Keeping people moving and communities prospering

Annual Report and Accounts 2012

About us

FirstGroup plc is the leading transport operator in the UK and North America. With revenues of over £6.5 billion per annum and approximately 124,000 employees we transport more than 2.5 billion passengers every year.

In our increasingly congested world we help to keep people moving and communities prospering.

Find out more about FirstGroup at **www.firstgroup.com**

Contents

Business summary and financial highlights 2012

First Student is now set on the path to recovery. Our plan is delivering in line with targets and the operating margin in the second half of the year stabilised

First Transit continues to deliver good returns from typically low capital requirements and is underpinned by our established credentials and proven track record

Greyhound is now transformed and is delivering strong growth with operating profit more than doubled over the last two years

UK Rail delivered a solid performance. We are entering a transition period for rail in the UK and are shortlisted to bid for all four of the franchises tendered so far

UK Bus achieved a steady performance during the year but as a result of further deterioration in economic conditions we do not expect revenue growth and cost efficiencies to be sufficient to offset the impact of reduced Government subsidies in 2012/13.

Revenue
£6,678.7m
2011: £6,416.7m[1]

Adjusted EBITDA[2]
£742.9m
2011: £768.9m[1]

Operating profit
£448.0m
2011: £308.6m[1]

Adjusted operating profit[3]
£428.5m
2011: £456.7m[1]

Profit before tax
£279.9m
2011: £126.5m[1]

Adjusted profit before tax[3]
£271.4m
2011: £274.3m[1]

Basic EPS
42.7p
2011: 20.0p[1]

Adjusted basic EPS[3]
40.0p
2011: 41.1p[1]

Proposed final dividend per share
16.05p
2011: 15.0p

Net debt[4]
£1,837.5m
2011: £1,949.4m

For all businesses excluding UK Rail this year includes 53 weeks compared to 52 weeks last year.
[1] Restated to exclude discontinued operations.
[2] Adjusted operating profit less capital grant amortisation plus depreciation.
[3] Before amortisation charges, ineffectiveness on financial derivatives, exceptional items, profit/(loss) on disposal of properties and discontinued operations. All references to 'adjusted' figures throughout this document are defined in this way.
[4] Net debt is stated excluding accrued bond interest.

Chairman's statement

During the year our portfolio continued to provide diversity, with separate businesses moving at different stages through the economic cycle.

Martin Gilbert
Chairman

The Group, which has grown rapidly through a programme of acquisitions over the past 20 years, is going through an important phase in its development.

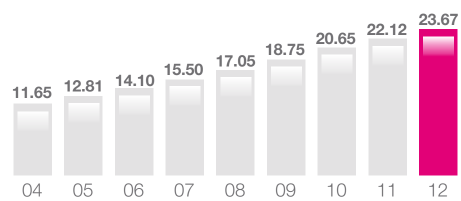
Under the leadership of Tim O'Toole there is a resolute focus to drive greater operating performance and discipline, increase management capability and harness our vast knowledge and expertise to attract customers in ever greater numbers through the consistent and reliable provision of high quality, value for money services.

During the year our portfolio continued to provide diversity, with separate businesses moving at different stages through the economic cycle. While addressing the challenges of the current trading environment in certain markets in which we operate, management has a clear focus to create a stronger business and is taking the necessary action to ensure the Group is firmly placed to deliver sustainable growth for the longer term. We continue to prioritise cash generation to support capital investment, debt reduction and dividend growth.

Dividend

Notwithstanding the period of transition in UK Rail and the impact of the current weak economic environment and reduced Government funding to the industry on our UK Bus business, the Group maintains market leading positions and across our operations we are taking action to strengthen our businesses for the future. We are the only operator to have pre-qualified for all four of the rail franchises that have come to the market so far and believe that we are well placed to develop these and future opportunities from refranchising. Therefore, at this time and reflecting our longer term view, the Board remains committed to its current policy of dividend growth through to the end of the financial year 2012/13. The Board has proposed a final dividend per share, subject to approval by shareholders, of 16.05p, an increase of 7.0% making a full year payment of 23.67p. The dividend is covered 1.7 times by adjusted basic EPS and will be paid on 17 August 2012 to shareholders on the register at 13 July 2012.

Dividends per share (pence)
Progressive dividend growth since 2004



Board

On 14 May 2012 we announced the appointment of Chris Surch as Group Finance Director replacing Jeff Carr, who left the Group in November to take up the role of Chief Financial Officer of Royal Ahold NV based in the Netherlands.

Chris joins us from Shanks Group plc where he has been Group Finance Director since May 2009. Prior to joining Shanks he held senior financial roles at Smiths Group plc and TI Group plc. He began his career at PricewaterhouseCoopers where he qualified as an accountant. Together with a strong track record of financial leadership and budgetary planning, he has extensive operational, strategic and international experience. I am delighted to welcome Chris to the Board of FirstGroup and I am confident that his considerable experience and record of achievement will be of great benefit to the Group. It is anticipated that he will join the Group on 1 September 2012. We are grateful to Nick Chevis for his support and valuable contribution as Acting Finance Director.

We are reviewing Board composition and a formal international search process is underway to recruit additional fully independent Non-Executive Directors to further strengthen the Board and support the Group through this important stage of its development.

During the year the following Board changes took place. Sidney Barrie, Commercial Director, retired at the end of March. Having joined the Board in 2005 he had a long association with the Group, in an advisory capacity, going back to the original management and employee buy-out of GRT Bus Group PLC, and played a significant part in the success of the Group over many years. We thank him for his contribution and wish him a long and happy retirement.

Audrey Baxter, Independent Non-Executive Director, stepped down from the Board on 31 December 2011. We thank Audrey for her support and advice since she joined the Board in 2006 and we wish her every success for the future.

Mick Barker joined the Board on 1 January 2012 as Non-Executive Employee Director, replacing Martyn Williams who retired from the role at the end of his term on 31 December 2011. We thank Martyn for his important contribution. I would also like to welcome Mick to his new role and I am confident that he will continue to provide valuable input to the Board on behalf of the Group's employees.

Outlook

Finally, on behalf of the Board I would like to extend our sincere thanks and gratitude to our employees across the UK and North America. Their professionalism and ongoing commitment to serving the 2.5 billion passengers that we transport each year is vital to our success now and for the future.

With experienced management that is focused on creating a stronger business for the future, the Board is confident that the Group is well positioned to deliver sustainable long term value for shareholders.

Notwithstanding the prolonged period of economic uncertainty and the impact of challenging trading conditions in certain areas in which we operate, the Group has leading positions in its core markets. With experienced management that is focused on creating a stronger business for the future, the Board is confident that the Group is well positioned to deliver sustainable long term value for shareholders.

Martin Gilbert
Chairman
23 May 2012

* Operating profit referred to throughout this document refers to operating profit before amortisation charges, ineffectiveness on financial derivatives, exceptional items, profit/(loss) on disposal of properties and discontinued operations. EBITDA is operating profit less capital grant amortisation plus depreciation.

Group at a glance
What we do

Our portfolio of businesses consists of five main operating divisions and is diversified by geography and customer base. This balanced portfolio provides a mix of contract-backed and passenger revenues.

	First Student	First Transit
		
What we do	As the largest provider of student transportation in North America, with a fleet of approximately 54,000 yellow school buses, we carry some six million students a day across 38 States in the USA and nine Provinces and Territories in Canada.	We are one of the largest private sector providers of transit management and contracting in North America. Our Services division is the largest private sector provider of vehicle maintenance and ancillary support services in North America.
Revenue[1]	Revenue **£1,567.2m**	Revenue **£778.6m**
	Contribution to Group revenue **23.5%**	Contribution to Group revenue **11.7%**
More information	For more information about our markets please see **page 12** To learn more about how First Student performed during the year please go to **page 23**	For more information about our markets please see **page 14** To learn more about how First Transit performed during the year please go to **page 25**

[1] Group revenue of £6,678.7m also includes £12.4m (0.2%) of revenue from Tramlink operations.

Greyhound

We are the only national provider of scheduled intercity coach transportation services in the US and Canada. We provide scheduled passenger services to approximately 3,800 destinations throughout the US and Canada, with 20 million passengers travelling 5.6 billion miles every year.

Revenue
£657.2m

Contribution to Group revenue
9.8%

For more information about our markets please see **page 16**

To learn more about how Greyhound performed during the year please go to **page 26**

UK Bus

We are a leading bus operator in the UK with a fleet of 8,000 buses, carrying approximately 2.6 million passengers every day. We serve a vast number of communities including 40 of the UK's largest towns and cities.

Revenue
£1,157.2m

Contribution to Group revenue
17.3%

For more information about our markets please see **page 18**

To learn more about how UK Bus performed during the year please go to **page 28**

UK Rail

We operate approximately a quarter of the UK's passenger rail network, carrying over 300 million passengers a year, with a balanced portfolio of intercity, commuter and regional franchises and one open access operator.

Revenue
£2,506.1m

Contribution to Group revenue
37.5%

For more information about our markets please see **page 20**

To learn more about how UK Rail performed during the year please go to **page 30**

Group at a glance
How we do it

Our objective is to create long term value for our shareholders through the provision of sustainable, integrated transport services across our five main operating divisions.

With market leading positions we have created an unrivalled scale and breadth of knowledge which gives us the expertise and capability to deliver efficient, reliable transport networks to meet the needs of customers in the local communities we serve.

Diverse portfolio

The strength of the Group lies in the breadth and diversity of its operations, with different businesses moving at different stages through the economic cycle. This diversity helps to ensure that the Group is not dependent on any one market. Weaker performance in one area is more likely to be offset by stronger performance in other parts of the portfolio. It also gives us the benefit of a range of expertise and management capability that enables us to share and deliver best practice.

The Group's business model varies across its divisions, reflecting our diverse business portfolio with a balanced mix of contracted and non-contracted revenues and varying degrees of regulation. The flexibility of the cost bases across the divisions also varies. These variations influence the way in which each business is managed, the range of KPIs that management work to and the strategies that are applied.

However, there are a number of common themes that run through all of our businesses:

Market leading positions

We are the leading passenger transport company in the UK and North America, operating in local markets with different commercial and regulatory features. Our market leading positions in the UK local bus and rail markets and in student transportation, transit and intercity coach markets in the US and Canada, all operating within differing regulatory regimes, give us an unrivalled breadth of knowledge and experience of many different commercial and regulatory frameworks. They also provide us with considerable scope to enhance our existing operations and also to identify and develop new opportunities as they arise.

Strategy

The Group's strategy is to provide high quality and attractive services that are safe, reliable and meet the needs of customers and the communities we serve.

We will generate sustainable, long term growth through operational excellence, organic growth, selective acquisitions and contract wins and renewals that deliver an attractive economic return.

Values

We have established and are introducing new values for the Group that define our culture and will support consistent behaviours. By harnessing the expertise and talent within the Group through a clear purpose and direction, we will create increasing opportunities for our organisation to provide the solutions that enable the communities we serve to thrive and prosper in an increasingly congested world.

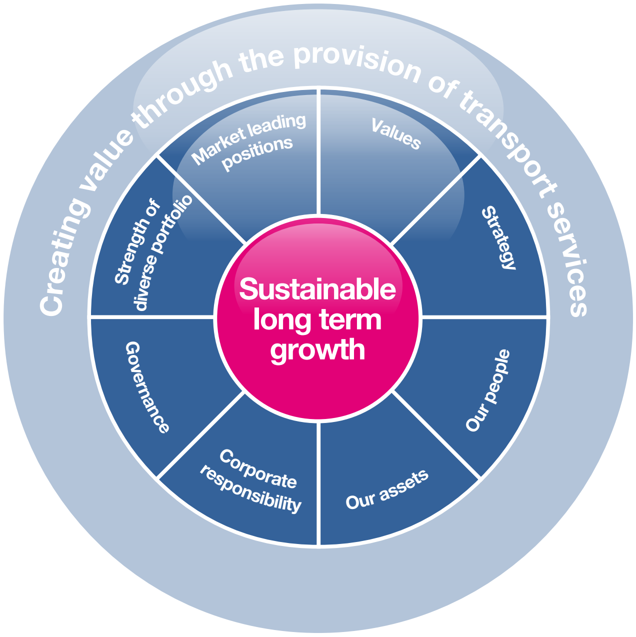
Committed to our customers: we keep our customers at the heart of everything we do

Dedicated to safety: always front of mind, safety is our way of life

Supportive of each other: we trust each other to deliver and work to help one another succeed

Accountable for performance: every decision matters, we do the right thing to achieve our goals

Setting the highest standards: we want to be the best, continually seeking a better way to do things.



Our people

As well as a provider of critical transport services we are a major local business and employer in the communities in which we operate. Our employees are fundamental to our business success and the key to ensuring we provide consistent high standards of service and maintain high levels of customer satisfaction.

Employee engagement

We aspire to be the employer of choice in our industry. We are committed to continued engagement with our employees, making sure FirstGroup is a great place to work and that our customers receive a high standard of service. We have made great strides in the area of employee engagement and will continue to roll out further plans and initiatives to monitor and enhance our progress in this key area over the coming year.

Recruitment and retention

Given our scale, we hire and train more employees than any other company in our sector. We employ experienced, professional and dedicated people to make sure our passengers get to their destination and back safely and on time. We offer our employees a comprehensive programme encompassing pay, benefits and opportunities for learning and development, and we recognise our employees for their contribution to the success of the business through a range of award schemes at a local, regional and national level.

Management

Across the Group we have strong management teams with in-depth knowledge and experience of transport and their local markets. This allows management to deal with the particular requirements of their customers and enables them to react to changes in the economic environment that may affect local demand. We believe that this, supported by our Group level monitoring and control processes, provides a good platform for growth in the future.

Our assets

We own a wide variety of assets across our businesses. For example, our extensive property portfolio includes depots, maintenance facilities, terminals, bus stations and offices and our range of different vehicle fleets consists of around 64,000 vehicles. Managing these assets, from vehicle maintenance to property development, on our own behalf or for others, is a core skill and a key feature of our businesses.

This experience also allows us to provide management services in respect of assets owned by other parties and to deliver transport solutions under agreed customer contracts and franchise agreements.

Corporate responsibility

We have for many years promoted a strong culture of corporate responsibility which has become integral to our organisation and our activities.

Our approach to corporate responsibility covers five key areas:

- Safety
- Our customers
- Our employees
- Environment
- Community.

Governance

We are committed to high standards of corporate governance in respect of leadership, effectiveness, accountability, remuneration and relations with shareholders, as identified by the UK Corporate Governance Code. As outlined later in this report, we have a robust risk framework in place to help us identify and manage risk across all of our businesses.

Stakeholder engagement

Our businesses involve interactions with a wide range of different stakeholders including customers, local and central governments, US school boards, city transportation authorities and other contracting parties. Part of our strength lies in the focus we place on engaging with these different stakeholders, building effective relationships and creating partnerships that provide transport solutions.

Our vision and values

Our vision is to provide solutions for an increasingly congested world... keeping people moving and communities prospering.

Tim O'Toole
Chief Executive

Our vision

FirstGroup has grown to become the leading transport operator in the UK and North America. Every day on both sides of the Atlantic we are relied on to connect communities, making it easier for millions of people to lead their lives.

Our services open up opportunities and experiences and help to create strong, vibrant and sustainable local economies. Our opportunity is to be the organisation to solve the problems of our increasingly congested world and to help people, communities and society to prosper.

From our roots as a local bus company in Aberdeen, we have grown rapidly and ambitiously to create the largest surface transport group in the UK and North America. Every year we transport more than 2.5 billion passengers across our First Student, First Transit, Greyhound, UK Bus, and UK Rail networks. Each of our divisions enjoys a market leading position because of the hard work of 124,000 safe, skilled and dedicated employees.

Over the years we have responded to two historic changes in transport markets: a need for greater efficiency and rapid urban growth. The need for efficiency and innovation in local, regional and national transport has become more critical and more complex with the continuing growth of large urban areas. For the first time in human history, more people live in cities than elsewhere. Every week, one million people move into urban areas. With ever more people living closer together, the problems of congestion multiply and the need for the solutions that we can offer increases.

The scale we have created has provided us with a wealth of expertise in the best organisation of our equipment, systems and people to deliver the most efficient transport solutions. At FirstGroup, we know transport: we design and operate more networks, we hire and train more employees, we procure, maintain and deploy more vehicles and we work with more local communities than any other company. This breadth of experience and wealth of knowledge has created a source of management capability that when harnessed creates a competitive advantage for us.

We can provide transport solutions that open up opportunities and experiences for our customers and create strong, vibrant and sustainable local economies.

To serve our vision we focus on the core elements of community partnerships, professional excellence and financial discipline.

We can provide transport solutions that open up opportunities and experiences for our customers and create strong, vibrant and sustainable local economies.

We shall continue to work with our stakeholders to ensure our solutions, investment and delivery caters to their emerging needs. We shall take advantage of our scale to identify and spread best practice across the Group, while ensuring the delivery of our services is responsive to local needs and markets. We shall invest in equipment and people to support all of our businesses while maintaining a focus on delivering consistent free cash flow over the long term.

Each of our businesses is a local business, and the insights and knowledge of our local colleagues hold the key to our success. While we must take advantage of our size, we must also apply the expertise that exists at the local level.

We are First and our solutions will keep people moving and communities prospering in an increasingly congested world.

Our values

Committed to our customers
we keep our customers at the heart of everything we do.

Dedicated to safety
always front of mind, safety is our way of life.

Supportive of each other
we trust each other to deliver and work to help one another succeed.

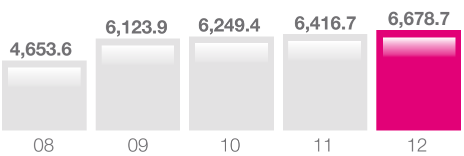
Accountable for performance
every decision matters, we do the right thing to achieve our goals.

Setting the highest standards
we want to be the best, continually seeking a better way to do things.

Key performance indicators

We monitor our businesses against a number of key performance indicators, both financial and non-financial, to ensure we are delivering our strategy to provide high quality and attractive services that are safe, reliable and meet the needs of customers and the communities we serve.

Revenue (£m)



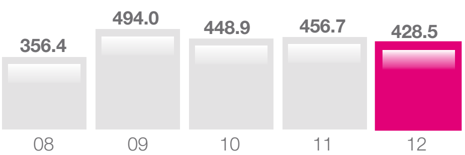
Description

Revenue is principally generated from our core businesses of passenger transport services, and management and maintenance services in the UK and North America.

Performance

Revenue increased by 4.1% to £6,678.7m (2011: £6,416.7m), principally due to higher passenger receipts in the UK Rail businesses and the extra week in all the other businesses, partly offset by unfavourable foreign exchange movements.

Adjusted operating profit (£m)



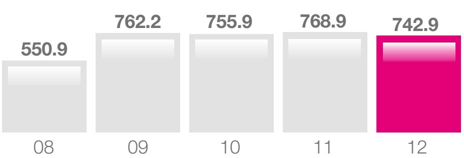
Description

Adjusted operating profit is intended to highlight the recurring results of the Group before amortisation charges, ineffectiveness on financial derivatives, exceptional items, profit/loss on disposal of properties and discontinued operations.

Performance

Adjusted operating profit fell by 6.2% to £428.5m (2011: £456.7m), principally due to the anticipated reduction in First Student and UK Bus, partly offset by higher profits in Greyhound and UK Rail.

Adjusted EBITDA (£m)



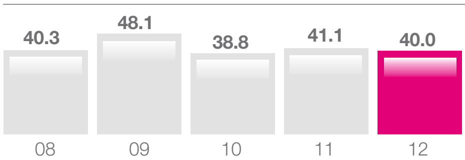
Description

Adjusted EBITDA is defined as adjusted operating profit less capital grant amortisation plus depreciation.

Performance

Adjusted EBITDA decreased by 3.4% to £742.9m (2011: £768.9m) and EBITDA margin was 11.1%. The decrease in EBITDA was principally due to a reduction in adjusted operating profit.

Adjusted basic EPS (pence)



Description

Adjusted basic EPS is calculated by dividing the adjusted profit attributable to equity shareholders by the weighted average number of ordinary shares.

Performance

Adjusted basic EPS was 40.0p (2011: 41.1p) representing a decrease of 2.7%. This was principally due to the reduction in adjusted operating profit which was partly offset by lower net finance costs.

North American contract businesses

>90%

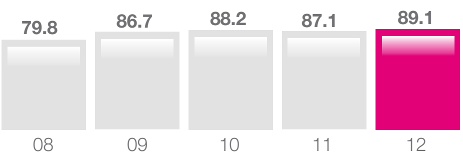
Description

In our North American contract businesses we target high levels of retention over 90%.

Performance

We achieved over 90% again, reflecting continued strong performance in both First Transit and First Student.

Greyhound On Time Performance
(% of services classed as ‘on time’)



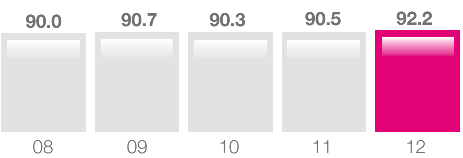
Description

Greyhound’s main punctuality measure is known as ‘On Time Performance’. To be classed as on time, each Greyhound bus must be within 15 minutes of its scheduled departure time when leaving its originating point.

Performance

Greyhound’s On Time Performance reached its highest level for five years of 89.1% (2011: 87.1%), reflecting the introduction of new and refurbished coaches along with improvements to a range of processes.

UK Bus punctuality (% of punctual services)



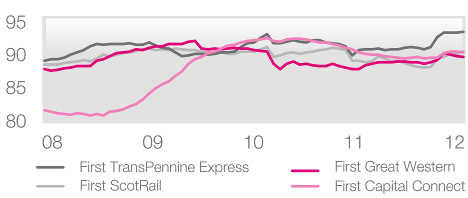
Description

We aim for our UK buses, outside London, to meet industry standards of operating no more than one minute early or five minutes late.

Performance

We continue to target improvements in punctuality and during the year we achieved our best performance for the last five years. This was due to a combination of factors, including improved timetabling and monitoring, whilst successful partnerships with local authorities have led to development of better bus infrastructure.

UK Rail Public Performance Measure
(% MAA)



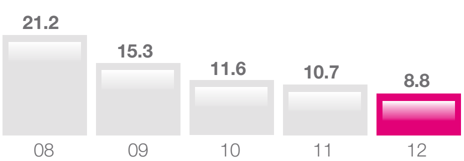
Description

The rail industry’s Public Performance Measure (PPM) reflects punctuality and reliability. Trains are deemed punctual if they arrive at their destination, having made all timetabled stops, within five minutes of scheduled time for commuter and regional services, and ten minutes for long distance trains.

Performance

All of our UK Rail franchises saw year-on-year improvement in their PPM moving annual average (MAA) scores, and all recorded figures of above 90% MAA.

Lost Time Injuries
(per 1,000 staff, per year)



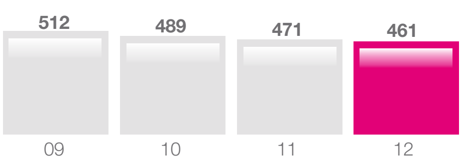
Description

Lost Time Injuries refer to work-related injuries or illness that result in one of our employees being unable to work on a subsequent scheduled work day or shift.

Performance

We achieved an 18% reduction in Lost Time Injuries across the Group. This performance was supported by a refreshed Injury Prevention campaign with revised training and literature which helped to increase employee commitment and involvement this year.

Carbon emissions
(tonnes CO_2 emissions per £1m of revenue)



Description

In monitoring our performance with respect to carbon emissions across our operations in the UK and North America, we report tonnes of carbon emissions per £1m of revenue.

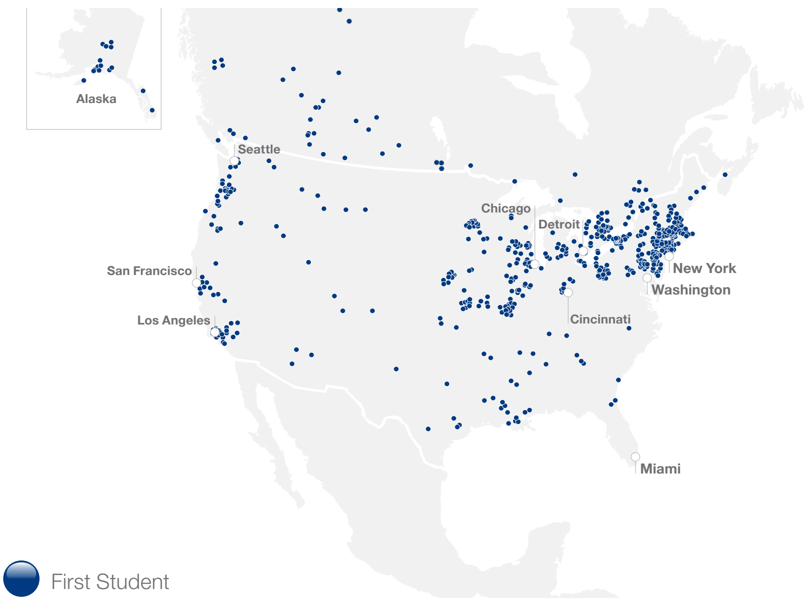
Performance

Emissions continue to decrease as a result of investment in technology to encourage more efficient driving behaviours and by working with manufacturers on vehicle modifications to improve the fuel efficiency of the fleet.

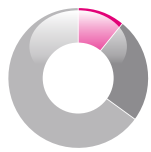
Our markets
First Student

We are the largest provider of student transportation in North America with a fleet of approximately 54,000 school buses, carrying some six million students a day across the US and Canada.

Where we operate

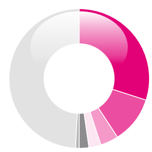


Approximate share of $24bn total market



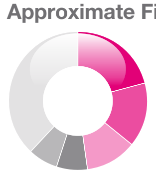
FirstGroup	11%
Other outsourced	24%
In-house	65%

Approximate share of outsourced market



FirstGroup	30%
National Express	11%
Student Transportation	4%
Atlantic Express	3%
Illinois Central	2%
Cook Illinois	1%
Other	49%

Approximate First Student fleet footprint



NY/NJ/PA	21%
New England	15%
Ontario	12%
Illinois	7%
California	7%
Others	38%

Find out more online

www.firststudentinc.com

Market features

- Contracted revenue
- Typically high levels of contract retention
- Safety and security
- Trusted operator in the local community
- Access to capital, particularly for new contracts
- Investment in innovation and technology.

Changes in market during 2011/12

- Economic weakness is still causing pressure on school board budgets, although some signs of recovery have recently been seen in the wider macro-economic environment
- Increase in bus usage for charter activities.

Linda Burtwistle
President, First Student

The market

Millions of students across the US and Canada take buses from home to school. There are over 15,000 school districts in North America responsible for providing over 500,000 school buses a day. In total, the North American market is estimated to be worth around $24 billion per annum.

Our business

- We are the largest private sector operator of school buses in North America – over two times bigger than the next largest competitor and with a third of the outsourced market
- We operate approximately 54,000 school buses – with an average fleet age of approximately 7 years
- We operate in 38 States in the US and nine Canadian Provinces and Territories
- We have around 1,400 different contracts in nearly 600 locations
- We provide charter hire services for school and non-school activities
- Our scale enables us to develop value added services for existing and potential customers to provide greater on-demand information and operating efficiencies.

Competitors

Only a third of school districts have outsourced their operations – representing approximately 180,000 school buses – to the private sector. The private outsourced market is highly fragmented with only ten operators running more than 1,000 buses. These ten largest contractors operate approximately 100,000 buses – some 20% of the total market or 55% of the outsourced market. Our largest competitors include National Express's Durham School Services, Student Transportation of America and Atlantic Express Transportation Corp. The next 40 largest contractors operate a further 17,000 buses and the remaining outsourced contracts are operated by several thousand small companies, often termed 'Mom and Pop' operators.

Our customers

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

Labour

The majority of First Student's employees are drivers who work part time and only during the school year. Over two thirds of First Student's 61,000 employees are represented by trade unions. The majority of our employees are represented by the International Brotherhood of Teamsters but many employees have chosen to be represented by other national and local unions.

Key statistics

Revenue	£1,567.2m
Operating profit	£107.1m
Employees	61,000

We operate approximately

1,400

different contracts across almost 600 locations.

We operate approximately

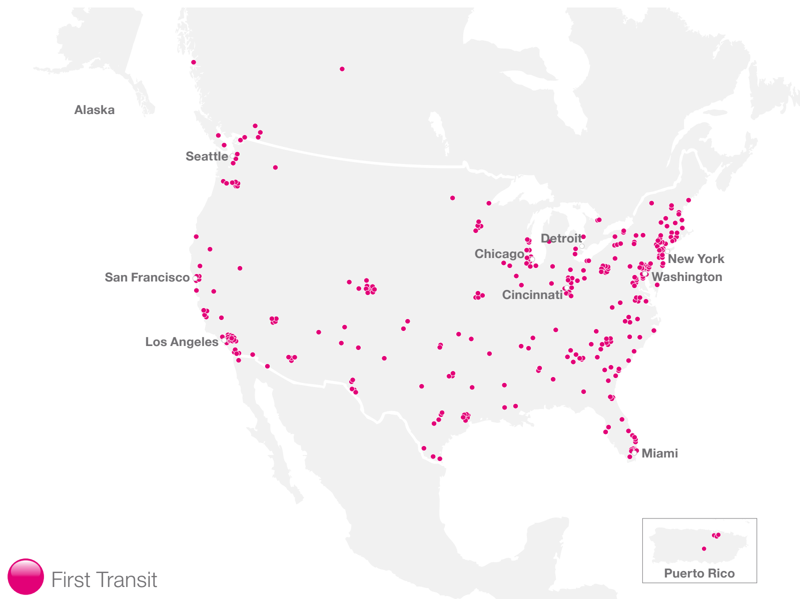
54,000

school buses in 38 US States and nine Canadian Provinces and Territories.

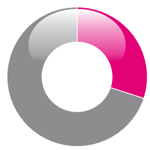
Our markets
First Transit

First Transit is one of the largest private sector providers of public transit management and contracting in North America, managing fixed route and shuttle bus services, paratransit operations, call centres for accessible transportation and other light transit activities. First Services is the largest private sector provider of vehicle maintenance and transport support services in the US.

Where we operate

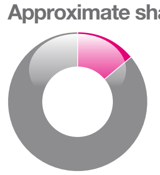


Total transit market – approximately $22bn



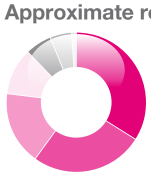
Outsourced	30%
In-house	70%

Approximate share of outsourced transit market



FirstGroup	14%
Others	86%

Approximate revenue by type



Fixed Route	34%
Paratransit	26%
Shuttle	17%
Vehicle Services	11%
Support Services	6%
Call Centre	5%
Transit Management	1%

Find out more online

www.firsttransit.com or www.firstvehicleservices.com

Market features

- Contracted revenue
- Typically low capital investment
- Depends on established credentials and strong track record
- High level of customer service and retention
- New entrants into market
- Range of technologies operated.

Changes in market during 2011/12

- US economy improving, potential for some easing on public spending budgets, although contracts typically fixed for up to five years.

Brad Thomas
President, First Transit & First Services

Key statistics

Revenue	£778.6m
Operating profit	£55.8m
Employees	19,000

The market

The transit contracting and management services market includes fixed route bus services, paratransit bus services, airport, university and private shuttle services. The North American transit market is estimated to be worth $22 billion per annum with approximately 30% in the private outsourced sector.

We estimate the vehicle maintenance market to be worth $2.9 billion per annum in total with approximately 38% contracted out to private sector providers.

Our business – First Transit

- We operate in approximately 236 locations in 38 US States; Puerto Rico; the US Virgin Islands and four Canadian Provinces
- First Transit carries around 310 million passengers a year across 350 million miles
- We have approximately 270 contracts
- We operate and manage 10,600 buses
- Our operations include fixed route, paratransit, shuttle services, call centres for accessible transportation and transit management
- We are the largest provider of college and university campus transit services and one of the largest providers of airport shuttle services in the US.

Our business – First Services

- We operate in around 86 locations in 23 US States and four international locations
- We maintain approximately 38,000 vehicles
- We provide fleet maintenance services for public and private sector customers
- We provide support services including logistics support and facilities management to public and private sector clients including the US Navy and Air Force.

Competitors

First Transit's largest competitors are MV Transportation, Inc. and Veolia Transdev Transportation. The transit market is fragmented and together these three companies operate around 35% of the total outsourced market.

It is estimated that First Vehicle Services is the third largest in the highly competitive outsourced fleet maintenance market behind Penske and Ryder; however there are a number of small and medium sized companies that represent nearly a quarter of the outsourced market.

Our customers

First Transit manages, operates, maintains and organises transportation services under contract to customers including Transit Authorities, Federal, State, and local agencies, as well as private institutions. Public authorities operating fixed route transit are required by the Americans with Disabilities Act to provide complementary paratransit services for eligible citizens. Contracts that First Transit undertakes are typically for three to five years.

First Vehicle Services provides fleet vehicle maintenance services under contract to private and public sector clients including the Federal Government, cities and Fire and Police Departments.

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

Labour

The majority of First Transit's approximately 19,000 employees are represented by trade unions. The proportion of unionised staff is higher in heavy transit – our fixed route and paratransit contracts – than in other segments of the business. Fewer than 10% of First Services employees are represented by a union.

First Transit carries around

310m

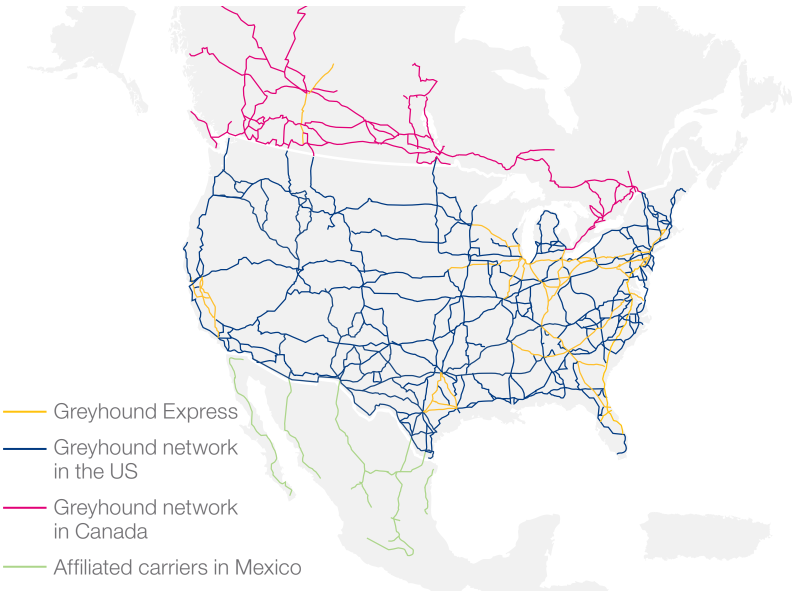
passengers a year across 350 million miles.

We are the largest provider of **college and university campus bus services** and one of the largest providers of **airport shuttle services** in the US.

Our markets
Greyhound

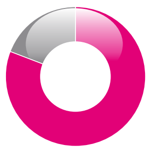
Greyhound is the only national provider of scheduled intercity coach transportation services in the US and Canada. This iconic company provides passenger services to 3,800 destinations throughout the US and Canada, with 20 million passengers travelling 5.6 billion miles every year.

Where we operate



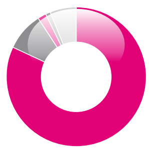
Greyhound Express
Greyhound network in the US
Greyhound network in Canada
Affiliated carriers in Mexico

Approximate passenger revenue split USA vs Canada



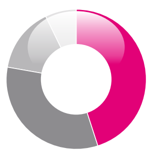
USA	81%
Canada	19%

Approximate revenue by type



Passenger	82%
Package Express	9%
Food Service	2%
Charter	1%
Other	6%

Approximate distribution of sales and passengers by mileage band



1-200 miles	45%
201-450 miles	33%
451-1,000 miles	15%
1,000+ miles	7%

Find out more online

www.greyhound.com or **www.greyhound.ca**

Dave Leach
President and CEO, Greyhound

Market features

- Passenger, package, charter and food service revenues
- Highly flexible operating model – ability to match services to changing passenger demand, particularly in the US
- Value for money
- Main reason for travel is to see family and friends
- Competition from private car, air, rail and other bus operators
- Long distance coach travel has been the fastest growing intercity travel sector for the last four years.

