



FirstGroup plc

Annual Report and Accounts
2014



FirstGroup plc is the **leading transport operator** in the UK and North America. With revenues of more than **£6.7 billion** per annum and approximately **117,000** employees, **we transport around 2.5 billion passengers every year.**

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Strategic report

This strategic report, set out on pages 1 to 49, includes an analysis of our performance and financial position, a review of the business during the year, and outlines the principal risks and uncertainties we face.

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Governance

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Key items in this report

Throughout this report you will find the following icons to signpost particular information.



Case studies



Read more



More online: visit our website
www.firstgroupplc.com

Business summary and financial highlights 2013/14

Overall trading in line with expectations for the year, excluding the £14m operating profit impact of unprecedented weather conditions on First Student and Greyhound in the fourth quarter

Group revenue increased by 1.2% on a like-for-like basis after adjusting for the UK Bus portfolio changes, disposal of FSS and the non-recurring London 2012 Games revenues¹

Adjusted operating profit increased by 5.5%, reflecting improved underlying operating performances in four divisions, partially offset by slower progress in First Student and the extreme weather

Adjusted EPS fell 31.8% due to the dilutive effect of the rights issue completed in June 2013

Balance sheet strengthened, net debt: EBITDA ratio reduced to 2.2 times from 3.4 times last year and a new £800m five year revolving credit facility signed

ROCE² increased to 8.2% (2013: 7.0%). Medium term target is 10-12%

Dividend – taking together the current stage of the turnaround programmes and our commitment to our capital programme, the Board has decided to refrain from reinstating a dividend at this point

Board changes – including the appointment of three new Non-Executive Directors with effect from 24 June 2014

First Student – performance affected by historically severe weather; accelerated programmes to address contract portfolio pricing and deliver further cost savings

First Transit – record of good growth and margin performance maintained

Greyhound – underlying improvement in demand trends and continuation of profitable expansion of Greyhound Express, partially offset by weather disruption to the network

UK Bus – step-by-step transformation plan progressing and delivering sustainable improvements in key metrics

UK Rail – delivering solid revenue growth underpinned by continued passenger volume increases and strong operational delivery

Revenue

£6,717.4m (2.7)%

2013: £6,900.9m

Adjusted EBITDA^{3,4}

£579.8m (1.0)%

Restated 2013: £585.7m

Adjusted operating profit³

£268.0m +5.5%

Restated 2013: £254.1m

Adjusted profit before tax³

£111.9m +23.1%

Restated 2013: £90.9m

Adjusted attributable profit³

£79.3m +21.8%

Restated 2013: £65.1m

Adjusted EPS³

7.5p (31.8)%

Restated 2013: 11.0p

Statutory operating profit⁵

£232.2m +66.1%

Restated 2013: £139.8m

Statutory profit/(loss) before tax⁵

£58.5m n/m⁶

Restated 2013: £(28.9)m

Statutory attributable profit/(loss)⁵

£54.2m n/m⁶

Restated 2013: £(17.8)m

Statutory EPS⁵

5.1p n/m⁶

Restated 2013: (3.0)p

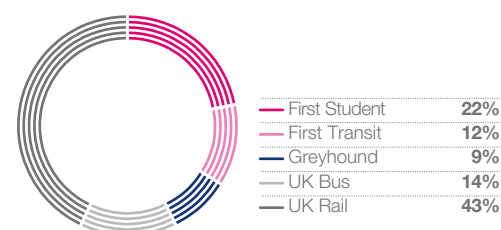
Net debt⁷

£1,303.8m (34.1)%

2013: £1,979.1m

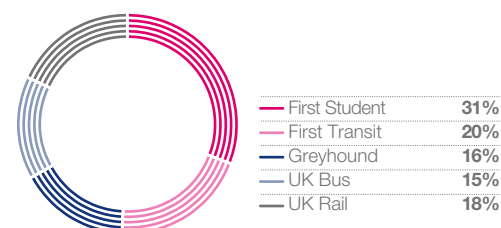
Revenue

2013/14



Operating profit

2013/14



¹ Reported Group revenue decreased by 2.7%, reflecting the impact of the UK Bus portfolio changes, disposal of FSS and the non-recurring London 2012 Games revenues in the prior year.

² Return on capital employed (ROCE) is calculated by dividing adjusted operating profit after tax by net assets excluding debt items.

³ Before amortisation charges, ineffectiveness on financial derivatives and exceptional items. All references to adjusted figures throughout this document are defined this way. 2013 restated for adoption of IAS 19 (revised) on pensions, the reclassification of certain exceptional items and the impact of the rights issue on EPS as explained in note 2.

⁴ Adjusted operating profit less capital grant amortisation plus depreciation.

⁵ 2013 restated for adoption of IAS 19 (revised) on pensions and the impact of the rights issue on EPS as explained in note 2.

⁶ Year on year percentage change not meaningful.

⁷ Net debt is stated excluding accrued bond interest.



John McFarlane
Chairman

The task of extracting greater value from First Student and UK Bus is fundamental. Turning around performance in both of these divisions would generate additional cash flow to enable us to reduce leverage and increase shareholder returns.

I am pleased to have joined FirstGroup as Chairman, at a key stage of its evolution. This is an important company, operating in five major divisions, providing services to millions of customers in the UK and North America, is one of the largest corporate employers, and a major contributor to the communities in which we operate.

Since taking on the role at the beginning of the year, I have reviewed the business plans and actively engaged on major decisions and forward plans with the senior team. Essentially, I have found the challenges and opportunities facing the Company to be broadly in keeping with my initial expectations. I have also met all of our major shareholders. It is fair to say that they are very supportive of the Group, but are disappointed we have not matched this support with appropriate returns. Turning this situation around is therefore the first priority of the Board.

I am encouraged that the Group has an attractive portfolio of transport businesses – each a leader in its market, and each with good growth and returns prospects, particularly as the economies recover from the global financial crisis. With the correct decisions and actions, we should be able to turn this into acceptable returns for shareholders in the form of appropriate dividends and capital growth that has eluded us more recently.

First Transit, Greyhound and UK Rail are delivering returns broadly in line with what I would expect, though clearly we have significant opportunity for further improvement.

On the other hand, two of our businesses, First Student and UK Bus, have not performed, and are well short of their potential and delivering lower margins than their competitors. Although both divisions have faced challenging economic conditions in their respective markets, we cannot escape that we should have managed them better. Progress has been made in addressing the performance of these two divisions, with headway being made in UK Bus in particular, but there remains much to do still. Fixing these and delivering the business plans we announced recently is the Group's key priority.

Also, as a result of past acquisitions, and notwithstanding the rights issue last year, Group leverage remains higher than its optimal long term level despite the good strides made to reduce it over the past five years, and the interest burden continues to weigh on the income statement. It will take some years of good operating cash flow to bring this down to a more prudent level, but we will consider ways to accelerate this. At the same time, some of the businesses have, in the past, suffered from a lack of appropriate capital investment and this has been boosted significantly in our business plans.

Taking together the current stage of the First Student and UK Bus recovery programmes and our commitment to the capital investment programme, it will take some time before the Group is able to deliver a profile of consistent surplus cash that can be distributed to shareholders. As a result, the Board has decided that we should refrain from reinstating a dividend at this point. Having consulted with our major shareholders I am confident they will support this decision. We will keep shareholders advised of progress in this respect.

The task of extracting greater value from First Student and UK Bus is fundamental. Turning around performance in both of these divisions, as well as delivering profitability and returns at least in line with our peers, would generate additional cash flow to enable us to reduce leverage and increase shareholder returns. Central to this is the need to make disciplined decisions on pricing, productivity and capital allocation. I am confident these issues are resolvable over time and my own experience in corporate recovery situations should assist in this.

Turning to performance for the year, while below our ultimate potential, the Group has performed broadly in line with expectations, once account is taken for the extraordinary weather particularly in North America. Excluding businesses sold this and last year, Group revenues have increased modestly, but more importantly from a strategic perspective, adjusted operating profit increased by 5.5%, adjusted profit before tax is 23.1% greater, and adjusted profit attributable to ordinary shareholders has increased by 21.8%. Adjusted EPS has fallen by 31.8%, principally due to the increased number of shares following the rights issue. Capital investment increased as planned, and adjusting for the proceeds of the rights issue, Group cash flow was in line with guidance.

The Board was particularly encouraged by the performance of First Transit, Greyhound, UK Bus and UK Rail this year. UK Bus, while still working through its transformation programme, is beginning to show that it is on the right track. First Student's slower progress however, which was heavily affected by the unusual winter weather, was disappointing.

A strong, experienced and diverse Board with the right mix of skills and experience will be essential to the successful execution of the transformation programme, by providing strategic oversight to management as well as rigorous and robust challenge.

It is a natural process after periods of long service for Directors to retire and for the Board to be refreshed. Accordingly, we have announced that John Sievwright, David Begg, and Colin Hood will retire from the Board, and Warwick Brady, Drummond Hall and Imelda Walsh will join the Board as Non-Executive Directors, with effect from 24 June 2014. I am pleased to welcome Warwick, Drummond and Imelda to the Board and I am delighted that such distinguished directors have placed their faith in us. Their backgrounds and experience are set out on page 52. I would like to thank John, David and Colin for their dedication and contribution to the Company, and particularly for their support to me as incoming Chairman.

On behalf of the Board I would also like to pay tribute to my predecessor Martin Gilbert who stepped down from the Board on 31 December 2013 and, having been involved with the Group since its formation, was instrumental in establishing its position as the leading transport operator in the UK and North America.

I have been impressed by the commitment and dedication of our people who remain focused on the task of delivering high-quality services to our customers. The Board is grateful for the continued efforts and dedication of our 117,000 employees, particularly during what has been a challenging period for the Group.

As I have spent time reviewing and challenging the strategy of the Group, my early impression is that this is the right one for current conditions. We will however continue to review other options that are financially compelling, as I work with management and the Board over the coming months. Clearly it is disappointing that we have not been in a position to declare a dividend for the year, but we ask for shareholders' patience while we return the Group to a dividend paying position.

Looking forward, although it is early days for me as your Chairman, I believe we have correctly assessed the situation, are putting the right programmes in place, and are taking the appropriate action to improve profitability, cash generation and to strengthen the balance sheet.

With a resolute focus on bringing these issues to a successful conclusion, I sincerely look forward to playing a pivotal role in the next stage of the Group's evolution.

John McFarlane
Chairman
21 May 2014

Note: Operating profit referred to throughout this document refers to operating profit before amortisation charges, ineffectiveness on financial derivatives and exceptional items. EBITDA is adjusted operating profit less capital grant amortisation plus depreciation.

Group overview

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



First Student



The largest provider of student transportation in North America – over twice the size of the next largest competitor.

\$24bn marketplace, of which 36% is outsourced

We operate a fleet of approximately 49,000 school buses, and carry around 6m students per school day throughout the US and Canada

1,350 multi-year contracts in more than 500 locations

Industry leading safety programmes, strong customer relationships and service record are key differentiators

Read more
Business review page 12 to 15

2013/14

Approximate revenue by type



Contract	91%
School and third party charter	9%

Revenue
£1,467.4m

Margin
6.4%

Operating profit
£93.5m

Employees
57,500

First Transit



One of the largest private sector providers of public transit management and contracting in North America.

\$24bn marketplace, of which around 30% is outsourced

More than 330m passengers a year, operate and manage more than 12,500 vehicles, and maintain a further 35,500

More than 370 contracts from 340 locations, delivering fixed route, paratransit, shuttle and vehicle maintenance services

Mainly capital light; managerial and bidding expertise and technology are key differentiators

Read more
Business review page 16 to 19

2013/14

Approximate revenue by type



Fixed route	38%
Paratransit	29%
Shuttle	23%
Vehicle Services	10%

Revenue
£811.9m

Margin
7.4%

Operating profit
£60.3m

Employees
19,000

Greyhound



The only national operator of scheduled intercity coach transportation services in the US and Canada, serving 48 US States and 10 Canadian Provinces and Territories.

3,800 destinations served via a fleet of approximately 1,700 vehicles

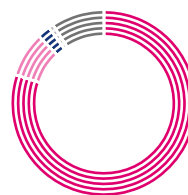
Point-to-point Greyhound Express now serves 930 city pairs in more than 120 markets; BoltBus and YO! Bus brands also growing

Unique nationwide network is significant competitive advantage; key opportunity is extending yield management capability to traditional Greyhound

Read more
Business review page 20 to 23

2013/14

Approximate revenue by type



Passenger revenue	80%
Package Express	8%
Food service	2%
Charter	1%
Other	9%

Revenue
£624.6m

Margin
7.4%

Operating profit
£46.4m

Employees
7,500



UK Bus



One of the largest bus operators in the UK, with around a fifth of the deregulated market.

£4.4bn deregulated market (outside London)

6,400 buses, carrying around 1.6 million passengers per day

We serve seven of the 12 most densely populated cities in the UK

Programme to enhance commercial proposition and investing to improve service quality



Read more
Business review page 24 to 27

2013/14

Approximate revenue by type



Passenger revenue	64%
Concessions	25%
Tenders	5%
Other	6%

Revenue

£930.2m

Margin

4.8%

Operating profit

£44.4m

Employees

18,500



UK Rail



UK's largest rail operator with almost a quarter of UK's passenger rail network, carrying more than 330m passengers per year.

Diversified portfolio of intercity, commuter and regional franchises

Four franchises: First Capital Connect, First Great Western, First ScotRail and First TransPennine Express, and one open access passenger rail service (First Hull Trains)

FirstGroup shortlisted for a number of franchise competitions in the current round



Read more
Business review page 28 to 31

2013/14

Approximate revenue by type



Passenger revenue	66%
Government funding ¹	28%
Other revenue	6%

Revenue¹

£2,870.1m

Margin

1.9%

Operating profit

£55.2m

Employees

14,000

¹ Includes subsidies and revenue support. It does not take into account total premium payments made to the Government during the year of £550.3m.

Contribution by division

Revenue

(as % of Group)



First Student	22%
First Transit	12%
Greyhound	9%
UK Bus	14%
UK Rail	43%

Operating profit

(as % of Group)



First Student	31%
First Transit	20%
Greyhound	16%
UK Bus	15%
UK Rail	18%

Number of employees

(as % of Group)



First Student	49%
First Transit	16%
Greyhound	7%
UK Bus	16%
UK Rail	12%

Employee numbers are calculated on a monthly average basis.



Tim O'Toole
Chief Executive

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.

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

We have a unique competitive advantage as a result of our scale and the diversity of our portfolio of market leading transport businesses: we design and operate more networks, we hire and train more employees, we procure, maintain and deploy more vehicles, and we work with more local communities than any other operator. Our vision is to provide solutions for an increasingly congested world, keeping people moving and communities prospering.

Our strategy

Our overall strategy is designed to leverage our scale by developing and sharing our global expertise for the benefit of our local markets. In recent years, although we have excelled in particular ways and at different times, we have not delivered the overall financial performance that would reflect our leading market positions. As a consequence, we are repositioning the Group for improved growth and to restore us to a profile of consistent financial returns. Last year, we strengthened the balance sheet to give us the flexibility to invest in our transformation programme and set out detailed medium term financial targets. Our strategic objectives under the transformation programme are: focused and disciplined bidding in our contract businesses, driving growth through attractive commercial propositions in our passenger revenue businesses, continuous improvement in operating and financial performance, prudent investment in our key assets (fleets, systems and people), and responsible partnerships with our customers and communities who rely on us and on whom, in turn, we depend.

We are confident that successful execution of our strategy will deliver our key medium term financial targets, which are to increase Group revenue (excluding UK Rail) at a faster rate than the economies we serve, improve margins in First Student and UK Bus to double digit levels and in Greyhound to 12%, and to achieve a post-tax return on capital employed (ROCE) in the 10 to 12% range for the Group as a whole. As importantly, our plans will create a more robust company and one that is better placed to deliver on its potential.

In this strategic report we set out our business model, strategy and objectives in detail and review how we performed operationally and financially in the year against our plans. We explain how we measure our progress against a range of financial and non-financial indicators, and review the principal risks and uncertainties that we face, together with the approach we take to managing them. Effective transport links play a vital role in the prosperity of any economy, and responsible partnerships with our customers and communities are therefore one of our strategic objectives. Our 2014 Corporate Responsibility Report, which is available on our website, expands on the summary to be found in this report.

Year in review

The year to 31 March 2014 has been one of repositioning and investing in the Group to drive greater value from our market leading portfolio of businesses, focusing on our people, our divisional performance and priorities and our financial position.

Our people

In December 2013 we were delighted to announce the appointment of John McFarlane as Chairman. The Group is already benefiting from his extensive international experience and track record of managing strategic change and value creation. The experience, skills and perspectives of our new Non-Executive Directors Warwick Brady, Drummond Hall and Imelda Walsh will also be invaluable to the Group as we drive forward our plans.

In January 2014 Dennis Maple joined the Group as President of First Student. The wealth of experience that Dennis brings will be important as we build on the cost savings actions already taken and accelerate our contract repositioning programme to deliver double digit margins in the medium term. During the year, UK Bus restructured its senior leadership team to ensure that the necessary commercial and operational expertise is focused on our local operations and to bring in new talent (over 30% of the management within the division has been changed in the last two years). In the year, we have also launched important Group-wide employee professional development, engagement and diversity initiatives, which will strengthen our ability to deliver our transformation programme.

Divisional performance and priorities

In the year, we made satisfactory progress with our key divisional priorities, with good performances in four of our divisions partially offset by slower progress in First Student. We also have clear plans in place for each of the divisions to contribute to the Group's overall progress towards its medium term targets:

First Student made progress in its recovery plan, achieving the \$100m per annum in cost savings as planned. However, current cost inflation that marginally exceeds the pricing adjustments provided for in our multi-year contracts, together with an unprecedented amount of school closures due to the severity of the North American winter season, meant that our rate of progress toward our medium term objective of double digit margins was slower than we had targeted. Going forward, First Student is accelerating its programme to address contract portfolio pricing and focus capital on higher returning opportunities, and is targeting a further \$50m per annum of identified cost efficiencies.

First Transit delivered another year of strong growth and good margins, with continued bid success across all segments. Going forward, First Transit will continue to invest in its market leading people and solutions to deliver further growth with attractive returns.

Although its reported results were negatively affected by the severe weather which caused significant disruption to the network this winter, the underlying performance in **Greyhound** indicates signs of a modestly improving market for our traditional coach services. Our Greyhound Express and BoltBus point-to-point brands continued to achieve strong profitable growth, benefiting from the unique feed from our national network. Going forward, the modernisation of Greyhound's IT infrastructure and web presence will deliver improved ticketing, real-time pricing and yield management, and this, together with the continued profitable growth of our point-to-point brands, will deliver our medium term margin target of 12% for the division.

UK Bus has achieved overall passenger volume growth for the first time in several years, as a result of the network transformations, fare reviews and significant investments in fleet and service during the year. Going forward, we will continue to improve our commercial proposition to drive passenger volume growth and revenues, while continuing to strengthen operational discipline as we make progress with our step-by-step plan to raise margins to double digits.

During the year, **UK Rail** delivered continued revenue growth underpinned by robust passenger volume growth. Our train operating companies worked closely with our industry partners to deliver both planned infrastructure and fleet upgrades, and remedial work to restore services on parts of the network damaged by flooding. First Great Western and First Capital Connect extended their roles through direct awards from the Department for Transport (DfT) in the year. UK Rail is currently shortlisted for a number of new competitions. Going forward, UK Rail will participate in a range of franchise competitions to achieve profit on a par with the last round of franchising, with an acceptable level of risk.

Our financial position

In June 2013, we received the net £584m proceeds of the rights issue which strengthened our balance sheet and provided the necessary flexibility to continue our transformation programme and invest to create sustainable value.

In May 2014, we signed a five year, £800m revolving credit facility with our relationship banks. In addition to achieving better pricing and increased flexibility in certain areas, the new facility gives us strong liquidity and a stable financing platform to drive forward our transformation programme, with our next debt maturity in October 2016.

Group outlook

The Group is broadly on track to achieve our medium term targets and, while we are encouraged by progress so far, there remains a significant amount of work ahead. We are confident that we have the right plans underway to build on our market leading positions, strengthen the resilience of the Group, and return to a profile of sustainable cash generation and value creation for the long term.

Tim O'Toole
Chief Executive
21 May 2014

Business model

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 the communities we serve.

Effective transport systems are essential to allow ever more people to live closer together, keeping them more moving, providing vital links and enabling economic activity.

With an increasing global population and relentless and rapid urbanisation, there can be no doubt that congestion will be a permanent feature of the future. The challenges this presents mean the need for effective transport solutions is becoming all the more critical and complex.

Governments are increasingly turning to private sector operators to deliver innovative and efficient local transport solutions in order to keep communities flourishing. We are ideally placed to provide those solutions by leveraging our immense breadth and scale and our collective expertise and knowledge across a range of transport modes and systems throughout the UK and North America. That is why our vision is to provide solutions for an increasingly congested world, keeping people moving and communities prospering.

How we generate revenue

FirstGroup's unique portfolio of businesses addresses this opportunity by providing sustainable, integrated transport services that are safe, reliable and meet the needs of the customers and the communities we serve.

Our five divisions are exposed to different geographies, customers, revenue models, demand drivers and competitors within the overall transport industry. We review the key divisional drivers in detail in the divisional business reviews on pages 12-31, but in broad terms, half of our revenues are derived directly from our passengers, spread across business, commuting, social and recreational travel purposes, and across a diverse demographic mix.

The other half of our revenues are backed by contracts or franchise agreements with the national government, regional and local authorities in the UK, and state and municipal authorities, local school boards, universities and private companies in North America. Overall, our revenues are balanced between the UK (57%) and North America (43%), together with some minor activities in other European countries. This diversity of revenues typically makes the overall Group relatively resilient through the business cycle.

How we run our business

A critical driver of success in all of our divisions is the focus on the needs of our customers and local communities. We therefore run the business in a decentralised way, with our five divisional heads having significant responsibility and scope for entrepreneurial thinking at the divisional level, underpinned by rigorous strategic, operational and financial parameters set at Group level.

The fundamental skills and capabilities needed to run a transport business are the same across all the divisions, which is why the corporate centre supports and challenges the divisions to share best practice and expertise with each other, and coordinates Group-wide operational initiatives and actions where appropriate. In this way our divisions benefit from the breadth and scale of the Group as a whole when delivering the most appropriate, efficient solutions to the transport challenges of their local customers and communities.

At Group level, we have a lean corporate centre with a number of key functions as set out on page 60. In addition to fostering a high performance culture which delivers on our vision and values (page 6), Group also sets the strategic direction, establishes key targets and standards, monitors performance and provides

challenge. Group is also responsible for raising and allocating capital in order to drive sustainable returns.

Key divisional responsibilities

Local market and customer knowledge, and relationships with stakeholders:

Being market leaders in their respective fields ensures that our divisions are well placed to anticipate opportunities and challenges in their businesses.

Contract bidding and management:

Formulating successful bids with an appropriate level of risk, and managing the delivery of the resulting contracts for as long as 15 years, are key capabilities of our contract businesses.

Marketing and ticketing: Driving passenger volumes through engaging with potential customers and offering compelling travel options – such as multi-operator and season tickets, real-time pricing to maximise yield, customer loyalty schemes and greater use of mobile technologies – is increasingly important to our businesses.

Hiring, supporting and managing employees:

Our largest operating cost and core asset is our 117,000 people – our businesses rely on having the best people to ensure we deliver high-quality services.

Vehicle investment and maintenance:

We have substantial capital invested in nearly 60,000 vehicles across First Student, UK Bus, Greyhound and First Transit's shuttle segment, and manage or maintain a further 48,000 vehicles.

Operational and financial efficiency:

The divisions manage employee productivity, asset/fuel efficiency, parts procurement, overheads, and insurance and other risks to improve financial performance whilst delivering on their operational responsibilities.

Safety: By its nature, the transport industry involves the risk of injury to employees, passengers and third parties. It is central to our culture to keep safety front of mind, ensure lessons are learned and constantly reinforce standards and best practice.

Approximate Group revenue by type



Passenger revenue	51%
Contract or franchise revenue	49%

Approximate Group revenue by geography



UK	57%
USA	36%
Canada	7%

Continuous improvement culture: In the areas of service standards (punctuality, reliability, cleanliness, etc.) and sustainability, our divisions have ever more stretching improvement targets.

Risk management: Our divisions face a broad spectrum of risks, some of which are unique to their particular business. As part of the Group's overarching risk management framework, they own and manage the principal risks they face to enable agile and tailored responses.

Key Group responsibilities

Capital allocation: Review and monitor divisional fleet and technology procurement programmes and other significant transactions to ensure the best use of our available capital.

Capital structure and financing: Secure appropriate financing for the Group's needs under a range of future scenarios.

Sustainable value creation: Challenge and monitor the divisions to balance near term cash generation and long term reinvestment in the future of the business.

Budgeting, planning and cash management: Agree budgets, medium term plans, and ensure appropriate liquidity is available to the divisions.

Control systems: Manage lines of authority and delegated responsibilities, and appropriate systems and procedures, in order to plan, execute, control and monitor the Group's progress.

Risk management: Facilitate risk identification and management throughout the Group and review the adequacy of mitigating controls.

Safety, ethics and sustainability: Set policy standards and embed best practice behaviours to ensure a continuous improvement culture.

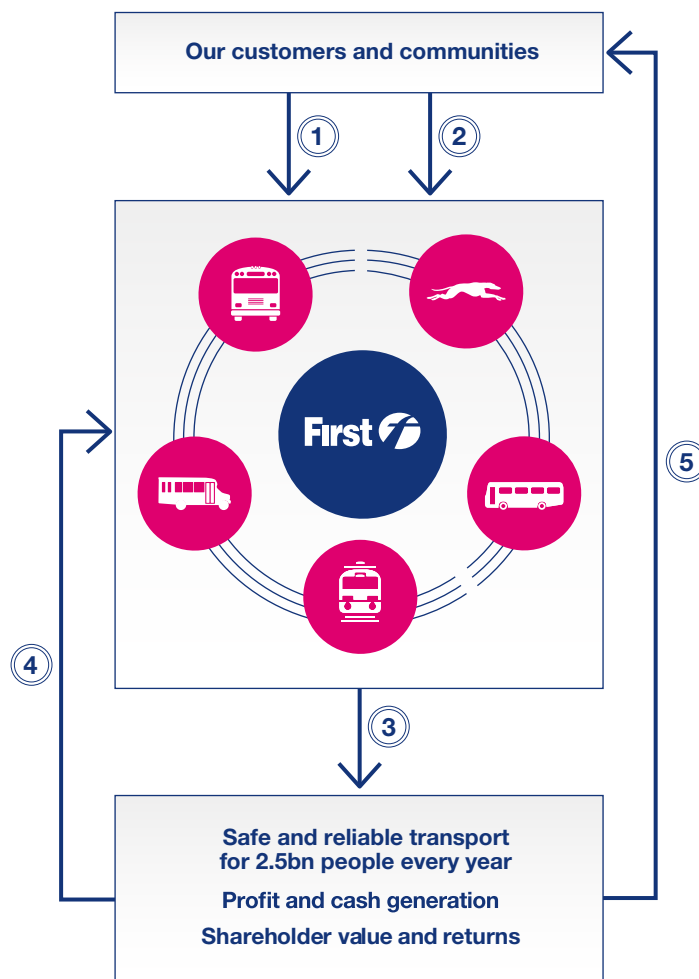
Employee development and benefits: Ensure the Group and our divisions hire, retain, manage and develop the best people for the job.

Operational best practice: Lead and coordinate sharing of divisional skills, experiences and capabilities (including safety and IT solutions) throughout the Group, and develop new expertise.

The business model

How our strategic objectives drive value

- ① Focused and disciplined bidding in our contract businesses
- ② Driving growth through attractive commercial propositions in our passenger revenue businesses
- ③ Continuous improvement in operating and financial performance
- ④ Prudent investment in our key assets (fleets, systems and people)
- ⑤ Maintain responsible partnerships with our customers and communities



Strategic objectives

We have five strategic objectives which will drive progress toward our key medium term financial targets.

Objectives

1

Focused and disciplined bidding in our contract businesses



2013/14 progress

- In the 2013 bid season First Student achieved approx. 1% organic growth and several share shift wins; loss of some contracts representing a significant number of buses, but limited profit contribution, resulted in net reduction of around 550 buses
- First Transit maintained contract retention over 90%, and achieved significant contract wins led by fixed route, paratransit and shuttle segments
- UK Rail shortlisted for a number of new opportunities in the current round of refranchising competitions.

2

Driving growth through attractive commercial propositions in our passenger revenue businesses



- UK Bus redesigned ten major networks and adjusted fares across the business; rebasing our commercial proposition and driving 2.6% volume growth
- Continued roll out of improved onboard services across the traditional Greyhound fleet; increased ticket purchase channels and convenience
- Profitable Greyhound Express like-for-like growth of over 10% continued, with new routes in Texas, Florida and Canada; new BoltBus services in California and Nevada.

3

Continuous improvement in operating and financial performance



- First Student recovery programme achieved \$100m per annum cost savings target from more consistent application of best practice and overhead savings
- Two thirds of First Student engineering workshops have achieved silver or gold 'lean' certification, and implementation is being reviewed in UK Bus depots
- UK Rail worked with industry partners to minimise disruption to passengers on fleet and infrastructure upgrades – such as the First TransPennine Express electric train roll out and Reading station transformation – and in response to winter flooding.

4

Prudent investment in our key assets (fleets, systems and people)



- Capital expenditure increased with fleet investments including largest ever UK Bus order; 75% of Greyhound fleet is now new or refurbished
- First Transit continued to invest to grow market leading university and airport shuttle contract portfolio
- Greyhound completed upgrade of revenue and passenger information platforms to support mobile and web distribution channels
- First Student completed roll out of FOCUS GPS-based driver management and customer information system
- First Transit initiated roll out of management IT system providing automated operational, maintenance and financial information
- Rolled out Group-wide succession planning and leadership development programme.

5

Maintain responsible partnerships with our customers and communities



- Customer service trends improving in First Student, First Transit and UK Bus; Greyhound and UK Rail fell modestly due to the impact of severe weather
- Onboard systems and behaviour change programmes delivering fuel efficiency and safety benefits throughout our businesses
- First ScotRail won the national Rail Business of the Year Award and First TransPennine Express awarded European InterCity Operator of the Year at the European Rail Congress.

