payment of a proportion of the bonus is also linked to the profitability of those divisions. 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 has been 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 customer service objectives (up to 10%). The maximum potential bonus which can be awarded to Executive Directors is 100% of basic salary and 110% of basic salary in the case of the Chief Executive.

In respect of the financial year commencing on 1 April 2009 the Committee has resolved to replace the formulaic approach towards the assessment of such bonus awards for Executive Directors and senior management and instead apply a wider discretion in the assessment of such awards taking into account all relevant factors in terms of such awards including the Group's financial performance, safety and customer service objectives and personal performance as well as other factors to ensure that bonus awards are fair and appropriate to the circumstances.

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

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 2009 was 35.1% of basic salary in the case of the Chief Executive, 79.9% in the case of the Director Bus and 31.9% 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.

A bonus of 31.9% of basic salary is payable to David Leeder, formerly Director of International Development, who resigned on 15 September 2008, in terms of an agreement concluded with him at that time. 75% of that bonus is payable in cash and 25% in the form of deferred shares.

A bonus of 31.9% of basic salary is payable to Dean Finch, formerly Chief Operating Officer, who resigned on 1 May 2009. Such bonus is payable wholly in cash.

The deferral period in respect of that part of any bonus award comprising deferred shares is three years. The same deferral period also applies to senior management within the Group.

Long Term Incentive Plan ('LTIP')

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

The part of the award which is subject to EPS growth will vest in full if there is absolute growth of EPS over the performance period of at least 57%. If EPS growth is 30% only 25% of that part of the award will vest. That part of the award will vest on a straight-line basis for EPS growth of between 30% and 57%. There will be no vesting if EPS growth is less than 30%.

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

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

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

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

Share Schemes

Executive Share Option Scheme

The Company operated an Executive Share Option Scheme ('ESOS') up to June 2004 for Executive Directors and other senior management. In common with other larger companies no further awards were granted under the ESOS after 2004.

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

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

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 would vest on 31 March 2011 but only to the extent that certain performance criteria were 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, commencing on 1 April 2006.

Upon his resignation from the Board on 1 May 2009 these options have lapsed.

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 46.

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

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

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

Director	Date of service contract
Sir Moir Lockhead	5 March 2001
Dean Finch (resigned 1 May 2009)	26 February 2004
David Leeder (resigned 15 September 2008)	3 September 2001
Sidney Barrie	31 August 2005
Nicola Shaw (appointed 5 January 2009)	13 May 2009

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

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

Details of the fees paid to Non-Executive Directors are set out on page 46. No increase in such fees has been made in respect of the financial year commencing on 1 April 2009.

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

Total shareholder return

The 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, the FTSE 250 Index and the FTSE All-Share Transport Index are calculated.

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

AUDITED INFORMATION

Market price of FirstGroup plc shares

The market price of FirstGroup plc shares at 31 March 2009 was 267.50p and the range during the year was 197.90p to 634.50p.

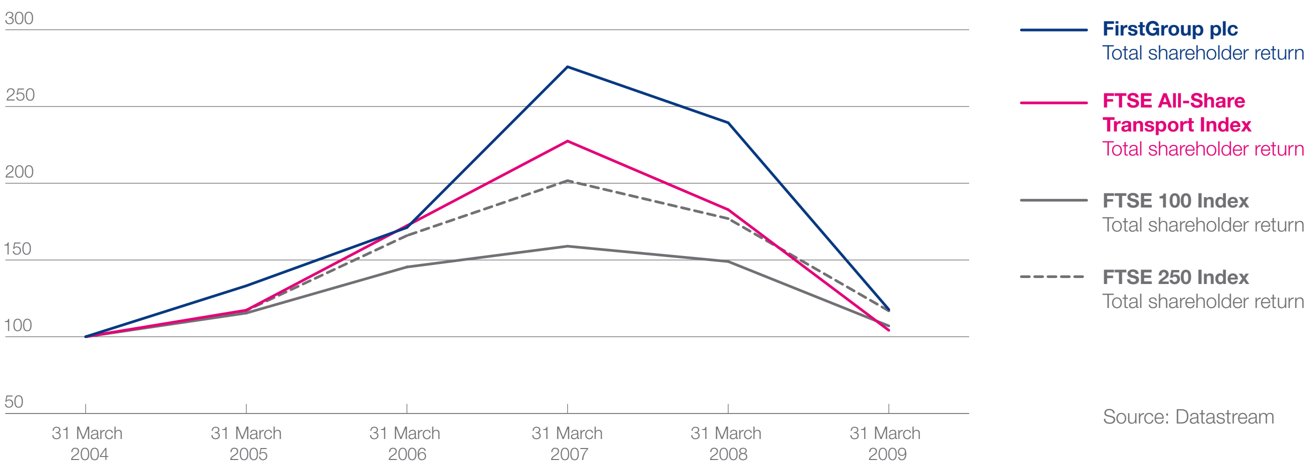
Directors' remuneration

Details of the Directors' remuneration for the year ended 31 March 2009 are set out on the following pages.

Emoluments and compensation

The total salaries, fees and benefits paid to, or received 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.

Total shareholder return



Source: Datastream

	Salary 2009[1] £000	Cash bonus 2009 £000	Benefits in kind 2009[2] £000	Fees 2009 £000	Total 2009 £000	Total 2008 £000
Executive Directors						
Sir Moir Lockhead	609	160	33	–	802	1,017
Dean Finch (resigned 1 May 2009)	359	115	20	–	494	616
David Leeder (resigned 15 September 2008)[3]	142	34	9	–	185	508
Sidney Barrie	303	72	11		386	482
Nicola Shaw (appointed 5 January 2009)	73	43	3	–	119	–
Non-Executive Directors						
Martin Gilbert	–	–	–	186	186	180
David Dunn	–	–	–	52	52	50
Jim Forbes	–	–	–	52	52	50
John Sievwright	–	–	–	44	44	43
David Begg	–	–	–	44	44	43
Audrey Baxter	–	–	–	44	44	43
Martyn Williams	–	–	–	33	33	32
Total	1,486	424	76	455	2,441	3,064

1 Dean Finch received a non-pensionable disturbance allowance of £76,000.
2 The Directors received the following non-cash benefits in the year: Sir Moir Lockhead: £27,000 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: £6,000 company car, £2,000 private fuel and £1,000 medical insurance for himself; Sidney Barrie: £10,000 car allowance and £1,000 medical insurance for himself and spouse; Nicola Shaw: £3,000 car allowance.
3 David Leeder resigned as a Director on 15 September 2008. In terms of an agreement with him he is entitled to receive his then salary and other benefits until 14 September 2009 subject to certain mitigating provisions in respect of any alternative remunerated position acquired by him before then.

Retirement benefits

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

Director	Directors' contributions during the year for relevant defined benefit scheme[1]	Accrued pension at 31 March 2009	Increase in accrued pension	Increase in accrued pension (net of inflation)[6]	Transfer value of increase in accrued pension (net of inflation)	Transfer value at 31 March 2008	Transfer value at 31 March 2009	Increase in transfer value less Directors' contributions
Sir Moir Lockhead	38,439	313,633[4]	25,713[5]	25,713	600,977	5,359,466[7]	7,330,290[7]	1,932,385[8]
Dean Finch	14,700	26,460	3,900	3,900	27,296	139,824	185,193	30,669
David Leeder[2]	14,700	22,050	3,720	3,720	27,030	113,962	160,218	31,556
Sidney Barrie	17,640	10,780	3,260	3,260	54,662	127,215	180,753	35,898
Nicola Shaw[3]	8,232	9,016	2,624	2,624	13,516	33,306	46,439	4,901

1 The above Directors, with the exception of Sir Moir Lockhead, participated in salary sacrifice arrangements during the year. The defined benefit contributions in the table above and the Group SIPP Company contributions referred to below have been paid via salary sacrificed by the Directors with an equivalent contribution being paid directly to the pension schemes by the Company.
2 David Leeder resigned on 15 September 2008. As he is still accruing benefits under the relevant scheme, movements in his accrued pension and transfer value have been assessed over the full accounting year rather than to 15 September 2008.
3 Nicola Shaw was appointed on 5 January 2009. Movements in her accrued pension and transfer value have been assessed over the full accounting year rather than from 5 January 2009.
4 Sir Moir Lockhead also has a cash benefit of £940,900 in the Local Government Pension Scheme.
5 Increase in cash is £77,139.
6 The inflation assumption is 0% using the annual change in RPI as at February 2009.
7 Transfer values assume immediate retirement at normal retirement date under the relevant scheme. Sir Moir Lockhead can retire immediately without reduction.
8 The Government Actuary's Department changed its transfer value basis in respect of the Aberdeen Fund of the Local Government Pension Scheme resulting in the increase in transfer value for Sir Moir Lockhead.

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

Dean Finch, Sidney Barrie, David Leeder and Nicola Shaw participated in a final salary arrangement restricted through a scheme earnings cap (based on the previous HMRC definition). To reflect the need to provide a competitive pensions package, from 1 April 2008 a Group SIPP arrangement was introduced, in which these individuals were allowed to participate. Each individual contributes a minimum of 5% of their basic salary in excess of the scheme earnings cap and the Company contributes 20%, on the same basis. This amounted to a Company contribution of £48,328 in respect of Dean Finch, £37,850 in respect of David Leeder, £36,980 in respect of Sidney Barrie and £26,880 in respect of Nicola Shaw, during the financial year.

Directors' share options

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

Directors	Scheme		At beginning of year or date of appointment[1] (number of shares)	Granted during the year (number of shares)	Exercised during the year (number of shares)	Lapsed/ waived during the year (number of shares)	At end of year or date of retirement[2] (number of shares)	Exercise price (pence)	Date from which exercisable	Expiry date
Sir Moir Lockhead	ESOS:	2001	130,985	–	–	–	130,985	346.5	15.8.04	15.8.11
		2002	173,784	–	–	–	173,784	269	21.6.05	21.6.12
		2003	166,958	–	–	–	166,958	287	18.11.06	18.11.13
		2004	193,277	–	–	–	193,277	275.08	10.6.07	10.6.14
	Deferred share bonus[3]:	2004	34,062	–	–	–	34,062	nil	1.4.07	1.4.14
		2005	36,787	–	–	–	36,787	nil	1.4.08	1.4.15
		2006	61,567	–	–	–	61,567	nil	1.4.11	1.4.16
		2007	37,362	–	–	–	37,362	nil	1.4.12	1.4.17
		2008	–	24,145	–	–	24,145	nil	1.4.11	1.4.18
	LTIP:[4]	2008	–	174,033	–	–	174,033	nil	1.4.11	1.4.18
Dean Finch	Deferred share bonus:[3]	2005	38,344	–	38,344[5]	–	–	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
		2008	–	13,710	–	–	13,710	nil	1.4.11	1.4.18
	LTIP:[4, 7]	2008	–	102,659	–	–	102,659	nil	1.4.11	1.4.18
	Special share award:[7]	2006	200,000	–	–	–	200,000	nil	31.3.11	30.3.12
David Leeder	ESOS:[6]	2002	26,914	–	–	–	26,914	269	21.6.05	21.6.12
		2003	64,643	–	–	–	64,643	287	18.11.06	18.11.13
	Deferred share bonus:[3, 6]	2005	29,311	–	29,311[5]	–	–	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
		2008	–	11,710	–	–	11,710	nil	1.4.11	1.4.18
	LTIP:[4, 7]	2008	–	87,687	–	87,687	–	nil	1.4.11	1.4.18
	SAYE:[8]	2005/06	678	–	–	–	678	325	1.5.09	31.10.09
Sidney Barrie	Deferred share bonus:[3]	2006	18,657	–	–	–	18,657	nil	1.4.11	1.4.16
		2007	16,983	–	–	–	16,983	nil	1.4.12	1.4.17
		2008	–	11,632	–	–	11,632	nil	1.4.11	1.4.18
	LTIP:[4]	2008	–	86,445	–	–	86,445	nil	1.4.11	1.4.18
	SAYE:	2005/06	678	–	–	–	678	325	1.5.09	31.10.09
Nicola Shaw	Deferred share bonus:[3]	2006	22,803	–	–	–	22,803	nil	1.4.11	1.4.16
		2007	15,096	–	–	–	15,096	nil	1.4.12	1.4.17
		2008	–	9,617	–	–	9,617	nil	1.4.11	1.4.18
	LTIP:[4]	2008	–	72,013	–	–	72,013	nil	1.4.11	1.4.18
Martyn Williams	SAYE:	2005/06	345	–	–	–	345	325	1.5.09	31.10.09
		2006/07	340	–	–	–	340	444	1.2.10	31.7.10
		2007/08	263	–	–	–	263	583	1.2.11	31.7.11
		2008/09	–	414	–	–	414	371	1.2.12	31.7.12

1 Nicola Shaw was appointed on 5 January 2009.
2 David Leeder resigned as a Director on 15 September 2008.
3 The figures shown represent the number of nil-cost options which were granted under the deferred share element of the EABP in respect of the 2003/04, 2004/05, 2005/06, 2006/07 and 2007/08 financial years. The cash values of the 2008/09 awards are: Sir Moir Lockhead: £54,000, David Leeder: £11,000, Sidney Barrie: £24,000 and Nicola Shaw: £15,000. These awards will take the form of nil-cost options over shares which will, subject to satisfaction of the requirements of the plan, vest on 1 April 2012. The number of shares under option will depend on the market price of shares at the close of business on 13 May 2009.
4 The figures shown represent the number of nil-cost options which were granted under the LTIP in respect of the 2008/09 financial year.
5 Exercised on 22 May 2008. The closing price on the date of exercise was 524p.
6 The Remuneration Committee exercised its discretion to permit him to retain all share options awarded under the Group's ESOS and all deferred share bonus awards made under the EABP following his resignation on 15 September 2008 (subject to the relevant performance criteria and the rules of the relevant scheme).
7 Lapsed on his resignation as a Director.
8 Entitled to retain his participation in the Group's SAYE scheme in accordance with the rules of the Scheme.