Changes in market during 2011/12

- Economic and consumer confidence trends improving
- Rollout of Greyhound Express to markets along the east coast, from Massachusetts to Miami, as well as into Texas, Georgia, the Midwest and California
- Right sizing and relocating our city terminals where necessary, including taking advantage of multi-modal opportunities when they are available
- Further agreements with Canadian Provinces to reduce mileage or receive financial support to run certain, low-utilised services in specific areas.

Key statistics

Revenue	£657.2m
Operating profit	£50.6m
Employees	8,000

Greyhound also operates routes from the southern United States into Mexico through three operating subsidiaries (Crucero USA, Americanos USA and Valley Transit Company).

BoltBus, a joint operation with Peter Pan Bus Lines, runs between key city pair destinations in the north eastern United States.

Introduced in December 2010, our Greyhound Express service now accounts for around 20% of the business. Combining the convenience of BoltBus with the legacy of the Greyhound brand, Greyhound Express provides short distance non-stop or one-stop services originating from major Greyhound hubs including New York, Washington DC, Chicago, Atlanta, Dallas and Los Angeles, and now offers around 700 city pair journeys.

The market
Greyhound is the only national provider of scheduled intercity coach transportation in the US and Canada. The majority of revenue is generated from passenger services but Greyhound also provides package express services, charter and tour organisation and, in many terminals, catering outlets. Greyhound has partnerships with a number of independent bus lines across the United States. These bus companies provide complementary service to Greyhound's existing schedules and link to many of the smaller towns in Greyhound's national route system. In addition, Amtrak passengers use Greyhound to make connections to cities not served by rail on Amtrak Thruway service, by purchasing a ticket for the bus connection in conjunction with the purchase of their rail ticket.

Our business
- We are the only national provider of scheduled intercity coach transportation services in the US and Canada, serving 48 US States and nine Canadian Provinces and Territories
- We carry approximately 20 million passengers per annum
- We operate approximately 2,000 vehicles with an average fleet age of 9.9 years.

Competitors
Intercity coach transportation competes with many other modes of mid to long distance travel, including a number of other coach operators as well as budget airlines. The north east of the US is the most dense travel corridor in the country and sees a highly competitive intercity coach market competing with air and rail services.

Our customers
Greyhound serves a diverse, value-oriented customer base by offering scheduled passenger services with an unrivalled network and route coverage. Our customers have a range of reasons for travelling but the primary journey purpose is to visit friends and family. Traditionally, Greyhound customers bought 'walk up' tickets, primarily with cash but increasingly customers are buying tickets in advance through our website www.greyhound.com or through our innovative partnership with 7-Eleven.

Our Greyhound Express and BoltBus brands attract users back to bus travel as well as a different customer demographic. Greyhound Express features modern buses with a guaranteed seat, free Wi-Fi, power outlets, extra legroom and leather seats. Greyhound Express also provides private waiting areas in terminals and the ability to take advantage of yield managed prices offered online.

Labour
The majority of our 8,000 Greyhound employees are represented by a trade union, principally the Amalgamated Transit Union. A number of other unions also represent employees.

Approximately 700 city pairs are now served by Greyhound Express, which features modern buses with guaranteed seat reservation, free Wi-Fi, power outlets, extra legroom and leather seats.

We carry some

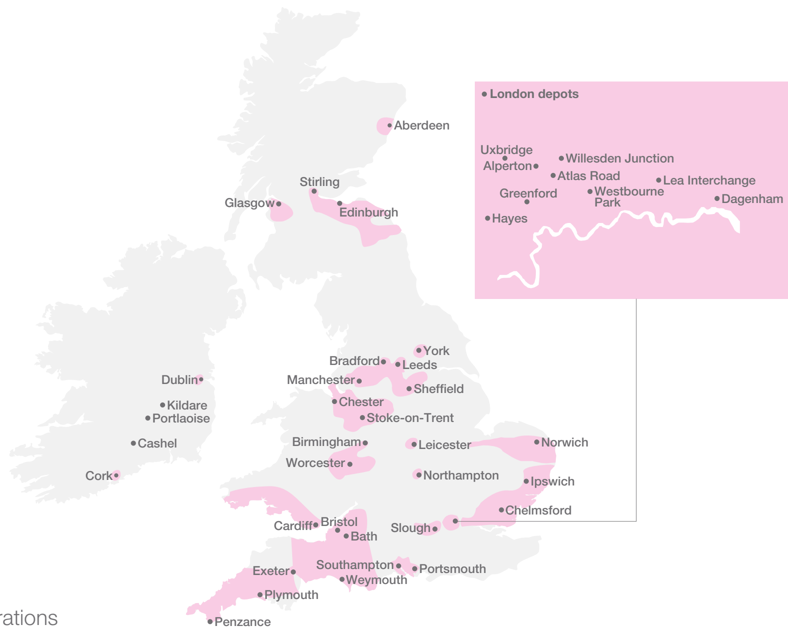
20m

passengers a year travelling 5.6 billion miles.

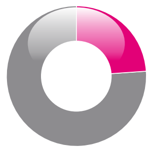
Our markets
UK Bus

We are one of the largest bus operators in the UK with a fleet of 8,000 vehicles, and operate more than a fifth of local bus services. We carry approximately 2.6 million passengers every day. The majority of our operations are in urban areas where the bus is the most effective means of tackling traffic congestion.

Where we operate

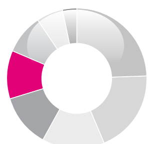


Approximate share of deregulated market outside London



FirstGroup	24%
Others	76%

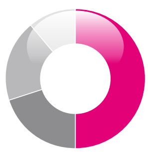
Approximate share of London market



Go-Ahead	24%
Arriva	19%
Stagecoach	14%
Comfort Delgro	13%
FirstGroup	11%
RATP	9%
Abellio	6%
Others	4%

(Source: TfL)

Approximate revenue by type



Passenger	50%
Concessions	20%
London tenders	19%
Non-London tenders	11%

Find out more online

www.firstgroup.com/ukbus

Giles Fearnley
Managing Director, UK Bus

Market features

- Local markets with individual characteristics
- Partnerships with local authorities and stakeholders
- Investment in new vehicles
- Innovation in ticketing, marketing and information.

Changes in market during 2011/12

- Lower passenger revenue growth, particularly in the north of England and Scotland, as a result of economic weakness
- Reductions in Government funding for local authorities leading to pressure on budgets for socially necessary bus services and reduced funding for concessionary fares in certain areas
- Publication of the Competition Commission's market study into local bus services in the UK
- Publication by the Department for Transport (DfT) of 'Green Light for Better Buses', incorporating the Government's response to the Competition Commission's report and advocating greater partnership with transport authorities.

Key statistics

Revenue	£1,157.2m
Operating profit	£134.4m
Employees	22,500

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

The market

Outside London

Local bus services in the UK, outside London, were deregulated in the mid-1980s. The market is highly competitive between commercial bus operators – large and small – but the largest competitor to the bus is the private car. Revenue principally comes directly from farepaying passengers and indirectly from reimbursement by local authorities for concessionary passengers. Bus operators take revenue risk and cost risk. Bus markets are local and are affected by local issues from demographics to politics to topography. Local bus services operate on a flexible model with bus operators setting fares, frequencies and routes on a commercial basis to meet customer demand and also running 'socially necessary' local bus services under contract to local authorities.

London

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

Our business

- We are one of the UK's largest bus operators
- We operate over one in five of all local bus services
- We operate in communities across the country including 40 of the largest towns and cities
- Average fleet age is 8.8 years
- We operate Greyhound UK providing regular intercity coach services on routes between London and the south coast; London and Glasgow and within South Wales
- We also operate some yellow US-style school buses and have a fleet of coaches available for charter.

Competitors

The main competition to buses in the UK is the private car. The UK bus market, outside London, is deregulated and very competitive with over 1,250 bus operators and in all markets in which we operate we face competition. Some multi regional operators have increased market share through acquisition and a number of local bus operators have both entered and left the market.

Our customers

Our UK Bus customers are diversified by journey purpose with significant proportions using bus services for commuting – to work, school, college or university – for shopping and for leisure purposes.

Labour

Around 90% of our 22,500 UK Bus employees are members of a trade union, predominantly Unite but with significant representation by other unions, including the RMT and Unison.

We operate a fleet of

8,000

vehicles, delivering around a fifth of local bus services.

We operate in communities across the country, including

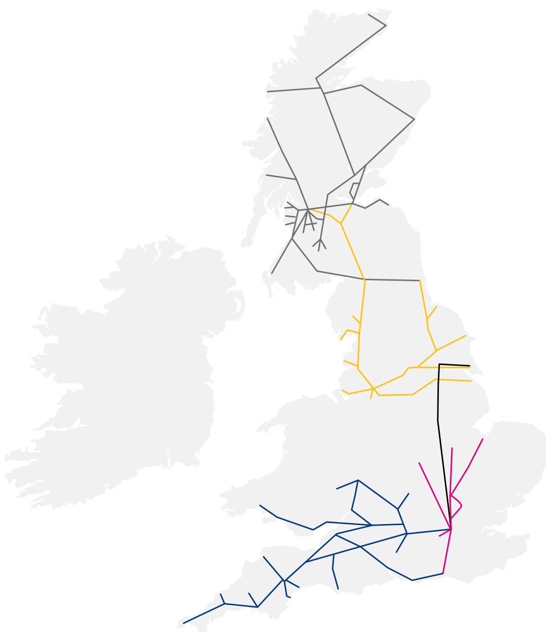
40

of the UK's largest towns and cities.

Our markets
UK Rail

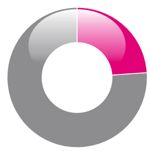
We are the UK's largest rail operator, carrying more than 300 million passengers a year and operating almost a quarter of the rail market. We have a diversified portfolio of long distance, regional and commuter rail companies.

Where we operate



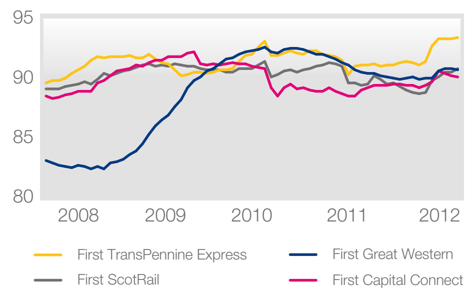
- First Capital Connect
- First Great Western
- First Hull Trains
- First ScotRail
- First TransPennine Express

Approximate share of rail market



FirstGroup	**24%**
Others	**76%**

UK Rail Public Performance Measure (% MAA)



Find out more online

www.firstgroup.com/uktrain

Vernon Barker
Managing Director, UK Rail

Market features

- Regulatory environment – Government capped regulated fare increases at RPI +1%
- Passenger journeys at historic highs
- Operational performance improving
- Government investment in major infrastructure projects.

Changes in market during 2011/12

- Passenger revenue growth as a result of marketing initiatives and additional services in some franchises and macro-economic factors including economic recovery and employment growth, particularly in central London
- The Government set out its new franchising programme including the start of the InterCity West Coast, Great Western, Thameslink and Essex Thameside refranchising competitions
- Publication of the McNulty Rail Value for Money Study. Building on this, Network Rail has entered into strategic alliances with several operating companies, of which First ScotRail was one of the first to be agreed.

Key statistics

Revenue	**£2,506.1m**
Operating profit	**£110.5m**
Employees	**13,000**

Our passenger rail operations consist of four franchises: First Capital Connect, First Great Western, First ScotRail and First TransPennine Express and one open access operator, First Hull Trains. We also operate the London Tramlink network on behalf of TfL.

The market

Following privatisation in the mid-1990s, there is a competitive market between transport operators for the award of passenger rail franchises (contracts with the DfT – and other franchising authorities – for the provision of services) and also between rail services and other modes for passenger journeys. Revenue comes directly from farepaying passengers or from franchising authorities. Total franchised passenger revenues in the UK are over £6 billion per annum. Typically train operators share revenue risk with franchising authorities – this is referred to as revenue support or revenue share – but bear cost risk.

The Government set out its plans during the year for the next generation of rail franchises, which will typically be longer and with greater incentives for operators to increase efficiency and invest in the improvements passengers want. The UK market has entered a period which will see a large amount of activity; eight franchises are due to be let over the next two years.

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

Operators are responsible for the day-to-day management of train services. Many elements of the service provided to passengers are mandated as part of the contract; other features are left to the commercial judgement of operators. Network Rail manages track and infrastructure; and rolling stock is owned and subleased by third party companies. The Office of Rail Regulation (ORR) is the independent safety and economic regulator; it grants and enforces a licence under which Network Rail operates, and also supervises the relationship between Network Rail, franchised operators and others, including freight operators.

Our business

- We are the UK's largest rail operator
- Our operations are diversified by sector and by customer and journey purpose
- We operate four rail franchises and one open access passenger rail service
- We operate the London Tramlink service on behalf of TfL
- Through our joint venture with Danish State Railways we operate passenger rail services in the Oresund region of Denmark.

Competitors

We bid against operators of current UK Rail franchises and rail operators from other countries, principally from within the European Union and also Hong Kong. FirstGroup is the only operating company to pre-qualify for all four franchise competitions currently open.

The main competitor to rail services is the car but on some passenger flows there is competition from other rail services and, to a lesser extent, long distance coach and airlines.

Our customers

For our franchises in London and the south east of England, the majority of our passengers are commuters to and from London. First Great Western also has a large proportion of long distance and leisure travellers. First ScotRail and First TransPennine Express also carry a large number of commuters into the major towns and cities on their networks but also serve a significant leisure market.

Labour

A high percentage of our 13,000 employees in the division are represented by trade unions, with whom we maintain constructive relationships. Our employees are represented by organisations including ASLEF, RMT and TSSA.

- Publication of the DfT Command Paper 'Putting Customers First' and consultations on fares and ticketing and devolution
- Government investment in rail projects including the High Speed 2 line; the Thameslink Programme; the Northern Hub around Manchester and electrification of the Great Western and TransPennine routes
- The DfT began the process of planning for the next Control Period (CP5), setting out the options and range of costs facing the Government in specifying the outputs of the railways for the five years from 2014/15 onwards.

During the year we successfully extended the First TransPennine Express franchise for a further three years to 2015 with margins closer to the industry average. Since we started operating the franchise in 2004 passenger numbers have increased from 13 million to 24 million a year.

We have taken action to address specific issues, improve performance and strengthen the business.

Tim O'Toole
Chief Executive

Nick Chevis
Acting Finance Director

Business summary

Against the backdrop of continued economic uncertainty and the impact of weaker economic conditions in certain markets in which we operate, we have taken action to address specific issues, improve performance and strengthen the business.

- In First Student, which faced substantial pressure on its operating margin driven by constraints on school board budgets, we have implemented a comprehensive programme to reform the operating model and the business is now well set on the path to recovery.
- First Transit continues to generate good returns from low capital investment across a range of business segments and is established in a sector that depends on proven credentials and a strong track record.
- Greyhound is now delivering strong growth and improved returns, with operating profit more than doubled over the last two years, as a result of actions we took to transform the business and strengthen the operating model.
- In UK Rail, as we transition to a new generation of rail franchises, we are encouraged to be the only operator to have pre-qualified for all four franchises that the Government has tendered so far. We look forward to submitting competitive proposals which meet the requirements of customers and taxpayers and provide an economic return for shareholders.

	Year to 31 March 2012[1]			Year to 31 March 2011[4]		
Divisional results	Revenue £m	Operating profit[2] £m	Operating margin[2] %	Revenue £m	Operating profit[2] £m	Operating margin[2] %
First Student	1,567.2	107.1	6.8	1,594.4	128.3	8.0
First Transit	778.6	55.8	7.2	771.5	57.2	7.4
Greyhound	657.2	50.6	7.7	634.6	40.2	6.3
UK Bus	1,157.2	134.4	11.6	1,137.5	148.8	13.1
UK Rail	2,506.1	110.5	4.4	2,269.8	108.7	4.8
Group[3]	12.4	(29.9)	–	8.9	(26.5)	–
Total Group	6,678.7	428.5	6.4	6,416.7	456.7	7.1

1 For all businesses excluding UK Rail this year includes 53 weeks compared to 52 weeks last year.
2 Adjusted.
3 Tramlink operations, central management and other items.
4 Restated to exclude discontinued operations.

- Notwithstanding the steady performance from our UK Bus division in 2011/12 we have seen a further deterioration of economic conditions particularly in our urban operations in Scotland and the north of England and, as a result, we do not expect revenue growth and cost efficiencies in 2012/13 to be sufficient to offset the impact of reduced Government subsidies and funding to the industry and increased fuel costs. New management in our UK Bus division has a clear strategy and is executing a detailed plan to recover performance and equip the business to achieve increased revenue and patronage growth. This will include repositioning our UK Bus portfolio which, together with a transformed approach to the management of our operations, will create a far more robust base from which to generate improved returns and sustainable growth.
- The Group is committed to its public investment grade credit rating which it has maintained since 2002. Since March 2009 we have consistently driven down leverage, reducing our net debt: EBITDA ratio from 3.2 times at March 2009 to 2.5 times at March 2012. We are focused on further leverage reduction to increase financial flexibility. The Group has significant levels of liquidity headroom and maintains prudent levels of headroom under its financial covenants.

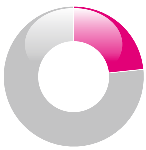
Group revenue increased by 4.1% to £6,678.7m (2011: £6,416.7m), or 2.9% excluding the extra week of trading. Operating profit was £428.5m (2011: £456.7m) reflecting the expected reduction in First Student and UK Bus profits partly offset by higher profits in Greyhound and UK Rail. All of our operating divisions experienced higher fuel costs during the year, which amounted to an additional £31.8m compared to the prior year. Statutory operating profit increased to £448.0m (2011: £308.6m) reflecting lower levels of net exceptional items compared to last year. Adjusted basic EPS was 40.0p (2011: 41.1p) a reduction of 2.7% with the reduction in operating profit partially offset by lower net finance costs due to lower interest rates on US Dollar denominated debt.

The net cash inflow for the year was £119.2m (2011: £209.8m). As expected, the net debt to EBITDA ratio was 2.5 times, in line with last year. The average debt duration at 31 March 2012 was 5.5 years (2011: 6.1 years) and headroom under the committed revolver facility was £631.8m (2011: £526.7m) and free cash balances were £164.0m (2011: £89.4m).

First Student

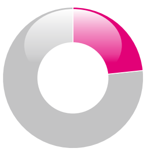
	2012	2011
Revenue	**£1,567.2m**	£1,594.4m
Operating profit	**£107.1m**	£128.3m

Revenue as percentage of Group



23.5%

Operating profit as percentage of Group



23.4%

In First Student our plan to address performance and strengthen the operating model is delivering in line with our expectations and we are pleased with the good progress made so far. The annual cost savings as a result of our recovery plan are now expected to be around $100m, exceeding our original target of $65m per annum.

Trading has developed in line with our expectations with revenue of $2,497.9m or £1,567.2m (2011: $2,480.2m or £1,594.4m), an increase of 0.7% in US Dollars but a reduction of 1.7% in Sterling terms. Adjusting for the extra week, US Dollar revenues were reduced by 1.3% year on year. Operating profit was $169.5m or £107.1m (2011: $200.2m or £128.3m). The reduction in operating profit included additional one-time costs including, as anticipated, a field management coaching programme supporting the good momentum in the recovery plan. The US Dollar operating margin in the second half of the year was 11.5% compared with 11.4% for the corresponding period last year, indicating a stabilisation in line with our expectations.

Pressure on school board budgets continues to present challenges although we are encouraged by signs of wider economic recovery in the US. During the current bid season we have continued to see more rational bidding behaviour in the marketplace. Our strategy to strengthen our commercial team, focus on contract retention and reduce contract churn in our portfolio continues to deliver a performance in line with our plan and we are on track to achieve our target retention rate of more than 90%.

During the year we started new contracts to operate more than 1,000 buses, one third of which came from conversions, where operations are transferred to the outsourced market for the first time. Conversion interest continues to increase during the current bid season and we are seeing record levels of activity. However, as the pace of conversions industry-wide remains slow, we continue to focus our activity in those areas where there is greatest potential.

Our plan to address performance and strengthen the operating model is delivering in line with our expectations and we are pleased with the good progress made so far.

As part of the recovery programme we have introduced improvements in working practices and culture in many areas, helping us to deliver on our objectives and embed a standard way of operating across our business. As we harmonise best practices across almost 600 locations we are delivering a more agile and sustainable operating model. We have removed a layer of organisational management, providing closer links between the local operations and central management team, and continue to streamline systems to reduce bureaucracy. Through this period of change we were pleased to receive a record number of responses to our annual customer survey with an increase in overall satisfaction scores.

Our strategy to strengthen our commercial team, focus on contract retention and reduce contract churn in our portfolio continues to deliver a performance in line with our plan and we are on track to achieve our target retention rate of over 90% for the new school year.

Operating and financial review
continued

First Student
continued

A key goal within our transformation of the business is the improvement in labour productivity. Across all our locations we are driving full adoption of a range of initiatives to ensure greater efficiency, accuracy and fairness. For example, applying best practices to the pre-trip inspections performed by drivers has reduced time taken and saved on average five minutes per driver, per location, per day throughout the business, achieving a cost reduction of $2m for each minute saved.

We have enhanced our FOCUS software system to enable greater productivity savings. This proprietary system, which links on-board data with engineering, payroll and back office systems, allows us to manage standard driving hours more accurately as well as eliminate excess miles and reduce non-driving time. We will also be utilising GPS software to help us to encourage improved driving behaviour and practices, reduce fuel usage and provide customers with direct access to real time information and performance metrics.

We are also driving efficiency improvements across the business. In the key areas of engineering and maintenance we have worked with our technicians to reorganise our workshop layouts for maximum efficiency. Two workshops have now been created in each of our operating regions to train in lean practices and to support a unified direction with more efficient and consistent processes. As a result we are now saving on average 12 minutes per preventative maintenance inspection, of which we perform over 200,000 a year. Initiatives such as lean practices will increase our productivity by more than 10% and our best performing locations have demonstrated that these types of improvements are capable of producing ongoing cost efficiencies.

First Student is now positioned to leverage its scale as the market leader. Our recovery programme is restoring performance and is demonstrating marked improvement across many areas. There is some way to go but our steady progress, consistent with our plan, gives us confidence that we will create a sustainable competitive advantage for the future.

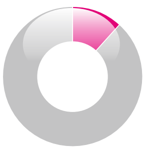
First Student is now positioned to leverage its scale as the market leader. Our recovery programme is restoring performance and is demonstrating marked improvement across many areas.

Maintenance and engineering initiatives in First Student will increase efficiency and help to **improve productivity by more than 10%.** Our best performing locations have demonstrated that these types of improvements are capable of producing ongoing efficiencies.

First Transit

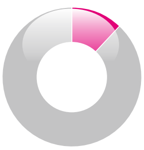
	2012	2011
Revenue	**£778.6m**	£771.5m
Operating profit	**£55.8m**	£57.2m

Revenue as percentage of Group



11.7%

Operating profit as percentage of Group



12.2%

First Transit continues to develop in line with our expectations. Revenue was $1,242.6m or £778.6m (2011: $1,199.0m or £771.5m), an increase of 3.6% and 0.9% in US Dollar and Sterling terms respectively. Adjusting for the extra week, US Dollar revenues were up 2.0% year on year. Operating profit was $89.1m or £55.8m (2011: $89.5m or £57.2m). During the year we invested in DriveCam technology which will allow us to offer customers a system to manage their fleets more efficiently.

With typically low capital investment required, this business depends on established credibility and a solid track record. We have successfully demonstrated our strong credentials in this market which has helped us succeed in working collaboratively with our customers to help improve their transport offering. We have a solid core of experienced transport managers with an unrivalled reputation for professionalism and innovation.

First Transit is the leading operator in its field and we operate a wide and diverse mix of different size and types of transport services across approximately 360 different contracts. In each of the core business segments – fixed route, paratransit, shuttle, transport call centres and municipal fleet maintenance services – we are the largest, or near largest, operator and consequently are able to bring to bear our scale and expertise to clients looking for transport solutions. We continue to seek out and stimulate further conversion opportunities and actively encourage and promote outsourcing by demonstrating the benefits of partnership and the range of solutions we can offer prospective clients.

During the year we continued to win new business including contracts to provide fixed route services for Foothill Transit in Arcadia, California; services in Fort Bend County, Texas and the city of Rochester, Minnesota. We were also awarded contracts to provide paratransit services in Louisville, Kentucky, in Yamhill County, Oregon and in Hunterdon County, New Jersey.

Our shuttle bus business delivered a strong performance during the year and we were awarded the contract for the consolidated rental car centre at Chicago's Midway Airport. We continue to be the largest provider of university shuttle bus services and during the year extended our portfolio with new business added for universities including Yale, Southern Connecticut State and Kennesaw State. We also continue to pursue further growth in the transportation call centre market and were pleased to be awarded contracts in Colorado, Louisiana and Illinois during the year.

We have been able to successfully utilise our reputation and strong client relationships in one area of First Transit to win business for another. For example, we were able to expand our vehicle maintenance work with the Williamsburg Area Transit Authority in Virginia through cross marketing our fixed route and fleet maintenance expertise.

Similarly in Fort McMurray, Alberta, our expertise and flexibility were the primary reasons we were initially awarded a contract to provide transportation during the first construction phase of a large industrial complex. Since then we have built on our strong business relationships in the area to complement this work as well as add several other oil industry related transportation contracts.

First Transit continues to develop opportunities that enable our clients to become as efficient as possible. We have partnered with DriveCam to implement their innovative product across a number of locations. By combining video data with real-time driver feedback this gives our customers access to information that can help to manage their fleet more effectively, improve fuel efficiency and lower emissions.

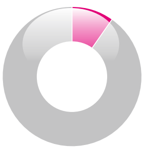
We operate a wide and diverse mix of transport services across approximately 360 different contracts, including paratransit operations.

Operating and financial review
continued

Greyhound

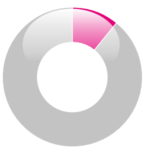
	2012	2011
Revenue	**£657.2m**	£634.6m
Operating profit	**£50.6m**	£40.2m

Revenue as percentage of Group



9.8%

Operating profit as percentage of Group



11.0%

Greyhound is an iconic business that is synonymous with affordable long distance travel. We are delivering strong growth and improved performance, as a result of the actions we took to reform the operating model and transform the business, with operating profit that has more than doubled over the last two years.

Revenue was $1,049.3m or £657.2m (2011: $985.0m or £634.6m), an increase of 6.5% and 3.6% in US Dollar and Sterling terms respectively. Like-for-like revenue growth for the year was 4.1%. Operating profit was $81.0m or £50.6m (2011: $62.3m or £40.2m), an increase of 30% and 25.9% in US Dollar and Sterling terms respectively. Encouraging passenger revenue growth, including the successful expansion of Greyhound Express, supported the improvement in operating profit which was partly offset by higher fuel costs during the year.

The most significant development for Greyhound in recent times is the launch of Greyhound Express. As well as transforming our customer proposition, the service is attracting users back to bus travel and encouraging a new passenger demographic. Customers are able to travel non-stop on high quality, new or refurbished coaches on high volume routes between major cities and take advantage of yield managed fares and reserve guaranteed seats online.

During the year Greyhound Express went from strength to strength. In addition to the two original Greyhound Express networks serving the Midwest and north east, we expanded services to the south east from a hub in Atlanta in the autumn, from where the network now reaches into Florida. As a result we now serve the vast majority of the east coast from Massachusetts to Miami. Heading west, Greyhound Express connects the main cities in Texas and from May 2012 the network is being rolled out into California.

Since its launch in December 2010, Greyhound Express has grown rapidly and now represents more than 20% of Greyhound's business. We have converted some schedules on high frequency lanes between urban locations to Greyhound Express services, with other schedules remaining as the traditional service. The strong feeder traffic from Greyhound's national network allows us to create sustainable new services, while minimising the cost of operating additional miles across the network, which also helps Greyhound Express routes achieve profitability quickly following the launch.

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Our traditional Greyhound business is also seeing the benefits of a transformed operating model. We introduced ticket kiosks at ten of our locations which gave customers greater choice from a self-service alternative with additional options such as checking luggage, as well as helping to reduce our cost of sale. These kiosks

We refurbished **over 220 coaches in the year,** bringing the **total to almost 350** so far and significantly improving the passenger experience.

proved very popular with more than 60% of sales transacted through them. As a result we will be rolling out further ticket kiosks to ten additional locations in the coming months.

Our highly successful BoltBus service, serving city pairs in the Northeast, is offering customers a high quality, viable alternative to rail services. From May 2012 we will be expanding into the Pacific Northwest, introducing routes between Seattle and Portland.

During the year we added more than 80 new vehicles to our fleet, including 14 for our operations which serve the Hispanic market domestically and internationally along and across the southwest border with Mexico. Our refurbishment programme completed over 220 coaches in the year, bringing the total to almost 350 so far, significantly improving the passenger experience.

As we continue to make Greyhound a more modern and efficient network we are delivering improved service quality at the same time. 'On Time Performance' has increased from 79.8% to 89.1% over the last five years. New and refurbished coaches along with improvements in maintenance processes have also contributed to this improvement.

We are reviewing our terminals and, where appropriate, taking up opportunities to right size and relocate Greyhound's properties to more appropriate, accessible and convenient sites for passengers across the network. So far we have right sized or relocated around 50% of our US locations. During the year we completed the sale of our Washington DC terminal and will relocate our services to the multi-modal hub at the city's Union Station by early 2013.

In November 2011 we launched a national initiative with another household name, 7-Eleven, and PayNearMe which has been highly successful and opened up online fares and discounts to a new market. Customers, including those without access to credit cards, can now order their tickets online and pay in cash at one of 6,400 7-Eleven stores nationwide and we are encouraged by the strong volume of daily transactions already achieved through this new sales channel. PayNearMe has concluded a deal with ACE Cash Express, which has 1,650 outlets, to start offering the same payment option from summer 2012 and we are in negotiations with several retailers across the US to continue to increase the breadth of our sales footprint.

Greyhound in Canada is undergoing a transformation and network modernisation programme, drawing on the positive changes we have already made in the US. Part of our strategy is to work with the provincial governments to reduce uneconomic, predominantly rural, routes. As a result we were pleased that Greyhound Canada returned to profitability during the year. Greyhound Express was also launched in four of the largest cities in Alberta during November 2011 and we are developing further opportunities to expand the service in Ontario and Quebec. Our redesigned Canadian website provides more options and a better online experience, and consequently we have seen Canadian web sales up by more than 40% since its launch in September 2011.

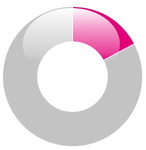
We are taking up opportunities to right size and relocate Greyhound's properties to more appropriate, accessible and convenient sites for passengers across the network. So far we have right sized or relocated around 50% of our US locations.

Operating and financial review
continued

UK Bus

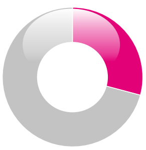
	2012	2011
Revenue	**£1,157.2m**	£1,137.5m
Operating profit	**£134.4m**	£148.8m

Revenue as percentage of Group



17.3%

Operating profit as percentage of Group



29.3%

Our UK Bus division delivered a steady performance during the year. Revenue was £1,157.2m (2011: £1,137.5m), an increase of 1.7%. Like-for-like passenger revenues grew by 1.6%. Operating profit was £134.4m (2011: £148.8m), a decrease of 9.7% principally due to challenging trading conditions in certain major urban areas where we operate, as well as increased fuel costs.

Notwithstanding the stable performance in 2011/12, we recognised the need to reform the operating model in UK Bus in order to achieve sustainable growth. During the year a new management team was brought in and, following a root and branch review of our operations, initiated a detailed plan to deliver a consistent, efficient and effective service across all of our networks and equip the business to generate sustainable growth and improved returns.

As a result of a further deterioration in economic conditions during the year our capacity to absorb the reductions in Government funding, which are now expected to be more acute than originally estimated, through revenue growth and cost efficiencies is significantly reduced. As a consequence we currently expect UK Bus operating margin to be approximately 8% in 2012/13.

In response we have accelerated our comprehensive plan to reform the operating model and restore performance which is focused around three main areas:

- Repositioning and rebalancing our portfolio of operations
- Driving increased passenger revenue and patronage growth
- Improving operating discipline and efficiencies.

We have a very strong platform from which to grow in UK Bus. The vast majority of our bus operations generate good returns with opportunities to improve further. However, there is scope to reposition our portfolio to concentrate on those areas with the greatest potential.

In February we announced the sale of our bus operations in North Devon and at the end of March 2012 we completed the sale of our Northumberland Park depot in North East London. This followed the sales of our King's Lynn operations in April 2011 and our German bus subsidiary in September last year. We also announced our withdrawal from depots in Bury St Edmunds and Dalkeith, as well as scaling back our operations in Musselburgh.

In addition to these small asset and business disposals we are now accelerating our plans to significantly reposition and rebalance our UK Bus operations in the coming year to restore operating margins and help to facilitate improved growth and returns.

A comprehensive plan that will stimulate growth in revenue and patronage is being rolled out across our networks. Centred on five core elements it encompasses service quality and delivery; network design; pricing and ticketing; tailored local market solutions and building more effective partnerships with stakeholders.

In January we launched our new customer brand promise, Better Journeys for Life. Setting out our plans for greater engagement with customers, employees and stakeholders, it is supported by ongoing customer satisfaction reviews, commissioned internally and also by Passenger Focus.

One of the first visible signs will be a new livery, which establishes greater local identities, and is now being rolled out on our buses across the UK. This is the first stage in a fleet modernisation programme including the investment of £160m in approximately 1,000 new vehicles together with a £4m refurbishment programme for our mid-life vehicles. This will deliver a step change

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to our profile and incorporates a complete refresh of our interior and exterior designs developed from extensive customer feedback.

We are also investing £27m in new ticketing technology. This equipment, which will be rolled out further during the year, provides us an ITSO smartcard platform. Looking ahead, the technology will also enable us to offer customers 'touch in, touch out' contactless payment using their bank cards. Helping to reduce the barriers to bus travel, this next generation ticketing will not only reduce both cash transactions and boarding times but will enable us to offer a wide range of ticket products including the ability to cap daily and weekly fares. The equipment also has the capability to accept payment by mobile phone.

Creating more effective partnerships with our stakeholders is a key focus. It is essential that we work closely with local authorities and stakeholders across our networks to create successful relationships that will realise maximum efficiencies and greater benefits for customers, particularly through reduced journey times.

Through our joint partnership proposals we were successful in 12 out of the 24 awards made by the Department for Transport (DfT) from the Better Bus Area Fund. We also secured support from the DfT's Green Bus Fund for a second round of 40 hybrid vehicles to be deployed in Berkshire, Essex and Bath; in addition to the original 40 buses being introduced on services in Leeds, Manchester and Glasgow. Initial reactions to these vehicles have been very positive and we continue to expand our knowledge and experience of this type of technology.

During the year in the Bristol area, where the level of tendered work has reduced as a result of reductions in local authority funding, we reinvested the mileage saved to enhance frequencies on our key corridors which have the potential for further strong growth. Fare promotions have also been introduced and, alongside the delivery of highway infrastructure improvements by our local authority partners, we have seen an encouraging increase in patronage to date. Similarly, in South Yorkshire we introduced a new service linking Rotherham and Barnsley which has seen over one million customer journeys in 11 months.

The vast majority of our bus operations generate good returns with opportunities to improve further. However, there is scope to reposition our portfolio to concentrate on those areas with the greatest potential.

There is considerable opportunity to increase efficiency through the rolling out of best practices and standardisation in areas such as maintenance and engineering. For example, the operational effectiveness of our fleet is being reviewed following a successful pilot in Oldham to reduce unproductive hours. In addition, our engineering teams are introducing lean management practices in workshops as well as examining ways to improve service and repair processes.

In London, where we provide contracted services on behalf of Transport for London (TfL), we do not take revenue risk and consequently operating margins are lower than in our deregulated bus business. We continue to be encouraged by our operational performance which is achieving better than the network average and, across a number of measures, is near the top of TfL performance league tables. Further contract wins in west London will see us take over routes 70, 206 and 266 in early summer 2012. We are pleased that TfL awarded us funding to purchase 22 hybrid buses for route 23 and the vehicles came into service in April 2012.