 Read more
Chief Executive's strategic review p.6

 Read more
Business review p.12-31

Future priorities

- Accelerate First Student contract portfolio pricing programme to focus capital on higher returning opportunities
 - In First Transit, maintain track record of profitable growth in a range of segments and develop opportunities in new markets
 - UK Rail to continue participation in UK Government's multi-year refranchising programme with aim to achieve profit on a par with last round of franchising, with an acceptable level of risk.
-
- Continue rebasing commercial proposition in UK Bus on market-by-market basis, to rebuild volume and regain pricing competitiveness
 - Complete roll out of mobile ticketing throughout UK Bus
 - Deliver transformation of traditional Greyhound model to allow real-time pricing, loyalty and advance purchase options to improve yields
 - Continue profitable expansion of Greyhound Express and other point-to-point coach brands.
-
- Capture and sustain further \$50m per annum of cost savings from increased compliance with best practice throughout First Student
 - Continue to drive engineering and marketing programmes in UK Bus
 - Continued service and efficiency innovations to maintain First Transit's competitiveness
 - Greyhound to return Canadian operation to sustained profitability, through additional Express services and improved package offering.
-
- Maintain appropriate levels of capital investment in our vehicle fleets to meet the expectations of our customers
 - Continue development of real-time passenger information systems in First Student, First Transit and UK Bus
 - Roll out UK Bus mobile ticketing and customer information systems nationwide
 - Complete IT investment programme in Greyhound to deliver yield management and real-time pricing across the network
 - Roll out Group-wide employee capability assessment and development programmes.
-
- Reinvigorate Group-wide injury prevention programme
 - Reduce carbon emissions across all divisions in line with our climate change strategy
 - UK Bus and First ScotRail to deliver critical transport services for 2014 Commonwealth Games in Glasgow
 - Roll out Group-wide community engagement toolkit.



Read more
Business review p.12-31

Key medium term financial targets

Increase Group revenue (excluding UK Rail) at a faster rate than the economies we serve

Improve First Student and UK Bus margins to double-digit levels

Improve Greyhound margins to approx. 12%

Increase Group post-tax ROCE to between 10-12%

Maintain investment grade credit rating and reduce net debt: EBITDA ratio to approx. 2 times

Return the Group to being a reliable, consistent cash-generative business and re-establish a progressive and sustainable dividend policy at the appropriate time



Read more
Financial review p.42

Remuneration

The Company's Remuneration Policy seeks to provide a strong and demonstrable link between management incentives and the Company's strategic objectives and medium term financial targets, enabling Executive Directors and senior managers to share in the long term success of the Group without delivering excessive benefits or encouraging short term measures or excessive risk taking, and aligns their interests with those of our shareholders.



Read more
Directors' remuneration policy p.70 to 71

KPIs

We measure our performance against our strategic objectives through a series of key performance indicators which include financial metrics such as revenue, operating profit and return on capital employed (ROCE), and non-financial metrics such as on time performance, punctuality and lost time injuries



Read more
KPIs p.34

Principal risks

Although the achievement of our strategic objectives is subject to a number of risks and uncertainties, we monitor their potential impact closely and have significant mitigation plans in place



Read more
Risks and uncertainties p.36



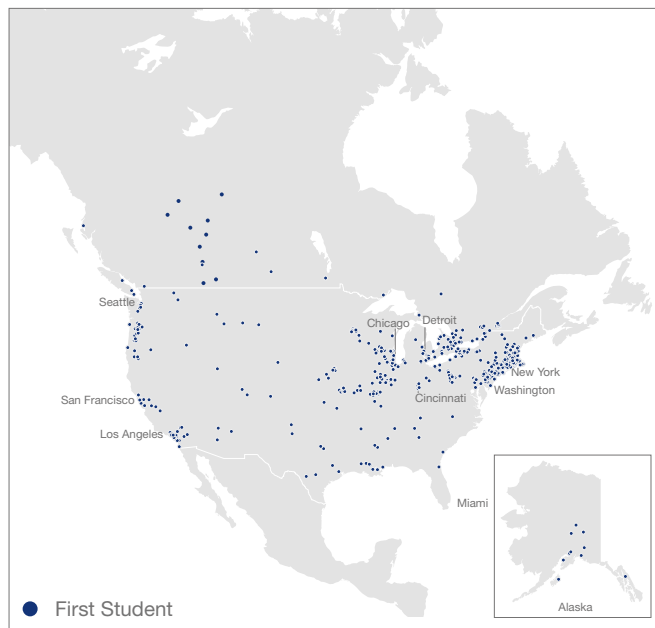
Market overview

First Student is the largest provider of student transportation in North America – over twice the size of the next largest competitor.



As the market leader, we must drive high standards and innovation, while achieving pricing that balances value and cost for customers.

Dennis Maple
President, First Student



Market review and trends

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, which deploy more than 500,000 school buses. The total North American market is estimated to be worth around \$24bn per annum, of which school districts directly operate approximately 64%, 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.

The economic downturn put significant pressure on customer budgets, leading to some organic retraction and price pressure, and atypical levels of contract churn. In the longer term, these pressures will drive demand for higher quality, higher efficiency providers. In the last two years, the market has shown signs of stabilisation and some positive but limited organic growth.

Customers

School districts provide transportation for students depending on varying criteria determined at state level. Contracts typically specify either fixed or annually indexed pricing, meaning that private operators bear cost risk. These contracts are typically three to five years in duration, after which they are competitively retendered. 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 increased student numbers leading to additional routes being driven for a given school and inflation related escalators built into some contracts.



Over 500 operating locations across US and Canada



1,350 contracts, typically 3-5 year duration

Competitors

The private outsourced market is highly fragmented with only 11 operators running more than 1,000 buses. The largest four companies, including our business, account for almost half of the outsourced market. The next 45 largest contractors operate a further 24,000 buses and the remaining outsourced contracts are operated by several thousand companies, often termed 'mom and pop' operators. 'Share shift', or winning contracts previously managed by other outsourced providers, together with acquisitions, provide additional avenues of growth.

Market attractions

- Contracted revenue with public sector customers, typically low credit risk
- Typically high levels of contract retention
- Security and safety track record at least as important as price
- Established relationships with local communities a barrier to entry
- Fragmented competitive environment – long term consolidation opportunity.

Approximate share of outsourced market (around 36% of total market)



First Student	27%
National Express	11%
Student Transportation of America	6%
Illinois Central	2%
Other	54%

Strategy and performance

	2014	2013
Revenue	\$2,339.3m	\$2,378.6m
Operating profit	\$152.8m	\$175.2m
Operating margin	6.5%	7.4%
Number of employees	57,500	59,500

Financial performance

Revenue in our First Student division was \$2,339.3m or £1,467.4m (2013: \$2,378.6m or £1,503.1m), 1.7% lower on a US Dollar basis, principally due to an unprecedented number of school closures due to the abnormal weather conditions across North America in the second half of our financial year. Operating profit was \$152.8m or £93.5m (2013: \$175.2m or £110.1m), resulting in a margin of 6.5% (2013: 7.4%), which also reflects school closures and the higher associated operating costs during the unusually severe weather. 75% of our territory suffered some impact from the extraordinary snow falls and extremely cold conditions, with more than 4,000 school days lost, approximately twice the impact we would expect to see in a typical year. A number of the lost operating days may potentially be recovered in the summer term, which occurs in our 2014/15 financial year. On an underlying basis, excluding the approximately \$25m of net weather impact for the year, First Student's margin would have been flat compared with the prior year, reflecting the achievement of the \$100m run rate in annual cost savings as planned, offset by cost inflation running slightly ahead of price indexation in our multi-year contracts.

Our strengths

Clear market leader (bigger than next four competitors combined) – scale economies in buying, insurance, fleet management, technology development, etc.

Differentiated offering – technology, safety programme, strong customer relationships and satisfaction scores

Recovery plan is progressing – cost efficiency, uniform practices and disciplined contract portfolio management will drive margins and value creation

Business being repositioned to sustainably deliver profitable growth and returns from market leading position in the long term

Business review

First Student continued

Focused and disciplined bidding

State and local finances have continued to improve modestly in the year; over the 2013 bid season we achieved organic growth from within existing contracts of more than 470 buses, almost double the rate of organic growth in the prior year and equating to approximately 1% growth. We continue to be competitive in the conversion market from in-house to the private sector, winning 55% of the contracts bid-for-and-awarded. We remain cautious about conversion growth however, as only a small proportion of contracts put out to tender convert to the outsourced sector, a trend we do not envisage changing in the medium term. A number of our share shift contract wins were cost-effective expansions of existing operations, such as for the Los Angeles Unified School District and for Kansas City, Missouri. Our continuing focus on returns resulted in some contract losses including several where, although the numbers of buses operated were significant, their contribution to profits was limited. Overall contract retention for the 2013 bidding season was around 90%, and the number of buses operated fell by around 550.

Continuous improvement in operating and financial performance

We have continued to focus on delivering cost efficiencies during the year, an area which remains an important component of First Student's recovery plan. Having delivered a \$100m run rate in cost savings in the year – through implementing uniform best practice in driver operating procedures, maintenance, fuel use and procurement – the business is enhancing its ability to generate returns, despite continued cost inflation in the industry. The next phase of cost savings, amounting to

approximately \$50m, have been identified, and focus on optimising the overhead structures of the business, together with ensuring full compliance of ever more consistent operating procedures throughout our more than 500 locations. Two-thirds of our engineering workshops have now achieved silver or gold 'lean' certification, up from a quarter in the prior year. Although non-school charter results were impacted by the weather, growing 9.5% in the period, we are pleased with the progress of our more structured approach to this business, which delivers a very strong incremental return on capital employed.

Prudent investment in our key assets

We continue to invest in technology to differentiate our offering, raise customer service levels and promote environmental benefits. The roll out of our FOCUS GPS system (which links onboard data to back office systems) has been completed and is delivering savings to plan, and the DriveSMART system (which provides real-time fuel use feedback to drivers) is being fitted throughout the fleet. In the second half we launched the MyFirstPass system (also known as ZPass) in selected locations, which gives parents and customers real-time information about student ridership as they swipe on and off the bus. We invested approximately \$300m in new buses, refurbishments, onboard technology and facilities improvements in the year; our average fleet age remains around 7.5 years.

Responsible partnerships with our customers and communities

First Student achieved a fifth consecutive year of improved customer service scores, with particularly pleasing results in the important start-up phase of the school year.

We are achieving fuel efficiency improvements of around 5% across the division through the DriveSMART system and related driver behaviour initiative, and added approximately 500 alternative fuel buses (mainly propane) to the fleet in the year. First Student's safety performance is both a source of competitive advantage and, more fundamentally, is deeply embedded in our culture and values.

For the last two years, First Student has won the Occupational Excellence Achievement Award from the National Safety Council.

Future priorities

First Student is a leader in its market in terms of both its size and the quality and safety of the services it provides. Although the recovery plan continues to make progress, more work remains to be done to ensure the division delivers its medium term double digit margin target. At present, the division deploys significant capital across parts of its contract portfolio that do not attract a fair margin for the quality of service provided or an appropriate rate of return on that capital.

Working together to keep children safe First Student



For the start of the new school year, First Student partnered with the National Safety Council (NSC) to share important safety information, allowing parents, students and motorists to understand the role they play in getting students to and

from school safely. The online programme covered a wide range of topics including playground safety, safety in and around buses, pedestrian safety and tips for motorists.



**Fleet of approximately
49,000 yellow school
buses**



**Six million students
transported per day**

Therefore the division is working through a programme to address contract portfolio pricing, focus capital on higher returning opportunities and continues to drive further cost efficiencies through the business. We remain confident in the ability of our detailed recovery plan to improve margins to double digits over the medium term. In the longer term, First Student will be increasingly well placed for growth through further share shift, in-fill acquisitions and organic opportunities.

Outlook

During the 2014 bid season, First Student is intensifying its focus on retaining or winning contracts that deliver an appropriate level of return on capital employed, which may result in some further losses of lower margin contracts. To the extent this is the case, the division will cascade the freed up vehicles to other opportunities, with a commensurate saving in capital expenditure. Although this approach may result in a modestly smaller revenue base and some short term costs, over the medium term this approach – coupled with the further cost savings – will result in a more sustainably attractive contract portfolio, which will deliver double digit margins and better returns on capital.

First Student fleet footprint



New York/New Jersey/Pennsylvania	21%
New England	13%
Ontario	11%
Illinois	8%
California	7%
Other	40%

Helping parents stay connected First Student



First Student rolled out the ZPass programme to all 43 elementary schools in Cincinnati's public school district. The RFID-based system can notify parents that their children

have arrived safely at school, alert school officials and parents in case of emergency and also track ridership data.

DriveSMART saves 3.2m gallons of fuel First Student



The DriveSMART initiative encourages our drivers to adopt safer and more fuel efficient driving techniques. During the year the

programme saved 3.2m gallons of fuel, with several states reducing fuel consumption by more than 10%.



Market overview

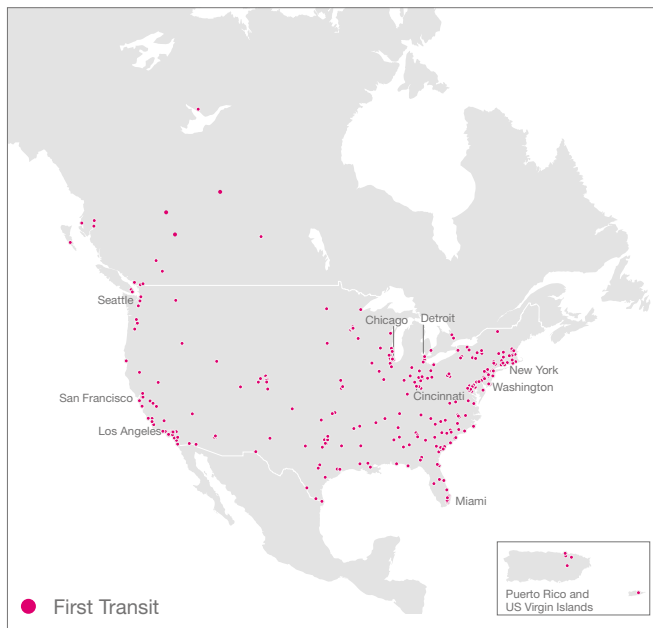
First Transit is one of the largest private sector providers of public transit management and contracting in North America.



Our broad book of business is served by an unmatched management team that possesses extensive knowledge and expertise. We are very proud of our superior reputation in the industry.

Brad Thomas

President, First Transit and First Vehicle Services



Market review and trends

The transit market is worth around \$24bn per annum in North America, of which approximately 30% is outsourced. The market includes the provision of fixed route bus services (an approximately \$15bn segment per annum, of which around 10% is outsourced), paratransit bus services (approximately \$4bn segment, of which three-quarters is outsourced), private shuttle services (approximately \$2bn segment, of which around 90% is outsourced) and transit system management contracting (an approximate \$3bn per annum segment, of which around one-third is outsourced). Private transportation companies manage, operate, maintain and organise transportation services under contracts which typically last for three to five years or longer.

Although the North American economic environment has been challenging overall, state and local governments have chosen not to reduce transportation spending – and have increased interest in outsourcing certain services, where private contractors can reduce overall cost. Ageing populations, increasing congestion and private companies seeking to offer additional services to their own customers continue to support growth in each segment. The market continues to attract new entrants, though reputation and track record remain important differentiators in the bidding process.

Customers

A wide range of customers contract out transportation services, including transit authorities, federal, state and local agencies, as well as 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.



340 operating locations across US and Canada



370 contracts, with average value of less than \$5m

Competitors

First Transit has over 15% 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 our First Vehicle Services segment 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 proportion of the outsourced market.

Market attractions

- Contracted revenue mainly with public sector customers, low credit risk
- Typically high levels of contract retention
- Low levels of capital investment required (apart from the shuttle segment)
- Ageing population and congestion continue to provide supportive drivers for continued growth through further outsourcing.

Approximate share of circa \$24bn US transit market



In-house	70%
First Transit	5%
Other outsourced providers	25%

Strategy and performance

	2014	2013
Revenue	\$1,290.5m	\$1,286.8m
Operating profit	\$95.7m	\$77.7m
Operating margin	7.4%	6.0%
Number of employees	19,000	17,500

Financial performance

Revenue in our First Transit division was \$1,290.5m or £811.9m (2013: \$1,286.8m or £814.6m). Adjusting for the disposal of First Support Services (FSS), US Dollar revenue increased by 8.0%, reflecting continued new business wins and organic growth within existing contracts. All key segments saw growth in the year, led by fixed route, paratransit and shuttle. Operating profit was \$95.7m or £60.3m (2013: \$77.7m or £49.1m), resulting in a margin of 7.4% (2013: 6.0%), which reflects a strong operating performance and the absence of the significant historic legal claim settlement in the prior year.

Focused and disciplined bidding

During the year, First Transit continued to leverage its longstanding management reputation and expertise to win new work. At the same time, through its collaborative approach with its public transit authority and private customers, the division also generated growth from increased utilisation of its services under existing contracts. Contract retention remained above 90%, reflecting high customer regard for our capabilities and the competitive pricing of our services.

Our strengths

Established credentials and track record – First Transit has been a market leader for over 50 years

Diverse segments and large volume of relatively small contracts – exceptional bidding and management expertise well embedded

Industry leading programmes – including safety and engineering training

Technology investment is delivering efficiency gains and service enhancements for our customers

Our scale and breadth of management expertise will support future growth

Business review

First Transit continued

The largest award in the year was a paratransit contract for PACE, part of the regional transport authority of Chicago, Illinois. We were also successful in expanding our call centre work with an important win for the Chicago Regional Transit Authority's Travel Information Center. Our shuttle business continues to be successful, with further contract wins at Auburn University and the University of Alabama at Birmingham joining other recent contracts including for the University of Tennessee Knoxville and Brown University in our market leading university portfolio. First Transit transitioned several large contracts from other operators including the newly unified fixed route contract for Valley Metro RPTA in Mesa/Tempe, Arizona, the MetroACCESS paratransit contract in Washington, DC, and the Maryland Transit Administration paratransit contract in Baltimore, MD. Important contract retentions this year included fixed route services for the Potomac and Rappahannock Transportation Commission in Woodbridge, VA, fixed route and paratransit services for Johnson County, Kansas, and shuttle services at the Baltimore/Washington International Airport. Collaborating with our Fort McMurray oil industry partners resulted in further revenue growth under existing contracts.

Continuous improvement in operating and financial performance

A significant proportion of First Transit's opportunities will continue to arise from business outsourced to the private sector for the first time, where our national service platform, technology infrastructure and management expertise can deliver substantial cost savings compared to public provision. Through a culture of continuous improvement and technology insertion, First Transit has continued to maintain our ability to provide both exceptional service and low cost for new and existing customers. For example, First Transit has continued to improve operational efficiencies, including through the refinement of our fixed route mileage optimisation programme which results in reduced non-revenue time and mileage, paratransit productivity which improves vehicle routing and scheduling efficiency, and direct and indirect cost reductions through the negotiation of more competitive purchasing agreements.

Prudent investment in our key assets

First Transit focuses investment spending on three principal areas: people, technology solutions and on vehicles for the shuttle segment, where typically we own the fleet as well as delivering a service. To ensure we maintain the depth and breadth of expertise required to consistently deliver high-quality bid submissions and a subsequent service that meets customer expectations, we maintained our significant investment in recruitment, retention and continuous training of our people.

The division successfully initiated the roll out throughout the US of its management IT system providing automated operational, maintenance and financial information in the year, which will deliver significant cost savings. This system will also allow us to offer real-time vehicle location information to our customers. In shuttle, we continue to invest in state-of-the-art buses through a combination of direct investment and operating leases, where commercially appropriate.

Responsible partnerships with our customers and communities

Our customer service trends continue to be positive, with our commitment to safety, technical and operational knowledge and professionalism particularly recognised by our customers.

We have enhanced our industry leading safety programme through the continued roll out of DriveCam technology, an event capture and driver behaviour monitoring system, which has the added benefit of improving fuel efficiency.

Leader in shuttle bus services

First Transit



The US shuttle bus market (estimated \$2bn in annual revenue), serves the increasing need for organisations — principally universities, airports (including car rental consortia serving airports) and private companies in other industries — to offer attractive services to their students, travellers

and employees. We are a leader in this market with more than 50 multi-year contracts, under which we typically provide both the bus fleets and operate the service for our clients. Our portfolio of shuttle bus contracts includes universities, airports and supporting clients active in the Alberta oil sands.





**330 million passengers
a year**



**Operate and manage more
than 12,500 vehicles, and
maintain a further 35,500**

Future priorities

The continued success of First Transit depends on maintaining our competitive advantage, which resides in the expertise of our people and the quality of our technology. Both are vital components in delivering services that continue to innovate and to deliver cost efficiencies, which in turn ensures we will be the low cost supplier of choice for our customers. We see continued growth potential in all of our existing segments, together with emerging outsourcing opportunities in light rail, commuter rail, high speed rail and Bus Rapid Transit (BRT) in the US and internationally. In the future, we anticipate there could also be opportunities for targeted acquisitions of complementary businesses, which would immediately increase market share, leverage our scale and enhance profits and returns. We look forward to leveraging our market position and reputation to deliver continued growth at attractive margins.

Outlook

The pipeline of potential new business remains attractive, with a wide range of bid opportunities to add to our portfolio of over 370 contracts. As we look ahead to next year, current identified opportunities are weighted to fixed route, paratransit and shuttle segments.

First Transit revenues by segment



Fixed route	38%
Paratransit	29%
Shuttle	23%
Vehicle Services	10%

Engineering excellence First Transit



First Transit places a high priority on training our people. As an example, the US transit industry uses an independent certification group called the National Institute for Automotive Service Excellence,

or ASE, to certify engineering technician qualification. We estimate we have more ASE-certified technicians than all of our competitors combined.



Market overview

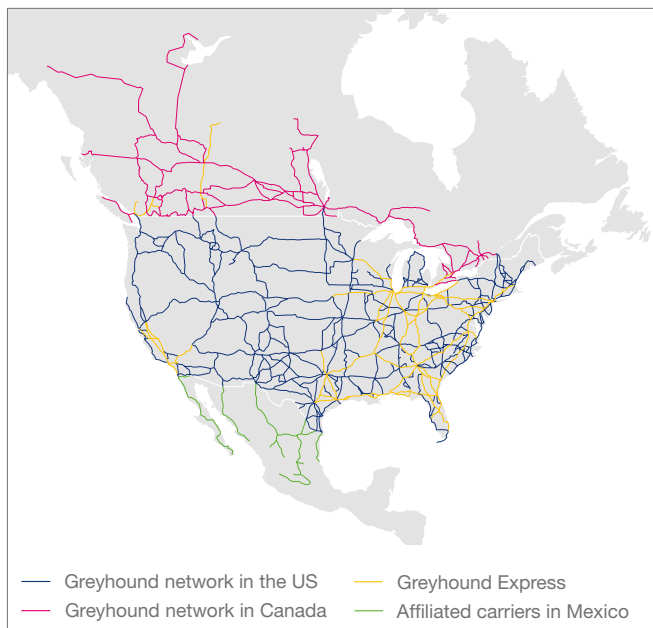
Greyhound is the only national operator of scheduled intercity coach services in the US and Canada, serving 48 US States and 10 Canadian Provinces and Territories.



We are uniquely positioned to take advantage of the resurgence in the intercity coach market through the rebuilding of an iconic American brand.

Dave Leach

President and CEO, Greyhound



Market review and trends

The US intercity coach transportation industry has been growing every year since 2006 – a reversal of the position in the preceding 25 years, when the industry declined by an average of 2.9% a year. The size of the potential market presents a significant opportunity for growth, with 42m people considering coach travel every year, of whom around a quarter currently use Greyhound. Even regular coach users choose other modes 75% of the time, but new offerings and better products, services and price have the potential to grow this market and frequency of use.

As well as passenger revenues, income is generated from package express services, charter and tour organisation and also catering outlets in terminals. Partnerships between Greyhound and independent bus lines, known as interlining, extends the reach of the national network. Greyhound also partners with Amtrak to offer passengers a through ticket to their final destination if not served by rail.

Value-focused customers, who form a substantial portion of Greyhound's traditional customer base, remain cautious as they continue to feel the effects of the prolonged economic downturn, although conditions improved modestly in the second half of the year.

Customers

North American intercity coach firms serve a wide customer base, who prioritise value and whose primary purpose is to visit friends and family. Direct, point-to-point services, such as Greyhound Express which now serves 120 markets across North America, are spurring a coach renaissance and encouraging a new, younger, passenger demographic. Traditionally customers bought walk-up tickets but recent developments in technology are encouraging new habits.



**3,800 destinations
across the USA
and Canada**



**Around 18m
passengers travel
5.5bn miles a year**

Competitors

Intercity coach transportation competes with many other modes of mid to long distance travel across North America, including budget airlines and the private car. There is a highly competitive intercity coach market in dense travel corridors, for example, the north east and north west of the USA, where coach transportation also competes with air and rail services.

Market attractions

- Private car ownership is declining, driven by continued urbanisation, congestion and costs of motoring
- Ample opportunities to expand penetration and footprint with multiple brands and services
- Under-utilised services may be part funded by transport authorities
- Target demographic segments respond to value for money offering and new innovation through technology
- Passenger, package, charter and food service revenues offer diversification.

Distribution of Greyhound passengers by mileage band



1-200 miles	48%
201-450 miles	34%
451-1,000 miles	13%
1,000+ miles	5%

Approximate Greyhound passenger revenue split between USA and Canada



USA	79%
Canada	21%

Strategy and performance

	2014	2013
Revenue	\$990.6m	\$1,022.0m
Operating profit	\$73.2m	\$85.2m
Operating margin	7.4%	8.3%
Number of employees	7,500	7,500

Financial performance

Greyhound's overall US Dollar revenue was \$990.6m or £624.6m (2013: \$1,022.0m or £647.1m) with the reduction of 3.1% including the impact of severe weather which caused significant disruption to the network in the fourth quarter. Excluding weather, like-for-like revenue over the financial year was approximately 0.7% lower, although the revenue growth trajectory improved over the course of the year. Adjusted operating profit was \$73.2m or £46.4m (2013: \$85.2m or £54.3m), resulting in a margin of 7.4% (2013: 8.3%). This margin performance in part reflects the modestly improving economic conditions over the course of the year and the continued profitable growth of our point-to-point services, offset by the impact of weather-related disruption and higher associated operating costs in the final quarter.

Driving growth through attractive commercial propositions

Greyhound's iconic brand is synonymous with long distance coach travel in North America and our unique national network provides a significant competitive advantage and an established base for future growth, by providing passenger feed from the 42,000 city pairs that we offer as operating leverage to our point-to-point services.

Our strengths

Iconic brand synonymous with long distance coach travel

Only national network of scheduled intercity coach services – passenger feed from 42,000 city pairs provides operating leverage to newer point-to-point services

A business that is re-engaging with customers – operating a refreshed fleet with improved onboard amenities and additional sales and distribution channels

Range of brands and price points to target new markets

Whilst traditional Greyhound remains a largely cyclical business, our programme of expansion in Greyhound Express and our other point-to-point brands continued even during recent periods of economic fragility in North America. Greyhound Express continues to perform well, with like-for-like revenue increasing by more than 10% for the year. The multiple price points we now offer give us broader market potential and help us to attract users back to coach travel as well as encouraging new customer demographics. Greyhound Express now covers more than 30% of our US network including most of the major city pairs. During the year we launched Greyhound Express in additional markets including routes around Vancouver, Edmonton to Grand Prairie, Dallas to Memphis, and from Jacksonville to Miami and New Orleans. Our BoltBus services also expanded in California, adding Los Angeles to San Francisco, San Jose to Oakland and Los Angeles to Las Vegas, and our YO! Bus brand, which links Chinatowns in the north east, saw positive year on year performance.

We are taking the experience from our point-to-point services and introducing best practice across our traditional network. Greyhound is re-engaging with our customers through increased marketing and has improved the onboard amenities of our fleet with multiple new and refurbished vehicles that provide leather seats, Wi-Fi and power sockets. We are further developing our dynamic pricing proposition and opening up innovative ways to interact with both new and existing customers through additional sales channels, such as our mobile-enabled website which came online in 2013/14 with print at home ticketing functionality, and the ability to book online and pay cash for tickets in more than 10,000 7-Eleven and ACE Cash Express kiosks. In the last two years, the proportion of tickets purchased online has increased from one-third to half.

Continuous improvement in operating and financial performance

Over the last five years we have significantly improved our operating flexibility, in part through depot and location rationalisation. Our ongoing efforts to right size our terminal footprint continues, and over the next few months we expect to open new terminals in Miami, Seattle and Baltimore.

We are restructuring our Canadian business, have launched our Greyhound Express product in four Provinces, and are improving our package delivery offering, which over time will deliver a more commercially viable service.

Prudent investment in our key assets

Our disciplined fleet investment has led to improved onboard amenities for our customers and prolonged the life of our coaches, enabling us to reduce maintenance costs and become more coordinated in the scheduling of preventive maintenance programmes. Our move towards a revitalised fleet continues with three-quarters of our vehicles now either new or refurbished and an average fleet age of ten years. We continue to introduce new vehicles from our April 2013 order of 220 coaches, and during 2014/15 we will complete our refurbishment programme.

Our investment in information technology will allow us to offer many new ways to better leverage and monetise the existing network capacity through yield and capacity optimisation, including the development of new dynamic pricing and yield management systems across our core network. We are developing the architecture needed to introduce a loyalty programme and increasing our marketing, helping us to engage further with our customers.

Responsible partnerships with our customers and communities

With an increased emphasis on customer service training across the division, our customer satisfaction scores have maintained their long term improving trend.

Our new fleet now operates using some of the most fuel efficient engines in the industry, and we continue to promote initiatives including a focus on reduced idling and, through DriveCam, a more effective fuel consumption strategy. DriveCam's event capturing and driver behaviour monitoring also provides us with safety data. New terminals that we have opened recently or will open in the short term have the most up to date environmental credentials and are LEED certified by the US Green Buildings Council.

