Returning to strength

FirstGroup plc

Annual Report
and Accounts 2013

FirstGroup plc is the leading transport operator in the UK and North America. With revenues of more than £6.9 billion per annum and approximately 120,000 employees, we transport more than 2.5 billion passengers every year.

Contents

Find out more about FirstGroup on our website **www.firstgroup.com**

Business summary

Solid performance for the year with overall trading in line with management's expectations and transformation plans on track

Fully underwritten c.£615m rights issue to remove balance sheet constraints and enable continued investment for future returns whilst reducing leverage

£1.6bn capital programme over four years to drive growth, margins and returns

No final dividend proposed. New progressive dividend policy announced

First Student recovery plan is on track, building on progress made from a more efficient operating model and uniform practices

First Transit saw strong growth underpinned by good contract wins. The disposal of First Support Services allows us to focus on our core businesses

Greyhound delivered margin improvement despite economic headwinds. Strong growth in Greyhound Express

UK Bus completed portfolio reshaping with c.£100m of disposals, including the sale of eight London depots announced in April. Comprehensive programme to restore performance and increase revenue and patronage is delivering early positive results

UK Rail achieved continued strong performance. Franchise extensions are currently being negotiated for First Great Western and First Capital Connect and we are well positioned for resumption of franchising process

Financial highlights 2012/13

Revenue
£6,900.9m
2012: £6,678.7m[1]

Underlying EBITDA[2,3]
£667.0m
2012: £742.9m[1]

Underlying operating profit[2]
£335.4m
2012: £428.5m[1]

Underlying profit before tax[2]
£172.4m
2012: £271.4m[1]

Underlying EPS[2]
26.9p
2012: 40.0p[1]

Statutory operating profit
£205.7m
2012: £448.0m[1]

Statutory profit before tax
£37.2m
2012: £279.9m[1]

Statutory EPS
7.3p
2012: 42.7p

Net debt[4]
£1,979.1m
2012: £1,837.5m

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

Martin Gilbert
Chairman

As we continue to manage in a climate of uncertainty, we have taken significant steps this year to enhance our flexibility and strengthen the Group for the future.

In a sector that is a key enabler of economic development, the Group's diverse portfolio offers an attractive platform for sustainable growth. During the year we continued to take action to mitigate the effects of prolonged economic weakness and to place the business on a firmer footing to continue to invest for the future and deliver improved growth and returns.

The Group has grown rapidly over the last 20 years through a combination of acquisition, organic growth and contract wins, and we have established a broad-based portfolio of market leading transport businesses in the UK and North America with unrivalled scale and breadth. We believe that our stakeholders benefit from the diversity of the Group which underpins the wealth of expertise and unique knowledge that we have of many different markets, networks, contracts and assets.

The diversity of our portfolio also means that each of our businesses responds differently to changes in the economic cycle. As the problems of congestion from urban growth continue to multiply, the need for more efficient transport solutions is recognised as being ever more critical.

The external headwinds we have faced this year have been considerable. The sustained economic weakness across the UK and North America continued to affect our passenger revenue businesses, and the impact of reduced Government support for the bus industry in the UK during the year has been marked. It has also been an exceptionally challenging period for the UK rail industry and for our rail business in particular, following the unexpected cancellation of the InterCity West Coast franchise competition. Notwithstanding the public statements from the Department for Transport (DfT) that we were not at fault, having followed due process and submitted a strong bid in strict accordance with their terms, we were frustrated that our employees and our shareholders had to endure this extraordinary series of events. In March, following the completion of two independent reviews, the DfT issued a detailed timetable for rail franchise awards over the next eight years. As the UK's largest and most experienced rail operator, we remain committed to maintaining a leading position in the market, and look forward to submitting further high quality bids that create value for passengers, taxpayers and shareholders.

As we continue to manage in a climate of uncertainty, we have taken significant steps this year to enhance our flexibility and strengthen the Group for the future. Across the business there is a resolute drive to harness our scale by developing and sharing our global expertise for the benefit of our local markets. Led by Tim O'Toole, the management team remain focused on detailed plans to strengthen the business to address the challenges we are facing today, and to achieve sustainable growth for the future.

During the year we took steps to further strengthen the Board through a number of new appointments.

On 1 August 2012 we were pleased to welcome Brian Wallace and Jim Winestock to the Board as Independent Non-Executive Directors. Brian has held executive board positions within a number of FTSE 100 and FTSE 250 organisations, most recently as Group Finance Director of Ladbrokes plc. Prior to joining Ladbrokes he was Group Finance Director and Deputy Chief Executive of Hilton Group.

Jim Winestock served in a number of senior roles and was a member of the Management Committee during his career at United Parcel Service, Inc. Most recently he was Senior Vice President and Director of US Operations and Global Security with responsibility for all US operations and 360,000 employees.

Chris Surch was appointed to the Board as Group Finance Director on 1 September 2012. Chris joined from Shanks Group plc where he was Group Finance Director. Prior to that, he held a number of senior financial roles including at Smiths Group plc and TI Group plc. Together with strong financial leadership, he brings considerable operational, strategic and international knowledge and experience of significant business improvement programmes.

On behalf of the Board, I would like to extend our sincere thanks and gratitude to our 120,000 employees. They are the backbone of our organisation and our greatest strength. The engagement, support, and development of all our people is an important focus for management and vital to delivering our plans for the future.

The Group remains a strong and profitable business with market leading positions. During the year we continued to take action to mitigate the effects of the prolonged economic downturn and to place the business on a firmer footing to continue to invest for the future. Having comprehensively reviewed other options, the Board is confident that the rights issue announced in May is the best solution for the Group, to remove the risk of a credit rating downgrade, remove the constraints of the balance sheet and give management the resources necessary to deliver their value-enhancing strategy for the Group.

We are targeting an appropriate, progressive and sustainable dividend policy with cover of 2.0 to 2.5 times in the medium term. In the short term the Board proposes that no final dividend will be paid in respect of the year to 31 March 2013, nor an interim dividend for the year to 31 March 2014. Payments will recommence with a final dividend for the year to 31 March 2014, subject to performance in line with expectations, as a transition to re-establishing a progressive dividend policy thereafter. While the exact quantum will be determined at that time, the Board's intent is to pay a transitional final dividend of up to £50m for the year to 31 March 2014.

The rights issue will not only strengthen the Group and support its continued growth, but also underpin its ability to remain a dividend paying stock as well as supporting an investment grade credit rating. When this project is complete, I intend to step down as Chairman once a successor has been identified. I have led the business for 27 years, from start-up to its current position as the leading transport operator in the UK and North America and I am extremely proud of what we have achieved during that time. While I am sorry to leave, I am pleased that this fund raising will open the way to the next stage of the Group's development.

Martin Gilbert
Chairman

20 May 2013

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

Chief Executive's strategic review

Tim O'Toole
Chief Executive

Our services help to create strong, vibrant and sustainable local economies and our opportunity is to be the provider of choice for our customers and communities.

We are the largest transport operator in the UK and North America and each day, every one of our 120,000 employees works hard to deliver vitally important services for our passengers. During the last year more than 2.5 billion passengers relied on us to get to work, to education, to visit family and friends and for much more.

In May of this year, Martin Gilbert announced his intention to stand down as Chairman, once a successor has been identified. On behalf of the Board and our employees, I would like to pay tribute to Martin and thank him for his outstanding contribution to the Company. As Chairman and a founder, his vision and drive have led the transformation of the Group, and under his stewardship the business has grown to become one of the world's leading transport operators.

Our opportunity

Our objective is to provide sustainable, integrated transport services that are safe, reliable and meet the needs of the customers and the communities we serve. We have established a diverse portfolio of assets in a sector which is a key enabler of economic growth. Effective transport links are essential to the prosperity of any economy, and whilst the needs of any one local or regional community may be different, as we look ahead, the unrelenting move towards urbanisation means that we can be certain that congestion will be a feature of the future. It is companies like ours with the necessary breadth and scale, and collective expertise and capability spanning two continents, that will be able to provide efficient solutions to congestion.

Capital structure

In May 2013 we announced a rights issue to raise approximately £615m, which will remove the constraints of our current balance sheet and provide the necessary flexibility to continue our transformation plans and invest to create sustainable, long term value.

The decisions we have taken this year will position the Group to deliver improved growth, and return us to a profile of consistent financial returns and cash generation. Over the next four years we aim to increase Group revenue (excluding UK Rail) at a faster rate than the economies we serve, improve margins in First Student and UK Bus[1] to double digit levels, and achieve a post-tax return on capital employed (ROCE) in the 10% to 12% range. We aim to maintain an investment grade credit rating and appropriate balance sheet liquidity and headroom and, as the business performance improves, to re-establish a progressive dividend policy to target 2.0 to 2.5 times dividend cover.

Future outlook

The actions we are taking will create a more robust company and one that is better placed to face its challenges, deliver on its promises and take advantage of future opportunities. As a result I believe that we are in a stronger position now with greater clarity and confidence in our way forward.

[1] On a post-IAS 19 basis. The estimated impact of IAS 19 is set out on page 39.

Our vision and values

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

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.

Actions taken this year

This year has been a significant one for the Group as we moved ahead with our plans for our future development. Our business improvement programmes are at different stages across each of our divisions, but over this year we have prioritised the following areas:

Future priorities

While we are pleased with progress in the year, significant opportunities remain ahead of us. Over the next four years, we intend to invest approximately £1.6bn across the Group to continue our transformation programmes and take advantage of growth opportunities. The key priorities in delivering our plans and generating long term, sustainable value for shareholders and our other stakeholders include:

Actions taken this year	Future priorities
First Student	
We are reforming the operating model to create a more efficient cost structure through improving labour productivity, streamlining systems to reduce bureaucracy, standardising operating procedures and applying best practice. We are expanding the use of innovative technology, reducing maintenance costs through uniform practices and reducing fuel costs through enhanced driver training.	To continue to execute the ongoing recovery plan by improving operational efficiency with a view to targeting double digit operating margins in the medium term, including by ultimately driving up our contract retention rates above 90%, taking advantage of opportunities to win new contracts as state authorities and school boards continue to outsource their student bus services, and returning to a selective in-fill acquisition strategy to enhance growth, at the appropriate levels and time.
First Transit	
We have strengthened our core business units in First Transit, and disposed of non-core operations during the year. We are seeing a steady pipeline of new contract wins including additional paratransit services and, going forward, we plan to increase our focus on higher growth operations such as our shuttle bus business. We are also placing more emphasis on technological innovation in the division.	To continue to achieve strong growth and maintain operating margins while investing to take advantage of key outsourcing opportunities, including the expansion of our shuttle bus operations, particularly on university campuses and in the Canadian oil fields.
Greyhound	
We have significantly transformed Greyhound's operating model to create a more flexible and agile business, including through improvements in technology, right sizing and relocating terminals, purchasing new vehicles and refurbishing our existing fleet. We are expanding our Greyhound Express services, building on the inherent strength of our unique national network, as well as developing bespoke brands for niche markets.	We will invest in infrastructure and IT, including new reservation and ticketing systems, to drive operational efficiencies, facilitate better yield management and thereby seek to achieve growth in excess of GDP, as we have achieved in BoltBus and Greyhound Express. Further capital expenditure will also be made to renew and refurbish the Greyhound fleet and to continue to fund the addition of new routes and services.
UK Bus	
During the year we rebalanced our UK Bus portfolio through a programme of selected business and asset disposals. We are improving efficiency by standardising our maintenance and operating procedures, investing in our bus fleet and adjusting the commercial model to be more responsive locally and to enhance patronage growth.	To improve operating margins, on a post-IAS 19, basis to double digit levels in the medium term by continuing our depot transformation programme, network redesign plans, reducing the fleet age to be closer in line with our peers, as well as improving our information provision and smart ticketing capabilities to support volume growth.
UK Rail	
We continue to focus on operating performance across all of our UK Rail operations, including prioritising the introduction of new smart ticketing and passenger information technology. We are working closely with our partners to deliver infrastructure and capacity upgrades. Contract extensions are being negotiated for two of our franchises, and we remain committed to maintaining our leading position in the rail market as the DfT's franchising process restarts.	Ensuring our management expertise and capital strength continues to support our plans to participate in a range of future franchise competitions and tenders and maintain our market leading position.

How we generate revenue

We operate five divisions which require similar core skills and expertise, and are diversified by geography, customer base and mix of contract backed and passenger revenue.

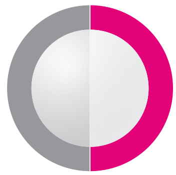
Our revenues are balanced between the UK (57%) and North America (43%), together with some minor activities in other European countries. Our customers include the national government, regional and local authorities in the UK, state and municipal authorities, local school boards, universities and private companies in North America, and a diverse demographic mix of individual passengers in both the UK and North America. Our passenger revenue is broadly spread between business, commuting, social and recreational travelling. In all, approximately 50% of our revenues are derived directly from our passengers, while approximately 50% are backed by contracts or franchise agreements. Our broad footprint in the UK and North America also gives us profound experience of two of the most developed markets in the world for outsourced municipal transportation, and therefore a breadth of expertise across different regulatory and contractual structures.

As a result of the breadth and diversity of our operations, each of our businesses is typically moving through a different stage of the economic cycle. This diversity helps to ensure that we are not dependent on any one market, and weaker performance in one area is more likely to be offset by stronger performances elsewhere in the portfolio. These variations influence the way in which each business is managed, the range of KPIs that management work to and the local strategies that are applied.

As a result of the breadth and diversity of our operations, each of our businesses is typically moving through a different stage of the economic cycle.

FirstGroup

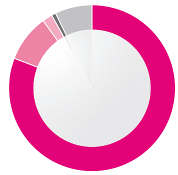
2012/13 approximate revenue by type



Passenger revenue	50%
Contract or franchise agreement	50%

Greyhound

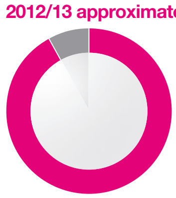
2012/13 approximate revenue by type



Passenger revenue	81%
Package Express	9%
Food service	2%
Charter	1%
Other	7%

First Student

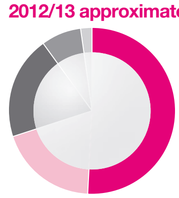
2012/13 approximate revenue by type



Contract	92%
School and third party charter	8%

UK Bus

2012/13 approximate revenue by type

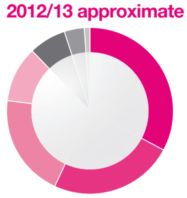


Passenger revenue	51%
London tenders[1]	19%
Concessions	20%
Tenders	8%
Other	2%

[1] In April 2013 we announced the sale of eight of our London bus depots.

First Transit

2012/13 approximate revenue by type

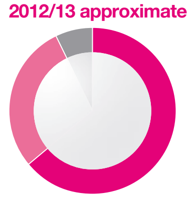


Fixed route	33%
Paratransit	24%
Shuttle	20%
Vehicle Services	11%
Support Services[2]	7%
Call centre	4%
Transit management	1%

[2] In March 2013 we completed the disposal of First Support Services.

UK Rail

2012/13 approximate revenue by type

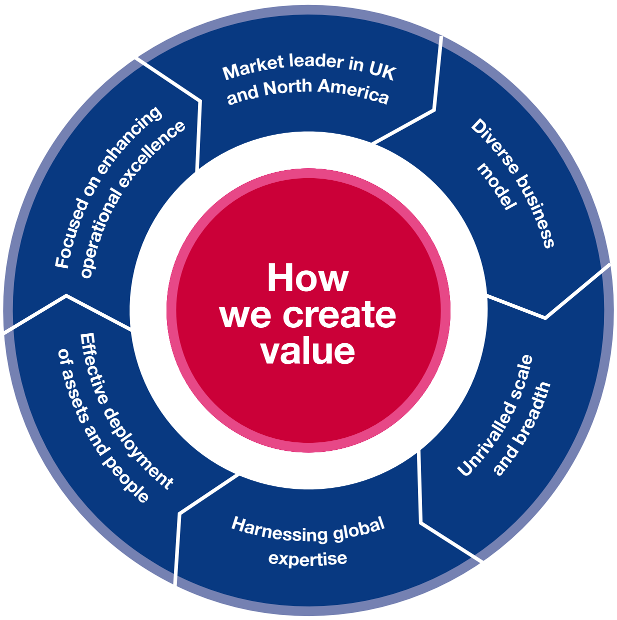


Passenger revenue	64%
Government funding[3]	29%
Other revenue	7%

[3] Government funding includes subsidies and revenue support. It does not take into account total premium payments made to the Government during the year of £663.5m.

How we create value

Our objective is to create long term value for shareholders and other stakeholders through the provision of sustainable, integrated transport services that are safe, reliable and meet the needs of our customers and communities.



Our strategy for sustainable growth

We believe we are well placed to achieve sustainable growth from delivering innovative and high quality transport solutions to the local markets we serve. We expect to achieve that growth through a balanced strategy of investing our resources in four areas: to drive continued operational excellence, to deliver organic growth, to continue to achieve contract wins and renewals, and to make selected in-fill acquisitions. In each case, we aim to deploy our strengths and capabilities as a whole to generate an appropriate economic return for our shareholders.

Our strengths

Although our five main divisions have different operating models, there are some common strengths that run through all of our businesses:

Market leader in the UK and North America

Our strengths in the UK bus and rail markets, and in the student transportation, transit and intercity coach markets in North America offer excellent platforms to identify and develop other opportunities for future growth.

Diverse business model

Each of our businesses has market leading positions in a sector which is a key enabler of economic growth and essential to the creation of strong and sustainable communities. The growth of urbanisation and the resultant congestion will lead to more complex transport demands. Within this context, governments are increasingly turning to private sector operators to deliver more efficient and innovative solutions. The diversity of our business, together with our innovative transport solutions, means that we are well placed to meet this need. Our diverse portfolio also helps to ensure that we are not dependent on any one geographic or customer market, as each of our businesses is typically moving through a different stage of the economic cycle.

Unrivalled scale and breadth

Our scale has allowed us to develop a range of expertise in different markets and regulatory regimes. We focus on engaging with different partners and stakeholders, building effective relationships and enhancing our ability to deliver transport solutions that are most appropriate to local needs.

Harnessing global expertise

We harness the in depth knowledge and expertise of our experienced leadership teams across two continents to address the specific needs of individual markets.

Effective deployment of assets and people

The scale of our activities means that employing and training professional, dedicated employees who are committed to our customers and their safety, and procuring, deploying and maintaining a wide variety of vehicle fleets and other physical assets, are core skills. We hire, train and manage around 120,000 employees to deliver our services. We deploy and maintain combined fleets of 70,000 owned or managed vehicles.

Focused on enhancing operational excellence

We strive to improve our performance by sharing best practice across our businesses to provide high quality, attractive services that are safe, reliable and meet the needs of customers and the communities we serve.

Our businesses

We have five operating divisions and leading positions in all of our markets.

What we do

First Student

First Student is the largest provider of student transportation in North America – over twice the size of the next largest competitor. We operate a fleet of approximately 50,000 school buses with an average fleet age of 7.3 years and carry approximately six million students per school day across 38 US States and eight Provinces and Territories in Canada. We have more than 1,300 different contracts in nearly 600 locations. In addition to our main student transportation contracts we also provide charter hire services for school and non-school activities.

First Transit

First Transit is one of the largest private sector providers of public transit management and contracting in North America. Our Vehicle Services division is one of the largest private sector providers of vehicle maintenance and ancillary support services in North America. First Transit operates in approximately 240 locations in 39 US States, four Canadian Provinces, and Puerto Rico. We carried around 317 million passengers in 2012/13, across more than 360 million miles and operate and manage more than 11,000 vehicles. First Vehicle Services operates in approximately 80 locations in 23 US States, Puerto Rico and the US Virgin Islands and maintains around 38,500 vehicles and equipment.

Key characteristics

First Student

- Clear market leader in highly fragmented $24bn marketplace, of which only 36% is currently operated by the private sector
- Operates nearly one third of outsourced market, with a diverse portfolio of around 1,300 medium term contracts
- Sustainable competitive advantage from this scale, enabling us to develop value added services for existing and potential customers including greater on-demand information, and operating efficiencies
- Industry leading safety programmes, strong customer relationships and satisfaction scores
- Strengthened operating model gives us a more agile and efficient business.

First Transit

- A market leader in highly fragmented $22bn US transit marketplace – approximately 30% is outsourced
- Established credentials and proven track record are key
- Clear market leader in college and university campus shuttle services and one of the largest providers of airport shuttle services in the USA
- More than 340 diversified contracts across core business segments
- Scale and expertise enable us to leverage existing relationships for new business wins
- Strong returns from typically low capital requirement
- Further scope to promote outsourcing.

2012/13 performance

	First Student	First Transit
Revenue	£1,503.1m	£814.6m
Operating profit	£109.9m	£49.1m

Greyhound

Greyhound is the only national operator of scheduled intercity coach transportation services in the US and Canada, serving 48 US States and ten Canadian Provinces and Territories. We provide passenger services to around 3,800 destinations via a fleet of approximately 1,700 vehicles with an average fleet age of ten years. Approximately 18 million passengers travel 5.5 billion miles every year with Greyhound. Greyhound Express now serves 900 city pairs in more than 100 markets. We operate services from the southern USA into Mexico. BoltBus, a joint operation with Peter Pan Bus Lines, operates in both the north east and north west USA, and YO! Bus serves Chinatown markets in the north east.

- Iconic brand synonymous with affordable long distance travel and a unique national network
- New products such as Greyhound Express, BoltBus and YO! Bus are attracting users back to bus travel plus a new customer demographic
- Unique scale drives success of Greyhound Express – strong feeder traffic, quickly reaching sustainable flows with fewer new miles added enabling fast, profitable expansion
- A more modern, efficient business from a transformed operating model. Better placed to withstand economic cycle with more flexible cost base.

Revenue

£647.1m

Operating profit

£52.0m

UK Bus

Our UK Bus division is one of the largest bus operators in the UK with a fleet of approximately 7,400 buses and an average fleet age of 8.6 years. We operate around a fifth of local bus services. We carry around 2.3 million passengers per day and serve a huge number of communities including 40 of the UK's largest towns and cities. We operate Greyhound UK providing regular intercity coach services. We operate Aircoach in Ireland. We also operate some yellow US-style school buses and have a fleet of coaches available for charter.

- A market leader with around a fifth of the deregulated market, which is worth more than £4bn per annum
- Traditionally strong, diversified networks in good bus territories
- Principal operator in major conurbations and in eight of the 17 most densely populated cities
- Bus travel diversified by journey type
- Repositioned the portfolio to focus on areas with greatest growth potential and to improve returns
- Reforming business model to achieve patronage growth with tailored local solutions.

Revenue

£1,128.2m

Operating profit

£90.7m

UK Rail

We are the UK's largest rail operator with approximately a quarter of the UK's passenger rail network, carrying more than 310 million passengers per year. We have a diversified portfolio of intercity, commuter and regional franchises (First Capital Connect, First Great Western, First ScotRail and First TransPennine Express) and one open access passenger rail service (First Hull Trains). We operate the Tramlink service on behalf of Transport for London and the Heathrow Connect service with Heathrow Airport. Through our joint venture with Danish State Railways (DSB) we operate some passenger rail services in the Oresund region of Denmark.

- Leading provider of passenger rail services in the UK
- Highly experienced management team with unique expertise of diverse operations
- Experience of partnership on major infrastructure projects
- Clear focus on meeting needs of passengers, taxpayers and delivering an economic return for shareholders
- Consistent strong performance and highly successful track record
- Well placed to take advantage of upcoming franchise opportunities
- Committed to maintaining a leading position in the market.

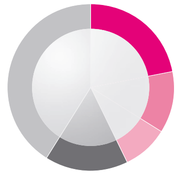
Revenue

£2,795.1m

Operating profit

£63.2m

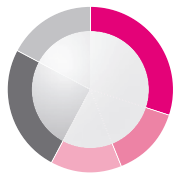
Revenue
(as % of Group)



First Student	22%
First Transit	12%
Greyhound	9%
UK Bus	16%
UK Rail	41%

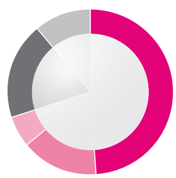
Group revenue of £6,900.9m also includes £12.8m (0.2%) of revenue from Tramlink operations

Operating profit
(as % of Group)



First Student	30%
First Transit	14%
Greyhound	14%
UK Bus	25%
UK Rail	17%

Number of employees
(as % of Group)



First Student	49%
First Transit	15%
Greyhound	6%
UK Bus	19%
UK Rail	11%

Employee numbers are calculated on a monthly average basis

We are the leading passenger transport company in the UK and North America, operating in local markets across a range of commercial and regulatory environments.

First Student accounts for nearly a third of the outsourced school bus market in North America

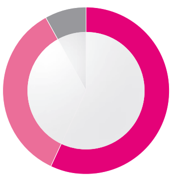
First Transit is one of the largest private sector providers of public transit management and contracting in North America

Greyhound is the only national provider of scheduled intercity coach transportation services in North America

UK Bus is one of the largest providers of bus services, operating around one fifth of all local buses, in a primarily deregulated market

UK Rail is the largest provider of passenger rail services in the UK, operating around a quarter of the market

Approximate Group revenue by geography



UK	57%
USA	35%
Canada	8%

We have market leading businesses in every sector in which we operate, active within differing regulatory regimes. This gives us an unrivalled breadth of knowledge and experience of many different commercial and governmental frameworks. This provides us with considerable scope to enhance our existing operations and also to identify and develop new opportunities as they arise.

In North America, Greyhound is the only intercity coach company that has a network across the continent. First Transit is a leading operator in all of its core segments, whilst First Student is over twice the size of the next largest competitor.

In the UK, our bus division is one of the largest in the sector. We are the market leader in the passenger rail market, with a diverse portfolio encompassing intercity, regional, commuter, open access and sleeper services. We also have some minor operations in other European countries, namely our Aircoach service in the Republic of Ireland and rail activities in Denmark in partnership with DSB.

Our unrivalled scale provides us with a wealth of expertise to best deploy our people, assets and systems to deliver efficient transport networks.

Increasing urbanisation and congestion are creating issues for transport authorities in all of our markets. Whilst the economic situation remains challenging, we are well positioned to take advantage of our global breadth. We will establish best practice and use our expertise to help us to deliver the most appropriate, efficient solutions to the transport challenge in each local area.

Our unrivalled scale provides us with a wealth of expertise to best deploy our people, assets and systems to deliver efficient transport networks.

First Student

Linda Burtwistle
President,
First Student

The market

School buses provide home to school transportation for millions of students in the USA and Canada. There are more than 15,000 school districts in North America responsible for providing over 500,000 school buses. The total North American market is estimated to be worth around $24bn per annum. It is estimated that school districts operate approximately 64% of the market, with 36% outsourced to private operators. Charter services are also operated on an ad-hoc basis, separate from scheduled school runs, and are typically of limited duration and scope.

Changes in market

- The weakness in the North American economy is still being reflected in school board budgets
- Despite this, we have seen signs of state and local finances beginning to stabilise, helping to create more certainty in respect of school district funding
- Usage of buses for school and non-school charter activities continues to increase
- Signs of organic growth returning to the market
- Interest in conversion continues to be high, although it remains the case that only a small proportion switch to outsourcing.

Customers

School districts provide transportation for students depending on varying criteria determined at state level. Contracts are usually structured with fixed pricing, meaning that the private operators bear cost risk. These contracts are typically three to five years in duration. School districts receive their funding from state and local sources, including tax receipts, and their budgets for all expenditure, including transportation, tend to be linked to economic factors. In addition to school districts outsourcing student transportation (known as 'conversion'), growth is driven by inflation related escalators built into contracts and increased student numbers leading to additional routes being driven for a given school.

Competitors

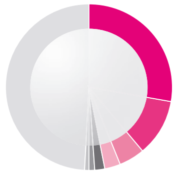
The private outsourced market is highly fragmented with only ten operators running more than 1,000 buses. Our largest competitors include National Express's Durham School Services, Student Transportation of America and Atlantic Express Transportation Corp. The next 40 largest contractors operate a further 17,000 buses and the remaining outsourced contracts are operated by several thousand small companies, often termed 'Mom and Pop' operators.

Increasingly the market will place a premium on those companies, such as First Student, which can offer value added benefits to improve the customer proposition.

Market features

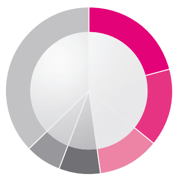
- Contracted revenue
- Typically high levels of contract retention
- Emphasis on safety and security
- Reputation born from established relationships with local communities.

Approximate share of outsourced market (c.36% of total market)



First Student	28%
National Express	11%
Student Transportation of America	5%
Atlantic Express	3%
Illinois Central	2%
Krapf & Sons	1%
Cook Illinois	1%
All other	49%

First Student fleet footprint



New York/New Jersey/ Pennsylvania	21%
New England	15%
Ontario	12%
Illinois	8%
California	7%
All other	37%

First Transit

Brad Thomas
President, First Transit
and First Vehicle Services

The market

The transit market is worth around $22bn per annum in the United States of which approximately 30% is outsourced. The vehicle services market is worth around $2.9bn per annum in the United States of which less than half is outsourced. The transit contracting and management market in North America includes the provision of fixed route bus services, paratransit bus services, private shuttle services and transit system management. Private transportation companies manage, operate, maintain and organise transportation services under contracts which typically last for three to five years.

Changes in market

- The North American economy continues to demonstrate weakness
- Despite this, state and local finances have not seen wholesale reductions in transport spending
- Interest in outsourcing continues to be high as a result of budgetary pressure
- New entrants to market on a small scale.

Customers

Customers include transit authorities, federal, state, and local agencies, and private institutions including universities, hospitals and airports. The vehicle fleet maintenance services market includes contracting for private and public sector clients including municipalities and fire and police departments.

Competitors

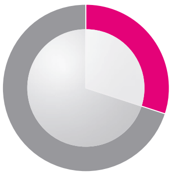
First Transit has approximately 14% of the outsourced market in the United States, which accounts for approximately 30% of the total market. The outsourced transit market is fragmented although First Transit has two large competitors, MV Transportation, Inc., and Veolia Transportation. The outsourced fleet maintenance market is highly competitive and First Vehicle Services is estimated to be one of the largest providers in the market, with Penske and Ryder being the principal competitors. A number of small and medium sized companies represent a significant portion of the outsourced market.

We will continue to maximise our unrivalled reputation and experience in the transit and vehicle services markets to take advantage of the new growth opportunities that are constantly emerging.

Market features

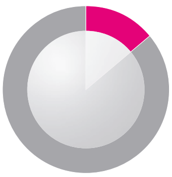
- Contracted revenue
- Typically high levels of contract retention
- Typically low levels of capital investment
- Competitive advantage from established credentials and strong track record.

Approximate share of c.$22bn US transit market



Outsourced	30%
In-house	70%

Approximate share of US outsourced transit market



FirstGroup	14%
Others	86%

Greyhound

Dave Leach
President and CEO,
Greyhound

Greyhound has a unique national network and, having developed a more flexible and agile operating model, has responded well to the challenges of the weak economy with a portfolio of successful and popular brands.

The market

From 2006 to 2012, the US intercity bus transportation industry grew between 5% and 10% per year – a reversal of the position between 1980 and 2006, when the industry declined by an average of 2.9% a year. As well as passenger revenues, income is generated from Package Express services, charter and tour organisation and also catering outlets in terminals. Partnership between Greyhound and independent bus lines, known as interlining, provides complementary services to Greyhound's national network. Greyhound also partners with Amtrak to offer passengers a through ticket to their final destination if not served by rail.

Changes in market

- The market as a whole has been the fastest growing intercity travel sector in the United States for the last five years
- Despite this, the weakness in the North American economy continues to have some impact on patronage
- New entrants to local markets seek to establish sustainable services through discounted offers although increased competition has attracted new customers
- Point-to-point bus lines continue to expand across North America
- Several companies serving Chinatown passengers in the north east closed after the federal government increased enforcement of safety regulations affecting kerbside operators.

Customers

Intercity coach firms in North America serve a diverse, value oriented customer base, whose primary purpose is to visit friends and family. The development of new brands, such as Greyhound Express which originates from major Greyhound hubs and serves approximately 900 city pair journeys, is attracting users back to bus travel and encouraging a new passenger demographic. Traditionally customers bought walk up tickets but recent developments in technology are encouraging new habits.

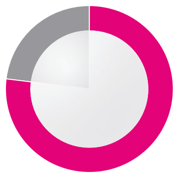
Competitors

In the US and Canada, intercity coach transportation competes with many other modes of mid to long distance travel, including a number of other coach operators, private cars 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.

Market features

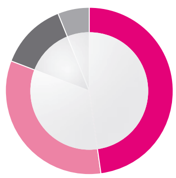
- Passenger, package, charter and food service revenues
- Value for money offering
- Under-utilised services may be part funded by transport authorities
- Introduction of tailored brands for local markets, responding to demand
- Innovation and new technology in areas such as ticketing and environmental initiatives.