This report was approved by the Board of Directors, on the recommendation of the Remuneration Committee, on 7 May 2009 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 2009.

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 5 to 31. Our review of the principal risks and uncertainties of the business is set out on pages 38 to 40.

RESULTS AND DIVIDENDS

The results for the year are set out in the consolidated income statement on page 52. The Directors recommend payment of a final dividend of £61.1m (12.7p per share) which, with the interim dividend of £29.1m (6.05p per share) paid on 4 February 2009, gives a total dividend of £90.2m (18.75p per share) for the year. The proposed final dividend, if approved, will be paid on 21 August 2009 to shareholders on the register at the close of business on 17 July 2009.

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 2009, there were 482,067,170 ordinary shares of 5 pence each in issue including 206,190 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 2009 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 44 and in note 35 to the financial statements.

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

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

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

AUTHORITY FOR THE COMPANY TO PURCHASE ITS OWN SHARES

At the Annual General Meeting of the Company in 2008 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 47,800,000 ordinary shares. This authority remains in place until the 2009 Annual General Meeting, when it is intended to seek a further renewal.

DIRECTORS

The Directors of the Company who served during the year were Martin Gilbert, Sir Moir Lockhead, Sidney Barrie, Audrey Baxter, David Begg, David Dunn, Dean Finch, Jim Forbes, David Leeder (resigned 15 September 2008), Nicola Shaw (appointed 5 January 2009), John Sievwright and Martyn Williams. Biographical details of all the serving Directors are set out on pages 32 and 33.

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, Sidney Barrie and Martyn Williams will retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. Nicola Shaw, Colin Hood and Tim O'Toole, having been appointed to the Board since the last Annual General Meeting will offer themselves for election at the forthcoming Annual General Meeting.

Details of the fees and remuneration of the Directors and their service contracts or terms of appointment are set out in the Directors' Remuneration Report on pages 42 to 47.

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	7,281	–	13,545	–
David Begg	8,149	–	12,371	–
David Dunn	24,837	–	24,837	–
Dean Finch	66,650	–	89,233	–
Jim Forbes	24,470	–	29,446	–
Martin Gilbert	96,229	–	114,259	–
Sir Moir Lockhead	1,174,412	470,690	1,174,412	470,690
Nicola Shaw (appointed 5 January 2009)	5,084	–	5,084	–
John Sievwright	30,834	–	35,056	–
Martyn Williams	4,319	–	4,084	–

Details of the Directors' share options are set out in the Directors' Remuneration Report on pages 42 to 47. Sir Moir Lockhead also holds nominal non-beneficial interests in a number of the Company's subsidiary undertakings.

Between 1 April 2009 and 13 May 2009, the following changes occurred to Directors' interests:

On 24 April 2009, Martin Gilbert acquired 2,033 shares, Jim Forbes acquired 561 shares, each of David Begg and John Sievwright acquired 476 shares, Martyn Williams acquired 208 shares and Audrey Baxter acquired 706 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 13 May 2009, 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	%
Lloyds Banking Group plc	38,666,735	8.02
AXA S.A.	24,974,901	5.18
Artemis Investment Management Limited	24,415,205	5.07
Ameriprise Financial, Inc.	23,657,503	4.91
Standard Life Investments Limited	23,409,623	4.86
JP Morgan Chase & Co	21,423,964	4.45
Legal & General Group Plc	19,264,804	4.00

EMPLOYEES

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

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

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

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 37 to 41 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 £107,000 during the year (2008: £120,000). 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 2009, the Group had the equivalent of 30 days' (2008: 30 days') purchases outstanding, based on the ratio of Group trade creditors at the end of the year to the amounts invoiced during the year by trade creditors. The Company does not have any trade creditors in its balance sheet.

AUDIT INFORMATION

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

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

This confirmation is given and should be interpreted in accordance with Section 234ZA of the Companies Act 1985.

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, 16 July 2009 at 11.00 am. The notice of Annual General Meeting is contained in a separate letter from the Chairman accompanying this report.

GOING CONCERN

The Directors have acknowledged the guidance on going concern and financial reporting published by the Financial Reporting Council in November 2008.

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

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

The Group has a diversified funding structure which is largely represented by medium term unsecured syndicated committed bank facilities and long term unsecured bond debt. The Group has £520m and US $1,500m of banking facilities of which £583m was undrawn at the year end.

The US $2,250m term loan which was due to be repaid in February 2010 has now been completely refinanced, following the £350m bond issued in April 2009. This means that there are no significant repayments (other than finance leases) until 2012. The Group's borrowings and maturity profile are disclosed in note 22 to the financial statements.

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

The Directors have carried out a detailed review of the Group's 2009/10 budget and medium term plans, with due regard for the risks and uncertainties to which the Group is exposed (which are set out on pages 38 to 40), the uncertain economic climate and the impact that this could have on trading performance.

As part of this review, the Directors requested that a sensitivity analysis be prepared, without contingencies, based on a stepped reduction of revenue and the resulting impacts on cash-flows and covenants. Based on this review, the Directors believe that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

By order of the Board

Sidney Barrie
Company Secretary
13 May 2009

395 King Street
Aberdeen
AB24 5RP

Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. The Directors are required by the IAS Regulation to prepare the Group financial statements under International Financial Reporting Standards (IFRSs) as adopted by the European Union. The Group financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that IFRS 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. However, 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; and
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Directors have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The parent company financial statements are required by law to 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the parent company financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

The Directors confirm that to the best of our knowledge:

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

Consolidated income statement

	Notes	Adjusted results[1] 2009 £m	Adjustments[2] 2009 £m	Total 2009 £m	Adjusted results[1] 2008 £m	Adjustments[2] 2008 £m	Total 2008 £m
Revenue							
Continuing operations	3,4	6,187.3	–	6,187.3	4,707.6	–	4,707.6
Operating costs before profit on disposal of properties							
Continuing operations		(5,689.8)	(152.1)	(5,841.9)	(4,347.5)	(98.4)	(4,445.9)
Operating profit before profit on disposal of properties							
Continuing operations		497.5	(152.1)	345.4	360.1	(98.4)	261.7
Amortisation charges	14	–	(33.1)	(33.1)	–	(18.9)	(18.9)
Non-recurring bid costs	5	–	(3.5)	(3.5)	–	(7.2)	(7.2)
Other non-recurring items	5	–	(115.5)	(115.5)	–	(72.3)	(72.3)
		–	(152.1)	(152.1)	–	(98.4)	(98.4)
Profit on disposal of properties	5	–	25.7	25.7	–	5.8	5.8
Operating profit	4,6	497.5	(126.4)	371.1	360.1	(92.6)	267.5
Investment income	3,8	7.9	–	7.9	14.9	–	14.9
Finance costs	9	(179.0)	–	(179.0)	(126.0)	(4.5)	(130.5)
Profit before tax		326.4	(126.4)	200.0	249.0	(97.1)	151.9
Tax	10	(81.6)	38.6	(43.0)	(58.2)	39.6	(18.6)
Profit for the year from continuing operations		244.8	(87.8)	157.0	190.8	(57.5)	133.3
Attributable to:							
Equity holders of the parent		230.9	(87.6)	143.3	177.7	(57.3)	120.4
Minority interests		13.9	(0.2)	13.7	13.1	(0.2)	12.9
		244.8	(87.8)	157.0	190.8	(57.5)	133.3
Basic earnings per share	11			30.2p			27.7p
Diluted earnings per share	11			30.0p			27.4p

Dividends of £84.6m (2008: £69.5m) were paid during the year. Dividends of £61.1m (2008: £55.5m) are 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 on disposal of properties as set out in note 5 to the financial statements.

Consolidated statement of recognised income and expense

	2009 £m	2008 £m
Derivative hedging instrument movements	(539.6)	33.2
Deferred tax on derivative hedging instrument movements	137.1	(10.2)
Exchange differences on translation of foreign operations	407.7	(12.5)
Unrealised (losses)/gains on executive deferred compensation plans	(3.1)	1.2
Actuarial (losses)/gains on defined benefit pension schemes	(308.3)	37.1
Deferred tax on actuarial (losses)/gains on defined benefit pension schemes	102.2	(10.4)
Net (expense)/income recognised directly in equity	(204.0)	38.4
Profit for the period	157.0	133.3
Total recognised income and expense for the period	(47.0)	171.7
Attributable to:		
Equity holders of the parent	(60.7)	158.8
Minority interests	13.7	12.9
	(47.0)	171.7

Consolidated balance sheet

	Notes	2009 £m	2008 restated[1] £m
Non-current assets			
Goodwill	13	**1,820.0**	1,310.1
Other intangible assets	14	**456.7**	367.5
Property, plant and equipment	15	**2,398.1**	1,919.8
Derivative financial instruments	25	**24.8**	45.4
Investments		**5.1**	4.0
		4,704.7	3,646.8
Current assets			
Inventories	17	**110.0**	82.7
Trade and other receivables	18	**610.3**	590.2
Financial assets – cash and cash equivalents	21	**322.5**	242.3
Derivative financial instruments	25	**3.1**	78.1
		1,045.9	993.3
Non-current assets classified as held for sale	19	**4.2**	10.2
Deferred tax assets	26	**50.2**	–
Retirement benefit assets	36	**111.5**	186.2
Total assets		**5,916.5**	4,836.5
Current liabilities			
Trade and other payables	20	**1,124.7**	1,035.8
Tax liabilities		**47.2**	46.8
Financial liabilities – bank overdrafts and loans	22	**210.7**	26.4
– bonds	22	**36.0**	23.2
– obligations under HP contracts and finance leases	23	**34.3**	32.4
– loan notes	24	**–**	4.6
Derivative financial instruments	25	**304.5**	36.9
		1,757.4	1,206.1
Net current liabilities		**(711.5)**	(212.8)
Non-current liabilities			
Financial liabilities – bank loans	22	**1,408.1**	1,745.1
– bonds	22	**870.2**	545.9
– obligations under HP contracts and finance leases	23	**194.6**	70.8
– loan notes	24	**10.5**	10.5
Derivative financial instruments	25	**243.6**	27.8
Retirement benefit liabilities	36	**280.2**	97.2
Deferred tax liabilities	26	**20.6**	159.9
Provisions	27	**327.0**	268.4
		3,354.8	2,925.6
Total liabilities		**5,112.2**	4,131.7
Net assets		**804.3**	704.8
Equity			
Share capital	28	**24.1**	21.9
Share premium	29	**676.4**	447.8
Hedging reserve	29	**(352.8)**	49.7
Other reserves	29	**4.6**	4.6
Own shares	29	**(3.4)**	(7.6)
Translation reserve	30	**337.4**	(70.3)
Retained earnings	29	**98.5**	245.5
Equity attributable to equity holders of the parent		**784.8**	691.6
Minority interests		**19.5**	13.2
Total equity		**804.3**	704.8

1 Restated for fair value adjustments as set out in note 31.

Sir Moir Lockhead **Sidney Barrie**

Consolidated cash flow statement

	Note	2009 £m	2008 £m
Net cash from operating activities	32	**494.4**	365.8
Investing activities			
Interest received		**9.0**	14.0
Proceeds of disposal of property, plant and equipment		**54.7**	32.5
Purchases of property, plant and equipment		**(320.2)**	(302.6)
Investment in joint venture		**–**	(1.2)
Acquisition of businesses		**(6.5)**	(1,464.1)
Net cash used in investing activities		**(263.0)**	(1,721.4)
Financing activities			
Monies received on exercise of share options		**0.5**	5.5
Dividends paid		**(84.6)**	(69.5)
Dividends paid to minority shareholders		**(9.3)**	(11.1)
Repayments under HP contracts and finance leases		**(43.3)**	(17.5)
Repayment of loan notes		**(4.6)**	(0.7)
Fees for bank facilities amendments and bond issue costs		**(8.4)**	(9.6)
Proceeds from sale and leaseback of buses		**70.3**	–
Net proceeds from issue of shares		**230.8**	–
Release of insurance captive assets		**–**	115.7
Repayment of bank debt		**(1,062.4)**	(335.8)
Net proceeds from existing bank facilities		**6.4**	–
Proceeds from new bank facilities		**436.1**	1,514.5
Proceeds from bond issue		**298.0**	–
Net cash flow from financing activities		**(170.5)**	1,191.5
Net increase/(decrease) in cash and cash equivalents before foreign exchange movements		**60.9**	(164.1)
Cash and cash equivalents at beginning of year		**239.7**	410.3
Foreign exchange movements		**21.9**	(6.5)
Cash and cash equivalents at end of year		**322.5**	239.7

Cash and cash equivalents for cash flow statement purposes comprises:	2009 £m	2008 £m
Cash and cash equivalents per balance sheet	**322.5**	242.3
Overdrafts	**–**	(2.6)
	322.5	239.7

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

Year ended 31 March 2009

	2009 £m	2008 £m
Increase/(decrease) in cash and cash equivalents in year before foreign exchange movements	**60.9**	(164.1)
Decrease/(increase) in debt and finance leases	**369.8**	(1,160.5)
Inception of new HP contracts and finance leases	**(155.9)**	–
Debt assumed on acquisition of businesses and subsidiary undertakings	**(1.3)**	(300.1)
Fees for bank facilities amendments and bond issue costs	**8.4**	9.6
Other non-cash movements in relation to financial instruments	**(9.5)**	(2.1)
Foreign exchange movements	**(614.9)**	(27.6)
Movement in net debt in year	**(342.5)**	(1,644.8)
Net debt at beginning of year	**(2,161.0)**	(516.2)
Net debt at end of year	**(2,503.5)**	(2,161.0)

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 7 to 25.