Future priorities

Since FirstGroup acquired Greyhound in 2007 we have transformed the operating model, making the business more flexible and introducing a reduced cost base and improved capital profile, which means that we are now poised for growth both within our existing network and with new demographics through Greyhound Express and our other point-to-point brands. We are on track with our investment programme, which will transform our offering principally through applying the yield management, real-time pricing and more consumer friendly ticketing

Celebrating 100 years of service Greyhound



Greyhound celebrates its 100th anniversary in 2014. The globally recognised iconic brand was founded in Hibbing, Minnesota and has proudly served America for a century, withstanding the test of time through a deserved reputation for great service and value for money. We are celebrating Greyhound's centenary with a series of events throughout the year including exhibitions, in-terminal commemorations, employee awards

and a centennial tour featuring our restored classic fleet. Scheduled promotional activities include a limited number of 15 cent fares mirroring the ticket price in 1914, a special livery on our coaches all supported by a tailored marketing campaign. As we showcase Greyhound as the flexible and agile business it is today, we are celebrating our past whilst looking forward to an exciting future.





**Fleet of approximately
1,700 coaches**



**Greyhound Express
serves 930 city pairs
in 120 markets**

features of Greyhound Express and BoltBus to the traditional network. This focused investment, together with the continued growth of our successful point-to-point products, gives us confidence in achieving our medium term margin target of 12%.

Outlook

Our main priority for the year ahead includes the further roll out of Greyhound Express routes and progress on our IT transformation. During the first half of the 2014/15 year we expect to begin piloting yield managed pricing on our traditional network. We will also complete our programme of fleet revitalisation; by the end of the financial year, all of our vehicles will be new or refurbished, further increasing the attractiveness of our customer offer. In 2014, Greyhound celebrates its centenary, and we plan to increase marketing to ensure that as the economy improves, more and more of our addressable market uses the services provided by our transformed iconic American brand.

Greyhound 2013/14 revenue by type



Passenger revenue	80%
Package Express	8%
Food service	2%
Charter	1%
Other	9%

Investment in new fleet Greyhound



This year we signed Greyhound's largest coach order in more than 20 years with the introduction of 220 new coaches to our fleet. Along with the refurbishment of nearly 600 existing coaches,

Greyhound is working hard to make the customer experience consistent across the business. The new fleet is one of the most environmentally friendly in the industry.

BLUE Wi-Fi entertainment system Greyhound



To enhance the travel experience for customers, Greyhound is piloting BLUE, an onboard entertainment system which works with passengers' own personal devices. Greyhound has become the first intercity coach carrier to offer this experience, which is

currently being tested on the Dallas-Houston Greyhound Express route and on BoltBus in the Pacific Northwest, ahead of a wider roll out later this year.





Market overview

UK Bus is one of the largest bus operators in the UK, with around a fifth of the deregulated market.



We are creating a robust business model that will deliver revenue growth, underpinned by sustained volume growth and a rigorous focus on operating discipline.

Giles Fearnley
Managing Director, UK Bus



Market review and trends

Local bus services in the UK (outside London) have been deregulated since the 1980s, with most services being provided by private operators, although a small number of local authority owned operators still 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. Around 2.8bn passenger journeys are made on local bus services outside of London, generating revenues of approximately £4.4bn a year.

Economic weakness continues in some of the UK's larger urban areas, to which the provision of bus services remain crucial for recovery. The impact of reductions in Government funding for local authorities continues to cause pressure on local transport budgets. Partnership with local authorities remains a core principle for both the bus industry and central Government in order to deliver service improvements without increasing council tax payer spending. The DfT promotes this agenda through initiatives including Better Bus Area grants and the Green Bus Fund. Tailored local brands and services, including premium high-quality routes serving distinct markets, remain important, as does the focus on development of new technology including smart ticketing and improved passenger information.

Customers

Revenues in the bus market principally comprise passenger ticket sales and concessionary fare schemes (payments by local government authorities for services for which passengers pay reduced or no fees). Significant proportions of passengers use bus services for commuting – to work, school, college or university – for shopping and for leisure purposes. Income may also be generated through tendered services.



**1.6m
passengers
per day**



**We serve 40 of the largest
towns and cities including
seven of the 12 most densely
populated cities in the UK**

Competitors

The UK bus market (outside London) is deregulated and highly competitive with more than 1,200 bus operators; we face competition in all markets in which we operate. A number of multi-regional operators have increased market share through acquisitions during the year and a number of operators have both entered and left the market. The main competitor to bus services in the UK, however, remains the private car.

Market attractions

- £4.4bn total market offers significant potential for growth strategies tailored to specific segments
- Bus travel diversified by journey type
- Youth market provides a great growth opportunity, with car ownership falling in this demographic
- Significant spare capacity to accommodate growth
- Using new technology to attract custom.

Approximate share of the UK bus market outside London



FirstGroup	20%
Others	80%

Our UK Bus operations by geography



England	70%
Scotland	23%
Wales	5%
Ireland	2%

Strategy and performance

	2014	2013
Revenue	£930.2m	£1,128.2m
Operating profit	£44.4m	£50.8m
Operating margin	4.8%	4.5%
Number of employees	18,500	22,000

Financial performance

Revenue in our UK Bus division was £930.2m (2013: £1,128.2m) and like-for-like passenger revenue growth (adjusting for the sale of our London business) was 1.8%. Adjusted operating profit was £44.4m (2013: £50.8m), resulting in a margin of 4.8% (2013: 4.5%). This encouraging performance is despite the continued challenges posed by economic conditions in some of our local markets as well as further reductions in public funding.

During the year we completed the first stages of our transformation plan, including the previously announced disposals of certain bus businesses in order to rebalance the portfolio. As a result of this we exited the London market in order to focus on our commercial deregulated businesses elsewhere. Our transformation plans to return the division to double-digit margin performance in the medium term are focused on: stimulating passenger volume through improving our customer proposition (fares, networks, local partnerships); delivering improved service quality and cost savings through rigorous focus on disciplined operations and investment in our employees' capabilities; and investing in our fleet, ticketing and other customer-facing technologies to stimulate growth and loyalty.

Our strengths

Strong position in the deregulated market (outside London) – 20% overall market share

Compelling positions in key markets – operations in seven of the 12 most densely populated cities

Senior management structure reorganised and new talent recruited to focus greater commercial and operational expertise at the local level

Customer response – including passenger volume growth and satisfaction scores – demonstrates positive reaction to commercial proposition changes

Driving growth through attractive commercial propositions

A typical approach in a market is to rebase certain fares products to ensure competitiveness and value for money, which encourages volume growth and maintains revenue levels in the early stages. This acts as a platform from which to build further volume and pricing growth in future years. Following our success in the first half of the year principally in markets in the north region, the full year passenger volume growth across the division of 2.6% is the first full year of commercial passenger volume growth for a decade. Tailored fares reductions in Manchester have persuaded an extra 150,000 people per week to travel on our services and contributed to an improvement of more than 30% in customer perceptions of our value for money. In the second half of the year we expanded our fares reviews to other markets including Leeds, Portsmouth, Southampton and Bristol, where we worked with the elected Mayor of Bristol to undertake a wide ranging consultation that we used to inform our new fares structure introduced in November.

In many areas we coupled changes to the fares structure with improved network designs, allowing us to maximise growth opportunities and increase market share. We have completed ten major redesigns so far, including our SimpliCITY network in Glasgow which has restored frequencies of ten minutes or better to core services and coordinated these routes to create simpler links to the city centre. Against the backdrop of an economy that struggled in 2013/14, SimpliCITY outperformed the rest of the network, delivering a growth rate 1.0% higher.

Effective partnerships, which foster better and stronger coordination with local authorities and other stakeholders, are hugely important for us in terms of our customer proposition. We are a key partner in two new Better Bus Areas announced in 2013, York and the West of England Partnership, receiving enhanced funding from the DfT. Working closely with our partners, we seek to align agendas and

through this deliver greater passenger growth to the networks. Of the five areas across the country that have now secured this funding, we have been at the forefront of three, reflecting how important we consider fostering powerful partnerships is to the future success of local bus services.

We are working hard with local authorities to ensure they make best use of their limited funds, particularly for tendered services. In Cornwall, we have worked with the council to ensure that the network maximises the coordination between commercial and tendered services. In West Yorkshire we, along with other local operators, have developed a compelling proposition to enable buses to support the growth of the local economy, which will now be considered by the newly formed combined authority. In Portsmouth we have worked closely with the city council to introduce bus priority measures including bus lanes and a park and ride system.

Continuous improvement in operating and financial performance

We have continued to focus on cost optimisation and disciplined operations during the year. Adoption of best practice operating procedures and standards have led to cost efficiencies including a 27% reduction in breakdowns and lost mileage reducing by 21%. This focus on disciplined operations has also delivered an increase in punctuality and reliability standards.

With the optimisation of our depot operations making good progress, we have intensified our focus on leadership development. Our programmes aim to give our management teams the support to develop local initiatives, seek development opportunities and stimulate commercial initiatives. During the year, the division restructured its senior leadership team to refresh talent and ensure that the necessary commercial and operational expertise is in place to support our local operations.

Better Bus Area partnerships

UK Bus



In October 2013 the Government revealed further investment in local bus services through the designation of four new Better Bus Areas (BBAs), including two where we are a key partner: York and the West of England Partnership region (comprising Bath, Bristol and South Gloucester). This follows the announcement in February 2013 of the first BBA in Sheffield, where First is also a lead operator.

Bus passengers in Sheffield are benefiting from improved and better value services. Working closely with our partners in the region, we are helping to make bus travel more attractive and, as a result, more

passengers are using the bus. We are seeing very encouraging levels of passenger growth, whilst reliability and customer satisfaction scores have increased in the area. We are developing our plans for the delivery of improved services for bus users in York and the West of England. We are determined to foster powerful relationships with our partners everywhere we operate which can help us unlock the full potential of the bus.





**Fleet of approximately
6,400 buses**



**600m passengers
a year**

Prudent investment in our key assets

In January we announced our biggest ever investment in vehicles outside London. We plan to introduce 425 vehicles during the 2014/15 financial year at a cost of £70m, taking our total investment in new vehicles to £310m invested in 2,000 new vehicles over four years. Almost all of these buses will be manufactured in the UK, with 274 Wrightbus StreetLite Micro Hybrid buses forming the bulk of the latest order. These diesel-based vehicles incorporate an innovative onboard hybrid system which improves fuel efficiency by around 10%, and we will be the first company to operate these new buses. Capital investment into our fleet will continue in the coming years, further reducing our average fleet age (currently nine years) and improving customer experience.

In both Aberdeen and Worcester we launched mobile ticketing during the year and through 2014 all of our networks will be equipped with this technology. We are also introducing smartcard schemes, with multi-operator capability where appropriate, allowing us to offer a more sophisticated pricing model and giving us more information about who our customers are and how they use our services. This will give us a strong platform from which to launch customised loyalty initiatives based on a detailed understanding our customers' needs.

Responsible partnerships with our customers and communities

Our efforts to improve the quality of our fleet and the reliability of our services were recognised in the recent independent Passenger Focus Autumn 2013 survey of customer satisfaction. The results showed a 5% rise in overall passenger satisfaction across our services to 86%, including an increase in score in 34 of the 35 variables measured. We were particularly pleased that our Glasgow network achieved an overall satisfaction score of 91% following the launch of the SimpliCITY network this year.

Our close partnership working also extends to ensuring our services are accessible for all. For example, in Glasgow we are offering job seekers significant discounts on single fares, our child fare of 60p in the same city is one of the cheapest in the UK, while in Bristol we offer a 30% discount to all young people under 21. We became the first national bus operator to pledge our support for a charter, developed by the Royal National Institute of Blind People, to ensure services are accessible for customers with sight loss. Our ongoing partnership with Disability Rights UK, and other disability organisations, is helping our drivers meet the needs of those living with disability and health conditions. We also support Greener Journeys' annual Catch the Bus Week initiative, which promotes the benefits of bus travel including environmental considerations and the importance of bus services to local economies.

We were pleased to be awarded the contract to provide bus services for the 2014 Commonwealth Games in Glasgow. Our SimpliCITY network across the city will be supplemented by new services and shuttles linking principal Games venues with the city centre. We will also be providing bus and coach services for all client groups during the Games including the athletes, technical officials, media and sponsors.

Future priorities

In the 2013/14 year we saw each component of our transformation plans coming together to enable the full potential in each market to begin to be realised. Each of our core initiatives is being rolled out across our bus businesses in a tailored local way. Our customers are beginning to recognise and welcome the improvements we are making to services across our operations, and we are seeing positive signs of passenger satisfaction scores improving and passenger volumes increasing. In combination, our strategies are building a more resilient business and we continue to move towards achieving double digit margins over the life of the plan.

Outlook

In 2014/15 we will continue to work through our network and fares optimisation programmes, and will be embedding the benefits of changes already made as some of the early schemes reach their first anniversary during the first half of the financial year. During 2014/15 the introduction of smart and mobile ticketing, together with enhancements to customer information channels, are designed to spur further volume growth. Although the local economies in some of our markets continue to be challenging, and local authority concessionary fare budgets remain under pressure, we have confidence that we will harness our compelling market positions to deliver sustained volume and revenue growth underpinned by tight cost disciplines over the coming years.

UK Bus 2013/14 revenue by type



Passenger revenue	64%
Concessions	25%
Tenders	5%
Other	6%



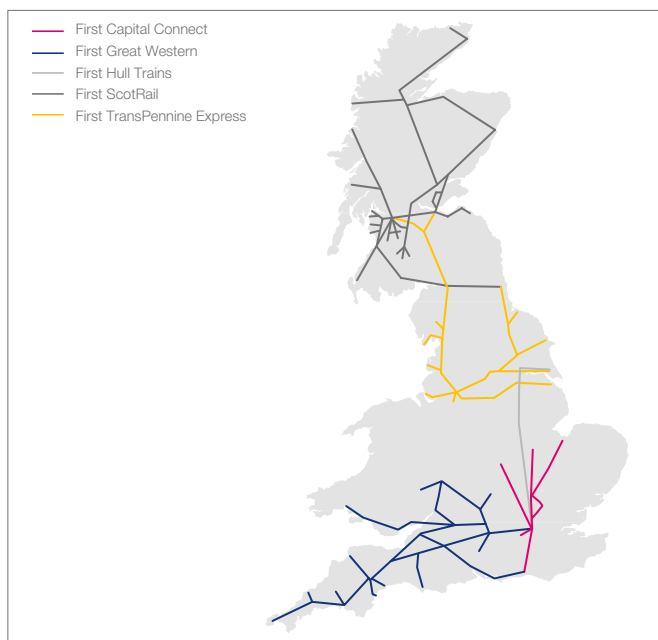
Market overview

UK Rail is the UK's largest rail operator with almost a quarter of the passenger rail network, carrying more than 330m passengers per year.



We have experience running all types of rail operations in the UK and, by participating in a range of franchise competitions, we look forward using our expertise to provide more and better rail services across the UK.

Vernon Barker
Managing Director, UK Rail



Market review and trends

Passenger rail services are primarily provided by private train operating companies through franchises awarded by the relevant authority, but may also be provided on an 'open access' basis. Operators are responsible for the day-to-day management and operation of train services. Many elements of the service provided to passengers are mandated as part of the franchise contract and others are left to commercial judgment. Total franchised passenger revenues in the UK are around £8bn per annum. Rail tracks and infrastructure (signalling and some major stations) are owned and managed by Network Rail. Operators typically lease rolling stock from leasing companies.

Passenger growth across the industry remains at historically high levels, despite recent macro-economic pressures, as a result of improved rolling stock, marketing initiatives and additional services. During the year the Government made progress against its revised refranchising timetable with a third generation of competitions now fully under way, whilst, following devolution, the Scottish Government is also making progress with its two franchise competitions. The Government continues to invest in infrastructure and new rolling stock across the country to deliver visible improvements for passengers, funded in part by regulated fare increases. To facilitate infrastructure and rolling stock work, closer partnerships between Network Rail and operators are positively encouraged by Government. Innovations such as smart ticketing, social media and mobile phone technology are being introduced across the sector.



**330m passengers
per year**



**2,800 diesel and
electric rolling
stock vehicles**

Customers

Rail markets differ but are generally categorised 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.

Competitors

The main competitor to rail services in the UK is the private car. We also face competition on some of our passenger flows from other rail services and, to a lesser extent, from long distance coach services and airlines. Our UK Rail division bids for franchises against other operators of current UK rail franchises and rail operators from other countries.

Market attractions

- £8bn of long term contract-backed passenger revenue available through 19 major franchise opportunities
- New franchises expected to have clearer upfront contingent capital requirements with greater revenue risk but earlier revenue protection
- Regulated environment, including Government capped regulated fare increases
- Historically high levels of passenger numbers across the country.

Approximate share of total market



FirstGroup	23%
Stagecoach	20%
Govia	20%
Abellio	9%
Deutsche Bahn – Arriva	9%
Directly Operated Railways	8%
Virgin	6%
National Express, Serco, MTR	5%

Passenger revenue base of FirstGroup UK Rail franchises



Leisure	47%
Business	31%
Commuter	22%

Strategy and performance

	2014	2013
Revenue	£2,870.1m	£2,795.1m
Operating profit	£55.2m	£19.3m
Operating margin	1.9%	0.7%
Number of employees	14,000	13,500

Financial performance

Our UK Rail division saw like-for-like passenger growth of 5.9% during the year (2013: 7.4%) as the strong demand that has been seen across the industry since privatisation continued into 2013/14. Revenue during the year was £2,870.1m (2013: £2,795.1m), with the increase principally due to the strong passenger volume growth across all of our train operating companies. Adjusted operating profit was £55.2m (2013: £19.3m), representing a margin of 1.9% (2013: 0.7%), in part reflecting First Great Western moving from a loss-making position to normal commercial terms under the direct award agreed in October 2013 and the successful delivery of a number of important fleet and infrastructure projects in conjunction with industry partners.

Focused and disciplined bidding

This year the DfT and Transport Scotland have made significant progress in the third generation of their rail refranchising programmes, which will see £8bn per annum of long term contract-backed passenger revenue available through 19 major franchise opportunities in the coming years. We are shortlisted for a number of competitions in the current round of franchising.

Our strengths

Significant participant in the UK rail market since privatisation

Experienced in running all types of passenger rail operation – intercity, regional, commuter, sleeper and open access

Strong commercial, rolling stock and major infrastructure upgrade project capabilities

Highly experienced management team – with a strong record of operational delivery and bidding

We submitted compelling bids for the first four of these which demonstrate value for money for passengers, the taxpayer and our shareholders, and expect to submit a competitive bid for the InterCity East Coast competition in the summer. We are also investigating contract opportunities from other franchising authorities, and during the year we were pleased to be shortlisted for the tender to operate the Luas light rail system in Dublin by the Railway Procurement Agency of the Republic of Ireland. The contract award decision is expected in the autumn of 2014.

Following the review of the refranchising programme completed in 2012/13, the DfT announced a new timetable in March 2013 which was subsequently updated in April 2014. As part of this new timetable, we agreed shorter direct awards with the DfT to run our First Capital Connect franchise for an additional six months until September 2014 and our First Great Western franchise for an additional two years until September 2015, securing continuity of rail services for passengers and retaining our experience in managing the impact of the multi-billion pound investment programmes already underway on these networks. We are progressing negotiations with the DfT to continue operating our First TransPennine Express franchise until February 2016, and working with the Department to explore whether a longer direct award with First Great Western may offer better value for money and better services for passengers during the significant programme of works to improve services on the Greater Western network.

Overcoming the impact of severe weather

UK Rail



Severe weather in both December and February caused significant problems for national rail infrastructure, with all of our operating companies affected to some extent. Flooding disrupted First Great Western's network at both Maidenhead and in Somerset, whilst the sea wall at Dawlish collapsed in February, severing the line between Exeter and Plymouth. We worked closely with Network Rail as they rebuilt the section of track to re-open in April. In the meantime, we operated a fleet of

replacement buses as well as direct coaches between Exeter and key locations in Cornwall. We eased ticket restrictions at times of the worst disruption and enhanced our provision of customer assistance personnel. We also created an online microsite to provide customers with updates on disruption works. Employees from all of FirstGroup's train operating companies and other parts of the Group volunteered to help station and onboard colleagues.

Continuous improvement in operating and financial performance

Our UK Rail teams have a depth of expertise and a record of delivery. Our operating companies have outperformed the industry in delivering punctuality and customer satisfaction improvements since 2006, despite infrastructure challenges. We continue to work closely with Network Rail where we can in order to both help them reduce infrastructure issues, which in some of our operating areas accounts for two-thirds of delays, and also to ensure upgrades are delivered in an efficient manner which causes the least possible disruption to our passengers. By far the most visible impact of infrastructure failures were the various incidents associated with the severe winter weather in December 2013 and February 2014, which led to significant and high profile damage to the Great Western Mainline at Dawlish, Bridgwater and Maidenhead. We worked closely with Network Rail as they undertook repairs to the line at Dawlish, during which time trains were unable to travel between Exeter and Plymouth. We introduced a revised timetable and our rail replacement bus teams were able to provide comprehensive support including a direct coach link between Exeter and key Cornish towns and cities. The line reopened on 4 April 2014.

Amongst the infrastructure upgrades we are currently involved in is the £7.5bn Great Western Mainline upgrade in preparation for the introduction of the InterCity Express Programme, Crossrail and a new fleet of local electric trains. This upgrade includes the £850m Reading station remodelling project, which is due to finish a year ahead of schedule thanks in part to excellent working relationships with our industry partners. Following our success at securing additional services in Wiltshire in partnership with the DfT and local authorities, we began a consultation on improving the timetable between London and the South West for introduction later in the year.

First Capital Connect was involved in the unveiling of brand new Class 700 trains which will be introduced from 2016 and the beginning of significant work to improve the busy London Bridge station, as part of the £6bn Thameslink Programme which will double capacity on the key cross-London route.

We are also a key partner within the industry to deliver rolling stock and capacity upgrades with four successful fleet introductions in recent years. We are currently involved in programmes to deliver a further 1,500 new vehicles. The previously announced investment in 40 new carriages for First TransPennine Express saw the first new longer electric trains run on the Manchester-Scotland route in December, as part of the Government's Northern Hub electrification project. By May 2014 all of the new vehicles will be in service, permitting an improved timetable and in turn freeing up carriages to increase capacity on the popular Manchester-Leeds route.

Prudent investment in our key assets

First Capital Connect's fleet of Class 365 trains is being transformed with fresh interiors and enhanced accessibility features as part of a £31m investment by Eversholt Rail, whilst we are deep cleaning 221 carriages to a high standard. More than 20 First ScotRail trains have been upgraded with new fittings and lighting by Eversholt, with another 21 vehicles set to be refurbished and repainted by 2016.

The customer app for our operating companies has been downloaded more than one million times, providing journey planning and mobile

retailing capabilities. Our First ScotRail smart ticketing trial is proving successful, and we are using the outputs to determine how best to introduce smart ticketing across our other franchises.

Between First ScotRail and First Great Western we are leading the largest roll out of free Wi-Fi on the UK rail network. Our Class 180 trains at both First Great Western and First Hull Trains are already Wi-Fi equipped. First ScotRail launched a new responsive website in mid-March and more people are visiting the website using smartphones than computers for the first time ever.

Responsible partnerships with our customers and communities

The latest twice-yearly Passenger Focus survey was completed during the autumn. Amongst the results were some notable improvements for our train operating companies – as scores for our stations have increased across the board, our employees at First ScotRail and First TransPennine Express saw increased satisfaction scores, and specific initiatives such as our refreshed train interiors at First Capital Connect saw improved results. We have studied all of these findings and are acting on what our customers tell us is important.

First ScotRail is the Official Supporter – Passenger Rail Services for the Glasgow 2014 Commonwealth Games and has been preparing the timetable with Glasgow 2014 and industry partners for more than two years, with more than a million extra journeys expected on our trains during the Games.

First ScotRail secured the UK's most recognised people award during the year for its sustained investment in staff training, being accredited with Investors in People (IiP) Gold status. First ScotRail is now the largest IiP Gold-accredited company in the UK, measured by the number of people employed.

We became the first UK rail operator to partner with a national loyalty points scheme during the year as we joined Nectar, the country's largest such programme. This allows us to reward our customers by giving them additional incentives when booking online.

During the year we were recognised for our successes, with First ScotRail winning the national Rail Business of the Year Award and First TransPennine Express awarded European InterCity Operator of the Year at the European Rail Congress.

Future priorities

We have been running rail services in the UK since 1997 and currently operate around a quarter of the rail market, with the delivery of rail services aligned with our customers' needs at the heart of our offer. We are the only UK rail owning group whose services include long distance, regional, commuter and sleeper operations. Our management team has strong commercial, rolling stock and major infrastructure project upgrade expertise and we have a highly experienced bidding team. Our objective is to replenish our franchise portfolio to deliver profit on a par with the last round of franchising, with an acceptable level of risk.

Outlook

Rail passenger volumes across the industry continue to see strong growth, with passenger numbers more than doubling since 1996. We have seen consistent strong performance and have a highly successful record of delivery, outperforming the industry in achieving punctuality and customer satisfaction improvements. We remain committed to our goal of providing more and better rail services across the UK and have a clear focus on meeting the needs of passengers, taxpayers and delivering an economic return for shareholders.

UK Rail 2013/14 revenue by type



Passenger revenue	66%
Government funding*	28%
Other revenue	6%

*Government funding includes subsidies and revenue support. It does not take into account total premium payments to the Government during the year of £550.3m.

Supporting Glasgow 2014 Commonwealth Games



First Bus and First ScotRail are proud to be official supporters of the Glasgow 2014 Commonwealth Games, providing passenger rail and bus services. We are proud of our Scottish heritage and the important role we play connecting people and communities up and down Scotland. First ScotRail is planning the most extensive train timetable that Scotland has ever seen in support of the Games with additional carriages and more frequent services running until late at night for spectators as well as regular

customers. Our UK Bus division was awarded the contract to offer shuttle services for athletes, technical officials, media and sponsors during the Games, and will operate additional buses around the city in order to transport the large numbers of spectators expected. The Games provides an important opportunity for Scotland to promote itself around the world, and we are pleased that our employees will be playing an integral role, in partnership with local authorities and Games organisers.



Corporate responsibility

We understand the vital role we play in creating strong, vibrant and sustainable local economies, and have continued to deliver our commitments to our people, customers and communities throughout the year.

Our approach

Alongside the unrelenting march towards urbanisation and increasing congestion, we are responding to the emerging challenges of climate change and resource scarcity, population growth and global connectivity, shifting consumer expectations, and the ever increasing role of technology in modern life.

Leveraging our scale and global expertise to respond to our social, economic and environmental risks and opportunities as they arise over the long term will help drive operating and financial performance and allow us to maintain responsible partnerships with our customers and communities. We are already innovating through the use of low carbon vehicle technology, finding new ways to meet changing customer expectations, doing more with fewer resources and investing in the future potential of our people and our communities.

In this section we highlight our corporate responsibility priorities and performance this year. Further information can be found in our 2014 Corporate Responsibility Report, available on our website.

Dedicated to safety

Always front of mind, safety is our way of life. Our goal is zero injuries and we continue to evolve and develop our safety programmes to achieve this across FirstGroup. We also recognise that work, health and wellbeing are closely linked, and we collaborate with our employees to create safe, supportive work environments and promote the broader benefits of a healthy lifestyle.

After seeing improvement over a number of years, and very strong performance in 2012/13, the rate of progress against our safety targets has slowed this year. Performance has been affected by a number of issues, not least the historically severe winter weather conditions experienced by our divisions in North America in the last quarter of 2013/14. This can be seen, for example, in the increased rate of vehicle collisions compared with the same three months of the previous year.

There were no employee fatalities in 2013/14, although sadly there were three passenger fatalities; one in Greyhound and two in UK Bus. The impact of tragic incidents such as these cannot be overestimated and they reaffirm the importance of our goal of zero injuries. We are

never complacent and continue to work to improve our injury prevention programme. During 2014/15 we will be reinvigorating our programme to build on the progress we have made and continue the momentum that we have seen in previous years. Our aim is to reinforce safety as a personal core value of each of our employees, and create an even stronger culture and climate of safety across all of our operations.

Valuing our people

With 117,000 employees, our people are a key asset for the Group, and strengthening our teams is vital to our ability to deliver our transformation programme.

During the year, we launched a Group-wide diversity action plan to drive forward our aspiration to be a diverse and inclusive organisation. We believe that diversity brings benefits for our customers, communities and our people. Valuing our differences and drawing on our collective knowledge and experience helps us develop new services, open up new markets and broaden our customer base. Transport is not traditionally a diverse sector, but our diversity action plan is designed to address this in a systematic way over the coming years.

Continued investment in our employees is fundamental to positioning FirstGroup as an employer of choice. In 2013/14 we launched a comprehensive development offering for our top 350 leaders across the business in the UK and North America, designed to support and accelerate the delivery of our vision, strategy and values. Significant work was also undertaken in 2013/14 to further develop and improve our driver training approach, with particular focus on safe driving and improved customer service. The programme, which piloted this year and will be rolled out across the business in 2014/15, is expected to deliver significant improvements in accident rates (particularly amongst new drivers) and to reduce customer complaints.

2013/14 has also been an important year of progress in raising employee engagement across the Group, with additional plans for 2014/15 underway. We want to inspire, develop and recognise our people because we know that organisations with engaged employees deliver higher quality customer service and are safer, more profitable, productive and innovative.

Greener, cleaner futures for our communities

We take a systematic approach to managing our impacts on the environment, with Group-wide policies, standards and robust targets for our most material impacts, including energy and climate change, air emissions, waste and water. Notably, we generate a significant amount of greenhouse gas (GHG) emissions through our operations; a major contributor to climate change. More than 94% of our emissions come from powering our road and rail fleets (with the remainder from energy use in our buildings and from business travel), so the focus of our climate change mitigation strategy is on innovation and investment in energy efficiency and low carbon vehicle technology.