We look forward to the London 2012 Games where we will be the main provider of spectator transport. We are providing the buses for shuttle services at Games venues and Park & Ride services from sites around the edge of London to the Olympic Park as well as those for the sailing venue in Weymouth, the rowing venue in Eton Dorney and the football stadia in Glasgow, Manchester and Coventry. We will also be operating a network of express coach services from across the country to the Olympic Park and Weymouth. The contract includes a reservation and ticketing system as well as support staff at all bus and coach locations to assist passengers.

We were pleased that the Competition Commission's report on the industry, published in December 2011, recognised that no fundamental change to the structure or regulation of the industry was required. The Commission supported many of the innovations that we are already developing across the country, including partnerships with local authorities and multi-operator ticketing. In March 2012 the Government published its response to the Commission's report. This wide-ranging policy statement puts emphasis on the importance of greater partnership between operators and transport authorities.

We have a core of fundamentally strong networks. Our comprehensive recovery plan is being executed from an established and diversified platform with market leadership in territories where propensity for bus travel is high. We are confident that the actions we are taking will equip the business to deliver sustainable growth and improved returns from a stronger, more robust foundation.

We are investing £160m in around 1,000 new vehicles, together with a £4m refurbishment for our mid-life vehicles. This incorporates a complete refresh of our interior and exterior designs, including a new livery that establishes greater local identities.

Operating and financial review
continued

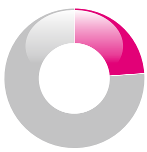
UK Rail

	2012	2011
Revenue	**£2,506.1m**	£2,269.8m
Operating profit	**£110.5m**	£108.7m

Revenue as percentage of Group

37.5%

Operating profit as percentage of Group



24.1%

Our rail businesses continued to enjoy strong demand during the year with revenue increased by 10.4% to £2,506.1m (2011: £2,269.8m). In a year which saw historic highs in passenger numbers on the UK rail network, like-for-like passenger revenue growth across our franchises was 8.4%. Operating profit was £110.5m (2011: £108.7m), an increase of 1.7%. First TransPennine Express made a significant contribution during the year as a result of continued strong trading. However, as previously indicated, this franchise has now entered the extension period with margins closer to the industry average.

The year marked the start of a period of transition in the UK Rail market, with eight franchises due to be re-let by the Government over the next two years. We were pleased to be the only operator to pre-qualify for all four of the rail franchises that have been tendered so far (InterCity West Coast, Great Western, Thameslink and Essex Thameside) demonstrating the depth of our strength and expertise in the rail market. As the current operator of two of these franchises – First Great Western and First Capital Connect – we have a strong track record of delivery and investment in our rail operations. We look forward to submitting competitive proposals which meet the requirements of customers and taxpayers and provide an economic return for shareholders.

During the year Vernon Barker was appointed Managing Director of the UK Rail division. Vernon's proven track record in railway management, most recently as Managing Director of First TransPennine Express, and strong focus on customer service will be invaluable as we develop our existing and new rail interests.

First Capital Connect

The focus for First Capital Connect during the year has been the preparation for and delivery of the major change programmes by continuing to drive further improvement across the business. Improved engagement and communication with our employees, customers and stakeholders has helped us deliver improvements in customer satisfaction and employee engagement (both achieving record results). Our operating performance also improved with the Public Performance Measurement (PPM) of reliability and punctuality at 90.0% on a moving annual average (MAA) basis.

A significant highlight last year was the successful delivery of the initial stage of the Thameslink Programme providing the first 12-carriage services on the route in December 2011. Refurbishment and transformation work was ongoing at various stations along the route, as part of the programme of upgrades. We worked together with Network Rail and TfL to successfully reopen Blackfriars station, the first ever cross-river hub with a new link to London Underground and an exit on the South Bank. Transport Minister Theresa Villiers joined us in opening a dedicated ticket hall and longer 12-car platforms at Farringdon station in December, and we also supported the introduction of a new station at West Hampstead. On the Great Northern route, where we have significantly increased capacity, we added a further 2,200 seats on weekdays through our 'More Seats for You' initiative. We introduced 12-car services on the route and in March 2012 our customers began using the impressive new concourse at London King's Cross station.

During the year the DfT announced that the end date for the First Capital Connect franchise has been brought forward to September 2013. This provides the best opportunity in the major Thameslink transformation programme to allow an effective transition to a potential new franchisee, particularly in relation to the introduction of new rolling stock which will be completed after the end date of the current franchise. Our unrivalled knowledge and experience of managing this major project gives us a strong foundation to continue to help deliver this important programme in the future.

We continue to offer value for money tickets, such as First ScotRail's popular Club 55 tickets providing discount travel for the over 55s, which proved highly successful during the year.

First Great Western

We continue to drive further improvements in performance across our network. Punctuality during the year has been improving, with our PPM MAA at 90.6%, and we continue to challenge Network Rail to reduce infrastructure failures.

We are committed to delivering further improvements for passengers and in December 2011 we agreed a major £28.9m deal with the DfT for 48 new carriages to be added to our High Speed Train fleet, providing an extra 4,500 seats for customers on peak services into and out of London. As part of this agreement we leased five Class 180 trains to replace Turbo services on the Cotswold line between London Paddington and Hereford providing a more comfortable journey on this long distance route.

We continue to introduce further capacity across our network. In the west of England we worked with the DfT to secure extra trains and carriages which will provide an additional 924 seats on Bristol peak services, while customers in Torbay and between Truro and Falmouth will see almost 650 additional seats on peak weekday services and 1,275 at weekends.

There have also been major improvements to stations along the route. The £10m redevelopment of Bath Spa station has continued and Exeter Central station has received a refresh, bringing the original ticket hall back into use and improving the station as a focal point. Slough station has had a complete overhaul costing £1m, as a result of a joint project with Network Rail and the local council ahead of this summer when the station will also serve the Olympic rowing venue.

First ScotRail

Our PPM score rallied strongly towards the end of the year, to finish at 94.8% after the severe weather affecting the country's rail infrastructure impacted First ScotRail and Network Rail's ability to achieve acceptable levels of operating performance at certain points during the year. Following the introduction of further improvement plans in the autumn and minor timetable changes made in December 2011, we have seen performance start to exceed planned levels.

First ScotRail signed one of the first alliance agreements between a train operating company and Network Rail to better align overall objectives and provide more cost effective ways of delivering rail services. The agreement allows more efficient and effective management through a closer working relationship to deliver improvements in quality for passengers and other stakeholders. Under the agreement a joint Board of First ScotRail and Network Rail members has been established. We are confident that long term cost savings for the industry and the Scottish Government will be achieved.

Successful marketing and promotions activity helped to stimulate further demand for our services. Providing customers great value for money through initiatives such as our popular Club 55 tickets, offering discount travel for the over 55s, continued to prove successful during the year.

Strong partnerships with Passenger Transport Executives and local authorities have led to station improvements across Scotland including the installation of innovative solar powered customer information screens into Highland stations in partnership with Highland & Island Regional Transport Partnership.

First TransPennine Express

First TransPennine Express achieved record performance this year with PPM MAA above the national average at 93.3%.

We were delighted that the DfT took the decision during the year to extend the current franchise. We will operate First TransPennine Express for a further three years from February 2012 at an operating margin closer to the industry average.

Since we commenced operation of the franchise in 2004 we have worked hard to deliver consistent improvements for customers, including the introduction of a £260m new train fleet, and during that time passenger numbers have risen from 13m to 24m a year.

We will work closely with the DfT and our stakeholders on the route over the remaining life of the franchise to progress plans for the future of rail in the north of England and to further develop our Anglo-Scottish services. We successfully negotiated for ten new build Class 350 trains to be brought into service from December 2013. These will provide an 80% increase in customer capacity between Manchester and Scotland and will allow for a 30% increase in seat availability across the rest of the network.

We launched a suite of technology solutions during the year, including a mobile website with geo-location technology providing customers with detailed information about station facilities. We also released a smartphone ticketing app with purchasing and mobile ticket display facilities and were also the first train operator in the UK to launch a customer service based Twitter account which is operated by front line employees.

First Hull Trains

During the year work commenced on an overhaul of the fleet which will help to significantly improve reliability and punctuality. We are working with businesses, councils and planners to help better integrate our services with wider transport operations along the East Coast Main Line, as well as with other train operating companies and Network Rail to improve performance and interconnectivity along the route.

We agreed a major deal with the Department for Transport for 48 new carriages in First Great Western, providing an extra 4,500 seats for customers on peak services.

Outlook

We have a fundamentally strong and diverse portfolio of operations, with four out of five of our divisions performing in line with our expectations, and actions we have taken will lead to improved growth and returns.

Notwithstanding the steady performance from our UK Bus division in 2011/12 we have seen a further deterioration of economic conditions particularly in our urban operations in Scotland and the north of England. As a result, we do not expect revenue growth and cost efficiencies in 2012/13 to be sufficient to offset the impact of reduced Government subsidies and funding to the industry and increased fuel costs. In response we are accelerating a comprehensive plan that will deliver sustainable growth in revenue and patronage and improved returns. This includes repositioning our UK Bus portfolio through a programme of business and asset disposals to focus on those areas where the greatest potential for growth exists.

Our North American operations continue to progress and we believe that improving trends in the US economy will be positive for our businesses. First Student is now well set on the path to recovery with our plan to reform the business delivering in line with our expectations. First Transit delivers good returns from typically low capital investment which is underpinned by its established credentials and strong track record. Greyhound's enhanced performance from a transformed operating model demonstrates our ability to implement the necessary actions to deliver strong growth and margin improvement.

The UK Rail market is in a period of transition with eight franchises due to be let by the Government over the next two years. We are the only operator to have pre-qualified for all four of the rail franchises that have come to the market so far and believe we are well placed to progress opportunities from the refranchising programme.

The combined effect of the outlook for trading together with the actions to reposition the UK Bus portfolio is expected to result in the Group's net cash flow being broadly neutral in 2012/13.

Our market leading positions in a sector that is a key enabler of economic growth, together with the actions we are taking to strengthen the business, give the Board confidence that the Group has good prospects to deliver long term value for shareholders. Therefore, reflecting our longer term view, the Board remains committed to its current policy of dividend growth of 7.0% through to the end of the financial year 2012/13.

We have a fundamentally strong and diverse portfolio of operations with four out of five of our divisions performing in line with our expectations and actions we have taken will lead to improved growth and returns.

Other financial matters

Exceptional items and amortisation charges

	2012 £m	2011 £m
UK Bus Pension Scheme changes	73.3	–
UK Rail bid costs	(10.2)	(2.7)
UK Bus depot sales and closures	(10.7)	–
Competition Commission costs	(1.9)	(1.4)
UK Rail claim	–	22.5
UK Rail First Great Western contract provision	–	(59.9)
First Student recovery plan	–	(39.5)
First Transit goodwill impairment and contract provision	–	(16.6)
UK Rail joint venture provision	–	(1.8)
UK Bus restructuring costs	–	(1.0)
Other exceptional items	(1.1)	(0.4)
Total exceptional items	49.4	(100.8)
Amortisation charges	(30.9)	(42.9)
Profit/(loss) on disposal of properties	1.0	(4.4)
Operating profit credit/(charge)	19.5	(148.1)
Ineffectiveness on financial derivatives	(11.0)	0.3
Profit/(loss) before tax credit	8.5	(147.8)
Tax credit	4.4	43.0
(Loss)/profit on disposal of discontinued operations	(9.2)	6.7
Net exceptional items for the year	**3.7**	(98.1)

UK Bus Pension Scheme changes
During the year we took actions to de-risk the UK Bus Pension Scheme, the most significant of which is that pension increases will be linked to consumer price inflation (CPI) rather than retail price inflation (RPI). In addition a pensionable pay cap was introduced along with lower pension accrual rates. As a result of these changes future pension liabilities have decreased and a one-off exceptional gain of £73.3m (2011: £nil) was realised.

UK Rail bid costs
We are now entering a transition period for UK Rail with eight franchises expected to be retendered in the next two years. Bid costs of £10.2m (2011: £2.7m) were incurred during the year. These costs covered the preparation of the Intercity West Coast bid which was submitted on 4 May 2012. They also include the cost of pre-qualification for three further rail franchises – Great Western, Thameslink, and Essex Thameside. We are the only operator to pre-qualify for all the franchises that are currently out to bid.

UK Bus depot sales and closures
As part of our programme to rebalance our portfolio in UK Bus operations we have taken the decision to sell or close certain operations. Net losses of £8.2m were incurred during the year comprising £6.7m of operating losses for the year and £1.5m of closure costs. In addition a loss on the disposal of the Northumberland Park depot in north east London of £2.5m was recorded in the year representing gross proceeds of £14.2m less the carrying value of net assets including £5.2m of goodwill as well as transaction costs. The proceeds of the disposal were received in the first week of 2012/13.

Competition Commission costs
During the year we incurred a further £1.9m (2011: £1.4m) of costs responding to and representing our position to the Competition Commission investigation into the UK Bus market. The Competition Commission issued their final report in December 2011.

Other exceptional items
Costs of £1.1m were incurred principally on effecting the changes to the UK Bus Pension Scheme as described above.

Amortisation charges
The charge for the year was £30.9m (2011: £42.9m) with the reduction mainly due to the write off of the remaining balance of the First Great Western franchise intangible asset (£7.6m) in the previous year.

Profit/(loss) on disposal of properties
During the year we realised £40.3m (2011: £10.1m) on the disposal of selected properties predominantly in Greyhound operations. These resulted in a net profit on disposal of £1.0m (2011: loss of £4.4m).

Ineffectiveness on financial derivatives
Due to the ineffective element and undesignated fair value movements on financial derivatives there was a £11.0m non-cash charge (2011: £0.3m credit) to the income statement during the year. The principal component of this non-cash charge relates to fixed interest rate swaps which do not qualify for hedge accounting but do provide a cash flow hedge against variable rate debt from 2012 to 2015. It is anticipated that the charge in respect of these swaps will reverse over their contractual term.

Operating and financial review

continued

Tax on exceptional items and amortisation charges

The tax credit as a result of these exceptional items was £0.4m (2011: £41.3m). In addition there was a one-off deferred tax credit of £4.0m (2011: £1.7m) as a result of the reduction in the UK corporation tax rate from 26% to 24% (2011: 28% to 26%).

Finance costs and investment income

Net finance costs, before exceptional items, were £157.1m (2011: £182.4m) with the reduction principally due to lower interest rates on US Dollar denominated debt.

Profit before tax

Adjusted profit before tax was £271.4m (2011: £274.3m). An overall credit of £8.5m (2011: £147.8m charge) for exceptional items and amortisation charges resulted in a substantial increase in profit before tax to £279.9m (2011: £126.5m).

Tax

The tax charge, on adjusted profit before tax, for the year was £54.5m (2011: £59.7m) representing an effective rate of 20.1% (2011: 21.8%). There was a tax credit of £0.4m (2011: £41.3m) relating to amortisation charges and exceptional items. There was also a one-off credit adjustment of £4.0m (2011: £1.7m) to the UK deferred tax liability as a result of the reduction in the UK corporation tax rate from 26% to 24% (2011: 28% to 26%) which will apply from April 2012. This resulted in a total tax charge of £50.1m (2011: £16.7m) on continuing operations. The actual tax paid during the year was £17.7m (2011: £25.0m). North American cash tax remains low due to tax losses brought forward. We expect the North American cash tax rate to remain low for the near term. The UK cash tax for the year was lower than last year principally due to higher cash pension payments in UK Bus.

Discontinued operations

A loss on disposal of £9.2m arose on the sale of FirstGroup Deutschland GmbH representing gross consideration of £5.5m less the carrying value of net assets, including goodwill, and transaction costs. This, as well as the operating loss after tax to the date of disposal of £0.3m (2011: profit of £0.6m), has been classified within discontinued operations in the consolidated income statement.

Dividends

In line with our stated commitment the Board has proposed a final dividend per share, subject to approval by shareholders, of 16.05p (2011: 15.0p), an increase of 7.0%, making a full year payment of 23.67p (2011: 22.12p). It will be paid on 17 August 2012 to shareholders on the register at 13 July 2012. The dividend is covered 1.7 times (2011: 1.9 times) by adjusted basic EPS.

EPS

The adjusted basic EPS was 40.0p (2011: 41.1p), a reduction of 2.7%. Basic EPS was 42.7p (2011: 20.0p), an increase of 113.5% due to a significant reduction in net exceptional items compared to last year.

EBITDA

EBITDA by division was:	**Year to 31 March 2012[1]** Revenue £m	EBITDA[2] £m	EBITDA[2] %	Year to 31 March 2011[3] Revenue £m	EBITDA[2] £m	EBITDA[2] %
First Student	**1,567.2**	**255.8**	**16.3**	1,594.4	278.1	17.4
First Transit	**778.6**	**65.3**	**8.4**	771.5	66.3	8.6
Greyhound	**657.2**	**80.1**	**12.2**	634.6	68.7	10.8
UK Bus	**1,157.2**	**207.1**	**17.9**	1,137.5	220.0	19.3
UK Rail	**2,506.1**	**163.5**	**6.5**	2,269.8	158.6	7.0
Group	**12.4**	**(28.9)**	**–**	8.9	(22.8)	–
Total Group	**6,678.7**	**742.9**	**11.1**	6,416.7	768.9	12.0

1 For all businesses excluding UK Rail this year includes 53 weeks compared to 52 weeks last year.
2 Adjusted operating profit less capital grant amortisation plus depreciation.
3 Restated to exclude discontinued operations and incorporating a revised calculation of EBITDA as explained in note 2 to the consolidated financial statements.

Cash flow

The net cash inflow for the year was £119.2m (2011: £209.8m). This contributed to a net debt reduction of £111.9m (2011: £332.1m) as detailed below:

	Year to 31 March 2012 £m	Year to 31 March 2011 £m
EBITDA (including discontinued operations)	**742.6**	770.7
Exceptional items	**49.4**	(100.8)
Impairment charges	**–**	19.5
Other non-cash income statement items	**9.8**	11.4
Working capital excluding FGW provision movement	**20.5**	75.2
Working capital – FGW provision movement	**48.7**	11.2
FGW provision movement	**(48.7)**	48.7
Movement in other provisions	**(29.1)**	(48.3)
Pension payments in excess of income statement charge	**(87.1)**	(43.5)
Non-cash RPI to CPI pension gain	**(73.3)**	–
Cash generated by operations	**632.8**	744.1
Capital expenditure and acquisitions	**(293.6)**	(283.6)
Disposal proceeds	**57.7**	21.8
Interest, tax and other	**(155.4)**	(183.6)
Dividends payable to Group shareholders	**(108.8)**	(101.4)
Dividends payable to non-controlling minority shareholders	**(19.0)**	(11.8)
Proceeds from sale of businesses	**5.5**	24.3
Net cash inflow	**119.2**	209.8
Foreign exchange movements	**(7.7)**	129.2
Other non-cash movements in relation to financial instruments	**0.4**	(6.9)
Movement in net debt in year	**111.9**	332.1

The principal adverse movements compared to last year were as follows:

- Higher pension payments in excess of income statement charge of £43.6m principally due to additional deficit cash contributions in Greyhound and UK Bus. In addition there was a one-off non-cash benefit of £73.3m in relation to the UK Bus pension scheme changes
- The FGW provision put up last year has been transferred to creditors due within one year, resulting in a movement on provisions of £97.4m
- EBITDA of £742.6m was £28.1m lower than last year
- No impairment charges in 2011/12.
- Proceeds from sale of business represents Germany at £5.5m this year compared to £24.3m for GB Railfreight last year
- Working capital excluding FGW provision movement for last year of £75.2m included the benefit of the timing of certain UK Rail payments as well as the First Student recovery plan provision and the First Transit contract provision. This year working capital is still positive at £20.5m despite the reversal of the UK Rail payment timing and the expected usage of the Student and Transit provisions
- Higher dividend payments to Group shareholders of £7.4m and non-controlling minority shareholders of £7.2m
- Higher capital expenditure and acquisitions of £10.0m.

Partly offset by:

- Lower net exceptional items and impairment charges of £150.2m as set out on page 33
- Lower interest, tax and other payments of £28.2m principally due to lower interest rates on US Dollar denominated debt
- Favourable movement in other provisions of £19.2m mainly due to lower insurance claims payments compared to last year
- Disposal proceeds of £57.7m (property £40.3m and non-property, mainly buses, £17.4m) compared to £21.8m (property £10.1m and non-property £11.7m) last year with the increase principally due to the Washington DC property sale in Greyhound.

Operating and financial review
continued

Net debt
The Group's net debt at 31 March 2012 was £1,837.5m (2011: £1,949.4m) and comprised:

	31 March 2012			31 March 2011
Analysis of net debt	Fixed £m	Variable £m	Total £m	Total £m
Sterling bond (2013)[1]	298.5	–	298.5	298.0
Sterling bond (2018)[2]	325.1	–	325.1	325.9
Sterling bond (2019)[2]	–	249.4	249.4	273.4
Sterling bond (2021)[3]	331.5	–	331.5	331.1
Sterling bond (2024)[1]	199.0	–	199.0	199.0
US Dollar bank loans	–	369.8	369.8	506.3
Canadian Dollar bank loans	–	113.9	113.9	113.1
Euro and other bank loans	–	11.7	11.7	29.0
HP contracts and finance leases	260.6	74.7	335.3	251.9
Senior unsecured loan notes	93.3	–	93.3	–
Loan notes	8.7	1.0	9.7	9.7
Cash	–	(164.0)	(164.0)	(89.4)
UK Rail ring-fenced cash and deposits	–	(323.2)	(323.2)	(283.8)
Other ring-fenced cash and deposits	–	(12.5)	(12.5)	(14.8)
Interest rate swaps	368.6	(368.6)	–	–
Total	1,885.3	(47.8)	1,837.5	1,949.4

1 Excludes accrued interest.
2 Stated excluding accrued interest, swapped to US Dollars and adjusted for movements on associated derivatives.
3 Stated excluding accrued interest, partially swapped to US Dollars and adjusted for movements on associated derivatives.

Under the terms of the UK Rail franchise agreements, cash can only be distributed by the train operating companies either up to the lower amount of their retained profits or the amount determined by prescribed liquidity ratios. The ring-fenced cash represents that which is not available for distribution or the amount required to satisfy the liquidity ratio at the balance sheet date. The level of ring-fenced cash at 31 March 2012 is higher than would normally be expected due to the timing of Government receipts at FSR and the temporary impact of liquidity ratios at FCC. Accordingly the balance at 31 March 2011 is more indicative of the expected level of ring-fenced cash.

Maintaining our investment grade status is a key priority and we have consistently reduced leverage to support this. The net debt: EBITDA ratio has reduced from 3.2 times at 31 March 2009 to 2.5 times at 31 March 2012 (2011: 2.5 times).

Capital expenditure and acquisitions
Cash capital expenditure and acquisitions was £293.6m (2011: £283.6m) and comprised First Student £115.6m (2011: £117.2m), First Transit £31.9m (2011: £6.8m), Greyhound £44.1m (2011: £45.0m), UK Bus £33.6m (2011: £66.7m), UK Rail £63.4m (2011: £46.7m) and Group items £5.0m (2011: £1.2m).

In addition during the year we entered into operating leases for passenger carrying vehicles in UK Bus with a capital value of £43.4m (2011: £23.6m).

Funding and risk management
The Group continues to have strong liquidity. At 31 March there was £795.8m (2011: £616.1m) of committed headroom and free cash comprising £631.8m (2011: £526.7m) of headroom under the committed revolving bank facility and free cash balances of £164.0m (2011: £89.4m). Largely due to seasonality in the North American school bus business, committed headroom typically reduces during the financial year up to October and increases thereafter. Treasury policy requires a minimum of £250m of committed headroom at all times.

The Group's main revolving bank facility expires in December 2015. The average debt maturity was 5.5 years (2011: 6.1 years).

The Group does not enter into speculative financial transactions and uses only authorised financial instruments for certain 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 2012 100% (2011: 87%) of net debt was fixed and in excess of 85% of net debt is fixed for the next two years.

Fuel price risk

We manage the commodity price risk on fuel through a progressive forward hedging policy.

In the UK, 86% of crude oil costs were hedged at an average rate of $88 per barrel during the year. At the end of the year we have hedged 83% of our 'at risk' UK crude requirements for the year to 31 March 2013 (2.5m barrels p.a.) at $103 per barrel and 46% of our requirements for the year to 31 March 2014 at $105 per barrel.

In North America 59% of crude oil costs were hedged at an average rate of $95 per barrel during the year. At the end of the year we have hedged 69% of the 'at risk' volume for the year to 31 March 2013 (1.7m barrels p.a.) at $94 per barrel. In addition we have hedged 40% of 'at risk' volumes for the year to 31 March 2014 at $95 per barrel.

Foreign currency risk

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

With regard to balance sheet translation risk, the Group hedges part of its exposure to the impact of exchange rate movements on translation of foreign currency net assets by holding currency swaps and net borrowings in foreign currencies. At 31 March 2012 foreign currency net assets were 47% (2011: 62%) hedged.

Foreign exchange

The most significant exchange rates to Sterling for the Group are as follows:

	Year to 31 March 2012		Year to 31 March 2011	
	Closing rate	**Effective rate**	Closing rate	Effective rate
US Dollar	**1.60**	**1.59**	1.60	1.56
Canadian Dollar	**1.60**	**1.59**	1.57	1.56

The US Dollar rate was slightly higher in the year to 31 March 2012 compared to last year. This resulted in the Sterling equivalent of North American US Dollar revenues being approximately 3% lower than last year. Similarly this also resulted in a small reduction in North American operating profit but this was more than offset by lower US Dollar denominated fuel costs in the UK and lower US Dollar denominated interest costs.

Shares in issue

As at 31 March 2012 there were 481.4m shares in issue (2011: 480.8m), excluding treasury shares and own shares held in trust for employees of 0.7m (2011: 1.3m). The weighted average number of shares in issue for the purpose of basic EPS calculations (excluding treasury shares and own shares held in trust for employees) was 481.4m (2011: 480.4m).

Investment in DSBFirst

The funding of the joint venture of rail operations in Sweden and Denmark was agreed with DSB during the year and a further £4.2m was invested by the Group. As a result of this the guarantees issued by the Group reduced to £7.0m. Subsequently the Swedish franchise was transferred to another operator in December 2011.

Balance sheet

Net assets have decreased by £69.9m since the start of the year. The principal reasons for this are actuarial losses on defined benefit pension schemes (net of deferred tax) of £134.0m, dividend payments of £127.8m, unfavourable hedging reserve movements (net of deferred tax) of £22.9m, and unfavourable translation reserve movements of £10.9m partly offset by the retained profit for the year of £220.3m.

Operating and financial review
continued

Goodwill
The carrying value (net assets including goodwill but excluding intercompany balances) of each cash generating unit (CGU) was tested for impairment during the year and there continues to be sufficient headroom in all of the CGUs. Headroom on the UK Bus business has reduced to £512m (2011: £796m) reflecting the reduction in projected operating profits and margins compared to this time last year. The First Student recovery plan is progressing in line with expectations and as a result the headroom on this business is in line with last year.

Pensions
The Group has updated its pension assumptions as at 31 March 2012 for the defined benefit schemes in the UK and North America.

The net pension deficit of £243m at the beginning of the year has increased to £268m at the end of the year principally due to changes in actuarial assumptions, in particular lower discount rates than last year, partly offset by the one-off benefit of de-risking the UK Bus Pension Scheme described on page 33 and higher cash payments into the schemes.

The main factors that influence the balance sheet position for pensions and the sensitivities to their movement at 31 March 2012 are set out below:

	Movement	Impact
Discount rate	+0.1%	Reduce deficit by £25m
Inflation	+0.1%	Increase deficit by £18m

Seasonality
The First Student business generates lower revenues and profits in the first half of the year than in the second half of the year as the school summer holidays fall into the first half. Greyhound operating profits are typically higher in the first half of the year due to demand being strongest in the summer months.

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

The Group has a diversified funding structure with average debt duration at 31 March 2012 of 5.5 years (2011: 6.1 years) and which is largely represented by committed medium to long term unsecured bond debt and finance leases. The Group has a $1,250m committed revolving banking facility of which $1,011m was undrawn at the year end. This facility expires in December 2015.

The Directors have carried out a detailed review of the Group's budget for the year to 31 March 2013 and medium term plans, with due regard for the risks and uncertainties to which the Group is exposed, the uncertain economic climate and the impact that this could have on trading performance. Based on this review, the Directors believe that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis and details of the going concern review are shown on page 60 of the Directors' report.

Tim O'Toole
Chief Executive
23 May 2012

Nick Chevis
Acting Finance Director
23 May 2012

Risks and uncertainties

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

Our risk management approach

We have a risk management methodology which we use throughout the business to allow us to pursue business opportunities and increase shareholder value whilst ensuring that we operate safely, develop and protect our people, assets, customers and reputation.

Each division has a designated Risk Champion who maintains a divisional risk register. These in turn support the Group Risk Register. The Risk Champions and other members of senior management form the Risk Group, which meets on a quarterly basis and oversees the Group's risk management activities and reviews and maintains the Group Risk Register.

Our principal risks and uncertainties

Many risks inherent in a transport company such as ours will always exist. The challenge is to manage them effectively. Our principal risks relate to passenger safety and security, our main cost drivers and the governmental, regulatory and economic environments.

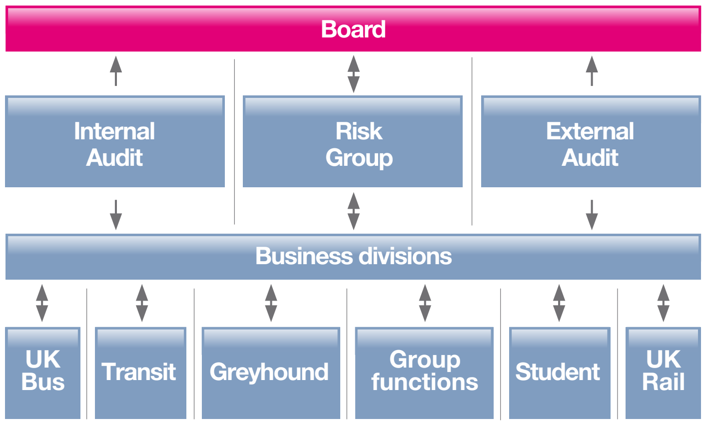
The principal risks and uncertainties that may impact our ability to execute our strategic priorities are detailed overleaf.

They have been assessed taking into account materiality, the likelihood of occurrence and any change in this during the year, and the residual risk after the implementation of controls.

The risks listed do not comprise all those associated with the Group and are not set out in any order of priority. Additional risks and uncertainties not presently known to us, or that we believe to be less material, may also impact our business.

Further information on our risk management controls is contained in the corporate governance section on pages 49 and 50.

Risk management structure



Risk	Impact	Mitigation	Change
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, or win new, contracts.	Reduced demand for public transportation leading to reduced profitability and reduced funding for and spending by local and national governments and other customers on public transport.	Many areas of the Group's business offer a certain degree of protection against economic downturn in specific geographic markets, and the revenue support and profit sharing arrangements in place in certain rail franchises. Most UK Bus operating companies are able to modify services and even greater flexibility is available to the Greyhound operations, particularly in the United States.	
Pensions The Group has significant defined benefit pension obligations relating to its UK Bus, Rail and Greyhound businesses. Under its franchise arrangements the UK Rail business is not responsible for any residual deficit at the end of a franchise so there is only short term cash flow risk within this business.	For both UK Bus and Greyhound the volatility of the underlying investments and liabilities can create material changes in the accounting cost and cash requirements in subsequent years.	Through diversification of investments, amendment of the defined benefit promises and the introduction of defined contribution for new starts in UK Bus and Group, the Group seeks to mitigate these risks, although in extreme market conditions it is not possible to completely negate them.	

Risks and uncertainties
continued

Risk	Impact	Mitigation	Change
Terrorism The threat from terrorism is enduring and it continues to exist in the countries in which we operate. Public transport has previously been subject to attack and it remains important that we take all reasonable steps to help guard against such activity on any of the services we operate.	Reputational damage and reduced demand for our services.	Our Group Head of Security leads and coordinates the work needed to respond to this threat. This includes developing and applying good practice and training our employees so that they can respond effectively to any perceived threat or incident. During 2012, the Olympic Games will be held in the United Kingdom and we recognise this event may bring an increased risk of terrorism. We are working with others, including the Department for Transport and the Police, to help ensure our security procedures are appropriate for any increased threat. Taking these steps helps protect our customers and staff, provides reassurance and supports our commitment to safety and security.	
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 the UK, the main competitor remains the car and to a lesser extent long distance coach. The UK Bus market is deregulated with low public subsidy and is very competitive with over 1,200 operators running local bus services in the UK. As noted below, the Group is also facing competition from other bidders in the four rail franchises for which it is currently shortlisted. In North America, the Group's businesses cover a wide geographic area competing with several large companies as well as a substantial number of smaller, locally owned operators. Our competitors in the yellow school bus business also include school districts which themselves operate approximately two thirds of yellow school buses in North America. Similarly, there are a significant number of transit and service businesses operated by private entities, including several large companies and public authorities. Our Greyhound coach operations face competition from a number of other coach operators in North America as well as from budget airlines.	Reduced passenger numbers and revenues.	To continue to help mitigate the risks posed by these pressures, the Group continues to focus on service quality and performance as priorities in making our services attractive to passengers and other customers. In its contracted operations, contract compliance and a competitive bidding strategy and strong bidding team are key. In addition, wherever possible, the Group works with local and national bodies to promote measures aimed at increasing demand for public transport and the other services that we offer.	
Rail re-franchising Between 2012 and 2016, the Department for Transport will undertake the largest programme of re-franchising since privatisation. Fourteen franchises will be re-let. This includes three of our existing franchises, First Great Western, First TransPennine Express and First Capital Connect. In addition, Transport Scotland will re-let First ScotRail's services. The competition for new rail franchises is intense. We bid against operators of current UK rail franchises and rail operators from other countries, principally from within the European Union.	Lower UK Rail division contribution and profitability.	The Group has an experienced and dedicated rail bid team, which is competing for franchises as they are re-let.	
Legislation and regulation Our businesses are subject to numerous laws and regulations covering a wide range of matters including safety, equipment, employment, environmental, 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 and reduced funding available for public transport could adversely impact the results of our operations.	The Group has embedded operating policies and procedures in all our businesses to ensure compliance with existing legislation and regulation. We have dedicated legal teams in the UK and North America who oversee the Group's compliance, training programmes, and advise on emerging issues. The Group closely monitors the impact of changes in the regulatory and legal environment and actively engages with Government and transport bodies to help ensure that we are properly positioned to respond to any proposed changes.	