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 101 to 107.

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 and on a going concern basis as described in the going concern statement in the Directors' Report on page 50. The principal accounting policies adopted are set out below.

The figures for the year to 31 March 2009 include the results of the rail businesses for the year to 31 March 2009, the results of the Greyhound businesses for the period from 1 April 2008 to 28 March 2009 and the results of all the other businesses for the 52 weeks ended 28 March 2009.

The Directors have revised the presentation of assets and liabilities and believe that it is appropriate to identify separately derivative financial instruments. Comparatives have been adjusted accordingly.

Basis of consolidation

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

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

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

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

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

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 profit or loss and is not subsequently reversed.

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

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

Goodwill arising on acquisitions before the date of transition to 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 (6 to 10 years)

Revenue recognition

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

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

In order to hedge its exposure to certain foreign exchange risks, the Group holds currency swaps and 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 profit or loss in the period in which they are incurred.

Operating profit

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

Non-recurring items

Non-recurring items are material items of income or expenditure which due to their size, nature and 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.

Passenger carrying vehicles and other plant 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 income.

Government grants

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

Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

Inventories

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

Financial instruments

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

2 SIGNIFICANT ACCOUNTING POLICIES continued

Financial assets

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

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

Financial assets are classified into one of four primary categories:

Fair value through profit and loss

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

Held to maturity investments

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

Loans and receivables

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

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

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

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

Available for sale financial assets

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

Financial liabilities and equity

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

Financial liabilities

Bank borrowings

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

Sterling bonds and loan notes

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

2 SIGNIFICANT ACCOUNTING POLICIES continued

Trade payables

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

Derivative financial instruments and hedge accounting

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

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

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

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.

2 SIGNIFICANT ACCOUNTING POLICIES continued

New standards and interpretations not applied

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

IAS/IFRS standards		Effective for accounting periods starting on or after
Amendments to IAS 39	Embedded Derivatives	1 July 2008
Amendments to IFRS 7	Improving Disclosures about Financial Instruments	1 January 2009
IFRS 1	First-time Adoption of International Financial Reporting Standards	1 January 2009
IFRS 3	Business Combinations	1 July 2009
Amendment to IAS 23	Borrowing Costs	1 January 2009
Amendments to IAS 1	Presentation of Financial Statements	1 January 2009
Amendments to IAS 27	Consolidated and Separate Financial Statements	1 July 2009
Amendment to IFRS 2	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
Amendments to IFRS 1 and IAS 27	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 January 2009
Amendment to IAS 39	Eligible Hedged Items	1 July 2009
Amendments to IAS 39 and IFRS 7	Reclassification of Financial Assets	1 July 2008
Amendments to IAS 39 and IFRS 7	Reclassification of Financial Assets – Effective Date and Transition	1 July 2008
IFRS 8	Operating Segments	1 January 2009

Interpretations		Effective for accounting periods starting on or after
Amendments to IFRIC 9	Embedded Derivatives	1 July 2008
IFRIC 13	Customer Loyalty Programmes	1 July 2008
IFRIC 15	Agreements for the Construction of Real Estate	1 January 2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	1 October 2008
IFRIC 17	Distributions of Non-cash Assets to Owners	1 July 2009
IFRIC 18	Transfers of Assets from Customers	1 July 2009

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

Critical accounting judgements and key sources of estimation uncertainty

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

Impairment of intangible assets (including goodwill)

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

Defined benefit pension arrangements

Measurement of defined benefit pension obligations requires estimation of a suitable discount rate, the expected return on scheme assets, expected rate of inflation of future salary and pension costs along with assumptions about mortality rates. The most significant of these are the discount rate and inflation assumptions. A 0.1% movement in the discount rate would impact operating profit and the balance sheet position by approximately £2m and £23m respectively. A 0.1% movement in the inflation rate would impact operating profit and the balance sheet position by approximately £3m and £16m respectively. The net pension deficit as at the balance sheet date was £168.7m (2008: net surplus of £89.0m) as set out in note 36.

2 SIGNIFICANT ACCOUNTING POLICIES continued

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 provisions as at the balance sheet date were £403.1m (2008: £316.7m) as set out in note 27.

3 REVENUE

	2009 £m	2008 £m
Services rendered	6,187.3	4,707.6
Investment income (note 8)	7.9	14.9
Total revenue (as defined in IAS 18)	6,195.2	4,722.5

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

4 BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is 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 2009 are as follows:

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

Other information	UK Bus £m	UK Rail £m	North America £m	Greyhound £m	Group items[2] £m	Total £m
Capital additions	139.0	71.3	194.1	26.2	6.3	436.9
Depreciation, amortisation and impairment	71.4	50.1	151.2	31.0	4.1	307.8

1 Before amortisation charges, non-recurring bid costs, other non-recurring items and profit on disposal of properties.
2 Group items comprise Tram operations, German Bus, central management and other items.

4 BUSINESS AND GEOGRAPHICAL SEGMENTS continued

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

1 Current and deferred tax.
2 Group items comprise Tram operations, German Bus, central management and other items.

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 results[1]	122.0	120.0	130.7	8.8	(21.4)	360.1
Amortisation charges	–	(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

Other information	UK Bus £m	UK Rail £m	North America £m	Greyhound £m	Group items[3] £m	Total £m
Capital additions	73.4	130.0	1,562.7	477.8	9.9	2,253.8
Depreciation, amortisation and impairment	71.5	36.9	97.7	15.0	3.9	225.0

Balance sheet	UK Bus £m	UK Rail £m	North America £m	Greyhound £m	Group items[3] £m	Eliminations £m	Total £m
Total assets	954.0	695.0	3,573.4	539.8	1,752.5	(2,678.2)	4,836.5
Liabilities	547.6	623.8	3,667.2	450.3	1,347.2	(2,678.2)	3,957.9
Unallocated corporate items[4]							173.8
Total liabilities							4,131.7

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 Current and deferred tax.

4 BUSINESS AND GEOGRAPHICAL SEGMENTS continued

Geographical segments

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

Revenue	2009 £m	2008 £m
United Kingdom	**3,320.8**	3,056.5
North America	**2,866.5**	1,651.1
	6,187.3	4,707.6

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	
	2009 £m	2008 £m	2009 £m	2008 £m
United Kingdom	**4,680.2**	3,401.5	**216.6**	213.3
North America	**5,121.9**	4,113.2	**220.3**	2,040.5
Eliminations	**(3,935.8)**	(2,678.2)	**–**	–
Unallocated corporate items	**50.2**	–	**–**	–
	5,916.5	4,836.5	**436.9**	2,253.8

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

	2009 £m	2008 £m
Share-based payments	**6.3**	4.2
Loss on disposal of plant and equipment	**3.2**	1.4
	9.5	5.6

5 NON-RECURRING ITEMS AND AMORTISATION CHARGES

	2009 £m	2008 £m
North American integration costs	**70.1**	55.5
Fuel hedge ineffectiveness	**23.1**	–
UK Rail restructuring costs	**10.3**	16.8
North American restructuring costs	**9.9**	–
UK Bus restructuring costs	**2.1**	–
European bid costs	**3.5**	3.7
UK Rail bid costs	**–**	3.5
Short term bank facility costs	**–**	4.5
Total non-recurring items	**119.0**	84.0
Amortisation charges	**33.1**	18.9
	152.1	102.9
Profit on disposal of properties	**(25.7)**	(5.8)
	126.4	97.1

5 NON-RECURRING ITEMS AND AMORTISATION CHARGES continued

North American integration costs

These reflect costs directly attributable to the integration of Laidlaw:

	2009 £m	2008 £m
Redundancy and staff related costs	**17.3**	11.5
IT costs	**15.3**	5.6
Legal and professional costs	**14.8**	16.5
Greyhound	**–**	1.9
Safety expenses	**9.0**	3.0
Rebranding costs	**3.1**	2.2
Relocation of offices	**2.9**	5.0
Provision for excess buses	**–**	5.4
Other integration costs	**7.7**	4.4
	70.1	55.5

Redundancy and staff related costs reflect severance payments, relocation expenses, retention bonuses and travel expenses. IT costs comprise primarily the costs of systems integration. Legal and professional costs comprise consultants and legal fees involved in planning and managing the integration. Safety expenses include the costs of bringing the former Laidlaw businesses into line with FirstGroup standards and rebranding costs relate primarily to buses and signage. Relocation of offices reflects the remaining lease costs of premises which were closed down during the integration process.

Fuel hedge ineffectiveness

Fuel volumes for 2009/10 were hedged at fixed rates prior to the full impact of the economic downturn being known. As a result of necessary mileage reductions across the business, particularly in UK Bus and Greyhound, the Group's fuel requirements for 2009/10 will be lower than the original volumes hedged. Accordingly, this element of the fuel volume will not qualify for hedge accounting and a one-off charge of £23.1m has been provided based on our latest estimates of fuel usage for 2009/10. This charge comprises UK Bus £7.4m, UK Rail £2.4m and Greyhound £13.3m.

UK Rail restructuring costs

UK Rail non-recurring costs of £10.3m (2008: £16.8m) were incurred during the year reflecting principally redundancy and associated costs in relation to the cost reduction action plan. The 2008 non-recurring costs represented the one-off costs directly associated with the First Great Western remedial action plan.

North American restructuring costs

The restructuring costs of £9.9m (2008: £nil) consist primarily of severance and relocation costs in relation to the cost reduction action plan.

UK Bus restructuring costs

UK Bus restructuring costs of £2.1m (2008: £nil) were incurred during the year comprising principally redundancy and related costs of the cost reduction action plan.

European bid costs

Bid costs of £3.5m (2008: £3.7m) represent the non-recurring costs of bidding for contracts and potential acquisitions in Germany and other European countries. Following the conclusion of our current European bidding activity we do not anticipate any further activity in the coming year.

UK Rail bid costs

Bid costs of £nil (2008: £3.5m) were incurred during the year. Last year's bid costs were spent on our unsuccessful bid for the InterCity East Coast franchise.

Short term bank facility costs

Short term bank facility costs of £nil (2008: £4.5m) were incurred during the year. Last year a short term facility was taken out as part of the Laidlaw acquisition. Due to the short term nature of this facility, the arrangement fee and other associated costs were treated as a non-recurring item.

Amortisation charges

The charge for the year was £33.1m (2008: £18.9m) with the increase mainly due to a full year charge for amortisation of contract and trade-name intangibles arising on the Laidlaw acquisition as well as the impact of foreign exchange movements.

5 NON-RECURRING ITEMS AND AMORTISATION CHARGES continued

Profit on disposal of properties

A profit on disposal of properties of £25.7m (2008: £5.8m) was recorded during the year. The principal disposals were the UK Bus depot relocation in Southampton and a Greyhound site in Seattle in the US.

Tax

The tax benefit as a result of this non-recurring expenditure was a credit of £53.8m (2008: £31.0m). In addition there was a one-off tax charge of £15.2m as a result of the abolition of Industrial Buildings Allowances (2008: 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):

	2009 £m	2008 £m
Depreciation of property, plant and equipment (note 15)	274.7	200.7
Impairment of property, plant and equipment (note 15)	–	5.4
Amortisation charges (note 14)	33.1	18.9
Cost of inventories recognised as an expense	669.2	490.2
Staff costs (note 7)	2,670.0	1,983.4
Auditors' remuneration for audit services (see below)	1.7	1.4
Gains on hedging instruments in fair value hedges	(28.0)	(6.2)
Losses on hedged item attributable to hedged risk (Bond 2019) in fair value hedges	28.0	6.2
Ineffectiveness arising from cash flow hedges	26.2	(1.4)
Ineffectiveness arising from net investment hedges	2.2	0.3

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

	2009 £m	2008 £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	1.6	1.3
Total audit fees	1.7	1.4
– Accounting and advisory services	0.2	0.3
– Tax services	0.3	0.6
Total non-audit fees	0.5	0.9

A description of the work of the Audit Committee is set out in the corporate governance statement on pages 36 and 37 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:

	2009 Number	2008 Number
Operational	128,877	100,048
Administration	6,930	5,637
	135,807	105,685

Their aggregate remuneration (including Executive Directors) comprised:

	2009 £m	2008 £m
Wages and salaries	2,460.8	1,820.1
Social security costs	172.6	135.7
Other pension costs (note 36)	36.6	27.6
	2,670.0	1,983.4

Wages and salaries include a charge in respect of share-based payments of £6.3m (2008: £4.2m).

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 42 to 47 and form part of these audited financial statements.

8 INVESTMENT INCOME

	2009 £m	2008 £m
Bank interest receivable	7.9	14.9

9 FINANCE COSTS

	2009 £m	2008 £m
Bond and bank borrowings	151.5	107.3
Loan notes	1.2	1.5
Finance charges payable in respect of HP contracts and finance leases	7.5	5.9
Total borrowing costs	160.2	114.7
Notional interest on long term provisions	18.8	11.3
Total finance costs before non-recurring items	179.0	126.0
Short term bank facility costs	–	4.5
	179.0	130.5

Finance costs are stated after charging fee expenses of £9.5m (2008: £2.1m). There was no interest capitalised into qualifying assets in either the year ended 31 March 2008 or 31 March 2009.

10 TAX ON PROFIT ON ORDINARY ACTIVITIES	2009 £m	2008 £m
Current tax	7.3	9.4
Deferred tax (note 26)	35.7	9.2
	43.0	18.6

UK corporation tax is calculated at 28% (2008: 30%) of the estimated assessable profit for the year.