Approximate Greyhound revenue split between USA and Canada



USA	77%
Canada	23%

Distribution of Greyhound sales and passengers by mileage band



1-200 miles	48%
201-450 miles	33%
451-1,000 miles	13%
1,000+ miles	6%

UK Bus

Giles Fearnley
Managing Director,
UK Bus

The market

Local bus services in the UK operate on two very different models. Outside of London, the local bus market has been deregulated since the 1980s, with most services being provided by private operators although some local authority owned operators exist. Bus markets are local and services operate on a flexible model with operators setting fares, frequencies and routes on a commercial basis and operating 'socially necessary' services under contract to local authorities.

Bus services in London are contracted by Transport for London, typically for a duration of five years.

The Transport Select Committee's report into the industry recognised the role that partnership working between local authorities and operators has in delivering service improvements without increasing council taxpayer spending.

Changes in market

- Economic weakness continues in some of the UK's urban areas
- Impact of reductions in Government funding for local authorities, causing pressure on local transport budgets, began in April 2012
- Better Bus Area grants introduced by the DfT for specific partnership projects around the country, with a second generation linked to local devolution of the Bus Service Operators Grant (BSOG)
- Introduction of premium high quality services serving distinct markets
- Focus on development of new technology including smart ticketing and improved passenger information
- Increased use of environmentally friendly hybrid vehicles.

Customers

Bus customers in the UK 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. Revenues in the bus market outside London principally comprise passenger ticket sales and concessionary fare schemes (payments by local government authorities for services for which passengers pay reduced or no fares). Income may also be generated through operating tendered services. In 2011/12, some 2.9 billion passenger journeys were made on local bus services outside of London.

While prolonged economic weakness and the impact on local authority budgets may continue to present challenges, the opportunity for buses to be the cost effective solution to congestion and an enabler of economic growth has never been greater.

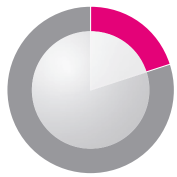
Competitors

The main competitor to bus services in the UK is the private car. Outside London, the c.£4bn UK bus market is deregulated and highly competitive with more than 1,200 bus operators and in all markets in which we operate we face competition. A number of multi-regional operators have increased market share through acquisitions during the year and a number of operators have both entered and exited the market.

Market features

- Local markets with individual, distinct characteristics
- Partnerships with authorities and other local community groups
- Introduction of new fleets with high specification
- Safety and security of employees and passengers a high priority
- Investment to meet deadlines for buses to be fully accessible for the disabled, as required by EU legislation.

Approximate share of the market outside London



FirstGroup	20%
Others	80%

UK Rail

Vernon Barker
Managing Director,
UK Rail

The market

Passenger rail services are principally provided by private train operating companies (TOCs) through franchises awarded by the relevant authority, but a small number are provided on an 'open access' basis (without franchises). Many elements of the service provided to passengers are mandated as part of the franchise contract and others are left to commercial judgement. Total franchised passenger revenues in the UK are approximately £7bn per annum. Railway tracks and infrastructure (signalling and stations) are owned and managed by Network Rail. Operators typically lease rolling stock from leasing companies. The Office of Rail Regulation grants and enforces licences to operators and Network Rail, regulates access to track, stations and depots and supervises the access relationships between Network Rail, operators and others.

Changes in market

- Passenger numbers have increased to 1.5 billion per annum across the UK as a result of improved rolling stock, marketing initiatives and additional services in some areas and despite ongoing economic weakness
- The Government paused its refranchising programme during the year, including the outright cancellation of two of the four competitions (InterCity West Coast and Great Western)
- Independent reviews into the InterCity West Coast and wider franchising competitions were completed. The DfT published a revised refranchising timetable in March
- Government investment in infrastructure across the country is delivering improvements for passengers, funded in part by regulated fare increases.

Customers

Rail markets vary but are typically grouped into three sectors – London and south east commuter services, regional and long distance. For our franchises in London and the south east of England, the majority of our passengers are commuters to and from the capital. First Great Western and First Hull Trains also have a large proportion of long distance and leisure travellers. First ScotRail and First TransPennine Express carry a large number of commuters into the major towns and cities on their networks, and also serve a significant leisure market.

We are the market leader with a diverse portfolio of operations, and we are committed to maintaining this position by building on our strong track record of innovation and partnership as the DfT returns to rail franchising.

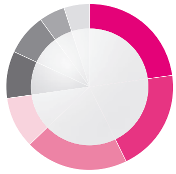
Competitors

The main competitor to rail services is the private car. We also face competition on certain passenger flows from other rail services and, to a lesser extent, from long distance coach services and airlines. We bid against operators of current UK rail franchises and rail operators from other countries, principally from within the EU and Hong Kong.

Market features

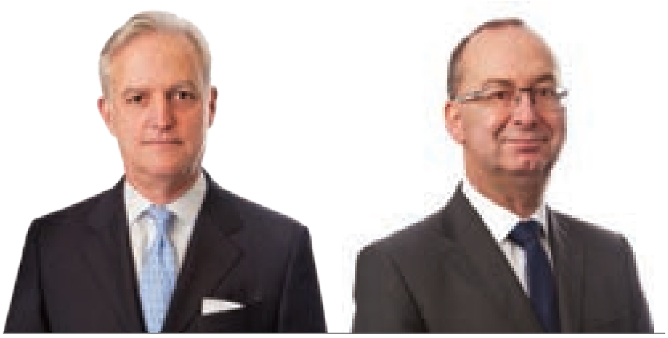
- Regulatory environment, including Government capped regulated fare increases at RPI +1%
- Alliances formed between Network Rail and operators
- Historic highs of passenger numbers across the UK, operating on a smaller network and with a smaller workforce than at the time of the Beeching Report in 1963
- Increasing operational performance and customer satisfaction over recent years
- New innovation including smart ticketing, social media and mobile phone technology is being introduced
- Since devolution, Transport Scotland has adopted a differing rail regime in Scotland.

Approximate share of total market



FirstGroup	23%
Stagecoach	20%
Govia	20%
Deutsche Bahn – Arriva	10%
Abellio	9%
Directly Operated Railways	8%
Virgin	5%
National Express, Serco, MTR	5%

Source: Association of Train Operating Companies



Tim O'Toole
Chief Executive

Chris Surch
Group Finance Director

Notwithstanding the prolonged economic weakness we are focused on our objectives of improved performance and sustainable growth. We have taken a series of comprehensive actions to address specific issues, reform operating models to improve performance and strengthen our businesses.

First Student

First Student continues to respond well to the recovery programme which is now well established. While there remains work to be done, we are confident of the prospects to build on the actions we have taken and we are on track to achieve $100m of annual cost savings from a more efficient model.

First Transit

In First Transit, we continue to focus on our core segments which delivered strong growth during the year with new contract wins. Consistent with that strategy, we completed the sale of First Support Services, our military base facility management business, for a gross consideration of $10.2m. We have grown to become one of the largest providers of shuttle bus services at airports and for universities, and are developing opportunities for further expansion.

Greyhound

At Greyhound we have transformed the operating model to create a more flexible and agile business. By investing in technology, right sizing or relocating terminals and modernising our network we will provide customers with more attractive, affordable and reliable long distance travel. Our unique national network underpins our success as we expand our popular, fast growing point-to-point services.

UK Bus

We are making good progress with our programme to transform our UK Bus business. As we continue to work through our plans we are improving operating discipline, adjusting the commercial model to be more locally responsive and creating more effective partnerships with local stakeholders. We are encouraged by positive signs in the markets where our transformation is furthest along.

UK Rail

In UK Rail, we continue to focus on operating performance across our existing franchises while delivering major infrastructure and capacity upgrades in conjunction with our industry partners. We are in discussions with the DfT in respect of contract extensions for two of our existing franchises, First Great Western and First Capital Connect. We are poised to take part in the new franchising process as set out by the DfT and remain committed to retaining a leading position in the UK rail market.

Capital structure

The continued strength of our balance sheet is critical to delivering the full potential of our businesses. We believe that the rights issue announced in May 2013, to raise approximately £615m, will:

- remove the constraints of our current balance sheet and provide a sustainable capital structure going forward
- support our objective to remain investment grade, and avoid the anticipated additional financing costs of becoming sub-investment grade
- provide the necessary flexibility to continue our transformation plans and invest to create sustainable, long term value.

Investing for the future

Over the next four years, we will invest approximately £1.6bn across the business to continue our transformation programmes and take advantage of growth opportunities. This will be financed from existing cash resources, future cash generated from operations, and a portion of the proceeds of the rights issue.

In order to deliver our plans and underpin growth and returns, we will equip our divisions with appropriate levels of investment to achieve their key priorities. Further details about specific priorities can be found in the Chief Executive's strategic review on pages 4 and 5.

Medium term targets

Following the rights issue, we are targeting the following objectives over the next four years:

- Increase Group revenue (excluding UK Rail) at a faster rate than the economies we serve, improve margins in First Student and UK Bus[1] to double digit levels, and achieve a post-tax return on capital employed (ROCE) in the range of 10% to 12%
- Maintain our investment grade credit rating and appropriate liquidity and covenant headroom
- Re-establish a progressive and sustainable dividend policy, aligned to business performance.

[1] On a post-IAS 19 basis. The estimated impact of IAS 19 is set out on page 39.

Dividends

In the short term, the Board proposes that no final dividend will be paid in respect of 2012/13 and no interim dividend will be paid in respect of 2013/14.

Dividend payments will recommence with a final dividend for 2013/14, subject to performance in line with expectations, as a transition to re-establishing a progressive dividend policy thereafter. A transitional final dividend of up to £50m for 2013/14 will be recommended, subject to the Board determining the exact amount and thereafter, a dividend cover of 2.0 to 2.5 times will be targeted.

Over the next four years, we intend to invest approximately £1.6bn across our business to continue our transformation programmes and take advantage of growth opportunities.

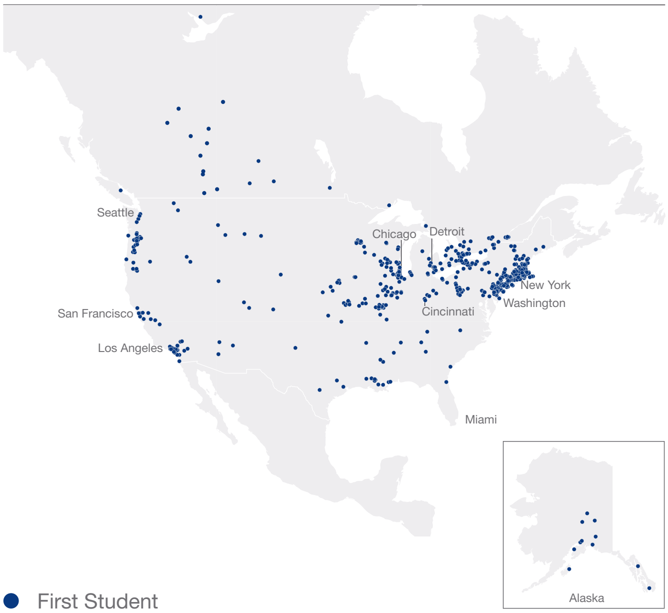
Group results

Group revenue increased by 3.3% to £6,900.9m (2012: £6,678.7m), or 4.5% excluding the extra week of trading in the non-Rail businesses last year. Underlying operating profit was £335.4m (2012: £428.5m) reflecting the previously indicated reductions in UK Bus profits as a result of reduced Government support for the industry and external cost pressures, together with lower UK Rail profits as we entered the new franchise extension period for First TransPennine Express at margins closer to the industry average, as well as the impact of one week less trading for the North American businesses. Statutory operating profit was £205.7m (2012: £448.0m) reflecting the lower underlying operating profit and a charge for exceptional items this year compared to a credit last year, largely driven by the UK Bus pension scheme changes. Underlying EPS was 26.9p (2012: 40.0p) and EBITDA was £667.0m (2012: £742.9m).

The net cash outflow for the year was £74.4m (2012: inflow of £119.2m). The exchange of contracts for the sale of eight of our London depots occurred just after the financial year end on 9 April 2013 and had been included in our expectation of cash flow being broadly neutral for the year. The net debt to EBITDA ratio was 3.0 times (2012: 2.5 times). The average debt duration at 31 March 2013 was 5.4 years (2012: 5.5 years) and there was £1,215.5m (2012: £795.8m) of headroom under committed revolver facilities and free cash, prior to the repayment of the £300m April 2013 bond. During the year a new £325m bond was issued at an effective rate of 5.49% as part of our long term funding strategy.

	Year to 31 March 2013[1]			Year to 31 March 2012		
Divisional results	**Revenue £m**	**Operating profit[2] £m**	**Operating margin[2] %**	Revenue £m	Operating profit[2] £m	Operating margin[2] %
First Student	**1,503.1**	**109.9**	**7.3**	1,567.2	107.1	6.8
First Transit	**814.6**	**49.1**	**6.0**	778.6	55.8	7.2
Greyhound	**647.1**	**52.0**	**8.0**	657.2	50.6	7.7
UK Bus	**1,128.2**	**90.7**	**8.0**	1,157.2	134.4	11.6
UK Rail	**2,795.1**	**63.2**	**2.3**	2,506.1	110.5	4.4
Group[3]	**12.8**	**(29.5)**	**–**	12.4	(29.9)	–
Total Group	**6,900.9**	**335.4**	**4.9**	6,678.7	428.5	6.4
North America in US Dollars	**$m**	**$m**	**%**	$m	$m	%
First Student	**2,378.6**	**174.9**	**7.4**	2,497.9	169.5	6.8
First Transit	**1,286.8**	**77.7**	**6.0**	1,242.6	89.1	7.2
Greyhound	**1,022.0**	**81.5**	**8.0**	1,049.3	81.0	7.7
Total North America	**4,687.4**	**334.1**	**7.1**	4,789.8	339.6	7.1

1 For all businesses excluding UK Rail this year includes 52 weeks compared to 53 weeks last year.
2 Underlying.
3 Tram operations, central management and other items.



Revenue

£1,503.1m

2012: £1,567.2m

Operating profit

£109.9m

2012: £107.1m

Number of employees

59,500

2012: 61,000

Revenue in our First Student division was $2,378.6m or £1,503.1m (2012: $2,497.9m or £1,567.2m). Adjusting for the extra week last year US Dollar revenues were 2.8% lower, principally due to a reduced number of contracts reflecting our continued focus on retaining or winning business that delivers an appropriate level of return on capital employed, as well as the impact of Hurricane Sandy and further severe weather during the winter. Underlying operating profit was $174.9m or £109.9m (2012: $169.5m or £107.1m) with incremental savings from our recovery plan more than offsetting the profit impact of the reduced revenues.

A significant amount of our operations were disrupted by Hurricane Sandy in late October 2012. The storm, which impacted the entire eastern seaboard, parts of the Midwest and Eastern Canada, affected approximately 130 of our locations and led to the closure of schools for up to nine days. This adversely impacted operating profit by approximately $13m and further periods of severe weather in early 2013 saw a further $8m impact. A number of the lost operating days may potentially be recovered at the end of the summer term which occurs in our 2013/14 financial year.

Recovery programme

We have made good progress in continuing our recovery programme in First Student to address performance and strengthen the operating model. Although there remains significant work to be done, and we remain cautious in respect of the sustained weakness of the US economy, we are seeing positive results from a more efficient model, and are on track to achieve our stated target of $100m in annual savings.

A key milestone in our recovery programme has been the rollout of uniform practices which are achieving consistency and greater efficiency across our locations. A detailed 'playbook' setting out consistent operating procedures and best practices sourced from across the business is generating real and tangible benefits. This also gives First Student a more compelling, efficient and consistently high standard offering. We are extremely pleased to report that customer satisfaction scores are at the highest level for four years and we have seen a sustained improvement for the fourth year in a row.

www.firststudentinc.com

First Student

Contract wins and retention

Although state and local finances have stabilised overall, a number of large states and school districts continue to face substantial funding constraints. Against that backdrop, our recovery is on plan and we are making progress by leveraging our existing relationships to expand current operations, for example in Kansas City, Missouri and the Los Angeles Unified School District. Recent new contract wins have included competitions in Indian River, New York and in Waukesha, Wisconsin where our winning proposal offered 150 propane fuelled buses and a system of swipe cards that allows parents to track when students get on and off the bus, which was welcomed by parents and the school district.

Interest in conversion from in-house operations to the private sector remains high as a result of a drive to improve municipal finances, although we remain suitably cautious since only a relatively small proportion of these inquiries result in outsourcing. Despite this, we continue to be competitive in the conversion market. New business, started in September 2012, included eight conversion contracts totalling more than 450 buses out of a total amount of 860 new buses that we started operating during the 2012/13 financial year.

Charter business

Our plans to increase the charter activity of our business are progressing well. Amongst charter business we were awarded this year was a contract to transport staff to Super Bowl XLVII in February in New Orleans, as well as work with the PGA golf tour and NASCAR auto racing.

Operating efficiency

We continue to promote the use of innovative and environmentally friendly technology, with 134 propane fuelled buses also now in use for Seattle and Portland public schools. Our FOCUS GPS software, which underwent an upgrade in October 2012, links on-board data to back office systems which helps to eliminate excess mileage and fuel usage and provides customers with access to real time data. We completed the rollout of the system across our US locations during the year, as well as beginning our rollout in Canada which will complete during 2013/14.

Our lean maintenance and engineering practices continue to be adopted, following the examples set by our 18 reference workshops across the business. 92% of our workshops have now achieved the initial level of lean certification. We are consolidating our vehicle and parts purchasing processes and have developed a much more efficient online ordering system that has been well received across the business.

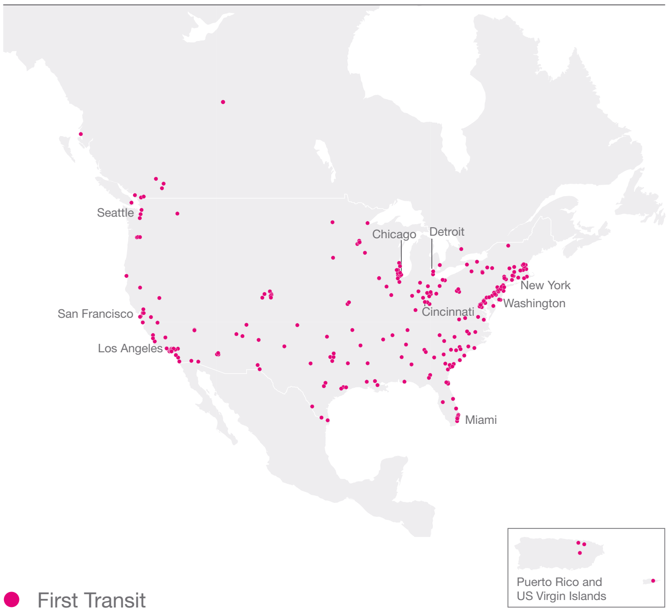
The benefits of our transition to a more efficient organisation were particularly visible at the start of the school year in September. This is traditionally a challenging time for school bus operators but this year we saw consistently high levels of operating performance, including continued improvement in our safety metrics. Our industry leading safety performance is entrenched in our culture, giving us a competitive advantage and forming an important consideration when bidding for contracts. Illinois, for example, recently passed legislation adding safety as a criterion, alongside low cost, for contract award.

Outlook

We are now well positioned to leverage our scale as the market leader and deliver long term, sustainable growth. Whilst there remains work to be done in our recovery programme, the actions we have taken and positive results we have seen so far give us confidence that we will be able to create a sustainable competitive advantage that we can build upon for many years to come.

High customer satisfaction
For the fourth year in a row, First Student saw improved customer service scores, with increases achieved in all major categories, particularly the start up of the new school year.

Centenary of school buses
First Student, in one name or another, can trace its origins back to 1913 and California's first school bus, used to transport students in the city of Newman. A testament to its strong customer relationships, First Student is proud to serve the same school district a century later.



Revenue

£814.6m

2012: £778.6m

Number of employees

17,500

2012: 19,000

Operating profit

£49.1m

2012: £55.8m

First Transit continues to deliver strong revenue growth from a diverse portfolio of related businesses. Revenue increased to $1,286.8m or £814.6m (2012: $1,242.6m or £778.6m). Excluding the extra week last year and the First Support Services (FSS) business which has been sold, US Dollar revenues increased by 7.7%. Underlying operating profit was $77.7m or £49.1m (2012: $89.1m or £55.8m) with the reduction principally due to the agreement to settle a $13.5m historic legal claim in California.

In March we divested our First Support Services business, which provides military base operations support and facility management services, to Parsons for sale proceeds of $10.2m, allowing First Transit to focus on its core transportation segments.

First Transit and First Vehicle Services are the leading operators in their field with an unrivalled reputation for transport and fleet maintenance expertise. We operate a varied and extensive mix of approximately 340 contracts across almost 40 US States, four Canadian Provinces and in Puerto Rico and the US Virgin Islands. We are the largest, or near largest, private operator in each of our core business segments – fixed route, paratransit, shuttle, transport call centres and vehicle maintenance services.

Our management team is highly experienced and has a strong reputation in the transit market. This long established credibility and track record helps us to win new business across a range of private customers and public transit authorities. We work collaboratively with our clients as they seek to improve their transit offering by helping them to generate greater efficiencies and using our global expertise and best practice to deliver transport solutions on any scale.

Strong contract growth

We continued to develop new business from a healthy pipeline of opportunity during the year. Key contracts won in the fixed route business included Valley Metro in Mesa and Tempe, Arizona and we expanded our contract with Foothill Transit in Arcadia, Southern California. In the paratransit business we won new contracts with the Maryland Transit Authority and Washington DC Metropolitan Transport Authority.

www.firsttransit.com
www.firstvehicleservices.com

First Transit

Operating and financial review
First Transit continued

An area of strong growth and focus for us is the shuttle bus market, and we were awarded further contracts at airports across the USA including Detroit and Dallas/Fort Worth. We expanded our market leading university shuttle bus portfolio, the largest in the USA, with an eight year contract at Auburn University as well as further new business at the University of Tennessee, the State University of New York and the University of Alabama. Following last year's contract win at Yale and our existing business at Princeton, this year we will be partnering with another Ivy League university at Brown.

Client relationships are key in this market and our reputation in one area of First Transit can be an important factor in winning business in another. During the past year, we have secured a new contract for the New York State Department of Transportation, building on the existing relationship we already had with the same authority. We also continue to build on the strong relationships we have with companies in Fort McMurray, Alberta, as we add more contracts to complement the existing work we already undertake in this non-traditional market and expanding oil industry location.

During the year we also renewed several key contracts, including fixed route contracts with Houston Metropolitan Transit Authority, the city of Phoenix, Arizona, the Potomac and Rappahannock Transportation Commission in Virginia and further large fixed route contracts in Colorado, Washington State and British Columbia. Other renewal contracts include paratransit work for NJ Transit AccessLink, Pierce Transit in Washington State and Chemung County in New York, as well as shuttle buses for the New York Department of Corrections.

In First Vehicle Services, we were pleased to renew a significant contract this year with Mount Pleasant, South Carolina, to maintain their fleet of 636 vehicles. First Vehicle Services sets the highest standards in the industry and has more maintenance workshops with National Institute for Automotive Service Excellence Blue Seal certification than our competitors, with around a quarter of our locations certified so far.

Innovative solutions

We continue to work with our clients to promote the latest technological and environmental innovation. This includes the DriveCam system, which monitors driving behaviour to provide real time feedback and coaching data to improve safety and fuel economy. On renewing our partnership with the University of Buffalo, we worked with them to introduce a new fleet, powered by biodiesel fuel and including the latest in clean engine technology to produce near zero emissions. This follows our introduction of the Austin area's first environmentally friendly hydrogen fuel cell bus to University of Texas students. The introduction of this bus assists Austin's Capital Metro in promoting its green initiatives to the community, as well as a new environmentally friendly form of local transit.

College students are early adopters of new technology and we are working with our university partners to develop smart ticketing and real time passenger information solutions where possible, including joining with industry leading information provider Transloc. This experience helps us develop and extend our offering across our other core operations.

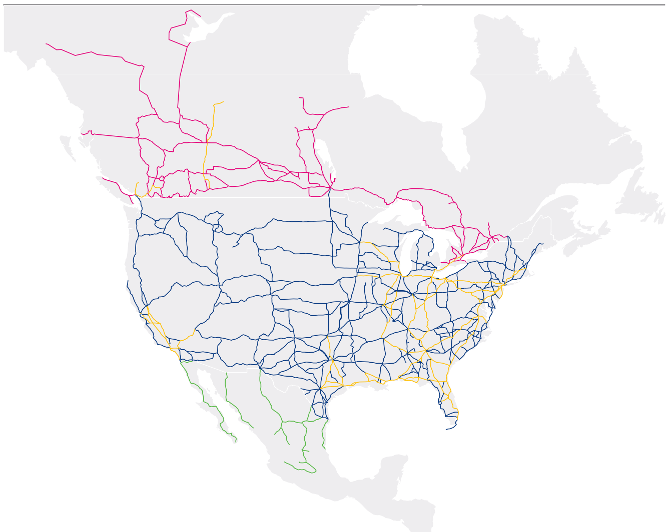
Outlook

First Transit is well placed to use our knowledge and wide-ranging experience to pursue growth opportunities in our core areas, particularly the shuttle bus segment, going forward.

Greener vehicles
We are introducing new environmentally friendly vehicles, including biodiesel and hydrogen fuel cell buses, to locations across the United States such as the University of Buffalo, Capital Metro in Austin and Emory University in Georgia.

Helping veterans back to work
We support the United States Army's Partnership for Youth Success (PaYS) programme, a nationwide partnership helping provide jobs to returning or retiring soldiers. More than 900 veterans have been placed in a number of positions within First Transit and First Vehicle Services.

Greyhound



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

Revenue

£647.1m

2012: £657.2m

Number of employees

7,500

2012: 8,000

Operating profit

£52.0m

2012: £50.6m

Greyhound continues to be affected by the ongoing weakness in the sector of the US economy that it serves and during the year like-for-like revenue growth was 1.1% (2012: 4.1%). Revenue was $1,022.0m or £647.1m (2012: $1,049.3m or £657.2m) with the reduction principally due to the extra week last year as well as slimmed down operations in our Canadian business. Underlying operating profit was $81.5m or £52.0m (2012: $81.0m or £50.6m) with operating efficiencies and fixed cost savings more than offsetting the reduction in revenues.

While Greyhound remains a cyclical business, the actions we have taken over recent years have enabled us to better position the division to leverage the benefits of a more flexible and agile operating model. This means that we have been able to mitigate the sustained softness in economic conditions in North America. We are making Greyhound a more modern and efficient network as well as redefining the customer experience.

Greyhound Express

Our Greyhound Express product continues to go from strength to strength. We continue to develop these non-stop city to city services and saw passenger growth of around 10% in Greyhound Express markets during the second half of the year, as the concept continues to encourage a new passenger demographic and attract users back to bus travel.

During the year we began operating Greyhound Express in new markets including California, Louisiana, Oklahoma, Nevada and Delaware as well as Ontario and British Columbia in Canada. With further rollouts taking place in states where we already had a presence, the Express network now serves more than 900 city pairs available in nearly 100 markets. As we continue to build on this momentum further expansion is planned in the coming year.

www.greyhound.com
www.greyhound.ca

Greyhound

Tailored brands for local markets

Although Greyhound has a national scale, the division also offers distinctive local products. Our BoltBus service expanded into the Pacific Northwest during the year, offering customers a viable alternative to Amtrak's Cascades service in the region and our subsidiary Crucero USA, serving the Hispanic market, also launched its first direct, non-stop services connecting key locations in Southern California during the summer. Our Chinatown connection service, YO! Bus, launched a direct service between New York and Philadelphia in December 2012, providing a reliable alternative to many current Chinatown operators. After seeing impressive success from YO! Bus we subsequently extended the service to Boston in March 2013.

Investing in fleet and operations

We added 60 new vehicles to our fleet during the year, and we also refurbished more than 200 vehicles to introduce more modern amenities for our customers. We have now refurbished more than 540 buses to date.

In April 2013 we announced the $100m purchase of a further 220 new buses, the largest order in the company's recent history. These will be introduced over the course of 2013 and 2014. All the buses will feature our new look interiors with on-board amenities including Wi-Fi, power outlets, leather seats, three-point safety belts and extra legroom, and will be powered by clean diesel, low emission engines. Building on our experiences in First Student and First Transit, the new buses will also have the DriveCam video data and driver feedback system, helping to improve fuel efficiency and lower emissions. The introduction of these new vehicles will mean almost all of Greyhound's fleet is now either new or refurbished.

As well as changes to our network and vehicles, we have also been transforming the way we interact with our customers. An improved website offers benefits for customers and we are encouraged by the take up of our partnership with PayNearMe and retailers including 7-Eleven and ACE Cash Express, which allows customers without debit or credit cards to book attractive fares online and pay by cash in store. This is now our fifth largest sales channel and we are developing relationships with further partners. We are seeing high usage of our self service ticket kiosks and are rolling these out across the network, with ten further locations introduced this year.

We continue to right size or relocate our terminals where appropriate. During the year we completed the move of all of our Washington, DC operations to the multi-modal hub at the city's Union Station, which allows customers from our networks to connect seamlessly to other transport modes.

Greyhound Canada

In Canada, we have been working with the provincial government of British Columbia to reduce uneconomic routes, and now that this is almost complete, we are aiming to return to profitability in the coming year. We successfully launched Greyhound Express in Alberta, Ontario and British Columbia.

Outlook

Notwithstanding the economic backdrop, coach travel is the fastest growing mode of intercity transportation in the United States. Greyhound is an iconic business which is synonymous with affordable travel. The 99-year old business is in a unique position with the only national network in North America. Our focus is to harness the commercial learnings and attributes from our smaller, faster growing point-to-point businesses in the operation of our legacy network.

Successful launch of YO! Bus
Taking advantage of a growing sector our new brand serving the Chinatown market between Philadelphia and New York City proved highly successful, and was expanded to serve Boston.

Investment in new fleet
We are investing $100m in 220 new buses for Greyhound, which will include modern amenities such as Wi-Fi, power outlets and leather seating. They are powered by clean diesel, low emission engines and feature the latest technology in safety and efficiency.

Operating and financial review
UK Bus

UK Bus operations

In April 2013 we announced the sale of eight of our London bus depots.

Revenue

£1,128.2m

2012: £1,157.2m

Number of employees

22,000

2012: 22,500

Operating profit

£90.7m

2012: £134.4m

www.firstgroup.com/ukbus

UK Bus

Revenue in our UK Bus division was £1,128.2m (2012: £1,157.2m) and like-for-like passenger revenue growth was 2.4% (2012: 1.6%). Underlying operating profit was £90.7m (2012: £134.4m) with the reduction, as previously indicated, principally down to a fall in Government funding available to the industry as well as external cost pressures, particularly fuel and pension costs.

In May 2012 we set out our clear and detailed strategy to fix and restore sustainable growth to our UK Bus division. Following a detailed review of our businesses we implemented comprehensive plans coordinated at a divisional level but tailored to each of our local operations, focused around repositioning and rebalancing the portfolio, improving operating discipline and efficiencies and driving increased revenue and patronage growth.

Repositioning and rebalancing the portfolio

The vast majority of our bus operations generate good returns or have potential for significant further improvement. We have taken action to reposition and rebalance the portfolio in order to concentrate on these areas and throughout the year we have executed a targeted disposal programme, selling 14 bus depots and outstations across the country for a total of almost £100m.

Amongst the disposals we announced the sale of eight of our London bus depots in April 2013. Whilst we have been a presence in London for many years, we have decided to focus our business on the deregulated market outside of the capital where we see greater opportunity for improved growth and returns. We have a very constructive relationship with Transport for London and we will be working closely with them to ensure the transfer to the new operators goes ahead smoothly.

Improving operating discipline and efficiencies

We are making progress in restoring operating discipline across the business, and improving service quality and delivery through the application of best practices and standardisation. We have rolled out upgraded diagnostic systems, improved our engineering and repair processes and are enhancing our training.

Our programme to transform our depots will raise operating performance and optimise processes, leading to greater efficiency. This includes learning from the best practices that our First Student and Greyhound divisions have accumulated in recent years. Areas under focus include optimising depot layout, leadership development and reducing vehicle defects. Early positive outcomes across certain regions include a 22% reduction in breakdowns since these initiatives were launched, and mileage lost due to engineering has significantly reduced, by up to 50% in some areas.

We have a strong platform from which to grow in UK Bus. Our networks are the backbone of the communities we serve and contribute to vibrant and sustainable local economies.

Driving increased revenue and patronage growth

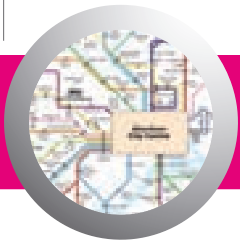
Our strategy to drive increased revenue and patronage growth is focused on developing tailored local solutions that are most appropriate for each of the areas in which we operate, based on the highest standards that we have established at a national level.

Our local management teams are introducing better value for money fares structures in order to stimulate demand. These include better value day and period tickets, such as 'eight days for the price of seven' promotions launched in Aberdeen. In Manchester we announced a range of fare reductions and on certain routes we have seen passenger growth of up to 50%.