Risk	Impact	Mitigation	Change
Customer service and associated contract retention The Group's revenues are at risk if it does not continue to provide the level of service expected by customers. This could result in contracts not being renewed in the case of our North American business and passengers no longer using our services in the UK and North America.	Revenue levels reduced and a negative impact on brand image.	To mitigate this risk, relevant 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 to ensure strict targets are being met.	↔
Rail franchise agreements The Group is required to comply with certain conditions as part of its UK Rail franchise agreements.	Penalties including the potential termination of one or more of the rail franchise agreements. This would result in the Group losing the right to continue operating the affected operations and, consequently, the related revenues or cash flows. The Group may also lose some or all of the amounts set aside as security for performance bonds and season ticket bonds.	Compliance with franchise conditions is closely managed and monitored on a monthly basis by Senior Management and procedures are in place to minimise the risk of non-compliance.	↔
Treasury risks and insurance costs Treasury risks include liquidity risks and risks arising from changes to foreign exchange rates, fuel prices and interest rates. This is set out in more detail in note 25 to the financial statements. The Group has three main insurable risks: third party claims arising from vehicle and general operations, employee injuries and property damage.	Funding not achieved and/or increased insurance costs causing an adverse impact on operating results.	The Treasury Policy and delegated authorities are reviewed periodically to ensure compliance with best practice and to control and monitor these risks effectively. 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. It purchases insurance above these limits from reputable global insurance firms. Although the Group seeks to mitigate the risk of rising insurance costs through its focus 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.	↔
Labour cost and employee relations Labour costs represent the largest component of the Group's operating costs. Future labour shortages or decreasing unemployment rates could hinder the Group's ability to recruit and retain qualified employees. In addition, it is important for a labour intensive Group that good employee relations are maintained.	Higher than expected increase in the cost of recruitment, training and other staff costs. Operational disruption and reputational damage.	The Group seeks to mitigate these risks through its recruitment and retention policies, training schemes and working practices including building communication and engagement with trade unions and the wider workforce.	↔
Fuel costs Fuel prices and supply levels can be influenced significantly by international, political and economic circumstances.	Fuel availability and higher prices could adversely impact the Group's operations and profitability.	To mitigate the risk of volatile fuel costs the Group regularly enters into forward contracts providing fixed prices. In addition, the Group may limit the impact of unexpected fuel price rises through efficiency and pricing measures.	↑
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.	Inability to execute Group strategy resulting in reduced profitability.	The Group has a robust succession planning process designed to identify talented individuals, set development goals for progression to other roles and to assess the depth of talent and any gaps throughout the leadership of the Group. The Group also offers market based compensation packages comprising an appropriate mix of long and short term incentives.	↔
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. We are subject to ongoing changes in environmental regulations the most significant of which is the Carbon Reduction Commitment Energy Efficiency Scheme, which came into force in April 2010. Along with all businesses we face the challenge of addressing climate change, both managing its impact and reducing emissions.	Financial loss and increased regulatory costs.	To mitigate these risks our storage facilities are subject to regular inspection and we have detailed fuel handling procedures which are regularly audited. We continue to reduce our own emissions through programmes to improve fuel efficiency and promote passenger growth to ensure we capitalise on the opportunities.	↔

Corporate responsibility

We believe a strong commitment to corporate responsibility supports greater employee engagement, improved customer service and increased business efficiency, leading to improved performance.

Delivering sustainable travel

We live in a world facing major transport challenges. The demands and service expectations of a growing population need to be accommodated while also conserving resources and reducing carbon emissions.

We are well placed to help address these challenges. Our buses and trains are fundamental to more sustainable travel solutions. Given that we move some 2.5 billion passengers a year, our contribution is already significant.

We will continue to improve our services, invest in technology and work with our partners to ensure that public transport continues to expand the critical role it plays. None of this is possible without the support of our 124,000 employees and the creative power they represent.

Corporate responsibility management

Our corporate responsibility programme is led by the Executive Management Board (EMB), which reports directly to the Board. It is developed and assured in line with the AA1000 Assurance Standard and the Associated Assurance Principles Standard (AA1000APS). Since 2008 an external advisory group has provided input to our corporate responsibility strategy. From 2012/13 this will be evolved to a broader stakeholder panel to strengthen our engagement on corporate responsibility issues.

www.firstgroup.com/corporate/cr

Safety

Safety is one of our core values. We are dedicated to ensuring the safety of our employees and the millions of passengers we transport every day.

Key developments this year include:

- Lost Time Injuries (work-related injuries or illness that result in an employee being unable to work a subsequent scheduled work day or shift) has fallen to 8.8 per 1,000 employees in 2011/12. This has been falling for the last four years and represents a 58% drop since 2007/08
- We collaborated with the National Safety Council in North America to create an awareness campaign which reinforces back-to-school safety messages, from teen driving to preventing bullying
- We introduced a new training DVD to educate employees in North America on 'inattention blindness', helping to reduce the incidents of sleeping children left on buses by more than half
- In the UK, Passenger Safety Month saw our bus companies working with community groups, local authorities and other partners to promote safer behaviour amongst passengers and road users.

Lost Time Injuries have fallen by

58%

since 2007/08

Our customers

We constantly strive to deliver better services and improve the customer experience across all our businesses. We undertake extensive research on customer satisfaction, from surveys to more direct feedback opportunities, including focus groups.

Developments in 2011/12:

- We started a large-scale fleet modernisation programme in UK Bus. Around 1,000 new vehicles, designed with input from customers, will be introduced
- We are investing £27 million in state-of-the-art bus ticketing technology throughout the UK (excluding London) in 2012/13. The technology will give us a smartcard platform and will help us reduce the barriers to bus travel by also enabling us to offer customers 'touch in, touch out' contactless payment using their bank cards
- In Greyhound we have extended our successful partnership with 7-Eleven which gives more customers access to online ticket deals. Approximately half of Greyhound's passengers pay by cash; this initiative allows customers, including those without credit cards, to order online or by phone and then pay at one of 6,400 local 7-Eleven stores
- In UK Rail we are trialling new mobile phone apps, increasing Facebook and Twitter use, improving access to real-time information and extending ticket purchasing options.

Customers can now order Greyhound tickets online and pay at

6,400

local 7-Eleven stores

A detailed review of our performance is available in our CR report.

Our employees

Our people are fundamental to the success of our business and we are committed to engaging our employees with the Group and making First a great place to work. This year we reaffirmed this commitment by becoming a member of the UK Government's Employee Engagement Task Force and our management provide advice and ideas through practitioner forums.

Other developments during the year include:

- In UK Bus we have significantly increased the focus of management across the division on employee communication. We have launched internal magazines and bulletins and opened up more opportunities for employees to feed back their views to managers
- In the UK, lifelong learning remains a core part of our development provision. All our UK Bus employees now have access to programmes through online facilities, with 85% also having access through local learning centres
- First Transit has held General Manager regional conferences to improve networking and share best practice, whilst Greyhound carried out executive roadshows in Canada
- First Student has increased opportunities for feedback on how systems and processes can be improved. An Engineering Group site has been launched to promote networking and increase collaboration between locations as well as holding management briefing roadshows.

Access to lifelong learning available to

100%

of UK Bus employees

Environment

Public transport makes an important contribution to reducing emissions from travel by encouraging people to switch from private cars. We are also committed to reducing the carbon footprint of our operations, from our vehicle emissions, to recycling on our trains, to energy use in our buildings.

Key achievements this year include:

- First Transit is helping its customers to improve safety and reduce fuel consumption by deploying DriveCam technology in a number of locations. This gives our customers access to information that can help to manage their vehicles more effectively, improve fuel efficiency and lower emissions
- In UK Rail, new EU regulation on sulphur content has had a negative impact on fuel efficiency. Driver Advisory Systems are being introduced to offset this, which should deliver between 8-15% carbon savings. Installation is complete for the First Great Western High Speed Train fleet
- Our DriveGreen programme won the Carbon Reduction Award at the 2011 Environmental Excellence Awards. This technology, fitted to all our buses in the UK, includes an LED traffic light display which encourages safe and efficient driving and has contributed to an improved fuel economy figure of 2.3% across our UK Bus division.

DriveGreen technology in UK Bus helped contribute to a

2.3%

fuel efficiency improvement across the division

Community

Public transport is vital to all our local communities carrying people to work, school and other destinations each day. We want to play an active and positive role in the communities we serve.

Our community engagement this year includes:

- In the UK we have donated advertising space worth £400,000 to promote Save the Children's campaigns. This forms part of our community contributions across the Group of over £1.6 million in cash and in kind in the last year
- First Student has been named Experience Works New Jersey Employer Champion of the Year. Experience Works helps older adults get the training they need to find jobs
- Our support for the Outward Bound Trust in the UK enabled children with learning difficulties from Woodlands Special School to go on an outdoor residential course
- In April, when a tornado ravaged parts of Alabama, we provided shuttle services for search and rescue personnel and transportation between local hospitals and shelters.

Summary

Our strong commitment to corporate responsibility is driven by our belief that it can lead to improved business performance. Motivated employees, strong customer service, safe and sustainable operations provided in partnership with our communities are all key to greater efficiency and growth.

2011/12 saw us donate

£1.6m

in community contributions

Board of Directors

1


2


3


4


5


6


7


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 a director of a number of investment trusts and Non-Executive Director of Primary Health Properties PLC, British Sky Broadcasting Group plc and Aberdeen Football Club plc.

2 Tim O'Toole
CBE JD
Chief Executive[4,5]
Appointed to the Board as a Non-Executive Director in May 2009, he was subsequently appointed as Group Chief Operating Officer in June 2010 and as Chief Executive in November 2010. 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. He is a Non-Executive Director of CSX Corporation, a rail freight transportation company in North America.

3 Nick Chevis
FCMA
Acting Finance Director[4]
Appointed Acting Finance Director in November 2011, prior to which he was Director of Financial Performance, and previously 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.

4 Professor David Begg
DSc BA
Non-Executive Director[1,2,3]
Chairman of the Remuneration Committee
Appointed to the Board as a Non-Executive Director in August 2005, he is Chief Executive of Transport Times and a Non-Executive Director of BAA Limited. He is also Chairman of the Business Infrastructure Commission and a Director of Portobello Partnership. He was until 2010, Chairman of Tube Lines Limited. He is a visiting professor at Plymouth University and an adviser to Greater Manchester Passenger Transport Executive. Until 2005 he was Chairman of the Commission for Integrated Transport and a Non-Executive Director of the Strategic Rail Authority.

5 Colin Hood
BSc MSc FIET
Non-Executive Director[1,2,3]
Appointed to the Board as a Non-Executive Director in May 2009, he was, until November 2011, a Director and Chief Operating Officer of Scottish and Southern Energy plc. He is Chairman of Southern Water Services Limited, a Non-Executive Director of HS1 Limited and is on the Board of Glasgow 2014 Commonwealth Games.

6 John Sievwright
DHC MA CA
Senior Independent Non-Executive Director[1,2,3]
Chairman of the Audit Committee
Appointed to the Board in May 2002, he was, until 2008, a Senior Vice President and Chief Operating Officer of International for Merrill Lynch & Co. A Chartered Accountant, he has held various senior management positions in banking in London, New York, Dublin and Japan. He is a member of the North American Board of the Michael Smurfit Business School, Dublin and a Non-Executive Director of ICAP plc.

7 Mick Barker
Non-Executive Employee Director
Appointed to the Board as Employee Director in January 2012, he has been a railwayman for 36 years and is currently employed as a train driver for First Capital Connect Limited, one of the Group's train operating companies.

Advisors

Corporate brokers

J P Morgan Cazenove Limited
10 Aldermanbury
London
EC2V 7RF

Goldman Sachs
Peterborough Court
133 Fleet Street
London
EC4A 2BB

Auditors

Deloitte LLP
2 New Street Square
London
EC4A 3BZ

Solicitors

Burges Salmon LLP
1 Glass Wharf
Bristol
BS2 0ZX

Paull & Williamsons LLP
Union Plaza
1 Union Wynd
Aberdeen AB10 1DQ

Slaughter and May
One Bunhill Row
London
EC1Y 8YY

[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

Corporate governance

Martin Gilbert
Chairman

Dear shareholder

The Group is committed to high standards of corporate governance in respect of leadership, effectiveness, accountability, remuneration and relations with shareholders as identified by the UK Corporate Governance Code. We recognise the importance of good governance in the performance of the business. In this section of the report we provide details of our governance structures and processes together with the actions we are taking to enhance governance within the Group.

Remuneration

As previously indicated, 2012/13 will be a challenging year of transition for the Group. The Remuneration Committee has decided that no salary increases will be paid to the Executive Directors or senior management for the coming year and the Chief Executive has decided to waive his bonus for 2011/12. Whilst my fees were increased to £225,000 for 2011/12, I decided not to take that increase.

Board composition

As mentioned above, the Board is reviewing its composition and a formal international search process is under way to recruit additional fully independent Non-Executive Directors to further strengthen the Board and support the Group through this important stage of its development. In addition, we are pleased to have announced the appointment of Chris Surch as Group Finance Director and we are confident that these appointments will result in a refreshed Board with strength and depth and an appropriate balance of skills and experience. In order that all new Board members are integrated quickly and efficiently into the Board and we are able to benefit from their knowledge and expertise, they will receive a full induction, including visits to the Group's operations.

We as a Board support Lord Davies' aim to raise the proportion of women on UK boards. However, we consider that diversity across a wider range of areas should be taken into account and that appointments to the Board should be made relative to a number of different criteria, including gender, background skill set, experience and expertise. We will continue to ensure that we have the right mix of capability and experience to deliver and drive the business forward and, during the year, we reviewed and updated our succession planning framework across all divisions, to ensure that strong internal candidates are available when required.

During the year, Audrey Baxter stepped down from the Board and was replaced as the Chairman of our Remuneration Committee by David Begg. David will draw on his previous experience of remuneration issues including as Chairman of Tube Lines Limited, where he oversaw executive remuneration. In addition, David's links and experience of working with local and central government make him well placed to ensure that, as a major contractor to Government, the Board understands their views on executive remuneration. David will also work with external advisers, where appropriate, on best practice in this area to assist the Committee going forward. Since his appointment, David has already begun to engage with some of our largest shareholders on remuneration issues. His review follows later in this report.

We are particularly proud of the role played by our Group Employee Directors. Mick Barker was appointed in January this year and took over from Martyn Williams, who served on the Board for nine years. We believe that the presence of an Employee Director on our Board is invaluable – it keeps the Board in touch with our front line employees and we find it to be a positive benefit in the running of our Company. In addition to sitting on our main Board, Mick is invited to attend meetings of the Nomination, Remuneration and Audit Committees.

Board evaluation

We carried out a detailed internal evaluation of the Board this year which did not highlight any significant issues but I am pleased to report that we have appointed Independent Board Evaluation to carry out an evaluation of our Board later this year. Their evaluation team will observe the Board in action in October and each member will participate in a detailed interview and review. Benchmarking data and reports will then be provided to me and the rest of the Board which will be discussed at our following meetings. The outcome will be reported on in our next Annual Report.

Martin Gilbert
Chairman

The Company applies all of the main and supporting principles of good governance set out in section 1 of the UK Corporate Governance Code issued by the Financial Reporting Council in June 2010 (the 'Code').

The Board

Structure and responsibilities

The Board currently consists of the Chairman, one Executive Director and four Non-Executive Directors. The Acting Finance Director is not a member of the Board but has attended all meetings since taking on the role. The Board meets at least nine times each year and is responsible for setting and reviewing the Company's strategy and objectives, reviewing the financial and operational performance of each of the Group's business units, agreeing and reviewing progress against the Group's annual budgets and setting and reviewing on a regular basis its longer term business plans. It also has a schedule of matters specifically reserved to it including approval of the half-year and full-year financial statements, financing arrangements, material capital commitments, business acquisitions and disposals, relationships with regulatory authorities and operating and accounting policies.

During the year, the Board met nine times (seven times in the UK and twice in the US) and all members attended whilst they were Directors with the exception of Sidney Barrie who was absent from one meeting.

On 11 November 2011 Jeff Carr, Finance Director, resigned from the Board. On 31 December 2011 Audrey Baxter, Non-Executive Director, resigned from the Board. Also on that date, Martyn Williams, having served a maximum of three, three-year terms as Group Employee Director, resigned from the Board.

On 1 January 2012 Mick Barker was appointed to the Board as the new Group Employee Director.

On 31 March 2012 Sidney Barrie, Commercial Director, having previously announced his intention to retire, resigned from the Board.

0n 14 May 2012 the Company announced that Chris Surch will join the Board as Group Finance Director with effect from 1 September 2012.

Balance and independence

In considering Director independence the Board has taken into account the guidance provided by the Code. The Board, having given thorough consideration to the matter, considers that David Begg and Colin Hood are independent. Whilst John Sievwright, our Senior Independent Director, has served on the Board for over nine years, the Board has reviewed his record and contribution and consider him to remain independent within the definition of the Code. Mick Barker is an employee of one of the Group's subsidiaries and therefore he cannot be considered to be independent. However, the Board considers that it is beneficial for its employees to be represented on the Board in this way as it enables important employee-related issues to be raised at the highest level and allows for two-way communication between management and employees.

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 Board (including, for this purpose, the Acting Finance Director), possesses the breadth of business, financial and international experience necessary to manage effectively an organisation of the size and complexity of the Group.

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
- encouraging active engagement by all members of the Board.

The Board is of the opinion, reinforced by the performance evaluation review referred to below, that Martin Gilbert's significant and in-depth knowledge and experience of the Group's business, combined with his external diverse 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 are described in his biography on page 45. The Board performance evaluation process referred to below confirmed that the other Board members are satisfied that Martin Gilbert has the necessary time available to devote to the proper performance of his duties as Chairman and remains an effective leader of the Board, encouraging active engagement and promoting open communication between the Non-Executive Directors and Executive team.

The Chief Executive

The Chief Executive is Tim O'Toole. He also has a written statement of responsibilities which has been approved by the Board.

The Chief Executive is responsible for:

- running the day-to-day business of the Group, within the authorities delegated to him by the Board
- ensuring implementation across the Group of the policies and strategy set by the Board for the Group
- day-to-day management of the executive and senior management team
- leading the development of senior management within the Group with the aim of assisting the training and development of suitable individuals for future Director roles
- ensuring that the Chairman is kept appraised in a timely manner of the issues facing the Group and of any important events and developments
- 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.

Senior Independent Non-Executive Director

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

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

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

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

During the year Mick Barker received a comprehensive induction to his new role as Group Employee Director. As an Employee Director he already had a good understanding of the business having visited sites in the UK and US. He also accompanied the outgoing Group Employee Director on further site visits. He had meetings with the Company Secretary, advisers and management from all divisions of the business and was also provided with documentation to ensure that he had a firm understanding of the Company's operations and key risks and issues.

Performance evaluation

As mentioned in the Chairman's letter, the Board undertook an internal evaluation of its performance during the course of the year. 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 to address four key areas: role, people, procedures & practices and behaviours, which each Director completed. In parallel, the Senior Independent Non-Executive Director led a process of evaluation of the performance of the Chairman. The responses were analysed and discussed at a meeting of the Board. No significant issues were identified in the course of the evaluation process. Nonetheless, the Board considers it appropriate to undergo an external board evaluation in 2012/13 and has appointed Independent Board Evaluation to carry out that evaluation later this year. The outcome will be reported on in our next Annual Report.

Re-election of Directors

All the Directors are offering themselves for re-election in accordance with the provisions of the Code at the Annual General Meeting to be held on Wednesday 25 July 2012.

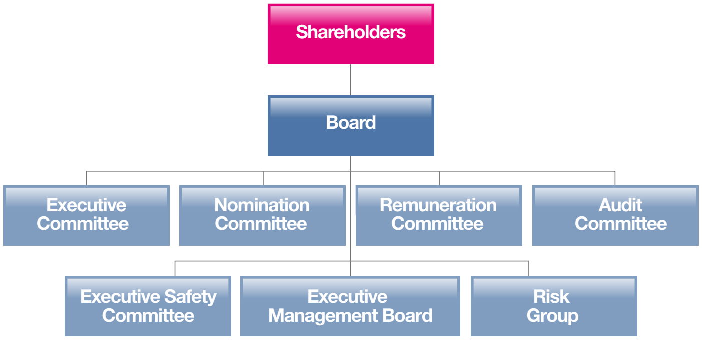
Appointment of Non-Executive Directors

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.

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 2012.

Committees of the Board



The Board has established three committees, the Audit, Remuneration and Nomination Committees. The Chairmen and members of these committees are appointed by the Board on the recommendation (where appropriate) of the Nomination Committee and in consultation with each relevant Committee Chairman.

Nomination Committee

The primary role of the Nomination Committee is to lead the process for Board appointments and make recommendations to the Board. During the year the Committee met four times to discuss progress on the various Board appointments and all members of the Committee attended each meeting held whilst they were Directors. Since the end of the year, the Committee has considered and recommended to the Board the appointment of the new Group Finance Director and has also considered the appointment of two additional Non-Executive Directors.

The Nomination Committee is chaired by Martin Gilbert and includes David Begg, Colin Hood and John Sievwright. Audrey Baxter was a member until her resignation on 31 December 2011. Tim O'Toole attends meetings of the Committee at the invitation of the Chairman of the Committee. The Group Employee Director attends such meetings at the invitation of the Chairman of the Committee to represent the Group's employees. The Committee meets as required to consider 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.

The Employee Director is elected by the Employee Directors' forum, which comprises the Employee Directors 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 in the Directors' remuneration report on page 54.

The terms of reference of the Committee were updated and adopted in September 2011 and are available on request and are also published on the Company's website.

Audit Committee

The key role of the Audit Committee is to provide oversight and reassurance to the Board as to the integrity and effectiveness of the Group's risk and financial reporting and internal control systems and to monitor and review the activities and performance of the internal and external auditors. It also monitors the consistent application of accounting policies by the Group, reviews the Group's half and full-year financial statements before they are considered and approved by the Board and monitors compliance with the Code and related guidance.

In addition to its normal functions, during the year, the Committee kept under specific review the provision made following the Board's decision not to take up the option to extend the First Great Western rail franchise agreement, the First Student recovery plan and First Transit contract provision reported on in the Finance Director's review last year. In addition, the Committee re-assessed its terms of reference in the light of the Code and reviewed the Group Risk Register. The Committee also considered the implications of changes in applicable accounting standards. The Audit Committee is chaired by John Sievwright and includes David Begg and Colin Hood and included Audrey Baxter until she resigned on 31 December 2011. It met four times during the year and all members attended each meeting held whilst they were Directors. The Group Director of Internal Audit and the Company's external auditors attended all of these meetings. Executive Directors and other senior managers attended where requested and as appropriate.

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

Each year, the Committee and the Board approves an annual audit plan for the internal audit department focusing on areas of priority as identified by risk analysis and progress against that plan and the outcome of the internal auditors' work is monitored, 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 also responsible for making recommendations to the Board in respect of the appointment or re-appointment of the Group's external auditors and recommends to the Board the audit fee to be paid to the external auditors. The Board's decision on these matters is subject to the approval of shareholders. The independence, objectivity and effectiveness of the external auditors have been examined by the Committee and discussions were held regarding their terms of engagement, remuneration and proposal for partner rotation. The appointment of Senior Statutory Auditor is rotated every five years. Deloitte LLP was originally appointed in 1999.

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 usually best placed to undertake this work cost-effectively on the Company's behalf. Details of the audit and non-audit fees, including a breakdown of the non-audit fees, are set out in note 6 to the financial statements. The Committee concluded that the nature and extent of the non-audit fees did not compromise audit independence.

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

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

The terms of reference of the Committee were updated and adopted in September 2011 and are available on request and are also published on the Company's website.

Remuneration Committee

The key role of the Remuneration Committee is to set the remuneration of the Group's Executive Directors and the Chairman and to monitor the level and structure of remuneration for senior management. It met nine times during the year and all members of the Committee attended all of its meetings held whilst they were Directors with the exception of David Begg who was absent from one meeting. Details of the membership of the Committee are set out in the Directors' remuneration report on pages 52 to 57, together with a statement of the Group's remuneration strategy and policy. Full details of Directors' remuneration appear on page 55.

The Board has also delegated certain matters to:

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.

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.

Executive Safety Committee ('ESC')

The ESC is chaired by the Chief Executive and meets on a monthly basis. It comprises the Divisional Heads of each of the businesses, other Group Directors and Group Safety Director. The ESC reviews the Group's safety performance and practices, approves Group 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 Office of Rail Regulation (ORR), the Health and Safety Executive (HSE), the Rail Accident Investigation Branch (RAIB), Network Rail and the Rail Safety and Standards Board (RSSB).

Risk Group

Each Division has a designated risk champion who is responsible for maintaining a risk register for that Division. These risk registers are used to compile a Group Risk Register, which is kept under review by the Risk Group, which is made up of members of the senior management team and the Divisional risk champions. The Risk Group meets on a quarterly basis. Further details can be found under the Internal Controls section on page 50.

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 61.

Internal controls

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

Responsibility and Risk

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 divisional managing directors. A sound system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has continued to strengthen the ongoing process for identifying, evaluating and managing the significant risks faced by the Group. As part of this process a Risk Group, comprising senior management representatives from all of the Group's main businesses as well as from the finance, treasury, legal, insurance and internal audit functions, reviews the significant risks facing the Group. The Risk Group meets at least four times annually and reports to the Board with the express purpose of reviewing the risk and control procedures in each of the business areas and support functions. As an integral part of planning and review, management from each of the business areas and support functions identify the risks facing their operations, as well as the controls in place to mitigate those risks. The probability of risks occurring as well as the likely impact on the Group's business, should the risks occur, are also assessed and documented. These risks are assessed on a regular basis, taking into account changes in both external and internal circumstances, which may include alterations to regulatory requirements, disruption to information systems, industrial relation issues, control breakdowns, as well as changes in the economic climate and social, ethical and environmental issues. As a result of 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. A table of the principal risks and uncertainties facing the Group is on pages 39 to 41.

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 Responsibility Policy and a copy of this is available on the Company's website.

In addition, the Board has effective controls in place (including an anti-bribery policy) to address the requirements of relevant anti-corruption legislation including the UK Bribery Act 2010 and the US Foreign Corrupt Practices Act. Internal Audit maintains 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.

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's accounting policies and procedures with which subsidiaries must comply. Budgets are prepared by subsidiary company management and are subject to review by both Group management and the Executive Directors followed by formal approval at the Board. Regular forecast updates are completed during the year and compared against actions required. Each subsidiary unit prepares a monthly report of operating performance, with a commentary on variances against budget and prior year. Similar reports are prepared at a Group level. Key performance indicators, both financial and operational, are monitored on a weekly basis. In addition, business units participate in strategic reviews which include consideration of long term financial projections and the evaluation of business alternatives.

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

Whistleblowing

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

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

Review of effectiveness of financial controls

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

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.

Significant agreements – change of control

(a) Financing agreements

The Group has a US$1,250m multi-currency revolving credit and guarantee facility between, amongst others, the Company and The Royal Bank of Scotland plc dated 9 December 2010. This financing agreement contains provisions entitling the lenders to exercise termination or other rights in the event of a change of control of the Company. Following any change of control of the Company, the majority of the lenders are obliged to negotiate with the Company with a view to resolving any concerns arising from such change of control and, if the matter has not been resolved to the reasonable satisfaction of the majority of the lenders in that time, then, if the majority of the lenders so require, the agent must cancel the total commitments under the facility and require prepayment of all outstanding amounts. The Company's bilateral financing agreements contain similar provisions such that, following a change of control of the Company, the banks are required 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 banks in that time, they may (if they so require) cancel the total commitments under the facilities and require prepayment of all outstanding amounts.

The £300m 6.875% bonds due 2013, the US$150m 4.26% notes due in three instalments of US$50m from 2016 to 2017, the £250m 6.125% bonds due 2019, the £300m 8.125% bonds due 2018, the £350m 8.750% bonds due 2021 and the £200m 6.875% bonds due 2024 issued by the Company may also be affected by a change of control of the Company. A change of control in respect of the £300m 6.875% bonds due 2013 and the £250m 6.125% bonds due 2019 may result in an increase of 1.5% per annum in the interest rate payable on those bonds. However, the interest rate on the bonds will only be so increased if certain further conditions in relation to the credit rating of the bonds are also satisfied. In respect of the £300m 8.125% bonds due 2018, the £350m 8.750% bonds due 2021 and the £200m 6.875% bonds due 2024, upon a change of control of the Company, together with the satisfaction of certain further conditions in relation to the credit rating of the bonds, the bondholders have the option to require the Company to redeem the bonds. In respect of the US$150m 4.26% notes due from 2016 to 2017, upon a change of control, the Company must make an offer to noteholders to prepay the entire unpaid principal amount of the notes held by each bondholder (at par) together with interest accrued thereon but without any 'yield-maintenance' amount.

(b) UK Rail

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

(c) Joint venture agreements

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

(d) London bus contracts

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

Auditors

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

Relations with shareholders

The Group recognises the importance of regular communication with its shareholders. The Annual Report and Accounts and a Half-yearly Report are made available to all shareholders. These reports are intended to provide a clear and balanced understanding of the Group's operational performance, its financial results and prospects.

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

Regular reports on investor relations activity and feedback from investors are submitted to the Board and senior management. Certain Non-Executive Directors have also engaged with major shareholders regarding the Group during the year.

Annual General Meeting

All shareholders have the opportunity to put questions to the Directors at the Company's Annual General Meeting, at which a report is made on the highlights of the key business developments during the year under review. The Chairmen of the Nomination, Remuneration and Audit Committees attend the Annual General Meeting to answer specific questions from shareholders. All Directors who then held office were present at the 2011 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

Professor David Begg
Chairman of the Remuneration Committee

Dear shareholder

I am pleased to present the report for the year to 31 March 2012. This is my first report since taking over the Chair from Audrey Baxter who resigned on 31 December 2011.

Since I took over as Committee Chairman I have met a number of our larger shareholders to seek their views on remuneration. I would like to thank them for their constructive feedback which will be invaluable in informing our remuneration framework.

Our aim is to design remuneration packages which attract, retain and motivate the high calibre individuals necessary to maintain the Group's position as a leading public transport operator in the UK and North America. In implementing its policy, the Committee gives full consideration to the Principles set out in the UK Corporate Governance Code with regard to Directors' remuneration.

Against the backdrop of a challenging transition year for the Company, a key priority for 2012/13 will be to incentivise our management team to improve performance through achievement of the plans we have put in place. The objectives we set need to be stretching but realistic targets in the context of external conditions and market expectations. The Committee intends to engage with shareholders over the coming weeks with details of proposed targets for 2012 onwards.

During the year, we took steps to further align management interests with those of our shareholders including through the inclusion of a clawback mechanism in our Long Term Incentive Plan scheme. This would apply if there has been a material misstatement in the Company's accounts. We have also determined that for future awards under our Executive Annual Bonus Plan, we will retain discretion to take account of the performance of the Group when deciding whether awards should be made even if formulaic conditions have been satisfied. Future bonus awards for senior executives will move from 75% cash with the remaining 25% in deferred shares to an equal split between cash and deferred shares. Following our review of remuneration for our Executive Directors and Senior Management, no salary increases were awarded for 2012/13.

As Chairman of our Remuneration Committee, I am committed to ensuring that the Group has an effective Remuneration Policy. I will continue to engage with our largest shareholders to ensure that the packages that we put in place for our executive team align their interests more closely with those of our shareholders and provide the correct level of incentives necessary to achieve and outperform the targets that the Board has set for them.

Professor David Begg
Chairman of the Remuneration Committee

This report has been prepared in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. 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 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 25 July 2012.

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

Unaudited information

Remuneration Committee

The Remuneration Committee is now chaired by David Begg. The other members of the Committee are Colin Hood and John Sievwright. The Group Employee Director (formerly Martyn Williams and subsequently Mick Barker) attends meetings at the invitation of the Chairman of the Committee to represent the Group's employees. The Chairman of the Board, as well as the Chief Executive, also attends meetings of the Committee by invitation, but neither was present when matters relating to their own remuneration were discussed. 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, or any conflict of interest arising from cross-directorships or any involvement in the day-to-day running of the business.

The terms of reference of the Committee were updated in October 2010 and are published on the Company's website. Copies are available on request.

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 with the exception of David Begg who was absent from one meeting. The Committee was also advised on the structuring of Directors' remuneration packages by MCG Consulting, part of the DLA Piper law group.

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 on Remuneration set out in the UK Corporate Governance Code.

Structure of remuneration packages

There are five key elements to the executive remuneration package:

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

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

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

Basic salary and benefits in kind

The basic salary and benefits in kind for each Executive Director are determined by the Committee for each financial year and when an individual changes position or responsibility. In determining appropriate levels, the Committee considers the Group as a whole and also the packages received by similar individuals as 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 55.

At 1 April 2011 the Executive Directors' salaries increased by 2.5%, an increase in line with that awarded to staff across the Group. No salary increase will be paid to the Executive Directors or Senior Management for the 2012/13 financial year.

Executive Annual Bonus Plan ('EABP')

The Group operates a 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 and personal objectives). Where an Executive Director is also directly responsible for one or more operating divisions, payment of a proportion of the bonus is also linked to the profitability of those divisions.

Each year, the Board sets challenging budget targets for the Group as a whole and for each business unit within the Group. For the year under review, bonuses were payable for Group performance against budget of between 96% and 106%, with the level of bonus payable adjusted on a straight line basis. 70% of any bonus payable was dependent upon Group (or, as appropriate, divisional) financial performance and the balance upon the achievement of safety, customer service and personal objectives. The maximum potential bonus which can be awarded to Executive Directors is 100% of basic salary and 120% of basic salary in the case of the Chief Executive.

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

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

In the future, as mentioned in my letter on page 52, the Committee now has discretion to take into account the overall performance of the Group notwithstanding that formulaic conditions may have been satisfied and bonus awards will be spilt equally between cash and deferred shares.

Group performance against budget for the 2011/12 financial year was 97.6%. A bonus of 43.4% of basic salary was paid to Sidney Barrie, the former Commercial Director, who resigned from the Board on 31 March 2012. 75% of his bonus is payable in cash and the remaining 25% is payable in shares which will vest on the date of grant. As noted above, the Chief Executive has elected to waive his bonus for 2011/12.

Long Term Incentive Plan ('LTIP')

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

Details of the vesting targets for both parts of the 2008, 2009 and 2010 awards were set out in previous Directors' remuneration reports.

In respect of the portion of the 2011 award which is subject to EPS growth:

- 100% will vest if EPS at the end of the performance period is not less than 51.9p
- 25% will vest if EPS at the end of the performance period is not less than 43.72p
- Between 25% and 100% will vest on a straight line apportionment basis if EPS at the end of the performance period is between 43.72p and 51.9p
- There will be no vesting if EPS at the end of the performance period is less than 43.72p.

The portion of the 2011 award which is subject to TSR will vest if the Company's TSR over the three-year performance period falls within the top half of a ranking of the TSR of the companies within a comparator group. In previous years TSR was measured against a diverse comparator group selected based on market capitalisation. The revised TSR comparator group for 2011 was selected to provide performance measurement against a group which contains the Company's industry peers and is made up of a list of those companies comprising the FTSE All Share Travel and Leisure Index at the start of the performance period.

- 100% of that portion will vest if the Company's TSR falls within the upper quartile of the comparator group
- 25% of that portion will vest if the Company's TSR falls at the median of the comparator group
- Between 25% and 100% will vest on a straight line apportionment basis if the Company's TSR falls between median and the upper quartile of the comparator group
- There will be no vesting if the Company's TSR is below median.

As with the previous awards, the foregoing vesting targets for the 2011 award and the level of the award as a factor of salary in relation to the Executive Directors were agreed by the Committee following consultation with a number of the Company's largest institutional shareholders.

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.

Following testing of the conditions for vesting of the 2009 award at 31 March 2012, the Committee determined that neither the EPS nor the TSR targets had been met and accordingly the award has lapsed. The award granted in 2008 also lapsed.

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 takeover 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.

The Committee is currently in the process of formulating the targets for 2012 awards under the LTIP. The intention is to set targets which support delivery of the key objectives for the business over the next three years, and to provide management with performance targets which are suitably stretching and aligned with the interests of shareholders. The Committee intends to appropriately engage with shareholders over the coming weeks and full details of the targets for the 2012 awards will be disclosed in next year's report.

Share Schemes

Executive Share Option Scheme

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

Save As You Earn ('SAYE') Scheme

The Company operated a SAYE Scheme for eligible employees during the year under review under which options may be granted on an annual basis at a discount of up to 20% of market value. The Executive Directors are eligible to participate in the current scheme but have chosen not to.

Buy As You Earn ('BAYE') Scheme

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

Retirement benefits

Executive Directors are members of a number of defined benefit Group pension schemes. Their dependants are eligible for dependants' pensions and the payment of a lump sum in the event of death in service. Further details are set out on page 57.

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 awards. 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
Sidney Barrie (resigned 31 March 2012)	31 August 2005
Jeff Carr (resigned 11 November 2011)	29 June 2009
Tim O'Toole	25 January 2011

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. 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. These letters of appointment are available for inspection at the Company's registered office during normal business hours and will be made available for inspection at the Annual General Meeting.

Details of the fees paid to Non-Executive Directors are set out on page 55. There will be no increase in such fees for the financial year commencing on 1 April 2012.

Non-Executive Directors, other than the Group Employee Director, cannot participate in any of the Company's share schemes and are not eligible to join a Company pension scheme. Each of the Non-Executive Directors (other than David Begg 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.