The following table provides a summary of the emissions for which we are responsible. Our absolute carbon emissions reduced by 2.86% this year to 2,836,758 tonnes of CO₂(e). This is a 3.48% reduction against our 2010/11 baseline, and a result of our ongoing focus on fuel efficiency. Our normalised emissions reduced by 0.20% to 422 tonnes of CO₂(e) per £1m of revenue and the longer term trend shows a 7.80% reduction against our 2010/11 baseline. All divisions are on track to

Diversity snapshot at 31 March 2014:

Total employees



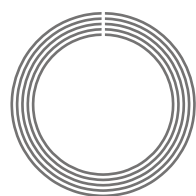
Female	39%
Male	61%

Senior managers¹



Female	16%
Male	84%

Board Directors²



Female	0%
Male	100%

¹ The 342 members of our top leadership programme.

² Following recently announced changes to the Board which take effect in June 2014, the ratio of Board Directors will be 11% female : 89% male.

meet their individual carbon reduction targets (per passenger or per vehicle km) set for 2015/16 (2014/15 for UK Rail) against a 2010/11 baseline.

Greenhouse gas emissions

Tonnes of carbon dioxide equivalent – CO ₂ (e)	2014	2013	2012
Scope 1*	2,477,381	2,536,389	2,588,285
Scope 2*	344,076	368,956	361,281
Scope 3	3,862	3,401	3,542
Out of scope	11,439	11,444	11,969
Total tonnes of CO ₂ (e)	2,836,758	2,920,190	2,965,077
Tonnes of CO ₂ (e) per £1m revenue	422	423	444

Scope 1 – direct emissions from fuel usage by our vehicles, both owned and leased, and from gas used in our buildings

Scope 2 – indirect emissions from electricity used in our buildings and to power our electric rail fleet

Scope 3 – other indirect emissions from business travel by air

Out of scope – from burning biofuels in our vehicles from our UK Bus division, reported in line with DEFRA reporting guidelines

* The 2014 scope 1 and 2 CO₂(e) data included in this table has been independently verified by Carbon Credentials Energy Services Ltd and is covered by an assurance report which is available in full on our website. Verification activities were performed in accordance with ISO 14064-3:2006.

Our reporting follows the GHG Protocol Corporate Accounting and Reporting Standard, applying the financial control approach to our organisational reporting boundary with a materiality threshold set at 5%. We have reported all material emission sources using the following emission factors:

- DEFRA/DECC UK Government conversion factors for GHG Company Reporting 2013
- World Resources Institute (2008) GHG Protocol tool for Mobile Combustion, Version 2.2
- Environmental Protection Agency – Emission Factors for GHG Inventories

The reporting period is defined as 1 April to 31 March, in line with the Company's financial year. However, emissions from energy consumption within buildings in our North American operations are reported by calendar year due to availability of consumption data. In addition, scope 2 emissions from electricity consumption in North America were calculated using CO₂ and not CO₂(e) due to limited conversion factors being available. Fugitive emissions from air conditioning equipment have been excluded this year but we are taking steps to measure and report on this next year. A full list of exclusions can be found in our 2014 Corporate Responsibility Report.

The Company's baseline year is 2010/11. The same baseline year is also used in FirstGroup's climate change strategy, which contains the Group's carbon reduction strategy and targets for 2015/16.

Keeping people moving

Our customers and passengers are at the heart of everything we do. In 2013/14 we saw the impact of abnormally severe winter weather on punctuality and customer satisfaction in some areas within the Group, but improvements have continued across the majority of our businesses. More information on customer satisfaction, punctuality

and on time performance can be found in the Business Review and Key Performance Indicators sections of this report.

Helping our communities to prosper

With our knowledge of local issues, and strengthened by our wider expertise, insights and skills, we maintain responsible partnerships with our customers and communities and aim to be their primary source of solutions for the ever growing problem of congestion. We believe that excellence in community engagement is critical to sustaining and improving the long term partnerships we have with our key stakeholders, including our industry partners, customers, government and political stakeholders, and all those within our local communities. Drawing on our global expertise in this area we have now developed a consistent framework for community engagement, supported by best practice tools and case studies. During 2014/15 we will continue to roll out the framework across the Group.

One of the ways we engage with our communities is by developing long term partnerships with charitable organisations. Our charitable programmes focus on those areas where we believe we can deploy our scale and expertise to achieve the greatest impact and deliver the maximum shared value to our business and local communities. For example, through our partnership with leading charity, Guide Dogs, we have developed bespoke training for our 17,000 UK Bus drivers, helping to increase the confidence of people who are blind or partially sighted to use the bus. During 2013/14 we carried out a robust consultation across our business to review the focus of our charitable giving programmes and will launch a refreshed programme in 2014/15.

Human rights

FirstGroup recognises all human rights as defined in the United Nations Universal Declaration of Human Rights and supports the principles set out in the International Labour Organization Declaration on Fundamental Principles and Rights at Work and the Guidelines for Multinational Enterprises established by the Organisation for Economic Cooperation and Development (OECD). Our Corporate Responsibility Policy (available on our website) is aimed at translating that support into guidelines and standards that set a common approach for the Group and provide practical guidance for our managers and employees on the ground. We are committed to ensuring that our operations do not infringe human rights, in particular:

- We will conduct every aspect of our business with honesty, integrity and openness, respecting human rights and the interests of our employees, customers and third parties, as detailed in our Code of Business Ethics
- We are committed to creating and maintaining a safe and healthy working environment for our employees, customers and the community
- We recognise our employees' rights to freedom of association and have a high degree of unionisation across our businesses both in the UK and North America
- Through our procurement processes (enshrined in our Supplier Code of Conduct, and Procurement and Supplier Management Policy), we seek to ensure that goods and services are from sources that do not jeopardise human rights, safety or the environment, and expect suppliers to adhere to business principles consistent with our own.

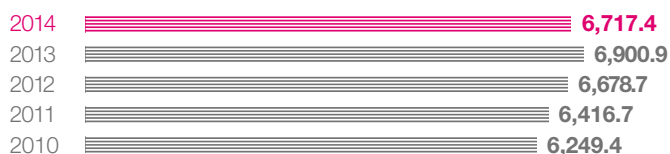
Key performance indicators

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

Revenue

(£m)

① ② ③



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

Group revenue decreased by 2.7%, although adjusting for the UK Bus portfolio changes, disposal of FSS and the non-recurring London 2012 Games, like-for-like Group revenue increased by 1.2%.

Adjusted operating profit

(£m)

③



Description

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

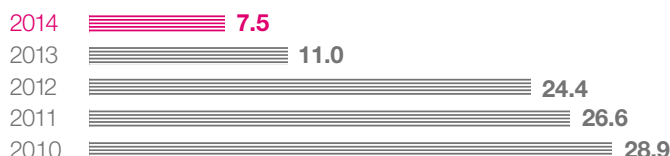
Performance

Adjusted operating profit increased by 5.5%, reflecting higher profits in UK Rail and First Transit partially offset by reductions in the other divisions, including £14m profit impact of unprecedented weather conditions on First Student and Greyhound in the fourth quarter.

Adjusted EPS

(p)

③



Description

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

Performance

Adjusted EPS decreased by 31.8%, reflecting the increased number of shares in issue following the rights issue. Adjusted profit attributable to equity shareholders increased by 21.8%, reflecting the increased adjusted operating profit detailed above and reduced finance costs.

Group ROCE

(%)

③



Description

Return on capital employed (ROCE) is calculated by dividing adjusted operating profit after tax by net assets excluding debt items.

Performance

ROCE improved to 8.2% compared with 7.0%, reflecting the increased adjusted operating profit detailed above and a reduction in capital employed.

North American contract business

(%)

①



Description

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

Performance

Overall contract retention for the 2013 bid season in First Student was around 90%, with the loss of some contracts where, although the numbers of buses were significant, their contribution to profits was limited. We achieved another strong performance of over 90% in First Transit.

Strategic objectives

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Greyhound on time performance (% of services classed as 'on time')

③



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 remained at a high level, reflecting the ongoing introduction of new and refurbished coaches and improved processes, partly offset by the operational challenges arising from weather-related disruption during the winter.

UK Bus punctuality (% of punctual services)

③



Description

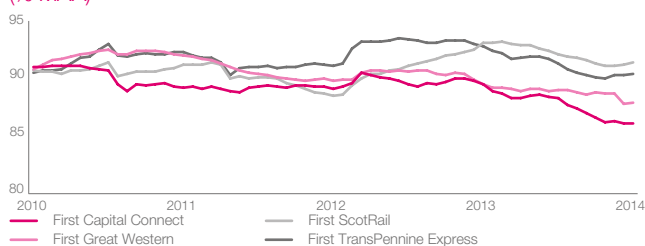
We aim for our services in the UK Bus division to meet industry standards of operating no more than one minute early or five minutes late.

Performance

Our focus on disciplined operations and partnerships with local authorities to improve on-road infrastructure for our buses has delivered a further improvement in punctuality standards to 93.0%, our highest for over five years.

UK Rail public performance measure (% MAA)

③



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

Our PPM scores during the year suffered from disruption across many of our networks caused by infrastructure failures. Many of these occurred during the high profile storms and subsequent flooding during the winter. Although seeing year-on-year decreases, First ScotRail and First TransPennine Express were above the national average for the year.

Lost time injuries (per 1,000 employees, per year)

⑤



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

The lost time injury rate was broadly constant this year but our rate of days lost has improved, showing that we are better managing employees' return to work. This is the tenth consecutive year of reductions, as we continue to move towards our goal of zero injuries.

Greenhouse gas emissions (tonnes carbon dioxide equivalent per £1m of revenue)

⑤



Description

Our emissions are quantified and reported in line with the WRI/WBCSD Greenhouse Gas Protocol. We report our emissions from all activities for which we are responsible across our global operations expressed in tonnes of carbon dioxide equivalent (CO₂e), normalised per £1m of revenue.

Performance

In 2013/14 our normalised emissions reduced by 0.20% to 422 tonnes of CO₂e per £1m of revenue. The longer term trend shows a 7.80% reduction against our 2010/11 baseline. Our absolute carbon emissions reduced by 2.86% this year as a result of our ongoing focus on fuel efficiency. Read more on page 33.

Risks and uncertainties

Our risk management approach

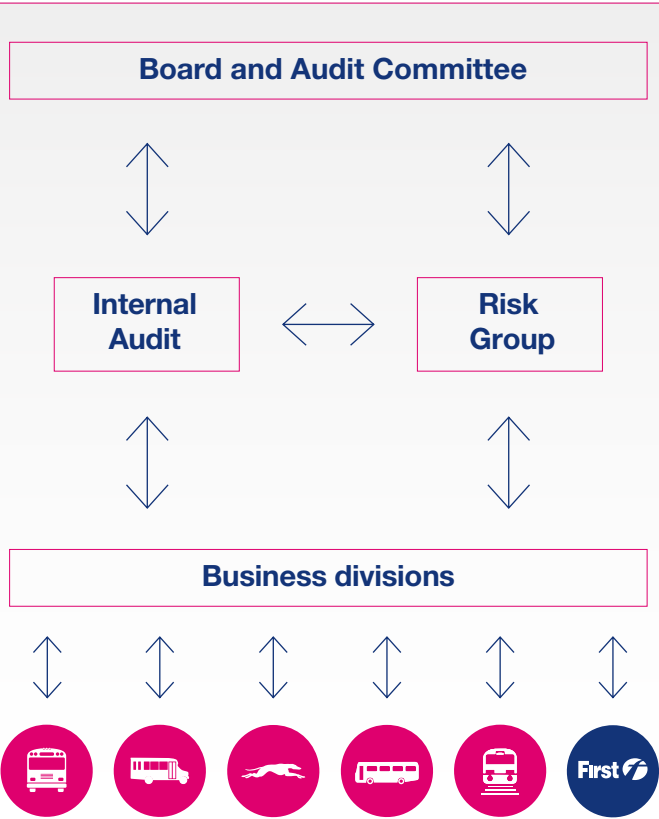
We have a well-established risk management methodology which we use throughout the business to allow us to identify and manage the principal risks that could:

- adversely impact the safety or security of the Group's employees, customers and/or assets
- have a material impact on the financial or operational performance of the Group
- impede achievement of the Group's strategic objectives and financial targets; and/or
- adversely impact the Group's reputation or stakeholder expectations

As set out on pages 59 and 60, the Board has overall responsibility for the Group's systems of internal control.

Risk management structure

Whilst some risks such as fuel costs and treasury risk are managed at a Group level (see pages 38 and 39), all of our businesses own and manage the risks they face with appropriate assistance from the Group functions as necessary. This assistance includes the facilitation of the risk identification and management process. Each division has a designated Risk Champion who maintains a divisional risk register. These are reviewed and consolidated into a Group Risk Register which is kept under review on a quarterly basis by the Risk Group which is made up of a number of members of the senior management team. The Risk Group also oversees the Group's risk management activities. As such, the Risk Group is part of the leadership structure as outlined on page 54. The Internal Audit team works closely with the Risk Group to ensure that the audit plan is appropriately risk-based.



Principal risks and uncertainties

The Group's principal risks are set out overleaf. These risks have been assessed taking into account their potential impact, the likelihood of occurrence and any change to this compared to the prior year and the residual risk after the implementation of controls. A description of each principal risk, its potential impact on the Group, any movement in the risk during the year and risk mitigation measures are provided. Each risk is linked to the relevant strategic objectives, which are detailed on page 10.

The risks listed do not comprise all those highlighted by our risk management processes or those that may otherwise affect the Group or any particular division, 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. Any movement shown does not necessarily indicate a change in the overall net risk associated with the particular issue during the current or future years after mitigating factors and actions have been taken into account.

Further information on our risk management processes is contained in the Directors' and corporate governance report on pages 59 and 60.




Strategic objectives

- ① Focused and disciplined bidding in our contract businesses
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Risk	Potential impact	Movement during the year	Mitigation
Economic and political conditions ① ② ③ ⑤			
<p>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 and retain or win new contracts. The same factors could also affect our key suppliers.</p>	<p>Reduced demand for public transportation.</p> <p>Reduced funding for and spending by local and national governments and other customers on public or student transport.</p> <p>Changes to market structure or dynamics resulting in lost business or loss of future opportunity.</p> <p>Inability to pass on fully to customers the impact of increased costs.</p> <p>Supplier failure, or non-performance, resulting in supply chain disruption.</p>	<p>↔</p> <p>Economic recovery in the UK and North America is variable by state and region.</p>	<p>Some areas of the Group's business offer a degree of protection against economic conditions in specific geographic markets.</p> <p>Certain current rail franchises have revenue support and profit sharing arrangements in place. Some (but not all) of the new franchises currently being let also contain a degree of protection from macro-economic factors.</p> <p>To an extent, our UK Bus operating companies are able to modify services in reaction to economic and political impacts.</p> <p>Our Greyhound operations have flexibility to modify services in response to reduced demand, particularly in the United States.</p> <p>The Group monitors the financial health of key suppliers and identifies alternatives to ensure Group supply chain resilience.</p> <p>We regularly engage with senior policy makers in the UK and North America to discuss the emerging policy landscape in respect of our core business activities. We do this directly and indirectly through industry organisations and trade associations.</p>
Attraction and retention of key management ④			
<p>Attracting and retaining key members of senior management is vital in ensuring that the Group continues to have the necessary expertise and continuity to execute its strategy.</p>	<p>Inability to execute Group strategy resulting in reduced profitability and growth.</p>	<p>↔</p> <p>Whilst attraction and retention of key management may become more challenging as the economy recovers, our defined business plans, including development of more attractive commercial propositions, have enabled us to attract and retain high-quality management.</p>	<p>The Group-wide succession planning process and performance development approach is 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.</p>
Rail refranchising ①			
<p>As discussed on page 29, we are involved in a number of rail franchise competitions. 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.</p>	<p>Lower UK Rail division contribution and profitability.</p> <p>Incorrect bid assumptions leading to greater than anticipated costs or losses.</p>	<p>↔</p> <p>All of the Group's UK Rail franchises will expire between 2014 and 2016. Direct awards have been made in the year to extend the First Capital Connect and First Great Western rail franchises.</p>	<p>The Group has an experienced and dedicated rail bid team which will continue to compete for franchises as they are re-let.</p> <p>The Group also has a comprehensive review process for bids as they are developed and finalised involving a number of divisional and Group functions as well as formal Board sign off.</p>




Risks and uncertainties

continued

Risk	Potential impact	Movement during the year	Mitigation
Contracted businesses ①			
<p>The Group is required to comply with certain conditions as part of its UK Rail franchise agreements.</p> <p>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.</p>	<p>Potential termination of the relevant rail franchise agreement and possibly others if cross-default is 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.</p> <p>Loss of business, or failure to renew, leading to reduced revenue and profitability.</p> <p>Incorrect bid assumptions leading to greater than anticipated costs or losses.</p>	 <p>Whilst First Transit's contract retention rate remained stable during the year, First Student's retention rate was slightly reduced reflecting our focus on improving contract portfolio returns.</p>	<p>Compliance with rail 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.</p> <p>The relevant divisions have experienced and dedicated bid teams who undertake careful economic modelling of contract bids and, where possible, seek to negotiate risk sharing arrangements with the relevant customer or contracting authority.</p> <p>In First Student, as described on pages 14 and 15, we have accelerated the contract portfolio pricing programme to focus capital on higher returning opportunities.</p>
Competitive pressures ① ② ③ ④ ⑤			
<p>All of the Group's businesses compete in the areas of pricing and service and face competition from a number of sources.</p> <p>Our main competitors include the private car and existing and new public and student transport operators across all our markets.</p> <p>As mentioned on page 29, competition for UK Rail franchises remains intense including from a number of other large public and state-owned entities active in the market.</p>	<p>Reduced passenger numbers and revenues.</p>	 <p>No material change during the year.</p>	<p>The Group continues to focus on service quality and performance as priorities in making our services attractive to passengers and other customers.</p> <p>In our contract businesses, contract compliance, a competitive bidding strategy and a strong bidding team are key.</p> <p>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.</p>
Treasury risks ③			
<p>As set out in further detail in note 24 to the financial statements on pages 125 to 130, treasury risks include liquidity risks and risks arising from changes to foreign exchange rates and interest rates.</p> <p>The Group is credit rated by Standard & Poor's and Fitch.</p>	<p>Foreign currency and interest rate movements impact profit, balance sheet and cash flows of the Group.</p> <p>Ineffective hedging arrangements may not fully mitigate losses or may increase them.</p> <p>A downgrade in the Group's credit ratings to below investment grade may lead to increased financing costs and other consequences and affect the Group's ability to invest in its operations.</p>	 <p>The rights issue announced in May 2013 decreased the Group's liquidity risk but its credit rating remains subject to the methodology and metrics adopted by the credit ratings agencies.</p>	<p>The Group's treasury policy and delegated authorities are reviewed periodically to ensure compliance with best practice and to control and monitor these risks appropriately.</p> <p>The Group is continuously focused on improving operating and financial efficiency as part of our strategic objectives as outlined on page 10.</p>

Strategic objectives

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Risk	Potential impact	Movement during the year	Mitigation
Pensions ③ ④ <p>The Group sponsors or participates in a number of significant defined benefit pension schemes.</p> <p>Future cash contribution requirements may increase or decrease based upon financial markets, notably investment returns/valuations, the rates used to value the liabilities and through changes to life expectancy.</p>	<p>Material changes in the accounting cost and cash contributions required.</p>	 <p>No material change during the year.</p>	<p>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 has reduced these risks.</p> <p>Under the UK Rail franchise arrangements, the Group's 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 a particular franchise.</p>
Fuel costs ③ <p>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.</p>	<p>High prices, increased volatility of fuel prices or supply restrictions, shortages or interruptions could adversely impact the Group's operations, cash flow and profitability.</p> <p>The Group may be unable to pass increased costs on fully to customers.</p> <p>Ineffective hedging arrangements may not fully mitigate losses or may increase them.</p>	 <p>No material change during the year.</p>	<p>The Group regularly enters into forward hedging contracts providing fixed fuel prices. In addition, the Group may limit the impact of unexpected fuel price rises through efficiency and pricing measures.</p>
Terrorism ⑤ <p>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.</p>	<p>Reduced public confidence in public transportation, and/or specifically in the Group's security and safety record.</p> <p>Reduced profits resulting from reduced demand for our services, increased costs or security requirements and/or business disruption.</p>	 <p>No material change during the year.</p>	<p>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.</p>

Risks and uncertainties

continued

Risk	Potential impact	Movement during the year	Mitigation
Information technology ③ ④			
<p>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 and personal data). Process failure, security breach or other operational difficulties may also lead to revenue loss.</p> <p>Successful delivery and implementation of the Greyhound IT transformation plan is required to improve yield management and drive future growth.</p>	<p>Loss of revenue and increased operating costs due to increased capital, security, fines, penalties or insurance requirements.</p> <p>Prolonged failure of our sales websites could adversely affect revenues.</p> <p>Failure to manage properly implementation of new IT systems may result in increased costs and/or lost revenue.</p>	<p>↑</p> <p>Web and mobile sales channels are of increasing importance across many of our businesses.</p>	<p>As a result of the continuing threat of cyber-attacks the Group has increased its dedicated IT security resource which, in conjunction with policies 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.</p> <p>The Group has strengthened its IT project management capability during the year.</p>
Customer service ① ② ③ ④ ⑤			
<p>The Group's revenues are at risk if it does not continue to provide the level of service expected by customers.</p>	<p>Contracts not renewed, revenue levels reduced or negative impact on brand image.</p>	<p>↔</p> <p>No overall material change in the year although, as noted on page 27, UK Bus achieved an improvement in the annual independent Passenger Focus survey.</p>	<p>Customer service is one of our five core values (see page 6). The relevant employees undertake intensive training programmes to ensure that they are aware of, and abide by, the levels of service that are required by our customers in each business.</p> <p>Ongoing engagement with customers and community stakeholders takes place across the Group, including through 'meet the manager' events, customer panels, consultations and local partnerships.</p> <p>The Board also monitors customer service KPIs to ensure that strict targets are being met.</p>
Legislation and regulation ③ ④ ⑤			
<p>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.</p>	<p>Increased costs of compliance with existing or changes in regulation or legislation.</p> <p>Reduction in operational flexibility or efficiency.</p> <p>Financial and reputational impact of failure to comply.</p> <p>Negative impact on ability to bid for future business.</p>	<p>↔</p> <p>Our businesses continue to experience changes in the legislative and regulatory environment.</p>	<p>The Group has embedded operating policies and procedures in all our businesses to ensure compliance with existing legislation and regulation.</p> <p>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.</p> <p>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.</p>

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Risk	Potential impact	Movement during the year	Mitigation
Litigation and claims ⑤ <p>The Group has three main insurable risks: third party injury and other claims arising from vehicle and general operations, employee injuries and property damage.</p> <p>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.</p>	<p>Increased costs, reduced availability of insurance cover, or reputational impact.</p> <p>A large single claim or a large number of smaller claims may negatively affect profitability and cash flow.</p>	<p>↑</p> <p>The claims environment, particularly in our North American businesses remains a challenge despite our continued focus on safety.</p>	<p>The Group has a very strong focus on safety and, as described on page 6, it is one of our five core values. The Group self-insures third party and employee injury claims up to a certain level commensurate with the historical risk profile. It purchases insurance above these limits from reputable global insurance firms. Claims are managed by experienced claims handlers.</p> <p>Non-insured claims are managed by the Group's dedicated in-house legal team with external assistance as appropriate.</p>
Employee costs and relations ③ ④ ⑤ <p>Employee costs represent the largest component of the Group's operating costs. Labour shortages or decreasing unemployment rates could hinder the Group's ability to recruit and retain qualified employees.</p> <p>Our employees are key to service delivery and therefore it is important that good employee relations are maintained.</p>	<p>High employee turnover leading to higher than expected increases in the cost of recruitment, training and our employee costs.</p> <p>Operational disruption and reduced cash flow and profitability from industrial action.</p>	<p>↔</p> <p>No material change during the year.</p>	<p>The Group seeks to mitigate these risks by its recruitment and retention policies, training schemes and working practices.</p> <p>Our working practices include building communication and engagement with trade unions and the wider workforce. Examples of this engagement include regular leadership conferences, employee 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 Board.</p>
Environmental ③ ④ ⑤ <p>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.</p> <p>Along with all businesses we face the challenge of addressing climate change, both through managing its impact and reducing emissions.</p>	<p>Environmental, reputational or financial loss resulting from remediation of incidents, prosecutions and/or penalties.</p> <p>Increased costs of compliance due to regulatory requirements.</p>	<p>↔</p> <p>No material change overall during the year.</p>	<p>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.</p> <p>Robust environmental policies, strategies and management systems are maintained across the Group.</p> <p>The Group continues to target reductions in its emissions, including through behaviour change initiatives and investment in new technology.</p>
Severe weather and natural disasters ④ ⑤ <p>Many of our operations are experiencing greater and more frequent adverse weather disruption leading to reduced or cancelled services and reduced customer demand.</p>	<p>Reduced profits resulting from lower demand for our services, increased costs, business disruption and increased accidents.</p>	<p>↑</p> <p>This year, our North American businesses experienced unprecedented severe weather, affecting operational and financial performance.</p>	<p>The geographic spread of the Group's businesses offers some protection. In addition, some of our contract based businesses have force majeure clauses in place. We have severe weather action plans and procedures to manage the impact on our operations.</p>



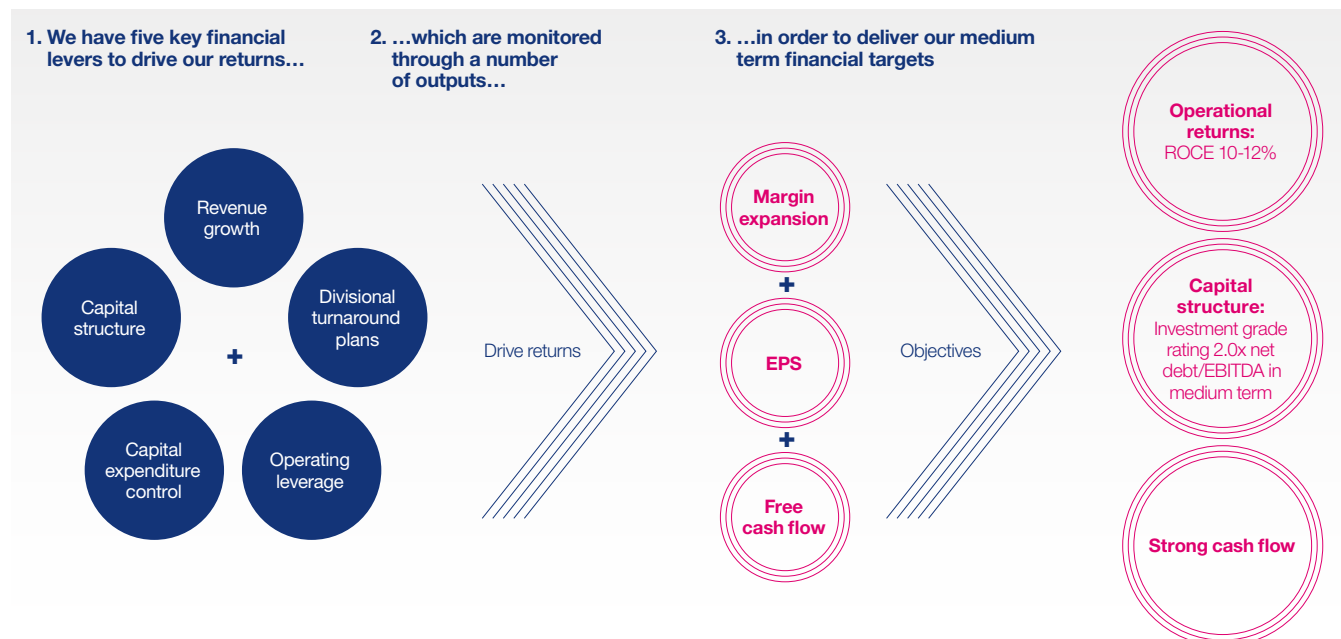
Chris Surch
Group Finance Director

During the year we have made good progress in improving the financial stability of the Group as we continue our transformation programme and invest to create sustainable value.

In June 2013, we received the net £584m proceeds of the rights issue, and in May 2014 we signed a five year, £800m revolving credit facility which ensures we can progress our plans to meet our medium term financial targets with greater confidence.

Financial performance in the year

Group revenue was £6,717.4m (2013: £6,900.9m), a decrease of 2.7%. Adjusting for the UK Bus portfolio changes, the disposal of FSS in First Transit and the non-recurring London 2012 Games, like-for-like Group revenue increased by 1.2%. Adjusted operating profit increased 5.5% to £268.0m (2013: £254.1m), reflecting higher profits in UK Rail and First Transit partially offset by reductions in the other divisions, including £14m profit impact of unprecedented weather conditions on First Student and Greyhound in the fourth quarter. Group margins increased, with improvements in UK Bus, First Transit, and UK Rail more than offsetting declines in First Student and Greyhound. Statutory operating profit was £232.2m (2013: £139.8m) reflecting the increased adjusted operating profit and a much reduced charge for exceptional items this year. Adjusted basic EPS decreased to 7.5p (2013: 11.0p), reflecting the increased number of shares in issue following the rights issue, whereas attributable profit for the adjusted EPS calculation increased by 21.8% from £65.1m to £79.3m in the year. EBITDA decreased 1.0% to £579.8m (2013: £585.7m). ROCE improved to 8.2%, compared with 7.0% (as restated) for the year to 31 March 2013.



The Group has reviewed its treatment of exceptional items, in particular generally recurring costs associated with UK Rail bids and profit/(loss) on property disposals. As a result, these items have been included in our measure of adjusted results in this document and the prior year has also been restated accordingly.

The net cash inflow for the year, excluding the net proceeds of £584.4m from the rights issue, was £26.9m (2013: outflow of £74.4m). The net debt to EBITDA ratio was 2.2 times (2013: 3.4 times). The average debt duration at 31 March 2014 was 6.1 years (2013: 5.4 years) and there was £988.5m (2013: £1,215.5m) of headroom under committed facilities and free cash.

During the year gross capital expenditure of £464.7m (2013: £404.3m) was invested in our business to continue the transformation programme and invest in future growth. We continue to anticipate investing approximately £400m per annum in capital expenditure over the next three financial years in our businesses.