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

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

	2009 £m	2009 %	2008 £m	2008 %
Profit before tax	200.0	100.0	151.9	100.0
Tax at the UK corporation tax rate of 28% (2008: 30%)	56.0	28.0	45.6	30.0
Tax effect of expenses that are not deductible in determining taxable profit	5.4	2.7	1.8	1.2
Income not subject to tax	(9.3)	(4.6)	(1.7)	(1.1)
Reduced tax in subsidiaries operating in other jurisdictions	(13.9)	(7.0)	(10.4)	(6.9)
Impact of abolition of Industrial Buildings Allowances on deferred tax	15.2	7.6	–	–
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	(10.4)	(5.2)	(6.7)	(4.4)
Tax charge and effective tax rate for the year	43.0	21.5	18.6	12.2

In addition to the amount charged to the income statement, deferred tax relating to share-based payments, actuarial gains/losses and cash flow and net investment hedges, amounting to a credit of £240.4m (2008: charge of £23.1m) has been taken directly to equity.

11 EARNINGS PER SHARE (EPS)

EPS is calculated by dividing the profit attributable to equity shareholders of £143.3m (2008: £120.4m) by the weighted average number of ordinary shares of 474.8m (2008: 434.8m). The number of ordinary shares used for the basic and diluted calculations are shown in the table below.

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

	2009 Number m	2008 Number m
Weighted average number of shares used in basic calculation	474.8	434.8
SAYE share options	0.6	3.8
Executive share options	2.6	1.2
Weighted average number of shares used in diluted calculation	478.0	439.8

11 EARNINGS PER SHARE (EPS) continued

Diluted EPS	2009 pence	2008 pence
Diluted EPS	30.0	27.4
Adjusted diluted EPS	48.3	40.4

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

	2009 £m	2009 Earnings per share pence	2008 £m	2008 Earnings per share pence
Profit for basic EPS calculation	143.3	30.2	120.4	27.7
Amortisation charges[1]	32.9	6.9	18.7	4.3
Non-recurring bid costs	3.5	0.7	7.2	1.6
Other non-recurring items	115.5	24.3	76.8	17.7
Profit on disposal of properties	(25.7)	(5.4)	(5.8)	(1.3)
Taxation effect of adjustments	(53.8)	(11.3)	(31.0)	(7.1)
Non-recurring tax charge/(credit)[2]	15.2	3.2	(8.6)	(2.0)
Profit for adjusted basic EPS calculation	230.9	48.6	177.7	40.9
Depreciation[3]	273.6	57.7	199.8	45.9
Profit for adjusted cash EPS calculation[4]	504.5	106.3	377.5	86.8

1 Amortisation charges of £33.1m per note 14 less £0.2m (2008: £18.9m less £0.2m) attributable to equity minority interests.
2 Tax charge in 2009 arising on abolition of Industrial Buildings Allowances in the UK. Tax credit in 2008 relates to reduction in UK Corporation tax rate from 30.0% to 28.0%.
3 Depreciation charge of £274.7m (2008: £200.7m) per note 15 less £1.1m (2008: £0.9m) attributable to equity minority interests.
4 Excludes working capital movements.

12 DIVIDENDS

	2009 £m	2008 £m
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 March 2008 of 11.55p (2007: 10.5p) per share	55.5	45.6
Interim dividend for the year ended 31 March 2009 of 6.05p (2008: 5.5p) per share	29.1	23.9
	84.6	69.5
Proposed final dividend for the year ended 31 March 2009 of 12.7p (2008: 11.55p) per share	61.1	55.5

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	2009 £m	2008 restated[1] £m
Cost		
At 1 April	**1,310.1**	468.8
Additions	**6.5**	829.0
Reclassifications (to)/from other intangible assets (note 14)	**(9.1)**	3.0
Foreign exchange movements	**512.5**	9.3
At 31 March	**1,820.0**	1,310.1
Accumulated impairment losses		
At 31 March	**–**	–
Carrying amount		
At 31 March	**1,820.0**	1,310.1

1 Restated for fair value adjustments as set out in note 31.

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 tested for impairment on the basis of discounted future cash flows arising in each relevant cash-generating unit. The Group prepares cash flow forecasts derived from the most recent budget for 2009/10 and budget roll-forward for 2010/11 and then extrapolates cash flows for subsequent years based on estimated growth rates of 2.5% (2008: 2.5%) for the United Kingdom and 3.0% (2008: 3.0%) for North America. A pre-tax discount rate of 10.0% (2008: 10.0%) was used in arriving at the value in use for each of the cash-generating units. The calculation of value in use for each cash-generating unit is most sensitive to the principal assumptions of discount rate, growth rates and margins achievable. The Directors consider the assumptions to be reasonable based on the historic performance of each cash-generating unit and to be realistic in light of economic and industry forecasts.

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

	UK Bus £m	UK Rail £m	First Student £m	First Transit £m	First Services £m	Greyhound £m
Carrying value[1]	682.6	131.2	2,259.7	308.9	101.3	419.1
Headroom	1,003.7	284.4	529.6	158.9	31.9	392.5
Value in use	1,686.3	415.6	2,789.3	467.8	133.2	811.6
Headroom after increasing discount rate by 1.0%	931.8	259.2	410.8	139.3	26.3	357.5
Headroom after a 1.0% reduction in assumed growth rates	966.5	276.5	468.3	150.0	28.5	374.3
Headroom after a 1.0% reduction in margin	880.2	125.0	336.7	90.8	11.9	312.5

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

The goodwill is split as follows:

	2009 £m	2008 £m
Carrying amount		
UK Bus	**95.7**	90.4
UK Rail	**19.8**	19.8
First Student	**1,161.9**	811.5
First Transit	**211.4**	151.1
First Services	**70.6**	50.6
Greyhound	**254.2**	181.9
Germany	**6.4**	4.8
	1,820.0	1,310.1

14 OTHER INTANGIBLE ASSETS

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

	Customer contracts £m	Greyhound brand and trade name £m	Rail franchise agreements £m	Total £m
Cost				
At 1 April 2007	21.2	–	56.3	77.5
Additions	276.6	48.8	–	325.4
Reclassifications to goodwill[1]	(3.0)	–	–	(3.0)
Foreign exchange movements	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
Foreign exchange movements	(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 relates to reassessments of provisional values within 12 months of acquisition. These amounts have been reclassified from/to goodwill (note 13).

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

The rail franchise agreement intangible asset represents the part of the economic benefit that is realised as a result of recognising our share of the rail pension deficit and is amortised on a straight-line basis over the initial term of the franchise. The largest elements of the franchise intangible relate to the First Great Western franchise (carrying amount £15.3m (2008: £19.1m)) and the First ScotRail franchise (carrying amount £7.2m (2008: £8.5m)).

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

	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 (restated[1])	204.9	561.5	22.6	789.0
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)
Foreign exchange movements	(0.3)	(1.0)	(0.3)	(1.6)
At 31 March 2008 (restated[1])	417.9	1,981.7	413.0	2,812.6
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 charge	–	5.4	–	5.4
Disposals	(1.7)	(74.9)	(13.4)	(90.0)
Reclassified as held for sale	–	(18.5)	–	(18.5)
Foreign exchange movements	(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	256.3	1,919.8

1 Restated for fair value adjustments as set out in note 31.

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

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

16 SUBSIDIARIES

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given in note 4 to the Company's separate financial statements on page 104.

17 INVENTORIES

	2009 £m	2008 restated[1] £m
Spare parts and consumables	**108.0**	75.3
Property development work in progress	**2.0**	7.4
	110.0	82.7

1 Restated for fair value adjustments as set out in note 31.

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 £6.0m (2008: £5.5m).

18 TRADE AND OTHER RECEIVABLES

	2009 £m	2008 restated[1] £m
Amounts due within one year		
Trade receivables	**461.8**	429.8
Provision for doubtful receivables	**(8.8)**	(5.0)
Other receivables	**67.2**	95.1
Other prepayments and accrued income	**90.1**	70.3
	610.3	590.2

1 Restated for fair value adjustments as set out in note 31.

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 £610.3m (2008: £590.2m), cash and cash equivalents of £322.5m (2008: £242.3m) and derivative financial instruments of £27.9m (2008: £123.5m).

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

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

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

The counterparties for bank balances and derivative financial instruments are mainly represented by large banks with strong credit ratings assigned by international credit rating agencies. These counterparties are subject to approval by the Board of Directors. Group Treasury policy limits the maximum deposit amount with any one counterparty to £75 million or £50 million, depending on the counterparty, and limits the maximum term to three months. The term of the bank deposits is typically less than one month.

18 TRADE AND OTHER RECEIVABLES continued

An analysis of financial assets which are past due but not impaired is set out below.

	2009 £m	2008 £m
Movement in the provision for doubtful receivables		
Balance at the beginning of the year	5.0	2.3
Subsidiary undertakings acquired	0.1	2.8
Amounts written off during the year	(1.9)	(1.3)
Amounts recovered during the year	(0.9)	(0.1)
Increase in allowance recognised in the income statement	5.1	1.2
Foreign exchange movements	1.4	0.1
Balance at the end of the year	8.8	5.0

	2009 £m	2008 £m
Ageing of past due but not impaired trade receivables		
Less than 30 days	32.8	39.9
30 – 90 days	12.8	12.8
90 – 180 days	2.5	9.2
180+ days	1.6	11.3
Total	49.7	73.2

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

	2009 £m	2008 £m
Non-current assets classified as held for sale	4.2	10.2

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

20 TRADE AND OTHER PAYABLES

	2009 £m	2008 restated[1] £m
Amounts falling due within one year		
Trade payables	314.5	247.6
Other payables	129.2	115.7
Accruals and deferred income	623.0	616.3
Season ticket deferred income	58.0	56.2
	1,124.7	1,035.8

1 Restated for fair value adjustments as set out in note 31.

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 (2008: 30 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

	2009 £m	2008 £m
Cash and cash equivalents	322.5	242.3

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

22 FINANCIAL LIABILITIES – BORROWINGS

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

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

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

22 FINANCIAL LIABILITIES – BORROWINGS continued

Effective interest rates

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

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

Carrying value of gross borrowings by currency	2009 £m	2008 £m
Sterling	1,165.0	859.5
Euros	74.4	19.6
US Dollar	1,399.7	1,474.0
Canadian Dollar	125.3	105.8
Currency swaps		
US Dollar	550.0	250.0
Sterling	(550.0)	(250.0)
	2,764.4	2,458.9

Maturity of non-current financial liabilities	2009 Debt £m	2009 Finance leases £m	2009 Loan notes £m	2009 Bonds £m	2009 Total £m	2008 Debt £m	2008 Finance leases £m	2008 Loan notes £m	2008 Bonds £m	2008 Total £m
Due in more than one year but not more than two years	1.3	33.1	10.5	–	44.9	1,357.7	18.9	10.5	–	1,387.1
Due in more than two years but not more than five years	1,406.7	95.0	–	296.9	1,798.6	387.3	50.9	–	–	438.2
Due in more than five years	0.1	66.5	–	573.3	639.9	0.1	1.0	–	545.9	547.0
Total	1,408.1	194.6	10.5	870.2	2,483.4	1,745.1	70.8	10.5	545.9	2,372.3

Borrowing facilities

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

Subsequent to the year end the Group issued an 8.75% £350m bond due 2021 (note 38) and used some of the proceeds to repay the existing short term bank loan of £210.7m.

23 HP CONTRACTS AND FINANCE LEASES

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

	2009 Minimum payments £m	2009 PV of payments £m	2008 Minimum payments £m	2008 PV of payments £m
Maturing less than one year	39.0	34.3	34.8	32.4
Maturing more than one year but not more than two years	37.0	33.1	19.8	18.9
Maturing in more than two years but not more than five years	103.1	95.0	51.3	50.9
Maturing in more than five years	69.0	66.5	1.0	1.0
	248.1	228.9	106.9	103.2
Less future financing charges	(19.2)	–	(3.7)	–
Present value of minimum lease payments	228.9	228.9	103.2	103.2

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

24 LOAN NOTES

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

	2009 £m	2008 £m
Due in less than one year	–	4.6
Due in more than one year but not more than two years	10.5	10.5
Total	10.5	15.1

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

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

25 DERIVATIVE FINANCIAL INSTRUMENTS

	2009 £m	2008 £m
Derivatives designated and effective as hedging instruments carried at fair value		
Non-current assets		
Cross currency swaps (net investment hedge)	–	23.9
Coupon swaps (fair value hedge)	19.9	1.5
Fuel derivatives (cash flow hedge)	3.1	20.0
	23.0	45.4
Current assets		
Cross currency swaps (net investment hedge)	0.9	10.5
Coupon swaps (fair value hedge)	2.1	–
Fuel derivatives (cash flow hedge)	–	67.6
	3.0	78.1
Current liabilities		
Interest rate swaps (cash flow hedge)	50.4	26.7
Cross currency swaps (net investment hedge)	2.0	–
Coupon swaps (fair value hedge)	–	7.4
Fuel derivatives (cash flow hedge)	252.1	–
Currency forwards (cash flow hedge)	–	0.5
	304.5	34.6
Non-current liabilities		
Interest rate swaps (cash flow hedge)	38.1	27.8
Cross currency swaps (net investment hedge)	123.6	–
Fuel derivatives (cash flow hedge)	81.9	–
	243.6	27.8
Derivatives classified as held for trading		
Non-current assets		
Cross currency swaps	1.8	–
Current assets		
Cross currency swaps	0.1	–
Current liabilities		
Interest rate collars	–	2.3
Total non-current assets	24.8	45.4
Total current assets	3.1	78.1
Total assets	27.9	123.5
Total current liabilities	304.5	36.9
Total non-current liabilities	243.6	27.8
Total liabilities	548.1	64.7

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

25 DERIVATIVE FINANCIAL INSTRUMENTS continued

During the year £377.4m was debited to the hedging reserve in respect of cash flow hedges (2008: £28.2m credit).