	Salary 2012 £'000	Pension allowance 2012 £'000	Cash bonus 2012 £'000	Benefits in kind[1] 2012 £'000	Fees 2012 £'000	Total 2012 £'000	Total 2011 £'000
Executive Directors							
Sidney Barrie (resigned 31 March 2012)	349	70	113	11	–	543	462
Jeff Carr (resigned 11 November 2011)	280	34	–	1	–	315	579
Tim O'Toole	846	134	–	75	–	1,055	591[2]
Non-Executive Directors							
Martin Gilbert	–	–	–	–	191	191	191
Mick Barker (appointed 1 January 2012)	–	–	–	–	9	9	–
Audrey Baxter (resigned 31 December 2011)	–	–	–	–	45	45	53
David Begg	–	–	–	–	53	53	45
Colin Hood	–	–	–	–	50	50	45
John Sievwright	–	–	–	–	60	60	53
Martyn Williams (resigned 31 December 2011)	–	–	–	–	28	28	34
Total	1,475	238	113	87	436	2,349	2,053

1 The Executive Directors received the following non-cash benefits in the year: Sidney Barrie – £10,000 car allowance and £847 medical insurance for himself and spouse; Jeff Carr – £617 medical insurance for himself; and Tim O'Toole – £12,000 car allowance, £15,555 US private medical insurance for himself and spouse and £47,292 reimbursement of advisory fees (principally relating to taxation in the US and UK).

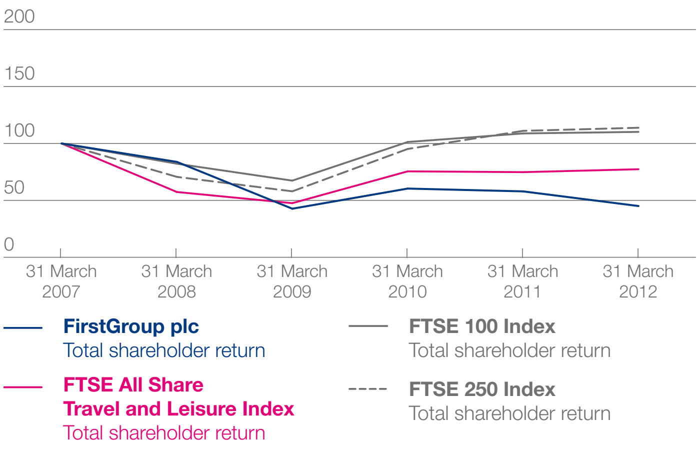
2 Tim O'Toole will receive no salary increase for 2012/13. The 2011/12 figure represents a full year of remuneration for his role as Chief Executive. The movement in his salary from 2010/11 reflects the various roles performed by him during that year. From 1 April 2010 to 9 June 2010 he was a Non-Executive Director for which he received a fee of £9,070. From 10 June 2010 to 31 October 2010 he was Chief Operating Officer for which he received total remuneration of £224,921. From 1 November 2010 to 31 March 2011, he was Chief Executive, for which he received total remuneration of £357,250.

Total shareholder return

The graph below 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 Travel and Leisure Index are calculated.

This graph is included to meet the relevant legislative requirements. 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, particularly the FTSE All Share Travel and Leisure Index, which is the index against which the relative performance of half of the 2011 LTIP award is measured.

Total shareholder return



Source: Datastream

Audited information

Market price of FirstGroup plc shares

The market price of FirstGroup plc shares at 31 March 2012 was 237.7p and the range during the year was 237.7p to 370.2p.

Directors' remuneration

Details of the Directors' remuneration for the year ended 31 March 2012 are set out above and overleaf.

Emoluments and compensation

The total salaries, fees and benefits paid to, or received by, those persons who served as a Director of the Company at any time during the year for the period of such directorship are shown in the table above. 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.

Directors' share awards

The outstanding share awards under the ESOS, deferred share bonus under the EABP, LTIP and SAYE Scheme granted to each of the serving Directors are set out in the table below. No price was paid for any share award. There have been no changes to the terms and conditions of any share awards granted 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
Mick Barker	SAYE	2008/09	517	–	–	–	517	371	1.2.12	31.7.12
		2009/10	585	–	–	–	585	310	1.2.13	31.7.13
		2010/11	710	–	–	–	710	319.04	1.2.14	31.7.14
		2011/12	–	556	–	–	556	271.52	1.2.15	31.7.15
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
		2009	6,605	–	–	–	6,605	nil	1.4.12	1.4.19
		2010	6,893	–	–	–	6,893	nil	1.4.13	1.4.20
		2011	–	10,528	–	–	10,528	nil	1.4.14	1.4.21
	LTIP[4]	2008	86,445[9]	–	–	86,445	–	nil	1.4.11	1.4.12
		2009	115,652	–	–	–	115,652	nil	1.4.12	1.4.13
		2010	121,326	–	–	–	121,326	nil	1.4.13	1.4.14
		2011	–	154,614	–	–	154,614	nil	1.4.14	1.4.15
Jeff Carr	Deferred share bonus	2010	4,916[5]	–	–	4,916	–	nil	1.4.13	1.4.20
		2011	–	13,488[5]	–	13,488	–	nil	1.4.14	1.4.21
	LTIP[4]	2009	162,486[5]	–	–	162,486	–	nil	1.4.12	1.4.13
		2010	170,458[5]	–	–	170,458	–	nil	1.4.13	1.4.14
		2011	–	198,099[5]	–	198,099	–	nil	1.4.14	1.4.15
Tim O'Toole	Deferred share bonus[3]	2011	–	69,587[6]	–	–	69,587	nil	1.4.14	1.4.21
	LTIP[4]	2010	224,996	–	–	–	224,996	nil	1.4.13	1.4.14
		2011	–	375,166	–	–	375,166	nil	1.4.14	1.4.15
	Retention share award[7]	2011	214,826	–	–	–	214,826	nil	1.11.13	N/A
Martyn Williams	SAYE	2007/08	263[8]	–	–	263	–	583	1.2.11	31.7.11
		2008/09	414	–	–	–	414	371	1.2.12	31.7.12
		2009/10	468	–	–	–	468	310	1.2.13	31.7.13
		2010/11	451	–	–	–	451	319.04	1.2.14	31.7.14
		2011/12	–	556	–	–	556	271.52	1.2.15	31.7.15

1 Mick Barker was appointed as a Group Employee Director on 1 January 2012.
2 Jeff Carr resigned as a Director on 11 November 2011. Martyn Williams resigned as a Group Employee Director on 31 December 2011 but continues to be employed as a customer services supervisor in our UK Bus division. Sidney Barrie resigned as a Director on 31 March 2012.
3 The figures shown represent the number of nil-cost share awards which were granted under the deferred share element of the EABP in respect of the relevant financial year. Tim O'Toole having waived any bonus for the year, the cash value of the 2011/12 award for Sidney Barrie was £37,848. 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 award. The number of share awards will depend on the market price of shares at the close of business on 23 May 2012.
4 The figures shown represent the number of nil-cost share awards which were granted under the LTIP in the relevant financial year.
5 Lapsed 11 November 2011.
6 Tim O'Toole elected to take all of his EABP 2011 bonus in the form of deferred shares.
7 The award will not vest if Tim O'Toole has ceased to be employed by the Company or given notice of his resignation (other than for certain good leaver reasons) by this date. The principal purpose of this award, which was made in a prior year after consultation with a number of the Company's largest institutional shareholders, was the retention of Tim O'Toole as Chief Executive.
8 Lapsed 1 August 2011.
9 Lapsed 5 May 2011.

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 2012[3]	Increase in accrued pension	Increase in accrued pension (net of inflation)[2]	Transfer value of increase in accrued pension (net of inflation)	Transfer value at 31 March 2011	Transfer value at 31 March 2012	Increase in transfer value, less Directors' contributions[1]
Sidney Barrie[5]	Nil	£19,054	£1,544	£917	£19,816	£389,818	£411,544	£21,726
Jeff Carr[4]	£9,054	£6,130	£1,495	£1,293	£18,914	£63,581	£89,640	£17,005
Tim O'Toole	£14,655	£4,403	£2,549	£2,404	£46,627	£34,038	£85,402	£36,709

1 The above Directors participated in salary sacrifice arrangements during the year. The defined benefit Directors' contributions in the table above have been paid via salary sacrificed by the Directors with an equivalent contribution being paid directly to the pension scheme by the Company.

2 The inflation assumption is 3.4% using the annual change in CPI as at February 2012.

3 The accrued pension at 31 March 2012 for each member is based on the actual final pensionable salary at that date which uses a three-year average of pensionable salary. If actual final pensionable salary had been used at 31 March 2011 rather than pensionable salary, the accrued pension for Tim O'Toole and Jeff Carr would not have changed. The accrued pension at 31 March 2011 for Sidney Barrie would have been £17,295 rather than the reported £17,510.

4 Jeff Carr resigned as a Director on 11 November 2011.

5 Sidney Barrie resigned as a Director on 31 March 2012. He ceased accruing benefits on 31 March 2011 and therefore no further contributions have been paid since 1 April 2011. His pension commences at 1 April 2012 and the increase in his pension since cessation is shown above.

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

Sidney Barrie, Jeff Carr and Tim O'Toole 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, a Group SIPP arrangement operates, in which these individuals are allowed to participate. A 'pension allowance' is calculated for each Director as 20% of their salary in excess of the earnings cap. Some of this is paid to the SIPP as a Company contribution with the remainder being payable to the Director in the form of a salary supplement. This amounted to a Group SIPP Company contribution during the financial year of £nil in respect of Sidney Barrie, £5,698 in respect of Jeff Carr, and £9,222 in respect of Tim O'Toole and a salary supplement of £69,700 in respect of Sidney Barrie, £34,254 in respect of Jeff Carr and £134,417 in respect of Tim O'Toole.

This report was approved by the Board of Directors, on the recommendation of the Remuneration Committee, on 15 May 2012 and signed on its behalf by:

Professor David Begg
Chairman of the Remuneration Committee

Directors' report

The Directors have pleasure in submitting their Annual Report and Accounts for the year ended 31 March 2012.

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 and the operating and financial review set out on pages 22 to 38. Our review of the principal risks and uncertainties of the business is set out on pages 39 to 41.

Results and dividends

The results for the year are set out in the consolidated income statement on page 62. The Directors recommend payment of a final dividend of £77.2m (16.05p per share) which, with the interim dividend of £36.6m (7.62p per share) paid on 1 February 2012, gives a total dividend of £113.8m (23.67p per share) for the year. The proposed final dividend, if approved, will be paid on 17 August 2012 to shareholders on the register at the close of business on 13 July 2012.

Share capital

Details of 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 23 May 2012, there were 482,067,170 ordinary shares of 5p each in issue including 261,429 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 2012 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 pages 53 and 54 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 2011 authority was granted 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 2012 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, Tim O'Toole, Sidney Barrie (resigned 31 March 2012), Jeff Carr (resigned 11 November 2011), Audrey Baxter (resigned 31 December 2011), David Begg, John Sievwright, Colin Hood, Martyn Williams (resigned 31 December 2011) and Mick Barker (appointed 1 January 2012). Biographical details of all the serving Directors are set out on page 45.

With regard to the appointment and replacement of Directors, the Company is governed by its articles of association, the Code, the Companies Acts and related legislation. The Company is 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.

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 52 to 57.

Directors' interests

The Directors who held office at the end of the year had the following interests in the ordinary shares of the Company which are all beneficially owned – see table below.

Director	At 23 May 2012	At 31 March 2012	At 1 April 2011 or date of subsequent appointment
Mick Barker (appointed 1 January 2012)	4,007	3,368	2,423
Sidney Barrie (resigned 31 March 2012)	N/A	20,678	20,678
David Begg	61,666	28,507	21,762
Martin Gilbert	240,530	186,767	159,161
Colin Hood	22,929	21,860	12,948
John Sievwright	54,190	53,191	45,861
Tim O'Toole	120,938	118,273	6,226

Standing arrangements exist whereby all Non-Executive Directors have elected to receive 40% (except for David Begg and Colin Hood who have elected to receive 100%) of their monthly fees in the form of shares in the Company. Tim O'Toole has elected to receive part of his remuneration each month in the form of shares. Tim O'Toole purchased 100,000 additional shares on 10 November 2011. David Begg purchased 31,847 additional shares on 23 May 2012 and Martin Gilbert purchased 50,000 additional shares on 23 May 2012.

Details of the Directors' share awards are set out in the Directors' remuneration report on pages 52 to 57.

No Director has any material interest in any significant contract or agreement with the Group, other than their service contracts.

Significant interests

At 23 May 2012, 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	%
Majedie Asset Management Limited	25,287,428	5.25
BlackRock, Inc.	24,297,017	5.04
Capital Research and Management Company	23,939,612	4.97
Lloyds Banking Group plc	23,464,316	4.87
Standard Life Investments Limited	23,409,623	4.86
AXA S.A.	22,235,746	4.62
Artemis Investment Management Limited	20,586,417	4.27
Legal & General Group Plc	19,264,804	4.00
Capital Group International, Inc.	19,233,573	3.99

Employees

Our employees are the foundation of our Company and the Group is committed to ensuring their involvement in the business through an informative and consultative approach to employee communication across our business. As well as written communications such as newsletters and notices, employees can also access online communications such as intranets and extranets, and email updates. This is mixed with various forms of face-to-face communication at every level of the organisation. Senior management teams within each division meet regularly to discuss current issues and they then work with their own teams to ensure that they are communicating these important messages onwards. Equally, employees are encouraged to discuss any issues with management at any time, and events are arranged at regular intervals to allow employees the chance to discuss issues that matter most to them with their businesses' most senior management. Each division also operates a confidential hotline which staff can use to report health and safety, employment-related and other issues.

The Group also has a regular dialogue with employees and representatives from trade unions. Most operating companies have either an elected Company Council or, more typically, an Employee Director on their boards. This principle extends to the plc Board where one member is an Employee Director, who 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 trade unions to set up a number of joint schemes, including workplace learning, credit unions, national policies on assaults, drugs and alcohol, and the restructuring of Group pension schemes.

As well as gathering feedback throughout the year through formal and informal opportunities, all employees are also given the opportunity to make their voice heard through the Group's employee survey 'Your Voice'. The survey provides a useful insight into what our employees like best about working for us and where they would most like to see improvements made. These priorities, as identified by our own people, help to shape the future employee strategy in our business.

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.

Over the past 12 months the Group has made progress towards its goal of achieving a balanced and diverse organisation to ensure we have the right mix of capability and experience to deliver and drive business performance. We recognise that we need to improve the balance and diversity of our workforce and whilst there is further work to be done we are pleased to be moving towards that goal.

We have seen an increase in the percentage of female applicants looking to join the Group and our aim is to continue to improve this percentage. We are also focused on increasing the percentage of women in senior roles, which is currently over 17%. The most recent intake for our graduate development programme reflects almost double our present percentage of women in senior roles, which should deliver further progress in attaining a balanced workforce in future years.

We are undertaking a number of actions to build the balance and diversity of the workforce including detailed and robust succession planning to identify and develop talent across the organisation. We have also piloted and will roll out a development programme for women, which is based on learning from across a range of industries and sectors. 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, nationality, ethnic origin, religion, gender, sexual orientation, marital status, trade union membership, age or disability.

Corporate responsibility

The Group publishes a separate Corporate Responsibility Report covering social, environmental and health and safety issues, which will be available on our website at **www.firstgroup.com**.

Charitable and political contributions

The Group made various donations to UK charities totalling approximately £254,000 during the year (2011: £260,000). 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 2012, the Group had the equivalent of 40 days' (2011: 33 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 ought to have taken as a Director to make himself aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information.

Directors' report
continued

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

Forward-looking statements
Where the Directors' Report contains forward-looking statements these are made by the Directors in good faith based upon the information available at the time of their approval of this report. These statements will not be updated or reported upon further. Consequently, such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying such forward-looking statements or information and nothing in this report should be construed as a profit forecast.

Annual General Meeting
The Annual General Meeting will be held at the Aberdeen Exhibition and Conference Centre, Bridge of Don, Aberdeen, Scotland AB23 8BL on Wednesday 25 July 2012 at 11.00 am. The Notice of Annual General Meeting is contained in a separate letter from the Chairman accompanying this report.

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

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

While any changes in economic activity will impact UK Bus and Rail passenger numbers this potential risk 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 (90 days in Scotland) 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 committed bank facilities and long term unsecured bond debt. The Group has US$1,250m of banking facilities of which US$1,011m was undrawn at the year end. These facilities expire in December 2015 and the Directors believe that there is every likelihood that they will be replaced by similar financing arrangements.

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

The Directors have carried out a detailed review of the Group's 2012/13 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 39 to 41), the uncertain economic climate and the impact that this could have on trading performance.

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

By order of the Board

Paul Lewis
Company Secretary
23 May 2012

395 King Street
Aberdeen
AB24 5RP

Directors' responsibilities statement

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

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

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

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

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

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

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

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

Responsibility statement

We confirm that to the best of our knowledge:

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

By order of the Board

Tim O'Toole
Chief Executive
23 May 2012

Nick Chevis
Acting Finance Director
23 May 2012

Consolidated income statement

For the year ended 31 March

	Notes	2012[1] Adjusted results[2] £m	2012[1] Adjustments[3] £m	2012[1] Total £m	2011 Adjusted results[2] £m	2011 Adjustments[3] £m	2011 Total restated[4] £m
Continuing operations							
Revenue	3,4	6,678.7	–	6,678.7	6,416.7	–	6,416.7
Operating costs before profit/(loss) on disposal of properties		(6,250.2)	18.5	(6,231.7)	(5,960.0)	(143.7)	(6,103.7)
Operating profit before profit/(loss) on disposal of properties		428.5	18.5	447.0	456.7	(143.7)	313.0
Amortisation charges		–	(30.9)	(30.9)	–	(42.9)	(42.9)
Exceptional items		–	49.4	49.4	–	(100.8)	(100.8)
		–	18.5	18.5	–	(143.7)	(143.7)
Profit/(loss) on disposal of properties		–	1.0	1.0	–	(4.4)	(4.4)
Operating profit	4,6	428.5	19.5	448.0	456.7	(148.1)	308.6
Investment income	8	2.0	–	2.0	1.9	–	1.9
Finance costs	8	(159.1)	(11.0)	(170.1)	(184.3)	0.3	(184.0)
Profit before tax		271.4	8.5	279.9	274.3	(147.8)	126.5
Tax	9	(54.5)	4.4	(50.1)	(59.7)	43.0	(16.7)
Profit for the year from continuing operations		216.9	12.9	229.8	214.6	(104.8)	109.8
Discontinued operations							
(Loss)/profit for the year from discontinued operations	10	(0.3)	(9.2)	(9.5)	0.6	6.7	7.3
Profit for the year		216.6	3.7	220.3	215.2	(98.1)	117.1
Attributable to:							
Equity holders of the parent		192.3	3.9	196.2	198.0	(94.8)	103.2
Non-controlling interests		24.3	(0.2)	24.1	17.2	(3.3)	13.9
		216.6	3.7	220.3	215.2	(98.1)	117.1
Earnings per share							
Continuing operations							
Basic	11	40.0p	2.7p	42.7p	41.1p	(21.1)p	20.0p
Diluted	11	39.8p	2.7p	42.5p	40.7p	(20.9)p	19.8p
Continuing and discontinued operations							
Basic	11	39.9p	0.9p	40.8p	41.2p	(19.7)p	21.5p
Diluted	11	39.7p	0.8p	40.5p	40.9p	(19.6)p	21.3p

Dividends of £108.8m (2011: £101.4m) were paid during the year. Dividends of £77.2m (2011: £72.1m) are proposed for approval in respect of the year.

1 For all businesses excluding UK Rail this year includes 53 weeks compared to 52 weeks last year.
2 Adjusted trading results before items noted in 3 below.
3 Amortisation charges, ineffectiveness on financial derivatives, exceptional items, profit/(loss) on disposal of properties and discontinued operations and tax thereon.
4 Restated to exclude discontinued operations as explained in note 2.

Consolidated statement of comprehensive income

Year ended 31 March

	2012 £m	2011 £m
Profit for the year	**220.3**	117.1
Other comprehensive income/(expense)		
Derivative hedging instrument movements	**(36.1)**	193.4
Deferred tax on derivative hedging instrument movements	**13.2**	(44.0)
Exchange differences on translation of foreign operations	**(10.9)**	(143.9)
Unrealised losses on executive deferred compensation plans	**–**	(0.1)
Actuarial losses on defined benefit pension schemes	**(185.8)**	(55.5)
RPI to CPI change in defined benefit pension arrangements	**–**	84.9
Deferred tax on actuarial losses and RPI to CPI change on defined benefit pension schemes	**51.8**	(5.9)
Other comprehensive (expense)/income for the year	**(167.8)**	28.9
Total comprehensive income for the year	**52.5**	146.0
Attributable to:		
Equity holders of the parent	**28.4**	132.6
Non-controlling interests	**24.1**	13.4
	52.5	146.0

Consolidated balance sheet

Year ended 31 March

	Notes	2012 £m	2011 £m	2010 £m
Non-current assets				
Goodwill	13	**1,599.3**	1,608.0	1,754.9
Other intangible assets	14	**318.8**	348.6	415.9
Property, plant and equipment	15	**2,006.3**	2,082.9	2,284.1
Deferred tax assets	26	**43.3**	30.0	30.4
Retirement benefit assets	36	**25.2**	30.7	3.1
Derivative financial instruments	25	**72.6**	58.1	33.0
Investments		**7.2**	3.2	4.8
		4,072.7	4,161.5	4,526.2
Current assets				
Inventories	17	**91.0**	91.4	92.7
Trade and other receivables	18	**601.9**	555.5	602.5
Cash and cash equivalents	21	**499.7**	388.0	335.0
Assets held for sale	19	**3.7**	4.6	3.9
Derivative financial instruments	25	**43.5**	65.1	32.1
		1,239.8	1,104.6	1,066.2
Total assets		**5,312.5**	5,266.1	5,592.4
Current liabilities				
Trade and other payables	20	**1,261.0**	1,129.9	1,120.0
Tax liabilities		**21.8**	49.0	36.1
Financial liabilities – bank loans	22	**69.3**	93.5	–
– bonds	22	**73.6**	73.3	73.3
– obligations under HP contracts and finance leases	23	**52.4**	42.8	34.6
– loan notes	22	**–**	–	0.8
Derivative financial instruments	25	**17.1**	38.5	85.2
		1,495.2	1,427.0	1,350.0
Net current liabilities		**255.4**	322.4	283.8
Non-current liabilities				
Financial liabilities – bank loans	22	**426.0**	554.9	896.0
– bonds	22	**1,441.0**	1,417.1	1,414.1
– obligations under HP contracts and finance leases	23	**282.9**	209.1	192.8
– loan notes	22	**9.7**	9.7	9.7
– senior unsecured loan notes	22	**93.3**	–	–
Derivative financial instruments	25	**50.1**	29.7	121.1
Retirement benefit liabilities	36	**293.1**	273.9	333.9
Deferred tax liabilities	26	**97.7**	93.0	63.9
Provisions	27	**242.5**	300.8	300.4
		2,936.3	2,888.2	3,331.9
Total liabilities		**4,431.5**	4,315.2	4,681.9
Net assets		**881.0**	950.9	910.5
Equity				
Share capital	28	**24.1**	24.1	24.1
Share premium	29	**676.4**	676.4	676.4
Hedging reserve	29	**12.5**	35.4	(114.0)
Other reserves	29	**4.6**	4.6	4.6
Own shares		**(1.1)**	(5.0)	(6.5)
Translation reserve	30	**145.7**	156.6	300.0
Retained earnings		**(3.6)**	41.5	10.2
Equity attributable to equity holders of the parent		**858.6**	933.6	894.8
Non-controlling interests		**22.4**	17.3	15.7
Total equity		**881.0**	950.9	910.5

Tim O'Toole **Nick Chevis**

Consolidated statement of changes in equity

	Share capital £m	Share premium £m	Hedging reserve £m	Other reserves £m	Own shares £m	Translation reserve £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
Balance at 1 April 2010	24.1	676.4	(114.0)	4.6	(6.5)	300.0	10.2	894.8	15.7	910.5
Total comprehensive income for the year	–	–	149.4	–	–	(143.4)	126.6	132.6	13.4	146.0
Dividends paid	–	–	–	–	–	–	(101.4)	(101.4)	(11.8)	(113.2)
Movement in EBT and treasury shares	–	–	–	–	1.5	–	(1.7)	(0.2)	–	(0.2)
Share-based payments	–	–	–	–	–	–	7.7	7.7	–	7.7
Deferred tax on share-based payments	–	–	–	–	–	–	0.1	0.1	–	0.1
Balance at 31 March 2011	24.1	676.4	35.4	4.6	(5.0)	156.6	41.5	933.6	17.3	950.9
Total comprehensive income for the year	–	–	(22.9)	–	–	(10.9)	62.2	28.4	24.1	52.5
Dividends paid	–	–	–	–	–	–	(108.8)	(108.8)	(19.0)	(127.8)
Movement in EBT and treasury shares	–	–	–	–	3.9	–	(3.9)	–	–	–
Share-based payments	–	–	–	–	–	–	6.0	6.0	–	6.0
Deferred tax on share-based payments	–	–	–	–	–	–	(0.6)	(0.6)	–	(0.6)
Balance at 31 March 2012	**24.1**	**676.4**	**12.5**	**4.6**	**(1.1)**	**145.7**	**(3.6)**	**858.6**	**22.4**	**881.0**

Consolidated cash flow statement

Year ended 31 March

	Note	2012 £m	2011 £m
Net cash from operating activities	32	**475.4**	555.7
Investing activities			
Interest received		**2.0**	1.7
Proceeds from disposal of property, plant and equipment		**57.7**	21.8
Purchases of property, plant and equipment		**(170.9)**	(210.3)
Disposal of subsidiary		**5.5**	24.3
Acquisition of businesses		**(3.4)**	(3.1)
Net cash used in investing activities		**(109.1)**	(165.6)
Financing activities			
Monies received on exercise of share options		**–**	3.1
Dividends paid		**(108.8)**	(101.4)
Dividends paid to non-controlling shareholders		**(19.0)**	(11.8)
Proceeds from senior unsecured loan notes		**90.2**	–
Proceeds from bank facilities		**2.5**	124.1
Repayment of bank debt		**(179.8)**	(307.7)
Repayments under HP contracts and finance leases		**(35.2)**	(35.9)
Repayment of loan notes		**–**	(0.8)
Fees for bank facility amendments and bond issues		**(2.1)**	(6.3)
Net cash flow from financing activities		**(252.2)**	(336.7)
Net increase in cash and cash equivalents before foreign exchange movements		**114.1**	53.4
Cash and cash equivalents at beginning of year		**388.0**	335.0
Foreign exchange movements		**(2.4)**	(0.4)
Cash and cash equivalents at end of year per consolidated balance sheet		**499.7**	388.0

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

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

	2012 £m	2011 £m
Net increase in cash and cash equivalents in year	**114.1**	53.4
Decrease in debt and finance leases	**122.3**	220.3
Inception of new HP contracts and finance leases	**(119.3)**	(70.2)
Fees capitalised against bank facilities and bond issues	**2.1**	6.3
Net cash flow	**119.2**	209.8
Foreign exchange movements	**(7.7)**	129.2
Other non-cash movements in relation to financial instruments	**0.4**	(6.9)
Movement in net debt in year	**111.9**	332.1
Net debt at beginning of year	**(1,949.4)**	(2,281.5)
Net debt at end of year	**(1,837.5)**	(1,949.4)

Net debt includes the value of derivatives in connection with the bonds maturing in 2018, 2019 and 2021 and excludes all accrued interest. These bonds are included in non-current liabilities in the consolidated balance sheet.

Notes to the consolidated financial statements

1. General information

FirstGroup plc is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is 395 King Street, Aberdeen AB24 5RP. The nature of the Group's operations and its principal activities are set out in the operating and financial review on pages 22 to 38.

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 114 to 122.

2. Significant accounting policies

Basis of accounting

The financial statements have been prepared in accordance with the recognition and measurement criteria of IFRSs adopted and endorsed 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 60. The principal accounting policies adopted are set out below.

The figures for the year to 31 March 2012 include the results of the rail businesses for the year to 31 March 2012 and the results of all the other businesses for the 53 weeks ended 31 March 2012. The figures for the year to 31 March 2011 include the results of the rail businesses for the year to 31 March 2011 and the results of all the other businesses for the 52 weeks ended 26 March 2011.

Restatement of prior years numbers

The income statement and segmental amounts for the year to 31 March 2011 have been restated to show the results of FirstGroup Deutschland GmbH, which was sold during the year, within discontinued operations. The results of discontinued operations are set out in note 10.

The calculation of adjusted EBITDA has been revised to exclude capital grant amortisation whereas previously EBITDA was calculated as adjusted operating profit plus depreciation. As a result of this EBITDA for the year to 31 March 2011 has been restated as follows:

	£m
EBITDA as previously stated	778.2
Discontinued operations	(1.3)
Capital grant amortisation	(8.0)
EBITDA as restated	768.9

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.

Non-controlling interest in the net assets of the consolidated subsidiaries are identified separately from the Group's equity interest therein. Non-controlling interest consist of those interests at the date of the original business combination and the non-controlling interests share of the changes in equity since the date of the combination. Losses applicable to the non-controlling interest in excess of the non-controlling interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the non-controlling interest 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 non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholder's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

2. Significant accounting policies continued

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. As a general rule, significant influence will be presumed to exist when the Group holds, directly or indirectly through subsidiaries, 20% or more of the voting power, of the investee. However, where it is clear that the Group, although holding 20% or more of the voting power does not have significant influence, the investment is not accounted for as an associate. The Group has a 30% holding in DSBFirst but does not have significant influence and therefore the holding is treated as an investment.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Assets held for sale

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

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

Goodwill and intangible assets

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

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

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

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

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

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

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

Revenue recognition

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

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

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

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 First Student and First Transit, and services revenue from contracts with government bodies and similar organisations is recognised as the services are provided.

Interest income is recognised on an accruals basis.

Leasing

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

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 borrowings in foreign currencies (see note 25 for details of the Group's policies in respect of foreign exchange risks).

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

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

Borrowing costs

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

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

Operating profit

Operating profit is stated after amortisation charges and exceptional items but before investment income and finance costs.

Exceptional items

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

Retirement benefit costs

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

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

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

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

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

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

2. Significant accounting policies continued

Tax

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

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

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

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

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

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

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

Property, plant and equipment

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

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

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.

Capital 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 CGU 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 CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU 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 or CGU 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 or CGU 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.

2. Significant accounting policies continued

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

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

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

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

Financial assets are classified into one of four primary categories:

Fair value through profit and loss
This covers any financial asset designated on initial recognition to be measured at fair value with fair value changes to go through 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.

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

2. Significant accounting policies continued

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 remeasured to fair value at the reported balance sheet date. The fair values are calculated by reference to market exchange rates, interest rates and fuel prices at the period end, and supported by counterparty confirmations. 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. Amounts due within 12 months of the balance sheet date are considered to be reliably measured and are therefore included within accruals and deferred income.

Insurance

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

Share-based payments

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

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

Dividend distribution

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

New standards and interpretations not applied

The International Accounting Standards Board and the International Financial Reporting Interpretations Committee have issued the following standards and interpretations for annual periods beginning on or after the effective dates as noted below:

IAS/IFRS standards		Effective for accounting periods starting on or after
Amendments to IFRS 1 (March 2012)	Government Loans	1 January 2013
Amendments to IAS 32 (December 2011)	Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendments to IFRS 7 (December 2011)	Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
IFRS 9	Financial Instruments	1 January 2015
Amendments to IAS 1 (June 2011)	Presentation of Items of Other Comprehensive Income	1 July 2012
IAS 19 (revised June 2011)	Employee Benefits	1 January 2013
IFRS 13	Fair Value Measurement	1 January 2013
IFRS 12	Disclosure of Interests in Other Entities	1 January 2013
IFRS 11	Joint Arrangements	1 January 2013
IFRS 10	Consolidated Financial Statements	1 January 2013
IAS 28 (revised May 2011)	Investments in Associates and Joint Ventures	1 January 2013
IAS 27 (revised May 2011)	Separate Financial Statements	1 January 2013

2. Significant accounting policies continued

The key impact of IAS 19 (revised) *Employee Benefits* will be to remove the separate assumptions for expected return on plan assets and discounting of scheme liabilities and replace them with one single discount rate for the net deficit.

With the exception of the revisions to IAS 19 noted above, the Directors do not anticipate the adoption of these other 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 CGUs 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 CGU and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was £1,599.3m (2011: £1,608.0m; 2010: £1,754.9m) as set out in note 13 and the carrying amount of other intangible assets at the balance sheet date was £318.8m (2011: £348.6m; 2010: £415.9m) 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.

Contract and franchise accounting

Judgements are made on an ongoing basis with regards to the recoverability of amounts due and the carrying value of related assets and liabilities arising from long term service contracts and franchises. Regular forecasts are compiled on the outcome of these types of contracts and franchises, which require assessments and judgements relating to the expected level of revenues and costs and, in cases where options exist, the life of the contract or franchise.

Defined benefit pension arrangements

Measurement of defined benefit pension obligations requires estimation of a suitable discount rate, the expected return on scheme assets, expected rate of inflation of future salary and pension costs along with assumptions about mortality rates. The most significant of these are the discount rate and inflation rate assumptions. A 0.1% movement in the discount rate would impact operating profit and the balance sheet position by approximately £1m and £25m respectively. A 0.1% movement in the inflation rate would impact operating profit and the balance sheet position by approximately £3m and £18m respectively. The net pension deficit as at the balance sheet date was £267.9m (2011: £243.2m; 2010: £330.8m) as set out in note 36.

Self-insurance

Provision is made for all known incidents for which there is self-insurance using management's best estimate of the likely settlement of these incidents. The estimated settlement is reviewed on a regular basis with independent actuarial advice and the amount provided is adjusted as required. The Group's total self-insurance provisions, including those classified within accruals and deferred income, as at the balance sheet date were £336.0m (2011: £340.5m; 2010: £375.2m) as set out in note 27.

3. Revenue

	2012 £m	2011 £m
Continuing operations		
Services rendered	**6,028.9**	5,857.7
UK Rail franchise subsidy receipts	**411.1**	390.8
UK Rail revenue support	**238.7**	168.2
	6,678.7	6,416.7
Finance income	**2.0**	1.9
Total revenue from continuing operations as defined by IAS 18	**6,680.7**	6,418.6
Discontinued operations		
Services rendered	**5.3**	22.0
UK Rail franchise subsidy receipts	**–**	0.4
Total revenue from discontinued operations as defined by IAS 18	**5.3**	22.4
Total revenue as defined by IAS 18	**6,686.0**	6,441.0

4. Business segments and geographical information

For management purposes, the Group is organised into five operating divisions – First Student, First Transit, Greyhound, UK Bus and UK Rail. These divisions are managed separately in line with the differing services that they provide and the geographical markets which they operate in. The principal activities of these divisions are described in the operating and financial review.

The segment results for the year to 31 March 2012 are as follows:

	First Student £m	First Transit £m	Greyhound £m	UK Bus £m	UK Rail £m	Group items[1] £m	Total[2] £m
Revenue	1,567.2	778.6	657.2	1,157.2	2,506.1	17.7	6,684.0
Discontinued operations	–	–	–	–	–	(5.3)	(5.3)
Revenue continuing operations	1,567.2	778.6	657.2	1,157.2	2,506.1	12.4	6,678.7
EBITDA[3]	255.8	65.3	80.1	207.1	163.5	(28.9)	742.9
Depreciation	(148.7)	(9.5)	(29.5)	(73.2)	(66.2)	(1.0)	(328.1)
Capital grant amortisation	–	–	–	0.5	13.2	–	13.7
Segment results[3]	107.1	55.8	50.6	134.4	110.5	(29.9)	428.5
Amortisation charges	(20.1)	(4.3)	(3.1)	–	(3.4)	–	(30.9)
Exceptional items	–	–	–	60.7	(10.2)	(1.1)	49.4
Profit/(loss) on disposal of properties	(0.3)	–	5.0	(3.7)	–	–	1.0
Operating profit	86.7	51.5	52.5	191.4	96.9	(31.0)	448.0
Investment income							2.0
Finance costs							(159.1)
Ineffectiveness on financial derivatives							(11.0)
Profit before tax							279.9
Tax							(50.1)
Profit for the year from continuing operations							229.8
Discontinued operations							(9.5)
Profit after tax and discontinued operations							220.3

Other information	First Student £m	First Transit £m	Greyhound £m	UK Bus £m	UK Rail £m	Group items[1] £m	Total £m
Capital additions	138.5	29.7	44.2	45.1	64.5	4.4	326.4

Balance sheet	First Student £m	First Transit £m	Greyhound £m	UK Bus £m	UK Rail £m	Group items[1] £m	Eliminations £m	Total £m
Total assets	3,115.0	570.4	725.7	1,225.2	773.8	3,291.5	(4,432.4)	5,269.2
Unallocated corporate items[4]								43.3
Total assets								5,312.5
Liabilities	3,839.6	220.5	544.8	1,072.5	701.3	2,387.5	(4,432.4)	4,333.8
Unallocated corporate items[4]								97.7
Total liabilities								4,431.5

[1] Group items comprise Tramlink operations, central management and other items.
[2] For all businesses excluding UK Rail this year includes 53 weeks compared to 52 weeks last year.
[3] Adjusted.
[4] Deferred tax.