Our local networks are also being redesigned to deliver volume growth. For example, in Norwich our new colour coded routes are proving popular amongst existing customers as well as providing additional impetus to attract new passengers. In Glasgow we launched a wide-ranging consultation on SimpliCITY, a root-and-branch review of our network in the city, and after taking into account feedback introduced a revised network in May 2013 that is both simpler and improved for the majority of passengers. We have introduced 200 new vehicles in the Manchester and Yorkshire markets and rebranded 750 buses on our high frequency inter-urban networks. With strong local route branding and targeted marketing we have seen up to 3% passenger volume growth compared to the existing network.

High frequency network
We have introduced 200 new vehicles and 750 rebranded buses on our high frequency inter-urban networks in Manchester and Yorkshire. With local route branding and targeted marketing, we have seen passenger volume growth of up to 3%.

Networks reviewed and relaunched
After detailed analysis of market opportunities, a number of our networks have been relaunched to offer new, simpler, colour coded routes, which are more accessible to existing and potential customers.



Smart ticketing and innovation

Following the installation of smartcard enabled ticket machines across our regional fleet in England in 2012/13, we are now working to introduce smartcard applications across our networks. We are party to a host of multi-operator ticketing schemes, which are all smartcard compatible, and we are keen to support the introduction of further such arrangements where they do not currently exist and where a clear market need can be identified.

Further innovation includes fitting Wi-Fi to our new buses as standard, and we retro-fitted Wi-Fi to our fleet in certain areas during the year. The Eclipse Bus Rapid Transit network in South Hampshire, built on a former railway line, has been a great success in its first year of operation. Passenger numbers have risen steadily, with more than 1.3m journeys made since the service began. The South Hampshire area was also the pilot for our new mobile phone app which is now live across the country providing up to the minute bus information for passengers.

Over the past year, the excellence and innovation of our UK Bus division has been recognised by various awards. We picked up six accolades at the UK Bus Awards in categories which included marketing and community initiatives, whilst our operations in Aberdeen won the team of the year prize at the Scottish Transport Awards.

Developing effective partnerships

We have been working with local authorities to implement schemes which were awarded money in the first phase of the DfT's Better Bus Area (BBA) fund last March. For instance, we have used BBA funds given to the Transport for South Hampshire coalition of councils to introduce Wi-Fi on all buses operating in the area. Hybrid buses are being introduced in services across the country, for instance in our park and ride services in Bath, Leeds and Glasgow. Funding from the Government's Green Bus Fund has been used to introduce hybrids on routes in Essex and around Heathrow.

We are developing close partnerships with all local authorities in areas in which we operate. This will enable us to respond best to their needs as a reliable partner who can deliver solutions to congestion and help stimulate economic activity in alignment with their aims. In Sheffield we are working closely with South Yorkshire Passenger Transport Executive, Sheffield City Council and other operators to radically improve bus services in the city, which has resulted in Government funding for fuel duty rebate being devolved back to the city and supplemented by a top up fund of an additional 20%, the first award of this kind. This money will be spent to tackle specific problems in the city. Our experience shows that partnership is by far the quickest and most effective way to achieve the changes that bus users want to see and that will deliver growth.

London 2012 Games

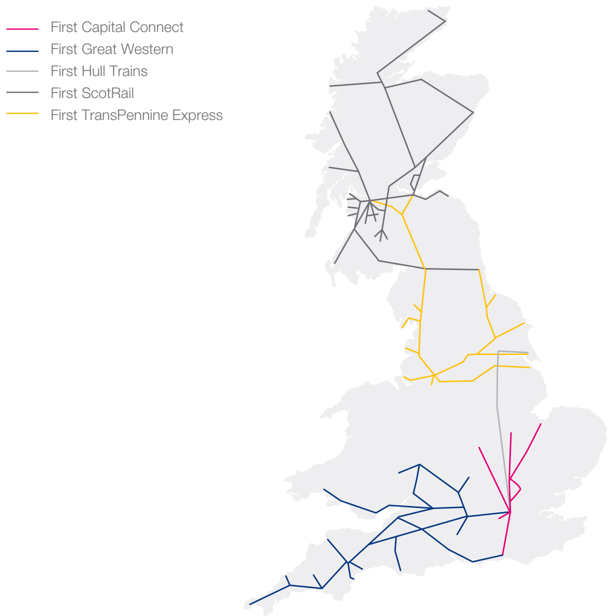
We were delighted that around 2,000 of our employees were directly involved in the positive transport story at the London 2012 Games, as we provided successful spectator transport for hundreds of thousands of attendees. The new buses that formed part of our London 2012 offering have now been deployed into our networks, as part of our £160m investment in 1,000 new vehicles over the last two years. We followed this up in February with a further order for 464 new buses worth £76m for delivery in 2013/14, with interior designs taking into account feedback from passengers and employees.

Outlook

We have a strong platform from which to grow in UK Bus. Our networks are the backbone of the communities we serve and contribute to vibrant and sustainable local economies, although the challenging economic environment continues to affect many of the urban areas in which we are based. While there remains significant work to do in order to transform our UK Bus business we are pleased by the progress so far and the early positive signs in some of our markets.

Wi-Fi being rolled out across the fleet
Our new buses have Wi-Fi fitted as standard and the technology is being retro-fitted across large parts of our existing fleet.

Bus Rapid Transit system
The Eclipse network in South Hampshire, built on a former railway line, has been a great success in its first year of operation. Passenger numbers have risen steadily, with more than 1.3m journeys made since the service began.



Revenue

£2,795.1m

2012: £2,506.1m

Number of employees

13,500

2012: 13,000

Operating profit

£63.2m

2012: £110.5m

www.firstgroup.com/uktrain

Our UK Rail division continues to benefit from strong demand with like-for-like passenger revenue growth of 7.4% (2012: 8.4%). Revenue during the year was £2,795.1m (2012: £2,506.1m) with the increase due to higher passenger receipts as well as higher subsidy receipts at First ScotRail, principally due to Network Rail changes, which meant that both subsidy receipts and operating costs were £128m higher than in the preceding year. Underlying operating profit was £63.2m (2012: £110.5m) reflecting the expected reduction in profits at First TransPennine Express in the three year extension period at operating margins closer to the industry average.

We have a diverse rail portfolio encompassing long distance, regional and commuter operations, and are the largest owning group in the UK with around a quarter of the market. Our highly experienced management team has unrivalled knowledge in delivering major infrastructure improvements in partnership with stakeholders. For example, First ScotRail has entered into an alliance agreement with Network Rail which is creating a more efficient working relationship between the two organisations in order to better align overall objectives, deliver value for money and increase focus on passenger requirements. The first major project to be undertaken under this arrangement was electrification of the line between Glasgow Central and Paisley Canal. This award winning project was delivered in just four months and at less than half of the original cost estimate as a result of the effective alliance.

We have a strong track record of investment with more than 700 new vehicles introduced and punctuality and performance increasing across each of our franchises since we commenced operation.

Our rail companies also played their part in the successful transport operation for the London 2012 Games, with First Great Western running a shuttle service connecting to First Games Transport's buses at Slough station for rowing events at Eton Dorney. First Capital Connect ran over a million extra seats during the Games, including later trains home after events, and established a successful 24/7 customer support centre which has now become a permanent feature of our customer service offering.

This year the rail sector has been subject to a great deal of scrutiny following the cancellation of the DfT's franchising programme. We have the most experienced bidding team in the industry and our delight in being awarded the InterCity West Coast franchise in August 2012 was matched only by our disappointment in being notified in October that the DfT had cancelled the competition following the discovery of significant technical flaws in their internal processes. The DfT made it clear that we were in no way at fault, having followed the due process correctly. We submitted a strong bid, in good faith and in strict accordance with the DfT's terms.

UK Rail

Our bid would have delivered a better service for West Coast passengers, value for the taxpayer and an appropriate return for shareholders. Following various inquiries the DfT announced in January 2013, as part of a new refranchising schedule, that it was to extend our First Capital Connect and First Great Western franchises by the 28 week period in the original contracts. Further extensions of six months for First Capital Connect and 33 months for First Great Western, as well as ten months for First TransPennine Express, were announced in March and we are progressing negotiations with the DfT in respect of these. The publication of the timetable setting out the return to refranchising is an important development for the industry, enabling the private sector to continue to provide effective and efficient passenger rail services with further performance and infrastructure improvements.

During the year the Scottish Government also announced that the First ScotRail franchise will now be extended to March 2015, from its previous completion date of November 2014.

As the UK's largest and most experienced rail operator, we remain committed to maintaining a leading position in the market.

First Capital Connect

We continue to focus on performance at First Capital Connect, where our Public Performance Measurement (PPM) of reliability and punctuality stands at 88.3% on a Moving Annual Average (MAA) basis, a reduction of 1.6% from last year. During the London 2012 Games we recorded our highest ever PPM score of 94.6%. However, the main reason for the overall reduction has been significant disruption caused by infrastructure problems, with a number of incidents relating to the failure during the winter of the overhead line equipment supplying power to our trains. We are working with Network Rail to establish more effective cooperation going forward, for example on more efficient engineering practices during improvement work.

We continue to work closely with our industry partners on the Thameslink Programme of major improvement works which will deliver much needed capacity on this key cross-London route. During the year, a significant highlight was the resumption of full service between Brighton and Bedford throughout the day, evening and at weekends following the completion of three and a half years of engineering work. Major improvements were made with longer 12-car trains introduced at peak times, later trains and new services.

First Great Western

First Great Western's PPM MAA score stands at 89.1%, a slight decrease on last year. Severe weather, especially repeated flooding in the West Country, caused a number of Network Rail infrastructure failures impacting punctuality over a total of 21 days, and we have been working with them to help overcome these issues.

During the year we completed the introduction of 48 new carriages as part of the DfT's High Level Output Specification programme. Refurbishments on the Class 180 fleet have also allowed us to trial Wi-Fi provision. In the past three years we have worked with the DfT to secure a total of 90 additional carriages, adding around 10% more space on trains for customers. This badly needed capacity increase has helped improve the customer experience and reduced the number of severely overcrowded trains.

Introducing new technology
We are embracing new technology to explore different ways to enhance the customer offering. This includes mobile ticketing, apps for smartphones, redesigned, user-friendly websites and increased use of social media.

Tramlink success
Tramlink, which we operate on behalf of Transport for London, enjoys the best performance and customer satisfaction levels of any of TfL's services. It now carries 29m people per annum, an increase of 11m since the start of operations.

Major infrastructure work including gauge and signalling upgrades continues on the route, including an £850m improvement package at Reading station to ease this bottleneck and improve capacity at this key junction. From 2016 the vast majority of the eastern section of the route will be electrified, providing the opportunity for cleaner, longer and more reliable trains, and we are working with the DfT as that project commences.

First ScotRail

First ScotRail continues to perform well with a PPM MAA score of 93.0%, considerably above the national average. In Passenger Focus's independent National Passenger Survey (NPS) category of overall customer satisfaction, we scored 90% in autumn 2012, an increase on 2011 and five points higher than the UK average.

We began a £1m investment programme during the year into stations which will see increased patronage during the 2014 Commonwealth Games. As a result of a further £1m of Scottish Government funding, free Wi-Fi will be rolled out by December 2013 at 25 stations across Scotland, and all 38 of First ScotRail's Class 380 trains will have Wi-Fi by March 2014.

First ScotRail and the Scottish Government are accelerating plans to offer smartcard season tickets to customers. After a successful initial pilot, an investment of approximately £2m has seen the installation and/or upgrade of equipment at 70 stations across the central belt, which will see key routes begin to accept smartcards.

First TransPennine Express

First TransPennine Express has continued to set and achieve high standards through 2012/13. Our PPM MAA score is above the national average at 91.7%. This result was achieved despite severe disruption caused by a landslip at a colliery near Scunthorpe in February 2013 causing that part of our route to be closed for several months. We achieved a customer satisfaction rating of 88% in the latest NPS, a 14% increase since the start of the franchise, and during the year we achieved five star accreditation from the British Quality Foundation, the highest possible award.

First TransPennine Express now has the second highest seat occupancy of any UK operator and has reduced taxpayer subsidy as a proportion of passenger revenue by 80% during the life of the franchise. Carrying nearly 25m passengers in 2012/13, we have increased passenger income growth for the year by 10%, well ahead of the industry average.

We are investing £60m in 40 new carriages which will form longer trains from December this year on the Manchester-Scotland routes. The new trains will provide a 30% uplift in capacity and a 25% increase in luggage space and their introduction will in turn release carriages to increase capacity on the popular Manchester-Leeds route.

First Hull Trains

In 2012 First Hull Trains carried almost 750,000 people, a new high, on our 90 services a week between Hull and London King's Cross and our Class 180 fleet has seen improved performance. New initiatives such as M-Tickets, where travel documents are sent directly to customers' mobile telephones as well as a new, more interactive website and print at home tickets have all improved the journey experience.

Partly as a result of these initiatives, we scored 95% in overall customer satisfaction in the latest NPS – a 7% improvement on the autumn 2011 survey, and 2% better than the score achieved in spring 2012 compared with the national average for long distance operators of 89%.

Outlook

As the UK's largest and most experienced rail operator, we remain committed to maintaining a leading position in the market. We look forward to reviewing the details of the upcoming franchise competitions, and submitting further high quality bids that deliver value for passengers, taxpayers and shareholders.

Smartcards for First ScotRail
First ScotRail and the Scottish Government are accelerating plans to offer smartcard season tickets to customers after a successful initial pilot with 12,000 cards on the Edinburgh-Falkirk-Glasgow line.

Reading redevelopment
First Great Western is working closely with partners including Network Rail and the local authorities on this ground breaking £850m project to ease congestion at this key bottleneck.

Outlook

We have a fundamentally attractive portfolio of market leading transport businesses, and our unrivalled scale and breadth gives us significant opportunities to share best practice and expertise, to deliver outstanding services to our customers and to create long term, sustainable value for our shareholders.

We have delivered a resilient trading performance for the year, in line with our expectations. We also achieved other significant goals we set ourselves, including our c.£100m UK Bus disposal programme and divesting of other non-core assets such as First Support Services.

The real long term opportunity for us, however, arises from our business recovery programmes, particularly in First Student and UK Bus. We have clear plans in place and, while there remains significant work to be done, our confidence continues to grow as a result of the progress to date.

The rights issue announced in May 2013, to raise approximately £615m, will remove the constraints from our balance sheet and enhance our ability to invest in our businesses going forward. We plan to invest approximately £1.6bn across our five divisions over the next four years to underpin growth and return our businesses to our target levels of profitability. Through these actions, combined with our scale and expertise, we are positioning the business for improved growth and returning it to a profile of consistent returns and cash generation.

Exceptional items and amortisation charges

	2013 £m	2012 £m
Disposals		
UK Bus depot sales and closures	(19.8)	(10.7)
First Transit FSS disposal and exit from Diego Garcia operations	(12.6)	–
	(32.4)	(10.7)
Onerous contracts/impairments		
UK Rail First Great Western contract provision	(9.9)	–
UK Rail joint venture provision (DSBFirst)	(5.0)	–
First Student onerous contract	(2.7)	–
	(17.6)	–
Legal claims		
First Student legal claims	(19.8)	–
First Transit legal settlements	(5.9)	–
First Transit Diego Garcia insurance claim	6.7	–
	(19.0)	–
Other		
UK Bus Pension Scheme changes	–	73.3
UK Rail bid costs	(6.0)	(10.2)
Competition Commission costs	–	(1.9)
Other exceptional items	–	(1.1)
	(6.0)	60.1
Total exceptional items	(75.0)	49.4
Amortisation charges	(52.0)	(30.9)
(Loss)/profit on disposal of properties	(2.7)	1.0
Operating profit (charge)/credit	(129.7)	19.5
Ineffectiveness on financial derivatives	(5.5)	(11.0)
(Loss)/profit before tax	(135.2)	8.5
Tax credit	45.3	4.4
Loss on disposal of discontinued operations	–	(9.2)
Net exceptional items for the year	(89.9)	3.7

UK Bus depot sales and closures
UK Bus depot sales and closures relate to measures taken by the Group to rebalance its portfolio in the UK Bus operations, which included selling or closing certain operations. Shortly after the end of the year we announced the agreements to sell all of our London depots with the exception of Dagenham. The principal charge in 2012/13 represents asset impairments and an onerous contract provision for the remaining Dagenham depot.

First Transit FSS disposal and exit from Diego Garcia operations
During the year the Group disposed of the First Support Services business realising a loss on disposal of £7.7m. In addition operating profit to date of disposal of £1.0m has also been treated as part of the overall exceptional charge. The Diego Garcia operations were exited at the end of the year which resulted in a net exceptional charge of £5.9m.

UK Rail First Great Western contract provision
The Group recorded a provision in 2010/11 in respect of the UK Rail First Great Western (FGW) franchise agreement. This provision reflected the Group's best estimate of the likely losses on the franchise over the two years to 31 March 2013, which would arise due to the accelerated write off of assets dedicated to the FGW franchise due to the Group's decision not to exercise its option to extend the franchise agreement for a further three years beyond the original franchise end date. The Group recorded a further provision of £9.9m in 2012/13 due to incremental losses following the DfT exercising their option to extend the franchise by a further seven rail periods to October 2013.

UK Rail joint venture provision
The carrying value of £5.0m of the investment in DSBFirst, a joint venture with a Danish rail operator, was fully written-off during the year as current and projected trading indicates that there will be no recovery of this amount at the end of the franchise.

First Student onerous contract
During the year the Group provided a further £2.7m against a loss-making contract that was taken on as part of the Laidlaw acquisition undertakings in 2007. This contract is due to expire early in the year to 31 March 2014.

First Student legal claims
During the year, the Group incurred £2.6m of legal costs in defending old contractual claims and other litigations. In addition, the Group provided £17.2m to cover the estimated potential settlement amounts on certain of these historical claims.

First Transit legal settlements
The Group settled certain historical legal claims during the year, principally a contractual dispute from 2009. The Group treated this cost as exceptional due to the size and age of the claims. The Group recognised an exceptional charge of £5.9m in respect of these settlements.

First Transit Diego Garcia insurance claim
The Group settled a historical insurance claim in relation to the Diego Garcia contract in 2012/13 and recognised exceptional income of £6.7m.

UK Bus Pension Scheme changes
UK Bus Pension Scheme changes relate to measures the Group took to mitigate the risk of the pension schemes covering UK Bus employees. As a result of these changes, future pension liabilities of the Group decreased. In 2011/12, the Group linked pension increases to consumer price inflation (CPI) rather than retail price inflation (RPI), which usually shows a higher rate of inflation, and also introduced a pensionable pay cap, along with lower pension accrual rates. As a result of these changes, future pension liabilities of the Group decreased in 2011/12, and the Group realised a one-off exceptional gain of £73.3m.

UK Rail bid costs
The Group's net UK Rail bid costs during the year represented franchise bid costs for all bids, less amounts recovered or recoverable from the DfT in respect of the InterCity West Coast franchise bid. The Group incurred UK Rail bid costs in both 2012/13 and 2011/12 in connection with the InterCity West Coast franchise bid as well as bids for Great Western, Thameslink and Essex Thameside rail franchises.

Competition Commission costs
Competition Commission (CC) costs relate to costs incurred by the Group in 2011/12 in responding to an investigation by the CC into the UK local bus market. The CC issued their final report in December 2011.

Other exceptional items
Other exceptional items include principally costs incurred in effecting the changes to the UK Bus Pension Scheme in 2011/12 described above.

Amortisation charges
The charge for the year was £52.0m (2012: £30.9m) with the increase mainly due to a higher level of contract amortisation at First Student as a result of a reassessment during the year of the remaining useful economic lives of the contracts acquired with the Laidlaw acquisition. Previously these contracts were being amortised over 20 years but are now being amortised over ten years. As a result of this, the income statement charge increased by £24.8m during the year.

(Loss)/profit on disposal of properties
During the year the Group realised £9.7m (2012: £40.3m) on the disposal of selected properties predominantly in Greyhound and UK Bus operations. These resulted in a net loss on disposal of £2.7m (2012: profit £1.0m).

Ineffectiveness on financial derivatives
Due to the ineffective element and undesignated fair value movements on financial derivatives there was a £5.5m non-cash charge (2012: £11.0m) 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 2013 to 2015.

Tax on exceptional items and amortisation charges
The tax credit as a result of these exceptional items was £43.3m (2012: £0.4m). In addition there was a one-off deferred tax credit of £2.0m (2012: £4.0m) as a result of the reduction in the UK corporation tax rate from 24% to 23% (2012: 26% to 24%).

Finance costs and investment income
Net finance costs, before exceptional items, were £163.0m (2012: £157.1m) with the increase principally due to the issuance of a new £325m 10 year bond in November 2012.

Profit before tax
Underlying profit before tax was £172.4m (2012: £271.4m) with the decrease due principally to lower underlying operating profit. An overall charge of £135.2m (2012: £8.5m credit) for exceptional items and amortisation charges resulted in statutory profit before tax of £37.2m (2012: £279.9m).

Tax
The tax charge, on underlying profit before tax, for the year was £34.7m (2012: £54.5m) representing an effective rate of 20.1% (2012: 20.1%). There was a tax credit of £43.3m (2012: £0.4m) relating to amortisation charges and exceptional items. There was also a one-off credit adjustment of £2.0m (2012: £4.0m) to the UK deferred tax liability as a result of the reduction in the UK corporation tax rate from 24% to 23% (2012: 26% to 24%) which will apply from April 2013. This resulted in a total tax credit of £10.6m (2012: charge of £50.1m) on continuing operations.

The actual tax paid during the year was £6.3m (2012: £17.7m). North American cash tax remains low due to tax losses brought forward and tax depreciation in excess of book depreciation. We expect the North American cash tax rate to remain low for the near term. The UK cash tax for the year was lower than last year principally due to lower profits in the Group's UK businesses.

Discontinued operations
In September 2011 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, was classified within discontinued operations in the consolidated income statement in 2011/12.

Dividends
The interim dividend of 7.62p (2012: 7.62p) per share was paid during the year and amounted to £36.7m (2012: £36.6m). The Board proposes that no final dividend will be paid in respect of 2012/13.

EPS
The underlying EPS was 26.9p (2012: 40.0p), a reduction of 33%. Basic EPS was 7.3p (2012: 42.7p), a decrease of 83% principally due to lower underlying results and higher net exceptional items compared to last year.

EBITDA

EBITDA by division is set out below:

	Year to 31 March 2013[1]			Year to 31 March 2012		
	Revenue £m	**EBITDA[2] £m**	**EBITDA[2] %**	Revenue £m	EBITDA[2] £m	EBITDA[2] %
First Student	**1,503.1**	**258.8**	**17.2**	1,567.2	255.8	16.3
First Transit	**814.6**	**60.0**	**7.4**	778.6	65.3	8.4
Greyhound	**647.1**	**80.9**	**12.5**	657.2	80.1	12.2
UK Bus	**1,128.2**	**160.3**	**14.2**	1,157.2	207.1	17.9
UK Rail	**2,795.1**	**135.6**	**4.9**	2,506.1	163.5	6.5
Group	**12.8**	**(28.6)**	**–**	12.4	(28.9)	–
Total Group	**6,900.9**	**667.0**	**9.7**	6,678.7	742.9	11.1

North America in US Dollars

	$m	**$m**	**%**	$m	$m	%
First Student	**2,378.6**	**409.9**	**17.2**	2,497.9	406.9	16.3
First Transit	**1,286.8**	**94.8**	**7.4**	1,242.6	104.2	8.4
Greyhound	**1,022.0**	**127.5**	**12.5**	1,049.3	128.0	12.2
Total North America	**4,687.4**	**632.2**	**13.5**	4,789.8	639.1	13.3

[1] For all businesses excluding UK Rail this year includes 52 weeks compared to 53 weeks last year.
[2] Underlying operating profit less capital grant amortisation plus depreciation.

Cash flow

The net cash outflow for the year was £74.4m (2012: inflow £119.2m). This contributed to a net debt increase of £141.6m (2012: reduction £111.9m) as detailed below:

	Year to 31 March 2013 £m	Year to 31 March 2012 £m
EBITDA (including discontinued operations)	**667.0**	742.6
Exceptional items	**(75.0)**	49.4
Impairment charge	**13.3**	–
Other non-cash income statement charges	**9.6**	9.8
Working capital excluding FGW provision movement	**(6.8)**	20.5
Working capital – FGW provision movement	**(23.0)**	48.7
FGW provision movement	**–**	(48.7)
Movement in other provisions	**(12.2)**	(29.1)
Pension payments in excess of income statement charge	**(94.0)**	(87.1)
Non-cash RPI to CPI pension gain	**–**	(73.3)
Cash generated by operations	**478.9**	632.8
Capital expenditure	**(338.1)**	(293.6)
Proceeds from disposal of property, plant and equipment	**14.7**	57.7
Interest and tax	**(144.4)**	(155.4)
Dividends payable to Group shareholders	**(114.0)**	(108.8)
Dividends payable to non-controlling minority shareholders	**(10.7)**	(19.0)
Proceeds from sale of businesses	**39.2**	5.5
Net cash (outflow)/inflow	**(74.4)**	119.2
Foreign exchange movements	**(63.1)**	(7.7)
Other non-cash movements in relation to financial instruments	**(4.1)**	0.4
Movement in net debt in year	**(141.6)**	111.9

The decrease in cash flow compared to last year was primarily due to:

- EBITDA of £667.0m was £75.6m lower than last year.
- Higher total exceptional items of £124.4m as set out on page 32.
- Working capital excluding FGW provision was £27.3m lower than last year principally due to the reversal of cost accruals created for the additional week of trading last year in the non-Rail businesses.
- Working capital FGW provision movement outflow of £23.0m being the £32.9m utilisation for the operating losses in the year partly offset by the £9.9m increase in the provision due to incremental losses following the DfT exercising the option to extend the franchise by a further seven rail periods.
- Higher pension payments in excess of income statement charge of £6.9m principally due to additional deficit contributions in Greyhound.
- Higher capital expenditure primarily reflecting further investment in UK Bus and First Student.
- Lower disposal proceeds of £43.0m with the reduction due to the sale of several Greyhound properties last year the largest of which was in Washington DC.
- Higher dividend payments to Group shareholders of £5.2m.

Partly offset by:

- The impact of the 2012/13 asset impairments in relation to the Dagenham depot.
- Movements in other provisions favourable by £16.9m primarily due to the additional First Student and First Transit legal claims provided for in the year but not paid out during the year.
- The impact of last year's one-off non-cash benefit of £73.3m in relation to the UK Bus pension scheme changes.
- Lower tax and interest payments of £11.0m principally due to lower UK tax payments as a result of lower profits in the UK businesses and slightly lower interest rates compared to last year.
- Lower dividends payable to non-controlling minority shareholders primarily due to lower First TransPennine Express profits in UK Rail.
- Higher proceeds from sale of business of £33.7m due to the impact of the UK Bus depot sales (primarily Wigan & Northumberland Park) and the sale of FSS in First Transit.

Capital expenditure

Cash capital expenditure was £338.1m (2012: £293.6m) and comprised First Student £127.7m (2012: £115.6m), First Transit £18.0m (2012: £31.9m), Greyhound £51.3m (2012: £44.1m), UK Bus £72.4m (2012: £33.6m), UK Rail £66.1m (2012: £63.4m) and Group items £2.6m (2012: £5.0m).

In addition during the year we entered into operating leases for passenger carrying vehicles in UK Bus and First Transit with capital values of £21.6m (2012: £43.4m) and £12.5m (2012: £nil) respectively.

Gross capital investment was £404.3m (2012: £366.9m) and comprised First Student £150.8m (2012: £135.6m), First Transit £30.5m (2012: £29.7m), Greyhound £51.3m (2012: £44.2m), UK Bus £103.0m (2012: £88.5m), UK Rail £63.9m (2012: £64.5m) and Group items £4.8m (2012: £4.4m).

Funding and risk management

The Group continues to have strong liquidity. At 31 March there was £1,215.5m (2012: £795.8m) of committed headroom and free cash comprising £821.6m (2012: £631.8m) of headroom under the committed revolving bank facility and free cash balances of £393.9m (2012: £164.0m). Largely due to seasonality in the North American school bus business, committed headroom typically reduces during the financial year up to October and increases thereafter. Treasury policy requires a minimum of £250m of committed headroom at all times.

After the end of the year, the 2013 £300m bond was repaid in full, as planned.

The Group's main revolving bank facility expires in December 2015. The average debt maturity was 5.4 years (2012: 5.5 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 more than 75% of net debt. At 31 March 2013 100% (2012: 100%) of net debt was fixed and in excess of 81% 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, 90% of crude oil costs were hedged at an average rate of $102 per barrel during the year. At the end of the year we have hedged 85% of our 'at risk' UK crude requirements for the year to 31 March 2014 (1.9m barrels p.a.) at $105 per barrel and 33% of our requirements for the year to 31 March 2015 at $99 per barrel.

In North America 69% of crude oil costs were hedged at an average rate of $94 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 2014 (1.6m barrels p.a.) at $93 per barrel. In addition we have hedged 37% of 'at risk' volumes for the year to 31 March 2015 at $89 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 2013 foreign currency net assets were 39% (2012: 47%) hedged.

Net debt

The Group's net debt at 31 March 2013 was £1,979.1m (2012: £1,837.5m) and comprised:

	31 March 2013			31 March 2012
Analysis of net debt	Fixed £m	Variable £m	Total £m	Total £m
Sterling bond (2013)[1]	299.4	–	299.4	298.5
Sterling bond (2018)[2]	343.0	–	343.0	325.1
Sterling bond (2019)[1]	–	249.6	249.6	249.4
Sterling bond (2021)[3]	339.0	–	339.0	331.6
Sterling bond (2022)[1]	319.1	–	319.1	–
Sterling bond (2024)[1]	199.5	–	199.5	199.0
US Dollar bank loans	–	358.1	358.1	369.7
Canadian Dollar bank loans	–	15.5	15.5	113.9
Euro and other bank loans	–	11.8	11.8	11.7
Hire Purchase (HP) contracts and finance leases	330.4	87.8	418.2	335.3
Senior unsecured loan notes	98.3	–	98.3	93.3
Loan notes	8.7	1.0	9.7	9.7
Interest rate swaps	411.2	(411.2)	–	–
Gross debt excluding accrued interest	2,348.6	312.6	2,661.2	2,337.2
Cash			(393.9)	(164.0)
UK Rail ring-fenced cash and deposits			(273.8)	(323.2)
Other ring-fenced cash and deposits			(14.4)	(12.5)
Net debt excluding accrued interest			1,979.1	1,837.5

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 Rail franchise agreements, cash can only be distributed by these subsidiaries up to the lower of the amount of their retained profits or the amount determined by prescribed liquidity ratios. The ring-fenced cash represents cash which is not available for distribution and any additional amounts required to satisfy the liquidity ratios at the balance sheet date.

Shares in issue

As at 31 March 2013 there were 481.8m shares in issue (2012: 481.4m), excluding treasury shares and own shares held in trust for employees of 0.3m (2012: 0.7m). 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 481.7m (2012: 481.4m).

Balance sheet

Net assets have decreased by £61.7m since the start of the year. The principal reasons for this are actuarial losses on defined benefit pension schemes (net of deferred tax) of £48.7m, dividend payments of £124.5m, unfavourable hedging reserve movements (net of deferred tax) of £45.1m, partly offset by favourable translation reserve movements of £103.2m and the retained profit for the year of £47.8m.

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. The First Student recovery plan is progressing in line with expectations and as a result the headroom on this business has increased modestly compared to last year.

Assets held for sale

These comprise principally the assets of the eight London depots, the disposal of which we announced on 9 April 2013.

Foreign exchange

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

	Year to 31 March 2013		Year to 31 March 2012	
	Closing rate	Effective rate	Closing rate	Effective rate
US Dollar	1.52	1.58	1.60	1.59
Canadian Dollar	1.55	1.59	1.60	1.59

The US Dollar rate was slightly lower in the year to 31 March 2013 compared to last year.

Pensions

The Group has updated its pension assumptions as at 31 March 2013 for the defined benefit schemes in the UK and North America. The net pension deficit of £268m at the beginning of the year has decreased to £248m at the end of the year principally due to better actual returns on assets partly offset by lower discount rates and higher inflation rates.

The main factors that influence the balance sheet position for pensions and the sensitivities to their movement at 31 March 2013 are set out below:

	Movement	Impact
Discount rate	+0.1%	Reduce deficit by £33m
Inflation	+0.1%	Increase deficit by £23m

The changes to the Accounting Standard IAS 19 will apply from 2013/14 onwards and will have significant impact on certain profit measures including operating profit and EPS. We estimate the new rules would reduce operating profit in the current year as follows:

	2012/13 £m
UK Bus	(37)
UK Rail	(25)
Greyhound	2
Total	(60)

The changes above have no cash impact and do not affect the Group's banking covenants as these are measured on a constant accounting basis.

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 2013 of 5.4 years (2012: 5.5 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 $1,135m (2012: $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 2014 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.

Tim O'Toole
Chief Executive

Chris Surch
Group Finance Director

20 May 2013

Key performance indicators

We measure our performance through a series of financial and non-financial key performance indicators

Revenue
(£m)

	£m
2013	**6,900.9**
2012	6,678.7
2011	6,416.7
2010	6,249.4
2009	6,123.9

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

Performance
Revenue increased by 3.3% to £6,900.9m (2012: £6,678.7m), principally due to higher passenger receipts in UK Rail as well as higher subsidy receipts at First ScotRail due to Network Rail changes which meant that both subsidy receipts and operating costs were £128m higher than last year.