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

	2009 £m	2008 £m
Finance cost	(26.8)	(2.8)
Operating costs	65.0	2.4
	38.2	(0.4)

Financial risk management

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

Liquidity risk

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

Group treasury policy requires a minimum of £175m of committed liquidity headroom at all times within medium term bank facilities and such facilities must be renewed or replaced well before their expiry dates. At 31 March 2009, the total amount of these facilities stood at £2,328.2m (2008: £2,394.6m), and committed headroom was £583.0m (2008: £587.2m). Of these facilities, the earliest contractual expiry date is in February 2010 and relates to a $300m bank facility, which was undertaken to part finance the Laidlaw acquisition. This debt was repaid on 9 April 2009. The next material contractual expiry is in February 2012. Largely due to the seasonality of the North American school bus business, headroom tends to reduce by September and increase again by March.

The average duration on net debt (excluding ring-fenced cash) at 31 March 2009 was 4.6 years (2008: 3.5 years). This increased to 6.0 years on 9 April 2009.

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.

	2009						2008					
	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	–	209.5	–	–	–	209.5	–	–	1,124.8	–	–	1,124.8
– Revolver	–	–	–	857.8	–	857.8	–	–	231.5	386.0	–	617.5
– Other	–	1.2	1.3	548.9	0.1	551.5	24.6	1.8	1.4	1.3	0.1	29.2
HP contracts and finance leases	–	34.3	33.1	95.0	66.5	228.9	–	32.4	18.9	50.9	1.0	103.2
Loan notes	–	–	10.5	–	–	10.5	–	4.6	10.5	–	–	15.1
Bonds	–	36.0	–	296.9	573.3	906.2	–	23.2	–	–	545.9	569.1
Trade payables	314.5	–	–	–	–	314.5	247.6	–	–	–	–	247.6
Total	314.5	281.0	44.9	1,798.6	639.9	3,078.9	272.2	62.0	1,387.1	438.2	547.0	2,706.5

25 DERIVATIVE FINANCIAL INSTRUMENTS continued

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.

	2009					2008				
	<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	50.6	32.7	6.2	–	89.5	26.9	21.3	9.5	–	57.7
Coupon swaps – receivable	(15.3)	(15.3)	(45.9)	(76.6)	(153.1)	(15.3)	(15.3)	(45.9)	(91.9)	(168.4)
Coupon swaps – payable	13.0	7.4	34.5	71.8	126.7	22.4	14.3	45.2	90.0	171.9
Cross currency swaps – receivable	(38.6)	(79.2)	(628.1)	–	(745.9)	(18.4)	(14.3)	(264.8)	–	(297.5)
Cross currency swaps – payable	39.5	78.4	760.2	–	878.1	7.6	7.9	227.8	–	243.3
Interest rate collars	–	–	–	–	–	2.3	–	–	–	2.3
Fuel derivatives	252.1	54.6	24.2	–	330.9	(67.6)	(10.0)	(10.0)	–	(87.6)
	301.3	78.6	151.1	(4.8)	526.2	(42.1)	3.9	(38.2)	(1.9)	(78.3)

Total amounts payable per the table are £1,425.2m (2008: £475.2m). Total amounts receivable per the table are £899.0m (2008: £553.5m). For both 2009 and 2008 the table now includes the settlement of principal amounts at the end of the term of the cross currency swaps.

No derivative financial instruments had collateral requirements or were due on demand in either the year to 31 March 2009 or the year to 31 March 2008.

Currency risk

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

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

Group treasury policy requires a minimum of 30% for US Dollar net assets and 75% for other currencies to be hedged.

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

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

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

	2009 £m	2008 £m
Impact on profit after tax	11.6	(0.1)
Impact on hedging reserve	36.2	(4.6)

Interest rate risk

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

The policy objective is achieved through fixed rate debt and cash flow hedge financial instruments, being interest rate swaps and collars. The interest rate swaps cover periods from April 2008 to March 2012.

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

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

25 DERIVATIVE FINANCIAL INSTRUMENTS continued

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

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

	2009 £m	2008 £m
Impact on profit after taxation	(1.4)	0.5
Impact on hedging reserve	19.5	19.2

Interest rate hedges

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

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

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

The interest rate swaps with a duration of more than five years are fair value hedges of the LIBOR element within the £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 with lower levels of protection over the medium term, so that the businesses affected are protected from any sudden and significant increases and have time to prepare for potentially higher costs, whilst retaining some access for potentially lower costs over the medium term. The Group uses a range of cash flow hedge financial instruments to achieve significant fixed price certainty. During the year to 31 March 2009, the Group was hedged 100% on commodity price risk.

The Group has also entered into swaps for periods from April 2009 to March 2012 with the majority of these swaps relating to the year to 31 March 2010. The swaps give rise to monthly cashflow exchanges with counterparties to offset the underlying settlement of floating price costs, except where they have a deferred start date. Gains or losses on fuel derivatives are recycled from equity to the income statement on qualifying hedges to achieve fixed rate fuel costs within operating results.

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

	2009 £m	2008 £m
Impact on profit after taxation	2.1	(3.4)
Impact on hedging reserve	39.5	22.1

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

Volume at risk for the year to 31 March 2010 is 4.6m (2008/09: 5.1m) barrels for which 100% is hedged to diesel price risk.

26 DEFERRED TAX

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

	Accelerated tax depreciation £m	Other temporary differences £m	Tax losses £m	Total £m
At 1 April 2007	165.1	27.6	(50.0)	142.7
Charge/(credit) to income	4.0	38.4	(33.2)	9.2
Charge to equity	–	25.1	–	25.1
Acquisition of subsidiaries (restated[1])	80.2	(19.7)	(76.7)	(16.2)
Foreign exchange movements	(0.4)	(0.6)	0.1	(0.9)
At 31 March 2008 (restated[1])	248.9	70.8	(159.8)	159.9
Charge/(credit) to income	49.1	42.7	(56.1)	35.7
Credit to equity	–	(237.6)	–	(237.6)
Foreign exchange movements	61.7	5.6	(54.9)	12.4
At 31 March 2009	**359.7**	**(118.5)**	**(270.8)**	**(29.6)**

1 Restated for fair value adjustments as set out in note 31.

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

	2009 £m	2008 £m
Deferred tax assets	**(50.2)**	–
Deferred tax liabilities	**20.6**	159.9
	(29.6)	159.9

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

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

27 PROVISIONS

	Insurance claims[2] £m	Legal and other £m	Pensions £m	Total £m
At 1 April 2008 (restated[1])	208.1	54.4	5.9	268.4
Provided in the year	102.1	4.4	–	106.5
Utilised in the year	(137.1)	(16.1)	(0.4)	(153.6)
Notional interest	18.8	–	–	18.8
Foreign exchange movements	70.1	16.8	–	86.9
At 31 March 2009	**262.0**	**59.5**	**5.5**	**327.0**

1 Restated for fair value adjustments as set out in note 31.

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

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

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

The pensions provision relates to 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

	2009 £m	2008 £m
Authorised:		
650m (2008: 4,600m) ordinary shares of 5p each	**32.5**	230.0
Allotted, called up and fully paid:		
482.1m (2008: 438.3m) ordinary shares of 5p each	**24.1**	21.9

	Number m	£m
At 1 April 2008	438.3	21.9
At 31 March 2009	**482.1**	**24.1**

During the year 43.8m shares were allotted for net proceeds of £230.8m (2008: no shares allotted).

Prior to the Laidlaw acquisition the authorised share capital was increased to 4,600m ordinary shares to enable the potential issue of shares to fund the acquisition. Following the share placing described above the Directors considered it appropriate to reduce the authorised share capital. Accordingly the authorised share capital was reduced from 4,600m ordinary shares to 650m ordinary shares on 10 July 2008 as approved at the Company's Annual General Meeting.

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

29 STATEMENT OF CHANGES IN EQUITY

	Hedging reserve £m	Share premium £m	Own shares £m	Retained earnings £m
At 1 April 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	–	–	–	(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
Retained profit for the financial year	–	–	–	143.3
Dividends paid	–	–	–	(84.6)
Premium arising on issue of equity shares[1]	–	228.6	–	–
Movement in EBT, QUEST and treasury shares during the year	–	–	4.2	(3.9)
Current tax on share-based payments	–	–	–	0.1
Current tax on foreign exchange losses	–	–	–	2.7
Actuarial losses on defined benefit pension schemes	–	–	–	(308.3)
Deferred tax on actuarial losses	–	–	–	102.2
Unrealised losses on Executive Deferred Compensation Plans	–	–	–	(3.1)
Derivative hedging instrument movements	(539.6)	–	–	–
Deferred tax on derivative hedging instrument movements	137.1	–	–	–
Share-based payments provision	–	–	–	6.3
Deferred tax on share-based payments	–	–	–	(1.7)
At 31 March 2009	**(352.8)**	**676.4**	**(3.4)**	**98.5**

1 On 18 May 2008 43.8m shares were issued at 540p per share for gross proceeds of £236.8m. The movement in the share premium account reflects these gross proceeds less the par value of the shares of £2.2m and directly associated costs of £5.7m.

29 STATEMENT OF CHANGES IN EQUITY continued

The hedging reserve records the movement on designated hedging items

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

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

Hedging reserve

The movements in the hedging reserve were as follows:

	2009 £m	2008 £m
Balance at beginning of financial year	**49.7**	26.7
Gains/(losses) recognised:		
Interest rate swaps	**(48.6)**	(54.5)
Currency forwards	**29.8**	–
Cross currency swaps	**(153.9)**	4.6
Fuel derivatives	**(328.7)**	82.7
Charged/(credited) to income statement:		
Interest rate swaps	**26.3**	–
Currency forwards	**0.5**	2.8
Fuel derivatives	**(65.0)**	(2.4)
Tax on derivative hedging instrument movements	**137.1**	(10.2)
Balance at end of financial year	**(352.8)**	49.7

Own shares

The number of own shares held by the Group at the end of the year was 1,286,546 (2008: 1,686,844) FirstGroup plc ordinary shares of 5p each. Of these, 981,352 (2008: 1,199,318) were held by the FirstGroup plc Employee Benefit Trust, 32,520 (2008: 32,520) by the FirstGroup plc Qualifying Employee Share Ownership Trust and 272,674 (2008: 455,046) were held as treasury shares. Both trusts and treasury shares have waived the rights to dividend income from the FirstGroup plc ordinary shares. The market value of the shares at 31 March 2009 was £3.4m (2008: £9.5m).

Other reserves	Capital redemption reserve £m	Capital reserve £m	Total other reserves £m
At 31 March 2009 and 31 March 2008	**1.9**	**2.7**	**4.6**

There have been no movements on the capital redemption reserve or capital reserve during the year ended 31 March 2009.

The capital redemption reserve represents the cumulative par value of all shares bought back and cancelled. The reserve is non-distributable.

The capital reserve arose on acquisitions in 2000. The reserve is non-distributable.

30 TRANSLATION RESERVES

	£m
At 1 April 2007	(57.8)
Movement for the financial year	(12.5)
At 31 March 2008	(70.3)
Movement for the financial year	407.7
At 31 March 2009	**337.4**

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

	2009 Total £m	Laidlaw[1] £m	Other £m	2008 Total £m
Provisional fair values of net assets acquired:				
Property, plant and equipment	**2.3**	780.4	8.6	789.0
Intangible assets	**–**	325.2	0.2	325.4
Other current assets	**0.7**	348.9	1.3	350.2
Cash at bank and in hand	**–**	–	0.2	0.2
Other liabilities	**(1.7)**	(213.1)	(6.8)	(219.9)
Net debt	**(1.3)**	(298.5)	(1.6)	(300.1)
Pension deficit	**–**	(23.0)	–	(23.0)
Provisions	**–**	(292.0)	–	(292.0)
Deferred tax	**–**	16.8	(0.6)	16.2
	–	644.7	1.3	646.0
Goodwill (note 13)	**6.5**	804.8	24.2	829.0
Satisfied by cash paid and payable	**6.5**	1,449.5	25.5	1,475.0

1 Fair values on acquisition were updated as at 30 September 2008 as set out below.

The businesses and subsidiary undertakings acquired during the year contributed £2.0m (2008: £125.1m) to the Group's net operating cash flows and utilised £0.5m (2008: £35.6m) for capital expenditure. In addition, £nil (2008: £115.7m) was released from the Laidlaw insurance captive.

If the acquisitions of the businesses and subsidiary undertakings acquired during the year had been completed on the first day of the financial year, Group revenue from these acquisitions for the period would have been £8.6m (2008: £1,643.4m) and the Group adjusted operating profit from these acquisitions attributable to equity holders of the parent would have been £0.3m (2008: £146.4m).

The businesses acquired during the year contributed £7.4m (2008: £872.1m) to Group revenue and £0.2m (2008: £84.3m) to Group adjusted operating profit from date of acquisition to 31 March 2009.

Businesses and subsidiary undertakings acquired during the year to 31 March 2009 were:

	% voting equity instruments acquired	Date acquired
Truronian Limited	100	8 April 2008
G & G Bus Service, Inc	100	30 January 2009

Acquisition of Laidlaw International, Inc

In the year ending 31 March 2008, the Group acquired Laidlaw International, Inc. Following reassessment of fair values on acquisition the following adjustments were made at 30 September 2008 and disclosed in the Group's half-yearly financial report 2008:

		Provisional fair value as previously reported $m	Final fair value adjustments $m	Acquired value $m
Property, plant and equipment	a	1,592.2	(7.7)	1,584.5
Intangible assets		660.1	–	660.1
Current assets	b	717.8	(9.3)	708.5
Current liabilities	c	(487.0)	(51.7)	(538.7)
Insurance provision	d	(463.6)	(12.0)	(475.6)
Pension deficit		(46.7)	–	(46.7)
Deferred tax	e	(1.0)	34.6	33.6
Income taxes recoverable		1.3	–	1.3
Bank overdrafts and loans		(606.0)	–	(606.0)
Net assets		1,367.1	(46.1)	1,321.0
Total cost of acquisition (excluding acquired debt)		2,941.5	11.4	2,952.9
Net assets acquired		(1,367.1)	46.1	(1,321.0)
Goodwill on acquisition		1,574.4	57.5	1,631.9

31 ACQUISITION OF BUSINESSES AND SUBSIDIARY UNDERTAKINGS continued

The adjustments represent:

(a) Property, plant and equipment was valued at market value by third party specialists at date of acquisition. These have been further adjusted to write down certain assets and certain classes of asset to fair value.