4. Business segments and geographical information continued

The segment results for the year to 31 March 2011 are as follows:

	First Student £m	First Transit £m	Greyhound £m	UK Bus £m	UK Rail £m	Group items[1] £m	Total £m
Revenue	1,594.4	771.5	634.6	1,137.5	2,279.7	21.4	6,439.1
Discontinued operations	–	–	–	–	(9.9)	(12.5)	(22.4)
Revenue continuing operations	1,594.4	771.5	634.6	1,137.5	2,269.8	8.9	6,416.7
EBITDA[2]	278.1	66.3	68.7	220.0	158.6	(22.8)	768.9
Depreciation	(149.8)	(9.1)	(28.5)	(71.7)	(57.4)	(3.7)	(320.2)
Capital grant amortisation	–	–	–	0.5	7.5	–	8.0
Segment results[2]	128.3	57.2	40.2	148.8	108.7	(26.5)	456.7
Amortisation charges	(20.4)	(4.7)	(3.1)	–	(14.7)	–	(42.9)
Exceptional items	(39.5)	(16.6)	–	(2.4)	(41.9)	(0.4)	(100.8)
Loss on disposal of properties	(0.1)	–	(1.2)	(3.1)	–	–	(4.4)
Operating profit	68.3	35.9	35.9	143.3	52.1	(26.9)	308.6
Investment income							1.9
Finance costs							(184.3)
Ineffectiveness on financial derivatives							0.3
Profit before tax							126.5
Tax							(16.7)
Profit for the year from continuing operations							109.8
Discontinued operations							7.3
Profit after tax and discontinued operations							117.1

Other information	First Student £m	First Transit £m	Greyhound £m	UK Bus £m	UK Rail £m	Group items[1] £m	Total £m
Capital additions	134.3	9.0	41.6	15.2	48.1	17.7	265.9

Balance sheet	First Student £m	First Transit £m	Greyhound £m	UK Bus £m	UK Rail £m	Group items[1] £m	Eliminations £m	Total £m
Total assets	2,742.7	503.9	680.1	1,226.9	792.8	3,355.0	(4,065.3)	5,236.1
Unallocated corporate items[3]								30.0
Total assets								5,266.1
Liabilities	3,427.0	198.2	484.1	1,113.6	728.1	2,336.5	(4,065.3)	4,222.2
Unallocated corporate items[3]								93.0
Total liabilities								4,315.2

[1] Group items comprise Tramlink operations, central management and other items.
[2] Adjusted.
[3] Deferred tax.

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

	2012 £m	2011 £m
Share-based payments	**6.0**	7.7
Loss on disposal of plant and equipment	**3.8**	3.7
	9.8	11.4

4. Business segments and geographical information continued

Geographical information

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

Revenue – continuing operations	2012 £m	2011 £m
United Kingdom	**3,675.9**	3,416.2
United States of America	**2,482.6**	2,508.0
Canada	**520.2**	492.5
	6,678.7	6,416.7
Revenue – discontinued operations		
United Kingdom	**–**	9.9
Germany	**5.3**	12.5
Total revenue – continuing and discontinued operations	**6,684.0**	6,439.1

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	
	2012 £m	2011 £m	2012 £m	2011 £m
United Kingdom	**5,290.5**	5,374.7	**110.5**	81.0
United States of America	**3,884.7**	3,405.4	**177.0**	171.3
Canada	**526.4**	521.3	**38.9**	13.6
Eliminations	**(4,432.4)**	(4,065.3)	**–**	–
Unallocated corporate items	**43.3**	30.0	**–**	–
	5,312.5	5,266.1	**326.4**	265.9

5. Exceptional items and amortisation charges

	2012 £m	2011 £m
UK Bus Pension Scheme changes	**73.3**	–
UK Rail bid costs	**(10.2)**	(2.7)
UK Bus depot sales and closures	**(10.7)**	–
Competition Commission costs	**(1.9)**	(1.4)
UK Rail claim	**–**	22.5
UK Rail First Great Western contract provision	**–**	(59.9)
First Student recovery plan	**–**	(39.5)
First Transit goodwill impairment and contract provision	**–**	(16.6)
UK Rail joint venture provision	**–**	(1.8)
UK Bus restructuring costs	**–**	(1.0)
Other exceptional items	**(1.1)**	(0.4)
Total exceptional items	**49.4**	(100.8)
Amortisation charges	**(30.9)**	(42.9)
Profit/(loss) on disposal of properties	**1.0**	(4.4)
Operating profit credit/(charge)	**19.5**	(148.1)
Ineffectiveness on financial derivatives	**(11.0)**	0.3
Profit/(loss) before tax credit	**8.5**	(147.8)
Tax credit	**4.4**	43.0
(Loss)/profit on disposal of discontinued operations	**(9.2)**	6.7
Net exceptional items for the year	**3.7**	(98.1)

5. Exceptional items and amortisation charges continued

UK Bus Pension Scheme changes

During the year we took actions to de-risk the UK Bus Pension Scheme, the most significant of which is that pension increases will be linked to consumer price inflation (CPI) rather than retail price inflation (RPI). In addition a pensionable pay cap was introduced along with lower pension accrual rates. As a result of these changes future pension liabilities have decreased and a one-off exceptional gain of £73.3m (2011: £nil) was realised.

UK Rail bid costs

We are now entering a transition period for UK Rail with eight franchises being retendered in the next two years. Bid costs of £10.2m (2011: £2.7m) were incurred during the year. These costs covered the preparation of the Intercity West Coast bid which was submitted on 4 May 2012. They also include the cost of pre-qualification for three further rail franchises – Great Western, Thameslink and Essex Thameside. We are the only operator to pre-qualify for all the franchises that are currently out to bid.

UK Bus depot sales and closures

As part of our programme to rebalance our portfolio in UK Bus operations we have taken the decision to sell or close certain operations. Net losses of £8.2m were incurred during the year comprising £6.7m of operating losses for the year and £1.5m of closure costs. In addition a loss on the disposal of the Northumberland Park depot in East London of £2.5m was recorded in the year representing gross proceeds of £14.2m less the carrying value of net assets including £5.2m of goodwill as well as transaction costs. The proceeds of the disposal were received in the first week of 2012/13.

Competition Commission costs

During the year we incurred a further £1.9m (2011: £1.4m) of costs responding to and representing our position to the Competition Commission investigation into the UK Bus market. The Competition Commission issued their final Report in December 2011.

Other exceptional items

Costs of £1.1m were incurred principally on effecting the changes to the UK Bus Pension Scheme as described above.

Amortisation charges

The charge for the year was £30.9m (2011: £42.9m) with the reduction mainly due to the write off of the remaining balance of the First Great Western franchise intangible asset (£7.6m) in the previous year.

Profit/(loss) on disposal of properties

During the year we realised £40.3m (2011: £10.1m) on the disposal of selected properties predominantly in Greyhound operations. These resulted in a net profit on disposal of £1.0m (2011: loss of £4.4m).

Ineffectiveness on financial derivatives

Due to the ineffective element and undesignated fair value movements on financial derivatives there was a £11.0m non-cash charge (2011: £0.3m credit) to the income statement during the year. The principal component of this non-cash charge relates to fixed interest rate swaps which do not qualify for hedge accounting but do provide a cash flow hedge against variable rate debt from 2012 to 2015. It is anticipated that the charge in respect of these swaps will reverse over their contractual term.

Tax on exceptional items and amortisation charges

The tax credit as a result of these exceptional items was £0.4m (2011: £41.3m). In addition there was a one-off deferred tax credit of £4.0m (2011: £1.7m) as a result of the reduction in the UK corporation tax rate from 26% to 24% (2011: 28% to 26%).

6. Operating profit

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

	2012 £m	2011 £m
Depreciation of property, plant and equipment (note 15)	**328.1**	321.0
Operating lease charges (note 34)	**683.2**	641.0
Amortisation charges (note 14)	**30.9**	42.9
Capital grant amortisation	**(13.7)**	(8.0)
Cost of inventories recognised as an expense	**756.0**	720.5
Staff costs (note 7)	**2,872.2**	2,827.1
Auditor's remuneration for audit services (see below)	**1.5**	1.5
UK Rail franchise payments	**520.5**	406.6
Other operating costs	**1,053.0**	1,151.1
	6,231.7	6,103.7

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:

	2012 £m	2011 £m
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**0.1**	0.1
Fees payable to the Company's auditor and their associates for the audit of the Company's subsidiaries pursuant to legislation	**1.4**	1.4
Total audit fees	**1.5**	1.5
Audit-related assurance services	**0.3**	0.3
Other taxation advisory services	**0.1**	0.2
Total non-audit fees	**0.4**	0.5

Fees payable to Deloitte LLP and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

Details of the Group's policy on the use of auditors for non-audit services, the reasons why the auditor was used rather than another supplier and how the auditor's independence and objectivity was safeguarded are set out in the corporate governance statement on page 49. No services were provided pursuant to contingent fee arrangements.

7. Staff costs

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

	2012 Number	2011 Number
Operational	**118,072**	121,133
Administration	**6,633**	6,486
	124,705	127,619

The aggregate remuneration (including Executive Directors) comprised:

	2012 £m	2011 £m
Wages and salaries	**2,617.7**	2,577.3
Social security costs	**218.1**	202.8
Other pension costs (note 36)	**36.4**	47.0
	2,872.2	2,827.1

Wages and salaries include a charge in respect of share-based payments of £6.0m (2011: £7.7m).

Disclosures on Directors' remuneration, share options, long term incentive schemes and pension entitlements required by the Companies Act 2006 and those specified for audit by the Financial Services Authority are contained in the tables/notes within the Directors' remuneration report on pages 52 to 57 and form part of these audited financial statements.

8. Investment income and finance costs

	2012 £m	2011 £m
Investment income		
Bank interest receivable	**(2.0)**	(1.9)
Finance costs		
Bonds	**92.6**	91.6
Bank borrowings	**34.3**	64.2
Senior unsecured loan notes	**3.9**	–
Loan notes	**1.0**	1.0
Finance charges payable in respect of HP contracts and finance leases	**8.4**	7.8
Notional interest on long term provisions	**18.9**	19.7
Finance costs before exceptional items	**159.1**	184.3
Hedge ineffectiveness on financial derivatives	**11.0**	(0.3)
	170.1	184.0
Net finance costs	**168.1**	182.1

Finance costs are stated after charging fee expenses of £4.1m (2011: £4.9m). There was no interest capitalised into qualifying assets in either the year ended 31 March 2011 or 31 March 2012.

9. Tax on profit on ordinary activities

	2012 £m	2011 £m
Current tax	**(5.3)**	36.7
Deferred tax (note 26)	**55.4**	(20.0)
Tax on profit from continuing operations	**50.1**	16.7
Current tax – discontinued operations	**–**	0.4
Total tax charge	**50.1**	17.1

UK corporation tax is calculated at 26% (2011: 28%) of the estimated assessable profit for the year. Tax for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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

	2012 £m	2012 %	2011 £m	2011 %
Profit before tax	**279.9**	**100.0**	126.5	100.0
Tax at the UK corporation tax rate of 26% (2011: 28%)	**72.8**	**26.0**	35.4	28.0
Tax effect of expenses that are not deductible in determining taxable profit	**4.7**	**1.7**	4.8	3.8
Reduced tax in subsidiaries operating in other jurisdictions	**(12.5)**	**(4.5)**	(21.2)	(16.8)
Impact of reduction in UK tax rate on current years deferred tax	**(2.3)**	**(0.8)**	1.2	0.9
Impact of reduction in UK tax rate on prior years deferred tax	**(4.0)**	**(1.4)**	(1.7)	(1.3)
Adjustments to tax in respect of prior years	**(8.6)**	**(3.1)**	(1.8)	(1.4)
Tax charge and effective tax rate for the year on continuing operations	**50.1**	**17.9**	16.7	13.2

In addition to the amount charged/(credited) to the income statement, deferred tax relating to share-based payments £0.6m (2011: £(0.1)m), actuarial gains/(losses) £(51.8)m (2011: £5.9m) and cash flow and net investment hedges £(13.2)m (2011: £44.0m), amounting to a credit of £(64.4)m (2011: charge £49.8m) has been taken directly to equity in accordance with IAS12.

10. Discontinued operations

On 28 May 2010 FirstGroup plc disposed of GB Railfreight and on 30 September 2011 the Group disposed of FirstGroup Deutschland GmbH. As a consequence the results of these businesses have been classified as discontinued operations, as detailed below.

	2012 £m	2011 £m
Revenue	**5.3**	22.4
Operating costs	**(5.6)**	(21.4)
(Loss)/profit before tax	**(0.3)**	1.0
Attributable tax expense	**–**	(0.4)
(Loss)/profit for the year from discontinued operations	**(0.3)**	0.6
(Loss)/profit on disposal of discontinued operations	**(9.2)**	6.7
Net (loss)/profit attributable to discontinued operations	**(9.5)**	7.3

There was no attributable tax on the profit on disposal of discontinued operations.

During the year, discontinued operations contributed £0.6m (2011: £1.7m) to the Group's net operating cash flows, paid £nil (2011: £0.2m) in respect of investing activities and paid £nil (2011: £nil) in respect of financing activities.

Details of the loss on disposal of FirstGroup Deutschland GmbH are set out in note 31.

The effect of discontinued operations on segment results is disclosed in note 4.

11. Earnings per share (EPS)

EPS is calculated by dividing the profit attributable to equity shareholders of £196.2m (2011: £103.2m) by the weighted average number of ordinary shares of 481.4m (2011: 480.4m). The numbers of ordinary shares used for the basic and diluted calculations are shown in the table below.

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

	2012 Number m	2011 Number m
Weighted average number of share used in basic calculation	**481.4**	480.4
SAYE share options	**0.3**	0.5
Executive share options	**2.4**	3.7
	484.1	484.6

The adjusted basic EPS is intended to highlight the recurring results of the Group before amortisation charges, ineffectiveness on financial derivatives, exceptional items, (profit)/loss on disposal of properties and discontinued operations. A reconciliation is set out below:

	2012		2011	
	£m	EPS (p)	£m	EPS (p)
Basic profit/EPS from continuing operations	**205.7**	**42.7**	95.9	20.0
Basic (loss) or profit/EPS from discontinued operations	**(9.5)**	**(1.9)**	7.3	1.5
Basic profit/EPS	**196.2**	**40.8**	103.2	21.5
Amortisation charges[1]	**30.7**	**6.4**	42.7	8.9
Ineffectiveness on financial derivatives	**11.0**	**2.2**	(0.3)	(0.1)
Exceptional items	**(49.4)**	**(10.3)**	100.8	21.0
Non-controlling interests on exceptional items	**–**	**–**	(3.1)	(0.6)
(Profit)/loss on disposal of properties	**(1.0)**	**(0.2)**	4.4	0.9
Business disposals	**9.2**	**1.9**	(6.7)	(1.4)
Tax effect of above adjustments	**(0.4)**	**(0.1)**	(41.3)	(8.6)
Deferred tax credit due to change in UK corporation tax rate	**(4.0)**	**(0.8)**	(1.7)	(0.4)
Adjusted profit/EPS	**192.3**	**39.9**	198.0	41.2
Adjusted loss or (profit)/EPS from discontinued operations	**0.3**	**0.1**	(0.6)	(0.1)
Adjusted profit/EPS from continuing operations	**192.6**	**40.0**	197.4	41.1

[1] Amortisation charges of £30.9m per note 14 less £0.2m (2011: £42.9m less £0.2m) attributable to equity non-controlling interests.

11. Earnings per share (EPS) continued

Diluted EPS	2012 pence	2011 pence
Continuing operations		
Basic	**42.5**	19.8
Adjusted	**39.8**	40.7
Continuing and discontinued operations		
Basic	**40.5**	21.3
Adjusted	**39.7**	40.9

12. Dividends

	2012 £m	2011 £m
Final dividend per share paid for the year ended 31 March 2011 of 15.0p (2010: 14.0p)	**72.2**	67.2
Interim dividend per share paid for the year ended 31 March 2012 of 7.62p (2011: 7.12p)	**36.6**	34.2
Amounts recognised as distributions to equity holders in the year	**108.8**	101.4
Proposed final dividend per share for the year ended 31 March 2012 of 16.05p (2011: 15.0p)	**77.2**	72.1

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

13. Goodwill

	2012 £m	2011 £m	2010 £m
Cost			
At 1 April	**1,613.0**	1,754.9	1,820.0
Additions	**2.9**	2.3	–
Disposals	**(11.3)**	(14.2)	–
Foreign exchange movements	**(0.3)**	(130.0)	(65.1)
At 31 March	**1,604.3**	1,613.0	1,754.9
Accumulated impairment losses			
At 1 April	**5.0**	–	–
Impairment losses for the year	**–**	5.0	–
At 31 March	**5.0**	5.0	–
Carrying amount			
At 31 March	**1,599.3**	1,608.0	1,754.9

Details of acquisitions in the year are shown in note 31.

13. Goodwill continued

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated as follows:

	2012 £m	2011 £m	2010 £m
Carrying amount			
First Student	**1,029.6**	1,027.5	1,117.9
First Transit	**247.3**	246.7	271.1
Greyhound	**227.4**	226.9	244.3
UK Bus	**89.4**	95.2	95.5
UK Rail	**5.6**	5.6	19.8
Germany	**–**	6.1	6.3
	1,599.3	1,608.0	1,754.9

Impairment testing

At the year end, the carrying value of net assets, including goodwill, was reviewed for impairment in accordance with IAS 36 *Impairment of Assets*. For the purposes of this impairment review goodwill has been tested for impairment on the basis of discounted future cash flows arising in each relevant CGU.

The Group prepares cash flow forecasts derived from the most recent budget for 2012/13 and Five Year Plan projections for 2013-16 which take account of both past performance and expectations for future market developments. The projections for First Student assume the incremental benefits of the recovery plan together with a moderate economic recovery. Cash flows in 2015/16 are extrapolated using estimated growth rates of 2.5% (2011: 2.5%) for the United Kingdom and 3.0% (2011: 3.0%) for North America which do not exceed the long term average growth rate for the Group's businesses. A risk adjustment is then made using a pre-tax discount rate of 10.0% (2011: 10.0%) to arrive at the value in use for each of the CGUs. The pre-tax discount rates applied are derived from the Group's weighted average cost of capital. The assumptions used in the calculation of the Group's weighted average cost of capital are benchmarked to externally available data.

The Directors consider the assumptions to be reasonable based on the historic performance of each CGU and to be realistic in light of economic and industry forecasts.

The calculation of value in use for each CGU is most sensitive to the principal assumptions of discount rate, growth rates and margins achievable. Sensitivity analysis has been performed on the calculations and confirms that no reasonably possible changes in the assumptions would cause the carrying amount of the CGUs to exceed their recoverable amount.

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

	First Student £m	First Transit £m	Greyhound £m	UK Bus £m	UK Rail £m
Carrying value[1]	1,546	261	306	822	110
Headroom	241	420	345	512	546
Value in use	1,787	681	651	1,334	656
Headroom after increasing discount rate by 1.0%	71	353	279	381	479
Headroom after a 1.0% reduction in assumed growth rates	226	414	339	500	540
Headroom after a 1.0% reduction in margin	89	329	274	397	334

1 Net assets including goodwill above but excluding intercompany balances.

The First Student margin would need to fall in excess of 1.6% compared to future projections for there to be an impairment to the carrying value of net assets in this business.

Following their review of goodwill the Directors have concluded that there is no impairment to any of the CGUs.

14. Other intangible assets

	Customer contracts £m	Greyhound brand and trade name £m	Rail franchise agreements £m	Total £m
Cost				
At 1 April 2010	407.6	66.0	56.3	529.9
Foreign exchange movements	(26.1)	(4.1)	–	(30.2)
At 31 March 2011	381.5	61.9	56.3	499.7
Additions	–	–	1.4	1.4
Foreign exchange movements	(0.3)	(0.1)	–	(0.4)
At 31 March 2012	**381.2**	**61.8**	**57.7**	**500.7**
Amortisation				
At 1 April 2010	70.6	8.3	35.1	114.0
Charge for year	25.1	3.1	14.7	42.9
Foreign exchange movements	(5.6)	(0.2)	–	(5.8)
At 31 March 2011	90.1	11.2	49.8	151.1
Charge for year	24.3	3.2	3.4	30.9
Foreign exchange movements	(0.1)	–	–	(0.1)
At 31 March 2012	**114.3**	**14.4**	**53.2**	**181.9**
Carrying amount				
At 31 March 2012	**266.9**	**47.4**	**4.5**	**318.8**
At 31 March 2011	291.4	50.7	6.5	348.6
At 31 March 2010	337.0	57.7	21.2	415.9

Intangible assets include customer contracts and the Greyhound brand and trade name which were acquired through the purchases of businesses and subsidiary undertakings. These are being amortised over their useful economic lives as shown in note 2 to the consolidated financial statements.

The rail franchise agreements' intangible asset represents the part of the economic benefit that is realised as a result of recognising our share of the rail pension deficit on the date of commencement of each respective franchise and is amortised on a straight-line basis over the initial term of each respective franchise. The largest element of the franchise intangible relates to the First ScotRail franchise (carrying amount £3.3m (2011: £4.6m)). During 2011 the Great Western franchise agreement intangible was fully written down as set out in note 5. During 2012 the TPE franchise was extended giving rise to an addition to rail franchise agreements' intangible assets of £1.4m.

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 2010	555.2	2,644.3	549.9	3,749.4
Subsidiary undertakings acquired	–	1.0	–	1.0
Subsidiary undertakings disposed of	(2.8)	(2.3)	(4.0)	(9.1)
Additions in the year	27.3	145.8	89.5	262.6
Disposals	(15.2)	(59.5)	(30.8)	(105.5)
Transfers	(8.5)	–	8.5	–
Reclassified as held for sale	–	(56.1)	–	(56.1)
Foreign exchange movements	(19.5)	(108.0)	(16.4)	(143.9)
At 31 March 2011	536.5	2,565.2	596.7	3,698.4
Subsidiary undertakings disposed of	(2.8)	(4.0)	(0.6)	(7.4)
Additions in the year	15.6	202.7	105.2	323.5
Disposals	(41.6)	(72.1)	(23.8)	(137.5)
Transfers	–	11.3	(11.3)	–
Reclassified as held for sale	–	(77.6)	–	(77.6)
Foreign exchange movements	(0.4)	(1.8)	0.1	(2.1)
At 31 March 2012	**507.3**	**2,623.7**	**666.3**	**3,797.3**
Accumulated depreciation and impairment				
At 1 April 2010	68.5	1,130.9	265.9	1,465.3
Subsidiary undertakings disposed of	(1.2)	(2.3)	(1.8)	(5.3)
Charge for year	14.1	228.4	78.5	321.0
Impairment	–	13.3	–	13.3
Disposals	(4.3)	(47.7)	(27.3)	(79.3)
Reclassified as held for sale	–	(46.4)	–	(46.4)
Foreign exchange movements	(2.1)	(44.6)	(6.4)	(53.1)
At 31 March 2011	75.0	1,231.6	308.9	1,615.5
Subsidiary undertakings disposed of	(0.3)	(2.0)	(0.4)	(2.7)
Charge for year	12.0	220.3	95.8	328.1
Disposals	(3.1)	(70.1)	(14.5)	(87.7)
Transfers	–	(24.0)	24.0	–
Reclassified as held for sale	–	(61.6)	–	(61.6)
Foreign exchange movements	(0.1)	(0.5)	–	(0.6)
At 31 March 2012	**83.5**	**1,293.7**	**413.8**	**1,791.0**
Carrying amount				
At 31 March 2012	**423.8**	**1,330.0**	**252.5**	**2,006.3**
At 31 March 2011	461.5	1,333.6	287.8	2,082.9
At 31 March 2010	486.7	1,513.4	284.0	2,284.1

An amount of £17.1m (2011: £13.4m; 2010: £34.0m) in respect of assets under construction is included in the carrying amount of property, plant and equipment.

At 31 March 2012 the Group had entered into contractual capital commitments amounting to £161.6m (2011: £148.8m; 2010: £86.8m), principally representing buses ordered in the United Kingdom and North America and commitments under the First Great Western franchise.

15. Property, plant and equipment continued

Property, plant and equipment held under HP contracts and finance leases are analysed as follows:

	2012 £m	2011 £m	2010 £m
Passenger carrying vehicle fleet – cost	**494.1**	349.2	305.3
– depreciation	**(113.8)**	(80.9)	(72.5)
Net passenger carrying vehicle fleet	**380.3**	268.3	232.8
Other plant and equipment – cost	**4.4**	4.4	4.4
– depreciation	**(2.6)**	(2.5)	(2.3)
Net other plant and equipment	**1.8**	1.9	2.1
Total net book value	**382.1**	270.2	234.9

The title to the assets under HP contracts and finance leases is held by the lenders.

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 117.

17. Inventories

	2012 £m	2011 £m	2010 £m
Spare parts and consumables	**90.6**	91.1	91.5
Property development work in progress	**0.4**	0.3	1.2
	91.0	91.4	92.7

In the view of the Directors there is no material difference between the balance sheet value of inventories and their replacement cost. There was no material write down of inventories during the current or prior year. The provision for stock obsolescence at the balance sheet date was £8.0m (2011: £8.2m; 2010: £7.7m).

18. Trade and other receivables

	2012 £m	2011 £m	2010 £m
Amounts due within one year			
Trade receivables	**421.5**	408.7	462.2
Provision for doubtful receivables	**(4.5)**	(7.5)	(6.5)
Other receivables	**72.8**	53.4	57.3
Other prepayments and accrued income	**112.1**	100.9	89.5
	601.9	555.5	602.5

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 £601.9m (2011: £555.5m; 2010: £602.5m), cash and cash equivalents of £499.7m (2011: £388.0m; 2010: £335.0m) and derivative financial instruments of £116.1m (2011: £123.2m; 2010: £65.1m). The Group's maximum exposure to credit risk for all financial assets at the balance sheet date was £1,217.7m (2011: £1,066.7m; 2010: £1,002.6m). The exposure is spread over a large number of unconnected counterparties and the maximum single concentration with any one counterparty was £81.1m (2011: £53.0m; 2010: £50.0m) 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 £4.5m (2011: £7.5m; 2010: £6.5m).

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 a minimum of 'A' credit ratings assigned by international credit rating agencies. These counterparties are subject to approval by the Board. Group treasury policy limits the maximum deposit with any one counterparty to £75m, and limits the maximum term to three months.

18. Trade and other receivables continued

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

	2012 £m	2011 £m	2010 £m
Ageing past due but not impaired trade receivables			
Less than 30 days	**31.2**	39.4	33.9
30 – 90 days	**12.5**	9.9	11.4
90 – 180 days	**7.9**	7.5	11.1
180+ days	**1.9**	1.8	4.4
Total	**53.5**	58.6	60.8

	2012 £m	2011 £m	2010 £m
Movement in the provision for doubtful receivables			
Balance at the beginning of the year	**7.5**	6.5	8.8
Amounts written off during the year	**(3.4)**	(2.0)	(3.4)
Amounts recovered during the year	**(0.5)**	(0.2)	(0.2)
Increase in allowance recognised in the income statement	**0.9**	3.4	1.5
Foreign exchange movements	**–**	(0.2)	(0.2)
Balance at the end of the year	**4.5**	7.5	6.5

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

19. Assets held for sale

	2012 £m	2011 £m	2010 £m
Assets held for sale	**3.7**	4.6	3.9

These comprise First Student 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

	2012 £m	2011 £m	2010 £m
Amounts falling due within one year			
Trade payables	**397.6**	312.2	288.9
Other payables	**169.1**	113.9	145.1
Accruals and deferred income	**626.2**	640.5	627.5
Season ticket deferred income	**68.1**	63.3	58.5
	1,261.0	1,129.9	1,120.0

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 40 days (2011: 33 days; 2010: 31 days). The Group has controls in place to ensure that all payments are paid within the appropriate credit timeframe.

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

21. Cash and cash equivalents

	2012 £m	2011 £m	2010 £m
Cash and cash equivalents	**499.7**	388.0	335.0

The fair value of cash and cash equivalents approximates to the carrying value. Cash and cash equivalents includes ring-fenced cash of £335.7m (2011: £298.6m; 2010: £259.0m). 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 these subsidiaries either up to the lower of the amount of their 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. Ring-fenced cash balances of £12.5m (2011: £14.8m; 2010: £24.8m) are held outwith the UK Rail subsidiaries.

22. Financial liabilities – borrowings

	2012 £m	2011 £m	2010 £m
Current financial liabilities			
Short term bank loans	**69.3**	93.5	–
	69.3	93.5	–
Bond 6.875% (repayable 2013) – accrued interest	**20.3**	20.2	20.2
Bond 8.125% (repayable 2018) – accrued interest	**12.9**	12.8	12.8
Bond 6.125% (repayable 2019) – accrued interest	**3.0**	3.0	3.0
Bond 8.75% (repayable 2021) – accrued interest	**30.2**	30.1	30.1
Bond 6.875% (repayable 2024) – accrued interest	**7.2**	7.2	7.2
	73.6	73.3	73.3
HP contracts and finance leases (note 23)	**52.4**	42.8	34.6
Loan notes (note 24)	**–**	–	0.8
Total current financial liabilities	**195.3**	209.6	108.7
Non-current financial liabilities			
Syndicated and bilateral unsecured bank loans	**426.0**	554.9	896.0
	426.0	554.9	896.0
Bond 6.875% (repayable 2013)	**298.5**	298.0	297.4
Bond 8.125% (repayable 2018)	**296.7**	296.4	296.2
Bond 6.125% (repayable 2019)	**299.7**	276.7	274.8
Bond 8.75% (repayable 2021)	**347.1**	347.0	346.8
Bond 6.875% (repayable 2024)	**199.0**	199.0	198.9
	1,441.0	1,417.1	1,414.1
HP contracts and finance leases (note 23)	**282.9**	209.1	192.8
Loan notes (note 24)	**9.7**	9.7	9.7
Senior unsecured loan notes	**93.3**	–	–
Total non-current financial liabilities	**2,252.9**	2,190.8	2,512.6
Total financial liabilities	**2,448.2**	2,400.4	2,621.3
Gross borrowings repayment profile			
Within one year or on demand	**195.3**	209.6	108.7
Between one and two years	**407.0**	216.0	607.4
Between two and five years	**564.9**	796.1	720.4
Over five years	**1,281.0**	1,178.7	1,184.8
	2,448.2	2,400.4	2,621.3

22. Financial liabilities – borrowings continued

Fair value of bonds and senior unsecured loan notes issued

	Par value £m	Interest payable	Month	2012 Fair value £m	2011 Fair value £m	2010 Fair value £m
Bond 6.875% (repayable 2013)	300.0	Annually	April	**330.8**	339.2	346.9
Bond 8.125% (repayable 2018)	300.0	Annually	September	**371.4**	361.6	365.5
Bond 6.125% (repayable 2019)	250.0	Annually	January	**272.1**	260.5	261.1
Bond 8.75% (repayable 2021)	350.0	Annually	April	**462.5**	455.7	461.2
Bond 6.875% (repayable 2024)	200.0	Annually	September	**226.2**	221.3	220.7
	$m					
Senior unsecured loan notes	150.0	Semi-annually	April and October	**109.1**	–	–

The fair value of the bonds and senior unsecured loan notes are inclusive of accrued interest. 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.

Effective interest rates

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

	2012	2011	2010
Bank overdraft	**LIBOR + 1%**	LIBOR + 1%	LIBOR + 1%
Bank borrowings	**LIBOR + 0.75% to 1.65%**	LIBOR + 0.55% to 1.6%	LIBOR + 0.5% to 1.7%
Bond 2013	**7.10%**	7.10%	7.10%
Bond 2018	**8.32%**	8.32%	8.32%
Bond 2019	**6.18%**	6.18%	6.18%
Bond 2021	**8.87%**	8.87%	8.87%
Bond 2024	**6.95%**	6.95%	6.95%
Senior unsecured loan notes	**4.39%**	–	–
HP contracts and finance leases	**LIBOR up to average fixed rate of 4.1%**	LIBOR up to average fixed rate of 8.0%	LIBOR up to average fixed rate of 8.0%
Loan notes	**LIBOR – 0.5% up to total fixed rate of 11.0%**	LIBOR – 0.5% up to total fixed rate of 11.0%	LIBOR – 0.5% up to total fixed rate of 11.0%

Carrying value of gross borrowings by currency	2012 £m	2011 £m	2010 £m
Sterling	**1,625.1**	1,603.1	1,618.9
Euros	**11.7**	29.0	93.4
US Dollar	**677.0**	653.1	749.6
Canadian Dollar	**134.4**	115.2	159.4
	2,448.2	2,400.4	2,621.3
Currency swaps			
US Dollar	**450.0**	700.0	700.0
Sterling	**(450.0)**	(700.0)	(700.0)
	2,448.2	2,400.4	2,621.3

22. Financial liabilities – borrowings continued

Maturity of non-current financial liabilities	Bank debt £m	Finance leases £m	Loan notes £m	Bonds £m	Senior notes £m	Total £m
						2012
Due in more than one year but not more than two years	**46.9**	**51.9**	**9.7**	**298.5**	**–**	**407.0**
Due in more than two years but not more than five years	**379.1**	**154.7**	**–**	**–**	**31.1**	**564.9**
Due in more than five years	**–**	**76.3**	**–**	**1,142.5**	**62.2**	**1,281.0**
	426.0	**282.9**	**9.7**	**1,441.0**	**93.3**	**2,252.9**

	Bank debt £m	Finance leases £m	Loan notes £m	Bonds £m	Senior notes £m	Total £m
						2011
Due in more than one year but not more than two years	163.1	43.2	9.7	–	–	216.0
Due in more than two years but not more than five years	391.8	106.3	–	298.0	–	796.1
Due in more than five years	–	59.6	–	1,119.1	–	1,178.7
	554.9	209.1	9.7	1,417.1	–	2,190.8

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

Borrowing facilities

The Group had £631.8m (2011: £526.7m; 2010: £1,013.3m) of undrawn committed borrowing facilities as at 31 March 2012. Total bank borrowing facilities at 31 March 2012 stood at £1,221.3m (2011: £1,266.0m; 2010: £2,110.0m) of which £1,178.2m (2011: £1,222.9m; 2010: £2,066.4m) was committed and £43.1m (2011: £43.1m; 2010: £43.6m) was uncommitted.

23. HP contracts and finance leases

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

	2012 Minimum payments £m	2012 Present value of payments £m	2011 Minimum payments £m	2011 Present value of payments £m	2010 Minimum payments £m	2010 Present value of payments £m
Due in less than one year	**54.0**	**52.4**	48.8	42.8	40.2	34.6
Due in more than one year but not more than two years	**54.8**	**51.9**	48.3	43.2	42.7	37.8
Due in more than two years but not more than five years	**173.9**	**154.7**	116.6	106.3	97.2	86.9
Due in more than five years	**92.6**	**76.3**	62.0	59.6	71.6	68.1
	375.3	**335.3**	275.7	251.9	251.7	227.4
Less future financing charges	**(40.0)**	**–**	(23.8)	–	(24.3)	–
	335.3	**335.3**	251.9	251.9	227.4	227.4

HP lease obligations

Sterling denominated fixed rate leases	**2012**	2011	2010
Sterling fixed rate leases	**£25.9m**	£15.1m	£1.1m
Average remaining lives	**3 years**	3 years	3 years
Effective borrowing rate	**3.45%**	3.47%	6.94%

US Dollar denominated fixed rate leases	**2012**	2011	2010
US Dollar fixed rate leases	**£214.2m**	£146.8m	£113.7m
Average remaining lives	**4 years**	4 years	4 years
Effective borrowing rate	**3.26%**	3.98%	4.71%

Canadian Dollar denominated fixed rate leases	**2012**	2011	2010
Canadian Dollar fixed rate leases	**£20.5m**	£1.7m	£1.9m
Average remaining lives	**4 years**	1 year	2 years
Effective borrowing rate	**4.08%**	7.39%	7.07%

The Group considers there to be no material difference between the fair values of the Sterling and Canadian Dollar finance leases and the carrying amount in the balance sheet. The US Dollar finance leases have a fair value of £225.8m (2011: £151.8m; 2010: £117.5m).