Underlying operating profit
(£m)

	£m
2013	**335.4**
2012	428.5
2011	456.7
2010	448.9
2009	494.0

Description
Underlying 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
Underlying operating profit was £335.4m (2012: £428.5m) reflecting the previously indicated reductions in UK Bus and UK Rail profits and the impact of one week less trading in the North American businesses.

Underlying EBITDA
(£m)

	£m
2013	**667.0**
2012	742.9
2011	768.9
2010	755.9
2009	762.2

Description
Underlying EBITDA is defined as underlying operating profit less capital grant amortisation plus depreciation.

Performance
Underlying EBITDA decreased by 10.2% to £667.0m (2012: £742.9m) principally due to a reduction in underlying operating profit as detailed above.

Underlying EPS
(pence)

	pence
2013	**26.9**
2012	40.0
2011	41.1
2010	38.8
2009	48.1

Description
Underlying EPS is calculated by dividing the underlying profit attributable to equity shareholders by the weighted average number of ordinary shares.

Performance
Underlying EPS was 26.9p (2012: 40.0p) a decrease of 32.7% principally due to the reduction in underlying operating profit as detailed above.

North American contract businesses

>90%

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

Performance
More than 90% was achieved again, reflecting continued strong performance in both First Student and First Transit.

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

Year	%
2013	**91.4**
2012	89.1
2011	87.1
2010	88.2
2009	86.7

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 six years of 91.4% (2012: 89.1%), reflecting the ongoing introduction of new and refurbished coaches as well as continuing operational process improvement.

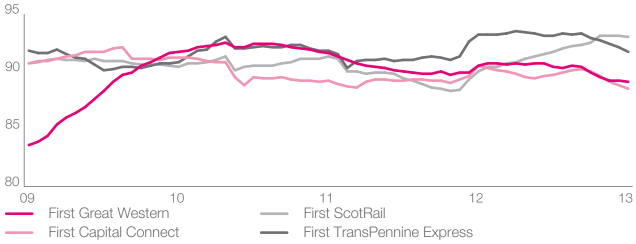
UK Bus punctuality
(% of punctual services)

Year	%
2013	**92.2**
2012	92.2
2011	90.5
2010	90.3
2009	90.7

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
In 2011/12 we saw our best punctuality performance for five years, and we have maintained this level throughout 2012/13. We continually review scheduled running times to reflect changing traffic conditions where possible. We work with local authority partners to encourage highway upgrades for both improved and sustainable journey times.

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
PPM reduced slightly compared to 2011/12 on three of our franchises as a result of prolonged infrastructure disruption during the winter. First ScotRail continued to demonstrate improvement and is now considerably above the national average.

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

Year	Injuries
2013	**8.5**
2012	8.8
2011	10.7
2010	11.6
2009	15.3

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 (excluding incidents of assault, shock or trauma).

Performance
We achieved a 3% reduction in Lost Time Injuries across the Group (2012: 18% reduction). This was our ninth consecutive year of reductions, as we make steady progress towards our goal of zero injuries. Despite all our preparation we saw a greater number of incidents, particularly slips, trips and falls over the prolonged winter weather conditions this year and new learnings will be implemented going forward.

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

Year	Tonnes
2013	**442**
2012	466
2011	476
2010	495
2009	516

Description
In monitoring our performance with respect to carbon emissions across our operations in the UK and North America, we report emissions expressed as tonnes of CO_2 equivalent per £1m of revenue.

Performance
Emissions have reduced by a further 5% this year, in part due to implementation of an engineering modification programme in the First Student fleet and completion of a similar programme in Greyhound. We are also training our drivers to use more fuel efficient driving techniques.

Corporate responsibility

We have made good progress in achieving many of our corporate responsibility objectives this year and achieved ‘Gold’ status in Business in the Community’s Corporate Responsibility Index, up from ‘Silver’ in the previous five years.

Our corporate responsibility priorities

Our corporate responsibility (CR) priorities support the delivery of our vision to provide solutions for an increasingly congested world… keeping people moving and communities prospering. For more information on our vision and values, please see page 4.

Our CR impacts broadly fall into four key areas:

- Delivering sustainable travel solutions
- Putting our customers at the heart of everything we do
- Engaging with local communities
- Valuing and developing our people

Within these four areas, our CR priorities are focused on the issues that are most relevant and material to us, notably service performance, employee engagement, customer service and addressing the challenge of climate change. Further information on our materiality process can be found at www.firstgroup.com/corporate/cr

Corporate responsibility management

CR has for many years been integral to our organisation and our activities. Our CR programme is led by the Executive Management Board (EMB), which reports directly to the Board of FirstGroup plc. The programme and associated reporting is developed in line with the AccountAbility Principles Statement (AA1000APS) and independently assured in accordance with the AccountAbility AA1000 Assurance Standard (2008).

Delivering sustainable travel solutions

The years ahead will bring some serious transport challenges driven by the need to meet the travel demands of a growing population whilst managing pressure on resources and climate change. Providing sustainable travel solutions to address these challenges is central to our vision and in order to do this we focus on working with local and national governments to ensure the right policy and investment frameworks are in place, whilst working to reduce our own environmental impact and that of our suppliers.

Within FirstGroup this means using new systems to improve environmental performance and investment in best practice solutions, which over the past year have included:

In First Transit we have a number of partnerships with technology providers that allow us to offer added value to our customers. These include DriveCam, which promotes safer driving and fuel efficiency, NextBus and Transloc which provide passengers with real time information, and RouteMatch scheduling software.

We continue to use the DriveGreen driver management system in our UK Bus division to encourage our employees to drive as fuel efficiently and safely as possible. Throughout the UK more than half the drivers certified at the highest level of excellence by GreenRoad, the manufacturers of DriveGreen, are FirstGroup employees.

We have also introduced a programme in First Student that aims to improve fuel efficiency and reduce emissions through encouraging our employees to alter driving habits. 89% of our drivers surveyed have changed their habits as a result of the initiative and almost 300 of our locations have reported measurable fuel savings.

In UK Rail we continue to develop active partnerships to build cycle storage facilities at our stations. Working with Hertfordshire County Council we have secured funding to double cycle parking capacity at Harpenden station, and at Luton and Leagrave we have worked with Luton Borough Council to quadruple capacity.

Prohibiting alcohol on evening trains
First ScotRail worked in partnership with the Scottish Government to successfully introduce this bylaw which has led to a c.16% reduction in accidents at stations.

Making our buses accessible for all
Our UK Bus division is working closely with organisations, including Guide Dogs and the Alzheimer’s Society, to improve journeys for our passengers.

Putting our customers at the heart of everything we do

To grow our customer base and provide the transport solutions that keep people moving and communities prospering, we put our customers at the heart of our business. We constantly strive to deliver better services and find ways to improve the customer experience across our businesses. We undertake extensive research on customer satisfaction on topics ranging from affordability to accessibility. We use wide-ranging engagement methods including forums, one to one meetings, and surveys, and we use this feedback to help shape the business and our service offering.

The safety of our customers remains of critical importance and we continue to work both independently and in partnership with the communities we serve to reduce the risk of injury to our passengers and pursue our zero injuries goal.

Developments in 2012/13 have included:

First Student has launched a new website that builds on feedback from our customers. The new user tested design makes it easier for customers to find things they need such as data and service information. This new online presence helped to push First Student's customer service score to 83.4% – a 6% improvement since 2010.

We launched an innovative new service called 'Your Ideas' on the First Capital Connect website, allowing concepts to be suggested and voted on by other passengers. In response to feedback on this site, we launched a free email and text service that warns rail passengers of issues with specific trains.

We are currently looking to extend the applicability of our Safer Journey card in UK Bus, which was originally introduced to allow older customers to discreetly communicate to the driver any additional help they might require. We have sought feedback on a card for passengers with disabilities from a range of organisations.

In 2012/13 we reduced passenger injuries by 11% and vehicle collisions by 2%. We continually seek ways to work with our customers to improve passenger safety with campaigns at various points during the year. All of our bus and train drivers are trained to the highest safety standards, including fatigue management.

Engaging with local communities

Transport is vital to the economic, social and environmental well-being of our local communities. We have a role as a trusted advisor on community transport issues and in creating successful local partnerships. We want to play an active and positive role in the areas we serve and we work with local communities to support broader community initiatives. We also engage with charity partners in both the UK and USA.

Examples of our community engagement in 2012/13 include:

As part of an initiative led by Greener Journeys across the UK bus industry, Jobcentre Plus travel card holders were able to travel for free during the month of January 2013 on almost every local bus service across the country. More than 12,000 people benefited from the scheme.

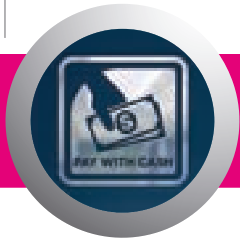
We are committed to supporting local schools to reduce the risk of bullying. First Student took part in a campaign, recognised by the White House, to encourage employees to take action where necessary and our rail teams worked with the charity Red Balloon to promote anti-bullying initiatives in the UK.

During the year our employees in the UK selected Macmillan Cancer Support as our new charity partner. £420,000 has been donated in cash and in kind since June 2012, including £300,000 of bus advertising space in support of Macmillan's awareness-raising campaigns, and £10,000 raised in one day by our employees.

In North America, our chosen charity Children's Miracle Network is dedicated to saving and improving the lives of young people by raising funds for children's hospitals. During 2012/13 we raised $108,000. These charity partnerships are part of our community contributions (in cash and in kind) of more than £1.36m in 2012/13, as measured by London Benchmarking Group (LBG).

Community rail schemes
First Great Western participates in six of the top ten performing Community Rail Partnerships across the country. Our partnerships in Devon and Cornwall saw two million passengers for the first time during the year and were selected by the DfT to become mentors to others nationwide.

Reaching new customers
Our partnership with PayNearMe and retailers including 7-Eleven allows Greyhound customers without debit or credit cards to book attractive fares online and pay by cash in store.



Valuing and developing our people

Our transport services are crucial to the local areas in which we operate but we are also a major local business and employer in all of our communities. We believe that our strategy for recruiting, developing and engaging our 120,000 people is an important step towards our success. The combined energies, capability and commitment of our people can offer us significant competitive advantage. Our employees are the key to ensuring we provide consistently excellent standards of service and maintain high levels of customer satisfaction.

Our new vision and values were introduced during the previous year to provide our people with greater clarity and support consistent behaviours.

In order to support the achievement of our new vision and the consistent application of our values in everything we do, our priorities broadly fall into three main areas:

- Recruitment and retention
- Development and performance management
- Employee engagement

Recruitment and retention

We aspire to be the employer of choice in our industry and we hire, train and develop more employees than any other company in the sector. We want to continue to attract and retain the best people that the transport industry has to offer. We employ experienced, professional and dedicated people to deliver a safe journey for our passengers with a high standard of customer service.

We recognise that the opportunity to build diversity and inclusion in our teams will allow us to develop our workforce to be more representative of the communities we serve and to access a wider skills pool. Our strategy for recruitment and development supports this aim and ensures that we have the right mix of capability and experience to deliver and drive business performance.

We recognise that, in common with much of the transport sector, we still need to work harder to improve the balance and diversity of our workforce but we are pleased to be making progress towards this goal. In particular, we recognise the under-representation of women in our UK operations and we are focused on increasing the percentage of women in senior roles, which is currently 17%, through a number of development opportunities.

We are committed to ensuring that our working practices and policies ensure our employees or potential employees do not suffer discrimination, harassment or bullying and have the opportunity to report such matters in a confidential and safe manner.

As well as career and skills development opportunities, reward is an important part of our retention strategy. We offer our employees a comprehensive reward programme, which includes a valuable and wide-ranging benefits package, 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. We are committed to wide employee share ownership and employees continue to have the opportunity to participate in our Save As You Earn and Buy As You Earn schemes, details of which are set out in note 35 to the financial statements.

Development and performance management

Ensuring our employees have the right skills and training to do their jobs is essential to our performance and to employee retention. Ongoing development needs are established as part of regular performance and capability development reviews, with manager and peer feedback used in conjunction with feedback from our customer surveys. Specific training for our customer facing employees has been introduced to help build engagement around key customer service, operational and safety matters.

Employee Director

Most of our UK operating companies have an Employee Director on their boards. This principle extends to the Board of FirstGroup plc where an Employee Director is elected by their peers to represent employees across the Group. Mick Barker, a train driver for First Capital Connect, has held that position since January 2012 and is able to give an employee viewpoint on all matters affecting the direction and governance of the Group.

London 2012 Games

Our employees were a crucial link in the positive spectator transport story at the London 2012 Games. The development of our people is an enduring legacy within the company. First Capital Connect's dedicated 24/7 centre has been retained and transformed into a permanent feature of the company's customer service.

Alongside role specific training, we also offer professional development opportunities for employees at all levels, including a variety of qualifications such as National Vocational Qualifications for all of our UK Bus drivers, as well as graduate schemes and apprenticeship programmes. In Greyhound, we have introduced a Supervisor Certification programme to provide managers with formal management skills development.

Strong management teams with in depth knowledge and experience of transport and their local markets is a priority. We believe that this provides a good platform for growth in the future, and the focus on development among these teams is already having an impact in our transformation programmes, particularly in First Student and UK Bus.

Recognising the impact strong leadership can have on driving our strategy forwards, we are investing further in our most senior management teams with a series of programmes to enhance capability in areas proven to be critical for improved business performance. These areas will assist our leaders in creating strategic momentum, delivering sustainable performance, driving commercial growth and innovation and engaging and developing their own teams. To further nurture and harness the talent and expertise across our organisation, we have in place detailed and robust succession planning and our leadership teams from across the Group regularly meet to share best practice and ideas.

Employee engagement

With such a large employee base, continuing and enhancing employee engagement is key to improved performance and fundamental to our wider success. We are committed to achieving sustainable employee engagement by ensuring that FirstGroup is a great place to work and that our customers receive a high standard of service. We are focused on inspiring people through our vision and values and driving the cultural change necessary for the development of the Group, and the transformation programmes in First Student, Greyhound and UK Bus would not be possible without employee commitment and involvement.

We take an informed and consultative approach to employee communication across our business. As well as more traditional forms of communication, employees can also access online facilities and our redesigned internal employee portal is to be launched in summer 2013. In addition management teams work to ensure that face to face communication is cascaded throughout their business areas. Employees are encouraged to discuss any issues with management at any time and events, such as an executive roadshow series in Greyhound, have been arranged at regular intervals to allow employees the chance to feed back to senior management.

A significant proportion of our workforce belongs to trade unions, with our employees represented by approximately 30 different unions. The majority of our employees in North America, approximately 80% of our UK Bus employees, and a significant proportion of our UK Rail employees are represented by unions.

We have a regular dialogue with employees and representatives from trade unions. Each division has its own information and consultation arrangements and levels of employee involvement in the business differ. In the UK, we have worked with trade unions on a number of key workplace matters and initiatives including the restructuring of Group pension schemes.

As well as gathering feedback throughout the year through formal and informal channels, all employees are also given the opportunity to make their voice heard through our regular employee surveys. These surveys at Group, divisional and local level provide a useful insight into what our people think about the company. The priorities identified by our own people help to shape our future employee strategy.

Summary

We believe that our commitment to CR supports improved business performance. Motivated employees, delivering sustainable operations focused on customer service and provided in partnership with our communities, are all key to our continued success and future growth.

For more information, please see our latest CR report online:
www.firstgroup.com/corporate/cr

Graduate scheme success
Our graduate scheme attracted more than 1,000 applicants for 15 places this year and was rated in the top 300 in the UK by the Guardian. First ScotRail's modern apprenticeship scheme in customer service, the first in the industry, is developing employability skills in young people and has been recognised by the Scottish Government as a valuable opportunity.

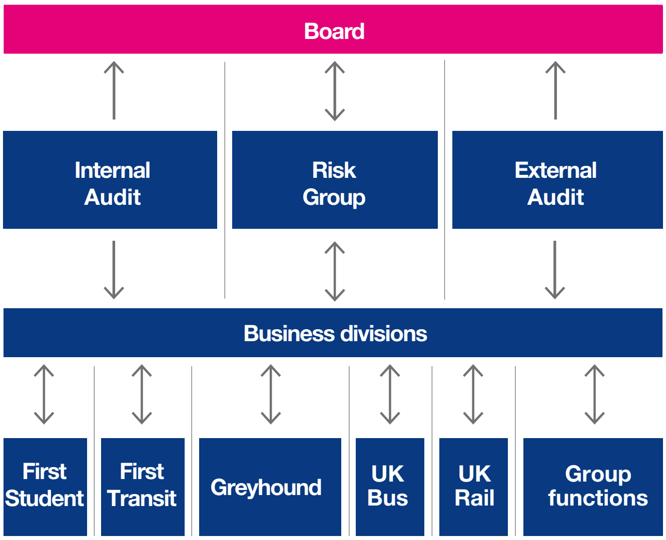
First Transit employee feedback
1,800 employees took part in a survey which examined current perceptions of the First Transit brand and how it distinguishes itself, and a further survey has been conducted to determine preferred forms of communication. The information provided in these surveys will have an important influence on the future development and communication of the brand.

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 identify and manage the risks that are likely to have an impact on the financial or operational performance of the Group, or which could impede achievement of its strategic objectives or adversely impact its reputation or stakeholder expectations, ensuring that we operate safely, develop and protect our people, assets, customers and reputation.

Risk management structure



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 at least 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, which are detailed overleaf, relate to passenger safety and security, our main cost drivers and the governmental, regulatory and economic environments.

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

The risks listed do not comprise all those highlighted by our risk management processes or those that may otherwise affect the Group nor are those that are listed set out in any order of priority. Additional risks and uncertainties not presently known to us, or that we currently 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 60 and 61.

Risk	Potential impact	Mitigation	Movement
Economic and political conditions			
Economic conditions, political developments and changes in government policy affecting the markets in which the Group operates, whether at a global, regional or national level could have a negative impact on the Group's businesses and its ability to grow existing businesses, retain, or win new contracts. Failure, or increased instability, of key suppliers.	Reduced demand for public transportation, reduced funding for and spending by local and national governments and other customers on public or student transport and/or changes to market structure or dynamics or inability to pass on fully to customers the impact of increased costs. Supplier failure, or non-performance, resulting in supply chain disruption.	Many areas of the Group's business offer a certain degree of protection against economic downturn in specific geographic markets, and certain current rail franchises have revenue support and profit sharing arrangements in place. To an extent, our UK Bus operating companies are able to modify services in reaction to economic and political impacts and our Greyhound operations have greater flexibility, particularly in the United States. Continuous monitoring of key suppliers' financial health and identification of alternatives to ensure Group supply chain resilience.	
Pensions			
The Group has significant defined benefit obligations many of which are in deficit. Both assets and liabilities can vary considerably in the short term when compared to their long term assumptions.	Material changes in the accounting cost and cash funding requirements in subsequent years as a result of the underlying investments and liabilities not moving in line with long term assumptions.	Through diversification of investments, hedging of liabilities, 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. However, it is not possible to completely negate them. Under the franchise arrangements the UK Rail Train Operating Companies are not responsible for any residual deficit at the end of a franchise so there is only short term cash flow risk within this business.	
Terrorism, man-made and natural disasters			
The threat from terrorism is enduring and 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. In addition the risk of other man-made or natural disasters including material adverse weather conditions or an outbreak of contagious disease could have an impact on the services we provide.	Reduced public confidence in public transportation, and/or specifically in the Group's security and safety record. Reduced profits resulting from reduced demand for our services, increased costs or security requirements, business disruption and/or, in the case of poor weather, increased accidents.	We continue to develop and apply good practice and train our employees so that they can identify and respond effectively to any potential threat or incident.	

Risks and uncertainties
continued

Risk	Potential impact	Mitigation	Movement
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 and budget airlines. The UK Bus market is deregulated with low public subsidy and is very competitive with over 1,200 operators running local bus services. As mentioned on page 49, competition for UK Rail franchises is also very strong from a number of other large public and state-owned entities active in the market. 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 school bus business also include school districts which themselves operate approximately two thirds of 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.	↔
Information technology			
The Group relies on information technology in all aspects of its business. Any significant disruption or failure, caused by external factors, denial of service, computer viruses or human error, could result in a service interruption, accident or misappropriation of confidential information (including credit card data). Process failure, security breach or other operational difficulties may also lead to revenue loss.	Loss of revenue and increased operating costs due to increased capital, security or insurance requirements.	As a result of the continuing threat of cyber-attacks, the Group has increased its dedicated IT security resource, which in conjunction with policy and procedures and extensive security controls is designed to enhance the resilience and security of the Group's information technology systems and the data they contain.	↑

Risk	Potential impact	Mitigation	Movement
Rail re-franchising			
Whilst the UK DfT has announced its intention to extend a number of the Group's rail franchises, the terms of those extensions have yet to be agreed and even taking into account the announced extensions, all of the Group's franchises will expire between 2014 and 2016. The timetable for re-franchising of the Group's and other UK rail franchises has recently been announced. Although the terms of the new franchises are not yet clear, the competition for new rail franchises is expected to be 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 will continue to compete for franchises as they are re-let.	
Contracted businesses			
The Group is required to comply with certain conditions as part of its UK rail franchise agreements. The Group's First Student and First Transit businesses are contracted businesses dependent on the ability to renew and secure new contract wins on profitable terms.	Potential termination of relevant rail franchise agreement and possibly others if cross-default invoked resulting in loss of revenue and cash flow as well as some or all of the amounts set aside as security for performance bonds and season ticket bonds. Loss of business, or failure to renew, leading to reduced revenue and profitability. Incorrect bid assumptions leading to greater than anticipated costs or losses.	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. The relevant divisions have experienced and dedicated bid teams which undertake careful economic modelling of contract bids and, where possible, seek to negotiate risk sharing arrangements with the relevant customer or contracting authority.	
Legislation and regulation			
Our businesses are subject to numerous laws and regulations covering a wide range of matters including health and safety, equipment, employment (including working time, wage and hour and legislation covering mandatory breaks), competition and anti-trust, environmental, insurance coverage and other operating issues. These laws and regulations are constantly subject to change.	Increased costs of compliance with existing or changes in regulation or legislation. Reduction in operational flexibility or efficiency. Financial and reputational impact of failure to comply. Negative impact on ability to bid for future business.	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 and 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	Potential impact	Mitigation	Movement
Customer service			
The Group's revenues are at risk if it does not continue to provide the level of service expected by customers.	Contracts not renewed; revenue levels reduced; negative impact on brand image.	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. On going engagement with customers and community stakeholders takes place across the Group, including through 'Meet the manager' events, customer panels, consultations and local partnerships. The Board also monitors, in detail, a series of customer service KPIs to ensure strict targets are being met.	↔
Litigation and claims			
The Group has three main insurable risks: third party claims arising from vehicle and general operations, employee injuries and property damage. The Group is also subject to other litigation, particularly in North America, which is not insured including contractual claims and those relating to employee wage and hour matters.	Increased costs; reduced availability of insurance cover; reputational impact. A large single claim or a large number of smaller claims may affect profitability and cash flow.	The Group has a very strong focus on safety – it is one of our values. The size of the Group's operations is such that there is a high frequency of low value injury and property damage claims which the Group self-insures up to certain limits. It purchases insurance above these limits from reputable global insurance firms. Claims are managed by experienced claims handlers. Non-insured claims are managed by the Group's dedicated in-house legal team, with external assistance as appropriate.	↑
Treasury risks			
As set out in further detail in note 25 to the financial statements on pages 106 to 111, treasury risks include liquidity risks and risks arising from changes to foreign exchange rates, and interest rates.	Foreign currency and interest rate movements impact profit, balance sheet and cash flows of the Group. Ineffective hedging arrangements may not fully mitigate losses or may increase them.	The Group's Treasury Policy and delegated authorities are reviewed periodically to ensure compliance with best practice and to control and monitor these risks effectively.	↔
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 reduced cash flow and profitability.	The Group seeks to mitigate these risks by its recruitment and retention policies, training schemes and working practices including building communication and engagement with the trade unions and the wider workforce. Examples of this engagement include regular leadership conferences, employee satisfaction pulse surveys, and the presence of Employee Directors (Directors voted for by the employees to represent them) on many of the Group's UK divisional boards, and the FirstGroup Board.	↔

Risk	Potential impact	Mitigation	Movement
Fuel costs			
Fuel is a significant component of the Group's operating costs. Fuel prices and supply levels can be influenced significantly by international, political and economic circumstances.	High prices, increased volatility of fuel prices or supply restrictions, shortages or interruptions could adversely impact the Group's operations, cash flow and profitability. The Group may be unable to pass increased costs on fully to customers. Ineffective hedging arrangements may not fully mitigate losses or may increase them.	To mitigate the risk of volatile fuel costs the Group regularly enters into forward hedging 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 FirstGroup. The Group also offers market based compensation packages consisting of an appropriate mix of long and short term incentives.	↔
Environmental			
The Group's operations 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 and are subject to ongoing changes in environmental regulations. Along with all businesses we face the challenge of addressing climate change, both managing its impact and reducing emissions.	Environmental, reputational or financial loss resulting from remediation of incidents, prosecutions and/or penalties.	To mitigate these risks, the Group's storage facilities are subject to regular inspection and we have detailed fuel handling procedures which are regularly audited. Robust environmental policies, strategies and management systems are maintained across the Group. The Group continues to target reductions in its emissions, including through behaviour change initiatives and investment in new technology.	↔

Board of Directors

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1. Martin Gilbert LLD MA LLB CA
Chairman

Appointed to the Board: April 1995
Skills and experience: Chartered accountant
Other appointments: He is one of the founders and Chief Executive of Aberdeen Asset Management PLC. He is a director of a number of investment trusts and Non-Executive Director of British Sky Broadcasting Group plc.
Committee membership: Chairman of the Nomination Committee.

2. Tim O'Toole CBE JD
Chief Executive

Appointed to the Board: May 2009
Skills and experience: 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.
Other appointments: He is a Non-Executive Director of CSX Corporation, a rail freight transportation company in North America.
Committee membership: Member of the Board Safety Committee and the Executive Committee.

3. Chris Surch B Com (ACC) ACA
Group Finance Director

Appointed to the Board: September 2012
Skills and experience: He was from May 2009 to August 2012 Group Finance Director of Shanks plc, also for a period of time serving as their acting Chief Executive. Following an early career with PricewaterhouseCoopers where he qualified as a chartered accountant he joined TI Group plc in 1995. He held a number of senior roles there and following the merger of TI Group with Smiths Group plc he went on to hold further senior finance roles, latterly serving as Finance Director of their speciality engineering division.
Committee membership: Member of the Executive Committee.

4. Professor David Begg DSc BA
Non-Executive Director

Appointed to the Board: August 2005
Skills and experience: 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.
Other appointments: He is Chief Executive of Transport Times and a Non-Executive Director of Heathrow Airport Holdings Limited, as well as Chairman of the Business Infrastructure Commission and a Director of Portobello Partnership.
Committee membership: Chairman of the Remuneration Committee. Member of the Audit Committee and Nomination Committee.

5. Colin Hood BSc MSc FIET
Non-Executive Director

Appointed to the Board: May 2009
Skills and experience: He was, until November 2011, a Director and Chief Operating Officer of SSE plc.
Other appointments: 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.
Committee membership: Chairman of the Board Safety Committee. Member of the Remuneration Committee, the Audit Committee and the Nomination Committee.

6. John Sievwright DHC MA CA
Senior Independent Non-Executive Director

Appointed to the Board: May 2002
Skills and experience: 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.
Other appointments: He is a member of the North American board of the Michael Smurfit Business School, Dublin and a Non-Executive Director of ICAP plc.
Committee membership: Chairman of the Audit Committee. Member of the Remuneration Committee and the Nomination Committee.

7. Brian Wallace ACA
Non-Executive Director

Appointed to the Board: August 2012
Skills and Experience: He has held executive board positions within a number of FTSE 100 and FTSE 250 organisations, most recently as Group Finance Director of Ladbrokes plc. Prior to rejoining Ladbrokes he was Group Finance Director and Deputy Chief Executive of Hilton Group. A chartered accountant, he began his career at Price Waterhouse and went on to perform senior finance roles at Geest, APV and Schlumberger. He previously served as a Non-Executive Director at Scottish & Newcastle plc, Hays plc, Merlin Entertainment and Miller Group.
Committee membership: Member of the Audit Committee.

8. Jim Winestock BSc
Non-Executive Director

Appointed to the Board: August 2012
Skills and experience: He served in a number of senior roles and was a member of the management committee during his career at United Parcel Service, Inc., the world's largest package distribution company and a global leader in supply chain solutions. Most recently he was Senior Vice President and Director of US operations and global security with responsibility for all US operations and 360,000 employees.
Other appointments: He is a Non-Executive Director of YRC Worldwide, Inc., a Fortune 500 company and one of the largest transportation service providers in the world, and also serves on the Board of two not-for-profit organisations in the US.
Committee membership: Member of the Remuneration Committee.

9. Mick Barker
Non-Executive Employee Director

Appointed to the Board: January 2012
Skills and experience: He has been a railwayman for 37 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
29th Floor
25 Bank Street
Canary Wharf
London
E14 5JP

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

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

Slaughter and May
One Bunhill Row
London
EC1Y 8YY

Financial PR advisors

Brunswick Group LLP
16 Lincoln's Inn Fields
London
WC2A 3ED

On behalf of the Board, I am pleased to present the Corporate Governance Report for 2012/13. The external headwinds we have faced this year have been considerable. These issues, together with the cancellation of the InterCity West Coast franchise and the capital reorganisation that was announced in May 2013 have meant that the Board has had to meet more frequently than it was scheduled, sometimes at very short notice. At these times it is more important than ever that the Group maintains its commitment to the highest standards of corporate governance in respect of leadership, effectiveness, accountability, remuneration and relations with shareholders as identified by the UK Corporate Governance Code. 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.

As previously announced, I have decided to step down as Chairman after 27 years with the Group following the appointment of my successor. Good governance is vital and the Board is mindful of the need to ensure that my successor has the experience and integrity necessary to ensure that the Group continues to apply the highest standards going forward.

Board composition

In my last report I mentioned the impending appointment of Chris Surch as Group Finance Director. He joined us on 1 September 2012 and his strong financial leadership, considerable operational, strategic and international knowledge and experience of significant business improvement programmes have already made an impact on the running of the Group. I was also delighted to welcome Brian Wallace and Jim Winestock as Non-Executive Directors who joined our Board on 1 August 2012. Both Brian and Jim have already brought their individual expertise in finance and operations in large and complex organisations to the Board and have made significant contributions to the running of the Group.

Board evaluation

In addition I am pleased to report that Independent Board Evaluation (IBE) carried out a detailed and comprehensive review of the Board's performance, practices and procedures. They observed the Board and Committees in action during October 2012. All the Directors and key personnel were subsequently interviewed by the team at IBE, who thereafter compiled a full report which was presented to the Board in December 2012. The report indicated that the FirstGroup Board is changing both in composition and culture and is becoming more effective whilst adopting a more challenging and professional ethos. The arrival of new members has provided an opportunity to reset the culture which in turn will help the Board steer the Group through the period ahead. It will continue to ensure that we have the right mix of capability and experience to deliver and drive the business going forward.

Remuneration

We appointed a new Chairman of the Remuneration Committee last year and, as highlighted later in this report, I am confident that under his leadership the Remuneration Committee will ensure that the challenging targets set for the business going forward are properly reflected in the remuneration of our management team.

No salary increase will be paid to the Executive Directors and no fee increase will be paid to the Non-Executive Directors for the financial year commencing 1 April 2013.

Group Employee Director

Our Group Employee Director has been in office now for 16 months. Mick has proved a most effective and invaluable presence on the Board and assists us in keeping in touch with issues affecting our employees.

Corporate Governance Code

The new Corporate Governance Code was adopted in September 2012. Whilst this does not apply to us until the 2013/14 reporting year we will continue working to ensure that we will be fully compliant to the benefit of the Group and all our shareholders.

Martin Gilbert
Chairman

The Company complies with all 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, two Executive Directors and six Non-Executive Directors. Nick Chevis, who was not a member of the Board, attended all meetings as Acting Finance Director from April to September 2012 at which time Chris Surch was appointed as Group Finance Director. During the year, the Board met 16 times (eight in the UK, two in the US and six by telephone conference call). All members attended whilst they were Directors with the exception of Jim Winestock and David Begg who were each absent from two meetings and Mick Barker and Chris Surch who were each absent from one meeting.

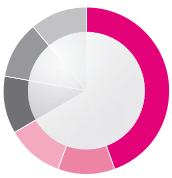
During the year the Board set and reviewed the Company's objectives and strategy, reviewed the financial and operational performance of each of the Group's business units, agreed and reviewed progress against the Group's annual budgets and set and reviewed on a regular basis its longer term business plans. In line with the matters specifically reserved to it, it also approved the half year and full year financial statements, financing arrangements, material capital commitments, relationships with regulatory authorities and the Group's operating and accounting policies.