The Group is broadly on track to achieve our medium term targets and, while we are encouraged by progress so far, there remains a significant amount of work ahead. We are confident that we have the right plans underway to build on our market leading positions, strengthen the resilience of the Group, and return to a profile of sustainable cash generation and value creation for the long term.

Key medium term financial targets

Increase Group revenue (excluding UK Rail) at a faster rate than the economies we serve

Improve First Student and UK Bus margins to double-digit levels

Improve Greyhound margins to approximately 12%

Increase Group ROCE to between 10%-12%

Return the Group to being a reliable, consistent cash generative business and re-establish a progressive and sustainable dividend policy at the appropriate time

Treasury objectives

Net debt: EBITDA ratio of 2 times in the medium term

Maintain appropriate liquidity headroom

Maintain investment grade credit rating

Divisional results

	Year to 31 March 2014			Year to 31 March 2013		
	Revenue £m	Operating profit ¹ £m	Operating margin ¹ %	Revenue £m	Operating profit ¹ £m	Operating margin ¹ %
First Student	1,467.4	93.5	6.4%	1,503.1	110.1	7.3%
First Transit	811.9	60.3	7.4%	814.6	49.1	6.0%
Greyhound	624.6	46.4	7.4%	647.1	54.3	8.4%
UK Bus	930.2	44.4	4.8%	1,128.2	50.8	4.5%
UK Rail	2,870.1	55.2	1.9%	2,795.1	19.3	0.7%
Group ²	13.2	(31.8)		12.8	(29.5)	
Total Group	6,717.4	268.0	4.0%	6,900.9	254.1	3.7%
North America in US Dollars	\$m	\$m	%	\$m	\$m	%
First Student	2,339.3	152.8	6.5%	2,378.6	175.2	7.4%
First Transit	1,290.5	95.7	7.4%	1,286.8	77.7	6.0%
Greyhound	990.6	73.2	7.4%	1,022.0	85.2	8.3%
Total North America	4,620.4	321.7	7.0%	4,687.4	338.1	7.2%

¹ Adjusted

² Tramlink operations, central management and other items

Exceptional items, amortisation charges and other adjustments

	Year to 31 March 2014 £m	Restated ¹ Year to 31 March 2013 £m
Disposals		
UK Bus depot sales and closures	13.0	(19.8)
First Transit FSS disposal and exit from Diego Garcia operations	–	(12.6)
	13.0	(32.4)
Onerous contracts/impairments		
UK Rail First Great Western contract provision	4.6	(15.9)
UK Rail joint venture provision (DSBFirst)	–	(5.0)
First Student onerous contract	–	(2.7)
	4.6	(23.6)
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 Rail bid cost recoveries	–	12.7
	–	12.7
Exceptional items credited/(charged) to operating profit	17.6	(62.3)
Amortisation charges	(53.4)	(52.0)
Operating profit charge	(35.8)	(114.3)
Ineffectiveness on financial derivatives charged to finance costs	(17.6)	(5.5)
Net charge before tax credit	(53.4)	(119.8)
Tax credit	28.1	41.4
Net charge	(25.3)	(78.4)

¹ Restated as set out in note 2.

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. The principal amount represents a £16.5m gain on the disposal of the eight London bus depots, which completed during the year, offset by £3.5m of losses on depots sold or closed.

UK Rail First Great Western contract provision

The total loss in the final seven periods of the franchise was not as high as initially projected partly due to contractual changes agreed with the DfT. As a result £4.6m has been released as an exceptional credit.

UK Rail bid cost recoveries

The Group received £12.7m of bid cost recoveries during the year to 31 March 2013 representing cost reimbursement from the DfT following the cancellation of the InterCity West Coast Franchise process.

Amortisation charges

The charge for the year was £53.4m (2013: £52.0m) with the increase mainly due to the amortisation of the First Great Western contract intangible recognised as a result of the contract extension, partly offset by the impact of foreign exchange movements.

Ineffectiveness on financial derivatives

There was a £17.6m non-cash charge (2013: £5.5m) to the income statement during the year due to ineffectiveness on financial derivatives. The principal component of this non-cash charge relates to certain US Dollar interest rate swaps, which are no longer required as the underlying US Dollar debt was repaid from the proceeds of the rights issue.

Tax

The tax credit as a result of these amortisation charges and exceptional items was £24.9m (2013: £39.4m). In addition there was a one-off deferred tax credit of £3.2m (2013: £2.0m) as a result of the reduction in the UK corporation tax rate from 23% to 20% (2013: 24% to 23%).

Finance costs and investment income

Adjusted net finance costs were £156.1m (2013: £163.2m) with the reduction principally reflecting the lower level of debt as a result of repayments following the rights issue, partly offset by the additional £8.7m of interest on pensions due to the impact of IAS 19 (revised).

Profit before tax

Adjusted profit before tax was £111.9m (2013: £90.9m) with the increase due principally to higher adjusted operating profit and lower net finance costs. An overall charge of £53.4m (2013: £119.8m) for exceptional items and amortisation charges resulted in statutory profit before tax of £58.5m (2013: loss of £28.9m).

Tax

The tax charge, on adjusted profit before tax, for the period was £22.4m (2013: £17.5m) representing an effective rate of 20.0% (2013: 19.3%). There was a tax credit of £24.9m (2013: credit of £39.4m) relating to amortisation charges and exceptional items. There was also a one-off credit adjustment of £3.2m (2013: £2.0m) to the UK deferred tax liability as a result of the reduction in the UK corporation tax rate from 23% to 20% (2013: 24% to 23%), which will apply from April 2016. This resulted in a total tax credit of £5.7m (2013: £23.9m) on continuing operations. The actual tax paid during the period was £8.2m (2013: £6.3m). 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.

EPS

The adjusted basic EPS was 7.5p (2013: 11.0p). Basic EPS was 5.1p (2013: (3.0)p), with the improvement primarily due to higher operating profit, lower net finance costs and lower net exceptional items compared to last year.

EBITDA

EBITDA by division is set out below:

	Year to 31 March 2014			Year to 31 March 2013		
	Revenue £m	EBITDA ¹ £m	EBITDA margin ¹ %	Revenue £m	EBITDA ¹ £m	EBITDA margin ¹ %
First Student	1,467.4	241.1	16.4%	1,503.1	259.0	17.2%
First Transit	811.9	72.0	8.9%	814.6	60.0	7.4%
Greyhound	624.6	74.9	12.0%	647.1	83.2	12.9%
UK Bus	930.2	105.9	11.4%	1,128.2	120.4	10.7%
UK Rail	2,870.1	117.1	4.1%	2,795.1	91.7	3.3%
Group	13.2	(31.2)		12.8	(28.6)	
Total Group	6,717.4	579.8	8.6%	6,900.9	585.7	8.5%

	\$m	\$m	%	\$m	\$m	%
North America in US Dollars						
First Student	2,339.3	387.2	16.6%	2,378.6	410.2	17.2%
First Transit	1,290.5	114.4	8.9%	1,286.8	94.8	7.4%
Greyhound	990.6	118.4	12.0%	1,022.0	131.2	12.8%
Total North America	4,620.4	620.0	13.4%	4,687.4	636.2	13.6%

¹ Adjusted operating profit less capital grant amortisation plus depreciation.

Cash flow

The net cash inflow for the year was £26.9m (2013: outflow £74.4m). The cash inflow combined with the £584.4m net proceeds from the rights issue and the movements in debt due to foreign exchange contributed to a net debt decrease of £675.3m (2013: increase £141.6m) as detailed below:

	Year to 31 March 2014 £m	Restated Year to 31 March 2013 £m
EBITDA	579.8	585.7
Cash exceptional items	–	(0.6)
Other non-cash income statement charges	7.8	9.6
Working capital excluding First Great Western provision movement	(37.0)	(52.5)
Working capital – First Great Western provision movement (current liabilities)	(35.3)	(17.0)
Movement in other provisions	(36.1)	(12.2)
Pension payments in excess of income statement charge	(27.7)	(34.1)
Cash generated by operations	451.5	478.9
Capital expenditure	(334.5)	(338.1)
Proceeds from disposal of property, plant and equipment	14.1	14.7
Interest and tax	(157.2)	(144.4)
Dividends payable to Group shareholders	–	(114.0)
Dividends payable to non-controlling minority shareholders	(21.3)	(10.7)
Proceeds from sale of businesses	76.3	39.2
Other	(2.0)	–
Net cash inflow/(outflow)	26.9	(74.4)
Net proceeds from rights issue	584.4	–
Foreign exchange movements	68.2	(63.1)
Other non-cash movements in relation to financial instruments	(4.2)	(4.1)
Movement in net debt in the year	675.3	(141.6)

The net cash inflow compared to the outflow last year was primarily due to:

- No equity dividend payments (2013: £114.0m)
- Proceeds from sale of businesses were £37.1m higher, reflecting the London depots disposal completion in the year
- Working capital excluding First Great Western provision movement was £15.5m favourable to the prior year principally due to the timing of certain receipts in UK Rail.

Partly offset by:

- Higher planned First Great Western provision utilisation of £18.3m during the year
- Higher interest and tax payments of £12.8m primarily due to the timing of interest payments on the bonds, offset by a lower bank interest charge as a result of the rights issue
- Higher movement in other provisions of £23.9m due to the benefit last year of First Student and First Transit legal claims provided for but not paid in the year
- Higher dividends payable to non-controlling minority shareholders of £10.6m
- EBITDA of £579.8m was £5.9m lower than last year.

Capital expenditure

Cash capital expenditure was £334.5m (2013: £338.1m) and comprised First Student £130.8m (2013: £127.7m), First Transit £18.1m (2013: £18.0m), Greyhound £45.8m (2013: £51.3m), UK Bus £67.4m (2013: £72.4m), UK Rail £68.5m (2013: £66.1m) and Group items £3.9m (2013: £2.6m).

In addition during the year we entered into operating leases for passenger carrying vehicles in First Student with capital values of £25.2m (2013: £nil), First Transit with capital values of £19.5m (2013: £12.5m), Greyhound with capital values £14.7m (2013: £nil) and UK Bus with capital values of £24.3m (2013: £21.6m).

Gross capital investment was £464.7m (2013: £404.3m) and comprised First Student £194.3m (2013: £150.8m), First Transit £37.2m (2013: £30.5m), Greyhound £60.5m (2013: £51.3m), UK Bus £101.7m (2013: £103.0m), UK Rail £69.4m (2013: £63.9m) and Group items £1.6m (2013: £4.8m).

Funding and risk management

Liquidity within the Group has remained strong. At 31 March 2014 there was £988.5m (2013: £1,215.5m) of committed headroom and free cash, being £796.2m (2013: £821.6m) of committed headroom and £192.3m (2013: £393.9m) of free cash. Largely due to seasonality in the North American school bus business, committed headroom typically reduces during the financial year through October and increases thereafter. Treasury policy requires a minimum of £250m of committed headroom at all times.

During the year the 2013 £300m bond was repaid in full as planned. As at 31 March 2014, the Group's average debt maturity was 6.1 years (2013: 5.4 years). In May 2014, we signed a five year, £800m revolving credit facility with our relationship banks. The Group does not enter into speculative financial transactions and uses only authorised financial instruments for certain risk management purposes.

Interest rate risk

The Group reduces exposure by using a combination of fixed rate debt and interest rate derivatives to achieve an overall fixed rate position over the medium term of more than 75% of net debt.

Fuel price risk

The Group uses a progressive forward hedging programme to manage commodity risk. In 2013/14 in the UK, 93% of the 'at risk' crude requirements (2.2m barrels p.a.) were hedged at an average rate of \$105 per barrel. At the end of the period we have hedged 92% of our 'at risk' UK crude requirements for the year to 31 March 2015 at \$101 per barrel and 58% of our requirements for the year to 31 March 2016 at \$98 per barrel.

In North America 69% of 2013/14 'at risk' crude oil volumes (1.6m barrels p.a.) were hedged at an average rate of \$93 per barrel. At the end of the period we have hedged 55% of the volumes for the year to 31 March 2015 at \$90 per barrel and 39% of our volumes for the year to 31 March 2016 at \$87 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.

Net debt

The Group's net debt at 31 March 2014 was £1,303.8m (2013: £1,979.1m) and comprised:

	Year to 31 March 2014			Year to 31 March 2013
	Fixed £m	Variable £m	Total £m	Total £m
Sterling bond (2013) ¹	–	–	–	299.4
Sterling bond (2018) ¹	297.5	–	297.5	343.0
Sterling bond (2019) ¹	–	249.5	249.5	249.6
Sterling bond (2021) ¹	347.5	–	347.5	339.0
Sterling bond (2022) ¹	319.5	–	319.5	319.1
Sterling bond (2024) ¹	199.5	–	199.5	199.5
US Dollar bank loans	–	–	–	358.1
Canadian Dollar bank loans	–	–	–	15.5
Euro and other bank loans	–	–	–	11.8
HP contracts and finance leases	311.1	33.5	344.6	418.2
Senior unsecured loan notes	89.9	–	89.9	98.3
Loan notes	8.7	1.0	9.7	9.7
Gross debt excluding accrued interest	1,573.7	284.0	1,857.7	2,661.2
Cash			(192.3)	(393.9)
UK Rail ring-fenced cash and deposits			(360.9)	(273.8)
Other ring-fenced cash and deposits			(0.7)	(14.4)
Net debt excluding accrued interest			1,303.8	1,979.1

¹ Excludes accrued interest.

Under the terms of the UK Rail franchise agreements, cash can only be distributed by the TOCs either up to the lower amount of their retained profits or the amount determined by prescribed liquidity ratios. The ring-fenced cash represents that which is not available for distribution or the amount required to satisfy the liquidity ratio at the balance sheet date.

Shares in issue

As at 31 March 2014 there were 1,204.2m shares in issue (2013: 481.8m), excluding treasury shares and own shares held in trust for employees of 0.7m (2013: 0.3m). The weighted average number of shares in issue for the purpose of basic EPS calculations (excluding treasury shares and own shares held in trust for employees) was 1,059.3m (2013: 590.8m).

Balance sheet

Net assets have increased by £408.5m since the start of the period. The principal reasons for this are the net proceeds from the rights issue of £584.4m, the retained profit for the year of £64.2m, favourable hedging reserve movements of £40.4m partly offset by unfavourable translation reserve movements of £231.1m and actuarial losses on defined benefit pension schemes (net of deferred tax) of £30.5m.

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.

Foreign exchange

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

	Year to 31 March 2014		Year to March 2013	
	Closing rate	Effective rate	Closing rate	Effective rate
US Dollar	1.66	1.61	1.52	1.58
Canadian Dollar	1.84	1.69	1.55	1.59

Pensions

Comparative figures for the year to 31 March 2013 have been restated for IAS 19 (revised) as explained in note 2.

The Group has updated its pension assumptions as at 31 March 2014 for the defined benefit schemes in the UK and North America. The net pension deficit of £247.8m at the beginning of the year has increased to £260.9m at the end of the year, principally due to a lower net discount rate in the UK.

The main factors that influence the balance sheet position for pensions and the sensitivities to their movement at 31 March 2014 are set out below:

	Movement	Impact
Discount rate	+0.1%	Reduce deficit by £29m
Inflation	+0.1%	Increase deficit by £21m

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 stronger 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 2014 of 6.1 years (2013: 5.4 years) and which is largely represented by a medium term to committed long term unsecured bond debt and finance leases. As at 31 March 2014 the Group had a \$1,250m committed revolving banking facility of which \$1,200m (2013: \$1,113m) was undrawn at the year end. This facility was refinanced in May 2014 and now has a maturity of June 2019.

The Directors have carried out a detailed review of the Group's budget for the year to 31 March 2015 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
21 May 2014

Chris Surch
Group Finance Director
21 May 2014

Cautionary statement

This strategic report has been prepared solely to provide additional information to shareholders to assess the Company's strategies and the potential for those strategies to succeed.

The strategic report contains certain forward-looking statements. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

The Directors, in preparing this strategic report, have complied with s414C of the Companies Act 2006.

This strategic report has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to FirstGroup plc and its subsidiary undertakings when viewed as a whole.

Board of Directors



1. John McFarlane OBE MA MBA
Chairman

Appointed to the Board: December 2013 and appointed as Chairman in January 2014

Skills and experience: He was formerly Chief Executive Officer of Australia and New Zealand Banking Group Limited for ten years and Executive Director at Standard Chartered plc for five years. He started his business career in the motor industry with Ford of Europe before entering banking, spending 18 years at Citicorp, as Managing Director of Citicorp Investment Bank Limited and later head of Citicorp and Citibank in the UK and Ireland. He was formerly a Non-Executive Director of National Westminster Bank plc, The Royal Bank of Scotland Group plc (where he played a supportive role in the transformation of the Group following the rescue by the UK government), the London Stock Exchange and Capital Radio plc. He was also Non-Executive Director for the Securities Association, the Auditing Practices Board and the Business Council of Australia.

Other appointments: He is Chairman of Aviva plc and a Non-Executive Director of Westfield Holdings Limited (a retail mall developer) and Old Oak Holdings Limited (a financial holding company).

Committee membership: Chairman of the Nomination Committee.



2. Tim O'Toole CBE JD
Chief Executive

Appointed to the Board: May 2009 and appointed Chief Executive in November 2010

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 Group 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 plc 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.



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, Ireland and Japan. He was formerly a member of the North American board of the Michael Smurfit Business School, Dublin.

Other appointments: He is the Senior Independent Non-Executive Director of ICAP plc.

Committee membership: Member of the Remuneration Committee, the Audit Committee and the Nomination Committee.



7. Brian Wallace MA 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.

Other appointments: He is Chairman of Travelodge Hotels Limited and a Non-Executive Director of SoftCat Limited.

Committee membership: Chairman of the Audit Committee and member of the Nomination 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 was formerly Chairman of the Business Infrastructure Commission, Chairman of the Commission for Integrated Transport and a Non-Executive Director of the Strategic Rail Authority. He is a visiting professor at Plymouth University.

Other appointments: He is Chief Executive of Transport Times, a Non-Executive Director of Heathrow Airport Holdings Limited and a Director of Portobello Partnership.

Committee membership: Chairman of the Remuneration Committee. Member of the Audit Committee and Nomination Committee.



5. Dr Colin Hood DSc MSc BSc FIET FRSA
Non-Executive Director

Appointed to the Board: May 2009

Skills and experience: He was, until April 2014, Chairman of Southern Water Services Limited and, until 2011, Chief Operating Officer and Deputy Chief Executive of SSE plc.

Other appointments: He is Chairman of Offshore Renewable Energy Catapult and a Non-Executive Director of HS1 Limited and Caruna. He 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.



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, the Nomination Committee and the Board Safety Committee.



9. Mick Barker
Non-Executive Employee Director

Appointed to the Board: January 2012

Skills and experience: He has been a railwayman for 38 years and is currently employed as a train driver for First Capital Connect Limited, one of the Group's train operating companies.

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Directors' and corporate governance report



Dear Shareholder

I am pleased to introduce FirstGroup's Directors' and corporate governance report for 2013/14 and my first as Chairman of the Company.

The Group is committed 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 (the 'Code'). This commitment and the alignment of the Group's framework of controls and corporate governance with the tactical delivery of our strategic objectives as outlined on page 10 will contribute to the long term success of the Group. In this section of the report we provide details of our governance structures and processes which should provide assurance that the key constituents are in place to deliver sustainable long term value for shareholders.

New reporting requirements

This year new legislation has amended the structure and contents of the Annual Report. The new strategic report on pages 1 to 49 includes, amongst other matters, the Group's strategy, progress and performance for the year. Disclosures in the Directors' and corporate governance report comply with changes to the Code that came into force for the financial year and include expanded disclosures on the work of the Audit Committee on pages 62 to 65. Changes to remuneration reporting are significant and are fully covered in the Directors' remuneration report on pages 70 to 92.

Board Composition

As noted in my review on pages 2 and 3, Martin Gilbert retired as Chairman during the year and John Sievwright, Senior Independent Director, David Begg, Non-Executive Director and Chairman of the Remuneration Committee and Colin Hood, Non-Executive Director and Chairman of the Board Safety Committee will retire from the Board on 24 June 2014, after a period of long service. I would like to thank all of the retiring Directors for their contribution and support to me as incoming Chairman.

Three new Directors will join the Board for the June 2014 meeting. Warwick Brady, Drummond Hall and Imelda Walsh will join as Non-Executive Directors. Biographical details for all three new Non-Executive Directors are set out below. Drummond will also become Senior Independent Director and Imelda, Chair of the Remuneration Committee. Additionally, Jim Winestock will become Chairman of the Board Safety Committee.

Warwick Brady

Warwick Brady is Chief Operations Officer of EasyJet plc, joining in May 2009. He is part of the management team responsible for significantly improving the airline's financial and operating performance, including achieving industry leading punctuality levels as well as the introduction of important customer innovations. He has significant experience leading low cost airlines – he was Chief Executive of Indonesian airline Mandala, and previous roles include Chief Operating Officer of Air Deccan in India and Deputy Operations Director at Ryanair.

Drummond Hall

Drummond was Chief Executive of Dairy Crest Group plc from 2002 to 2006, prior to which his career was spent with Procter and Gamble, Mars and PepsiCo. He is currently the Senior Independent Non-Executive Director of WH Smith plc and a Non-Executive Director of The Sage Group plc. Drummond was a Non-Executive Director of Mitchells & Butlers plc from July 2004 to January 2010, and Chairman from June 2008 to November 2009.

Imelda Walsh

Imelda Walsh currently serves as a Non-Executive Director and Chair of the Remuneration Committees of William Hill plc, Mitchells & Butlers plc and Mothercare plc. She was a Non-Executive Director and Chair of the Remuneration Committee of Sainsbury's Bank plc from 2006 to 2010. Imelda has held senior executive roles at J Sainsbury plc, where she was Group HR Director from March 2004 to July 2010, Barclays Bank plc and Coca-Cola & Schweppes Beverages Limited. Imelda is also Director of the Mentoring Foundation and is a Trustee of Charity Projects Limited (Comic Relief).

Following the Board changes, John McFarlane, Drummond Hall, Brian Wallace, Imelda Walsh and Jim Winestock will thereafter constitute the members of the Nomination Committee.

It is a natural process for Directors who cease to become independent to retire from the Board and for the Board to be refreshed. It is an essential part of good governance that we maintain a strong Board with a majority of independent Directors and a good gender balance.

Director induction

In January 2014, at the start of my appointment as Chairman and as part of my induction process, I had the opportunity to meet with investors who control over 40% of the issued equity. I welcomed this opportunity and found the exercise beneficial and a valuable way to commence my tenure as Chairman. Further details of my induction can be found on page 58.

Diversity

The Board has previously highlighted that it is an advocate of diversity in the boardroom and a supporter of Lord Davies' aim to raise the proportion of women on UK Boards, as reflected in the 2013 Women on Boards report. The Board is pleased that, going forward, we are moving towards our aspiration of 20% of board positions being filled by women by 2015. The Board remains of the opinion that appointments to the Board 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. Future appointments to the Board must also complement the balance of skills that the Board already possesses. Further details of the Group's approach to diversity and inclusion can be found on page 32 and in the Group's 2014 Corporate Responsibility Report.

Board evaluation

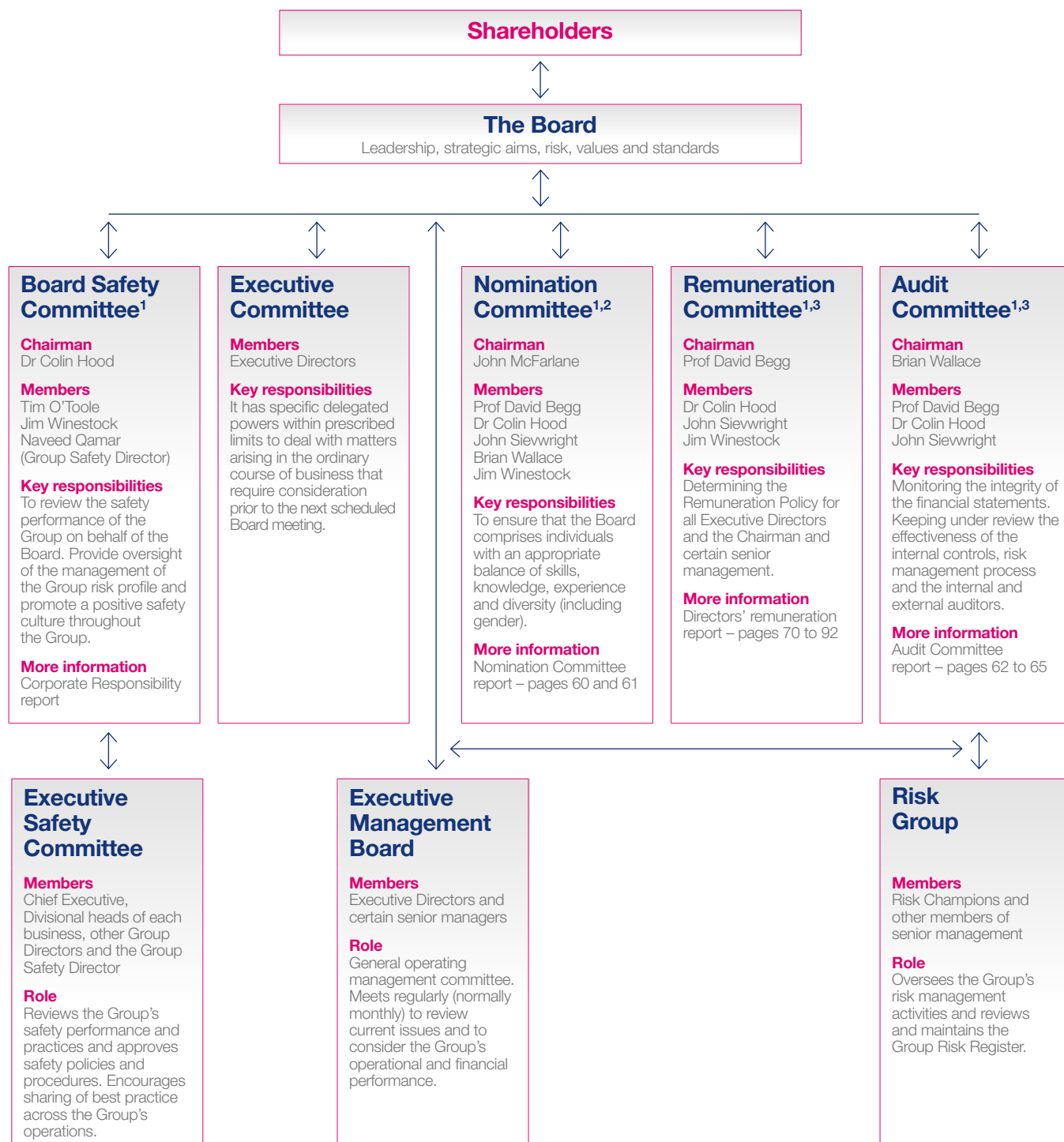
Towards the end of the year the Board undertook an external review of Board and Committee effectiveness that also included a review of each member of the Board. The review highlighted strengths but also areas for improvement and a programme to address these going forward was agreed by the Board.

Scottish independence

The Company, as a Scottish registered company, has its headquarters and registered office in Scotland. The Scottish Government is holding a referendum in September 2014 on the question of Scottish independence from the UK. The outcome of the referendum is unknown and the implications of an affirmative vote are not currently possible to assess with any degree of certainty. Those uncertainties and the full implications of an affirmative vote will become clearer after the vote and the Board will therefore continue to monitor the situation in the meantime.

John McFarlane
Chairman

The Company complies with all the main and supporting principles of good governance set out in the Code issued by the Financial Reporting Council.



¹ Terms of reference of the Audit, Remuneration, Nomination and Board Safety Committees are available on the Company's website.

² The Nomination Committee is to be reconstituted as a Nominations and Governance Committee with effect from 24 June 2014.

³ Certain of the new Board members will be appointed as members of the Audit, Remuneration and other committees as determined by the Nomination Committee.

Leadership

The role and structure of the Board

The Board is collectively responsible for the long term success of the Company. The Board provides entrepreneurial leadership of the Company within a framework of prudent and effective controls for risk assessment and management. The Board's role is to set the Company's strategic objectives, ensure that the necessary financial and human resources are in place for the Company to meet these objectives and to review management performance. The Board also sets the Company's values and standards and ensures that its obligations to shareholders and other stakeholders are understood and met. The Board operates within the terms of its written authorities but also delegates authority to Committees of the Board to assist in meeting its objectives whilst ensuring a sound system of internal control and risk management.

The Board currently consists of the Chairman, two Executive Directors and six Non-Executive Directors. Changes to Board membership that will take place on 24 June 2014 are set out on page 52.

The Board met on 15 occasions in 2013/14. Nine of these meetings were regular scheduled Board meetings and six were ad hoc Board

meetings called at short notice, the majority of which dealt with the rights issue and UK rail bids. The table below shows the Directors' attendance at the Board and Committee meetings they were eligible to attend in 2013/14.

In addition to regular Board meetings, the Board took part in an annual strategy day at which it considered the future direction of the Company at the start of the business planning process. The annual Board meeting timetable was arranged so that Board meetings were held in London, Aberdeen and the US over the year which gave the Directors the opportunity to visit different Group operations. All Directors are expected to attend all meetings of the Board and of those Committees on which they serve and to devote sufficient time to the Company's affairs to enable them to fulfil their duties as Directors. When Directors are unable to attend a meeting, their comments on papers to be considered at the meeting may be provided in advance to the Chairman. The Chairman sets the Board agenda and ensures that important matters and, in particular, strategy, performance, value creation and accountability, receive adequate time and attention at meetings. The roles and responsibilities of the Chairman and Chief Executive, as set out on page 56, are clearly defined, documented and approved by the Board.

Director	Board scheduled meetings	Board ad hoc meetings	Audit	Remuneration	Nomination	Board Safety
Chairman						
John McFarlane ¹	3/3	1/1	–	–	–	–
Martin Gilbert ²	9/9	5/6	–	–	4/4	–
Executive Directors						
Tim O'Toole	9/9	6/6	–	–	–	3/3
Chris Surch	8/9	6/6	–	–	–	–
Non-Executive Directors						
Mick Barker	9/9	6/6	–	–	–	–
David Begg	9/9	6/6	4/4	10/10	6/6	–
Colin Hood	9/9	5/6	4/4	10/10	6/6	3/3
John Sievwright	8/9	6/6	3/4	9/10	5/6	–
Brian Wallace	8/9	6/6	4/4	–	–	–
Jim Winestock	8/9	4/6	–	9/10	–	3/3

¹ John McFarlane joined the Board on 5 December 2013 as a Non-Executive Director and as Chairman on 1 January 2014.