24. Loan notes

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

	2012 £m	2011 £m	2010 £m
Due in less than one year	**–**	–	0.8
Due in more than one year but not more than two years	**9.7**	9.7	9.7
	9.7	9.7	10.5

The loan notes have been classified by reference to the earliest date on which the loan note holder can request redemption. Loan notes of £8.7m (2011: £8.7m; 2010: £9.5m) are supported by unsecured bank guarantees.

The loan notes have an average effective borrowing rate of 10.1% (2011: 10.1%; 2010: 9.4%) and an average remaining term of 8 years (2011: 9 years; 2010: 10 years) assuming that the holders do not request redemption. The fair value of the loan notes has been determined to be £15.8m (2011: £15.1m; 2010: £16.3m). This has been calculated by discounting future cash flows that will arise under the loan notes.

25. Derivative financial instruments

	2012 £m	2011 £m	2010 £m
Derivatives designated and effective as hedging instruments carried at fair value			
Non-current assets			
Cross currency swaps (net investment hedge)	23.2	22.2	13.3
Coupon swaps (fair value hedge)	43.8	21.0	15.7
Fuel derivatives (cash flow hedge)	5.6	14.9	4.0
	72.6	58.1	33.0
Current assets			
Cross currency swaps (net investment hedge)	4.3	4.6	3.6
Coupon swaps (fair value hedge)	9.5	6.7	10.6
Currency forwards (cash flow hedge)	–	1.2	–
Fuel derivatives (cash flow hedge)	29.7	52.6	15.7
	43.5	65.1	29.9
Current liabilities			
Interest rate derivatives (cash flow hedge)	8.0	15.0	42.9
Cross currency swaps (net investment hedge)	1.2	23.3	2.9
Fuel derivatives (cash flow hedge)	3.5	0.1	39.4
	12.7	38.4	85.2
Non-current liabilities			
Interest rate derivatives (cash flow hedge)	13.7	1.5	10.7
Cross currency swaps (net investment hedge)	27.1	28.2	91.9
Fuel derivatives (cash flow hedge)	0.9	–	18.5
	41.7	29.7	121.1
Derivatives classified as held for trading			
Current assets			
Cross currency swaps	–	–	2.2
Current liabilities			
Interest rate swaps	4.4	0.1	–
Non-current liabilities			
Interest rate swaps	8.4	–	–
Total non-current assets	72.6	58.1	33.0
Total current assets	43.5	65.1	32.1
Total assets	116.1	123.2	65.1
Total current liabilities	17.1	38.5	85.2
Total non-current liabilities	50.1	29.7	121.1
Total liabilities	67.2	68.2	206.3

Total cash flow hedges are an asset of £9.2m (2011: asset of £52.1m; 2010: liability of £91.8m). Total fair value hedges are an asset of £53.3m (2011: £27.7m; 2010: £26.3m). Total net investment hedges are a liability of £0.8m (2011: £24.7m; 2010: £77.9m).

During the year £0.5m was debited to the hedging reserve in respect of cash flow hedges (2011: £84.7m credit; 2010: £1.9m credit).

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

25. Derivative financial instruments continued

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

	2012 £m	2011 £m
Finance costs	(8.6)	(35.4)
Operating costs	54.7	(20.1)
	46.1	(55.5)

The following gains and losses on derivatives designated for hedge accounting have been charged through the consolidated income statement in the year:

	2012 £m	2011 £m
Gains on hedging instruments in fair value hedges	22.9	1.8
Losses on hedged item attributable to hedged risk (Bond 2019) fair value hedges	(22.9)	(1.8)
Change in the fair value of derivatives classified as held for trading	(12.7)	(0.5)
Hedge ineffectiveness on net investment hedges	2.1	(0.8)
Hedge ineffectiveness on cash flow hedges	(0.4)	1.6
	(11.0)	0.3

Financial risk management

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

Liquidity risk

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

Group treasury policy requires a minimum of £250m 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 2012, the total amount of these facilities stood at £1,178.2m (2011: £1,222.9m; 2010: £2,066.4m), and committed headroom was £631.8m (2011: £526.7m; 2010: £1,013.3m), in addition to free cash balances of £164.0m (2011: £89.4m; 2010 £76.0m). The next material contractual expiry of revolver bank facilities is in December 2015. Largely due to the seasonality of the First Student school bus business, headroom tends to reduce from March to October and increase again by the following March.

The average duration of net debt (excluding ring-fenced cash) at 31 March 2012 was 5.5 years (2011: 6.1 years; 2010: 6.3 years).

The following tables detail the Group's expected maturity for its non-derivative financial liabilities.

						2012
	On demand £m	< 1 year £m	1 – 2 years £m	2 – 5 years £m	> 5 years £m	Total £m
Bank debt – revolver	–	–	–	98.0	–	98.0
– other	–	69.3	46.9	281.1	–	397.3
HP contracts and finance leases	–	52.4	51.9	154.7	76.3	335.3
Loan notes	–	–	9.7	–	–	9.7
Senior unsecured loan notes	–	–	–	31.1	62.2	93.3
Bonds	–	73.6	298.5	–	1,142.5	1,514.6
Trade payables	397.6	–	–	–	–	397.6
	397.6	195.3	407.0	564.9	1,281.0	2,845.8

25. Derivative financial instruments continued

2011	On demand £m	< 1 year £m	1 – 2 years £m	2 – 5 years £m	> 5 years £m	Total £m
Bank debt – revolver	–	–	–	204.7	–	204.7
– other	–	93.5	163.1	187.1	–	443.7
HP contracts and finance leases	–	42.8	43.2	106.3	59.6	251.9
Loan notes	–	–	9.7	–	–	9.7
Bonds	–	73.3	–	298.0	1,119.1	1,490.4
Trade payables	312.2	–	–	–	–	312.2
	312.2	209.6	216.0	796.1	1,178.7	2,712.6

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

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

2012	**< 1 year £m**	**1 – 2 years £m**	**2 – 5 years £m**	**> 5 years £m**	**Total £m**
Interest rate derivatives	**12.5**	**11.9**	**10.7**	**–**	**35.1**
Coupon swaps	**(15.3)**	**(15.3)**	**(45.9)**	**(30.6)**	**(107.1)**
Coupon swaps	**5.7**	**5.6**	**21.8**	**17.7**	**50.8**
Cross currency swaps	**(47.9)**	**(347.7)**	**(168.3)**	**–**	**(563.9)**
Cross currency swaps	**44.8**	**373.5**	**146.1**	**–**	**564.4**
Fuel derivatives	**(26.2)**	**(4.7)**	**–**	**–**	**(30.9)**
	(26.4)	**23.3**	**(35.6)**	**(12.9)**	**(51.6)**

2011	< 1 year £m	1 – 2 years £m	2 – 5 years £m	> 5 years £m	Total £m
Interest rate derivatives	15.0	6.2	(4.9)	–	16.3
Coupon swaps	(15.3)	(15.3)	(45.9)	(45.9)	(122.4)
Coupon swaps	8.5	8.2	35.5	39.8	92.0
Cross currency swaps	(83.2)	(317.2)	(565.9)	–	(966.3)
Cross currency swaps	94.2	318.2	564.2	–	976.6
Currency derivatives	(1.2)	–	–	–	(1.2)
Fuel derivatives	(51.6)	(14.9)	–	–	(66.5)
	(33.6)	(14.8)	(17.0)	(6.1)	(71.5)

25. Derivative financial instruments continued

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

Total amounts payable per the tables are £650.3m (2011: £1,089.8m; 2010: £1,249.5m). Total amounts receivable per the table are £701.9m (2011: £1,161.3m; 2010: £1,108.3m). For all years above the tables include the settlement of principal amounts at the end of the term of the cross currency swaps.

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

Currency risk

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

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

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

As at 31 March 2012, 47% (2011: 62%; 2010: 63%) 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, US Dollar interest costs and US Dollar tax costs so that exposure to EPS on a year to year basis is not material. Cash flow exposures are not material.

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.

	2012 £m	2011 £m	2010 £m
Impact on profit after tax	**9.9**	9.9	15.7
Impact on hedging reserve	**0.4**	(0.5)	13.1

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. The interest rate swaps cover periods from April 2012 to March 2015.

At 31 March 2012, 100% (2011: 87%; 2010: 100%) of net debt was fixed. This fixed rate protection had an average duration of 5.7 years (2011: 6.7 years; 2010: 5.5 years).

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

Fair value changes in the £250.0m 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 points (1%) increase in interest rates throughout the reporting period with all other variables held constant.

	2012 £m	2011 £m	2010 £m
Impact on profit after tax	**(0.9)**	(0.8)	(0.4)
Impact on hedging reserve	**8.9**	4.6	10.8

25. Derivative financial instruments continued

Interest rate hedges

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

The interest rate swaps settle on a monthly, 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)		
	2012 %	2011 %	2010 %	**2012 £m**	2011 £m	2010 £m	**2012 £m**	2011 £m	2010 £m
Less than one year	**2.45**	2.51	4.33	**94**	312	1,007	**(12.5)**	(13.1)	(42.9)
One to two years	**2.38**	2.45	2.51	**147**	94	336	**(11.4)**	(2.6)	(11.3)
Two to five years	**2.81**	2.71	2.45	**744**	493	134	**(10.7)**	(0.9)	0.6
More than five years	**6.13**	6.13	6.13	**250**	250	250	**59.2**	27.7	26.3

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

Fuel price risk

The Group purchases diesel fuel on a floating price basis in its UK Bus, UK Rail, US and Canadian bus operations and therefore is exposed to changes in diesel prices, of which the most significant element is crude oil price risk. The Group's policy objective is to maintain a significant degree of fixed price protection in the short term with lower levels of protection over the medium term, so that the businesses affected are protected from any sudden and significant increases and have time to prepare for potentially higher costs, whilst retaining some access for potentially lower costs over the medium term. The Group primarily uses fixed rate swap instruments to achieve significant fixed price certainty. During the year to 31 March 2012, the Group was hedged 75% on fuel price risk.

The Group has also entered into swaps for periods from April 2012 to March 2014 with the majority of these swaps relating to the year to 31 March 2013. The swaps give rise to monthly cash flow exchanges with counterparties to offset the underlying settlement of floating price costs, except where they have a deferred start date. Gains or losses on fuel derivatives are recycled from equity to the income statement on qualifying hedges to achieve fixed rate fuel costs within operating results.

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

	2012 £m	2011 £m	2010 £m
Impact on profit after tax	**(4.6)**	(1.8)	–
Impact on hedging reserve	**19.2**	18.2	23.2

Volume at risk for the year to 31 March 2013 is 3.9m barrels (2012: 4.2m; 2011: 4.2m) for which 80% is hedged to diesel price risk.

26. Deferred tax

The major deferred tax liabilities/(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 2010	309.8	(16.1)	(260.2)	33.5
(Credit)/charge to income	(30.0)	(21.7)	31.7	(20.0)
Charge to equity	–	49.8	–	49.8
Disposal of subsidiary	–	1.6	–	1.6
Foreign exchange movements	(14.9)	(3.9)	16.9	(1.9)
At 31 March 2011	264.9	9.7	(211.6)	63.0
Charge/(credit) to income	(36.9)	61.0	31.3	55.4
Credit to equity	–	(64.4)	–	(64.4)
Foreign exchange movements	0.7	0.1	(0.4)	0.4
At 31 March 2012	**228.7**	**6.4**	**(180.7)**	**54.4**

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

	2012 £m	2011 £m	2010 £m
Deferred tax assets	**(43.3)**	(30.0)	(30.4)
Deferred tax liabilities	**97.7**	93.0	63.9
	54.4	63.0	33.5

No deferred tax asset has been recognised in respect of £5m (2011: £5m; 2010: £5m) of capital losses.

27. Provisions

	2012 £m	2011 £m	2010 £m
Insurance claims	**218.4**	221.0	243.9
Legal and other	**19.9**	26.4	51.4
FGW contract provision	**–**	48.7	–
Pensions	**4.2**	4.7	5.1
Non-current liabilities	**242.5**	300.8	300.4

	Insurance claims £m	Legal and other £m	FGW contract provision £m	Pensions £m	Total £m
At 1 April 2011	340.5	37.6	59.9	4.7	442.7
Charged to the income statement	139.0	7.5	–	–	146.5
Utilised in the year	(162.8)	(21.1)	(3.0)	(0.5)	(187.4)
Notional interest	18.9	–	–	–	18.9
Foreign exchange movements	0.4	0.1	–	–	0.5
At 31 March 2012	**336.0**	**24.1**	**56.9**	**4.2**	**421.2**
Current liabilities	**117.6**	**4.2**	**56.9**	**–**	**178.7**
Non-current liabilities	**218.4**	**19.9**	**–**	**4.2**	**242.5**
At 31 March 2012	**336.0**	**24.1**	**56.9**	**4.2**	**421.2**
Current liabilities	119.5	11.2	11.2	–	141.9
Non-current liabilities	221.0	26.4	48.7	4.7	300.8
At 31 March 2011	340.5	37.6	59.9	4.7	442.7
Current liabilities	131.3	5.4	–	–	136.7
Non-current liabilities	243.9	51.4	–	5.1	300.4
At 31 March 2010	375.2	56.8	–	5.1	437.1

The current liabilities above are included within accruals and deferred income in note 20.

The insurance claims provision arises from estimated exposures for incidents occurring prior to the balance sheet date. It is anticipated that the majority of such claims will be settled within the next six years. The utilisation of £162.8m (2011: £121.2m) represents payments made largely against the current liability of the preceding year.

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 provision for future losses on the FGW franchise will be utilised over the remaining term of the franchise which is expected to end in March 2013.

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 five to ten years.

28. Share capital

	2012 £m	2011 £m	2010 £m
Allotted, called up and fully paid:			
482.1m Ordinary shares of 5p each	**24.1**	24.1	24.1

	Number m	£m
At 31 March 2010, 31 March 2011 and 31 March 2012	**482.1**	**24.1**

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

29. Reserves

The hedging reserve records the movement on designated hedging items.

The share premium account represents the premium on shares issued since 1999 and arose principally on the rights issue on the Ryder acquisition in 1999 and the share placings in 2007 and 2008. The reserve is non-distributable.

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

29. Reserves continued

Hedging reserve

The movements in the hedging reserve were as follows:

	2012 £m	2011 £m	2010 £m
Balance at 1 April	**35.4**	(114.0)	(352.8)
Gains/(losses) recognised:			
Interest rate swaps	**(20.6)**	(5.5)	(15.7)
Currency forwards	**(0.8)**	1.2	–
Cross currency swaps	**10.5**	53.2	34.9
Fuel derivatives	**20.9**	89.0	17.6
Charged/(credited) to income statement:			
Interest rate swaps	**8.6**	35.4	53.4
Fuel derivatives	**(54.7)**	20.1	249.0
Tax on derivative hedging instrument movements	**13.2**	(44.0)	(100.4)
Balance at 31 March	**12.5**	35.4	(114.0)

Own shares

The number of own shares held by the Group at the end of the year was 692,536 (2011: 1,279,912; 2010: 1,860,479) FirstGroup plc ordinary shares of 5p each. Of these, 398,587 (2011: 978,505; 2010: 851,506) were held by the FirstGroup plc Employee Benefit Trust, 32,520 (2011: 32,520; 2010: 32,520) by the FirstGroup plc Qualifying Employee Share Ownership Trust and 261,429 (2011: 268,887; 2010: 976,453) 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 2012 was £1.2m (2011: £4.2m; 2010: £6.7m).

Other reserves	Capital redemption reserve £m	Capital reserve £m	Total other reserves £m
At 31 March 2012, 31 March 2011 and 31 March 2010	**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 2012. The capital redemption reserve represents the cumulative par value of all shares bought back and cancelled. The capital reserve arose on acquisitions in 2000. Both these reserves are non-distributable.

30. Translation reserve

	£m
Balance as 1 April 2010	300.0
Movement for the financial year	(143.4)
At 31 March 2011	156.6
Movement for the financial year	(10.9)
At 31 March 2012	**145.7**

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

31. Acquisition and disposal of businesses and subsidiary undertakings

Acquisitions of businesses and subsidiary undertakings	2012 £m	2011 £m	2010 £m
Provisional fair values of net assets acquired:			
Property, plant and equipment	**4.1**	1.0	–
Other current assets	**0.5**	–	–
Other liabilities	**(4.1)**	(0.2)	–
	0.5	0.8	–
Goodwill (note 13)	**2.9**	2.3	–
Satisfied by cash paid and payable	**3.4**	3.1	–

31. Acquisition and disposal of businesses and subsidiary undertakings continued

The business acquired during the year contributed £0.4m (2011: £0.3m; 2010: £nil) to the Group's net operating cash flows and utilised £nil (2011: £nil; 2010: £nil) for capital expenditure.

The business acquired during the year contributed £1.1m (2011: £1.1m; 2010: £nil) to Group revenue and £0.4m (2011: £0.3m; 2010: £nil) to Group adjusted operating profit from date of acquisition to 31 March 2012.

If the acquisition of the business acquired during the year had been completed on the first day of the financial year, Group revenue from this acquisition for the period would have been £6.1m (2011: £3.0m; 2010: £nil) and the Group adjusted operating profit from this acquisition attributable to equity holders of the parent would have been £0.8m (2011: £0.5m; 2010: £nil).

The business acquired during the year to 31 March 2012 was in relation to the purchase of vehicles and ancillary assets of a competitor in the Province of Quebec, Canada.

Disposal of businesses and subsidiary undertakings	2012 £m	2011 £m	2010 £m
Fair values of net assets disposed of:			
Goodwill	6.1	14.2	–
Property, plant and equipment	4.7	3.8	0.4
Current assets	1.2	12.0	0.9
Cash and cash equivalents	1.6	–	0.4
Deferred tax	–	(1.6)	–
Other liabilities	(0.5)	(10.8)	(0.9)
	13.1	17.6	0.8
Cost of disposal	1.6	–	–
(Loss)/profit on disposal	(9.2)	6.7	–
Satisfied by cash received and receivable	5.5	24.3	0.8

On 28 May 2010, the Group disposed of its interest in GB Railfreight and on 31 September 2011, the Group disposed of its interest in FirstGroup Deutschland GmbH. As a consequence the results of these businesses have been classified as discontinued as set out in note 10.

32. Net cash from operating activities

	2012 £m	2011 £m
Operating profit before profit/(loss) on disposal of properties	447.0	313.0
Operating (loss)/profit before tax of discontinued operations	(0.3)	1.0
Adjustments for:		
Depreciation charges	328.1	321.0
Capital grant amortisation	(13.7)	(8.0)
Amortisation charges	30.9	42.9
Impairment charges	–	19.5
Share-based payments	6.0	7.7
Loss on disposal of property, plant and equipment	3.8	3.7
Operating cash flows before working capital	801.8	700.8
Decrease/(increase) in inventories	0.6	(3.2)
Decrease in receivables	34.0	25.9
Increase in payables	34.6	63.7
(Decrease)/increase in provisions	(77.8)	0.4
Defined benefit pension payments in excess of income statement charge	(160.4)	(43.5)
Cash generated by operations	632.8	744.1
Tax paid	(17.7)	(25.0)
Interest paid	(130.9)	(155.2)
Interest element of HP contracts and finance leases	(8.8)	(8.2)
Net cash from operating activities	475.4	555.7

33. Contingent liabilities and assets

To support subsidiary undertakings in their normal course of business, the Company and certain subsidiaries have indemnified certain banks and insurance companies who have issued performance bonds for £532.5m (2011: £460.2m; 2010: £458.2m) and letters of credit for £299.3m (2011: £316.7m; 2010: £335.1m). The performance bonds relate to the North American businesses of £314.2m (2011: £260.8m; 2010: £260.0m) and the UK Rail franchise operations of £218.3m (2011: £199.4m; 2010: £198.2m). The letters of credit relate substantially to insurance arrangements in the UK and North America.

The Company has provided unsecured loan facilities of £76.4m (2011: £87.5m; 2010: £96.4m) to First Greater Western Limited, a £46.0m (2011: £46.0m; 2010: £46.0m) unsecured loan facility to First Capital Connect Limited, a £3.2m (2011: £3.2m; 2010: £3.2m) unsecured loan facility to First/Keolis TransPennine Limited, and a £13.6m (2011: £13.6m; 2010: £13.6m) unsecured loan facility to First ScotRail Limited. Under these facilities, £35.4m (2011: £46.5m; 2010: £96.4m) was drawn at 31 March 2012 by First Greater Western Limited and £25.0m (2011: £25.0m; 2010: £35.0m) was drawn at 31 March 2012 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 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 £780.8m (2011: £779.2m; 2010: £1,511.8m) syndicated unsecured bank facility and to certain bilateral bank facilities for £397.3m (2011: £443.7m; 2010: £554.5m) and to senior unsecured loan notes for £93.3m (2011: £nil).

The Group has issued guarantees of £7.0m (2011: £11.0m) to Danish and Swedish authorities in respect of DSBFirst. In addition the Group invested a further £4.2m in DSBFirst during the year and whilst the Directors believe that this amount should be recoverable at the end of the Danish franchise, any deterioration in trading may make this investment partly or wholly irrecoverable.

The FGW provision for future losses was calculated based on the assumption that this franchise would end on 31 March 2013 and whilst the DfT have verbally indicated that this will be the case, they have the discretion to extend the franchise by up to seven rail periods beyond this date. If the franchise is extended beyond 31 March 2013 then losses may be higher than the £56.9m provided as at 31 March 2012 for the year to 31 March 2013.

In its normal course of business UK Rail has ongoing contractual negotiations with governmental and other organisations.

The First Transit contract for the provision of US military base services in Diego Garcia is currently out to tender and the Group believes that a new contractor will take over this contract in late 2012. In this event the provision for future losses made in 2011 will be sufficient to cover projected losses up to the end of the contract. If, however, this contract is not taken by another party and runs through until 2017 then provision for further losses under this contract may be required.

34. Operating lease arrangements

	2012 £m	2011 £m	2010 £m
Minimum lease payments made under operating leases recognised in the consolidated income statement for the year:			
Plant and machinery	**22.9**	22.6	14.8
Track and station access	**403.5**	380.0	388.4
Hire of rolling stock	**195.7**	169.8	163.7
Other assets	**61.1**	68.6	72.7
	683.2	641.0	639.6

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:

	2012 £m	2011 £m	2010 £m
Within one year	**814.4**	631.9	642.4
In the second to fifth years inclusive	**957.7**	1,635.0	1,881.4
After five years	**121.6**	107.3	134.7
	1,893.7	2,374.2	2,658.5

Included in the above commitments are contracts held by the UK Rail businesses with Network Rail for access to the railway infrastructure track, stations and depots of £1,178.2m (2011: £1,533.2m; 2010: £1,757.9m). They also have contracts under which they lease rolling stock of £366.7m (2011: £492.0m; 2010: £555.9m).

35. Share-based payments

Equity-settled share option plans

The Group recognised total expenses of £6.0m (2011: £7.7m; 2010: £5.5m) related to equity-settled share-based payment transactions.

(a) Save As You Earn (SAYE)

The Group operates an Inland Revenue approved savings related share option scheme. Grants were made as set out below. 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 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 Dec 2007 Options Number	SAYE Dec 2008 Options Number	SAYE Dec 2009 Options Number	SAYE Dec 2010 Options Number	SAYE Dec 2011 Options Number
Outstanding at the beginning of the year	123,300	1,948,802	2,626,093	2,965,613	–
Awarded during the year	–	–	–	–	2,947,057
Exercised during the year	(559)	(1,726)	(4,327)	(846)	–
Lapsed during the year	(122,741)	(141,266)	(285,598)	(295,487)	(39,293)
Outstanding at the end of the year	–	1,805,810	2,336,168	2,669,280	2,907,764
Exercisable at the end of the year	–	1,805,810	–	–	–
Weighted average exercise price (pence)	583.0	371.0	310.0	319.0	271.5
Weighted average share price at date of exercise (pence)	347.6	319.5	325.5	316.2	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	48,229	75,142	279,625	275,606
Exercised during the year	–	–	(21,442)	(21,180)
Lapsed during the year	(48,229)	–	–	–
Outstanding at the end of the year	–	75,142	258,183	254,426
Exercisable at the end of the year	–	75,142	258,183	254,426
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	337.7	337.7

(c) Deferred bonus shares (DBS)

	DBS 2004 Options Number	DBS 2005 Options Number	DBS 2006 Options Number	DBS 2007 Options Number	DBS 2008 Options Number	DBS 2009 Options Number	DBS 2010 Options Number	DBS 2011 Options Number
Outstanding at the beginning of the year	12,680	52,028	553,483	408,068	317,983	285,271	432,576	–
Granted during the year	–	–	–	–	–	–	–	568,846
Forfeited during the year	–	–	–	(722)	–	(2,086)	(6,879)	(17,248)
Exercised during the year	(207)	(12,114)	(439,403)	(105,278)	(215,194)	(38,918)	(3,459)	(31,123)
Outstanding at the end of the year	12,473	39,914	114,080	302,068	102,789	244,267	422,238	520,475
Exercisable at the end of the year	12,473	39,914	114,080	–	–	–	–	–
Weighted average exercise price (pence)	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Weighted average share price at date of exercise (pence)	323.6	344.7	332.2	271.4	336.1	287.0	321.2	333.6

35. Share-based payments continued

(d) Buy As You Earn (BAYE)

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 2012 there were 8,354 (2011: 7,985; 2010: 7,833) participants in the BAYE scheme who have cumulatively purchased 6,869,043 (2011: 5,651,985; 2010: 4,583,431) shares with the Company contributing 2,128,810 (2011: 1,689,837; 2010: 1,349,661) matching shares on a cumulative basis.

(e) Long term incentive plan (LTIP)

Awards under the LTIP scheme vest over the three year periods to 31 March from year of award with 50% of the award being dependent upon EPS performance over the vesting period and the other 50% being dependent upon total shareholder return over the same period compared to the comparator group of 100 companies.

	LTIP 2008 Options Number	LTIP 2009 Options Number	LTIP 2010 Options Number	LTIP 2011 Options Number
Outstanding at the beginning of the year	1,458,398	3,381,147	3,963,610	–
Granted during the year	–	–	–	5,224,991
Forfeited during the year	–	(144,686)	(93,529)	(254,413)
Lapsed during the year	(1,458,398)	–	–	–
Outstanding at the end of the year	–	3,236,461	3,870,081	4,970,578

(f) Tim O'Toole retention award

	2012 Number	2011 Number	2010 Number	Award price (p)
Outstanding at the end of the year	**214,826**	214,826	–	Nil

These options vest on 1 November 2013 subject to the Executive remaining in office until this date. There are no performance conditions attaching to these options.

35. Share-based payments continued

The fair values of the options granted during the last two years were measured using a Black-Scholes model. The inputs into the Black-Scholes model were as follows:

	2012	2011
Weighted average share price (pence)		
– DBS	351.8	384.0
– SAYE December 2010	–	387.0
– SAYE December 2011	319.2	–
– LTIP	337.8	383.3
– Tim O'Toole retention award	–	386.3
Weighted average exercise price (pence)		
– DBS	–	–
– SAYE December 2010	–	319.0
– SAYE December 2011	271.5	–
– LTIP	–	–
– Tim O'Toole retention award	–	–
Expected volatility		
– DBS	35%	35%
– SAYE December 2010	–	35%
– SAYE December 2011	35%	–
– LTIP	42.9%	35%
– Tim O'Toole retention award	–	35%
Expected life (years)		
– DBS	3	3
– SAYE schemes	3	3
– LTIP	3	3
– Tim O'Toole retention award	–	2.75
Rate of interest		
– DBS	1.5%	1.8%
– SAYE December 2010	–	1.4%
– SAYE December 2011	0.6%	–
– LTIP	1.3%	1.6%
– Tim O'Toole retention award	–	1.5%
Expected dividend yield		
– DBS	6.3%	5.0%
– SAYE December 2010	–	4.8%
– SAYE December 2011	7.0%	–
– LTIP	6.6%	5.0%
– Tim O'Toole retention award	–	4.8%

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 £6.5m (2011: £5.9m) 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 and First TransPennine Express Limited have sections in the Railways Pension Scheme (RPS), which is an industry-wide arrangement. Under the terms of the RPS, any fund deficit or surplus is shared by the employer (60%) and the employees (40%). In calculating the Group's pension obligations in respect of the RPS the Group has calculated the total pension deficits in each of the RPS sections in accordance with IAS 19. These deficits are reduced by a 'franchise adjustment' which is that portion of the deficit which is projected to exist at the end of the franchise and for which the Group will not be required to fund. The franchise adjustment, which has been calculated by the Group's actuaries, is offset against the present value of the RPS liabilities so as to fairly present the financial performance, position and cash flows of the Group's obligations.

At their last triennial valuations, the defined benefit schemes had funding levels between 61.0% and 101.9% (2011: 61.0% and 122.4%; 2010: 74.0% and 122.4%). The market value of the assets at 31 March 2012 for all defined benefit schemes totalled £3,397m (2011: £3,289m; 2010: £3,127m).

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

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

	UK Bus 2012 %	**UK Rail 2012 %**	**North America 2012 %**	UK Bus 2011 %	UK Rail 2011 %	North America 2011 %	UK Bus 2010 %	UK Rail 2010 %	North America 2010 %
Key assumptions used:									
Discount rate	**4.65**	**4.65**	**4.20**	5.50	5.50	5.25	5.60	5.60	5.65
Expected return on scheme assets	**7.28**	**7.28**	**6.33**	7.90	7.90	6.90	7.90	7.90	7.40
Expected rate of salary increases	**3.75**	**3.75**	**3.25**	4.2	4.2	–	4.4	4.4	–
Inflation – RPI	**2.75**	**2.75**	**2.25**	3.2	3.2	2.25	3.4	3.4	2.0
Inflation – CPI	**1.75**	**1.75**	**–**	2.4	2.4	–	–	–	–
Future pension increases	**1.65/1.75/2.65**	**1.75**	**–**	2.4/3.1	2.4	–	3.4	3.4	–

(a) Income statement

Amounts (charged)/credited to the consolidated income statement before exceptional items in respect of these defined benefit schemes are as follows:

Year to 31 March 2012	**UK Bus £m**	**UK Rail £m**	**North America £m**	**Total £m**
Current service cost	**(32.4)**	**(51.6)**	**(4.3)**	**(88.3)**
Interest cost	**(84.8)**	**(43.4)**	**(32.3)**	**(160.5)**
Expected return on scheme assets	**126.6**	**58.6**	**29.5**	**214.7**
Interest on franchise adjustment	**–**	**4.2**	**–**	**4.2**
	9.4	**(32.2)**	**(7.1)**	**(29.9)**

Year to 31 March 2011	UK Bus £m	UK Rail £m	North America £m	Total £m
Current service cost	(31.9)	(51.5)	(4.4)	(87.8)
Interest cost	(87.8)	(42.2)	(34.1)	(164.1)
Expected return on scheme assets	121.6	52.4	31.1	205.1
Interest on franchise adjustment	–	5.7	–	5.7
	1.9	(35.6)	(7.4)	(41.1)

36. Retirement benefit schemes continued

Actuarial gains and losses have been reported in the consolidated statement of comprehensive income.

The actual return on scheme assets was:

	2012 £m	2011 £m
UK Bus	50.7	98.3
UK Rail	27.1	74.1
North America	20.9	21.8
	98.7	194.2

(b) Balance sheet

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

Year to 31 March 2012	UK Bus £m	UK Rail £m	North America £m	Total £m
Fair value of schemes' assets	1,761.4	1,175.9	460.0	3,397.3
Present value of defined benefit obligations	(1,759.1)	(1,475.6)	(675.2)	(3,909.9)
(Deficit)/surplus before adjustments	2.3	(299.7)	(215.2)	(512.6)
Adjustment for irrecoverable surplus[1]	(29.7)	–	–	(29.7)
UK Rail franchise adjustment (table (e)) (60%)	–	154.5	–	154.5
Adjustment for employee share of RPS deficits (40%)	–	119.9	–	119.9
Deficit in schemes	(27.4)	(25.3)	(215.2)	(267.9)
Liability recognised in the balance sheet	(27.4)	(25.3)	(215.2)	(267.9)
The amount is presented in the consolidated balance sheet as follows:				
Non-current assets	25.2	–	–	25.2
Non-current liabilities	(52.6)	(25.3)	(215.2)	(293.1)
	(27.4)	(25.3)	(215.2)	(267.9)

Year to 31 March 2011	UK Bus £m	UK Rail £m	North America £m	Total £m
Fair value of schemes' assets	1,701.6	1,114.3	473.0	3,288.9
Present value of defined benefit obligations	(1,649.8)	(1,333.3)	(631.4)	(3,614.5)
(Deficit)/surplus before adjustments	51.8	(219.0)	(158.4)	(325.6)
Adjustment for irrecoverable surplus[1]	(81.9)	–	–	(81.9)
UK Rail franchise adjustment (table (e)) (60%)	–	76.7	–	76.7
Adjustment for employee share of RPS deficits (40%)	–	87.6	–	87.6
Deficit in schemes	(30.1)	(54.7)	(158.4)	(243.2)
Liability recognised in the balance sheet	(30.1)	(54.7)	(158.4)	(243.2)
The amount is presented in the consolidated balance sheet as follows:				
Non-current assets	30.7	–	–	30.7
Non-current liabilities	(60.8)	(54.7)	(158.4)	(273.9)
	(30.1)	(54.7)	(158.4)	(243.2)

[1] The irrecoverable surplus represents the amount of the surplus that the Group could not recover through reducing future cash contributions to Local Government Pension Schemes.