The Board also discussed and reviewed the strategic disposal of non-core business assets, the issuance of a £325m 5.25% Bond, our new vision and values programme, succession planning and talent management, bids for the InterCity West Coast (ICWC) and Essex Thameside rail franchises and the subsequent cancellation of the ICWC competition and pause in all franchise bids and the capital structure of the Group.

On 1 August 2012 Brian Wallace and Jim Winestock were appointed to the Board as Non-Executive Directors.

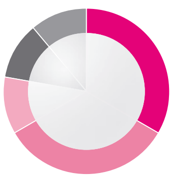
On 1 September 2012 Chris Surch was appointed to the Board as Group Finance Director.

University education



Accountancy	4
Law	1
Academic	1
Business Administration	1
Engineering	1
Other	1

Background



Finance	3
Transport	3
Energy	1
Logistics	1
Fund management	1

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, Colin Hood, Brian Wallace and Jim Winestock 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. He displays a breadth of experience, particularly in financial markets, and the Board firmly considers him to remain independent within the definition of the Code. Mick Barker is an employee of one of the Group's subsidiaries and therefore cannot be considered to be truly independent under the Code. 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 the Board 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 possesses the breadth of business, financial and international experience necessary to manage an organisation of the size and complexity of the Group effectively.

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 Group 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, and have done so in relation to a number of issues during the year.

Regular reports on investor relations activity and feedback from investors are submitted to the Board and senior management.

Role of the Chairman

The Chairman of the Board is currently Martin Gilbert although, as previously announced, he has indicated his intention to step down once a successor has been appointed. The Chairman has a written statement of responsibilities which has been approved by the Board. He 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, will continue to enable him to provide effective leadership of the Board until the appointment of his successor and that he will 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 52. The Board performance evaluation process referred to in the Chairman's letter and on page 57 confirmed that the other Board members are satisfied that until the appointment of his successor, Martin Gilbert will continue to have the necessary time available to devote to the proper performance of his duties as Chairman and will remain an effective leader of the Board, encouraging active engagement and promoting open communication between the Non-Executive Directors and Executive team.

Role of 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. He 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 Group Finance Director has failed to resolve or for which such contact is inappropriate.

Information provided to 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 management 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 that division and the issues it currently faces. 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.

During the year Chris Surch, Group Finance Director, and Jim Winestock and Brian Wallace, Non-Executive Directors received a comprehensive induction to their new roles. They had meetings with the Company Secretary, management from all divisions of the business and external advisors and were provided with all documentation necessary to ensure that they had a firm understanding of the Company's operations and key risks and issues facing the Group. They also went on site visits to some of the Group's locations both in the UK and North America. In addition, information and guidance was provided on their responsibilities and obligations under law, regulation and best practice guidelines.

The whole Board also receives updates, as required, on changes to the legal and regulatory regimes affecting the Group and the development process is supported throughout the year by a programme of business presentations as described above.

Performance evaluation

As mentioned in the Chairman's letter, the Board undertook an external evaluation of its performance during the course of the year carried out by Independent Board Evaluation, who have no connection with the Group. The evaluation team drew up a detailed agenda for Board interviews and observed the Board and its Committees in action at their October meetings. Thereafter all Board members and key individuals participated in detailed interviews with the evaluation team. In addition, each of the Directors was individually assessed and this report was provided to the Chairman. An assessment of the Chairman's performance was provided to the Senior Independent Director. A full report was provided to the Chairman and was laid before and discussed at the December 2012 meeting. The report indicated that the FirstGroup Board is changing both in composition and culture and is becoming more effective, adopting a more challenging and professional ethos. The arrival of new members has provided an opportunity to reset the culture which in turn will help the Board steer the Group through the period ahead. No significant issues were identified in the course of the evaluation process. This review will benefit the Board and serve as a benchmark against which to measure the rate of change going forward. In addition management have employed Board Intelligence, who have no connection with the Group, to review and improve the way that information is presented to the Board to assist it in performing more effectively going forward.

Re-election of Directors

In accordance with the Code, all the Directors are offering themselves for re-election at the Annual General Meeting to be held on Wednesday 17 July 2013. The Chairman has announced his intention to retire from the Board as soon as a successor has been appointed.

Following a rigorous performance evaluation of each Director and the Board as a whole, all Directors are considered by the Board to be fully effective.

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 2013.

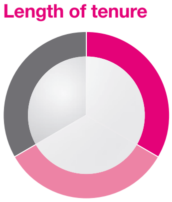
Committees of the Board

The Board has established Nomination, Remuneration and Audit Committees with specific delegated powers, duties and responsibilities. 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.

A fourth Committee, the Board Safety Committee was established to take effect from 1 April 2013 and will be reported on fully in next year's Annual Report.

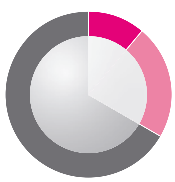
The Board Safety Committee will, among other things, provide oversight of the Group's operational safety risk profile as presented by the Group Safety Director and further promote a positive safety culture. The terms of reference of the Committee were adopted on 13 May 2013. They are available on request and are also published on the Company's website.

Length of tenure



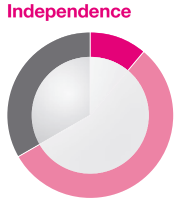
Under 1 year	3
1 to 5 years	3
Over 5 years	3

Board composition



Chairman	1
Executive	2
Non-Executive	6

Independence



Chairman	1
Independent Director	5
Non-Independent Director	3

Nomination Committee

The Nomination Committee is currently chaired by Martin Gilbert. The other members of the Committee are David Begg, Colin Hood and John Sievwright. Tim O'Toole attends meetings of the Committee at the invitation of the Chairman of the Committee. The Group Employee Director also attends meetings at the invitation of the Chairman of the Committee to represent the Group's employees.

The Committee met four times during the year and all members attended each meeting held whilst they were Directors. The primary role of the Nomination Committee is to lead the process for Board appointments and make recommendations to the Board. The Committee meets as required to consider appointments of both Executive and Non-Executive Directors to the Board. Its recommendations are then put to the Board for approval.

The responsibilities of the Nomination Committee include:

- reviewing the structure, size and composition of the Board (including the balance of skills, knowledge, experience and diversity (including gender)) and ensuring that all members of the Board have devoted sufficient time to their duties
- identifying and nominating for approval by the Board candidates to fill vacancies as and when they arise, including utilising search consultants
- overseeing the succession planning process for the Board and senior management
- making recommendations to the Board regarding the continuation in office of any Director, including re-election and re-appointment.

During the year the Committee considered and recommended to the Board the appointment of Chris Surch as Group Finance Director, Brian Wallace and Jim Winestock as Non-Executive Directors, the appointment of Brian Wallace to the Audit Committee and Jim Winestock to the Remuneration Committee and the appointment of Colin Hood as Chairman of the newly formed Board Safety Committee. The Committee was assisted in its search for UK based Executives by JCA Group and by Spencer Stuart for its US based Director. The Committee will lead the search for the Chairman's successor and appoint an external search agency to assist in its deliberations.

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 68.

The Board is mindful that following the departure of Audrey Baxter in December 2011 it no longer has any female members. The Board is supportive of the Financial Reporting Council's aim to encourage diversity in the boardroom and of the recommendations contained in the report of Lord Davies of Abersoch aimed at raising the proportion of women on UK boards. The Board will work towards an aspiration of 20% of board positions filled by women by 2015, subject to the availability of candidates with the right skills and experience. The Board remains of the opinion that Board appointments should be made relative to a number of different criteria, including diversity of gender, background and personal attributes, alongside the appropriate skill set, experience and expertise.

The terms of reference of the Committee were updated and adopted in March 2013 and are available on request and are also published on the Company's website.

Audit Committee

The Audit Committee is chaired by John Sievwright and includes David Begg and Colin Hood. Brian Wallace was appointed to the Audit Committee in January 2013. It met four times during the year and all members of the Committee attended each meeting whilst they were members. The Group Director of Internal Audit and the Company's external auditors attended all of these meetings. Executive Directors and other senior managers attended when requested and as appropriate. The Group Director of Internal Audit has the right of direct access to the Chairman of the Audit Committee.

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

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 statements before they are considered and approved by the Board, reviews the Group Risk Register and monitors compliance with the Code and related guidance.

The key judgments assessed during the year included the First Great Western contract provision; the Diego Garcia contract provision; Goodwill impairment reviews; UK Rail bid costs; DSBFirst investment carrying value; UK Bus sales and closures; Dagenham Depot asset impairments and onerous contract review; First Transit's First Support Services disposal; Loss making contracts review; pensions, legal and environmental provisions; self insurance reserves and contract intangible amortisation.

In addition, 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. 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 any identified control weaknesses are implemented.

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 the Senior Statutory Auditor (SSA) is rotated every five years. The current SSA was appointed during the 2010/11 financial year. Deloitte LLP was originally appointed as external auditor in 1999.

The majority of non-audit work is put out to tender, with the exception of regulatory reporting work and due diligence work on acquisitions or potential acquisitions and disposals 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 Group Finance Director. The Annual Report and Accounts and half yearly Financial Report are subject to a detailed verification 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 March 2013 and are available on request. They are also published on the Company's website.

Commentary from the Chairman of the Audit Committee

As Chairman of the Audit Committee it is my responsibility to ensure that the Committee is rigorous and effective in its role of:

- reviewing and overseeing the Company's relationship with the external auditors, monitoring their independence and the objectivity and effectiveness of the audit process and developing and implementing policy on the engagement of the external auditors to supply non-audit services
- making recommendations to the Board in respect of the appointment/re-appointment of the external auditors and the audit fee to be paid
- reviewing the reports on the Company from the internal auditors and the activities, findings, conclusions and recommendations of the external auditors, together with the annual audit letter, any audit representation letters and any management letters
- monitoring the integrity of the annual and half year results and interim management statements, including reviewing the significant financial reporting issues and judgments contained in them and reviewing and, where necessary, challenging the Company's financial statements
- monitoring the consistency of and any changes to accounting policy
- reviewing the procedures for the identification, assessment and reporting of risks
- monitoring the Company's whistleblowing arrangements and procedures for detecting fraud
- reporting formally to the Board, providing advice on the annual report and making appropriate recommendations to the Board.

During the year we have continued to focus on the above and on improving key financial controls, processes and procedures.

Key matters discussed during the year

- Annual Report and Accounts 2012 and external auditors' report thereon
- Group internal audit matters
- risk report from the Risk Group (including updates to the Group Risk Register)
- Half year financial report and external auditors' report thereon
- external audit plan for the year ended 31 March 2013
- approval of external audit and non-audit fees
- review and approval of an updated Terms of Reference

Key matters discussed after year end

- Annual Report and Accounts 2013 and the external auditors' report thereon

I was delighted that Brian Wallace was appointed to the Audit Committee in January 2013 and I welcome the wealth of financial and UK public company experience that he brings.

John Sievwright
Chairman of the Audit Committee

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 eight times during the year and all members of the Committee attended each meeting held whilst they were members. Details of the membership of the Committee are set out in the Directors' remuneration report on pages 63 to 71, together with a statement of the Group's remuneration strategy and policy. Full details of Directors' remuneration appear in the Directors' remuneration report on page 68.

The Board has also formally 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.

Board Safety Committee
The Board Safety Committee comprises Colin Hood (chairman), Jim Winestock, Tim O'Toole and Naveed Qamar (the Group Safety Director) and reviews safety performance, provides oversight of the management of the Group's operational safety risk profile and promotes a positive safety culture.

The following groups and committees also meet on a regular basis to review ongoing matters and make recommendations to the Board or one of the formally constituted committees referred to above:

Executive Management Board (EMB)
The EMB, which comprises the Executive Directors and certain senior management, is chaired by the Chief Executive. It acts as a general operating management committee and meets on a monthly basis to review current 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 the Group Safety Director. The ESC reviews the Group's safety performance and practices and approves Group safety policies and procedures. 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). Since 1 April 2013 a Board Safety Committee chaired by Colin Hood, has provided oversight of the Group's operational safety risk profile as presented by the Group Safety Director with the aim of further promoting a positive safety culture. A full report on its activities will be included in next year's Annual Report.

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 at least a quarterly basis. Further details can be found under the Internal Controls section below.

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 can be found on page 75.

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 Group's systems for 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 established a Risk Group, comprising senior management from all of the Group's main businesses as well as from the finance, treasury, legal, insurance and internal audit functions which reviews the significant risks facing the Group. The Risk Group meets at least four times annually and reports to the Audit Committee which in turn reports to the Board with the express purpose of reviewing the risk and control procedures in each of the business areas and support functions. As an integral part of planning and review, management from each of the business areas and support functions identify the risks facing their operations, as well as the controls in place to mitigate those risks. The probability of risks occurring as well as the likely impact on the Group's business, should the risks occur, are also assessed and documented. These risks are assessed on a regular basis, taking into account changes in both external and internal circumstances, which may include alterations to regulatory requirements, disruption to information systems, industrial relations issues, control breakdowns, as well as changes in the political and economic climate and social, ethical and environmental issues. As a result of the reports submitted to it by the Risk Group, the Audit

Committee 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 46 to 51.

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. A copy 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 1977. Internal Audit maintains a Group Hospitality and Gifts Register which records all hospitality or gifts given or received by all Board and EMB members (including all hospitality or gifts offered but not accepted), the value of which exceeds a *de minimis* amount. Additional Hospitality and Gift Registers are also maintained at the divisional level. All senior management in the Group are required to disclose hospitality or gifts given or received as well as those that are offered but not accepted for entry into these registers.

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 senior 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 have sometimes highlighted minor control weaknesses which 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 or employment issues, potential fraud, health and safety, harassment, discrimination, security or any other matter. The confidential hotline covers all businesses across the Group in 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 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 fluctuations and exposures

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 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 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, the £200m 6.875% bonds due 2024 and the £325m 5.250% bonds due 2022 issued by the Company may also be affected by a change of control of the Company. A change of control in respect of 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 thresholds in relation to the credit rating of the bonds are also met. In respect of the £300m 8.125% bonds due 2018, the £350m 8.750% bonds due 2021, the £200m 6.875% bonds due 2024 and the £325m 5.250% bonds due 2022, upon a change of control of the Company, provided that certain further thresholds in relation to the credit rating of the bonds are met, 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 operations

The Group's UK Bus business operates London bus routes under contract to London Bus Services Limited. These agreements include change of control provisions which are significant when all the routes are considered together. On 9 April 2013 contracts were exchanged for the disposal of the majority of the Group's existing London bus operations, to the extent operated from depots at Alperton, Greenford, Lea Interchange, Hayes, Uxbridge, Westbourne Park and Willesden Junction. On completion of these disposals, the Group's London bus operations will cease to amount to a significant interest.

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.

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, Audit and Board Safety Committees attend the Annual General Meeting to answer specific questions from shareholders. All Directors who then held office were present at the 2012 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

As the Chairman of the Remuneration Committee I am pleased to present my report for the year to 31 March 2013.

The Group met its financial targets for this year despite the challenging and unprecedented headwinds we have faced. Our recovery programmes in UK Bus and First Student are on track and it is more important than ever that our remuneration policy results in the retention and continued motivation of management who have to drive through and deliver the changes and improvements that are necessary in the business. Our focus therefore remains on ensuring that we have remuneration packages which attract, retain and motivate the high calibre individuals necessary to maintain the Group's position as a leader in the public transportation industry. Our policy is to link a proportion of this remuneration to achievement of demanding financial, safety, customer service and personal performance targets and structure rewards to align management's interests with those of our shareholders and provide incentives to deliver the challenging transformation plans that have been outlined earlier in this report.

Our remuneration policy is reviewed on an ongoing basis against the Committee's broad principles and in the light of emerging best practice in Corporate Governance.

The Remuneration Committee has not changed its remuneration policy during the course of the year. However it intends to undertake a full review of the Executive Annual Bonus Plan (EABP) and Long Term Incentive Plan (LTIP) during the course of 2013/14 to ensure that the incentive plans in place for executives remain competitive in terms of our ability to attract, motivate and retain talented people and are aligned to the achievement of our business plans.

For the EABP that relates to the financial year 2013/14 there will be no significant change to the parameters for award, with no payment being made for profit below 95% of budget and the targets for injury prevention and customer service will be set to deliver year on year improvements in these key areas. However, having considered feedback from shareholders, in addition to the current profit targets, a proportion of bonus will be linked to the achievement of cash generation targets for both Group and individual divisions in 2013/14.

The responsibilities of the Remuneration Committee also include determining targets for and payments under any performance related pay scheme. Whilst no changes were made to our LTIP metrics we reduced the quantum of awards made during the year by 20% to reflect the significant reduction in the Company's share price to ensure they were not excessive. This lowered the maximum entitlement which could be earned during the 2012/13 financial year to 120% of basic salary in respect of our Chief Executive. Given the capital reorganisation announced on 20 May 2013 and the forthcoming review of LTIP awards, the Remuneration Committee decided to defer making any awards until after the Company announces its half year results in November 2013 and, to the extent required, shareholders will be consulted in advance about any changes that relate to the structure of the LTIP and changes to the performance conditions.

Following our annual review of Executive salaries it was determined not to award any inflationary increases to the Directors which means that the Chief Executive's salary has been frozen for a second successive year.

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 and 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 17 July 2013.

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

Unaudited information

Remuneration Committee

The Remuneration Committee is chaired by David Begg. The other members of the Committee are Colin Hood, John Sievwright and Jim Winestock who was appointed to the Committee in January 2013. Mick Barker as Group Employee Director 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 attend 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 March 2013 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 eight times during the year and all members attended each meeting held whilst they were members. The Committee was also advised on the structuring of Directors' remuneration packages and trends and best practice by Towers Watson, Mercers and Deloitte LLP. Apart from Towers Watson acting as our consultants for the Group Employee Survey, neither Towers Watson or Mercers had any other connection with the Company. Deloitte LLP are the Company's Auditors but have provided remuneration services in compliance with the Ethical Standards of the Auditing Practices Board which restrict the provision of certain services in order to maintain auditor independence. Advisory partners and staff have no involvement in audit, and are not involved in the preparation of audited information. The Committee is satisfied that the safeguards in place ensure that the remuneration advice it receives from Deloitte LLP is independent.

Key matters discussed during the year

- Reviewing and approving Terms of Reference
- Receiving and approving Directors' pay structure
- Considering and approving the EABP 2011/12 bonus
- Awarding Tim O'Toole's EABP 2011/12 bonus (waived)
- Confirming no vesting of LTIP 2009
- Reviewing and approving 2012 Directors' remuneration report
- Reviewing performance targets under EABP 2012/13
- Reviewing performance targets under LTIP 2012
- Discussing and approving EABP and LTIP participants and good leavers
- Discussing further strategy proposals for EABP (leaving in place for 2013/14) and LTIP (deferred)

Key matters discussed after year end

- Considering and approving the EABP 2012/13 bonus
- Awarding Tim O'Toole's EABP 2012/13 bonus (waived)
- Awarding Chris Surch's EABP 2012/13 bonus
- Confirming no vesting of LTIP 2010
- Reviewing and approving 2013 Directors' remuneration report
- Reviewing potential performance targets for EABP 2013/14

Remuneration policy

Aim

The aim of the Committee is to design remuneration packages for the Executive Directors and senior management which attract, retain and motivate the high calibre individuals necessary to maintain the Group's position as a leader in the public transport industry. In doing so the Committee aims to align management incentives with the interests of shareholders and the achievement of its challenging business transformation plans.

In implementing its policy, the Committee has given full consideration to the Principles on remuneration set out in the Code. The policy is reviewed on an ongoing basis against the Committee's broad principles and in the light of emerging best practice in corporate governance.

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 EABP)
- LTIP
- 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, having regard to the general level of pay awards around the Group, and also the packages received by executives of comparable seniority, experience and responsibilities employed by 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 68.

At 1 April 2012 the Executive Directors' salaries did not increase. No salary increase will be paid to the Executive Directors for the 2013/14 financial year.

Executive Annual Bonus Plan (EABP)

The Group operates a performance-related bonus plan for its Executive Directors and senior management under which payment of bonuses has historically been linked to achievement of a sliding scale of challenging normalised profit targets and non-financial targets (injury prevention, customer service and personal performance). 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.

The targets set in relation to non-financial performance are key strategic Group objectives that are tailored to the responsibilities of each individual Executive Director and, in aggregate, are considered to be similarly challenging to the range of financial targets set.

For the year under review, bonuses were payable for Group normalised profit performance against budget of between 95% and 110%. At 95% bonus would have been assessed at nil; at 101% bonus would have been assessed at 50% and at 110% bonus would have been assessed at maximum. Adjustments operate on a straight line basis between these parameters. 70% of any bonus payable was dependent upon Group (or, as appropriate, divisional) financial performance against target 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. In addition, no bonus in respect of non-financial performance is payable unless 95% of the Group's normalised budgeted profit is achieved.

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 the participants' 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 participant remains employed by the Group and has not tendered his or her resignation prior to the end of the deferral period.

Group performance against budget for the 2012/13 financial year was 102.6%. A bonus of 70% of salary was awarded to Tim O'Toole and 65.8% of salary was awarded to Chris Surch. 50% of their bonus is payable in cash with the remaining 50% in the form of deferred shares. Tim O'Toole waived his bonus.

Subject to approval of the Company's shareholders at a general meeting of the Company to be held on 10 June 2013, following the capital reorganisation announcement on 20 May 2013, the Remuneration Committee determined that pursuant to the rules of the EABP, a standard rights issue adjustment formula would be applied to adjust the outstanding options and/or awards granted under this scheme.

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, 2010 and 2011 awards were set out in previous Directors' remuneration reports.

In respect of the portion of the 2012 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 2012 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. The TSR comparator group for 2012 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 the median of the comparator group.

As with the previous awards, the foregoing vesting targets for the 2012 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 2010 award at 31 March 2013, the Committee determined at a meeting on 13 May 2013 that neither the EPS nor the TSR targets had been met and accordingly the award has lapsed. The awards granted in 2008 and 2009 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.

Following the capital reorganisation which was announced on 20 May 2013 the Committee decided to defer making any awards until after the Company announces its half year results in November 2013 and as set out in the Chairman's letter, to the extent required, shareholders will be consulted in advance about any changes that relate to the structure of the LTIP and changes to the performance conditions.

Subject to approval of the Company's shareholders at a general meeting of the Company to be held on 10 June 2013, following the capital reorganisation announcement on 20 May 2013, the Remuneration Committee determined that pursuant to the rules of the LTIP, a standard rights issue adjustment formula would be applied to adjust the outstanding options and/or awards granted under this scheme.

Share Schemes

Executive Share Option Scheme (ESOS)

The Company operated an ESOS up to June 2004 for Executive Directors and other senior management. In common with other large companies the Company did not grant any further awards to Executive Directors or senior management under the ESOS after 2004.

Subject to approval of the Company's shareholders at a general meeting of the Company to be held on 10 June 2013, following the capital reorganisation announcement on 20 May 2013, the Remuneration Committee determined that pursuant to the rules of the ESOS, and subject to HMRC approval, a standard rights issue adjustment formula would be applied to adjust the remaining outstanding options previously granted under this scheme.

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.

Subject to approval of the Company's shareholders at a general meeting of the Company to be held on 10 June 2013, following the capital reorganisation announcement on 20 May 2013, the Remuneration Committee determined that pursuant to the rules of the SAYE and subject to approval of HMRC, a standard rights issue adjustment formula would be applied to adjust the outstanding options granted under this scheme.

Buy As You Earn (BAYE) Scheme

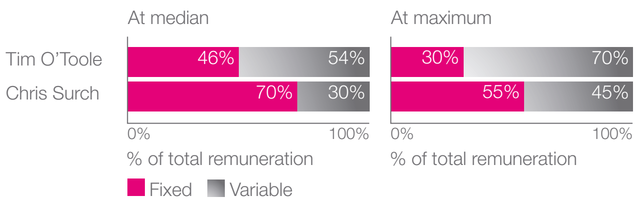
The Company operates a Share Incentive Plan under the title 'Buy As You Earn'. The scheme, which is open to all UK employees of the Group, enables employees (including the Executive Directors) to purchase partnership shares from their gross income (before income tax and National Insurance deductions).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

Retirement benefits

Tim O'Toole is the only Executive Director who is a member of a defined benefit Group pension scheme. His dependants are eligible for dependants' pensions. Whilst Chris Surch is not a member of the defined benefit scheme or the Group SIPP he receives a pension allowance equal to 20% of his basic salary. Both Executive Directors' dependants will receive payment of a lump sum in the event of death in service. Further details are set out on page 71.

Proportion of fixed and variable pay for Executive Directors 2013

A significant proportion of Executive Directors' potential remuneration is performance related. This comprises annual bonuses under the EABP and in the case of Tim O'Toole, long term incentives under the LTIP. The fixed proportion of their overall remuneration comprises base salary and pension allowance. For Tim O'Toole achieving median performance, performance related pay would represent almost 54% of total remuneration. If performance were such that the maximum award achievable under each variable incentive was paid, performance related pay would represent approximately 70% of total remuneration. Chris Surch joined as Group Finance Director after the 2012 LTIP awards had been granted and therefore only participated in the EABP. At median performance, performance related pay would represent 30% of his total remuneration. At maximum performance related pay would represent 45% of total remuneration.



Shareholding guidelines

Following the establishment of the LTIP in 2008, shareholding guidelines for Executive Directors were introduced. These require 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.

As at 31 March 2013 Tim O'Toole had a beneficial interest in 148,438 ordinary shares and it is anticipated that he will exceed the shareholding guidelines at the end of the five year period. Chris Surch had a beneficial interest in 30,534 ordinary shares.

Service agreements

It is the Company's policy to restrict notice periods for Executive Directors to a maximum of 12 months. Tim O'Toole's service agreement, which is dated 25 January 2011, includes a notice period of 12 months by either party. Chris Surch's service agreement, dated 1 September 2012, includes a notice period of 6 months by either party. Under both service agreements, 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.

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 is not re-appointed at a meeting of shareholders where he 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 below. There will be no increase in such fees for the financial year that commenced on 1 April 2013.

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 2013[2] £'000	Pension allowance 2013 £'000	Compensatory payment 2013 £'000	Cash bonus 2013 £'000	Benefits in kind[1] 2013 £'000	Fees 2013 £'000	Total 2013 £'000	Total 2012 £'000
Executive Directors								
Tim O'Toole	846	133	–	–	46	–	1,025	1,055
Chris Surch (appointed 1 September 2012)	263	53	237[3]	86	1	–	640	–
Non-Executive Directors								
Martin Gilbert	–	–	–	–	–	191	191	191
Mick Barker[4]	53	–	–	–	–	38	91	20
David Begg	–	–	–	–	–	60	60	53
Colin Hood	–	–	–	–	–	50	50	50
John Sievwright	–	–	–	–	–	60	60	60
Brian Wallace (appointed 1 August 2012)	–	–	–	–	–	33	33	–
Jim Winestock (appointed 1 August 2012)	–	–	–	–	–	33	33	–
Total	1,162	186	237	86	47	465	2,183	1,429

1 The Executive Directors received the following non-cash benefits in the year: Tim O'Toole – £12,000 car allowance, £17,771 US private medical insurance for himself and spouse and £16,065 reimbursement of advisory fees (principally relating to taxation in the US and UK). Chris Surch – £768 UK private medical insurance for himself and spouse.

2 Tim O'Toole and Chris Surch will receive no salary increase for 2013/14.

3 As a result of Chris Surch resigning from his role as Group Finance Director at Shanks Group plc he forfeited an annual cash bonus for the financial year 2011/12 of £237,958 that would otherwise have been payable. This has been confirmed in writing by the CEO of Shanks Group plc and the cash payment was instead paid by the Group on a comparable basis.

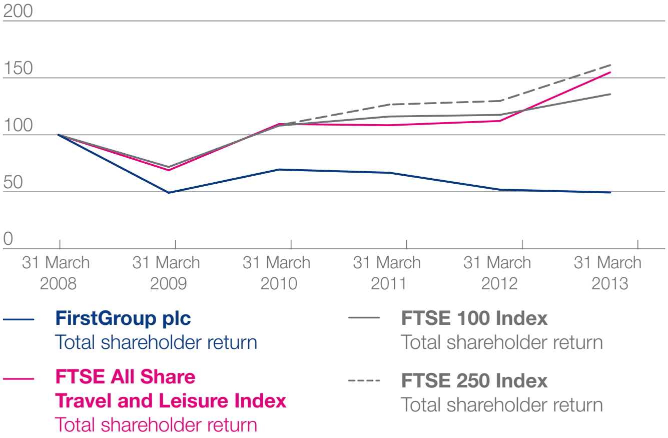
4 Mick Barker's earnings from the Group as an employee, including his fee as First Capital Connect (FCC) Employee Director, are included. In addition he received a FCC Olympic Bonus of £500. His earnings from the Group for the period from the date of his appointment as a Director on 1 January 2012 up to 31 March 2012, including his fee from FCC as Employee Director, which was omitted from the 2012 Annual Report, are included in the 2012 total.

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 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 2012 LTIP award is measured.

Total shareholder return



Source: Datastream

Market price of FirstGroup plc shares

The market price of FirstGroup plc shares at 31 March 2013 was 201.10p and the range during the year was 175.7p to 260.50p.

Directors' remuneration

Details of the Directors' remuneration for the year ended 31 March 2013 are set out on pages 68 to 71.

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 on page 68. These include any and all payments for services as a Director of the Company, its subsidiaries or otherwise in connection with the Directors' management of the Group and also include the Group Employee Director's earnings as an employee.

Directors' share awards

The outstanding share awards under the LTIP, deferred share bonus under the EABP 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 (number of shares)	Exercise price (pence)	Date from which exercisable	Expiry date
Mick Barker	SAYE	2008/09	517[2]	–	–	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
		2012/13	–	575	–	–	575	143.92	1.2.16	31.7.16
Tim O'Toole	Deferred share bonus[3]	2011	69,587	–	–	–	69,587	nil	1.4.14	1.4.21
	LTIP[4]	2010	224,996[6]	–	–		224,996	nil	1.4.13	1.4.14
		2011	375,166	–	–	–	375,166	nil	1.4.14	1.4.15
		2012	–	459,246	–	–	459,246	nil	1.4.15	1.4.16
	Retention share award[5]	2011	214,826	–	–	–	214,826	nil	1.11.13	N/A

1 Chris Surch was appointed as Group Finance Director on 1 September 2012. He has yet to be granted options and/or awards under the Employee Share Schemes.
2 Lapsed on 1 August 2012
3 The figure shown represents the number of nil-cost share awards which were granted under the deferred share element of the EABP in respect of FY 2011, with Tim O'Toole electing to take all this bonus in the form of deferred shares. Tim O'Toole waived any bonus for FY 2012 and also for FY 2013. The cash value of the EABP 2013 share award to Chris Surch for FY 2013 was £86,036. This award will take the form of a nil-cost option over shares. The number of share awards will depend on the average of the mid-market price of ordinary shares in the five dealing days from 20 May 2013.
4 The figures shown represent the number of nil-cost share awards which were granted under the LTIP in the relevant financial year.
5 The retention share award will not vest if Tim O'Toole has ceased to be employed by FirstGroup or given notice of his resignation (other than for certain good leaver reasons) by this date. The principal purpose of this retention share award, which was made in a prior year after consultation with a number of FirstGroup's largest institutional shareholders, was the retention of Tim O'Toole as Chief Executive.
6 The Remuneration Committee met on 13 May 2013 and determined that the performance conditions of the LTIP 2010 had not been met. Therefore Tim O'Toole's entitlement under the 2010 LTIP has now lapsed.

Subject to approval of the Company's shareholders at a general meeting of the Company to be held on 10 June 2013 following the capital reorganisation announcement on 20 May 2013, the Remuneration Committee determined that in respect of the EABP, LTIP, SAYE and retention share award, a standard rights issue adjustment formula would be applied to adjust the outstanding options and/or awards under these Schemes.

Retirement benefits

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

Directors	Directors' contributions during the year for relevant defined benefit scheme[1] £	Accrued pension at 31 March 2013[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 2012 £	Transfer value at 31 March 2013 £	Increase in transfer value, less Directors' contributions[1] £
Tim O'Toole	15,417	7,191	2,788	2,665	54,129	85,402	146,347	45,528
Chris Surch[4]	–	–	–	–	–	–	–	–

[1] Only Tim O'Toole participated in a defined benefit pension scheme during the year. The defined benefit Directors' contributions in the table above have been paid via salary sacrifice by the Director with an equivalent contribution being paid directly to the pension scheme by the Company. The Group operates a number of pension schemes. Tim O'Toole participates in a final salary arrangement, restricted through a scheme earnings cap, which is not limited in membership to Executive Directors. This closed to new members in 2011.

[2] The inflation assumption is 2.79% using the annual change in CPI as at February 2013.

[3] The accrued pension at 31 March 2013 for Tim O'Toole is based on the actual final pensionable salary at that date. A three year average of pensionable salary is normally used. As Tim O'Toole has not yet completed three years service, the final pensionable salary has been averaged over two complete years.

[4] Chris Surch is not a member of the defined benefit scheme.