² Martin Gilbert resigned as Chairman and as a Non-Executive Director of the Company on 31 December 2013.

The Chairman has met with the Non-Executive Directors in the absence of the Executive Directors on occasions throughout the year.

Role of the Chairman

- Chairing the Board and general meetings of the Company
- Setting the Board agenda and ensuring that the Directors receive accurate, timely, clear and high-quality information
- Ensuring that the Board determines significant risks, that the Directors have effective oversight of risks and that the Board has effective decision-making processes and applies sufficient challenge to management
- Considering succession planning and the composition of the Board and taking the lead on issues of Director development, including induction and acting on the results of the annual Board evaluation
- Promoting a culture of openness and debate by facilitating the contribution of the Non-Executive Directors in particular
- Fostering relationships founded on mutual respect and open communication between the Non-Executive Directors and the Executive team. Developing a productive working relationship with the Executive Directors, especially the Chief Executive, and providing support and advice whilst respecting their executive responsibility
- Consulting with the Senior Independent Non-Executive Director on Board matters in accordance with the UK Corporate Governance Code
- Ensuring effective communication with shareholders and other stakeholders and ensuring the Board is aware of the views of the Company's capital providers.

Role of the Chief Executive

- Running of 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
- 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
- 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 the Chairman is kept appraised in a timely manner of the issues facing the Group and of events and developments as they arise.

John Sievwright is the Senior Independent Non-Executive Director and is available to address shareholders' concerns on governance and, if necessary, other issues that have not been resolved through the normal channels of communication with the Chairman, Chief Executive, or Group Finance Director or in cases when such communications would be inappropriate. Biographical details and the dates of appointment of the current Directors are provided on pages 50 and 51.

The main responsibilities of the Board

The Board has ultimate responsibility for the Group's strategy and for its overall management. The Board sets and reviews the Company's objectives and strategy, reviews the financial and operational performance of each of the business units, agrees and reviews progress against the Group's annual budgets and sets and reviews longer term business plans. It also approves the half year and full year financial statements, financing arrangements, material capital commitments, relationships with regulatory authorities and the Group's operating policies.

Information is supplied to the Directors in a manner that enables them to fulfil their responsibilities. This includes the circulation of comprehensive briefing papers several days prior to Board and Committee meetings. Presentations on business, financial and operational issues are made regularly to the Board by senior management.

Key Board decisions and activity during the year

The Board has a routine agenda of business which includes receiving reports from the Chief Executive and Group Finance Director. Other items of key business considered by the Board during the year were:

- Review of Group strategy (including review of treasury, IT and pension strategy)
- Review of the Group's five year plan
- Review of business plans for each of the divisions and their execution (including the First Student recovery plan)
- Review of customer service and safety performance
- Matters in relation to the rights issue
- Dividend policy
- Approval of half year and annual results announcement and the annual report
- Review of Group risks
- Matters in connection with UK rail bids
- Review of reports from Board Committees
- Approval of Board and Board Committee appointments and remuneration



Board Committee structure

The Board Committee structure and reporting lines are set out on page 54. Specific responsibilities are delegated to the Audit, Remuneration, Nomination and Board Safety Committees, each of which has written terms of reference. The terms of reference deal clearly with the authorities and duties of each Committee. Copies of the terms of reference for these Committees are available on the Company's website. Apart from the Board Safety Committee, each of these Committees comprises independent Non-Executive Directors of the Company. The Board Safety Committee comprises two Non-Executive Directors, the Chief Executive and Group Safety Director. Members of the Committees are appointed by the Board on the recommendation of the Nomination Committee. The Company Secretary is secretary to each Committee. The Chairman of each Committee reports the outcome of meetings to the Board.

Effectiveness

Board balance and independence

The effectiveness of the Board and its Committees is vital to the success of the Company. Therefore, care is taken, through the Nomination Committee, to recruit and appoint Directors who can provide and maintain an appropriate balance of skills, experience, independence, knowledge and diversity. The Board complies with the Code provisions that at least half of the Board, excluding the Chairman, is made up of Non-Executive Directors who are considered by the Board to be independent.

In considering the independence of its Directors the Board takes into account the guidance provided by the Code. The Board considers David Begg, Colin Hood, Brian Wallace and Jim Winestock were independent during the year. Notwithstanding John Sievwright's long tenure on the Board, the Board agrees with the NAPF Corporate Governance Policy and Voting Guidelines in that it views the UK Code nine year 'rule' as a milestone rather than a cut off and therefore considers that John Sievwright continues to be independent in character and judgment and his input of significant value to the Board. As set out on pages 52 and 53, he will be succeeded as Senior Independent Director on 24 June 2014 by Drummond Hall. The Chairman, John McFarlane, was independent on his appointment to the Board.

Mick Barker is an employee of one of the Group's subsidiaries and therefore cannot be considered independent in accordance with the Code criteria. The Board considers, however, that it is extremely beneficial for its employees to be represented on the Board in this way as it enables employee related issues to be raised directly at the Board and provides a two-way communication between the Board and employees.

The Board is satisfied that all the current Non-Executive Directors are able to exercise independent judgment and that their experience, gained from varied commercial backgrounds, enables them to bring specific insights and make valuable contributions to the Company. They also challenge assumptions constructively and effectively and help the executive management to develop their thinking.

Commitment

The Board is satisfied that each of the Non-Executive Directors is able to devote sufficient time to the Company's business. Non-Executive Directors are advised on appointment of the time required to fulfil the role and are asked to confirm that they can make the required commitment. The Chairman's other significant business commitments are described in his biography on page 50. One of the criteria considered for the appointment of the new Chairman was whether the candidate would be able to devote sufficient time to the role. It was noted in particular that John McFarlane was Chairman of Aviva plc but the Nomination Committee took the view that this would not adversely impact his ability to carry out the role.

Executive Directors are encouraged to take non-executive positions in other companies and organisations to broaden their experience. The appointment to such positions is subject to the approval of the Board which considers, in particular, the time commitment required.

Directors' and corporate governance report

continued

Conflicts of interest

The Company's conflict of interest procedures are reflected in the Articles of Association. In line with the Companies Act 2006 the Company's Articles of Association allow the Directors to authorise conflicts and potential conflicts of interest where appropriate. The decision to authorise a conflict can only be made by non-conflicted Directors. The Board considers conflicts or potential conflicts at each Board meeting. Directors do not participate in decisions concerning their own remuneration or interests. Colin Hood has declared to the Board his appointment to the Board of the Glasgow 2014 Commonwealth Games. First Bus and First ScotRail are official supporters of the Games, providing passenger rail and bus services. He therefore does not participate in any discussions or approvals relating to this matter.

Development

There is an induction programme in place for new Directors. The Chairman is responsible for ensuring induction and training programmes are provided. All Directors are kept informed of changes in relevant legislation and regulations and changing financial and commercial risks with the assistance of the Company's legal advisers and auditor where appropriate. Individual Directors, with the support of the Company Secretary, are also expected to take responsibility for identifying their own training needs and to ensure that they are adequately informed about the Group and their responsibilities as a Director.

Chairman's induction

An extensive induction process was put together for John McFarlane who joined as the Group's new Chairman in January 2014. This included the following elements:

- Full pack of Company policies and Board procedures provided and explained where required
- Meetings with senior managers and key members of staff
- Schedule of meetings with major shareholders
- Schedule of meetings with key stakeholders for the forthcoming year
- Site visits including Greyhound facilities in Texas and schedule of visits planned for the forthcoming year.

Information and support

The Board receives detailed papers on the business to be conducted at each meeting well in advance and all 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 that it currently faces.

Directors have access to independent professional advice at the Company's expense and to the advice and services of the Company Secretary who is responsible to the Board for advice on corporate governance matters and for ensuring that Board procedures are followed and that the Company and the Board operate within applicable legislation, rules and regulations. The Company Secretary is

also responsible for facilitating the programme of Directors' induction for enabling appropriate training and development needs to be identified and addressed and for Board performance evaluation.

The appointment and removal of the Company Secretary is a matter requiring approval of the Board. A new Company Secretary, Robert Welch, was appointed by the Board to succeed the retiring Company Secretary, Paul Lewis, with effect from 19 May 2014.

Performance evaluation

The Board undertakes regular evaluations of its own performance as well as that of the various Board Committees. As mentioned in the Chairman's letter, an evaluation was carried out by Independent Board Evaluation at the end of this year.

Choice of evaluator

The choice of external evaluator was a key consideration for the Company. Independent Board Evaluation (IBE) carried out an external evaluation in December 2012 and was chosen again this year to conduct the process due to their flexibility of approach and ability to engage meaningfully with the Directors. They are therefore able to assess progress on issues raised. IBE's knowledge of the background and development of FirstGroup was also an important factor enabling them to carry out an effective and targeted process.

Evaluation focus

The aim of the evaluation was to establish a benchmark against which future change can be assessed by the new Chairman.

Evaluation process

A comprehensive brief was given to the IBE assessment team by the Company Secretary and the Chairman in February 2014. The lead evaluator also observed main Board and Committee meetings. Support materials for briefing purposes were provided by the Company.

Detailed interviews were conducted with every Board member with participants being interviewed according to a set agenda, tailored for the Board. In addition, the team interviewed some of the senior management team and the Company Secretary.

Draft conclusions were discussed with the Chairman and subsequently with the Board at its meeting in May 2014. Following the Board meeting, the evaluation team gave feedback to Committee Chairmen on the performance of each Committee. The Chairman, John McFarlane received a report with feedback on individual Directors and John Sievwright received a report with feedback on the Chairman.

Conclusions

The report indicated that the culture of the Board is changing and it is becoming more effective. As well as highlighting certain strengths, the report also identified areas for improvement, including Board diversity, with steps taken for this to be addressed. As a result of the evaluation a programme of actions was agreed by the Board in May 2014 and will be reported on in next year's Annual Report.

Re-election of Directors at the Annual General Meeting

In accordance with the Articles of Association and the Code, all the then Directors will be offering themselves for annual election or re-election at the forthcoming AGM to be held on 16 July 2014.

Accountability

Financial and business reporting

The Directors have a commitment to best practice in the Group's external financial reporting in order to present a balanced and comprehensive 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. The quality of its reporting is ensured by having in place procedures for the review of information by management. There are also strict procedures set out in the Board's delegated authorities determining who has authority to release information. A statement of the Directors' responsibilities for preparing the financial statements can be found on page 93.

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 and finance functions, details the Group's accounting policies and procedures with which subsidiaries must comply. Budgets are prepared by subsidiary company management which are then consolidated into divisional budgets. These are subject to review by both senior management and the Executive Directors followed by formal approval by 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.

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 Audit Committee's review of reports prepared by Internal Audit.

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 24 to the financial statements. A Group Treasury Policy has been formulated and adopted to ensure compliance with best practice and to control and monitor effectively the risks attendant upon treasury and banking operations.

Risk management and internal control

The Board has ultimate responsibility for determining the nature and extent of the risks it is willing to take in achieving its strategic objectives.

The Board regularly reviews its procedures for identifying, evaluating and managing risk and meeting the requirements of the Code and its related guidance on internal controls. 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 principal risks identified as a result of the Group's risk management procedures are shown on pages 36 to 41. The responsibility for establishing detailed control and risk management procedures within each subsidiary lies with the Executive Directors and divisional managing directors.

The Board sponsors the Risk Group as part of the Group's risk management procedures. The Risk Group comprises representatives from Finance, IT, Legal, Insurance, Internal Audit, Company Secretariat, Corporate Communications, HR, Corporate Responsibility and Security and is also attended by relevant divisional senior management. The divisions present their matrix and controls at least yearly.

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 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 facing the Group and the adequacy of mitigating controls.

Further details of the Group's risk management approach, risk management structure and principal risks and uncertainties are set out on pages 36 to 41.

Control environment

The Board is committed to business integrity, high ethical and moral values and professionalism in all its activities, principles with which all managers and employees are required to comply. The Group has a Code of Business Ethics, which is part of the Group's Corporate Responsibility Policy. 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 Executive Management Board 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 divisional level.

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 divisional management 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, Finance, Legal, Internal Audit, Corporate Communications, Pensions and Procurement are dealt with centrally. Each of these functions is monitored by an Executive Director.

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 Audit Committee reviews whistleblowing arrangements as part of its responsibilities.

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.

Monitoring

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 been identified during the year by this process.

Nomination Committee

My role as Chairman of the Nomination Committee complements my role as Chairman of the Board.

I strongly believe that good governance and strong balanced Board leadership are critical to creating shareholder value. Having made the changes to the Board referred to on pages 52 and 53, the Committee will renew the membership of the other Board Committees as appropriate. We will continue to take account of the Board's aims in relation to diversity whilst ensuring that we have the right people with the right skills on the Board and in senior management positions in the coming years.

John McFarlane

Chairman of the Nomination Committee

Membership and meetings

Composition of the Committee and attendance by individual members at meetings is detailed below. The Committee met six times during the year. 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.

Committee member	Number of meetings attended (out of total eligible to attend)
Martin Gilbert, Chairman (resigned as a Director 31 December 2013)	4/4
John McFarlane, Chairman (appointed as Chairman of the Committee on the 28 January 2014)	0/0 ¹
David Begg	6/6
Colin Hood	6/6
John Sievwright	5/6
Brian Wallace (appointed to the Committee on 28 January 2014)	0/0 ¹
Jim Winestock (appointed to the Committee on 28 January 2014)	0/0 ¹

¹ There have been no Nomination Committee meetings since the relevant Director was appointed to the Committee.

Membership of the Committee was reviewed during the year. The new Chairman of the Board, John McFarlane, was appointed as the Committee Chairman to replace Martin Gilbert. In addition Jim Winestock and Brian Wallace were appointed as members of the Committee in January 2014.

Tim O'Toole attends meetings of the Committee at the invitation of the Chairman of the Committee. Mick Barker also attends meetings at the invitation of the Chairman of the Committee to represent the Group's employees.

Role of the Nomination Committee

The terms of reference of the Committee set out the Committee's responsibilities. These were updated in March 2013. They are available on request and are also published on the Company's website.

The key responsibilities of the Nomination Committee are to:

- review the structure, size and composition of the Board (including the balance of skills, knowledge, experience and diversity (including gender)) and ensure that all members of the Board have devoted sufficient time to their duties
- identify and nominate for approval by the Board, candidates to fill vacancies as and when they arise, including utilising search consultants where appropriate
- oversee the succession planning process for the Board and senior management
- make recommendations to the Board regarding the continuation in office of any Director, including their proposed re-election.

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.

Main activities during the year

Succession planning for the new Chairman of the Board

Recruitment process and recommendation of approval of the new Chairman of the Board

Review and appointment of the new Audit Committee Chairman

Review of membership of the Nomination Committee and appointment of new members

Recruitment of Chairman of the Board

Following the announcement by Martin Gilbert that he would be standing down as Chairman of the Board the Nomination Committee put in place a process for finding a successor. John Sievwright, as Senior Independent Director, led the process. Martin Gilbert, as outgoing Chairman, did not participate. The Committee appointed JCA Group to act as the recruitment agent for the new Chairman. JCA Group has no other connection with the Group apart from the provision of senior executive recruitment services. The Committee decided on the key attributes, specifications and time commitment required for the role. A role specification was also drafted and approved.

JCA Group prepared a list of potential candidates for the role, each of which was discussed and considered in detail by the Committee. A number of interviews and meetings were then held with interested parties. Engagement with major shareholders was ongoing throughout the recruitment process in order to obtain their feedback. At the conclusion of that process the Nomination Committee unanimously recommended to the Board that John McFarlane be appointed as the new Chairman of the Company.

Diversity

In 2011 the Board approved the following commitment to diversity:

"We are supporters of diversity in the boardroom and we are supportive of the Financial Reporting Council's aims to encourage diversity in the boardroom. We are also supportive of Lord Davies' aim to raise the proportion of women on UK boards and will work towards an aspiration of 20% of Board positions filled by women by 2015, subject to availability of candidates with the right skills and experience. We remain of the opinion that appointments to the Board 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."

As described in the Chairman's letter, with the appointment of Imelda Walsh, the Board is moving towards its aspiration to raise the proportion of Board positions filled by women (subject to her election by shareholders at the AGM on 16 July 2014).

To further support the Group's diversity ambition, an action plan has been developed which includes launching our new Equality, Diversity and Inclusion Policy (and supporting framework), setting diversity and inclusion priorities for each of our divisions and running employee focus groups in the UK to collect views of the employee experience at FirstGroup.

Nomination Committee evaluation

The performance of the Nomination Committee was reviewed as part of the external evaluation of the Board and its Committees. Some action items were identified for the Nomination Committee including a stronger emphasis on succession planning for senior management. This will be addressed during the coming year.

Audit Committee

I am pleased to introduce to you the Audit Committee report for the year ended 31 March 2014. I joined the Committee in January 2013 and succeeded John Sievwright as Chairman of the Committee on 29 October 2013. I would like to thank John on behalf of the Audit Committee for his hard work and effective chairmanship over the years.

As well as its core activities the Audit Committee has focused on risk management and the review of significant judgments that impact the Group's financial statements to ensure that these are properly addressed. The Committee has also reviewed the new reporting requirements for audit committees introduced by the Code.

The Audit Committee intends to maintain its focus on ensuring the appropriate management of risk and the integrity of the Group's financial reporting processes and procedures in the year ahead. In addition we will keep under review expected developments in going concern reporting and legislative proposals from the EU and Competition & Markets Authority on audit tendering.

Brian Wallace
Chairman of the Audit Committee

Membership and meetings

Composition of the Committee and attendance by individual members at Audit Committee meetings is detailed in the following table. The Committee met four times during the year. The Committee is scheduled to meet at least four times during the year at times set according to the financial reporting calendar.

Notwithstanding his resignation as Chairman of the Committee, John Sievwright remained as a member of the Committee. John Sievwright was considered by the Board to be independent during the year despite having served over nine years as a Non-Executive Director. His continued membership of the Committee was considered to be of key importance at this time of transition due to his experience of the Group and previous chairmanship of the Audit Committee. The Board therefore believes that membership of the Committee is compliant with the Code. Brian Wallace has held executive positions within a number of large organisations as Group Finance Director and other senior finance roles and is a chartered accountant.

The Group Director of Internal Audit and the Group's external auditor regularly attend Audit Committee meetings. Executive Directors and other senior managers also attend when requested and as appropriate. Meetings were held with the external auditor and the Committee without management being present during the year. The Group Director of Internal Audit has the right of direct access to the Chairman of the Audit Committee. Committee meetings may be requested by the external or internal auditors if they consider it necessary.

Committee member	Number of meetings attended (out of total eligible to attend)
John Sievwright (resigned as Audit Committee Chairman on 29 October 2013)	3/4
Brian Wallace, Chairman (appointed as Audit Committee Chairman on 29 October 2013)	4/4
David Begg	4/4
Colin Hood	4/4

Role of the Audit Committee

The terms of reference of the Audit Committee set out its responsibilities. These were updated in March 2013. They are available on request and are also published on the Company's website.

The key responsibilities of the Audit Committee are to:

- Monitor the integrity of the annual and half year results and interim management statements including review of the significant financial reporting issues and judgments contained in them and review and, where necessary, challenge the Group's financial statements
- Monitor the consistency of, and any changes to, accounting policies
- Review and oversee the Group's relationship with the external auditor, monitoring its independence, objectivity, and the effectiveness of the audit process and developing and implementing policy on the engagement of the external auditor to supply non-audit services
- Make recommendations to the Board in respect of the appointment/re-appointment of the external auditor and the audit fee to be paid
- Review the reports on the Group from Internal Audit
- Review the activities, findings, conclusions and recommendations of the external auditor, together with the reporting to the Audit Committee, the Management Representation Letter and the final Audit Report
- Review the procedures for the identification, assessment, reporting and management/mitigation of risks
- Ensure the management of risk and integrity of the Group's financial reporting processes and procedures
- Monitor the Group's whistleblowing arrangements and procedures for detecting fraud
- Report formally to the Board, providing advice on the Annual Report and making appropriate recommendations to the Board on the Annual Report and Financial Statements.

The main activities of the Audit Committee during the year are summarised in the table overleaf.

Internal Audit

The Group has an Internal Audit function which reports to the Audit Committee. Internal Audit reviews internal controls and reports to the Audit Committee on these controls, any areas of weakness identified and whether the controls are operating effectively. Internal Audit reports are presented at each Audit Committee meeting.

Internal Audit operates under an Audit Charter which was reviewed during the year. The Audit Charter sets out the purpose, organisation, authority, responsibilities and standards of practice for the Internal Audit function.

Each year an Internal Audit Plan is prepared and approved by the Committee and the Board which identifies areas of priority as identified by risk analysis. Progress against the plan is monitored by the Audit Committee. The outcome of Internal Audit 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 effectiveness of the Internal Audit function is reviewed by the Audit Committee. This is done by the review of the Internal Audit Plan of work for the year and monitoring progress against the plan and actions identified in the plan.

External auditor

The Committee assesses the independence of the external auditor and the effectiveness of the external audit process before making recommendations to the Board in respect of its appointment or re-appointment.

In assessing independence and objectivity, the Committee considers the level and nature of service provided by the external auditor as well

as confirmation from the external auditor that it has remained independent within the meaning of the APB Ethical Standards of Auditors. Deloitte LLP confirmed its independence to the Committee at various stages throughout the year and at the end of the external audit process for the financial year.

The current auditor, Deloitte LLP, has been the Group's auditor since 1999 and the Senior Statutory Auditor (SSA) is rotated every five years. The current SSA was appointed in the 2010/11 financial year and therefore a new SSA is due to be appointed for the 2015/16 financial year.

The Committee is aware of the new Code requirement for the external audit contract to be re-tendered at least once every ten years. The Financial Reporting Council has also recommended transitional arrangements in this respect. In addition there are forthcoming changes to European Union regulations concerning the audit market. In view of the uncertainty regarding the form and impact of these regulations, the Committee will recommend a course of action to the Board during the year in respect of the tender of the external audit contract.

The majority of non-audit work is put out to tender, with the exception of audit-related assurance services. In such cases, the current auditor's knowledge of the Company's business processes and controls means that it is usually best placed to undertake this work on a cost-effective basis on the Company's behalf. The major item of non-audit fees during this year was for work surrounding the rights issue. The Deloitte LLP teams working on non-audit projects also included partners with no involvement or responsibility for the external audit to ensure that the objectivity of Deloitte LLP was maintained. The Committee took the view that the expertise and in-depth knowledge of the business meant

Main activities of the Audit Committee during the year

Financial Statements and Accounting Policies

Consideration of significant audit risks and critical areas of judgment

Going concern review

Review of the preliminary announcement, Annual Report and Financial Statements

Consideration of the half-yearly report and announcement

Risk Management and Internal controls

Review of business continuity and disaster recovery plans including consideration of IT and cyber-security

Review of Risk Group Reports

Internal Audit

Review of Internal Audit Charter

Review of Internal Audit Plan and progress against the Plan

Review of Internal Audit reports

Review of issues raised by Internal Audit and progress on actions agreed with management

External Audit and External Auditor

Review of the external auditor's Audit Report on the financial statements and consideration of key audit findings

Review of the independence of the external auditor

Consideration and approval of external auditor fees

Review of Management Representation Letter

Consideration of the external auditor's interim review

Review of Audit Planning Report

Review of the effectiveness of the external audit process

Directors' and corporate governance report

continued

that Deloitte LLP were best placed to provide these services. Details of the audit and non-audit fees, including a further 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 the independence of the external auditor.

The effectiveness of the external audit process is first assessed by reviewing delivery and performance against the External Audit Plan for the year, which includes the reports and updates provided to the Committee. An annual assessment is then carried out by the Committee, taking into account the results of questionnaires completed by each of the divisions and Group management. These questionnaires cover a variety of topics including: the audit partners and team; the planning and execution of the audit approach; and insights and added value provided by the audit process. Feedback from the annual assessment was shared with the external auditor so that any areas for improvement could be followed up. The Committee concluded that the external audit process was effective overall.

Following the assessment of the independence of the external auditor and the effectiveness of the external audit process, the Committee recommended to the Board that Deloitte LLP be reappointed as the Group's auditor. A resolution to re-appoint Deloitte LLP will therefore be put to shareholders for approval at the forthcoming Annual General Meeting.

Significant issues

The external audit process identifies significant issues and accounting judgments which are reviewed by the Audit Committee. These are summarised in the table below. Management prepared papers and analysis on the significant issues and judgments which were discussed in Committee meetings during the year. The Committee also discussed these issues with the external auditor at the half year and year end. All the significant issues were also areas of focus for the external auditor as detailed in the auditor's report on pages 150 to 152.

Significant issues and judgments

Carrying value of goodwill and intangible assets

Management exercises a significant amount of judgment during the impairment testing process as it is based on an estimation of future cash flows and a suitable discount rate.

How the Audit Committee addressed these issues

The Committee has considered the inputs for the impairment test model. The cash flow forecasts have been reviewed alongside past performance and expected operational changes to the business. The discount rate has been benchmarked to externally available data. The growth rate assumptions have been applied in line with both market data and the macro-economic environment in the UK and North America. Sensitivities to the model inputs have been tested for reasonableness.

Legal provisions

Provisions are measured at management's best estimate of the likelihood and valuation of the expense required to settle the relevant obligation and, where applicable, the discount rate used to calculate expected settlement.

The Committee has considered the assumptions used for estimating the valuation of provisions. The legal issues are regularly reviewed with the related provisions being based on advice from external legal counsel.

Self-insurance provisions

Provisions are measured at management's best estimate of the likely settlement of all known incidents. A valuation of the expense required to settle the obligation and, where applicable, the discount rate is used to calculate the expected settlement.

The Committee has reviewed the provision and considered the assumptions used to calculate the liability. Independent actuarial expert advice on the adequacy of the provisions against such liabilities is sought on a regular basis and the discount rate has been benchmarked against external data.

Pensions

The Group participates in a number of defined benefit pension schemes. Management exercises significant judgment when determining the assumptions used to value the pension liabilities as these are materially sensitive to changes in the underlying assumptions.

Management has engaged with external experts and the Committee has considered the assumptions used for calculating the liability. Sensitivity analysis has been performed on the key assumptions which are the discount rate, the expected return on scheme assets, the inflation rate and mortality rates, and the overall liability has been assessed for reasonableness.

Revenue recognition

Management must exercise judgment when determining the recoverability of amounts due and the carrying value of related assets and liabilities arising from franchises and long term service contracts.

The Committee has reviewed the revenue recognition policies. These policies and their application are in line with accounting standards. Regular forecasts are compiled on the outcome of these types of franchises and contracts to assess the reasonableness of the assumptions applied.

Fair, balanced and understandable

New reporting requirements introduced by the Code require the Board to state that the annual report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance. The Audit Committee was requested to assist the Board in analysis in order to confirm this statement. As part of its review, the Audit Committee took into account the preparation process for the Company's Annual Report.

- Themes are identified surrounding strategic and business objectives which set the context for the whole of the Annual Report
- Different sections of the Annual Report are drafted and reviewed by appropriate senior management who have visibility of the Company's objectives and performance
- A thorough review process is undertaken to ensure that the information presented is supported and factually correct
- Reviews of the drafts of the annual report are carried out by the Executive Directors and other members of senior management
- Advice is received by the Audit Committee on the content of the Annual Report from external advisors, in particular the external auditor
- A final draft is reviewed by the Audit Committee before recommendation to the Board for approval.

Audit Committee evaluation

The performance of the Audit Committee was externally assessed during the year as part of the Board and Committee evaluation process. Positive areas were highlighted such as the appointment of the new Chairman to the Committee who was considered to have the requisite skills and expertise to steer the Committee through its demanding remit. Some areas for review were also identified which will be addressed during the forthcoming year.

Board Safety Committee

The Board Safety Committee was set up in 2013/14 to provide greater oversight and governance of safety throughout the Group. The Committee challenges the Group continuously to review its operational safety performance and culture. As a consequence, we have reviewed how we look at serious incidents and a plan is in place to enhance the engagement of employees and leadership in injury prevention. An assessment of the safety culture throughout the Group will take place in 2014/15 with the aim to develop and implement interventions to reinforce safety as a personal core value for employees.

Dr Colin Hood

Chairman of the Board Safety Committee

Membership and meetings

Composition of the Committee and attendance by individual members at meetings is detailed below. The Committee met three times during the year.

Committee member	Number of meetings attended (out of total eligible to attend)
Colin Hood, Chairman	3/3
Jim Winestock	3/3
Tim O'Toole	3/3
Naveed Qamar (Group Safety Director)	3/3

Role of the Board Safety Committee

The terms of reference of the Committee set out the Committee's responsibilities. They are available on request and are also published on the Company's website.

The key responsibilities of the Board Safety Committee are to:

- Provide an oversight of the management of the operational Group safety risk profile as updated and presented by the Group Safety Director
- Promote a positive safety culture throughout the Group
- Review the divisions' safety performance.

Main activities during the year

Considered safety committee structure in the Group

Reviewed safety performance 2012/13 and targets for 2013/14

Proposed the themes for future meetings

Reviewed environmental, safety and health hotline calls

Review of safety benchmarking report

Relations with shareholders

Dialogue with shareholders

We are keen to promote open and transparent communications with our shareholders and potential investors. We recognise that regular dialogue is particularly important during challenging times.

Investors are kept informed on an ongoing basis of key business activities, decisions, appointments and key announcements via the regulatory news service and press releases. The Company's website www.firstgroupplc.com contains this information together with financial reports, presentations and other information on the Group's operations. 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 and full year results. Other Directors, including Non-Executive Directors, attend meetings with major shareholders as requested. An investor day was held in January 2014 at which the divisional management presented to investors and financial analysts. Specific consultations have been carried out with leading shareholders during the year on the appointment of a new Chairman and the Remuneration Policy.