36. Retirement benefit schemes continued

Year to 31 March 2010	UK Bus £m	UK Rail £m	North America £m	Total £m
Fair value of schemes' assets	1,605.9	1,026.3	494.5	3,126.7
Present value of defined benefit obligations	(1,734.9)	(1,388.9)	(651.8)	(3,775.6)
Deficit before adjustments	(129.0)	(362.6)	(157.3)	(648.9)
UK Rail franchise adjustment (table (e)) (60%)	–	173.0	–	173.0
Adjustment for employee share of RPS deficits (40%)	–	145.1	–	145.1
Deficit in schemes	(129.0)	(44.5)	(157.3)	(330.8)
Liability recognised in the balance sheet	(129.0)	(44.5)	(157.3)	(330.8)
The amount is presented in the consolidated balance sheet as follows:				
Non-current assets	3.1	–	–	3.1
Non-current liabilities	(132.1)	(44.5)	(157.3)	(333.9)
	(129.0)	(44.5)	(157.3)	(330.8)

(c) Defined benefit obligations (DBO)

Movements in the present value of DBO were as follows:

	UK Bus £m	UK Rail £m	North America £m	Total £m
At 1 April 2011	1,649.8	1,333.3	631.4	3,614.5
Current service cost	32.4	51.6	4.3	88.3
Past service cost	(73.3)	–	–	(73.3)
Interest cost	84.8	43.4	32.3	160.5
Employee share of change in DBO (not attributable to franchise adjustment)	26.1	68.1	2.0	96.2
Actuarial loss	110.6	12.6	65.2	188.4
Benefit payments	(71.3)	(33.4)	(57.5)	(162.2)
Currency gain	–	–	(2.5)	(2.5)
At 31 March 2012	**1,759.1**	**1,475.6**	**675.2**	**3,909.9**

	UK Bus £m	UK Rail £m	North America £m	Total £m
At 1 April 2010	1,734.9	1,388.9	651.8	3,775.6
Current service cost	31.9	51.5	4.4	87.8
Interest cost	87.8	42.2	34.1	164.1
Employee share of change in DBO (not attributable to franchise adjustment)	28.6	(1.6)	1.6	28.6
Actuarial (gain)/loss	(167.6)	(93.0)	34.0	(226.6)
Benefit payments	(65.8)	(30.7)	(56.2)	(152.7)
Settlement payment	–	(24.0)	–	(24.0)
Currency gain	–	–	(38.3)	(38.3)
At 31 March 2011	1,649.8	1,333.3	631.4	3,614.5

36. Retirement benefit schemes continued

	UK Bus £m	UK Rail £m	North America £m	Total £m
At 1 April 2009	1,257.8	944.3	587.5	2,789.6
Current service cost	17.6	36.7	2.4	56.7
Interest cost	83.0	37.6	30.3	150.9
Employee contributions	25.4	22.7	1.2	49.3
Employee share of change in DBO (not attributable to franchise adjustment)	–	165.6	–	165.6
Actuarial loss	405.9	214.2	89.3	709.4
Benefit payments	(54.8)	(32.2)	(66.6)	(153.6)
Currency loss	–	–	7.7	7.7
At 31 March 2010	1,734.9	1,388.9	651.8	3,775.6

(d) Fair value of schemes' assets

Movements in the fair value of schemes' assets were as follows:

	UK Bus £m	UK Rail £m	North America £m	Total £m
At 1 April 2011	1,701.6	1,114.3	473.0	3,288.9
Expected return on assets	126.6	58.6	29.5	214.7
Company contributions	54.4	41.0	21.6	117.0
Employee contributions	26.1	26.8	2.0	54.9
Employee share of return on assets	–	10.9	–	10.9
Actuarial loss on assets	(76.0)	(42.3)	(6.3)	(124.6)
Benefit paid from schemes	(71.3)	(33.4)	(57.5)	(162.2)
Currency loss	–	–	(2.3)	(2.3)
At 31 March 2012	**1,761.4**	**1,175.9**	**460.0**	**3,397.3**

	UK Bus £m	UK Rail £m	North America £m	Total £m
At 1 April 2010	1,605.9	1,026.3	494.5	3,126.7
Expected return on assets	121.6	52.4	31.1	205.1
Company contributions	34.7	38.6	11.3	84.6
Employee contributions	28.5	23.5	1.7	53.7
Employee share of return on assets	–	29.6	–	29.6
Actuarial (loss)/gain on assets	(23.3)	(8.0)	18.0	(13.3)
Benefit paid from schemes	(65.8)	(30.7)	(56.2)	(152.7)
Settlement payment	–	(17.4)	–	(17.4)
Currency loss	–	–	(27.4)	(27.4)
At 31 March 2011	1,701.6	1,114.3	473.0	3,288.9

36. Retirement benefit schemes continued

	UK Bus £m	UK Rail £m	North America £m	Total £m
At 1 April 2009	1,296.8	744.1	424.0	2,464.9
Expected return on assets	98.9	37.3	23.6	159.8
Company contributions	31.0	40.1	13.7	84.8
Employee contributions	25.4	22.7	1.2	49.3
Employee share of return on assets	–	100.6	–	100.6
Actuarial gain on assets	208.6	113.7	83.2	405.5
Benefit paid from schemes	(54.8)	(32.2)	(66.6)	(153.6)
Currency gain	–	–	15.4	15.4
At 31 March 2010	1,605.9	1,026.3	494.5	3,126.7

(e) UK Rail franchise adjustment

Movements in the total UK Rail franchise adjustment were as follows:

	2012 £m	2011 £m	2010 £m
At 1 April	**127.8**	288.3	126.5
TPE extension	**(2.3)**	–	–
Interest on franchise adjustment	**4.2**	5.7	5.1
Employee share of change in franchise adjustment	**52.8**	(64.2)	64.7
Actuarial gain/(loss) on franchise adjustment	**75.0**	(102.0)	92.0
At 31 March	**257.5**	127.8	288.3

Under the terms of the RPS cost sharing this franchise adjustment is split 60:40 between the employer and the employees. This is reflected in table (b) which shows the Group's 60% share of the franchise adjustment.

(f) Asset allocation and expected return on assets

The analysis of the schemes' assets at the balance sheet dates and the expected rates of return on assets were as follows:

	2012 UK Bus		2012 UK Rail		2012 North America		2012 Total
	%	£m	%	£m	%	£m	£m
Equities	8.4	706.5	8.4	–	9.0	216.8	923.3
Bonds	4.25	630.2	4.25	57.3	3.4	205.6	893.1
Property	6.4	97.2	6.4	–	7.5	13.5	110.7
Cash	3.1	29.5	3.1	5.0	2.6	7.6	42.1
Infrastructure	8.0	–	8.0	58.2	8.0	–	58.2
Cash plus	8.4	209.3	8.4	911.6	6.0	16.5	1,137.4
Private equity	8.65	76.7	8.65	143.8	9.0	–	220.5
Other	1.0	12.0	1.0	–	1.0	–	12.0
		1,761.4		1,175.9		460.0	3,397.3

36. Retirement benefit schemes continued

	2011 UK Bus		2011 UK Rail		2011 North America		2011 Total
	%	£m	%	£m	%	£m	£m
Equities	8.85	720.9	8.85	–	9.0	233.6	954.5
Bonds	5.2	535.4	5.2	52.8	4.65	203.0	791.2
Property	6.85	107.4	6.85	–	7.5	12.3	119.7
Cash	4.3	39.4	4.3	3.8	4.0	5.6	48.8
Infrastructure	8.0	–	8.0	58.4	8.0	–	58.4
Cash plus	8.85	219.0	8.85	869.8	6.0	18.5	1,107.3
Private equity	9.0	68.8	9.0	129.5	–	–	198.3
Other	1.0	10.7	1.0	–	1.0	–	10.7
		1,701.6		1,114.3		473.0	3,288.9

	2010 UK Bus		2010 UK Rail		2010 North America		2010 Total
	%	£m	%	£m	%	£m	£m
Equities	9.05	773.4	9.05	682.7	9.0	246.9	1,703.0
Bonds	5.3	449.6	5.3	100.8	4.6	181.0	731.4
Property	7.6	103.5	7.6	87.9	7.5	11.9	203.3
Cash	4.4	105.9	4.4	1.0	3.5	10.9	117.8
Infrastructure	8.0	–	8.0	60.9	8.0	–	60.9
Cash plus	9.05	169.0	9.05	93.0	9.0	43.8	305.8
Other	1.0	4.5	1.0	–	1.0	–	4.5
		1,605.9		1,026.3		494.5	3,126.7

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

(g) History of experience adjustments

The history of experience adjustments is as follows:

UK Bus	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Fair value of schemes' assets	**1,761.4**	1,701.6	1,605.9	1,296.8	1,477.1
Present value of defined benefit obligations	**(1,759.1)**	(1,649.8)	(1,734.9)	(1,257.8)	(1,276.1)
Irrecoverable surplus	**(29.7)**	(81.9)	–	–	(30.7)
(Deficit)/surplus in the schemes	**(27.4)**	(30.1)	(129.0)	39.0	170.3
Experience gain on scheme assets					
– Amount (£m)	**76.0**	23.3	208.6	(288.1)	(151.8)
– Percentage of scheme assets (%)	**4.3**	1.4	13.0	(22.2)	(10.3)
Experience gain on scheme liabilities					
– Amount (£m)	**(23.7)**	(96.3)	38.3	(30.2)	33.7
– Percentage of scheme liabilities (%)	**(1.3)**	(5.8)	2.2	(2.4)	2.6

36. Retirement benefit schemes continued

UK Rail	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Fair value of schemes' assets	**1,175.9**	1,114.3	1,026.3	744.1	977.7
Present value of defined benefit obligations	**(1,475.6)**	(1,333.3)	(1,388.9)	(944.3)	(1,003.8)
Rail franchise adjustment (60%)	**154.5**	76.7	173.0	75.9	(13.8)
Adjustment for employee share of RPS deficits (40%)	**119.9**	87.6	145.1	80.1	10.4
Deficit in the schemes	**(25.3)**	(54.7)	(44.5)	(44.2)	(29.5)
Experience gain on scheme assets					
– Amount (£m)	**42.3**	8.0	113.7	(212.0)	(66.7)
– Percentage of scheme assets (%)	**6.0**	1.2	18.5	(47.5)	(11.4)
Experience gain on scheme liabilities					
– Amount (£m)	**(4.9)**	8.6	25.4	74.3	(12.3)
– Percentage of scheme liabilities (%)	**(0.5)**	1.1	3.0	13.1	(2.0)
Experience gain (including gain on franchise adjustment) on scheme liabilities					
– Amount (£m)	**79.8**	110.7	117.3	164.9	(28.4)
– Percentage of scheme liabilities (%)	**9.0**	13.8	14.1	29.1	(4.7)

The calculations of percentages of UK Rail scheme assets and liabilities, above, use 60% of the assets and 60% of the liabilities as the denominator.

North America	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Fair value of schemes' assets	**460.0**	473.0	494.5	424.0	456.6
Present value of defined benefit obligations	**(675.2)**	(631.4)	(651.8)	(587.5)	(508.4)
Deficits in the schemes	**(215.2)**	(158.4)	(157.3)	(163.5)	(51.8)
Experience gain on scheme assets					
– Amount (£m)	**6.3**	(18.0)	83.2	(140.4)	(37.7)
– Percentage of scheme assets (%)	**1.4**	(3.8)	(16.8)	(33.1)	(8.3)
Experience gain on scheme liabilities					
– Amount (£m)	**4.5**	13.1	(20.4)	(6.1)	–
– Percentage of scheme liabilities (%)	**0.7**	2.1	(3.1)	(1.0)	–

Total Group	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Fair value of schemes' assets	**3,397.3**	3,288.9	3,126.7	2,464.9	2,911.4
Present value of defined benefit obligations	**(3,909.9)**	(3,614.5)	(3,775.6)	(2,789.6)	(2,788.3)
Irrecoverable surplus	**(29.7)**	(81.9)	–	–	(30.7)
Rail franchise adjustment (60%)	**154.5**	76.7	173.0	75.9	(13.8)
Adjustment for employee share of RPS deficits (40%)	**119.9**	87.6	145.1	80.1	10.4
(Deficit)/surplus in the schemes	**(267.9)**	(243.2)	(330.8)	(168.7)	89.0
Experience gain on scheme assets					
– Amount (£m)	**124.6**	13.2	405.5	(640.5)	(256.2)
– Percentage of scheme assets (%)	**4.3**	0.5	14.9	(29.6)	(10.1)
Experience gain on scheme liabilities					
– Amount (£m)	**23.3**	(74.5)	43.3	38.0	21.4
– Percentage of scheme liabilities (%)	**0.7**	(2.4)	1.3	1.6	0.9
Experience gain (including gain on franchise adjustment) on scheme liabilities					
– Amount (£m)	**(51.7)**	27.5	135.2	128.6	5.2
– Percentage of scheme liabilities (%)	**(1.6)**	0.9	4.2	5.3	0.2

36. Retirement benefit schemes continued

The calculations of percentages of Total Group scheme assets above, use 100% of UK Bus and North America assets and 60% of UK Rail assets as the denominator. The calculations of percentages of Total Group scheme liabilities above use 100% of UK Bus and North America liabilities and 60% of UK Rail liabilities as the denominator.

The estimated amounts of contributions expected to be paid to the schemes during the financial year to 31 March 2013 is £122.2m (year to 31 March 2012: £113.1m).

(h) Accounting for UK Rail pension arrangements

Had the Group accounted for UK Rail pensions as if the respective franchises had an indefinite duration, the impact on the financial statements would have been as follows:

	2012 £m	2011 £m	2010 £m
Balance sheet			
Pension deficit	**(154.5)**	(76.7)	(173.0)
Intangible assets	**(4.6)**	(6.5)	(21.2)
Deferred tax	**38.2**	21.6	54.4
Impact on net assets	**(120.9)**	(61.6)	(139.8)
Income statement			
Unwinding of discount on franchise adjustment	**(4.2)**	(5.7)	(5.1)
Intangible asset amortisation	**3.3**	14.7	7.1
Deferred tax	**0.2**	(2.3)	(0.6)
Impact on profit for the year from continuing operations	**(0.7)**	6.7	1.4
Consolidated statement of comprehensive income			
Actuarial (gains)/losses on franchise adjustment	**(75.0)**	102.0	(92.0)
Deferred tax on actuarial (gains)/losses	**18.0**	(26.5)	25.8
	(57.0)	75.5	(66.2)

(i) Consolidated statement of comprehensive income

Amounts presented in the consolidated statement of comprehensive income comprise:

	2012 £m	2011 £m
Actuarial (loss)/gain on DBO	**(188.4)**	226.6
Actuarial loss on assets	**(124.6)**	(13.3)
Actuarial gain/(loss) on franchise adjustment	**75.0**	(102.0)
Adjustment for irrecoverable surplus	**52.2**	(81.9)
	(185.8)	29.4

	2012 £m	2011 £m
Disclosed as:		
Actuarial losses on defined benefit pension schemes	**(185.8)**	(55.5)
RPI to CPI change in defined benefit pension arrangements	**–**	84.9
	(185.8)	29.4

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 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 52 to 57.

	Year to 31 March 2012 £m	Year to 31 March 2011 £m
Basic salaries	**1.9**	2.1
Performance related bonuses	**0.2**	0.5
Benefits in kind	**0.1**	0.1
Fees	**0.4**	0.4
Termination benefits	**–**	0.4
Pension contributions	**0.1**	0.4
Share-based payment	**0.6**	0.5
	3.3	4.4

Independent auditor's report to the members of FirstGroup plc

We have audited the Group financial statements of FirstGroup plc for the year ended 31 March 2012 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity and the consolidated cash flow statement, and the related notes 1 to 37. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 auditor

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 March 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the Group Financial Statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement contained within the corporate governance report in relation to going concern;
- the part of the corporate governance statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Other matters

We have reported separately on the parent company financial statements of FirstGroup plc for the year ended 31 March 2012 and on the information in the Directors' remuneration report that is described as having been audited.

Graham Richardson (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
23 May 2012

Group financial summary

Consolidated income statement – continuing operations	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Group revenue	**6,678.7**	6,416.7	6,249.4	6,123.9	4,653.6
Operating profit before amortisation charges and other exceptional items	**428.5**	456.7	448.9	494.0	356.4
Amortisation charges	**(30.9)**	(42.9)	(34.7)	(33.1)	(18.9)
Exceptional bid costs	**(10.2)**	(3.1)	(0.3)	(3.5)	(7.2)
Other exceptional items	**59.6**	(97.7)	(49.3)	(115.5)	(72.3)
Operating profit before profit/(loss) on disposal of properties	**447.0**	313.0	364.6	341.9	258.0
Operating profit	**448.0**	308.6	363.5	367.6	263.8
Net finance cost	**(157.1)**	(182.4)	(189.9)	(171.1)	(111.1)
Exceptional finance items	**(11.0)**	0.3	1.0	–	(4.5)
Profit before tax	**279.9**	126.5	174.6	196.5	148.2
Tax	**(50.1)**	(16.7)	(31.0)	(42.0)	(17.4)
Profit for the year from continuing operations	**229.8**	109.8	143.6	154.5	130.8
(Loss)/profit for the year from discontinued operations	**(9.5)**	7.3	3.5	2.5	2.5
Profit for the year	**220.3**	117.1	147.1	157.0	133.3
EBITDA	**742.9**	768.9	755.9	762.2	550.9

Earnings per share	pence	pence	pence	pence	pence
Adjusted basic	**40.0**	41.1	38.8	48.1	40.3
Basic	**42.7**	20.0	26.8	29.7	27.1

Consolidated balance sheet	£m	£m	£m	£m	£m
Non-current assets	**4,072.7**	4,161.5	4,526.2	4,866.4	3,833.0
Net current liabilities	**(255.4)**	(322.4)	(283.8)	(707.3)	(202.6)
Non-current liabilities	**(2,596.1)**	(2,494.4)	(2,967.6)	(3,007.2)	(2,497.3)
Provisions	**(340.2)**	(393.8)	(364.3)	(347.6)	(428.3)
Net assets	**881.0**	950.9	910.5	804.3	704.8

Share data					
Number of shares in issue (excluding treasury shares and shares in trusts)	millions	millions	millions	millions	millions
At year end	**481.6**	480.8	480.2	480.8	436.6
Average	**481.4**	480.4	480.5	474.8	434.8

Share price	pence	pence	pence	pence	pence
At year end	**238**	326	359	268	564
High	**370**	413	442	635	815
Low	**238**	323	288	198	497

Market capitalisation	£m	£m	£m	£m	£m
At year end	**1,147**	1,572	1,724	1,292	2,462

Company balance sheet

Year ended 31 March

	Notes	2012 £m	2011 £m
Fixed assets			
Investments	4	**1,769.8**	1,699.0
Current assets			
Cash and cash equivalents		**92.7**	11.4
Derivative financial instruments – due within one year	5	**38.8**	57.3
– due after more than one year	5	**72.1**	54.3
Debtors – due within one year	6	**2,593.4**	2,717.7
– due after more than one year	6	**2.8**	–
		2,799.8	2,840.7
Current liabilities			
Creditors: amounts falling due within one year	8	**(945.6)**	(867.3)
Financial liabilities – current bond liability		**(73.6)**	(73.3)
Derivative financial instruments	5	**(17.1)**	(38.5)
		(1,036.3)	(979.1)
Net current assets		**1,763.5**	1,861.6
Total assets less current liabilities		**3,533.3**	3,560.6
Creditors: amounts falling due after more than one year	8	**(1,960.4)**	(1,951.4)
Derivative financial instruments	5	**(50.1)**	(29.7)
Net assets		**1,522.8**	1,579.5
Capital and reserves			
Called up share capital	9	**24.1**	24.1
Share premium	10	**676.4**	676.4
Other reserves	10	**252.9**	251.8
Own shares	10	**(1.1)**	(5.0)
Profit and loss account	10	**570.5**	632.2
Shareholders' funds		**1,522.8**	1,579.5

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 60.

The following accounting policies have been used consistently throughout the year and the preceding year in accordance with UK GAAP.

Cash flow statement
The Company has taken the advantage of the exemption under FRS 1 (revised) not to disclose a cash flow statement.

Investments
Fixed asset investments in subsidiaries and associates are shown at cost less provision for impairment.

For investments in subsidiaries acquired for consideration, including the issue of shares qualifying for merger relief, cost is measured by reference to the nominal value only of the shares issued. Any premium is ignored.

Foreign currencies
Transactions in currencies other than Sterling are recorded at the rate of exchange on the date of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at the relevant balance sheet date. Exchange differences arising on the settlement of monetary items, and on the retranslation of non-monetary items at each balance sheet date are included in the profit or loss for the accounting period.

Tax
The charge for tax is based on the profit or loss for the year and takes into account tax deferred because of timing differences between the treatment of certain items for tax and accounting purposes. Provision is made for deferred tax on all timing differences except those arising from the revaluation of fixed assets for which there is no binding agreement to sell on property gains if it is anticipated that rollover relief will be available and on the undistributed profits of overseas subsidiaries, associates and joint ventures. Deferred tax is calculated at the rates at which it is estimated the tax will arise. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. The deferred tax provision is not discounted to net present value.

Financial instruments
Derivative financial instruments are initially recorded at fair value and then for reporting purposes are remeasured to fair value at each subsequent balance sheet date.

Derivative financial instruments and hedge accounting
The Company uses derivative financial instruments to hedge interest rate risks, foreign currency risks and fuel price risks. Use of such financial instruments is governed by policies and delegated authorities approved by the Board. The Company does not use derivative financial instruments for speculative purposes. In relation to fuel price risks, the Company's profit and loss account is affected by transactions with affiliated companies that give rise to cash flow volatility associated with fuel price risk.

The main derivative financial instruments used by the Company are interest rate swaps and collars, fuel swaps and collars, and cross currency interest rate swaps. Such instruments are initially recognised at fair value and subsequently remeasured to fair value at the reported balance sheet date. The fair values are calculated by reference to market exchange rates, interest rates and fuel prices at the period end, and supported by counterparty confirmations.

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

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

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the 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 408 of the Companies Act 2006 the Company has elected not to present its own profit and loss account for the year. FirstGroup plc reported a profit for the financial year ended 31 March 2012 of £45.0m (2011: £27.8m).

Fees payable to the Company's auditors for the audit of the Company's annual financial statements are disclosed in note 6 on page 78.

The Company had no employees in the current or preceding financial year.

3. Dividends

Amounts recognised as distributions to equity holders in the year:

	2012 £m	2011 £m
Final dividend per share paid for the year ended 31 March 2011 of 15.0p (2010: 14.0p)	**72.2**	67.2
Interim dividend per share paid for the year ended 31 March 2012 of 7.62p (2011: 7.12p)	**36.6**	34.2
	108.8	101.4
Proposed final dividend per share for the year ended 31 March 2012 of 16.05p (2011: 15.0p)	**77.2**	72.1

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

4. Fixed asset investments

	Unlisted subsidiary undertakings £m	Other investments £m	Total £m
Cost			
At 1 April 2011	1,704.4	8.1	1,712.5
Additions	82.4	–	82.4
Disposals	(1.1)	–	(1.1)
At 31 March 2012	**1,785.7**	**8.1**	**1,793.8**
Provisions			
At 1 April 2011	(5.4)	(8.1)	(13.5)
Amounts provided during the year	(10.5)	–	(10.5)
At 31 March 2012	**(15.9)**	**(8.1)**	**(24.0)**
Net book value			
At 31 March 2012	**1,769.8**	**–**	**1,769.8**
At 31 March 2011	1,699.0	–	1,699.0

Part of the additional investments relates to further ordinary share capital subscribed for within FirstGroup Canadian Finance Limited, a company incorporated in Great Britain, which makes loans to fellow subsidiaries. The Company owns 100% of the ordinary share capital of FirstGroup Canadian Finance Limited.

Of the total additions £13.0m relates to further ordinary share capital subscribed for within First European Holdings Limited, a company incorporated in Great Britain, which FirstGroup plc owns 100% of and which acts as a holding company for overseas investments. Of this additional investment £10.5m was provided for during the year principally as a result of the loss on disposal of FirstGroup Deutschland GmbH during the year.

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 and 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 and Avon Limited
First South Yorkshire Limited
First West Yorkshire Limited
First York Limited
Leicester CityBus Limited (94%)
Northampton Transport Limited

North American school bus operators

Cardinal Coach Lines Limited (60%)[2]
First Canada ULC[2]
First Student, Inc[3]

Transit contracting and fleet maintenance

First Transit, Inc[3]
First Support Services, Inc[3]
First Vehicle Services, Inc[3]

North American coach operators

Americanos USA, Inc[3]
Greyhound Lines, Inc[3]
Greyhound Canada Transportation ULC[2]

Rail companies

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

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.

All shares held in subsidiary undertakings are ordinary shares, with the exception of Leicester CityBus Limited where the Group owns 100% of its redeemable cumulative preference shares, as well as 94% of its ordinary shares.

All of these subsidiary undertakings are owned via intermediate holding companies.

Advantage has been taken of section 410 of the Companies Act 2006 to list only those undertakings as are required to be mentioned in that provision, as an exhaustive list would involve a statement of excessive length.

Other investments

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

5. Derivative financial instruments

	2012 £m	2011 £m
Derivatives designated and effective as hedging instruments carried at fair value		
Non-current assets		
Cross currency swaps (net investment hedge)	23.2	22.2
Coupon swaps (fair value hedge)	43.8	21.0
Fuel derivatives (cash flow hedge)	5.1	11.1
	72.1	54.3
Assets due within one year		
Cross currency swaps (net investment hedge)	4.3	4.6
Coupon swaps (fair value hedge)	9.5	6.7
Currency forwards (cash flow hedge)	–	1.2
Fuel derivatives (cash flow hedge)	25.0	44.8
	38.8	57.3
Creditors: amounts falling due within one year		
Interest rate derivatives (cash flow hedge)	8.0	15.0
Cross currency swaps (net investment hedge)	1.2	23.3
Fuel derivatives (cash flow hedge)	3.5	0.1
	12.7	38.4
Creditors: amounts falling due after more than one year		
Interest rate derivatives (cash flow hedge)	13.7	1.5
Cross currency swaps (net investment hedge)	27.1	28.2
Fuel derivatives (cash flow hedge)	0.9	–
	41.7	29.7
Derivatives classified as held for trading		
Creditors: amounts falling due within one year		
Interest rate derivatives	4.4	0.1
Creditors: amounts falling due after more than one year		
Interest rate derivatives	8.4	–
Total assets due after more than one year	72.1	54.3
Total assets due within one year	38.8	57.3
Total assets	110.9	111.6
Total creditors: amounts falling due within one year	17.1	38.5
Total creditors: amounts falling due after more than one year	50.1	29.7
Total creditors	67.2	68.2

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

	2012 £m	2011 £m
Amounts due within one year		
Amounts due from subsidiary undertakings	**2,586.2**	2,717.7
Deferred tax asset (note 7)	**2.8**	–
Corporation tax recoverable	**4.4**	–
	2,593.4	2,717.7
Amounts due after more than one year		
Deferred tax asset (note 7)	**2.8**	–

7. Deferred tax

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

	Other temporary differences £m
At 1 April 2011	9.3
Credit to income	(12.3)
Credit to equity	(2.6)
At 31 March 2012	**(5.6)**

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2012 £m	2011 £m
Deferred tax asset due within one year	**(2.8)**	–
Deferred tax asset due after more than one year	**(2.8)**	–
Deferred tax liability due within one year	**–**	6.8
Deferred tax liability due after more than one year	**–**	2.5
	(5.6)	9.3

8. Creditors

	2012 £m	2011 £m
Amounts due within one year		
Bank loans and overdrafts	**624.9**	623.7
Other creditors	**1.8**	2.2
Deferred tax liability (note 7)	**–**	6.8
Corporation tax payable	**–**	0.9
Amounts due to subsidiary undertakings	**303.7**	220.8
Accruals and deferred income	**15.2**	12.9
	945.6	867.3
Amounts falling due after more than one year		
Deferred tax liability (note 7)	**–**	2.5
Bank loans		
– Due in more than two years but not more than five years	**426.1**	531.8
£300.0m Sterling bond – 6.875% 2013	**298.5**	298.0
£250.0m Sterling bond – 8.125% 2018	**296.7**	296.4
£300.0m Sterling bond – 6.125% 2019	**299.7**	276.7
£350.0m Sterling bond – 8.75% 2021	**347.1**	347.0
£200.0m Sterling bond – 6.875% 2024	**199.0**	199.0
Senior unsecured loan notes	**93.3**	–
	1,960.4	1,951.4

8. Creditors continued

Borrowing facilities

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

	2012 £m	2011 £m
Facilities maturing:		
– Due in more than two years	**631.8**	526.7

9. Called up share capital

	2012 £m	2011 £m
Allotted, called up and fully paid		
Ordinary shares of 5p each	**24.1**	24.1

The Company had 482.1m (2011: 482.1m) shares in issue at 31 March 2012.

10. Reserves

	Share premium £m	Own shares £m	Profit and loss account £m
At 1 April 2011	676.4	(5.0)	632.2
Retained profit for the year	–	–	45.0
Share-based payment provision	–	–	6.0
Dividends paid	–	–	(108.8)
Movement in EBT and treasury shares during the year	–	3.9	(3.9)
At 31 March 2012	**676.4**	**(1.1)**	**570.5**

Own shares

The number of own shares held by the Company at the end of the year was 692,536 (2011: 1,279,912) FirstGroup plc ordinary shares of 5p each. Of these, 398,587 (2011: 978,505) were held by the FirstGroup plc Employee Benefit Trust, 32,520 (2011: 32,520) by the FirstGroup plc Qualifying Employee Share Ownership Trust and 261,429 (2011: 268,887) 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 2012 was £1.2m (2011: £4.2m).

Other reserves	Hedging reserve £m	Capital redemption reserve £m	Capital reserve £m	Merger reserve £m	Total other reserves £m
At 1 April 2011	(10.3)	1.9	93.8	166.4	251.8
Derivative hedging instrument movement	1.1	–	–	–	1.1
At 31 March 2012	**(9.2)**	**1.9**	**93.8**	**166.4**	**252.9**

11. Reconciliation of movement in shareholders' funds

	2012 £m	2011 £m
Profit for the financial year	**45.0**	27.8
Share-based payment provision	**6.0**	7.7
Dividends	**(108.8)**	(101.4)
	(57.8)	(65.9)
Movement in EBT and treasury shares during the year	**–**	0.5
Derivative hedging instrument movement	**1.1**	74.9
Net (reduction)/addition to shareholders' funds	**(56.7)**	9.5
Shareholders' funds at beginning of year	**1,579.5**	1,570.0
Shareholders' funds at end of year	**1,522.8**	1,579.5

12. Contingent liabilities and assets

To support subsidiary undertakings in their normal course of business, the Company and certain subsidiaries have indemnified certain banks and insurance companies who have issued performance bonds for £532.5m (2011: £460.2m) and letters of credit for £299.3m (2011: £316.7m). The performance bonds relate to the North American businesses of £314.2m (2011: £260.8m) and the UK Rail franchise operations of £218.3m (2011: £199.4m). The letters of credit relate substantially to insurance arrangements in the UK and North America.

The Company has provided unsecured loan facilities of £76.4m (2011: £87.5m) to First Greater Western Limited, a £46.0m (2011: £46.0m) unsecured loan facility to First Capital Connect Limited, a £3.2m (2011: £3.2m) unsecured loan facility to First/Keolis TransPennine Limited, and a £13.6m (2011: £13.6m) unsecured loan facility to First ScotRail Limited. Under these facilities, £35.4m (2011: £46.5m) was drawn at 31 March 2012 by First Greater Western Limited and £25.0m (2011: £25.0m) was drawn at 31 March 2012 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 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 £780.8m (2011: £779.2m) syndicated unsecured bank facility and to certain bilateral bank facilities for £397.3m (2011: £443.7m) and to senior unsecured loan notes for £93.3m (2011: £nil).

In its normal course of business UK Rail has ongoing contractual negotiations with governmental and other organisations.

Independent auditor's report to the members of FirstGroup plc

We have audited the parent company financial statements of FirstGroup plc for the year ended 31 March 2012 which comprise the balance sheet, and the related notes 1 to 12. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 auditor

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the parent company's affairs as at 31 March 2012;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matters

We have reported separately on the Group financial statements of FirstGroup plc for the year ended 31 March 2012.

Graham Richardson (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
23 May 2012

Glossary

Set out below is a guide to commonly used financial, industry and Company related terms in the Annual Report and Accounts. These are not precise definitions and are included to provide readers with a guide to the general meaning of the terms.

AGM
Annual General Meeting

BAYE
Buy As You Earn

BITC
Business in the Community is a membership organisation of over 800 of the UK's leading companies committed to improving their CR impact on society

The Board
The Board of Directors of the Company

Company
FirstGroup plc, a company registered in Scotland with number SC157176 whose registered office is at 395 King Street, Aberdeen AB24 5RP

CPI
Consumer price index, an inflation measure that excludes certain housing related costs

CR
Corporate responsibility refers to the way we manage the economic, social and environmental impacts of our activities

DfT
Department for Transport

Dividend
Amount payable per ordinary share on an interim and final basis

Dow Jones Sustainability Indexes
Tracker of the financial performance of the world's leading corporate sustainability-driven companies

EABP
Executive annual bonus plan

EBT
Employee benefit trust

EBITDA
Earnings before interest, tax, depreciation and amortisation

EPS
Earnings per share

ESOS
Executive share option scheme

FTSE4Good Index Series
Designed to measure the performance of companies that meet globally recognised corporate responsibility standards

GPS
Global positioning system

GRT
Grampian Regional Transport, the Aberdeen city municipal bus operator which was purchased by its management and employees in 1989 and went on to become FirstBus in 1995

Group
FirstGroup plc and its subsidiaries

IAS
International Accounting Standards

IFRS
International Financial Reporting Standards

ITSO
Integrated Transport Smartcard Organisation, the national standard IT specification for smart ticketing in the UK

KPI
Key performance indicators are financial and non-financial metrics used to define and measure progress towards our objectives

Local authority
Local government organisations including unitary, Metropolitan, district and county councils

LTIs
Lost Time Injuries refer to work-related injuries or illness that result in one of our employees being unable to work on a subsequent scheduled work day or shift

LTIP
Long term incentive plan

MAA
Moving annual average

Network Rail
Owner and operator of Britain's rail infrastructure

Ordinary shares
FirstGroup plc ordinary shares of 5p each

PLC
Public limited company

PPM
Public Performance Measure reflects 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'

RPI
Retail price index, an inflation measure that includes certain housing related costs

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 Corporate Governance Code
The UK Corporate Governance Code issued by the Financial Reporting Council in June 2010

UK GAAP
UK Generally Accepted Accounting Principles

Shareholder information

The Annual Report and Accounts, share price information, Company presentations, contact details and other shareholder information are available on the website at www.firstgroup.com

Contact information

FirstGroup plc offices

Registered office
FirstGroup plc
395 King Street
Aberdeen AB24 5RP
Tel. +44 (0)1224 650100
Fax. +44 (0)1224 650140

London office
FirstGroup plc
50 Eastbourne Terrace
London W2 6LG
Tel. +44 (0)20 7291 0505
Fax. +44 (0)20 7436 3337

Shareholder enquiries

The Company's share register is maintained on our behalf by Equiniti, who are responsible for making dividend payments and updating the register, including details of changes to shareholders' addresses and purchases and sales of the Company's shares.

If you have any questions about your shareholding in the Company or need to notify any changes to your personal details you should contact:

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
Tel. 0871 384 2046*
(or from overseas on Tel. +44 (0)121 415 7050)

Employee share schemes

Employees with queries about shares held in the Company's employee share schemes should contact:

Yorkshire Building Society
Yorkshire Building Society Share Plans
1 Filey Street
Bradford BD1 5AT
Tel. 0845 1200 300
(or from overseas on Tel. +44 (0)1274 705758)

Duplicate shareholder accounts

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

Unsolicited mail

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

Direct dividend payments

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

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

Dividend Reinvestment Plan ('DRIP')

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

The Share Dividend Team
Equiniti
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
Tel. 0871 384 2268*
(or from overseas on Tel. +44 (0)121 415 7173)

Online information

The Registrar also provides an online service enabling you to access details of your shareholding. To view your details, complete certain amendments instantly and access a range of general information about holding shares, visit **www.shareview.co.uk**.

*Calls to these numbers are charged at 8p per minute from a BT landline; other telephone providers' costs may vary. Telephone lines are open from 8.30 am to 5.30 pm, Monday to Friday.

Shareholder profile
At 23 May 2012

	Number of shareholders	%	Shares held	%
By category				
Individuals	37,892	95.0	46,748,910	9.7
Banks and Nominees	1,695	4.3	427,940,406	88.8
Insurance and assurance	1	–	300	–
Other companies	114	0.3	1,889,454	0.4
Other institutions	150	0.4	5,488,100	1.1
	39,852	100.0	482,067,170	100.0
By size of holding				
1-1,000	30,642	76.9	8,011,808	1.7
1,001-5,000	7,138	17.9	15,759,366	3.3
5,001-10,000	1,072	2.7	7,428,005	1.5
10,001-100,000	699	1.7	19,184,334	4.0
Over 100,000	301	0.8	431,683,657	89.5
	39,852	100.0	482,067,170	100.0

Electronic communication
The Company's articles of association permit the Company to use electronic communication when sending information to its shareholders. Using electronic communications helps us reduce the environmental impact of our business by limiting the amount of paper we use and it assists us in managing our costs. We periodically consult with shareholders to check how they wish to receive information from us and a shareholder is taken to have agreed to website communications if a response has not been received.

Any document or information required to be sent to shareholders is made available on the Company's website and a notification of availability is sent. Shareholders who receive such a notification are entitled to request a hard copy of the document at any time and may also change the way they receive communications at any time by contacting Equiniti.

FirstGroup plc's 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	**11 July 2012**
Record date for final dividend*	**13 July 2012**
Annual General Meeting	**25 July 2012**
Final dividend payment	**17 August 2012**
Half-yearly results announcement	**November 2012**
Interim dividend paid	**February 2013**
Preliminary announcement of full year results	**May 2013**

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

Find out more about FirstGroup on our website **www.firstgroup.com**

Designed and produced by MerchantCantos

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