(b) Certain receivables and inventories have been written down to fair value.

(c) Current liabilities represent additional liability for change of control payments arising on acquisition, environmental reserves, legal reserves, provision for safety related items and provision for loss making contracts. Following reassessments of these, further provision was made for certain existing legal claims, loss making contracts and safety repairs net of downward assessment of environmental liabilities acquired.

(d) Reassessment of insurance liabilities required in light of updated actuarial estimates.

(e) Deferred tax adjustment on the items noted above.

In accordance with IFRS 3, the Group balance sheet as at 31 March 2008 has been restated to reflect the final fair value adjustments as updated at 30 September 2008 as set out above:

	As reported 31 March 2008 £m	Final fair value adjustments £m	Restated 31 March 2008 £m
Non-current assets			
Goodwill	1,281.3	28.8	1,310.1
Other intangible assets	367.5	–	367.5
Property, plant and equipment	1,923.7	(3.9)	1,919.8
Derivative financial instruments	45.4	–	45.4
Investments	4.0	–	4.0
	3,621.9	24.9	3,646.8
Current assets			
Inventories	83.6	(0.9)	82.7
Trade and other receivables	594.0	(3.8)	590.2
Financial assets – cash and cash equivalents	242.3	–	242.3
– derivative financial instruments	78.1	–	78.1
	998.0	(4.7)	993.3
Non-current assets classified as held for sale	10.2	–	10.2
Retirement benefit assets	186.2	–	186.2
Total assets	4,816.3	20.2	4,836.5

31 ACQUISITION OF BUSINESSES AND SUBSIDIARY UNDERTAKINGS continued

	As reported 31 March 2008 £m	Final fair value adjustments £m	Restated 31 March 2008 £m
Current liabilities			
Trade and other payables	1,016.8	19.0	1,035.8
Tax liabilities	46.8	–	46.8
Financial liabilities – bank overdrafts and loans	26.4	–	26.4
– bonds	23.2	–	23.2
– obligations under finance leases	32.4	–	32.4
– loan notes	4.6	–	4.6
Derivative financial instruments	36.9	–	36.9
	1,187.1	19.0	1,206.1
Net current liabilities	(189.1)	(23.7)	(212.8)
Non-current liabilities			
Financial liabilities – bank loans	1,745.1	–	1,745.1
– bonds	545.9	–	545.9
– obligations under finance leases	70.8	–	70.8
– loan notes	10.5	–	10.5
Derivative financial instruments	27.8	–	27.8
Retirement benefit obligation	97.2	–	97.2
Deferred tax liabilities	177.2	(17.3)	159.9
Provisions	249.9	18.5	268.4
	2,924.4	1.2	2,925.6
Total liabilities	4,111.5	20.2	4,131.7
Net assets	704.8	–	704.8
Equity			
Share capital	21.9	–	21.9
Share premium	447.8	–	447.8
Hedging reserve	49.7	–	49.7
Other reserves	4.6	–	4.6
Own shares	(7.6)	–	(7.6)
Translation reserve	(70.3)	–	(70.3)
Retained earnings	245.5	–	245.5
Equity attributable to equity holders of the parent	691.6	–	691.6
Minority interests	13.2	–	13.2
Total equity	704.8	–	704.8

32 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

	2009 £m	2008 £m
Operating profit before profit on disposal of properties	345.4	261.7
Adjustments for:		
Depreciation charges	274.7	200.7
Impairment of property, plant and equipment	–	5.4
Amortisation charges	33.1	18.9
Share-based payments	6.3	4.2
Loss on disposal of plant and equipment	3.2	1.4
Operating cash flows before working capital	662.7	492.3
Increase in inventories	(17.2)	(7.7)
Decrease in receivables	114.7	6.2
Decrease in payables	(120.5)	(20.0)
Cash generated by operations	639.7	470.8
Corporation tax paid	(8.9)	(6.7)
Interest paid	(129.0)	(93.9)
Interest element of HP contracts and finance leases	(7.4)	(4.4)
Net cash from operating activities	**494.4**	365.8

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 £569.8m (2008: £383.5m) and letters of credit for £331.5m (2008: £245.1m). The performance bonds relate to the North American businesses of £373.3m (2008: £231.4m) and the UK Rail franchise operations of £196.5m (2008: £152.1m). The letters of credit relate substantially to insurance arrangements in the UK and North America.

The Company has provided unsecured loan facilities of £103.0m (2008: £103.0m) to First Great Western Limited, a £46.0m (2008: £46.0m) unsecured loan facility to First Capital Connect Limited, a £3.2m (2008: £3.2m) unsecured loan facility to First/Keolis TransPennine Limited, and a £13.6m (2008: £13.6m) unsecured loan facility to First ScotRail Limited. Under these facilities, £103.0m (2008: £72.0m) was drawn at 31 March 2009 by First Greater Western Limited and £25.0m (2008: £21.0m) was drawn at 31 March 2009 by First Capital Connect Limited.

The Company is party to certain unsecured guarantees granted to banks for overdraft and cash management facilities provided to itself and subsidiary undertakings. The Company has given certain unsecured guarantees for the liabilities of its subsidiary undertakings arising under certain loan notes, hire purchase contracts, finance leases, operating leases and certain pension scheme arrangements. It also provides unsecured cross guarantees to certain subsidiary undertakings as required by VAT legislation. UK Bus subsidiaries have provided unsecured guarantees on a joint and several basis to the Trustees of the UK Bus Occupational Pension Scheme.

Certain of the Company's subsidiaries have issued unsecured guarantees to the Company's Sterling bondholders, to lenders participating in the Group's £1,777.0m (2008: £2,394.5m) syndicated unsecured bank facilities and to lenders of certain bilateral bank facilities for £551.2m (2008: £nil).

34 OPERATING LEASE ARRANGEMENTS

	2009 £m	2008 £m
Minimum lease payments made under operating leases recognised in the income statement for the year:		
Plant and machinery	**21.5**	17.1
Track and station access	**608.5**	553.1
Hire of rolling stock	**152.3**	147.8
Other assets	**64.2**	36.6
	846.5	754.6

At the balance sheet dates, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2009 £m	2008 £m
Within one year	**624.7**	731.0
In the second to fifth years inclusive	**2,223.0**	2,700.1
After five years	**308.5**	99.8
	3,156.2	3,530.9

Included in the above commitments are contracts held by the UK Rail businesses with Network Rail for access to the railway infrastructure track, stations and depots of £2,081.1m (2008: £2,580.0m). They also have contracts under which they lease rolling stock of £689.9m (2008: £675.0m).

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. Grants were made in December 2002, December 2003, December 2004, April 2006, December 2006, December 2007 and December 2008. The scheme is based on eligible employees being granted options and their agreement to opening a sharesave account with a nominated savings carrier and to save weekly or monthly over a specified period. Sharesave accounts are held with Lloyds TSB and Yorkshire Building Society. The right to exercise the option is at the employee's discretion at the end of the period previously chosen for a period of six months.

	SAYE 2004 Options Number	SAYE April 2006 Options Number	SAYE Dec 2006 Options Number	SAYE Dec 2007 Options Number	SAYE Dec 2008 Options Number
Outstanding at the beginning of the year	204,971	1,749,573	2,285,740	2,363,117	–
Awarded during the year	–	–	–	–	2,542,138
Exercised during the year	(134,425)	(14,085)	(11,938)	(65)	–
Lapsed during the year	(70,546)	(135,470)	(295,723)	(588,621)	(47,816)
Outstanding at the end of the year	–	1,600,018	1,978,079	1,774,431	2,494,322
Exercisable at the end of the year	–	–	–	–	–
Weighted average exercise price (pence)	267.0	325.0	444.0	583.0	371.0
Weighted average share price at date of exercise (pence)	534.7	487.7	442.8	576.2	N/A

(b) Executive share option scheme (ESOS)

Options are exercisable between three and ten years of the date of grant provided that the pre-determined performance criteria are met.

	ESOS 2001 Options Number	ESOS 2002 Options Number	ESOS 2003 Options Number	ESOS 2004 Options Number
Outstanding at the beginning of the year	248,911	349,362	482,550	620,251
Forfeited during the year	–	–	(2,174)	(23,081)
Exercised during the year	–	–	–	(8,681)
Outstanding at the end of the year	248,911	349,362	480,376	588,489
Exercisable at the end of the year	248,911	349,362	480,376	588,489
Weighted average exercise price (pence)	346.5	269.0	287.0	275.1
Weighted average share price at date of exercise (pence)	N/A	N/A	N/A	593.5

35 SHARE-BASED PAYMENTS continued

(c) Deferred bonus shares (DBS)

	DBS 2004 Options Number	DBS 2005 Options Number	DBS 2006 Options Number	DBS 2007 Options Number	DBS 2008 Options Number
Outstanding at the beginning of the year	70,285	317,271	658,352	515,520	–
Granted during the year	–	–	–	–	440,358
Forfeited during the year	–	–	(320)	(12,908)	(20,883)
Exercised during the year	(15,160)	(206,416)	–	–	–
Outstanding at the end of the year	55,125	110,855	658,032	502,612	419,475
Exercisable at the end of the year	55,125	110,855	–	–	–
Weighted average exercise price (pence)	Nil	Nil	Nil	Nil	Nil
Weighted average share price at date of exercise (pence)	467.1	516.9	N/A	N/A	N/A

(d) Buy As You Earn (BAYE) scheme

BAYE enables eligible employees to purchase shares from their gross income. The Company provides two matching shares for every three shares bought by employees, subject to a maximum Company contribution of shares to the value of £20 per employee per month. If the shares are held in trust for five years or more, no income tax and national insurance will be payable. The matching shares will be forfeited if the corresponding partnership shares are removed from trust within three years of award.

At 31 March 2009 there were 7,436 (2008: 6,388) participants in the BAYE scheme who have cumulatively purchased 3,494,553 (2008: 2,643,102) shares with the Company contributing 1,011,049 (2008: 755,953) matching shares on a cumulative basis.

The Group recognised total expenses of £6.3m (2008: £4.2m) related to equity-settled share-based payment transactions.

(e) Long Term Incentive Plan (LTIP)

A new LTIP was approved at the 2008 Annual General Meeting. Awards under this scheme vest over the three year period to 31 March 2011 with 50% of the award being dependent upon EPS performance over the vesting period and the other 50% being dependent upon total shareholder return over the same period compared to the comparator group of 100 companies.

	LTIP 2008 Options Number
Granted during the year	1,927,659
Forfeited during the year	(193,992)
Outstanding at the end of the year	1,733,667

(f) Dean Finch options

	2009 Number	2008 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.

35 SHARE-BASED PAYMENTS continued

The fair values of the options granted during 2008/09 and 2007/08 were measured using a Black-Scholes model. The inputs into the Black-Scholes model were as follows:

	2009	2008
Weighted average share price (pence):		
– DBS	**564.0**	679.0
– SAYE December 2007	**–**	714.0
– SAYE December 2008	**407.3**	–
– LTIP	**564.0**	–
Weighted average exercise price (pence):		
– DBS	**–**	–
– SAYE December 2007	**–**	583.0
– SAYE December 2008	**315.0**	–
– LTIP	**–**	–
Expected volatility		
– DBS	**25%**	35%
– SAYE December 2007	**–**	25%
– SAYE December 2008	**30%**	–
– LTIP	**25%**	–
Expected life		
– SAYE schemes	**3 years**	3 years
– DBS	**3 years**	5 years
– LTIP	**3 years**	–
Rate of interest		
– DBS	**4.0%**	5.6%
– SAYE December 2007	**–**	4.5%
– SAYE December 2008	**2.7%**	–
– LTIP	**4.0%**	–
Expected dividend yield		
– DBS	**3.0%**	2.0%
– SAYE December 2007	**–**	2.5%
– SAYE December 2008	**3.0%**	–
– LTIP	**3.0%**	–

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous five years. The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Allowances have been made for the SAYE schemes for the fact that, amongst a group of recipients some are expected to leave before an entitlement vests. The accounting charge is then adjusted over the vesting period to take account of actual forfeitures, so although the total charge is unaffected by the pre-vesting forfeiture assumption, the timing of the recognition of the expense will be sensitive to it. Fair values for the SAYE include a 10% p.a. pre-vesting leaver assumption whereas the Executive, LTIP and deferred share plans exclude any allowance for pre-vesting forfeitures.

The Group used the inputs noted above to measure the fair value of the new share options.

36 RETIREMENT BENEFIT SCHEMES

Defined contribution schemes

The Group operates defined contribution retirement benefit schemes for all qualifying employees. The assets of the schemes are held separately from those of the Group in funds under the control of trustees. Where there are employees who leave the schemes prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

The total cost charged to income of £6.3m (2008: £3.5m) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans.

Defined benefit schemes

The Group operates or participates in a number of pension schemes which cover the majority of UK employees and certain North American employees. These are principally defined benefit schemes under which benefits provided are based on employees' number of years of service and either career average or final salary. The scope of benefits varies between schemes. The assets of the schemes are held in separately administered trusts which are managed independently of the Group's finances by investment managers appointed by the schemes' trustees.