A 'pension allowance' is calculated for each Director as 20% of their basic salary in excess of the scheme earnings cap, or 20% of basic salary for those employed after 1 April 2011. For Tim O'Toole £9,222 was paid into the Group SIPP with £133,092 being paid as a salary supplement. Chris Surch did not participate in the Group SIPP and a salary supplement of £52,500, calculated at 20% of his basic pro rata salary, was paid to him.

This report was approved by the Board of Directors, on the recommendation of the Remuneration Committee, on 20 May 2013 and signed on its behalf by:

Professor David Begg
Chairman of the Remuneration Committee

The Directors have pleasure in submitting their Annual Report and Accounts for the year ended 31 March 2013.

Principal activity
The principal activity of the Group is the provision of passenger transport services principally in the UK and North America together with some minor activities in other European countries including Denmark.

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 16 to 39. Our review of the principal risks and uncertainties of the business is set out on pages 46 to 51.

Results and dividends
The results for the year are set out in the consolidated income statement on page 76. The Directors are not recommending payment of a final dividend this year.

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 20 May 2013, there were 482,067,170 ordinary shares of 5p each in issue including 160,779 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 2013 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 at any meeting of the Company.

Details of employee share schemes are set out on pages 65 to 67 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 2012 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 48,000,000 ordinary shares. This authority remains in place until the 2013 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, Chris Surch (appointed 1 September 2012), David Begg, John Sievwright, Colin Hood, Brian Wallace (appointed 1 August 2012), Jim Winestock (appointed 1 August 2012), and Mick Barker. Biographical details of all the serving Directors are set out on pages 52 and 53.

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 63 to 71.

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:

	At 20 May 2013	At 31 March 2013	At 1 April 2012 or date of subsequent appointment
Executive Directors			
Tim O'Toole	150,861	148,438	118,273
Chris Surch	30,534	30,534	–
Non-Executive Directors			
Martin Gilbert	270,214	267,308	186,767
Mick Barker	12,377	11,646	3,368
David Begg	78,426	77,103	28,507
Colin Hood	33,388	32,313	21,860
John Sievwright	65,566	64,666	53,191
Brian Wallace	5,849	5,097	–
Jim Winestock	4,975	4,218	–

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 £10,000 gross of his remuneration each month in the form of shares. Chris Surch purchased 30,534 shares on 7 November 2012.

Details of the Directors' share awards are set out in the Directors' remuneration report on page 70.

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

Amendment of articles of association

Unless expressly specified to the contrary in the articles of the Company, the Company's articles may be amended by a special resolution of the Company's shareholders.

Significant interests

At 20 May 2013, 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
JP Morgan Chase Bank	24,250,189	5.03
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
BlackRock, Inc.	18,108,118	3.76
Norges Bank	15,600,478	3.24
Universities Superannuation Scheme Limited	14,907,952	3.09

Employees

Details of the Group's employment practices can be found in the corporate responsibility section of the report on pages 44 and 45.

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 £366,000 during the year (2012: £254,000). 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 2013, the Group had the equivalent of 36 days' (2012: 40 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 in order to make himself aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information.

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

Forward-looking statements

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

Annual General Meeting

The Annual General Meeting will be held at the Aberdeen Exhibition and Conference Centre, Bridge of Don, Aberdeen, Scotland AB23 8BL on Wednesday 17 July 2013 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 affected by macroeconomic developments, it has 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 (70 days in Scotland) of such modifications. In North America, the First Student and First Transit businesses are 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 a US$1,250m committed revolving banking facility of which US$1,135m 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 2013/14 budget and medium term plans, with due regard for the risks and uncertainties to which the Group is exposed (of which the principal items are set out on pages 46 to 51), 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
20 May 2013

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 judgments 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
20 May 2013

Chris Surch
Group Finance Director
20 May 2013

Consolidated income statement
For the year ended 31 March

		2013[1]			2012		
	Notes	Underlying results[2] £m	Adjustments[3] £m	Total £m	Underlying results[2] £m	Adjustments[3] £m	Total £m
Continuing operations							
Revenue	3,4	6,900.9	–	6,900.9	6,678.7	–	6,678.7
Operating costs before (loss)/profit on disposal of properties		(6,565.5)	(127.0)	(6,692.5)	(6,250.2)	18.5	(6,231.7)
Operating profit before (loss)/profit on disposal of properties		335.4	(127.0)	208.4	428.5	18.5	447.0
Amortisation charges		–	(52.0)	(52.0)	–	(30.9)	(30.9)
Exceptional items		–	(75.0)	(75.0)	–	49.4	49.4
		–	(127.0)	(127.0)	–	18.5	18.5
(Loss)/profit on disposal of properties		–	(2.7)	(2.7)	–	1.0	1.0
Operating profit	4,6	335.4	(129.7)	205.7	428.5	19.5	448.0
Investment income	8	1.8	–	1.8	2.0	–	2.0
Finance costs	8	(164.8)	(5.5)	(170.3)	(159.1)	(11.0)	(170.1)
Profit before tax		172.4	(135.2)	37.2	271.4	8.5	279.9
Tax	9	(34.7)	45.3	10.6	(54.5)	4.4	(50.1)
Profit for the year from continuing operations		137.7	(89.9)	47.8	216.9	12.9	229.8
Discontinued operations							
Loss for the year from discontinued operations	10	–	–	–	(0.3)	(9.2)	(9.5)
Profit for the year		137.7	(89.9)	47.8	216.6	3.7	220.3
Attributable to:							
Equity holders of the parent		129.4	(94.4)	35.0	192.3	3.9	196.2
Non-controlling interests		8.3	4.5	12.8	24.3	(0.2)	24.1
		137.7	(89.9)	47.8	216.6	3.7	220.3
Earnings per share							
Continuing operations							
Basic	11	26.9p	(19.6)p	7.3p	40.0p	2.7p	42.7p
Diluted	11	26.7p	(19.5)p	7.2p	39.8p	2.7p	42.5p
Continuing and discontinued operations							
Basic	11	26.9p	(19.6)p	7.3p	39.9p	0.9p	40.8p
Diluted	11	26.7p	(19.5)p	7.2p	39.7p	0.8p	40.5p

Dividends of £114.0m (2012: £108.8m) were paid during the year. Dividends of £nil (2012: £77.3m) are proposed for approval in respect of the year.

[1] For all businesses excluding UK Rail this year includes 52 weeks compared to 53 weeks last year.

[2] Underlying trading results before items noted in 3 below.

[3] Amortisation charges, ineffectiveness on financial derivatives, exceptional items, (loss)/profit on disposal of properties and discontinued operations and tax thereon.

Consolidated statement of comprehensive income

Year ended 31 March

	2013 £m	2012 £m
Profit for the year	**47.8**	220.3
Other comprehensive income/(expense)		
Derivative hedging instrument movements	**(52.7)**	(36.1)
Deferred tax on derivative hedging instrument movements	**7.6**	13.2
Exchange differences on translation of foreign operations	**103.2**	(10.9)
Actuarial losses on defined benefit pension schemes	**(63.1)**	(185.8)
Deferred tax on actuarial losses on defined benefit pension schemes	**14.4**	51.8
Other comprehensive income/(expense) for the year	**9.4**	(167.8)
Total comprehensive income for the year	**57.2**	52.5
Attributable to:		
Equity holders of the parent	**44.4**	28.4
Non-controlling interests	**12.8**	24.1
	57.2	52.5

Consolidated balance sheet

Year ended 31 March

	Notes	2013 £m	2012 £m	2011 £m
Non-current assets				
Goodwill	13	**1,665.8**	1,599.3	1,608.0
Other intangible assets	14	**281.8**	318.8	348.6
Property, plant and equipment	15	**1,977.6**	2,006.3	2,082.9
Deferred tax assets	26	**53.2**	43.3	30.0
Retirement benefit assets	36	**15.4**	25.2	30.7
Derivative financial instruments	25	**63.3**	72.6	58.1
Investments		**3.2**	7.2	3.2
		4,060.3	4,072.7	4,161.5
Current assets				
Inventories	17	**79.9**	91.0	91.4
Trade and other receivables	18	**641.0**	601.9	555.5
Cash and cash equivalents	21	**682.1**	499.7	388.0
Assets held for sale	19	**44.7**	3.7	4.6
Derivative financial instruments	25	**23.3**	43.5	65.1
		1,471.0	1,239.8	1,104.6
Total assets		**5,531.3**	5,312.5	5,266.1
Current liabilities				
Trade and other payables	20	**1,250.7**	1,261.0	1,129.9
Tax liabilities		**28.7**	21.8	49.0
Financial liabilities – bank loans	22	**–**	69.3	93.5
– bonds	22	**378.6**	73.6	73.3
– obligations under HP contracts and finance leases	23	**62.7**	52.4	42.8
Derivative financial instruments	25	**64.7**	17.1	38.5
		1,785.4	1,495.2	1,427.0
Net current liabilities		**314.4**	255.4	322.4
Non-current liabilities				
Financial liabilities – bank loans	22	**385.4**	426.0	554.9
– bonds	22	**1,468.5**	1,441.0	1,417.1
– obligations under HP contracts and finance leases	23	**355.5**	282.9	209.1
– loan notes	24	**9.7**	9.7	9.7
– senior unsecured loan notes	22	**98.3**	93.3	–
Derivative financial instruments	25	**21.7**	50.1	29.7
Retirement benefit liabilities	36	**263.2**	293.1	273.9
Deferred tax liabilities	26	**63.4**	97.7	93.0
Provisions	27	**260.9**	242.5	300.8
		2,926.6	2,936.3	2,888.2
Total liabilities		**4,712.0**	4,431.5	4,315.2
Net assets		**819.3**	881.0	950.9
Equity				
Share capital	28	**24.1**	24.1	24.1
Share premium	29	**676.4**	676.4	676.4
Hedging reserve	29	**(32.6)**	12.5	35.4
Other reserves	29	**4.6**	4.6	4.6
Own shares		**(1.1)**	(1.1)	(5.0)
Translation reserve	30	**248.9**	145.7	156.6
Retained earnings		**(125.7)**	(3.6)	41.5
Equity attributable to equity holders of the parent		**794.6**	858.6	933.6
Non-controlling interests		**24.7**	22.4	17.3
Total equity		**819.3**	881.0	950.9

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 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
Total comprehensive income for the year	–	–	(45.1)	–	–	103.2	(13.7)	44.4	12.8	57.2
Dividends paid	–	–	–	–	–	–	(114.0)	(114.0)	(10.5)	(124.5)
Share-based payments	–	–	–	–	–	–	5.6	5.6	–	5.6
Balance at 31 March 2013	**24.1**	**676.4**	**(32.6)**	**4.6**	**(1.1)**	**248.9**	**(125.7)**	**794.6**	**24.7**	**819.3**

Consolidated cash flow statement

Year ended 31 March

	Note	2013 £m	2012 £m
Net cash from operating activities	32	**332.7**	475.4
Investing activities			
Interest received		**1.8**	2.0
Proceeds from disposal of property, plant and equipment		**14.7**	57.7
Purchases of property, plant and equipment		**(213.1)**	(170.9)
Disposal of subsidiary/business		**39.2**	5.5
Acquisition of businesses		**–**	(3.4)
Net cash used in investing activities		**(157.4)**	(109.1)
Financing activities			
Dividends paid		**(114.0)**	(108.8)
Dividends paid to non-controlling shareholders		**(10.7)**	(19.0)
Proceeds from bond issue		**325.0**	–
Proceeds from senior unsecured loan notes		**–**	90.2
Drawdowns from bank facilities		**63.3**	2.5
Repayment of bank debt		**(197.8)**	(179.8)
Repayments under HP contracts and finance leases		**(55.8)**	(35.2)
Fees for bank facility amendments and bond issues		**(6.2)**	(2.1)
Net cash flow from financing activities		**3.8**	(252.2)
Net increase in cash and cash equivalents before foreign exchange movements		**179.1**	114.1
Cash and cash equivalents at beginning of year		**499.7**	388.0
Foreign exchange movements		**3.3**	(2.4)
Cash and cash equivalents at end of year per consolidated balance sheet		**682.1**	499.7

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

	2013 £m	2012 £m
Net increase in cash and cash equivalents in year	**179.1**	114.1
(Increase)/decrease in debt and finance leases	**(134.7)**	122.3
Inception of new HP contracts and finance leases	**(125.0)**	(119.3)
Fees capitalised against bank facilities and bond issues	**6.2**	2.1
Net cash flow	**(74.4)**	119.2
Foreign exchange movements	**(63.1)**	(7.7)
Other non-cash movements in relation to financial instruments	**(4.1)**	0.4
Movement in net debt in year	**(141.6)**	111.9
Net debt at beginning of year	**(1,837.5)**	(1,949.4)
Net debt at end of year	**(1,979.1)**	(1,837.5)

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.

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 16 to 39.

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.

2. Significant accounting policies

Basis of accounting

The financial statements have been prepared in accordance with 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 74. The principal accounting policies adopted are set out below.

The figures for the year to 31 March 2013 include the results of the rail businesses for the year to 31 March 2013 and the results of all the other businesses for the 52 weeks ended 30 March 2013. 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.

Total assets split by geographical area at 31 March 2012 have been restated to be consistent with the basis of presentation at 30 September 2012.

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 interests in subsidiaries are identified separately from the Group's equity interest therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of their fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition by acquisition basis. Other non-controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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 acquisitions method. The consideration for each 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. Acquisition-related costs are recognised in the income statement as incurred.

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, with the exception of deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements, liabilities or equity instruments related to the replacement by the Group of an acquiree's share based payment and 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.

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

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.

2. Significant accounting policies continued

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 is recognised as an asset at the date that control is acquired. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units (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 estimated life of the contract (9 to 10 years)
Greyhound brand and trade name – over the estimated 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 'Season ticket 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.

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 opposite).

Benefits received and receivable as an incentive to enter into an operating lease are 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 the functional currency 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.

2. Significant accounting policies continued

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, age and/or infrequency, require separate identification on the face of the income statement to allow a better understanding of the underlying 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.

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.

2. Significant accounting policies continued

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

Capital 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. Capital grants are not recognised until there is a reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

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.

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.

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.

Inventories

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

Financial instruments

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

Financial assets

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

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

2. Significant accounting policies continued

Financial assets are classified into one of four primary categories:

Fair value through profit and loss

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

Held to maturity investments

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

Loans and receivables

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

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

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

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

Available for sale financial assets

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

Financial liabilities and equity

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

Financial liabilities

Bank borrowings

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

Sterling bonds and loan notes

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

Trade payables

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

Derivative financial instruments and hedge accounting

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

The main derivative financial instruments used by the Group are interest rate swaps, fuel swaps, and cross currency interest rate swaps. Such instruments are initially recognised at fair value and subsequently 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.

2. Significant accounting policies continued

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.

Insurance

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

Share-based payments

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

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

Dividend distribution

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

New standards and interpretations not applied

The International Accounting Standards Board and the International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards and interpretations 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 IFRS 7 (December 2011)	Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
IFRS 9	Financial Instruments	1 January 2015
IFRS 10	Consolidated Financial Statements	1 January 2013
IFRS 11	Joint Arrangements	1 January 2013
IFRS 12	Disclosure of Interests in Other Entities	1 January 2013
IFRS 13	Fair Value Measurement	1 January 2013
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
IAS 27 (revised May 2011)	Separate Financial Statements	1 January 2013
IAS 28 (revised May 2011)	Investments in Associates and Joint Ventures	1 January 2013
Amendments to IAS 32 (December 2011)	Offsetting Financial assets and Financial Liabilities	1 January 2014

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.

2. Significant accounting policies continued

Critical accounting judgements and key sources of estimation uncertainty

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

Impairment of intangible assets (including goodwill)

Determining whether goodwill is impaired requires an estimation of the value in use of the 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 £1,665.8m (2012: £1,599.3m; 2011: £1,608.0m) as set out in note 13 and the carrying amount of other intangible assets at the balance sheet date was £281.8m (2012: £318.8m; 2011: £348.6m) as set out in note 14. The remaining useful economic lives of certain contracts were reassessed during the year as set out in note 5. 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 £33m respectively. A 0.1% movement in the inflation rate would impact operating profit and the balance sheet position by approximately £3m and £23m respectively. The net pension deficit as at the balance sheet date was £247.8m (2012: £267.9m; 2011: £243.2m) 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, as at the balance sheet date were £332.6m (2012: £336.0m; 2011: £340.5m) as set out in note 27.

3. Revenue

	2013 £m	2012 £m
Continuing operations		
Services rendered	**6,080.8**	6,028.9
UK Rail franchise subsidy receipts	**504.2**	411.1
UK Rail revenue support	**315.9**	238.7
	6,900.9	6,678.7
Finance income	**1.8**	2.0
Total revenue from continuing operations as defined by IAS 18	**6,902.7**	6,680.7
Discontinued operations		
Services rendered	**–**	5.3
Total revenue from discontinued operations as defined by IAS 18	**–**	5.3
Total revenue as defined by IAS 18	**6,902.7**	6,686.0

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 2013 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 continuing operations	1,503.1	814.6	647.1	1,128.2	2,795.1	12.8	6,900.9
EBITDA[3]	258.8	60.0	80.9	160.3	135.6	(28.6)	667.0
Depreciation	(148.9)	(10.9)	(28.9)	(70.1)	(105.0)	(0.9)	(364.7)
Capital grant amortisation	–	–	–	0.5	32.6	–	33.1
Segment results[3]	109.9	49.1	52.0	90.7	63.2	(29.5)	335.4
Amortisation charges	(43.1)	(3.9)	(3.1)	–	(1.9)	–	(52.0)
Exceptional items	(22.5)	(11.8)	–	(19.8)	(20.9)	–	(75.0)
(Loss)/profit on disposal of properties	0.2	–	(0.2)	(2.7)	–	–	(2.7)
Operating profit[4]	44.5	33.4`	48.7	68.2	40.4	(29.5)	205.7
Investment income							1.8
Finance costs							(164.8)
Ineffectiveness on financial derivatives							(5.5)
Profit before tax							37.2
Tax							10.6
Profit after tax							47.8

Other information	First Student £m	First Transit £m	Greyhound £m	UK Bus £m	UK Rail £m	Group items[1] £m	Total £m
Capital additions	150.8	18.0	51.3	81.4	63.9	4.7	370.1

Balance sheet	First Student £m	First Transit £m	Greyhound £m	UK Bus £m	UK Rail £m	Group items[1] £m	Eliminations[6] £m	Total £m
Total assets	3,551.6	612.9	804.1	641.2	695.7	2,695.2	(3,522.6)	5,478.1
Unallocated corporate items[5]								53.2
Total assets								5,531.3
Liabilities	4,302.8	222.6	502.6	498.0	597.0	2,048.2	(3,522.6)	4,648.6
Unallocated corporate items[5]								63.4
Total liabilities								4,712.0

1 Group items comprise tram operations, central management and other items.
2 For all businesses excluding UK Rail this year includes 52 weeks compared to 53 weeks last year.
3 Underlying.
4 Although the segmental results are used by management to measure performance, statutory operating profit by operating division is also disclosed for completeness.
5 Deferred tax.
6 Eliminations represent intercompany balances including tax balances.

4. Business segments and geographical information continued

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[4]	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[6] £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[5]								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[5]								97.7
Total liabilities								4,431.5

1 Group items comprise tram operations, central management and other items.
2 For all businesses excluding UK Rail the year to 31 March 2012 includes 53 weeks.
3 Underlying.
4 Although the segmental results are used by management to measure performance, statutory operating profit by operating division is also disclosed for completeness.
5 Deferred tax.
6 Eliminations represent intercompany balances including tax balances.

4. Business segments and geographical information continued

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

	2013 £m	2012 £m
Share-based payments	5.6	6.0
Loss on disposal of plant and equipment	4.0	3.8
	9.6	9.8

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	2013 £m	2012 £m
United Kingdom	3,936.1	3,675.9
United States of America	2,439.3	2,482.6
Canada	525.5	520.2
	6,900.9	6,678.7
Revenue – discontinued operations		
Germany	–	5.3
Total revenue – continuing and discontinued operations	6,900.9	6,684.0

The following is an analysis of non-current assets excluding financial instruments, deferred tax and pensions, the carrying amount of segment assets, additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

	Non-current assets excluding financial instruments, deferred tax and pensions		Additions to property, plant & equipment and intangible assets		Carrying amount of segment total assets	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
United Kingdom	784.7	894.3	150.0	110.5	4,504.8	4,440.3
United States of America	2,677.7	2,585.3	180.9	177.0	3,134.6	2,933.2
Canada	466.0	452.0	39.2	38.9	543.3	526.1
Eliminations	–	–	–	–	(2,704.6)	(2,630.4)
Unallocated corporate items	–	–	–	–	53.2	43.3
	3,928.4	3,931.6	370.1	326.4	5,531.3	5,312.5

5. Exceptional items and amortisation charges

Exceptional items and amortisation charges	2013 £m	2012 £m
Disposals		
UK Bus depot sales and closures	**(19.8)**	(10.7)
First Transit FSS disposal and exit from Diego Garcia operations	**(12.6)**	–
	(32.4)	(10.7)
Onerous contracts/impairments		
UK Rail First Great Western contract provision	**(9.9)**	–
UK Rail joint venture provision (DSBFirst)	**(5.0)**	–
First Student onerous contract	**(2.7)**	–
	(17.6)	–
Legal claims		
First Student legal claims	**(19.8)**	–
First Transit legal settlements	**(5.9)**	–
First Transit Diego Garcia insurance claim	**6.7**	–
	(19.0)	–
Other		
UK Bus Pension Scheme changes	**–**	73.3
UK Rail bid costs	**(6.0)**	(10.2)
Competition Commission costs	**–**	(1.9)
Other exceptional items	**–**	(1.1)
	(6.0)	60.1
Total exceptional items	**(75.0)**	49.4
Amortisation charges	**(52.0)**	(30.9)
(Loss)/profit on disposal of properties	**(2.7)**	1.0
Operating profit (charge)/credit	**(129.7)**	19.5
Ineffectiveness on financial derivatives	**(5.5)**	(11.0)
(Loss)/profit before tax	**(135.2)**	8.5
Tax credit	**45.3**	4.4
Loss on disposal of discontinued operations	**–**	(9.2)
Net exceptional items for the year	**(89.9)**	3.7

UK Bus depot sales and closures
UK Bus depot sales and closures relate to measures taken by the Group to rebalance its portfolio in the UK Bus operations, which included selling or closing certain operations. Shortly after the end of the year we announced the agreements to sell all of our London depots with the exception of Dagenham. The principal charge in 2012/13 represents asset impairments and an onerous contract provision for the remaining Dagenham depot.

First Transit FSS disposal and exit from Diego Garcia operations
During the year the Group disposed of the First Support Services business realising a loss on disposal of £7.7m. In addition operating profit to date of disposal of £1.0m has also been treated as part of the overall exceptional charge. The Diego Garcia operations were exited at the end of the year which resulted in a net exceptional charge of £5.9m.

UK Rail First Great Western contract provision
The Group recorded a provision in 2010/11 in respect of the UK Rail First Great Western (FGW) franchise agreement. This provision reflected the Group's best estimate of the likely losses on the franchise over the two years to 31 March 2013, which would arise due to the accelerated write off of assets dedicated to the FGW franchise due to the Group's decision not to exercise its option to extend the franchise agreement for a further three years beyond the original franchise end date. The Group recorded a further provision of £9.9m in 2012/13 due to incremental losses following the DfT exercising the option to extend the franchise by a further seven rail periods to October 2013.

UK Rail joint venture provision
The carrying value of £5.0m of the investment in DSBFirst, a joint venture with a Danish rail operator, was fully written off during the year as current and projected trading indicates that there will be no recovery of this amount at the end of the franchise.

5. Exceptional items and amortisation charges continued

First Student onerous contract
During the year the Group provided a further £2.7m against a loss making contract that was taken on as part of the Laidlaw acquisition undertakings in 2007. This contract is due to expire early in the year to 31 March 2014.

First Student legal claims
During the year, the Group incurred £2.6m of legal costs in defending old contractual claims and other litigations. In addition, the Group provided £17.2m to cover the estimated potential settlement amounts on certain of these historical claims.

First Transit legal settlements
The Group settled certain historical legal claims during the year, principally a contractual dispute from 2009. The Group treated this cost as exceptional due to the size and age of the claims. The Group recognised an exceptional charge of £5.9m in respect of these settlements.

First Transit Diego Garcia insurance claim
The Group settled a historical insurance claim in relation to the Diego Garcia contract in 2012/13 and recognised exceptional income of £6.7m.

UK Bus Pension Scheme changes
UK Bus Pension Scheme changes relate to measures the Group took to mitigate the risk of the pension schemes covering UK Bus employees. As a result of these changes, future pension liabilities of the Group decreased. In 2011/12, the Group linked pension increases to consumer price inflation (CPI) rather than retail price inflation (RPI), which usually shows a higher rate of inflation, and also introduced a pensionable pay cap, along with lower pension accrual rates. As a result of these changes, future pension liabilities of the Group decreased in 2011/12, and the Group realised a one-off exceptional gain of £73.3m.

UK Rail bid costs
The Group's net UK Rail bid costs in the year represented franchise bid costs for all bids, less amounts recovered or recoverable from the DfT in respect of the InterCity West Coast franchise bid. The Group incurred UK Rail bid costs in both 2012/13 and 2011/12 in connection with the preparation of the InterCity West Coast franchise bid as well as bids for Great Western, Thameslink and Essex Thameside rail franchises.

Competition Commission costs
Competition Commission (CC) costs relate to costs incurred by the Group in 2011/12 in responding to an investigation by the CC into the UK local bus market. The CC issued their final report in December 2011.

Other exceptional items
Other exceptional items include principally costs incurred in effecting the changes to the UK Bus Pension Scheme in 2011/12 described above.

Amortisation charges
The charge for the year was £52.0m (2012: £30.9m) with the increase mainly due to a higher level of contract amortisation at First Student as a result of a reassessment of the remaining useful economic lives of the contracts acquired with the Laidlaw acquisition. Previously these contracts were being amortised over 20 years but are now being amortised over 10 years. As a result of this, the income statement charge increased by £24.8m during the year.

(Loss)/profit on disposal of properties
During the year the Group realised £9.7m (2012: £40.3m) on the disposal of selected properties predominantly in Greyhound and UK Bus operations. These resulted in a net loss on disposal of £2.7m (2012: profit £1.0m).

Ineffectiveness on financial derivatives
Due to the ineffective element and undesignated fair value movements on financial derivatives there was a £5.5m non-cash charge (2012: £11.0m) 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 2013 to 2015.

Tax on exceptional items and amortisation charges
The tax credit as a result of these exceptional items was £43.3m (2012: £0.4m). In addition there was a one-off deferred tax credit of £2.0m (2012: £4.0m) as a result of the reduction in the UK corporation tax rate from 24% to 23% (2012: 26% to 24%).

6. Operating profit

Operating profit has been arrived at after charging/(crediting):	2013 £m	2012 £m
Depreciation of property, plant and equipment (note 15)	**364.7**	328.1
Operating lease charges (note 34)	**816.0**	683.2
Amortisation charges (note 14)	**52.0**	30.9
Capital grant amortisation	**(33.1)**	(13.7)
Cost of inventories recognised as an expense	**745.6**	756.0
Staff costs (note 7)	**2,870.1**	2,872.2
Auditor's remuneration for audit services (see below)	**1.5**	1.5
UK Rail franchise payments	**663.5**	520.5
Other operating costs[1]	**1,212.2**	1,053.0
	6,692.5	6,231.7

[1] Includes £82.6m (2012: £106.3m) received or receivable from government bodies in respect of bus service operator grants and fuel duty rebates.

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:

	2013 £m	2012 £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 services	**0.2**	–
Other taxation advisory services	**0.1**	0.1
Total non-audit fees	**0.6**	0.4

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 59. No services were provided pursuant to contingent fee arrangements.

7. Staff costs

	2013 No.	2012 No.
The average monthly number of employees (including Executive Directors) was:		
Operational	**113,916**	118,072
Administration	**6,559**	6,633
	120,475	124,705

	2013 £m	2012 £m
The aggregate remuneration (including Executive Directors) comprised:		
Wages and salaries	**2,618.5**	2,617.7
Social security costs	**217.2**	218.1
Other pension costs (note 36)	**34.4**	36.4
	2,870.1	2,872.2

Wages and salaries include a charge in respect of share-based payments of £5.6m (2012: £6.0m).

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 63 to 71 and form part of these audited financial statements.

8. Investment income and finance costs

	2013 £m	2012 £m
Investment income		
Bank interest receivable	**(1.8)**	(2.0)
Finance costs		
Bonds	**97.7**	92.6
Bank borrowings	**31.8**	34.3
Senior unsecured loan notes	**4.1**	3.9
Loan notes	**1.0**	1.0
Finance charges payable in respect of HP contracts and finance leases	**10.7**	8.4
Notional interest on long term provisions	**19.5**	18.9
Finance costs before exceptional items	**164.8**	159.1
Hedge ineffectiveness on financial derivatives	**5.5**	11.0
	170.3	170.1
Net finance costs	**168.5**	168.1

Finance costs are stated after charging fee expenses of £3.3m (2012: £4.1m). There was no interest capitalised into qualifying assets in either the year ended 31 March 2012 or 31 March 2013.

9. Tax on profit on ordinary activities

	2013 £m	2012 £m
Current tax	**10.6**	(5.3)
Deferred tax (note 26)	**(21.2)**	55.4
Total tax (credit)/charge	**(10.6)**	50.1

UK corporation tax is calculated at 24% (2012: 26%) 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:

	2013 £m	2013 %	2012 £m	2012 %
Profit before tax	**37.2**	**100.0**	279.9	100.0
Tax at the UK corporation tax rate of 24% (2012: 26%)	**8.9**	**24.0**	72.8	26.0
Tax effect of expenses that are not deductible in determining taxable profit	**7.0**	**18.8**	4.7	1.7
Reduced tax in subsidiaries operating in other jurisdictions	**(21.9)**	**(58.9)**	(12.5)	(4.5)
Impact of reduction in UK tax rate on current years deferred tax	**0.2**	**0.5**	(2.3)	(0.8)
Impact of reduction in UK tax rate on prior years deferred tax	**(2.0)**	**(5.4)**	(4.0)	(1.4)
Adjustments to tax in respect of prior years	**(2.8)**	**(7.5)**	(8.6)	(3.1)
Tax (credit)/charge and effective tax rate for the year on continuing operations	**(10.6)**	**(28.5)**	50.1	17.9

In addition to the amount charged/(credited) to the income statement, deferred tax relating to share-based payments £nil (2012: £0.6m), actuarial gains/(losses) £(14.4)m (2012: £(51.8)m) and cash flow and net investment hedges £(7.6)m (2012: £(13.2)m), amounting to a credit of £(22.0)m (2012: credit £(64.4)m) has been taken directly to equity in accordance with IAS 12.

10. Discontinued operations

On 30 September 2011 the Group disposed of FirstGroup Deutschland GmbH. As a consequence, the results of this business have been classified as discontinued operations, as detailed below.

	2013 £m	2012 £m
Revenue	–	5.3
Operating costs	–	(5.6)
Loss before tax	–	(0.3)
Attributable tax expense	–	–
Loss for the year from discontinued operations	–	(0.3)
Loss on disposal of discontinued operations	–	(9.2)
Net loss attributable to discontinued operations	–	(9.5)

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

During the year, discontinued operations contributed £nil (2012: £0.6m) to the Group's net operating cash flows, paid £nil (2012: £nil) in respect of investing activities and paid £nil (2012: £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 £35.0m (2012: £196.2m) by the weighted average number of ordinary shares of 481.7m (2012: 481.4m). 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.

	2013 Number m	2012 Number m
Weighted average number of shares used in basic calculation	481.7	481.4
SAYE share options	0.2	0.3
Executive share options	2.3	2.4
	484.2	484.1

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

	2013		2012	
	£m	EPS (p)	£m	EPS (p)
Basic profit/EPS from continuing operations	35.0	7.3	205.7	42.7
Basic profit/EPS from discontinued operations	–	–	(9.5)	(1.9)
Basic profit/EPS	35.0	7.3	196.2	40.8
Amortisation charges[1]	51.8	10.7	30.7	6.4
Ineffectiveness on financial derivatives	5.5	1.1	11.0	2.2
Exceptional items	75.0	15.6	(49.4)	(10.3)
Non-controlling interests on exceptional items	4.7	1.0	–	–
Loss/(profit) on disposal of properties	2.7	0.6	(1.0)	(0.2)
Business disposals	–	–	9.2	1.9
Tax effect of above adjustments	(43.3)	(9.0)	(0.4)	(0.1)
Deferred tax credit due to change in UK corporation tax rate	(2.0)	(0.4)	(4.0)	(0.8)
Underlying profit/EPS	129.4	26.9	192.3	39.9
Underlying profit/EPS from discontinued operations	–	–	0.3	0.1
Underlying profit/EPS from continuing operations	129.4	26.9	192.6	40.0

[1] Amortisation charges of £52.0m per note 14 less £0.2m (2012: £30.9m less £0.2m) attributable to equity non-controlling interests.