On his appointment as Chairman, John McFarlane met with our major institutional investors. Discussions were held on a wide range of topics such as:

- Delivery of the business plans
- Dividend policy
- Progress within First Student
- Board composition
- Balance sheet and leverage.

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

Constructive use of the Annual General Meeting

The Annual General Meeting will be held on Wednesday 16 July 2014 at The Marcliffe Hotel, North Deeside Road, Pitfodels, Aberdeen AB15 9YA. The AGM gives shareholders the opportunity to put questions to the Company's Directors. A business presentation is also given at the AGM. Voting is carried out by poll at the AGM which the Company believes is the fairest way to represent the views of all shareholders. The final voting results are announced via a regulatory news service and are posted to the Company's website as soon as practicable after the meeting. The Notice of AGM, setting out the business to be considered, is sent to shareholders at least 20 working days before the meeting and is also available on the Company's website.

Additional Information

A number of the reporting requirements under section 415 of the Companies Act 2006 are included in this report by cross reference to the strategic report on pages 32 to 35, such disclosures being:

- Information on environmental matters (including greenhouse gas emissions)
- the Company's employees (including a breakdown of Group-wide diversity data)
- Social, community and human rights issues.

The Company did not make any political donations during the year.

The Company also publishes a separate Corporate Responsibility Report, available on the Company's website at www.firstgroupplc.com covering social, environmental and health and safety issues.

Employee 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 was launched in May 2014. In addition management teams work to ensure that communication is cascaded face to face 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 74% 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.

Key shareholder engagement



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.

Policies concerning disabled employees

Full and fair consideration is given to applications for employment by disabled persons. We are committed to supporting disabled employees including employees who become disabled persons during their employment with regards to training, career development and promotion.

Results and dividends

The results for the year are set out in the consolidated income statement on page 94. The Directors are not recommending payment of a final dividend this year.

Articles of Association

The Company's Articles of Association may be amended by a special resolution of the Company's shareholders.

Share capital

Details of the Company's issued share capital, 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. During the year the share capital was increased by 722,859,586 new ordinary shares as a result of the rights issue announced on 20 May 2013. As at 21 May 2014, there were 1,204,926,756 ordinary shares of 5 pence each in issue including 159,531 ordinary shares of 5 pence each held in treasury. The ordinary shares are listed on the London Stock Exchange and are governed by the Company's Articles of Association and UK law.

Ordinary shareholders are entitled to attend and vote at any general meeting of the Company. Those who are present at a general meeting and duly appointed proxies or duly authorised corporate representatives, shall have one vote each on a show of hands and on a poll, every shareholder present in person or by proxy will have one vote for every share held. The Notice of the 2014 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 Company's 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.

The Company operates a number of employee share schemes details of which are set out in note 34 to the financial statements. Kleinwort Benson (Guernsey) Trustees Limited, as trustee of the 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 abstains 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 2013 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 AGM on 16 July 2014 when it is intended to seek a renewal.

Directors

The Directors of the Company who served during the year and their biographical details are shown on pages 50 and 51. Martin Gilbert also served on the Board and retired as a Director on 31 December 2013. Having been appointed by the Board on 5 December 2013, the Company's Articles of Association require John McFarlane to seek election at the Annual General Meeting on 16 July 2014. As detailed on pages 52 and 53 David Begg, Colin Hood and John Sievwright will retire from the Board and three new Non-Executive Directors, Warwick Brady, Drummond Hall and Imelda Walsh will be appointed as Non-Executive Directors with effect from 24 June 2014. The Company's Articles of Association require the new Directors to seek election at the 2014 Annual General Meeting.

In accordance with the Code all other serving Directors will put themselves forward for re-election at the 2014 Annual General Meeting.

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 executive service 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.

Directors' and corporate governance report

continued

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 70 to 92.

Directors' interests

The number of ordinary shares of the Company in which the Directors were beneficially interested as at 1 April 2013 and 31 March 2014 are set out in the Remuneration report on page 87.

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

Directors' indemnities and liability insurance

Directors' and Officers' liability insurance is maintained by the Company and is in place at the date of this report. The Company reviews its level of cover on an annual basis and is satisfied that it remains adequate. The Directors also have the benefit of indemnity provisions in the Company's Articles of Association. These provisions are qualifying third party indemnity provisions as defined in section 234 of the Companies Act 2006.

Significant interests

As at 31 March 2014 and 21 May 2014, 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	%
Franklin Mutual Advisers, LLC	60,595,200	5.03
Orbis Investment Management Limited	50,876,095	4.22
Sandell Asset Management Corp	37,347,745	3.10

Change of control – significant agreements

(a) Financing agreements

The Group has a £800m multi-currency revolving credit and guarantee facility between, amongst others, the Company and The Royal Bank of Scotland plc dated 15 May 2014. This refinanced the Group's existing revolving credit and guarantee facility. Following any change of control of the Company, individual lenders may negotiate with the Company with a view to resolving any concerns arising from such change of control. If the matter has not been resolved within 30 days an individual bank may cancel its commitment and the Company must repay the relevant proportion of any drawdown.

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. The Group is also involved from time to time in bidding processes for UK Rail franchises and transport contracts further afield which customarily include change in circumstance provisions which would be triggered on a change of control and could result in termination or rejection from further participation in the relevant competitions.

(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.

Financial risk management

The Company's policies on financial risk management, including the Company's exposure to liquidity risk, credit risk and certain market based risks including foreign exchange rates, interest rates and fuel prices, can be found in note 24 to the financial statements.

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 auditor is 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 auditor is aware of that information.

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

Auditor

Deloitte LLP has indicated its willingness to continue in office and a resolution seeking to reappoint it will be proposed at the forthcoming Annual General Meeting.

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 macro-economic developments, it has a strong balanced portfolio of businesses with approximately half 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 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 £800m committed revolving banking facility dated 15 May 2014 which refinanced the Group's existing revolving credit and guarantee facility. This facility expires on 28 December 2019.

The Group's management of exposure to financial risk, including liquidity, currency, interest rate and commodity risks, is disclosed in note 24 to the financial statements.

The Directors have carried out a detailed review of the Group's 2014/15 budget and medium term plans, with due regard to the risks and uncertainties to which the Group is exposed (of which the principal items are set out on pages 36 to 41), the uncertain economic climate and the impact that this could have on trading performance.

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

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.

Post balance sheet events

There have been no material post balance sheet events as at the date of this report.

By order of the Board

Robert Welch
Company Secretary
21 May 2014

395 King Street
Aberdeen
AB24 5RP

Directors' remuneration report



Dear Shareholder

As Chairman of the Remuneration Committee, I am pleased to introduce the Directors' remuneration report for the year ended 31 March 2014.

In line with the new remuneration reporting requirements introduced by the Department for Business, Innovation & Skills, the report has been split into two parts:

- Remuneration Policy report. This sets out Remuneration Policy for the Directors for the next three years. The Policy report is subject to a binding vote of the Company shareholders at the Annual General Meeting on 16 July 2014. If approved by shareholders the policy as outlined in the Policy report will come into effect on the day following the Annual General Meeting. If there is any change to Remuneration Policy, the new policy will be re-submitted to shareholders for approval
- The Directors' annual report on remuneration sets out how the Remuneration Policy has been implemented during the year. This is subject to an annual advisory vote of shareholders.

Context for decisions on remuneration

We have made good progress during the year in most areas of our operations although results have been hit by extreme weather conditions, particularly in North America. We have nevertheless increased adjusted operating profit in the year by 5.5% to £268m. The Group has entered into a multi-year transformation programme which sets out a detailed series of financial targets, the aim of which is to deliver improved earnings growth and value creation on a sustainable basis. The programme will require consistent focus by the Executive Directors and management team in order to deliver the Group's strategic objectives and the performance targets we have set and it is against this background that the Remuneration Committee has formulated its Remuneration Policy.

Key areas of focus for the Committee during the year

A thorough review of remuneration policy has been undertaken by the Remuneration Committee during the year in preparation for the creation of the Remuneration Policy report. This included, in particular, a review of the operation of the Long Term Incentive Plan (LTIP) and the Executive Annual Bonus Plan (EABP) and the relevant performance targets.

After consideration of various options for the LTIP, including a possible Return on Capital Employed (ROCE) target as an alternative to the TSR and/or EPS measures used in previous years, and following consultation with a number of the Company's largest institutional shareholders, it was agreed that TSR and EPS targets would be retained. However, for the awards made in the year, even if the EPS and TSR metrics are met, if the underlying performance of the Group (for example in relation to ROCE) during the performance period does not justify vesting, the Committee retained discretion to adjust vesting of the awards. In these circumstances, awards would only vest to the extent considered appropriate by the Committee taking into account that underlying performance. That discretion has been retained for the awards to be made in the coming year.

The comparator group for the TSR element of LTIP awards made during the year was also changed. The previous comparator group was composed of the Travel and Leisure sector and it was felt that as it included only three companies that were closely comparable to FirstGroup, a more meaningful comparator

group would be the FTSE 250 (excluding financial services and extraction companies). Again, this change was made after consulting the Company's largest institutional shareholders. The Committee considers that this comparator group remains appropriate for the awards to be made in the coming year.

The Committee also decided that both LTIP and EABP awards should, going forward, include malus provisions which allow for reduction or forfeiture of unvested awards in the event of misconduct or a material misstatement in the Group's accounts.

Other than as outlined above, no major changes were made to the Company's remuneration policy from prior years.

Our philosophy on remuneration

With the challenges ahead, it is as important as ever to ensure that we have in place the highest quality management motivated to deliver outstanding performance. However, we strongly support the view that failure to deliver should not be rewarded. Remuneration practice has been restrained over the most recent difficult trading years with no pay increases for Executive Directors in 2013/14. There will again be no pay increases for Executive Directors in the coming year. The maximum opportunity under the LTIP for Executive Directors was reduced from 150% to 120% of basic salary for the two financial years ended 31 March 2014 and the maximum LTIP opportunity will again be kept at 120% for the coming year.

In setting the Company's Remuneration Policy, we have sought to provide a strong and demonstrable link between incentives and the Company's strategic objectives and medium term financial targets (more details of which are set out in the Chief Executive's strategic review on page 6 and on pages 10 and 11 of the strategic report) and to set a performance-biased framework for remuneration which is consistent with the Group's scale and unique circumstances and which enables Executive Directors and senior managers to share in the long term success of the Group without delivering excessive benefits or encouraging short term measures or excessive risk taking.

Our EABP contains annual profit and cash generation targets which provide an incentive for management to focus on the strategic objectives which year-on-year should lead to achievement of our medium term financial targets. This is reinforced by the targets chosen for our LTIP (as outlined above) which will maintain that focus over the longer term. The reservation of discretion to reflect underlying performance notwithstanding achievement of EPS and TSR targets described above provides a mechanism for ensuring that management are also focused on other key issues such as ROCE.

Our core values of safety and customer service, both of which also have a key part to play in achieving our strategic objectives, are also reflected by specific targets in our EABP.

Shareholder engagement

The Committee has actively engaged with certain major shareholders on remuneration issues including consulting on LTIP performance measures and the Remuneration Policy during the year.

Professor David Begg

Chairman of the Remuneration Committee

Directors' Remuneration Policy

Introduction

This section of the report sets out the details of the Remuneration Policy for Executive and Non-Executive Directors of the Company and will be proposed for approval by shareholders at the Annual General Meeting of the Company to be held on 16 July 2014. Our policy which, except as set out above, is largely unchanged from that applied in recent financial years, will take effect from the day following the Annual General Meeting, subject to it being approved by shareholders at that meeting. Unless it is changed before then, it will operate for the period up until the Company's Annual General Meeting to be held in 2017.

This report is compliant with the provisions of the Companies Act 2006 and Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) (the 'Regulations').

In this section, we describe FirstGroup's Remuneration Policy for Executive Directors (Table 1) and Non-Executive Directors (Table 4). We set out both the overall structure and the details of the Policy. We also explain how the Policy aligns to business strategy and the interests of shareholders. In setting the Policy, the Remuneration Committee has sought to balance the need to provide a high level of clarity for shareholders whilst allowing the Committee sufficient freedom, within appropriate limits, to respond to future events. The information set out in this section is not subject to audit.

Further details on how the policy will be implemented in the financial year ending 31 March 2015 including incentive performance measures are set out on pages 90 to 92.

Table 1: Remuneration Policy for Executive Directors

Basic salary

Purpose and how it supports the Group's strategic objectives	Salary is the core reward for the role and enables the Group to recruit and retain individuals of the calibre required to deliver its strategic objectives and lead its management team. It reflects the individual's skills, expertise, experience and role within the Group.
Operation	<p>Salary is paid monthly in cash.</p> <p>Salary levels take into account:</p> <ul style="list-style-type: none"> the outside market for executives with comparable seniority, experience and responsibilities employed by the Group's peers in the passenger transport sector and in other companies of comparable scale, complexity and geographic spread market data, which is used by the Committee to inform rather than drive its decisions relative differences in the size, responsibility and complexity of the roles performed by each of the Group's Executive Directors. <p>The Remuneration Committee will review salaries for the Executive Directors annually with changes normally taking effect from 1 April each year. The Committee may also review salaries on an ad hoc basis if an individual is promoted and/or there is an increase in their responsibilities.</p>
Maximum Opportunity	<p>Details of the salaries for each of the Executive Directors to be paid from 1 April 2014 are shown on page 90.</p> <p>The Committee will make no increase which it believes is inconsistent with the three parameters above. Increases will take into account and will generally not exceed the general level of pay awards around the Group, in particular with reference to employees who are not within collective bargaining arrangements. However, higher increases may be provided at the Committee's discretion where an individual is promoted and/or if there is an increase in their responsibilities.</p>
Link to Performance	Increases are subject to affordability and satisfactory performance.

Annual performance related bonus

Purpose and how it supports the Group's strategic objectives	<p>The Executive Annual Bonus Plan (EABP) exists to incentivise and reward annual financial performance and performance against key financial and other objectives that underpin the future value of the Group. It focuses the executives on the key priorities for the coming year. The EABP also aligns pay costs to affordability and the value delivered to shareholders. The compulsory deferral of a proportion of bonus into shares aligns the individuals' incentives to longer term value creation and shareholder interests.</p>
Operation	<p>Bonus payments are made annually following the year end and are not pensionable.</p> <p>Bonus payments are based on the achievement of specified financial and non-financial targets over a one year period.</p> <p>Any annual bonus award will be made at least 50% in the form of deferred shares although the Remuneration Committee has discretion to require a higher level of deferral. The balance is paid in cash. The deferral period is normally three years.</p>
Maximum Opportunity	<p>The maximum potential bonus is 120% of salary for the Chief Executive and 100% of salary for other Executive Directors although, under the rules of the EABP, the Committee has discretion to make higher awards in exceptional circumstances. The Committee would not normally expect to exercise that discretion without consulting with the Company's major shareholders in advance.</p>
Link to Performance	<p>Bonus payments are linked to a range of relevant financial and non-financial objectives including targets related to safety and customer service and to performance against certain personal objectives. These objectives may also relate to the specific responsibilities of each individual Executive Director. Where an Executive Director is also responsible for one or more operating divisions, payment of a proportion of the bonus may be linked to the performance of those divisions.</p> <p>The objectives are set by the Committee at the beginning of each financial year with payout determined after year end following the Committee's assessment of the extent to which the objectives have been met.</p> <p>Each bonus element has a threshold level of performance below which no bonus is payable. Payment of maximum bonus requires the achievement of very stretching levels of performance. Bonus in respect of non-financial performance may be subject to a financial performance threshold.</p> <p>The Committee has discretion to reduce unvested deferred awards at any time during the three year vesting period in the event of misconduct or a material adverse misstatement in the Group's accounts.</p> <p>The rules of the EABP also give the Committee discretion to vary the terms of unvested deferred share awards in certain circumstances – further details are provided in Table 3 on page 78.</p> <p>Details of performance targets and performance achieved will be disclosed on a retrospective basis in the Directors' annual report on remuneration to the extent that the information is not considered commercially sensitive.</p> <p>Details of the bonus parameters for the financial year ending 31 March 2015 are set out on pages 90 and 91.</p>

Long Term Incentive Plan (LTIP)

Purpose and how it supports the Group's strategic objectives	The LTIP exists to align the rewards paid to Executive Directors to shareholder interests. It achieves this by linking remuneration to the longer term financial success of the Group in terms of explicit vesting targets and to the Group's share price.
Operation	<p>The LTIP provides a conditional award of shares or options to acquire shares, the vesting of which depends on Group performance against certain targets and continued employment (subject to "good leaver" provisions as described on page 78) over a three year period, or such longer period as is determined by the Committee. Awards are made annually.</p> <p>Awards may be paid in cash or shares and may also include the right to accrue dividend equivalent payments during the vesting period.</p>
Maximum Opportunity	The maximum annual award is generally 150% of basic salary although the plan rules permit the award of up to 200% of basic salary in exceptional circumstances.
Link to Performance	<p>Performance measures for the LTIP will be a combination of financial and/or shareholder return/share price-based measures, measured over at least three years.</p> <p>For achievement of threshold performance (i.e. the minimum level at which any part of an award vests) no more than 25% of the award may vest. For measures based on relative performance against a peer group or index, the performance threshold will be at least equal to the median of the peer group or the performance of the index.</p> <p>The Committee has discretion to vary the proportion of awards vesting if it considers the outcome would otherwise not be a fair and complete reflection of the underlying performance of the Group over the plan cycle. The Committee is aware that investors have particular concerns about the use of upwards discretion in LTIPs. It would only expect to exercise this discretion within the stated maximum opportunity and then only in exceptional circumstances. In these circumstances it would normally consult with shareholders in advance and would reflect the broad consensus of shareholder views in exercising it.</p> <p>The Committee also has discretion to reduce unvested awards in the event of misconduct or a material adverse misstatement in the Group's Accounts.</p> <p>The rules of the LTIP also give the Committee discretion to vary the terms of unvested awards in certain circumstances – further details are provided in Table 3 on page 78.</p> <p>Details of the performance conditions for LTIP awards to be made in the financial year ending 31 March 2015 are set out on page 91.</p> <p>The Committee may set different performance targets for future awards if it considers it appropriate based on relevant market conditions. Details of such performance targets will be disclosed on a retrospective basis in the Directors' annual report on remuneration provided that the Committee determines that the information is not commercially sensitive.</p>

Directors' Remuneration Policy

continued

Pension or cash allowance

Purpose and how it supports the Group's strategic objectives	Pension provision allows executives to build long term savings for their retirement and is a competitive requirement for recruiting and retaining executive talent with the necessary skills and experience.
Operation and Maximum Opportunity	<p>The Group operates various pension arrangements including both defined benefit and defined contribution arrangements. Eligibility for these arrangements depends on country location, employing division and date of joining the Group.</p> <p>The current UK defined benefit scheme includes a scheme earnings cap and Executive Directors who participate in these arrangements receive a cash allowance of 20% of basic salary in excess of that cap.</p> <p>The defined benefit scheme is closed to new entrants so Executive Directors who are not currently in this scheme either participate in a defined contribution scheme or receive a cash allowance on a basis that is in line with the contribution made to the defined contribution pension. For UK-based Executive Directors, the maximum cash pension allowance is 20% of basic salary or, where applicable, 20% of basic salary in excess of any scheme earnings cap. Contributions are made on a monthly basis.</p> <p>In the event of further changes to the pension tax regime adversely affecting individuals' pension benefits and/or to the Group's pension arrangements, the Committee may amend the pension benefits available but only on a basis which would not cost the Company materially more than that Executive Director's current arrangements in terms of percentage of basic salary.</p>
Link to Performance	N/A

Benefits in kind

Purpose and how it support the Group's strategic objectives	Benefits in kind are provided where these are a competitive necessity, are a practical benefit to the business and/or are offered to other Group employees.
Operation and Maximum Opportunity	<p>Benefits may include those currently provided and disclosed in the Directors' annual report on remuneration. Core benefits for Executive Directors include a car benefit, private medical insurance for themselves, their spouse or partner and any dependants and death in service and long term sickness benefits. They may also receive reimbursement for professional body membership subscriptions. Executive Directors who are overseas citizens may also receive an allowance to cover tax advisory fees.</p> <p>Executive Directors may be eligible to receive any other benefits made available to the Group's employees more generally, including discounted travel on the Group's services. They may also become eligible for any new benefits introduced for a wider set of other Group employees.</p> <p>If, in the opinion of the Committee, it were to be necessary for one of the Executive Directors to relocate then relocation and/or expatriate benefits might be paid, including housing, travel, taxation advice, moving costs and (in the case of an international relocation) education for family members. The Committee would also consider the equalisation of tax payments, if appropriate. An Executive Director based outside the UK would be eligible to participate in insurance and other benefit arrangements in line with local practice.</p> <p>The Group actively monitors, reviews and seeks to control the cost of benefits provided. However costs will vary from year to year in accordance with insurance premia and other factors outside the Group's direct control.</p>
Link to Performance	N/A

All-employee share plans

Purpose and how they support the Group's strategic objectives	Executive Directors are eligible to participate in HMRC approved all-employee schemes which encourage share ownership.
Operation and Maximum Opportunity	Executive Directors may participate in these plans in line with HMRC guidelines currently prevailing (where relevant), on the same basis as other eligible employees.
Link to Performance	Participation levels operate in accordance with HMRC limits as amended from time to time.

Share ownership

Purpose and how it supports the Group's strategic objectives	Requiring Executive Directors to hold shares helps to align their financial interests with those of shareholders.
Operation	<p>The Company has guidelines which require an Executive Director over a period of up to five years to build a holding of shares in the Company representing a market value (calculated by reference to purchase price) equal to 100% of basic salary.</p> <p>These guidelines further require Executive Directors to retain at least 50% of the shares, net of tax, vesting under an LTIP or any other executive share award or plan or otherwise acquire shares in the Company until the guideline shareholding is achieved. The Remuneration Committee reserves the right to relax or waive the application of the guidelines where it believes it is justified by the circumstances.</p>
Link to Performance	The value of shares held by Executive Directors will fluctuate in line with the Group's share price, creating alignment to shareholder interests.

Changes to policy since the last remuneration report

The main changes in the Remuneration Policy since the Directors' remuneration report in the 2013 Annual Report are that a malus provision was added to the EABP and the LTIP comparator group was changed from the FTSE All Travel and Leisure Index to the FTSE 250 (excluding financial services and extraction companies).

Choosing performance metrics and targets

As outlined in the strategic report, the Group is going through a multi-year transformation programme to ensure that it delivers sustainable long term growth and value creation over the plan period.

In setting the Company's Remuneration Policy, we have sought to provide a strong and demonstrable link between management incentives and the Company's strategic objectives and medium term financial targets (more details of which are set out in the Chief Executive's strategic review on page 6 and on pages 10 and 11 of the strategic report). We have also sought to set a performance-biased framework for remuneration which is consistent with the Group's scale and unique circumstances and which enables Executive Directors and senior managers to share in the long term success of the Group without delivering excessive benefits or encouraging short term measures or excessive risk taking and aligns their interests with those of our shareholders.

The choice of performance measures for the LTIP and EABP are therefore based on a mixture of financial and operational targets with a clear alignment to those strategic objectives and medium term financial targets and also to our core values of safety and customer service whilst providing (through the LTIP) an incentive to deliver superior shareholder returns and

EPS growth. Further details are set out in the letter from the Chairman of the Remuneration Committee on page 70 and details of the specific metrics chosen for each of the EABP and LTIP for the coming year are set out on page 91.

Differences in Remuneration Policy for Executive Directors compared to other employees

The Group aims to provide competitive remuneration packages across the whole employee population and where remuneration is not subject to collective bargaining arrangements, the Group operates to similar principles to those which apply to Executive Directors. In particular, remuneration reflects the performance of the Group and the contribution made by the individual. Any differences that exist arise either because of local market practice and/or the Committee's assessment of business need and commercial necessity.

Participation in the EABP and LTIP is open to other senior managers at the discretion of the Board. However, the proportion of pay that is performance-related is higher for Executive Directors and divisional leaders.

Remuneration Policy on recruitment

On appointing a new Executive Director, the Committee would seek to align the remuneration package for the relevant individual with the Company's Remuneration Policy and would take into account the package as a whole. It would not pay more than necessary to secure the right candidate and the package would take into account the experience and calibre of the individual concerned.

Directors' Remuneration Policy

continued

Where a newly appointed Executive Director is required to relocate, the Group may pay the costs of relocation including housing, travel, taxation advice, shipping costs and education for family members. The Committee would also consider the equalisation of tax payments, to allow flexibility in employing overseas nationals. Any Executive Director based outside the UK will be eligible to participate in pension or pension allowance, insurance and other benefit programmes in line with local practice.

Any Executive Director promoted internally may remain eligible for payments under incentive plans joined and/or contractual arrangements entered into before joining the Board. However the Committee will have regard to best practice in reviewing the treatment of any such entitlements.

In some circumstances it may be necessary to compensate Executive Directors for incentives lost from their previous employers. In these circumstances the level and timing of such compensation will normally seek to reflect or take account of the term and performance conditions of the payments or awards forgone on a "like for like" basis. Compensation will normally take the form of conditional awards of or options over Group shares but cash and/or time-vested payments may be made where the Committee believes these would offer better value-for-money for shareholders. The Committee is sensitive to investor concerns about such arrangements and will endeavour to take cost-effective approaches.

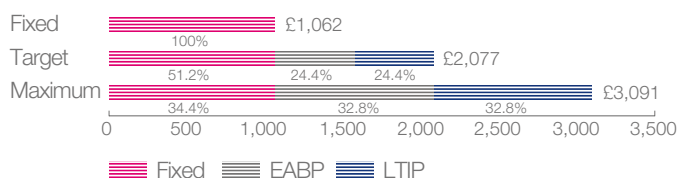
Illustration of application of Remuneration Policy for Executive Directors

A significant proportion of Executive Directors' potential remuneration is performance-related. This comprises annual bonuses under the EABP and long term incentives under the LTIP.

The charts that follow illustrate the remuneration opportunity provided to each Executive Director at different levels of performance for the financial year ending 31 March 2015. The performance scenarios illustrated are below threshold, on-target and maximum performance, with remuneration split between fixed remuneration, the EABP and the LTIP.

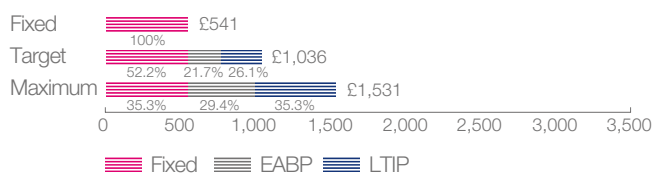
The Chief Executive

Total Remuneration (£'000s)



The Group Finance Director

Total Remuneration (£'000s)



In developing the scenarios, the following assumptions have been made:

Fixed

Consists of basic salary, benefits in kind and pension

- Basic salary is salary for the financial year ending 31 March 2015 (Chief Executive: £845,625, Group Finance Director £450,000)
- The value of benefits for each Executive Director is assumed to be in line with that for the financial year ended 31 March 2014, as set out in the table on page 82
- The value of the Chief Executive's pension benefit and allowance is assumed to be in line with that for the financial year ended 31 March 2014, as set out in the table on page 82
- The value of the Group Finance Director's pension allowance is 20% of his basic salary for the financial year ending 31 March 2015.

Target

Based on what the Director would receive if the target performance was achieved:

- Annual bonus pays out 50% of maximum (120% of basic salary for the Chief Executive, 100% of basic salary for the Group Finance Director)*
- Long term incentive pays out at 50% of maximum (120% of basic salary).

Maximum

Based on what the Director would receive if the maximum performance was achieved:

- Annual bonus pays out at 100% of maximum (120% of basic salary for the Chief Executive, 100% of basic salary for the Group Finance Director)*
- Long term incentive pays out at 100% of maximum (120% of basic salary).

* Annual bonus includes both cash and deferred share elements.

Service agreements and loss of office payments

The Directors' service agreements and letters of appointment are kept for inspection by shareholders at the Company's registered office. A summary in respect of Executive Directors is set out in Table 2 below. Provisions for Non-Executive Directors are summarised in Table 4 on page 80.

The general principle is that there should be no payment for failure. More specifically, there are no contractual entitlements to incentive payments that have not vested and these will, in normal circumstances, only vest for "good leavers" in a defined list of circumstance as set out below.

Table 2 – Service agreements for Executive Directors

Notice Period	Not more than 12 months (rolling).
Termination payments (salary and benefits)	<p>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, in certain cases, benefits) only and would be subject to mitigation.</p> <p>Where the Executive Director participates in one or more of the Group's all-employee share schemes, his awards may vest upon termination in accordance with applicable scheme rules.</p>
Additional expenses	<p>In the event that an Executive Director's employment is terminated for any reason other than gross misconduct, reasonable outplacement and legal fees may be paid by the Group, at the discretion of the Committee. In the event that an Executive Director has been required to relocate, reasonable repatriation costs (including possible tax exposure costs) may be paid at the discretion of the Committee.</p>

Table 3 – Summary of treatment of leavers and discretions available to the Committee under the EABP and LTIP rules

Treatment of leavers under the EABP	<p>Executive Directors who are under notice are not normally eligible for payments under the EABP. The rules of the EABP do give the Committee discretion to make an award in these circumstances but the Committee would only consider exercising such discretion if this were justified by the circumstances of the Executive Director's departure. Any such payment would normally be in cash with no deferral, would reflect the period of time served from the start of the performance period to the date of termination and would be based on the level of performance achieved.</p> <p>Any unvested deferred EABP awards will normally lapse on leaving the Group before the vesting date. However, awards may instead vest if the Executive Director leaves the Group as a result of ill-health, injury, disability, retirement, a transfer of employing company outside of the Group, redundancy or for any other "good leaver" reason the Committee deems appropriate. In these circumstances, awards are normally subject to a pro-rata reduction, although the plan rules give the Committee discretion to waive the pro-rating. Vesting will normally occur at the normal vesting date but may be accelerated at the discretion of the Committee.</p> <p>In the event of death, deferred EABP awards vest immediately in full.</p>
Treatment of leavers under the LTIP	<p>Unless the Committee is satisfied that special circumstances exist, LTIP awards will not normally be granted to any Executive Director who has given or received notice of termination of employment.</p> <p>Unvested LTIP awards will normally lapse on leaving the Group before the vesting date. However, awards may instead vest if the Executive Director leaves the Group as a result of ill-health, injury or permanent disability, retirement, a transfer of employing company outside of the Group, redundancy or for any other "good leaver" reason the Committee deems appropriate. In these circumstances, awards will be subject to a pro-rata reduction to reflect the proportion of the performance period that has elapsed. Vesting will normally be delayed until the applicable performance conditions have been assessed, but may instead occur immediately at the discretion of the Committee, having regard to performance achieved to the date of exit.</p> <p>In the event of death, LTIP awards will vest subject to a pro-rata reduction.</p>
Discretions available to the Committee under the EABP and LTIP	<p>Under the rules of the relevant plan, the Committee retains certain discretions with regard to the operation and administration of the EABP and LTIP including:</p> <ul style="list-style-type: none"> ▪ the timing and size of awards, subject to policy maximums ▪ amending the plan rules in accordance with their terms ▪ adjustments required in certain circumstances (for example rights issues, corporate restructuring events and special dividends) ▪ decisions in relation to a change of control of the Group and other corporate events such as a demerger or other transaction which would affect the current or future value of any awards ▪ vesting of awards as a result of a transfer of an Executive Director to work in another country, where there would be a tax disadvantage in relation to awards or the ability to exercise those awards or to hold or deal in the shares ▪ in relation to the LTIP, to include the right to receive a dividend equivalent amount on any shares subject to awards and to satisfy awards in cash.