The 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 74.0% and 122.4% (2008: 79.0% and 122.3%). The market value of the assets at 31 March 2009 for all defined benefit schemes totalled £2,465m (2008: £2,911m).

Contributions are paid to all defined benefit schemes in accordance with rates recommended by the schemes' actuaries. The valuations are made using the Projected Unit Credit Method.

The valuation assumptions used for accounting purposes have been made uniform to Group standards, as appropriate, when each scheme is actuarially valued.

	UK 2009 %	North America 2009 %	UK 2008 %	North America 2008 %	2007 %	2006 %	2005 %
Key assumptions used:							
Discount rate	**6.75**	**6.15**	6.85	6.0	5.45	5.0	5.5
Expected return on scheme assets	**7.75**	**7.5**	7.85	7.5	7.5	7.3	7.6
Expected rate of salary increases	**4.1**	**3.0**	4.8	3.5	4.3	4.1	4.1
Inflation	**2.6**	**2.0**	3.3	2.5	2.8	2.6	2.6
Future pension increases	**2.5**	**–**	3.3	–	2.8	2.6	2.6

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

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Current service cost	**70.1**	74.9	75.2	53.4	46.1
Interest cost	**158.6**	125.4	102.0	89.0	80.0
Expected return on scheme assets	**(196.2)**	(174.4)	(140.5)	(107.6)	(87.9)
Interest on franchise adjustment	**0.8**	(0.1)	(1.0)	(2.3)	(1.5)
Past service cost	**(3.0)**	(1.7)	(13.2)	(16.6)	–
	30.3	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 £(435.1)m (2008: £(100.0)m).

36 RETIREMENT BENEFIT SCHEMES continued

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

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Fair value of schemes' assets	**2,464.9**	2,911.4	2,506.7	1,992.6	1,578.4
Present value of defined benefit obligations	**(2,789.6)**	(2,788.3)	(2,488.5)	(2,193.8)	(1,881.8)
Rail franchise adjustment (60%)	**75.9**	(13.8)	2.2	38.3	41.7
Irrecoverable surplus[1]	**–**	(30.7)	(6.8)	–	–
Adjustment for employee share of RPS deficits (40%)	**80.1**	10.4	10.2	30.9	40.6
(Deficit)/surplus in schemes	**(168.7)**	89.0	23.8	(132.0)	(221.1)
(Liability)/asset recognised in the balance sheet	**(168.7)**	89.0	23.8	(132.0)	(221.1)
This amount is presented in the balance sheet as follows:					
Non-current assets	**111.5**	186.2	57.1	–	–
Non-current liabilities	**(280.2)**	(97.2)	(33.3)	(132.0)	(221.1)
	(168.7)	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.

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

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
At 1 April	**2,788.3**	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	**70.1**	74.9	75.2	53.4	46.1
Past service cost	**(3.0)**	(1.7)	(13.2)	(16.6)	–
Interest cost	**158.6**	125.4	102.0	89.0	80.0
Employee share of change in DBO (not attributable to franchise adjustment)	**9.0**	24.8	53.5	73.6	45.0
Actuarial (gain)/loss	**(249.2)**	(329.4)	(133.6)	145.8	38.4
Benefit payments	**(136.6)**	(89.7)	(47.8)	(35.0)	(36.9)
Settlements	**(3.2)**	–	–	–	–
Currency loss/(gain)	**155.6**	4.2	(3.3)	1.8	(0.8)
At 31 March	**2,789.6**	2,788.3	2,488.5	2,193.8	1,881.8

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

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
At 1 April	**2,911.4**	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	**196.2**	174.4	140.5	107.6	87.9
Company contributions	**81.0**	75.4	95.3	68.3	54.8
Employee contributions	**47.4**	43.3	41.0	32.9	26.2
Employee share of return on assets	**(108.0)**	(14.5)	37.6	50.5	15.6
(Loss)/gain on assets	**(640.5)**	(256.2)	15.8	188.7	47.6
Benefits paid from schemes	**(136.6)**	(89.7)	(47.8)	(35.0)	(36.9)
Settlements	**(3.2)**	–	–	–	–
Currency gain/(loss)	**117.2**	3.7	(2.8)	1.2	(0.4)
At 31 March	**2,464.9**	2,911.4	2,506.7	1,992.6	1,578.4

36 RETIREMENT BENEFIT SCHEMES continued

Movements in the franchise adjustment were as follows:

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
At 1 April	**(23.0)**	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	**(0.8)**	0.1	1.0	2.3	1.5
Employee share of change in DBO (attributable to franchise adjustment)	**59.6**	(10.7)	(11.4)	(2.0)	8.3
Actuarial gain/(loss) on franchise adjustment	**90.7**	(16.1)	(18.1)	(5.6)	11.2
At 31 March	**126.5**	(23.0)	3.7	63.9	69.2

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

	Expected return[1] 2009 %	Fair value of assets 2009 £m	Expected return[1] 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	**8.7**	**1,222.2**	8.95	1,689.3	8.45	1,756.9	8.35	1,444.8	8.8	1,094.4
Debt instruments	**6.25**	**698.4**	5.5	675.2	4.8	362.0	4.3	317.6	4.7	282.4
Property	**6.85**	**176.9**	6.3	207.6	6.3	256.2	6.3	135.9	6.8	121.8
Other assets	**7.5**	**367.4**	6.0	339.3	4.0	131.6	3.6	94.3	3.6	79.8
		2,464.9		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.

1 The expected returns for 2009 and 2008 are a weighted average calculation between the UK and North America as follows:

	UK 2009 %	North America 2009 %	UK 2008 %	North America 2008 %
Equity instruments	**8.65**	**9.0**	8.95	9.0
Debt instruments	**6.5**	**5.5**	5.5	5.5
Property	**6.8**	**7.5**	6.8	N/A
Other – cash	**4.0**	**4.0**	5.0	5.5
– infrastructure	**8.0**	**8.0**	8.0	N/A
– cash plus	**8.65**	**9.0**	8.95	N/A
– other	**1.0**	**1.0**	5.0	5.5

The history of experience adjustments is as follows:

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Fair value of schemes' assets	**2,464.9**	2,911.4	2,506.7	1,992.6	1,578.4
Present value of defined benefit obligations	**(2,789.6)**	(2,788.3)	(2,488.5)	(2,193.8)	(1,881.8)
Rail franchise adjustment (60%)	**75.9**	(13.8)	2.2	38.3	41.7
Irrecoverable surplus	**–**	(30.7)	(6.8)	–	–
Adjustment for employee share of RPS deficits (40%)	**80.1**	10.4	10.2	30.9	40.6
(Deficit)/surplus in the schemes	**(168.7)**	89.0	23.8	(132.0)	(221.1)
Experience gain on scheme assets:					
Amount (£m)	**(640.5)**	(260.5)	15.8	188.7	47.6
Percentage of scheme assets (%)	**(29.6)**	(8.9)	0.6	9.5	3.0
Experience gain on scheme liabilities:					
Amount (£m)	**38.0**	21.4	12.4	13.6	15.5
Percentage of scheme liabilities (%)	**1.6**	0.8	0.5	0.6	0.8
Experience gain on scheme liabilities after franchise adjustment:					
Amount (£m)	**128.6**	5.2	14.2	8.0	26.7
Percentage of scheme liabilities (%)	**5.3**	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 2010 is £85.3m (year to 31 March 2009: £78.4m).

Accounting for UK Rail pension arrangements

The Group recognises its share of Train Operating Companies' 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:

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Balance sheet					
Pension deficit	**(75.9)**	13.8	(2.2)	(38.3)	(41.7)
Intangible assets	**(28.3)**	(35.4)	(43.6)	(16.5)	(19.4)
Deferred taxation	**29.2**	6.0	13.7	16.4	18.3
Impact on net assets	**(75.0)**	(15.6)	(32.1)	(38.4)	(42.8)
Income statement					
Unwinding of discount on franchise adjustment	**0.8**	(0.1)	(1.0)	(2.3)	(1.5)
Intangible asset amortisation	**7.1**	8.2	8.2	2.9	1.6
Deferred taxation	**(2.2)**	(2.1)	(2.2)	(0.2)	–
Impact on profit for the period from continuing operations	**5.7**	6.0	5.0	0.4	0.1
Statement of recognised income and expense					
Actuarial (gains)/losses on franchise adjustment	**(90.7)**	16.1	18.1	5.6	(11.2)
Deferred tax on actuarial (gains)/losses	**25.4**	(4.8)	(5.4)	(1.7)	3.4
	65.3	11.3	12.7	3.9	(7.8)

37 RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Remuneration of key management personnel

The remuneration of the Directors, which comprise the plc Board and the Acting Group Finance Director, 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 42 to 47.

	Year to 31 March 2009 £m	Year to 31 March 2008 £m
Basic salaries	**1.7**	1.7
Performance related bonuses	**0.4**	1.2
Benefits in kind	**0.1**	0.1
Fees	**0.5**	0.4
Termination benefits	**0.2**	–
Pension contributions	**0.3**	0.3
Share-based payments	**0.8**	0.5
	4.0	4.2

38 SUBSEQUENT EVENTS

On 8 April 2009 the Group raised a 8.75% £350m bond due 2021 in line with the Group's strategy to extend its debt duration and to reduce reliance on bank debt. The proceeds were used to prepay the remaining balance on the short term acquisition debt and reduce drawings under the Group's bank revolving facilities.

Independent auditors' report to the members of FirstGroup plc

We have audited the Group financial statements of FirstGroup plc for the year ended 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 2009.

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 Directors' 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 2009 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 2009 and of its profit for the year then ended.

Deloitte LLP
Chartered Accountants and Registered Auditors
London
United Kingdom
13 May 2009

Group financial summary

Consolidated income statement	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Group revenue	**6,187.3**	4,707.6	3,708.8	3,030.9	2,693.4
Operating profit before amortisation charges, non-recurring bid costs and other non-recurring items	**497.5**	360.1	259.2	229.7	214.8
Amortisation charges	**(33.1)**	(18.9)	(10.3)	(4.5)	(2.2)
Non-recurring bid costs	**(3.5)**	(7.2)	(19.3)	(28.5)	(11.9)
Other non-recurring items, net	**(115.5)**	(72.3)	(22.3)	–	–
Operating profit before profit/(loss) on disposal of properties	**345.4**	261.7	207.3	196.7	200.7
Operating profit	**371.1**	267.5	203.6	210.7	204.0
Net finance cost	**(171.1)**	(111.1)	(63.4)	(53.3)	(48.3)
Exceptional finance cost	**–**	(4.5)	–	–	–
Profit before taxation	**200.0**	151.9	140.2	157.4	155.7
Taxation	**(43.0)**	(18.6)	(38.1)	(40.0)	(41.1)
Profit after taxation	**157.0**	133.3	102.1	117.4	114.6
EBITDA	**772.2**	560.8	398.9	351.7	322.4

Earnings per share	pence	pence	pence	pence	pence
Adjusted basic	**48.6**	40.9	33.7	30.9	28.9
Basic	**30.2**	27.7	23.1	27.4	27.1
Adjusted cash	**106.3**	86.8	68.6	61.9	55.8

Consolidated balance sheet	£m	£m	£m	£m	£m
Non-current assets	**4,870.6**	3,843.2	1,681.6	1,474.7	1,335.4
Net current (liabilities)/assets	**(711.5)**	(212.8)	70.0	(38.0)	(58.1)
Creditors: amounts due after more than one year	**(3,007.2)**	(2,497.3)	(968.4)	(982.6)	(977.4)
Provisions	**(347.6)**	(428.3)	(175.9)	(122.2)	(75.4)
Equity minority interests	**(19.5)**	(13.2)	(11.1)	(12.7)	(10.6)
Equity shareholders' funds	**784.8**	691.6	596.2	319.2	213.9

Share data Number of shares in issue (excluding treasury shares and shares in trusts)	million	million	million	million	million
At year end	**480.8**	436.6	434.0	392.0	393.6
Average	**474.8**	434.8	397.9	392.6	399.2

Share price	pence	pence	pence	pence	pence
At year end	**268**	564	665	425	343
High	**635**	815	668	426	379
Low	**198**	497	381	311	256

Market capitalisation	£m	£m	£m	£m	£m
At year end	**1,292**	2,462	2,886	1,665	1,369

Company balance sheet

	Notes	2009 £m	2008 £m
Fixed assets			
Investments	4	**1,703.8**	1,697.5
Current assets			
Financial assets – cash and cash equivalents		**19.0**	3.0
Derivative financial instruments	5	**27.9**	110.4
Debtors	6	**3,451.5**	2,352.7
		3,498.4	2,466.1
Creditors: amounts falling due within one year	7	**(1,030.8)**	(448.8)
Financial liabilities – current bond liability		**(36.0)**	(23.1)
Derivative financial instruments	5	**(272.5)**	(36.9)
		(1,339.3)	(508.8)
Net current assets		**2,159.1**	1,957.3
Total assets less current liabilities		**3,862.9**	3,654.8
Creditors: amounts falling due after more than one year	7	**(2,236.3)**	(2,288.2)
Derivative financial instruments	5	**(233.8)**	(27.8)
Provisions		**–**	(3.0)
		1,392.8	1,335.8
Financed by:			
Capital and reserves			
Called up share capital	8	**24.1**	21.9
Share premium	9	**676.4**	447.8
Other reserves	9	**115.1**	222.8
Own shares	9	**(3.4)**	(7.6)
Profit and loss account	9	**580.6**	650.9
Shareholders' funds		**1,392.8**	1,335.8

Notes to the Company financial statements

1 SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial instruments and on a going concern basis as described in the going concern statement in the Directors' Report on page 50.

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 counter-party confirmations.

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

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 2009 of £11.6m (2008: £112.3m).