11. Earnings per share (EPS) continued

Diluted EPS	2013 pence	2012 pence
Continuing operations		
Basic	**7.2**	42.5
Underlying	**26.7**	39.8
Continuing and discontinued operations		
Basic	**7.2**	40.5
Underlying	**26.7**	39.7

12. Dividends

	2013 £m	2012 £m
Final dividend per share paid for the year ended 31 March 2012 of 16.05p (2011: 15.0p)	**77.3**	72.2
Interim dividend per share paid for the year ended 31 March 2013 of 7.62p (2012: 7.62p)	**36.7**	36.6
Amounts recognised as distributions to equity holders in the year	**114.0**	108.8
Proposed final dividend per share for the year ended 31 March 2013 of nil p (2012: 16.05p)	**–**	77.3

There is no proposed final dividend for this year.

13. Goodwill

	2013 £m	2012 £m	2011 £m
Cost			
At 1 April	**1,604.3**	1,613.0	1,754.9
Additions	**–**	2.9	2.3
Disposals	**(11.5)**	(11.3)	(14.2)
Foreign exchange movements	**77.0**	(0.3)	(130.0)
At 31 March	**1,669.8**	1,604.3	1,613.0
Accumulated impairment losses			
At 1 April	**5.0**	5.0	–
Impairment losses for the year (recorded in exceptional items)	**4.0**	–	5.0
Disposals	**(5.0)**	–	–
At 31 March	**4.0**	5.0	5.0
Carrying amount			
At 31 March	**1,665.8**	1,599.3	1,608.0

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:

	2013 £m	2012 £m	2011 £m
Carrying amount			
First Student	**1,081.4**	1,029.6	1,027.5
First Transit	**254.0**	247.3	246.7
Greyhound	**239.5**	227.4	226.9
UK Bus	**85.3**	89.4	95.2
UK Rail	**5.6**	5.6	5.6
Germany	**–**	–	6.1
	1,665.8	1,599.3	1,608.0

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 2013/14 and Five Year Plan projections up to 2016/17 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 2017/18 are extrapolated using estimated growth rates of 2.5% (2012: 2.5%) for the United Kingdom and 3.0% (2012: 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% (2012: 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]	1,553.7	287.1	354.6	248.3	84.0
Headroom	258.9	431.6	687.7	715.6	884.8
Value in use	1,812.6	718.7	1,042.3	963.9	968.8
Headroom after increasing discount rate by 1.0%	79.4	362.0	582.7	616.9	782.9
Headroom after a 1.0% reduction in assumed growth rates	185.0	403.1	645.5	675.6	842.3
Headroom after a 1.0% reduction in margin	85.3	337.5	602.6	614.3	595.9

[1] Net assets including goodwill above but excluding intercompany balances.

The First Student margin would need to fall in excess of 1.5% 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 further impairment to any of the CGUs.

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14. Other intangible assets

	Customer contracts £m	Greyhound brand and trade name £m	Rail franchise agreements £m	Total £m
Cost				
At 1 April 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
Foreign exchange movements	19.1	3.0	–	22.1
At 31 March 2013	**400.3**	**64.8**	**57.7**	**522.8**
Amortisation				
At 1 April 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
Charge for year	47.0	3.1	1.9	52.0
Foreign exchange movements	6.3	0.8	–	7.1
At 31 March 2013	**167.6**	**18.3**	**55.1**	**241.0**
Carrying amount				
At 31 March 2013	**232.7**	**46.5**	**2.6**	**281.8**
At 31 March 2012	266.9	47.4	4.5	318.8
At 31 March 2011	291.4	50.7	6.5	348.6

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 £2.0m (2012: £3.3m)). During 2012 the First TransPennine Express 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 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
Additions in the year	12.6	249.3	108.2	370.1
Disposals	(22.5)	(96.6)	(25.7)	(144.8)
Reclassified as held for sale	(25.5)	(96.7)	(3.3)	(125.5)
Foreign exchange movements	12.7	89.6	10.7	113.0
At 31 March 2013	**484.6**	**2,769.3**	**756.2**	**4,010.1**
Accumulated depreciation and impairment				
At 1 April 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
Charge for year	11.3	217.9	135.5	364.7
Disposals	(2.7)	(92.8)	(17.3)	(112.8)
Reclassified as held for sale	(4.7)	(64.7)	(1.8)	(71.2)
Impairments (recorded in exceptional items)	5.6	3.7	–	9.3
Foreign exchange movements	2.1	42.5	6.9	51.5
At 31 March 2013	**95.1**	**1,400.3**	**537.1**	**2,032.5**
Carrying amount				
At 31 March 2013	**389.5**	**1,369.0**	**219.1**	**1,977.6**
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

An amount of £14.3m (2012: £17.1m; 2011: £13.4m) in respect of assets under construction is included in the carrying amount of property, plant and equipment.

At 31 March 2013 the Group had entered into contractual capital commitments amounting to £167.6m (2012: £161.6m; 2011: £148.8m), principally representing buses ordered in the United Kingdom and North America.

15. Property, plant and equipment continued

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

	2013 £m	2012 £m	2011 £m
Passenger carrying vehicle fleet – cost	607.3	494.1	349.2
– depreciation	(128.4)	(113.8)	(80.9)
Net passenger carrying vehicle fleet	478.9	380.3	268.3
Other plant and equipment – cost	4.4	4.4	4.4
– depreciation	(2.7)	(2.6)	(2.5)
Net other plant and equipment	1.7	1.8	1.9
Total net book value	480.6	382.1	270.2

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 133.

17. Inventories

	2013 £m	2012 £m	2011 £m
Spare parts and consumables	79.7	90.6	91.1
Property development work in progress	0.2	0.4	0.3
	79.9	91.0	91.4

In the opinion 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 £8.2m (2012: £8.0m; 2011: £8.2m).

18. Trade and other receivables

	2013 £m	2012 £m	2011 £m
Amounts due within one year			
Trade receivables	340.2	299.8	319.4
Provision for doubtful receivables	(3.2)	(4.5)	(7.5)
Other receivables	52.4	72.8	53.4
Other prepayments	116.6	112.1	100.9
Accrued income	135.0	121.7	89.3
	641.0	601.9	555.5

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 £641.0m (2012: £601.9m; 2011: £555.5m), cash and cash equivalents of £682.1m (2012: £499.7m; 2011: £388.0m) and derivative financial instruments of £86.6m (2012: £116.1m; 2011: £123.2m).

The Group's maximum exposure to credit risk for all financial assets at the balance sheet date was £1,409.7m (2012: £1,217.7m; 2011: £1,066.7m). The exposure is spread over a large number of unconnected counterparties and the maximum single concentration with any one counterparty was £51.3m (2012: £81.1m; 2011: £53.0m) 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 £3.2m (2012: £4.5m; 2011: £7.5m).

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 counter-party 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:

	2013 £m	2012 £m	2011 £m
Ageing past due but not impaired trade receivables			
Less than 30 days	32.9	31.2	39.4
30 – 90 days	9.6	12.5	9.9
90 – 180 days	3.8	7.9	7.5
180+ days	1.7	1.9	1.8
Total	48.0	53.5	58.6

	2013 £m	2012 £m	2011 £m
Movement in the provision for doubtful receivables			
Balance at the beginning of the year	4.5	7.5	6.5
Amounts written off during the year	(3.9)	(3.4)	(2.0)
Amounts recovered during the year	(0.3)	(0.5)	(0.2)
Increase in allowance recognised in the income statement	2.8	0.9	3.4
Foreign exchange movements	0.1	–	(0.2)
Balance at the end of the year	3.2	4.5	7.5

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

19. Assets held for sale

	2013 £m	2012 £m	2011 £m
Assets held for sale	44.7	3.7	4.6

The current year balance comprises mainly the fixed assets of the eight London depots which we announced the sale of on 9 April 2013.

There are also 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 on to the ‘for sale’ list. The value at each balance sheet date represents management’s best estimate of their resale value. There are no liabilities associated with these held for sale assets.

20. Trade and other payables

	2013 £m	2012 £m	2011 £m
Amounts falling due within one year			
Trade payables	402.0	397.6	312.2
Other payables	184.3	169.1	113.9
Accruals	509.1	547.5	573.1
Deferred income	82.1	78.7	67.4
Season ticket deferred income	73.2	68.1	63.3
	1,250.7	1,261.0	1,129.9

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 36 days (2012: 40 days; 2011: 33 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

	2013 £m	2012 £m	2011 £m
Cash and cash equivalents	**682.1**	499.7	388.0

The fair value of cash and cash equivalents approximates to the carrying value. Cash and cash equivalents includes ring-fenced cash of £288.2m (2012: £335.7m; 2011: £298.6m). The most significant ring-fenced cash balances are held by the Group's UK Rail subsidiaries. Under the terms of the Rail franchise agreements, cash can only be distributed by these subsidiaries up to the lower of the amount of their retained profits or the amount determined by prescribed liquidity ratios. The ring-fenced cash represents cash which is not available for distribution and any additional amounts required to satisfy the liquidity ratios at the balance sheet date. Ring-fenced cash balances of £14.4m (2012: £12.5m; 2011: £14.8m) are held outside the UK Rail subsidiaries.

22. Financial liabilities – borrowings

	2013 £m	2012 £m	2011 £m
Current financial liabilities			
Short term bank loans	**–**	69.3	93.5
	–	69.3	93.5
Bond 6.875% (repayable 2013)	**319.8**	20.3	20.2
Bond 8.125% (repayable 2018)	**12.8**	12.9	12.8
Bond 6.125% (repayable 2019)	**3.0**	3.0	3.0
Bond 8.75% (repayable 2021)	**30.1**	30.2	30.1
Bond 5.25% (repayable 2022)	**5.7**	–	–
Bond 6.875% (repayable 2024)	**7.2**	7.2	7.2
	378.6	73.6	73.3
HP contracts and finance leases (note 23)	**62.7**	52.4	42.8
Total current financial liabilities	**441.3**	195.3	209.6
Non-current financial liabilities			
Syndicated and bilateral unsecured bank loans	**385.4**	426.0	554.9
	385.4	426.0	554.9
Bond 6.875% (repayable 2013)	**–**	298.5	298.0
Bond 8.125% (repayable 2018)	**297.1**	296.7	296.4
Bond 6.125% (repayable 2019)	**305.4**	299.7	276.7
Bond 8.75% (repayable 2021)	**347.4**	347.1	347.0
Bond 5.25% (repayable 2022)	**319.1**	–	–
Bond 6.875% (repayable 2024)	**199.5**	199.0	199.0
	1,468.5	1,441.0	1,417.1
HP contracts and finance leases (note 23)	**355.5**	282.9	209.1
Loan notes (note 24)	**9.7**	9.7	9.7
Senior unsecured loan notes	**98.3**	93.3	–
Total non-current financial liabilities	**2,317.4**	2,252.9	2,190.8
Total liabilities	**2,758.7**	2,448.2	2,400.4
Gross borrowings repayment profile			
Within one year or on demand	**441.3**	195.3	209.6
Between one and two years	**122.3**	407.0	216.0
Between two and five years	**637.7**	564.9	796.1
Over five years	**1,557.4**	1,281.0	1,178.7
	2,758.7	2,448.2	2,400.4

22. Financial liabilities – borrowings continued

Fair value of bonds and senior unsecured loan notes issued

	Par value £m	Interest payable	Month	**2013 Fair value £m**	2012 Fair value £m	2011 Fair value £m
Bond 6.875% (repayable 2013)	300.0	Annually	April	**320.3**	330.8	339.2
Bond 8.125% (repayable 2018)	300.0	Annually	September	**374.5**	371.4	361.6
Bond 6.125% (repayable 2019)	250.0	Annually	January	**277.6**	272.1	260.5
Bond 8.75% (repayable 2021)	350.0	Annually	April	**473.9**	462.5	455.7
Bond 5.25% (repayable 2022)	325.0	Annually	November	**346.6**	–	–
Bond 6.875% (repayable 2024)	200.0	Annually	September	**238.0**	226.2	221.3
	$m					
Senior unsecured loan notes	150.0	Semi-annually	April & October	**110.2**	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:

	2013	2012	2011
Bank overdraft	**LIBOR + 1%**	LIBOR + 1%	LIBOR + 1%
Bank borrowings	**LIBOR + 1.5% to 1.75%**	LIBOR + 0.75% to 1.65%	LIBOR + 0.55% to 1.6%
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 2022	**5.49%**	–	–
Bond 2024	**6.95%**	6.95%	6.95%
Senior unsecured loan notes	**4.39%**	4.39%	–
HP contracts and finance leases	**LIBOR + 0.6% up to average fixed rate of 4.0%**	LIBOR up to average fixed rate of 4.1%	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 amount of gross borrowings by currency	**2013 £m**	2012 £m	2011 £m
Sterling	**1,965.6**	1,625.1	1,603.1
Euros	**11.8**	11.7	29.0
US Dollar	**745.1**	677.0	653.1
Canadian Dollar	**36.2**	134.4	115.2
	2,758.7	2,448.2	2,400.4
Currency swaps			
US Dollar	**450.0**	450.0	700.0
Sterling	**(450.0)**	(450.0)	(700.0)
	2,758.7	2,448.2	2,400.4

22. Financial liabilities – borrowings continued

Maturity of non-current liabilities	Bank debt £m	Finance leases £m	Loan notes £m	Bonds £m	Senior notes £m	Total £m
						2013
Due in more than one year but not more than two years	**49.3**	**63.3**	**9.7**	**–**	**–**	**122.3**
Due in more than two years but not more than five years	**336.1**	**203.3**	**–**	**–**	**98.3**	**637.7**
Due in more than five years	**–**	**88.9**	**–**	**1,468.5**	**–**	**1,557.4**
	385.4	**355.5**	**9.7**	**1,468.5**	**98.3**	**2,317.4**

	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

Borrowing facilities

The Group had £821.6m (2012: £631.8m; 2011: £526.7m) of undrawn committed borrowing facilities as at 31 March 2013. Total bank borrowing facilities at 31 March 2013 stood at £1,302.9m (2012: £1,221.3m; 2011: £1,266.0m) of which £1,259.4m (2012: £1,178.2m; 2011: £1,222.9m) was committed and £43.5m (2012: £43.1m; 2011: £43.1m) 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:

	2013 Minimum payments £m	**2013 Present value of payments £m**	2012 Minimum payments £m	2012 Present value of payments £m	2011 Minimum payments £m	2011 Present value of payments £m
Due in less than one year	**64.5**	**62.7**	54.0	52.4	48.8	42.8
Due in more than one year but not more than two years	**66.9**	**63.3**	54.8	51.9	48.3	43.2
Due in more than two years but not more than five years	**226.9**	**203.3**	173.9	154.7	116.6	106.3
Due in more than five years	**107.3**	**88.9**	92.6	76.3	62.0	59.6
	465.6	**418.2**	375.3	335.3	275.7	251.9
Less future financing charges	**(47.4)**	**–**	(40.0)	–	(23.8)	–
	418.2	**418.2**	335.3	335.3	251.9	251.9

HP lease obligations

Sterling denominated fixed rate leases	**2013**	2012	2011
Sterling fixed rate leases	**£21.0m**	£25.9m	£15.1m
Average remaining lives	**3 years**	3 years	3 years
Effective borrowing rate	**3.06%**	3.45%	3.47%

US Dollar denominated fixed rate leases	**2013**	2012	2011
US Dollar fixed rate leases	**£288.7m**	£214.2m	£146.8m
Average remaining lives	**4 years**	4 years	4 years
Effective borrowing rate	**2.93%**	3.26%	3.98%

Canadian Dollar denominated fixed rate leases	**2013**	2012	2011
Canadian Dollar fixed rate leases	**£20.7m**	£20.5m	£1.7m
Average remaining lives	**4 years**	4 years	1 year
Effective borrowing rate	**3.98%**	4.08%	7.39%

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 £304.1m (2012: £225.8m; 2011: £151.8m).

24. Loan notes

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

	2013 £m	2012 £m	2011 £m
Due in more than one year but not more than two years	**9.7**	9.7	9.7

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 (2012: £8.7m; 2011: £8.7m) are supported by unsecured bank guarantees.

The loan notes have an average effective borrowing rate of 10.1% (2012: 10.1%; 2011: 10.1%) and an average remaining term of 7 years (2012: 8 years; 2011: 9 years) assuming that the holders do not request redemption. The fair value of the loan notes has been determined to be £15.0m (2012: £15.8m; 2011: £15.1m). This has been calculated by discounting future cash flows that will arise under the loan notes.

25. Derivative financial instruments

	2013 £m	2012 £m	2011 £m
Derivatives designated and effective as hedging instruments carried at fair value			
Non-current assets			
Cross currency swaps (net investment hedge)	**15.2**	23.2	22.2
Coupon swaps (fair value hedge)	**45.7**	43.8	21.0
Fuel derivatives (cash flow hedge)	**2.4**	5.6	14.9
	63.3	72.6	58.1
Current assets			
Cross currency swaps (net investment hedge)	**3.6**	4.3	4.6
Coupon swaps (fair value hedge)	**13.2**	9.5	6.7
Currency forwards (cash flow hedge)	**–**	–	1.2
Fuel derivatives (cash flow hedge)	**6.5**	29.7	52.6
	23.3	43.5	65.1
Current liabilities			
Interest rate derivatives (cash flow hedge)	**8.1**	8.0	15.0
Cross currency swaps (net investment hedge)	**47.6**	1.2	23.3
Fuel derivatives (cash flow hedge)	**4.8**	3.5	0.1
	60.5	12.7	38.4
Non-current liabilities			
Interest rate derivatives (cash flow hedge)	**11.8**	13.7	1.5
Cross currency swaps (net investment hedge)	**–**	27.1	28.2
Fuel derivatives (cash flow hedge)	**0.8**	0.9	–
	12.6	41.7	29.7
Derivatives classified as held for trading			
Current liabilities			
Interest rate swaps	**4.2**	4.4	0.1
Non-current liabilities			
Interest rate swaps	**9.1**	8.4	–
Total non-current assets	**63.3**	72.6	58.1
Total current assets	**23.3**	43.5	65.1
Total assets	**86.6**	116.1	123.2
Total current liabilities	**64.7**	17.1	38.5
Total non-current liabilities	**21.7**	50.1	29.7
Total liabilities	**86.4**	67.2	68.2

Total cash flow hedges are a liability of £16.6m (2012: asset of £9.2m; 2011: asset of £52.1m). Total fair value hedges are an asset of £58.9m (2012: £53.3m; 2011: £27.7m). Total net investment hedges are a liability of £28.8m (2012: £0.8m; 2011: £24.7m).

During the year £7.7m was debited to the hedging reserve in respect of cash flow hedges (2012: £0.5m debit; 2011: £84.7m 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:

	2013 £m	2012 £m
Finance cost	**(7.1)**	(8.6)
Operating costs	**26.2**	54.7
	19.1	46.1

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

	2013 £m	2012 £m
Gains on hedging instruments in fair value hedges	**5.6**	22.9
Losses on hedged item attributable to hedged risk (Bond 2019) fair value hedges	**(5.6)**	(22.9)
Change in the fair value of derivatives classified as held for trading	**(4.3)**	(12.7)
Hedge ineffectiveness on net investment hedges	**(1.2)**	2.1
Hedge ineffectiveness on cash flow hedges	**–**	(0.4)
	(5.5)	(11.0)

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 2013, the total amount of these facilities stood at £1,259.4m (2012: £1,178.2m; 2011: £1,222.9m), and committed headroom was £821.6m (2012: £631.8m; 2011: £526.7m), in addition to free cash balances of £393.9m (2012: £164.0m; 2011 £89.4m). 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 2013 was 5.4 years (2012: 5.5 years; 2011: 6.1 years).

25. Derivative financial instruments continued

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

2013	On demand £m	< 1 year £m	1 – 2 years £m	2 – 5 years £m	> 5 years £m	Total £m
Bank debt – revolver	–	–	–	23.5	–	23.5
– other	–	–	49.3	312.6	–	361.9
HP contracts and finance leases	–	62.7	63.3	203.3	88.9	418.2
Loan notes	–	–	9.7	–	–	9.7
Senior unsecured loan notes	–	–	–	98.3	–	98.3
Bonds	–	378.6	–	–	1,468.5	1,847.1
Trade payables	402.0	–	–	–	–	402.0
	402.0	441.3	122.3	637.7	1,557.4	3,160.7

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

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

25. Derivative financial instruments continued

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

2013	**< 1 year £m**	**1 – 2 years £m**	**2 – 5 years £m**	**> 5 years £m**	**Total £m**
Interest rate derivatives	**12.3**	**11.6**	**9.5**	**–**	**33.4**
Coupon swaps	**(15.3)**	**(15.3)**	**(45.9)**	**(15.3)**	**(91.8)**
Coupon swaps	**2.1**	**4.1**	**18.9**	**6.3**	**31.4**
Cross currency swaps	**(337.5)**	**(163.1)**	**–**	**–**	**(500.6)**
Cross currency swaps	**381.5**	**147.8**	**–**	**–**	**529.3**
Fuel derivatives	**(1.7)**	**(1.6)**	**–**	**–**	**(3.3)**
	41.4	**(16.5)**	**(17.5)**	**(9.0)**	**(1.6)**

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)

Total amounts payable per the tables are £594.1m (2012: £650.3m; 2011: £1,089.8m). Total amounts receivable per the table are £595.7m (2012: £701.9m; 2011: £1,161.3m). 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.

25. Derivative financial instruments continued

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 2013, 39% (2012: 47%; 2011: 62%) 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.

	2013 £m	2012 £m	2011 £m
Impact on profit after tax	11.8	9.9	9.9
Impact on hedging reserve	2.7	0.4	(0.5)

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 2013 to March 2016. At 31 March 2013 the amount of gross debt that was fixed was in excess of 100% of net debt.

At 31 March 2013, 88% (2012: 81%; 2011: 73%) of gross debt was fixed. This fixed rate protection had an average duration of 5.5 years (2012: 5.7 years; 2011: 6.7 years).

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

Fair value changes in the £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.

	2013 £m	2012 £m	2011 £m
Impact on profit after tax	1.5	(0.9)	(0.8)
Impact on hedging reserve	6.9	8.9	4.6

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)		
	2013 %	2012 %	2011 %	2013 £m	2012 £m	2011 £m	2013 £m	2012 £m	2011 £m
Less than one year	2.38	2.45	2.51	155	94	312	(15.9)	(12.5)	(13.1)
One to two years	2.70	2.38	2.45	507	147	94	(11.2)	(11.4)	(2.6)
Two to five years	3.03	2.81	2.71	263	744	493	(6.2)	(10.7)	(0.9)
More than five years	6.13	6.13	6.13	250	250	250	55.9	59.2	27.7

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.

25. Derivative financial instruments continued

Fuel price risk

The Group purchases diesel fuel on a floating price basis in its UK Bus, UK Rail, US and Canadian bus operations and therefore is exposed to changes in diesel prices, of which the most significant element is crude oil price risk. The Group's policy objective is to maintain a significant degree of fixed price protection in the short term with lower levels of protection over the medium term, so that the businesses affected are protected from any sudden and significant increases and have time to prepare for potentially higher costs, whilst retaining some access for potentially lower costs over the medium term. The Group primarily uses fixed rate swap instruments to achieve significant fixed price certainty. During the year to 31 March 2013, the Group was hedged 82% on fuel price risk.

The Group has also entered into swaps for periods from April 2013 to March 2015 with the majority of these swaps relating to the year to 31 March 2014. 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:

	2013 £m	2012 £m	2011 £m
Impact on profit after tax	**(3.2)**	(4.6)	(1.8)
Impact on hedging reserve	**16.8**	19.2	18.2

Volume at risk for the year to 31 March 2014 is 3.5m (2013: 4.0m) barrels for which 78% 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 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
(Credit)/charge to income	(60.3)	17.8	21.3	(21.2)
Credit to equity	–	(22.0)	–	(22.0)
Foreign exchange movements	7.1	0.9	(9.0)	(1.0)
At 31 March 2013	**175.5**	**3.1**	**(168.4)**	**10.2**

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

	2013 £m	2012 £m	2011 £m
Deferred tax assets	**(53.2)**	(43.3)	(30.0)
Deferred tax liabilities	**63.4**	97.7	93.0
	10.2	54.4	63.0

No deferred tax asset has been recognised in respect of £4m (2012: £5m; 2011: £5m) of capital losses.

27. Provisions

	2013 £m	2012 £m	2011 £m
Insurance claims	**216.2**	218.4	221.0
Legal and other	**40.8**	19.9	26.4
FGW contract provision	**–**	–	48.7
Pensions	**3.9**	4.2	4.7
Non-current liabilities	**260.9**	242.5	300.8

	Insurance claims £m	Legal and other £m	FGW contract provision £m	Pensions £m	Total £m
At 1 April 2012	336.0	24.1	56.9	4.2	421.2
Charged to the income statement	135.1	33.2	9.9	–	178.2
Utilised in the year	(173.1)	(8.1)	(32.9)	(0.3)	(214.4)
Notional interest	19.5	–	–	–	19.5
Foreign exchange movements	15.1	1.6	–	–	16.7
At 31 March 2013	**332.6**	**50.8**	**33.9**	**3.9**	**421.2**
Current liabilities	**116.4**	**10.0**	**33.9**	**–**	**160.3**
Non-current liabilities	**216.2**	**40.8**	**–**	**3.9**	**260.9**
At 31 March 2013	**332.6**	**50.8**	**33.9**	**3.9**	**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

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

The insurance claims provision arises from estimated exposures for incidents occurring prior to balance sheet date. It is anticipated that the majority of such claims will be settled within the next six years. The utilisation of £173.1m (2012: £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 10 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 initial franchise which will end in October 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 10 years.

28. Share capital

	2013 £m	2012 £m	2011 £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 2011, 31 March 2012 and 31 March 2013	**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.

Hedging reserve

The movements in the hedging reserve were as follows:

	2013 £m	2012 £m	2011 £m
Balance at 1 April	**12.5**	35.4	(114.0)
Gains/(losses) recognised:			
Interest rate swaps	**(6.3)**	(20.6)	(5.5)
Currency forwards	**–**	(0.8)	1.2
Cross currency swaps	**(25.9)**	10.5	53.2
Fuel derivatives	**(1.4)**	20.9	89.0
Charged/(credited) to income statement:			
Interest rate swaps	**7.1**	8.6	35.4
Fuel derivatives	**(26.2)**	(54.7)	20.1
Tax on derivative hedging instrument movements	**7.6**	13.2	(44.0)
Balance at 31 March	**(32.6)**	12.5	35.4

Own shares

The number of own shares held by the Group at the end of the year was 283,374 (2012: 692,536; 2011: 1,279,912) FirstGroup plc ordinary shares of 5p each. Of these, 90,075 (2012: 398,587; 2011: 978,505) were held by the FirstGroup plc Employee Benefit Trust, 32,520 (2012: 32,520; 2011: 32,520) by the FirstGroup plc Qualifying Employee Share Ownership Trust and 160,779 (2012: 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 ordinary shares. The market value of the shares at 31 March 2013 was £0.6m (2012: £1.2m; 2011: £4.2m).

Other reserves	Capital redemption reserves £m	Capital reserve £m	Total other reserves £m
At 31 March 2013, 31 March 2012 and 31 March 2011	**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 2013. The capital redemption reserve represents the cumulative par value of all shares bought back and cancelled. The capital reserve arose on acquisitions in 2000. Neither reserve is distributable.

30. Translation reserve

	£m
Balance at 1 April 2011	156.6
Movement for the financial year	(10.9)
At 31 March 2012	145.7
Movement for the financial year	103.2
At 31 March 2013	**248.9**

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	2013 £m	2012 £m	2011 £m
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

The business acquired during the year contributed £nil (2012: £0.4m; 2011: £0.3m) to the Group's net operating cash flows and utilised £nil (2012: £nil; 2011: £nil) for capital expenditure.

The business acquired during the year contributed £nil (2012: £1.1m; 2011: £1.1m) to Group revenue and £nil (2012: £0.4m; 2011: £0.3m) to Group underlying operating profit from date of acquisition to 31 March 2013.

If the acquisitions 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 £nil (2012: £6.1m; 2011: £3.0m) and the Group underlying operating profit from this acquisition attributable to equity holders of the parent would have been £nil (2012: £0.8m; 2011: £0.5m).

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	2013 £m	2012[1] £m	2011 £m
Carrying value of net assets disposed of:			
Goodwill[2]	6.5	11.3	14.2
Property, plant and equipment	17.4	14.7	3.8
Current assets	7.9	1.6	12.0
Cash and cash equivalents	1.8	1.6	–
Deferred tax	–	–	(1.6)
Other liabilities	(1.6)	(0.5)	(10.8)
	32.0	28.7	17.6
Cost of disposal	1.5	2.7	–
(Loss)/profit on disposal	(8.8)	(11.7)	6.7
Satisfied by cash received and receivable	24.7	19.7	24.3

[1] Restated to include the disposal of Northumberland Park.

[2] Goodwill disposed of during 2013 per note 13 includes £5.0m in relation to the exit of the Diego Garcia contract. This goodwill was impaired in full in the year to 31 March 2011.

On 8 March 2013, the Group disposed of the First Shared Services business, which provides military base operations support and facility management services for sale proceeds of $10.2m. In addition, during the year the Group disposed of bus depots in Wigan, Chester/Birkenhead and Redditch/Kidderminster for total sale proceeds of £18m.

On 31 September 2011, the Group disposed of its interest in FirstGroup Deutschland GmbH. The impact of FirstGroup Deutschland GmbH on the Group's results in the current and prior periods is disclosed in note 10.

On 28 May 2010, the Group disposed of its interest in GB Railfreight.

32. Net cash from operating activities

	2013 £m	2012 £m
Operating profit before (loss)/profit on disposal of properties	**208.4**	447.0
Operating profit of discontinued operations	**–**	(0.3)
Adjustments for:		
Depreciation charges	**364.7**	328.1
Capital grant amortisation	**(33.1)**	(13.7)
Amortisation charges	**52.0**	30.9
Impairment charges	**13.3**	–
Share-based payments	**5.6**	6.0
Loss on disposal of property, plant and equipment	**4.0**	3.8
Operating cash flows before working capital	**614.9**	801.8
Decrease in inventories	**10.6**	0.6
(Increase)/decrease in receivables	**(8.2)**	34.0
(Decrease)/increase in payables	**(32.2)**	34.6
Decrease in provisions	**(12.2)**	(77.8)
Defined benefit pension payments in excess of income statement charge	**(94.0)**	(160.4)
Cash generated by operations	**478.9**	632.8
Tax paid	**(6.3)**	(17.7)
Interest paid	**(129.0)**	(130.9)
Interest element of HP contracts and finance leases	**(10.9)**	(8.8)
Net cash from operating activities	**332.7**	475.4

33. Contingent liabilities and post-balance sheet events

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 £566.2m (2012: £532.5m; 2011: £460.2m) and letters of credit for £321.7m (2012: £299.3m; 2011: £316.7m). The performance bonds relate to the North American businesses of £354.7m (2012: £314.2m; 2011: £260.8m) and the UK Rail franchise operations of £211.5m (2012: £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 £67.6m (2012: £76.4m; 2011: £87.5m) to First Greater Western Limited, a £46.0m (2012: £46.0m; 2011: £46.0m) unsecured loan facility to First Capital Connect Limited, a £3.2m (2012: £3.2m; 2011: £3.2m) unsecured loan facility to First/Keolis TransPennine Limited, and a £13.6m (2012: £13.6m; 2011: £13.6m) unsecured loan facility to First ScotRail Limited. Under these facilities, £26.6m (2012: £35.4m; 2011: £46.5m) was drawn at 31 March 2013 by First Greater Western Limited and £10.0m (2012: £25.0m; 2011: £25.0m) was drawn at 31 March 2013 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 £822.5m (2012: £780.8m; 2011: £779.2m) syndicated unsecured bank facility and to certain bilateral bank facilities for £436.9m (2012: £397.3m; 2011: £443.7m) and to senior unsecured loan notes for £98.3m (2012: £93.3m; 2011: nil).

The Group has issued guarantees of £7.0m (2012: £7.0m; 2011: £11.0m) to Danish and Swedish authorities in respect of DSBFirst.

The Group is party to legal proceedings and claims which arise in the normal course of business, including but not limited to employment and safety claims. The Group takes legal advice as to the likelihood of success of claims and counterclaims. No provision is made where due to inherent uncertainties, no accurate quantification of any cost, or timing of such cost, which may arise from any of the legal proceedings can be determined.

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

On 9 April 2013, the Group announced the sale of five of its London bus depots (and associated assets, including plant and vehicles) (the 'Business') to Metroline Limited, an existing London bus operator. The purchase price for the Business, payable on completion, is a gross cash consideration of £57.5m. The Business had a gross asset value as at 31 March 2013 of £21.3m, and earning before interest and tax for the year ended March 2013 were £7.0m. In addition on 9 April 2013 the Group announced the sale of a further three London bus depots to Transit Systems Group for a gross cash consideration of £21.3m. The proceeds of the sale of these depots (including the Business) will contribute to the Group's plan to recover performance in its UK Bus division.

33. Contingent liabilities and post-balance sheet events continued

On 15 April 2013 the £300m Sterling April 2013 bond was repaid in full.

On 20 May 2013 the Group announced a c.£615m rights issue which will remove the constraints of the current balance sheet and enable the business to continue to invest for future returns while reducing leverage to sustainable levels.

34. Operating lease arrangements

	2013 £m	2012 £m	2011 £m
Minimum lease payments made under operating leases recognised in the income statement for the year:			
Plant and machinery	**21.9**	22.9	22.6
Track and station access	**525.5**	403.5	380.0
Hire of rolling stock	**200.0**	195.7	169.8
Other assets	**68.6**	61.1	68.6
	816.0	683.2	641.0

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:

	2013 £m	2012 £m	2011 £m
Within one year	**866.2**	814.4	631.9
In the second to fifth years inclusive	**557.8**	957.7	1,635.0
After five years	**131.0**	121.6	107.3
	1,555.0	1,893.7	2,374.2

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 £957.9m (2012: £1,178.2m; 2011: £1,533.2m). They also have contracts under which they lease rolling stock of £245.1m (2012: £366.7m; 2011: £492.0m).

35. Share-based payments

Equity-settled share option plans

The Group recognised total expenses of £5.6m (2012: £6.0m) 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 2008 Options Number	SAYE Dec 2009 Options Number	SAYE Dec 2010 Options Number	SAYE Dec 2011 Options Number	SAYE Dec 2012 Options Number
Outstanding at the beginning of the year	1,805,810	2,336,168	2,669,280	2,907,764	–
Awarded during the year	–	–	–	–	2,986,775
Exercised during the year	–	(819)	–	(54)	(11)
Lapsed during the year	(1,805,810)	(242,694)	(384,479)	(377,042)	(29,664)
Outstanding at the end of the year	–	2,092,655	2,284,801	2,530,668	2,957,100
Exercisable at the end of the year	–	2,092,655	–	–	–
Weighted average exercise price (pence)	371.0	310.0	319.0	271.5	143.9
Weighted average share price at date of exercise (pence)	N/A	197.3	N/A	204.9	193.0

35. Share-based payments continued

(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 2002 Options Number	ESOS 2003 Options Number	ESOS 2004 Options Number
Outstanding at the beginning of the year	75,142	258,183	254,426
Lapsed during the year	(75,142)	–	–
Outstanding at the end of the year	–	258,183	254,426
Exercisable at the end of the year	–	258,183	254,426
Weighted average exercise price (pence)	269.0	287.0	275.1
Weighted average share price at date of exercise (pence)	N/A	N/A	N/A

(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	DBS 2012 Options Number
Outstanding at the beginning of the year	12,473	39,914	114,080	302,068	102,789	244,267	422,238	520,475	–
Granted during the year	–	–	–	–	–	–	–	–	982,131
Forfeited during the year	–	–	–	–	(1,860)	(2,357)	(8,829)	(16,643)	(45,815)
Exercised during the year	(6,484)	(6,962)	(27,464)	(131,671)	(25,881)	(160,341)	(13,587)	(10,528)	(17,196)
Outstanding at the end of the year	5,989	32,952	86,616	170,397	75,048	81,569	399,822	493,304	919,120
Exercisable at the end of the year	5,989	32,952	86,616	170,397	75,048	81,569	–	–	–
Weighted average exercise price (pence)	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Weighted average share price at date of exercise (pence)	242.8	186.4	240.8	212.9	227.9	218.6	219.3	253.6	253.6

(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 2013 there were 8,306 (2012: 8,354; 2011: 7,985) participants in the BAYE scheme who have cumulatively purchased 6,159,479 (2012: 6,869,043; 2011: 5,651,985) shares with the Company contributing 1,936,789 (2012: 2,128,810; 2011: 1,689,837) 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 a comparator group.

	LTIP 2009 Options Number	LTIP 2010 Options Number	LTIP 2011 Options Number	LTIP 2012 Options Number
Outstanding at the beginning of the year	3,236,461	3,870,081	4,970,578	–
Granted during the year	–	–	–	6,293,066
Forfeited during the year	–	(96,074)	(244,023)	(294,831)
Lapsed during the year	(3,236,461)	–	–	–
Outstanding at the end of the year	–	3,774,007	4,726,555	5,998,235

(f) Tim O'Toole retention award

	2011 Number	2012 Number	**2013 Number**	Award price (p)
At the end of the year	214,826	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:

	2013	2012
Weighted average share price (pence)		
– DBS	220.1	351.8
– SAYE December 2011	–	319.2
– SAYE December 2012	188.9	–
– LTIP	223.1	337.8
Weighted average exercise price (pence)		
– DBS	–	–
– SAYE December 2011	–	271.5
– SAYE December 2012	143.9	–
– LTIP	–	–
Expected volatility		
– DBS	43%	35%
– SAYE December 2011	–	35%
– SAYE December 2012	35%	–
– LTIP	31%	42.9%
Expected life (years)		
– DBS	3	3
– SAYE schemes	3	3
– LTIP	3	3
Rate of interest		
– DBS	0.4%	1.5%
– SAYE December 2010	–	0.6%
– SAYE December 2011	0.4%	–
– LTIP	0.4%	1.3%
Expected dividend yield		
– DBS	10.8%	6.3%
– SAYE December 2011	–	7.0%
– SAYE December 2012	12.5%	–
– LTIP	10.6%	6.6%

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 £8.4m (2012: £6.5m) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans.

36. Retirement benefit schemes continued

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/Keolis 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% (2012: 61.0% and 101.9%; 2011: 61.0% and 122.4%). The market value of the assets at 31 March 2013 for all defined benefit schemes totalled £3,777m (2012: £3,397m; 2011: £3,289m).

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 2013 %	**UK Rail 2013 %**	**North America 2013 %**	UK Bus 2012 %	UK Rail 2012 %	North America 2012 %	UK Bus 2011 %	UK Rail 2011 %	North America 2011 %
Key assumptions used:									
Discount rate	**4.50**	**4.50**	**4.00**	4.65	4.65	4.20	5.50	5.50	5.25
Expected return on scheme assets	**6.17**	**7.76**	**5.80**	6.68	8.19	6.30	7.43	8.63	6.94
Expected rate of salary increases	**2.16/3.20**	**3.70**	**2.50**	3.75	3.75	3.25	4.2	4.2	–
Inflation – RPI	**3.20**	**3.20**	**2.00**	2.75	2.75	2.25	3.2	3.2	2.25
Inflation – CPI	**2.15**	**2.15**	**–**	1.75	1.75	–	2.4	2.4	–
Future pension increases	**2.05/2.15/3.10**	**2.15**	**–**	1.65/1.75/2.65	1.75	–	2.4/3.1	2.4	–

a) Income statement

Amounts (charged)/credited to the income statement in respect of these defined benefit schemes are as follows:

Year to 31 March 2013	**UK Bus £m**	**UK Rail £m**	**North America £m**	**Total £m**
Current service cost	**(25.0)**	**(55.7)**	**(4.9)**	**(85.6)**
Interest cost	**(79.9)**	**(40.7)**	**(28.8)**	**(149.4)**
Expected return on scheme assets	**117.1**	**58.6**	**26.1**	**201.8**
Interest on franchise adjustment	**–**	**7.2**	**–**	**7.2**
	12.2	**(30.6)**	**(7.6)**	**(26.0)**

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)

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:

	2013 £m	2012 £m
UK Bus	220.7	50.7
UK Rail	97.8	27.1
North America	68.9	20.9
	387.4	98.7

(b) Balance sheet

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

At 31 March 2013	UK Bus £m	UK Rail £m	North America £m	Total £m
Fair value of schemes' assets	1,965.4	1,307.2	504.8	3,777.4
Present value of defined benefit obligations	(1,954.6)	(1,730.0)	(715.0)	(4,399.6)
(Deficit)/surplus before adjustments	10.8	(422.8)	(210.2)	(622.2)
Adjustment for irrecoverable surplus[1]	(35.5)	–	–	(35.5)
UK Rail franchise adjustment (table (e)) (60%)	–	240.8	–	240.8
Adjustment for employee share of RPS deficits (40%)	–	169.1	–	169.1
Deficit in schemes	(24.7)	(12.9)	(210.2)	(247.8)
Liability recognised in the balance sheet	(24.7)	(12.9)	(210.2)	(247.8)
The amount is presented in the consolidated balance sheet as follows:				
Non-current assets	15.4	–	–	15.4
Non-current liabilities	(40.1)	(12.9)	(210.2)	(263.2)
	(24.7)	(12.9)	(210.2)	(247.8)

At 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)

[1] The irrecoverable surplus represents the amount of the surplus that the Group could not recover through reducing future company contributions to Local Government Pension Schemes.

36. Retirement benefit schemes continued

At 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 company contributions to Local Government Pension Schemes.

(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 2012	1,759.1	1,475.6	675.2	3,909.9
Current service cost	25.0	55.7	4.9	85.6
Interest cost	79.9	40.7	28.8	149.4
Employee share of change in DBO (not attributable to franchise adjustment)	17.3	114.0	1.9	133.2
Actuarial loss	155.6	78.5	27.0	261.1
Benefit payments	(78.9)	(34.5)	(54.4)	(167.8)
Settlement gain	(3.4)	–	–	(3.4)
Currency loss	–	–	31.6	31.6
At 31 March 2013	**1,954.6**	**1,730.0**	**715.0**	**4,399.6**

	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

36. Retirement benefit schemes continued

	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

(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 2012	1,761.4	1,175.9	460.0	3,397.3
Expected return on assets	117.1	58.6	26.1	201.8
Company contributions	49.0	42.4	28.5	119.9
Employee contributions	17.3	25.7	1.9	44.9
Employee share of return on assets	–	39.1	–	39.1
Actuarial gain on assets	103.7	–	21.0	124.7
Benefit paid from schemes	(78.9)	(34.5)	(54.3)	(167.7)
Settlement payment	(4.2)	–	–	(4.2)
Currency gain	–	–	21.6	21.6
At 31 March 2013	**1,965.4**	**1,307.2**	**504.8**	**3,777.4**

	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

36. Retirement benefit schemes continued

	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

(e) UK Rail franchise adjustment

Movements in the total UK Rail franchise adjustment were as follows:

	2013 £m	2012 £m	2011 £m
At 1 April	**257.5**	127.8	288.3
First TransPennine Express extension	**–**	(2.3)	–
Interest on franchise adjustment	**7.2**	4.2	5.7
Employee share of change in franchise adjustment	**57.5**	52.8	(64.2)
Actuarial gain/(loss) on franchise adjustment	**79.1**	75.0	(102.0)
At 31 March	**401.3**	257.5	127.8

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:

	2013 UK Bus		2013 UK Rail		2013 North America		2013 Total
	%	£m	%	£m	%	£m	£m
Equities	**8.0**	**749.8**	**8.0**	**–**	**8.0**	**253.0**	**1,002.8**
Bonds	**3.75**	**764.6**	**3.75**	**61.7**	**3.2**	**215.8**	**1,042.1**
Property	**6.5**	**94.4**	**–**	**–**	**6.5**	**15.6**	**110.0**
Cash	**2.8**	**38.6**	**2.8**	**11.1**	**2.3**	**5.9**	**55.6**
Infrastructure	**–**	**–**	**8.0**	**64.4**	**8.0**	**1.0**	**65.4**
Cash plus	**8.0**	**217.9**	**8.0**	**1,010.6**	**6.0**	**13.5**	**1,242.0**
Commodities	**8.0**	**17.3**	**–**	**–**	**–**	**–**	**17.3**
Private equity	**8.0**	**82.8**	**8.0**	**159.4**	**–**	**–**	**242.2**
		1,965.4		**1,307.2**		**504.8**	**3,777.4**

36. Retirement benefit schemes continued

	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

	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

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	**2013 £m**	2012 £m	2011 £m	2010 £m	2009 £m
Fair value of schemes' assets	**1,965.4**	1,761.4	1,701.6	1,605.9	1,296.8
Present value defined benefit obligations	**(1,954.6)**	(1,759.1)	(1,649.8)	(1,734.9)	(1,257.8)
Irrecoverable surplus	**(35.5)**	(29.7)	(81.9)	–	–
(Deficit)/surplus in the schemes	**(24.7)**	(27.4)	(30.1)	(129.0)	39.0
Experience gain on scheme assets					
– Amount (£m)	**(103.6)**	(76.0)	23.3	208.6	(288.1)
– Percentage of scheme assets (%)	**(5.3)**	(4.3)	1.4	13.0	(22.2)
Experience gain on scheme liabilities					
– Amount (£m)	**(36.7)**	(23.7)	(96.3)	38.3	(30.2)
– Percentage of scheme liabilities (%)	**(1.9)**	(1.3)	(5.8)	2.2	(2.4)

36. Retirement benefit schemes continued

UK Rail	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Fair value of schemes' assets	**1,307.2**	1,175.9	1,114.3	1,026.3	744.1
Present value defined benefit obligations	**(1,730.0)**	(1,475.6)	(1,333.3)	(1,388.9)	(944.3)
Rail franchise adjustment (60%)	**240.8**	154.5	76.7	173.0	75.9
Adjustment for employee share of RPS deficits (40%)	**169.1**	119.9	87.6	145.1	80.1
Deficit in the schemes	**(12.9)**	(25.3)	(54.7)	(44.5)	(44.2)
Experience gain on scheme assets					
– Amount (£m)	**(0.1)**	(42.3)	8.0	113.7	(212.0)
– Percentage of scheme assets (%)	**–**	(6.0)	1.2	18.5	(47.5)
Experience gain on scheme liabilities					
– Amount (£m)	**4.7**	(4.9)	8.6	25.4	74.3
– Percentage of scheme liabilities (%)	**0.5**	(0.5)	1.1	3.0	13.1
Experience gain (including gain on franchise adjustment) on scheme liabilities					
– Amount (£m)	**(74.4)**	79.8	110.7	117.3	164.9
– Percentage of scheme liabilities (%)	**(7.2)**	9.0	13.8	14.1	29.1

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	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Fair value of schemes' assets	**504.8**	460.0	473.0	494.5	424.0
Present value defined benefit obligations	**(715.0)**	(675.2)	(631.4)	(651.8)	(587.5)
Deficit in the schemes	**(210.2)**	(215.2)	(158.4)	(157.3)	(163.5)
Experience gain on scheme assets					
– Amount (£m)	**(21.1)**	(6.3)	(18.0)	83.2	(140.4)
– Percentage of scheme assets (%)	**(4.2)**	(1.4)	(3.8)	16.8	(33.1)
Experience gain on scheme liabilities					
– Amount (£m)	**2.5**	4.5	13.1	(20.4)	(6.1)
– Percentage of scheme liabilities (%)	**0.3**	0.7	2.1	(3.1)	(1.0)

Total Group	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Fair value of schemes' assets	**3,777.4**	3,397.3	3,288.9	3,126.7	2,464.9
Present value defined benefit obligations	**(4,399.6)**	(3,909.9)	(3,614.5)	(3,775.6)	(2,789.6)
Irrecoverable surplus	**(35.5)**	(29.7)	(81.9)	–	–
Rail franchise agreement (60%)	**240.8**	154.5	76.7	173.0	75.9
Adjustment for employee share of RPS deficits (40%)	**169.1**	119.9	87.6	145.1	80.1
Deficit in the schemes	**(247.8)**	(267.9)	(243.2)	(330.8)	(168.7)
Experience gain on scheme assets					
– Amount (£m)	**(124.7)**	(124.6)	(13.3)	405.5	(640.5)
– Percentage of scheme assets (%)	**(3.8)**	(4.3)	(0.5)	14.9	(29.6)
Experience gain on scheme liabilities					
– Amount (£m)	**(29.5)**	23.3	(74.5)	43.3	38.0
– Percentage of scheme liabilities (%)	**(0.8)**	0.7	(2.4)	1.3	1.6
Experience gain (including gain on franchise adjustment) on scheme liabilities					
– Amount (£m)	**(108.6)**	(51.7)	27.5	135.2	128.6
– Percentage of scheme liabilities (%)	**(2.9)**	(1.6)	0.9	4.2	5.3

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 2014 is £120.5m (year to 31 March 2013: £122.2m).

(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:

	2013 £m	2012 £m	2011 £m
Balance sheet			
Pension deficit	**(240.8)**	(154.5)	(76.7)
Intangible assets	**(2.6)**	(4.5)	(6.5)
Deferred tax	**56.0**	38.2	21.6
Impact on net assets	**(187.4)**	(120.8)	(61.6)
Income statement			
Unwinding of discount on franchise adjustment	**(7.2)**	(4.2)	(5.7)
Intangible asset amortisation	**1.9**	3.4	14.7
Deferred tax	**1.2**	0.2	(2.3)
Impact on profit for the year from continuing operations	**(4.1)**	(0.6)	6.7
Consolidated statement of comprehensive income			
Actuarial (gains)/losses on franchise adjustment	**(79.1)**	(75.0)	102.0
Deferred tax on actuarial (gains)/losses	**18.2**	18.0	(26.5)
	(60.9)	(57.0)	75.5

(i) Consolidated statement of comprehensive income

Amounts presented in the consolidated statement of comprehensive income comprise:

	2013 £m	2012 £m
Actuarial loss on DBO	**(261.1)**	(188.4)
Actuarial gain/(loss) on assets	**124.7**	(124.6)
Actuarial gain on franchise adjustment	**79.1**	75.0
Adjustment for irrecoverable surplus	**(5.8)**	52.2
Actuarial losses on defined benefit schemes	**(63.1)**	(185.8)

37. Related party transactions

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

Remuneration of key management personnel

The remuneration of the Directors, which comprise the plc Board 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 63 to 71.

	Year to 31 March 2013 £m	Year to 31 March 2012 £m
Basic salaries	**1.5**	1.9
Performance related bonuses	**0.3**	0.2
Compensatory bonuses	**0.2**	–
Benefits in kind	**0.1**	0.1
Fees	**0.5**	0.4
Pension contributions	**0.1**	0.1
Share-based payment	**0.5**	0.6
	3.2	3.3

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 2013 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2013 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 matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the Group 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, in relation to going concern; and
- the part of the corporate governance statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Other matter

We have reported separately on the parent company financial statements of FirstGroup plc for the year ended 31 March 2013 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
20 May 2013

Group financial summary

Consolidated income statement – continuing operations	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Group revenue	**6,900.9**	6,678.7	6,416.7	6,249.4	6,123.9
Operating profit before amortisation charges and other exceptional items	**335.4**	428.5	456.7	448.9	494.0
Amortisation charges	**(52.0)**	(30.9)	(42.9)	(34.7)	(33.1)
Exceptional bid costs	**(6.0)**	(10.2)	(3.1)	(0.3)	(3.5)
Other exceptional items	**(69.0)**	59.6	(97.7)	(49.3)	(115.5)
Operating profit before profit/(loss) on disposal of properties	**208.4**	447.0	313.0	364.6	341.9
Operating profit	**205.7**	448.0	308.6	363.5	367.6
Net finance cost	**(163.0)**	(157.1)	(182.4)	(189.9)	(171.1)
Exceptional finance items	**(5.5)**	(11.0)	0.3	1.0	–
Profit before tax	**37.2**	279.9	126.5	174.6	196.5
Tax	**10.6**	(50.1)	(16.7)	(31.0)	(42.0)
Profit for the year from continuing operations	**47.8**	229.8	109.8	143.6	154.5
(Loss)/profit for the year from discontinued operations	**–**	(9.5)	7.3	3.5	2.5
Profit for the year	**47.8**	220.3	117.1	147.1	157.0
EBITDA	**667.0**	742.9	768.9	755.9	762.2

Earnings per share	pence	pence	pence	pence	pence
Underlying	**26.9**	40.0	41.1	38.8	48.1
Basic	**7.3**	42.7	20.0	26.8	29.7

Consolidated balance sheet	£m	£m	£m	£m	£m
Non-current assets	**4,060.3**	4,072.7	4,161.5	4,526.2	4,866.4
Net current liabilities	**(314.4)**	(255.4)	(322.4)	(283.8)	(707.3)
Non-current liabilities	**(2,602.3)**	(2,596.1)	(2,494.4)	(2,967.6)	(3,007.2)
Provisions	**(324.3)**	(340.2)	(393.8)	(364.3)	(347.6)
Net assets	**819.3**	881.0	950.9	910.5	804.3

Share data Number of shares in issue (excluding treasury share and shares in trusts)	millions	millions	millions	millions	millions
At year end	**481.8**	481.4	480.8	480.2	480.8
Average	**481.7**	481.4	480.4	480.5	474.8

Share price	pence	pence	pence	pence	pence
At year end	**201**	238	326	359	268
High	**261**	370	413	442	635
Low	**176**	238	323	288	198

Market capitalisation	£m	£m	£m	£m	£m
At year end	**969**	1,147	1,572	1,724	1,292

Company balance sheet

Year ended 31 March

	Notes	2013 £m	2012 £m
Fixed assets			
Investments	4	1,775.4	1,769.8
Current assets			
Cash and cash equivalents		231.3	92.7
Derivative financial instruments – due within one year	5	23.3	38.8
– due after more than one year	5	63.3	72.1
Debtors – due within one year	6	2,187.4	2,593.4
– due after more than one year	6	2.4	2.8
		2,507.7	2,799.8
Current liabilities			
Creditors: amounts falling due within one year	8	(790.2)	(1,019.2)
Derivative financial instruments	5	(64.7)	(17.1)
		(854.9)	(1,036.3)
Net current assets		1,652.8	1,763.5
Total assets less current liabilities		3,428.2	3,533.3
Creditors: amounts falling due after more than one year	8	(1,952.2)	(1,960.4)
Derivative financial instruments	5	(21.7)	(50.1)
Net assets		1,454.3	1,522.8
Current liabilities			
Called up share capital	9	24.1	24.1
Share premium	10	676.4	676.4
Other reserves	10	227.5	252.9
Own shares	10	(1.1)	(1.1)
Profit and loss account	10	527.4	570.5
Shareholders' funds		1,454.3	1,522.8

Notes to the Company financial statements

1. Significant accounting policies

Basis of accounting

The financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial instruments and on a going concern basis as described in the going concern statement in the Directors' report on page 74.

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 2013 of £65.3m (2012: £45.0m).

Fees payable to the Company's auditors for the audit of the Company's annual financial statements are disclosed in note 6 on page 93.

The Company had no employees in the current or preceding financial year.

3. Dividends

Amounts recognised as distributions to equity holders in the year:

	2013 £m	2012 £m
Final dividend per share paid for the year ended 31 March 2012 of 16.05p (2011: 15.0p)	**77.3**	72.2
Interim dividend per share paid for the year ended 31 March 2013 of 7.62p (2012: 7.62p)	**36.7**	36.6
	114.0	108.8
Proposed final dividend per share for the year ended 31 March 2013 of Nil p (2012: 16.05p)	**–**	77.3

4. Fixed asset investments

	Unlisted subsidiary undertakings £m	Other investments £m	Total £m
Cost			
At 1 April 2012	1,785.7	8.1	1,793.8
Additions	5.6	–	5.6
Disposals	–	(8.1)	(8.1)
At 31 March 2013	**1,791.3**	**–**	**1,791.3**
Provisions			
At 1 April 2012	(15.9)	(8.1)	(24.0)
Disposals	–	8.1	8.1
At 31 March 2013	**(15.9)**	**–**	**(15.9)**
Net book value			
At 31 March 2013	**1,775.4**	**–**	**1,775.4**
At 31 March 2012	1,769.8	–	1,769.8

4. Fixed asset investments continued

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

UK local bus and coach operators

CentreWest London Buses Limited
First Aberdeen Limited[1]
First Beeline Buses Limited
First Bristol Limited
First Capital East Limited
First Capital North Limited
First Cymru Buses Limited
First Devon & Cornwall Limited
First Eastern Counties Buses Limited
First 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 Scotland East Limited[1]
First Somerset & 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[1]
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.

5. Derivative financial instruments

	2013 £m	2012 £m
Derivatives designated and effective as hedging instruments carried at fair value		
Non-current assets		
Cross currency swaps (net investment hedge)	15.2	23.2
Coupon swaps (fair value hedge)	45.7	43.8
Fuel derivatives (cash flow hedge)	2.4	5.1
	63.3	72.1
Assets due within one year		
Cross currency swaps (net investment hedge)	3.6	4.3
Coupon swaps (fair value hedge)	13.2	9.5
Fuel derivatives (cash flow hedge)	6.5	25.0
	23.3	38.8
Creditors: amounts falling due after more than one year		
Interest rate derivatives (cash flow hedge)	8.1	8.0
Cross currency swaps (net investment hedge)	47.6	1.2
Fuel derivatives (cash flow hedge)	4.8	3.5
	60.5	12.7
Creditors: amounts falling due after more than one year		
Interest rate derivatives (cash flow hedge)	11.8	13.7
Cross currency swaps (net investment hedge)	–	27.1
Fuel derivatives (cash flow hedge)	0.8	0.9
	12.6	41.7
Derivatives classified as held for trading		
Creditors: amounts falling due within one year		
Interest rate derivatives	4.2	4.4
Creditors: amounts falling due after one year		
Interest rate derivatives	9.1	8.4
Total assets due after more than one year	63.3	72.1
Total assets due within one year	23.3	38.8
Total assets	86.6	110.9
Total creditors: amounts falling due within one year	64.7	17.1
Total creditors: amounts falling due after more than one year	21.7	50.1
Total creditors	86.4	67.2

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

	2013 £m	2012 £m
Amounts due within one year		
Amounts due from subsidiary undertakings	2,185.9	2,586.2
Deferred tax asset (note 7)	1.5	2.8
Corporation tax recoverable	–	4.4
	2,187.4	2,593.4
Amounts due after more than one year		
Deferred tax asset (note 7)	2.4	2.8

7. Deferred tax

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

	Other temporary difference £m
At 1 April 2012	(5.6)
Charge to income	1.3
Charge to equity	0.4
At 31 March 2013	**(3.9)**

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2013 £m	2012 £m
Deferred tax asset due within one year	**(1.5)**	(2.8)
Deferred tax assets due after more than one year	**(2.4)**	(2.8)
	(3.9)	(5.6)

8. Creditors

	2013 £m	2012 £m
Amounts falling due within one year		
Bank loans and overdrafts	**124.0**	624.9
£300.0m Sterling bond – 6.875% 2013	**299.4**	–
Bond interest accrual	**79.2**	73.6
Other creditors	**–**	1.8
Amounts due to subsidiary undertakings	**270.7**	303.7
Accruals and deferred income	**16.9**	15.2
	790.2	1,019.2

	2013 £m	2012 £m
Amounts falling due after more than one year		
Bank loans		
– Due in more than two years but not more than five years	**385.4**	426.1
£300.0m Sterling bond – 6.875% 2013	**–**	298.5
£300.0m Sterling bond – 8.125% 2018	**297.1**	296.7
£250.0m Sterling bond – 6.125% 2019	**305.4**	299.7
£350.0m Sterling bond – 8.750% 2021	**347.4**	347.1
£325.0m Sterling bond – 5.250% 2022	**319.1**	–
£200.0m Sterling bond – 6.875% 2024	**199.5**	199.0
Senior unsecured loan notes	**98.3**	93.3
	1,952.2	1,960.4

8. Creditors continued

Borrowing facilities

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

	2013 £m	2012 £m
Facilities maturing:		
– Due in more than two years	**821.6**	631.8

9. Called up share capital

	2013 £m	2012 £m
Allotted, called up and fully paid		
Ordinary shares of 5p each	**24.1**	24.1

The Company had 482.1m (2012: 482.1m) shares in issue at 31 March 2013.

10. Reserves

	Share premium £m	Own shares £m	Profit and loss account £m
At 1 April 2012	676.4	(1.1)	570.5
Retained profit for the year	–	–	65.3
Share-based payment provision	–	–	5.6
Dividends paid	–	–	(114.0)
At 31 March 2013	**676.4**	**(1.1)**	**527.4**

Own shares

The number of own shares held by the Company at the end of the year was 283,374 (2012: 692,536) FirstGroup plc ordinary shares of 5p each. Of these, 90,075 (2012: 398,587) were held by the FirstGroup plc Employee Benefit Trust, 32,520 (2012: 32,520) by the FirstGroup plc Qualifying Employee Share Ownership Trust and 160,779 (2012: 261,429) 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 2013 was £0.6m (2012: £1.2m).

Other reserves	Hedging reserve £m	Capital redemption reserve £m	Capital reserve £m	Merger reserve £m	Total other reserves £m
At 1 April 2012	(9.2)	1.9	93.8	166.4	252.9
Derivative hedging instrument movement	(25.4)	–	–	–	(25.4)
At 31 March 2013	**(34.6)**	**1.9**	**93.8**	**166.4**	**227.5**

11. Reconciliation of movement in shareholders' funds

	2013 £m	2012 £m
Profit for the financial year	**65.3**	45.0
Share-based payment provision	**5.6**	6.0
Dividends	**(114.0)**	(108.8)
	(43.1)	(57.8)
Derivative hedging instrument movement	**(25.4)**	1.1
Net reduction to shareholders' funds	**(68.5)**	(56.7)
Shareholders' funds at beginning of year	**1,522.8**	1,579.5
Shareholders' fund at end of year	**1,454.3**	1,522.8

12. Contingent liabilities

To support subsidiary undertakings in their normal course of business, the Company and certain subsidiaries have indemnified certain banks and insurance companies who have issued performance bonds for £566.2m (2012: £532.5m) and letters of credit for £321.7m (2012: £299.3m). The performance bonds relate to the North American businesses of £354.7m (2012: £314.2m) and the UK Rail franchise operations of £211.5m (2012: £218.3m). The letters of credit relate substantially to insurance arrangements in the UK and North America.

The Company has provided unsecured loan facilities of £67.6m (2012: £76.4m) to First Greater Western Limited, a £46.0m (2012: £46.0m) unsecured loan facility to First Capital Connect Limited, a £3.2m (2012: £3.2m) unsecured loan facility to First/Keolis TransPennine Limited, and a £13.6m (2012: £13.6m) unsecured loan facility to First ScotRail Limited. Under these facilities, £26.6m (2012: £35.4m) was drawn at 31 March 2013 by First Greater Western Limited and £10.0m (2012: £25.0m) was drawn at 31 March 2013 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 £822.5m (2012: £780.8m) syndicated unsecured bank facility, to certain bilateral bank facilities for £436.9m (2012: £397.3m) and to senior unsecured loan notes for £98.3m (2012: £93.3m).

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 2013 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 2013;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of FirstGroup plc for the year ended 31 March 2013.

Graham Richardson (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
20 May 2013

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

CGU
Cash Generating Unit

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

HP
Hire Purchase

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

LIBOR
London Interbank Offered Rate

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

ROCE
Return on capital employed

SAYE
Save As You Earn

TfL
Transport for London is 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

The Annual Report and Accounts, share price information, Company presentations, contact details and other shareholder information are available on our website at www.firstgroup.com

Contact information

FirstGroup plc offices

Registered office
FirstGroup plc
395 King Street
Aberdeen AB24 5RP
T. +44 (0)1224 650100
F. +44 (0)1224 650140

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

Shareholder enquiries

The Company's share register is maintained on our behalf by Equiniti, who are responsible for making dividend payments and updating the register, including details of changes to shareholders' addresses and purchases and sales of the Company's shares.

If you have any questions about your shareholding in the Company or need to notify any changes to your personal details you should contact:

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
T. 0871 384 2046*
(or from overseas on T. +44 (0)121 415 7050)

Employee share schemes

Employees with queries about shares held in the Company's employee share schemes should contact:

Yorkshire Building Society
Yorkshire Building Society Share Plans
1 Filey Street
Bradford BD1 5AT
T. 0845 1200 300
(or from overseas on T. +44 (0)1274 705758)

Duplicate shareholder accounts

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

Unsolicited mail

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

Online information

The registrar provides an online service enabling you to access details of your shareholding. To view your details, complete certain amendments instantly and access a range of general information about holding shares, visit **www.shareview.co.uk**.

* Calls to this number are charged at 8p per minute plus network extras. Telephone lines are open from 8.30 am to 5.30 pm, Monday to Friday.

Shareholder profile
At 20 May 2013

	Number of shareholders	%	Shares held	%
By category				
Nominee	700	1.8	420,341,013	87.2
Individual	37,359	95.6	47,169,439	9.8
Limited Company	878	2.2	11,185,311	2.3
Other Organisation	170	0.4	2,965,223	0.6
Bank	5	–	228,676	0.1
Public Limited Company	3	–	170,780	–
Pension Fund	2	–	6,428	–
Insurance Company	1	–	300	–
	39,118	100.0	482,067,170	100.0
By size of holding				
1-1,000	29,898	76.4	7,796,941	1.6
1,001-5,000	7,148	18.3	15,989,469	3.3
5,001-10,000	1,128	2.9	7,844,306	1.6
10,001-100,000	675	1.7	18,128,348	3.8
Over 100,000	269	0.7	432,308,106	89.7
	39,118	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 is focused on overall returns, including dividends, which are of benefit to all shareholders.

Financial calendar

Annual General Meeting	**17 July 2013**
Half yearly results announcement	**November 2013**
Preliminary announcement of full year results	**May 2014**

Designed and produced by MerchantCantos
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