The auditors' remuneration for audit services to the Company was £0.1m (2008: £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:

	2009 £m	2008 £m
Final dividend for the year ended 31 March 2008 of 11.55p (2007: 10.5p) per share	55.5	45.6
Interim dividend for the year ended 31 March 2009 of 6.05p (2008: 5.5p) per share	29.1	23.9
	84.6	69.5
Proposed final dividend for the year ended 31 March 2009 of 12.7p (2008: 11.55p) per share	61.1	50.4

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

4 FIXED ASSET INVESTMENTS

	Unlisted subsidiary undertakings £m	Other investments £m	Total £m
Cost			
At 1 April 2008	1,702.9	8.1	1,711.0
Additions	6.3	–	6.3
At 31 March 2009	1,709.2	8.1	1,717.3
Provisions			
At 1 April 2008 and 31 March 2009	(5.4)	(8.1)	(13.5)
Net book value			
At 31 March 2009	1,703.8	–	1,703.8
At 31 March 2008	1,697.5	–	1,697.5

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 Limited[1]
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 Scotland East Limited[1]
First Essex Buses Limited
First Glasgow (No. 1) Limited[1]
First Glasgow (No. 2) Limited[1]
First Hampshire and Dorset Limited
First Manchester Limited
First Midland Red Buses Limited
First Potteries 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 Limited[2] (60%)
FirstCanada ULC[2]
First Student, Inc[3]

Transit contracting and fleet maintenance
First Transit, Inc[3]
First Support Services, Inc[3]

North American coach operators
Americanos USA, Inc[3]
Greyhound Lines, Inc[3]

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 GmbH[4]

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.

Other investments

The interest in other investments at the end of the year is a 6% interest in the ordinary share capital of Prepayment Cards Limited, which is incorporated in Great Britain and registered in England and Wales.

5 DERIVATIVE FINANCIAL INSTRUMENTS

	2009 £m	2008 £m
Derivatives designated and effective as hedging instruments carried at fair value		
Non-current assets		
Cross currency swaps (net investment hedge)	–	23.9
Coupon swaps (fair value hedge)	19.9	1.5
Fuel derivatives (cash flow hedge)	3.1	19.1
	23.0	44.5
Current assets		
Cross currency swaps (net investment hedge)	0.9	10.5
Coupon swaps (fair value hedge)	2.1	–
Fuel derivatives (cash flow hedge)	–	55.4
	3.0	65.9
Current liabilities		
Interest rate swaps (cash flow hedge)	50.4	26.7
Cross currency swaps (net investment hedge)	2.0	–
Coupon swaps (fair value hedge)	–	7.4
Fuel derivatives (cash flow hedge)	220.1	–
Currency forwards (cash flow hedge)	–	0.5
	272.5	34.6
Non-current liabilities		
Interest rate swaps (cash flow hedge)	38.1	27.8
Cross currency swaps (net investment hedge)	123.6	–
Fuel derivatives (cash flow hedge)	72.1	–
	233.8	27.8
Derivatives classified as held for trading		
Non-current assets		
Cross currency swaps	1.8	–
Current assets		
Cross currency swaps	0.1	–
Total non-current assets	24.8	44.5
Total current assets	3.1	65.9
Total assets	27.9	110.4
Current liabilities		
Interest rate collars	–	2.3
Total current liabilities	272.5	36.9
Total non-current liabilities	233.8	27.8
Total liabilities	506.3	64.7

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

	2009 £m	2008 £m
Amounts due within one year		
Amounts due from subsidiary undertakings	3,347.1	2,348.4
Other debtors	0.7	–
Deferred tax asset	100.3	–
Corporation tax recoverable	3.4	4.3
	3,451.5	2,352.7

7 CREDITORS

	2009 £m	2008 £m
Amounts due within one year		
Bank loans and overdrafts	**447.3**	212.4
Loan notes	**–**	4.6
Other creditors	**2.8**	0.6
Amounts due to subsidiary undertakings	**577.7**	215.0
Accruals and deferred income	**3.0**	16.2
	1,030.8	448.8

	2009 £m	2008 £m
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	**1,366.1**	386.0
£300.0m Sterling bond – 6.875% 2013	**296.9**	296.6
£250.0m bond – 6.125% 2019	**277.3**	249.3
£300.0m bond – 8.125% 2018	**296.0**	–
	2,236.3	2,288.2

Borrowing facilities

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

	2009 £m	2008 £m
Facilities maturing:		
– Due in more than one year but less than two years	**–**	278.1
– Due in more than two years	**583.0**	309.1
	583.0	587.2

8 CALLED UP SHARE CAPITAL

	2009 £m	2008 £m
Authorised		
650m (2008 4,600m) ordinary shares of 5p each	**32.5**	230.0
Allotted, called up and fully paid		
Ordinary shares of 5p each	**24.1**	21.9

The Company had 482.1m (2008: 438.3m) shares in issue at 31 March 2009 including 272,674 (2008: 455,046) shares held as treasury shares at this date. During the year 43.8m shares were allotted for net proceeds of £230.8m (2008: no shares allotted).

Prior to the Laidlaw acquisition the authorised share capital was increased to 4,600m ordinary shares to enable the potential issue of shares to fund the acquisition. Following the share placing described above the Directors considered it appropriate to reduce the authorised share capital. Accordingly, the authorised share capital was reduced from 4,600m to 650m ordinary shares on 10 July 2008 as approved at the Company's Annual General Meeting.

9 RESERVES

	Share premium £m	Own shares £m	Profit and loss account £m
At 1 April 2008	447.8	(7.6)	650.9
Retained profit for the year	–	–	11.6
Premium arising on issue of equity shares	228.6	–	–
Share-based payment provision	–	–	6.3
Dividends paid	–	–	(84.6)
Movement in EBT, QUEST and treasury shares during the year	–	4.2	(3.6)
At 31 March 2009	**676.4**	**(3.4)**	**580.6**

9 RESERVES continued

Own shares

The number of own shares held by the Company at the end of the year was 1,286,546 (2008: 1,686,844) FirstGroup plc ordinary shares of 5p each. Of these, 981,352 (2008: 1,199,318) were held by the FirstGroup plc Employee Benefit Trust, 32,520 (2008: 32,520) by the FirstGroup plc Qualifying Employee Share Ownership Trust and 272,674 (2008: 455,046) were held as treasury shares. Both trusts and treasury shares have waived the rights to dividend income from the FirstGroup plc shares. The market value of the shares at 31 March 2009 was £3.4m (2008: £9.5m).

	Hedging reserve £m	Capital redemption reserve £m	Capital reserve £m	Merger reserve £m	Total other reserves £m
At 1 April 2008	(39.3)	1.9	93.8	166.4	222.8
Derivative hedging instrument movement	(107.7)	–	–	–	(107.7)
At 31 March 2009	**(147.0)**	**1.9**	**93.8**	**166.4**	**115.1**

10 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS	2009 £m	2008 £m
Profit for the financial year	**11.6**	112.3
Share-based payments provision	**6.3**	4.2
Dividends	**(84.6)**	(69.5)
Adjustment in respect of dividend received from subsidiaries in 2006/07	**–**	(16.5)
	(66.7)	30.5
Issue of equity shares	**230.8**	–
Movement in EBT, QUEST and treasury shares during the year	**0.6**	9.8
Derivative hedging instrument movement	**(107.7)**	(39.3)
Net addition to shareholders' funds	**57.0**	1.0
Shareholders' funds at beginning of year	**1,335.8**	1,334.8
Shareholders' funds at end of year	**1,392.8**	1,335.8

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 £569.8m (2008: £383.5m) and letters of credit for £331.5m (2008: £245.1m). The performance bonds relate to the North American businesses of £373.3m (2008: £231.4m) and the UK Rail franchise operations of £196.5m (2008: £152.1m). The letters of credit relate substantially to insurance arrangements in the UK and North America.

The Company has provided unsecured loan facilities of £103.0m (2008: £103.0m) to First Great Western Limited, a £46.0m (2008: £46.0m) unsecured loan facility to First Capital Connect Limited, a £3.2m (2008: £3.2m) unsecured loan facility to First/Keolis TransPennine Limited, and a £13.6m (2008: £13.6m) unsecured loan facility to First ScotRail Limited. Under these facilities, £103.0m (2008: £72.0m) was drawn at 31 March 2009 by First Greater Western Limited and £25.0m (2008: £21.0m) was drawn at 31 March 2009 by First Capital Connect Limited.

The Company is party to certain unsecured guarantees granted to banks for overdraft and cash management facilities provided to itself and subsidiary undertakings. The Company has given certain unsecured guarantees for the liabilities of its subsidiary undertakings arising under certain loan notes, hire purchase contracts, finance leases, operating leases, supply contracts and certain pension scheme arrangements. It also provides unsecured cross guarantees to certain subsidiary undertakings as required by VAT legislation. UK Bus subsidiaries have provided unsecured guarantees on a joint and several basis to the Trustees of the UK Bus Occupational Pension Scheme.

Certain of the Company's subsidiaries have issued unsecured guarantees to the Company's Sterling bondholders and to lenders participating in the Group's £1,777.0m (2008: £2,394.5m) syndicated unsecured bank facilities.

12 SUBSEQUENT EVENTS

On 8 April 2009 the Company raised a 8.75% £350m bond due 2021 in line with the Group's strategy to extend its debt duration and to reduce reliance on bank debt. The proceeds were used to prepay the remaining balance on the short term acquisition debt and reduce drawings under the Group's bank revolving 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 2009 which comprise the balance sheet and the related notes 1 to 12. 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 2009 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 2009;
- 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 LLP
Chartered Accountants and Registered Auditors
London
United Kingdom
13 May 2009

Glossary

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

LTIP
Long term incentive plan

Network Rail
Owner and operator of Britain's rail infrastructure

Ordinary shares
FirstGroup plc ordinary shares of 5p each

PIP
Punctuality Improvement Partnership between a bus operator and a local authority to improve the punctuality of bus services

PPM
Public Performance Measure combines the punctuality and reliability of a Train Operating Company into a single performance measure

PTE
Passenger Transport Executives were established in the six Metropolitan areas of England to 'secure or promote the provision of a system of public transport which meets the needs of the area'

SAYE
Save as you earn

TfL
Transport for London was created in 2000 as the integrated body responsible for the Capital's transport system

TOC
Train Operating Company

TSR
Total shareholder return is the growth in value of a shareholding over a specified period assuming that dividends are reinvested to purchase additional shares

UK GAAP
UK Generally Accepted Accounting Principles

Voluntary Quality Partnership
Agreement between a bus operator and a local authority to improve the quality of bus services

Shareholder information

The Annual Report, 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
Spencer Road
Lancing
West Sussex BN99 6DA
T. 0871 384 2046
(or from overseas on
T. +44 (0)121 415 7050)

Employees with queries about shares held in the Company's employee share schemes should contact Equiniti at the same address or by telephoning:
0871 384 2108
(or from overseas on
T. +44 (0)121 415 7553)

FIRSTGROUP OFFICES

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50 Eastbourne Terrace
London, W2 6LG
T. +44 (0)20 7291 0505
F. +44 (0)20 7436 3337

SHAREHOLDER PROFILE
At 30 April 2009

	Number of shareholders	%	Shares held	%
By category				
Individuals	39,030	93.3	47,817,669	9.9
Banks and nominees	2,555	6.1	428,043,265	88.8
Insurance and assurance	1	–	300	–
Other companies	244	0.6	6,196,188	1.3
Other institutions	4	–	9,748	–
	41,834	100.0	482,067,170	100.0
By size of holding				
1-1,000	32,106	76.8	8,446,812	1.8
1,001-5,000	7,419	17.7	16,181,028	3.4
5,001-10,000	1,119	2.7	7,776,549	1.6
10,001-100,000	806	1.9	23,360,668	4.8
Over 100,000	384	0.9	426,302,113	88.4
	41,834	100.0	482,067,170	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 Registrar to request that the accounts are combined. There is no charge for this service.

UNSOLICITED MAIL

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

DIRECT DIVIDEND PAYMENTS

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

1. The dividend will go into your account on the payment date – there is no chance of it being delayed in the post and you do not have to wait for a cheque to clear.
2. The payment method is more secure than receiving a cheque through the post.
3. You still receive tax information about the dividend, which is sent directly to you at your registered address.

DIVIDEND REINVESTMENT PLAN ('DRIP')

The Company offers shareholders the option to participate in a DRIP. This enables shareholders to reinvest their cash dividends in FirstGroup plc shares. For more information please contact:

The Share Dividend Team
Equiniti
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
T. 0871 384 2268
(or from overseas on
T. +44 (0)121 415 7050)

ONLINE INFORMATION

The Registrar also provides 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.

FINANCIAL CALENDAR

Shares trade ex dividend	**15 July 2009**
Annual General Meeting	**16 July 2009**
Record date for final dividend*	**17 July 2009**
Final dividend payment	**21 August 2009**
Interim results announced	**November 2009**
Interim dividend paid	**February 2010**
Preliminary announcement of full year results	**May 2010**

*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
- Measuring our performance against 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 Company
- Bus and rail travel information
- Annual and half-yearly reports
- Financial presentations
- Share price information
- Stock exchange announcements
- Shareholder information
- Media centre
- CSR policy and report
- Careers
- Contact details

ARA

CSR

WWW

CSR REPORT

- Introduction and overview
- Message from the Chief Executive
- Viewpoint of Jonathon Porritt, Founding Director of Forum for the Future and Chairman of the UK Sustainable Development Commission
- The future for public transport
- Performance against last year's targets
- CSR targets for 2009/10
- Our CSR External Advisory Group

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.

First transforming travel

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Registered in Scotland
number SC157176

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F. +44 (0)20 7436 3337

www.firstgroup.com

FSC Recycled
Supporting responsible use of forest resources
Cert no. TT-COC-002228
www.fsc.org
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