External appointments

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. There are no limits on the number of external directorships an Executive Director could take on but in considering any request for approval, the Board would consider the extent to which the external role would affect that individual's ability to perform his or her role at the Company (whether in terms of time commitments, conflicts of interest or otherwise).

Exceptions to the Remuneration Policy

Notwithstanding the restrictions laid out in this Policy, where the Group has made a commitment to a Director which:

- was in accordance with the then prevailing Remuneration Policy at the time that the commitment was made; and/or
- was made before the Director became a Director; and/or
- was made before the rules on binding votes on remuneration policies came into effect,

the Company will continue to give effect to it, even if it is inconsistent with the policy which is in effect at that time. For example, earlier remuneration policies of the Group may continue to apply in relation to LTIP awards, deferred EABP awards and awards under employee share plans that may be or have been granted under one Remuneration Policy and vest or be exercised under a later one.

The Committee may also exercise any of the discretions available to it under any of the employee share schemes in which an Executive Director may participate which were adopted prior to the date of this Policy.

The Committee also reserves the right to make either minor or administrative amendments to this Policy to benefit its operation or to make more material changes in order to comply with new laws, regulations and/or regulatory guidance. The Committee would only exercise this right if it believed it was in the best interests of the Company to do so and where it is not possible, practicable or proportionate to seek or await shareholder approval in General Meeting.

Setting pay policy

Employee context

Mick Barker as Group Employee Director attends meetings at the invitation of the Chairman of the Committee to represent the Group's employees. As such, the Committee believes it is well-informed on the attitudes and concerns of employees. The Committee takes into account the terms and conditions of Group employees when determining pay policy for Executive Directors and in determining their salary increases, recognising that many employees fall under collective labour agreements. The Committee also takes into account information provided by the HR function and external advisers.

Shareholder engagement

When reviewing the remuneration framework of Executive Directors, the Committee takes into account the views and guidance expressed by institutional shareholders and shareholder bodies.

The Company consulted with a number of its major shareholders on this Remuneration Policy. It also received feedback from the ABI. All the feedback it received has been taken into consideration when finalising this Policy.

Table 4: Remuneration Policy for Non-Executive Directors

Basis of appointment	<p>The Chairman and other Non-Executive Directors have letters of appointment. The appointment of each of the Non-Executive Directors is subject to early termination without compensation if he or she is not re-appointed at a meeting of shareholders where he or she is up for re-election. These letters of appointment are available for inspection at the Group's registered office during normal business hours and will be made available for inspection at the Annual General Meeting.</p> <p>Notice periods under the letters of appointment are generally three months on either side. Payment of fees for any portion of that period may be made in lieu of notice.</p> <p>Each Non-Executive Director is required to give sufficient time to meet the expectations of their role and is required to obtain the prior consent of the Chairman before taking on any additional commitment that might affect the time they are able to devote to their role. The Chairman must seek approval from the Senior Independent Director for any outside directorships which might give rise to a conflict of interest or duty or might impact on the time that he is able to devote to his role.</p>
Fee structure	<p>The Chairman is paid an all-inclusive fixed fee for all Board responsibilities. Other Non-Executive Directors receive a basic fee for Board membership with supplementary fees payable for additional responsibilities including chairing Board Committees. Travel expenses and hotel costs (including any tax thereon) are also paid, where necessary.</p> <p>Other than the Group Employee Director, the Non-Executive Directors do not participate in any of the Group's incentive arrangements or share schemes and are not eligible for pension or other benefits.</p> <p>The Group Employee Director receives a normal remuneration package for his regular duties appropriate to his role. The Employee Director's fee as a Director is payable in addition to his or her normal remuneration and any additional fee he or she may receive for acting as employee director of one of the Company's subsidiaries.</p> <p>Fee levels are reviewed on a regular basis to ensure that the Group can attract individuals with the requisite experience, capability and commitment. Reviews take into account the structure and level of fees payable by listed companies of similar scale, complexity and geographical spread and increases for the Group's workforce. Fees may also be revised on an ongoing or temporary basis to take into account changes to the working of the Board.</p> <p>Fees are payable in cash and/or shares at the discretion of the individual Director.</p>
Fee levels	<p>Annual fee levels for current incumbents for the financial year ending 31 March 2015 are as follows.</p> <ul style="list-style-type: none"> ■ Non-Executive Chairman: £250,000 ■ Non-Executive Director Base Fee: £52,500 ■ Group Employee Director: £39,375 ■ Supplementary fee for Senior Independent Director (unless chair of a Committee): £7,500 ■ Supplementary fee for Chairing the Audit Committee: £12,000 ■ Supplementary fee for Chairing the Remuneration and Board Safety Committees: £10,000. <p>The level of fee for a newly appointed Chairman or Non-Executive Director would take into account fee levels at other companies along with the nature of time commitment required and the calibre and experience of the individual.</p> <p>The aggregate maximum fees for Non-Executive Directors are limited as set out in the Articles of Association.</p>

Directors' annual report on remuneration

Introduction

This section details the remuneration of the Executive and Non-Executive Directors (including the Chairman) during the financial year ended 31 March 2014 and will, together with the annual statement of the Committee Chairman on page 70, be proposed for an advisory vote by shareholders at the forthcoming Annual General Meeting to be held on 16 July 2014. In preparing this report consideration has been given to the GC100 and Investor Group Directors' Remuneration Reporting Guidance.

Remuneration Committee

Membership

The Committee met ten times during the year. Attendance by individual Committee members at meetings is detailed below. Of these meetings four were scheduled meetings and six were called to consider urgent or ad hoc business as it arose. The majority of ad hoc meetings were necessary due to matters arising as a result of the rights issue and senior management appointments.

Committee member	Number of scheduled meetings	Number of ad hoc meetings	Total
David Begg, Chairman	4	6	10
Colin Hood	4	6	10
John Sievwright	3	6	9
Jim Winestock	3	6	9

The Board considers each of the members of the Committee to be independent in accordance with the Code. 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.

Role of the Remuneration Committee

Key responsibilities of the Remuneration Committee are to determine the Remuneration Policy for the Executive Directors, Chairman and other members of senior executive management as follows:

- In line with the agreed policy, determine the total remuneration package of each Executive Director, including as appropriate, bonuses, share awards and pension arrangements
- Approve the design and targets for any performance related pay schemes, approve the total annual payments made under such schemes and review the design of all share incentive plans
- Oversee any major changes in employee benefits structures throughout the Group
- Determine the policy for Executive Directors' service agreements and termination payments
- Agree the policy for authorising claims for expenses from the Directors.

In carrying out its duties the Remuneration Committee takes into account any legal requirements, the Code and UK Listing Rules. Determining the fees of the Non-Executive Directors is a matter for the Board as a whole.

The terms of reference for the Remuneration Committee were last reviewed and updated in March 2013 and are available on the Company's website, www.firstgroupplc.com.

Key matters discussed during the year

- Considering and approving Remuneration Policy principles and the final policy
- Approving the remuneration packages for newly appointed senior management
- Considering and approving the EABP 2012/13 bonus including granting awards to the Executive Directors
- Confirming no vesting of the LTIP 2010
- Considering the future design of LTIP and EABP structures with consultants
- Reviewing and approving the Directors' remuneration report
- Reviewing potential performance targets for the LTIP and EABP 2013
- Receiving feedback from consultations with certain major institutional shareholders on proposals for the LTIP 2013 performance conditions and changes to the comparator group as well as receiving comments on a range of remuneration issues
- Approving the grant of awards under the LTIP 2013 and EABP 2013/14
- Reviewing and considering the effect of the rights issue in 2013 on the share awards under the EABP, LTIP, ESOS (last grant 2004 detailed in previous reports) and SAYE which have not been exercised/released, approving the application of the standard rights formula to each and reviewing associated correspondence
- Considering and approving the treatment of EABP and LTIP awards for good leavers
- Considering and approving the remuneration of the new Chairman of the Board and recommending to the Board the fee for the new Chairman of the Audit Committee
- Considering and recommending the introduction of a fee for the Senior Independent Director.

Directors' annual report on remuneration

continued

Advisers to the Committee

Material advice or services were provided to the Committee during the year by the following advisers who were appointed by the Committee:

Adviser	Area of advice/services provided	Fee for 2014 ¹
Deloitte LLP	Incentive packages – trends and best practice	£20,160
KPMG LLP	Review of Remuneration Policy	£21,000

¹ KPMG LLP and Deloitte LLP fees are paid on an hourly rate

Deloitte LLP was engaged to provide advice to the Committee until the end of August 2013 with KPMG LLP engaged thereafter. KPMG LLP does not have any other connection with the Group and therefore the Committee was satisfied that it provided objective and independent advice. Deloitte LLP are the Company's auditor but 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 received from Deloitte LLP was independent. KPMG LLP and Deloitte LLP are members of the Remuneration Consultants Group and abide by the voluntary code of conduct of that body which is designed to ensure that objective and independent advice is given to remuneration committees.

The Committee also receives advice and guidance on senior executive remuneration from the Chief Executive, Group Finance Director, Group HR Director and Group Reward and Pensions Director. The Company Secretary acts as secretary to the Committee, ensures that the Remuneration Committee fulfils its duties under its terms of reference and provides regular updates to the Remuneration Committee on relevant regulatory developments in the UK.

Remuneration Committee evaluation

The performance of the Remuneration Committee was externally assessed by IBE during the year as part of the Board and Committee evaluation process. A number of action items were identified which will be addressed during the coming year.

Executive Directors' Remuneration (audited information)

The table below sets out a single figure for the total remuneration received by each Executive Director for the year ended 31 March 2014 and prior year.

Component/Name	Tim O'Toole		Chris Surch ¹	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Basic Salary	846	846	450	263
Taxable Benefits	37 ²	46	1 ²	1
Pension	179 ³	176	90 ³	53
Annual bonus (EABP) ⁴	600	0	266	173
Value of LTIP vested ⁵	0	0	n/a	N/A
Value of retention share award	324 ⁶	–	n/a	N/A
Other	–	–	–	237 ⁷
Total	1,986	1,068	807	727

¹ Chris Surch joined the Company on 1 September 2012.

² Taxable benefits include: Tim O'Toole – £12,000 car allowance, £16,447 US private medical insurance for himself and spouse, £9,000 for reimbursement of advisory fees (principally relating to taxation in the US and UK). Chris Surch – £1,404 UK private medical insurance for himself and spouse.

³ The following pension related benefits were received during the year: Tim O'Toole – £141,724 pension allowance and £37,102 contribution towards a defined benefit pension scheme. Chris Surch received a £90,000 pension allowance.

⁴ The total cash equivalent (including the cash value of deferred shares) of the EABP bonus award for Tim O'Toole and Chris Surch is detailed above for 2012/13 and 2013/14. Tim O'Toole waived his EABP bonus award for 2012/13. For each year, 50% of any bonus was in the form of share awards deferred for three years, with (in the case of 2013/14) Tim O'Toole will receive an award of 223,554 shares structured as conditional share awards for nil payment and Chris Surch an award of 99,137 shares structured as nil cost options in each case which will vest on 1 April 2017.

⁵ The LTIP 2010 and LTIP 2011 lapsed on 13 May 2013 and 13 May 2014 respectively.

⁶ In 2011, Tim O'Toole was awarded 263,490 shares under a Retention Award Plan. This took the form of a conditional share award for nil payment. It vested and was released on 6 November 2013 at a market value of 122.90 pence per share.

⁷ A payment of £237,958 was made to Chris Surch to compensate him for forfeiting a cash bonus that he would otherwise have received from his previous employer Shanks Group plc. The amount was confirmed in writing by the CEO of Shanks Group plc.

Executive Directors' Pension

Tim O'Toole participates in a defined benefit pension scheme. His contributions to this scheme are paid via salary sacrifice with an equivalent contribution being paid directly to the pension scheme by the Company. This currently provides him with $\frac{1}{50}^{\text{th}}$ accrual for each year of service, based on average pensionable salary for the three tax years prior to retirement. He has chosen a normal retirement age of 60 and can receive his benefits unreduced at that time. There is a scheme earnings cap and he receives an allowance of 20% of basic salary in excess of that cap.

Each Executive Director employed after 1 April 2011 receives a 'pension allowance' equal to 20% of their basic salary.

The allowances paid during the year to Tim O'Toole and Chris Surch were £141,724 and £90,000 respectively.

Information in the table below includes the total accrued benefit at 31 March 2014 which represents the annual pension that is expected to be payable on eventual retirement given the length of service and salary of the Director.

	Age at 31 March 2014	Normal retirement age	Total accrued benefit at 31 March 2014 (£'000)	Description of additional benefits available to the Director on early retirement
Tim O'Toole	58	60	9	None

Incentive outcomes for the year ended 31 March 2014

Whilst details of actual targets set by the Remuneration Committee have not been disclosed as they are deemed to be commercially sensitive, given the close link between performance measures and the Company's long term strategy, details of the applicable metrics are set out below for the Executive Annual Bonus Plan.

Executive Annual Bonus Plan (EABP)

For the year under review, bonuses were payable for Group normalised profit performance between 95% and 107% against target. Below the relevant threshold, the bonus would have been nil. 70% of any bonus payable was dependent on Group financial performance against target and the 30% balance was payable 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.

EABP 2013/14 awards

Measure	Weighting	Measure	Threshold	Award (as a % of relevant element)		Performance achieved (% of maximum potential bonus earned)	
				Target	Stretch	Tim O'Toole	Chris Surch
Financial	60%	Operating profit performance	0%	50%	100%	34.4%	34.4%
	10%	Cash generation	0%	50%	100%	8.1%	8.1%
Non-financial	7.5%	Safety performance	0%	100%	–	0.0%	0.0%
	7.5%	Customer service performance	0%	100%	–	4.1%	4.1%
	15%	Personal performance	0%	100%	–	12.5%	12.5%
Total bonus (% of maximum)		100%				59.1%	59.1%

Directors' annual report on remuneration

continued

Long Term Incentive Plan 2011 award vesting

Following testing of the performance conditions for vesting of the LTIP 2011 award at 31 March 2014, the Committee determined on 13 May 2014 that neither the EPS nor the TSR threshold targets had been met and accordingly the award has lapsed. The awards granted in 2008, 2009 and 2010 also lapsed.

Scheme awards made during the year (audited information)

LTIP Awards

In 2013 the Remuneration Committee granted the following share awards to the Executive Directors under the LTIP:

	Date of award	Face value (% of basic salary)	Face value (£)	Minimum threshold performance (% of award on vesting)	Maximum performance (% of award on vesting)	Performance period
Tim O'Toole	12.12.2013	120%	1,014,750	25%	100%	1.4.13 to 31.03.2016
Chris Surch	12.12.2013	120%	539,999	25%	100%	1.4.13 to 31.03.2016

Tim O'Toole was granted 871,329 shares structured as conditional awards for nil payment and Chris Surch was granted 463,678 shares structured as nil cost options. Face value was calculated using the average of the 5 days' middle market closing prices of the Company's shares prior to the date of the award. The awards are 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 the 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). In respect of the LTIP 2013 the Committee also has discretion to determine that the underlying performance of the Group during the performance period does not justify the vesting of the awards, even if specific performance conditions are met in whole or in part. In such case the awards may vest to such extent as determined by the Committee.

Details of the performance measures and targets for the 2013 LTIP award are set out below.

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

EPS Growth Target	Portion vesting
< 11p	0%
11p	25%
≥ 15p	100%

Between 25% and 100% will vest on a straight line apportionment basis if EPS at the end of the performance period is between 11p and 15p.

The half of the 2013 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 2013 was selected to provide performance measurement against an index of which the group is a constituent part being the FTSE 250 (excluding financial services and extraction companies). This was a change to the previous year's comparator group which was composed of the then current Travel and Leisure sector. The change was made in order to provide a more meaningful comparator group as the Travel and Leisure sector contained only three companies that were closely comparable to FirstGroup. This change was approved by the Remuneration Committee after consultation with major institutional shareholders.

Total Shareholder Return (position of the Company within the comparator group)	Portion vesting
Below Median	0%
Median	25%
Upper quartile	100%

Between median and the upper quartile of the comparator group, vesting will be on a straight line apportionment basis between 25% and 100%.

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.

As with the previous awards, the foregoing vesting targets for the 2013 award and the level of the award as a multiple of salary in relation to the Executive Directors were agreed by the Committee following consultation with a number of the Company's major institutional shareholders. The award for 2013 was set lower than the normal 150% of basic salary at 120% of basic salary, reflecting the low share price.

The Remuneration Committee has certain discretions in relation to LTIP vesting which are set out in the Remuneration Policy Report on pages 71 to 80.

Following the approval of the rights issue at a general meeting held on 10 June 2013 the Remuneration Committee determined that in accordance with the rules of the LTIP, a standard rights issue adjustment formula would be applied to adjust the outstanding options or conditional share awards granted under the LTIP. Details of these adjusted awards are set out in the table on page 88.

EABP Awards

Chris Surch received a bonus of £172,816 in respect of the 2012/13 financial year of which a portion (£86,408) was received in the form of share awards structured as nil cost options deferred for three years which are due to vest on 1 April 2016. Chris Surch was therefore granted 73,875 share awards (adjusted for the rights issue) under the EABP 2013 on 10 June 2013 at a price of 143.46 pence (using the average of the middle market closing price of the Company's ordinary shares on the five working days from the date of the preliminary results and capital restructuring announcement on 20 May 2013) which was used to determine the number of shares awarded. Tim O'Toole waived his bonus for 2012/13 and therefore did not receive any deferred shares under the EABP in respect of that year.

Directors' annual report on remuneration

continued

Non-Executive Directors' Remuneration

Single figure of Non-Executive Director fees and remuneration (audited information)

The table below sets out a single figure for the total remuneration received by each Non-Executive Director for the year ended 31 March 2014 and the prior year:

Director	John McFarlane ¹		Martin Gilbert ²		Mick Barker		David Begg		Colin Hood ⁵		John Sievwright ⁵		Brian Wallace ⁵		Jim Winestock	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Base Fee	66	–	143	191	38	38	60	60	60	50	56	60	54	33	50	33
Basic salary	–	–	–	–	59 ³	59 ³	–	–	–	–	–	–	–	–	–	–
Value of SAYE/BAYE ⁴	–	–	–	–	£nil	£nil	–	–	–	–	–	–	–	–	–	–
Total	66	–	143	191	97	97	60	60	60	50	56	60	54	33	50	33

¹ John McFarlane joined the Board as Non-Executive Director on 5 December 2013 and succeeded Martin Gilbert as Chairman on 1 January 2014.

² Martin Gilbert resigned as a Director of the Company on 31 December 2013.

³ Mick Barker's earnings from the Group as an employee (including his pension) and his fee as First Capital Connect (FCC) Employee Director are included. In addition to this he received a FCC Olympic bonus of £500 in 2013.

⁴ As an employee Mick Barker is eligible to participate in the Group's SAYE and BAYE all employee share schemes. He was granted 870 shares under the SAYE 2010/11 on 7 December 2010 at an option price of 260.117 pence per share which will lapse on 1 August 2014. Mick Barker also received 184 matching shares during the financial year under the BAYE. Based on the middle market closing price on 31 March 2014 of 145.90 pence per share the value of these was £269.

⁵ During 2012/13 and 2013/14 there was a supplementary fee of £10,000 per annum for chairing each of the Audit, Remuneration and Board Safety Committees. Colin Hood was appointed Chairman of the Board Safety Committee on 1 April 2013 and John Sievwright resigned from chairing the Audit Committee and was succeeded by Brian Wallace on 29 October 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.

John McFarlane and Colin Hood receive all of their fees in the form of shares in the Company. David Begg received 100% of his fees in the form of shares up to and including August 2013. From September 2013 David Begg elected to receive 40% of his fees in the form of shares. John Sievwright received 40% of his fees in the form of shares up to the end of December 2013. He now receives all of his fees as cash. Mick Barker, Brian Wallace and Jim Winestock receive 40% of their fees in the form of shares. The shares are purchased on a monthly basis in the market.

Statement of Directors' shareholdings and share interests (audited information)

Share ownership 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 the 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 the 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.

The beneficial and non-beneficial interests of the Executive Directors and their connected persons as at 31 March 2014 and the details of long term incentive interests are shown below:

	Total number of interests in shares of each Director	Unvested EABP awards subject to continued employment	Unvested LTIP interests subject to performance conditions	Vested but not exercised	Shareholding requirement (% of basic salary)	Current shareholding (% of basic salary) ¹	Requirement met
Executive Directors							
Tim O'Toole	685,532	85,350	1,894,759	–	100%	100%	Yes
Chris Surch ²	76,335	73,875	463,678	–	100%	25%	No

¹ Based on the middle market closing price of an ordinary share of the Company of 145.90 pence per share on 31 March 2014.

² Chris Surch was appointed as a Director on 1 September 2012 and he has until 2017 to meet his share ownership requirement.

In 2010/11 Tim O'Toole was awarded 85,350 shares under the EABP. This took the form of a conditional share award for nil payment. It vested and was released on 21 May 2014 at a market value of 134.20 pence per share.

There were no other changes to the Executive Directors' interests in the Company's shares during the period 31 March 2014 to 21 May 2014.

Non-Executive Directors' shareholdings (audited information)

Non-Executive Directors are not subject to a shareholding requirement.

	1 April 2013 or on date of appointment	31 March 2014
John McFarlane (appointed on 5 December 2013)	–	26,192
Mick Barker ¹	11,646	44,585
David Begg	77,103	220,741
Colin Hood	32,313	107,491
John Sievwright	64,666	179,150
Brian Wallace	5,097	32,720
Jim Winestock	4,218	29,329

¹ Mick Barker's total shareholding includes shares acquired under the BAYE comprising Partnership Shares, Matching Shares and any Dividend Shares.

Directors' annual report on remuneration

continued

Directors' share awards (audited information)

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. The number of share awards detailed in the table have been adjusted to reflect the rights issue in 2013 following the application of the standard rights issue adjustment formula.

Directors	Scheme		At beginning of year or date of appointment (number of shares)	Granted during the year (number of shares)	Released/ Exercised during the year (number of shares)	Lapsed/ waived during the year (number of shares)	At end of year (number of shares)	Exercise price (pence)	Date on which award vests/ becomes exercisable	Expiry of exercise date
Mick Barker	SAYE	2009/10	717	–	–	717 ¹	–	252.746	1.2.13	31.7.13
		2010/11	870	–	–	–	870	260.117	1.2.14	31.7.14
		2011/12	681	–	–	–	681	221.373	1.2.15	31.7.15
		2012/13	705	–	–	–	705	117.339	1.2.16	31.7.16
		2013/14	–	1,645	–	–	1,645	94.08	1.2.17	31.7.17
Tim O'Toole	Deferred share bonus ²	2010/11	85,350 ³	–	–	–	85,350	nil	1.4.14	N/A
	LTIP ⁴	2009/10	224,996	–	–	224,996	–	nil	1.4.13	N/A
		2010/11	460,152	–	–	–	460,152 ⁶	nil	1.4.14	N/A
		2011/12	563,278	–	–	–	563,278	nil	1.4.15	N/A
		2012/13	–	871,329	–	–	871,329	nil	1.4.16	N/A
	Retention share award ⁵	2010/11	263,490	–	263,490	–	–	nil	1.11.13	N/A
Chris Surch	Deferred share bonus ²	2012/13	–	73,875	–	–	73,875	nil	1.4.16	1.4.23
	LTIP ⁴	2012/13	–	463,678	–	–	463,678	nil	1.4.16	1.4.17

¹ Lapsed on 1 August 2013.

² Tim O'Toole waived his bonus for 2011/12 and 2012/13. In respect of the deferred share element of the 2013/14 bonus award, Tim O'Toole will receive an award of 223,554 shares structured as conditional awards for nil payment and Chris Surch an award of 99,137 shares structured as nil cost options. These will be deferred for three years from 31 March 2014.

³ The figure shown represents the number of share awards structured as conditional share awards for nil payment which were granted under the deferred share element of the EABP in respect of 2010/11 to Tim O'Toole, with Tim O'Toole electing to take all this bonus in the form of deferred shares. The EABP 2011 vested on 21 May 2014.

⁴ The figures shown represent the number of share awards which were granted under the LTIP in the relevant financial year and are subject to the performance targets and deferral periods as set out above and discussed in previous remuneration reports for earlier grants.

⁵ The retention share award took the form of a conditional share award for nil payment. It vested and was released on 6 November 2013 at a market value of 122.90 pence per share.

⁶ The Remuneration Committee met on 13 May 2014 and determined that the performance conditions of the LTIP 2011 had not been met. Therefore Tim O'Toole's entitlement under the 2011 LTIP has now lapsed.

Percentage change in the remuneration of the Chief Executive

The table opposite sets out the percentage change in base salary, value of taxable benefits and bonus for the Chief Executive compared with the average percentage change for UK employees (including UK Bus and UK Rail but excluding Group). The UK workforce was chosen as a suitable comparator group as the Executive Directors are predominantly based in the UK. In addition this avoids complicated exchange rate adjustments that would have to be used if employees based in the Group's overseas operations were included and the fact that a large proportion of the North American workforce works part time.

Year-on-Year Percentage Change in Remuneration of Chief Executive and UK Employees

	Average Percentage Change 2013/2014		
	Base Salary	Taxable Benefits	Annual Bonus
Chief Executive	0%	(18.3%)	N/A ¹
UK Employees	2.35%	0%	0%

¹ The Chief Executive waived his bonus for 2012/13. His total bonus (including deferred share awards) for 2013/14 was £600,020.

Relative importance of the spend on pay

The table below outlines adjusted operating profit and dividends paid to shareholders compared to overall spend on pay. The measure of profit has been chosen as a straightforward measure reflecting the performance of the Company.

	Year end 31 March 2014 (£m)	Year end 31 March 2013 (£m)	% change
Adjusted operating profit ¹	268.0	254.1	5.5%
Dividends paid ²	–	114.0	–
Total staff costs ³	2,824.0	2,930.0	(3.6)%

¹ Operating profit before amortisation charges, ineffectiveness on financial derivatives and exceptional items.

² The total cost of ordinary dividends paid to shareholders.

³ Total staff costs from continuing operations includes wages and salaries, social security costs and other pension costs of £116,497 (2013/14) and £120,475 (2012/13).

The Company has not made any share buybacks during the financial year or prior year.

Payments to departing directors

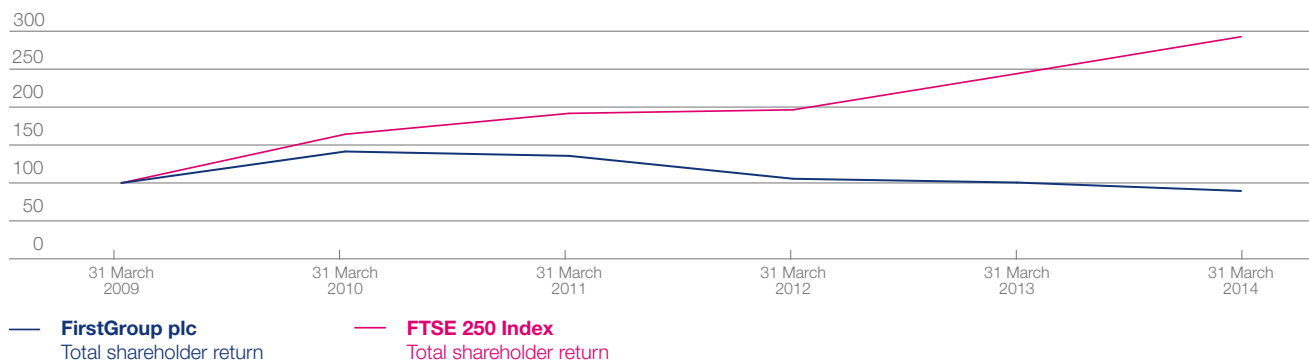
During the year, the Company has not made any payments to past directors; neither has it made any payments to directors for loss of office.

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 250 Index is calculated.

The FTSE 250 Index has been chosen because it is a recognised equity market of which FirstGroup is a member.

Total shareholder return



Source: Datastream

Directors' annual report on remuneration

continued

Comparison of Company performance and Chief Executive remuneration over five-year period

The following table summarises the Chief Executive single figure for total remuneration, annual bonus payout and LTIP vesting as a percentage of maximum opportunity over the same five-year period.

	Chief Executive ^{1,2}	2010	2011	2012	2013	2014
Annual bonus (as a % of maximum opportunity)	Tim O'Toole	–	43.4%	0% ³	0% ³	59.1%
	Moir Lockhead	0%	43.6%	–	–	–
LTIP vesting (as a % of maximum opportunity)	Tim O'Toole	–	0% ⁴	0% ⁴	0% ⁴	0% ⁴
	Moir Lockhead	–	–	–	–	–
Chief Executive single figure of remuneration (£'000)	Tim O'Toole	–	357	1,055	1,068	1,986
	Moir Lockhead	643	503	–	–	–

¹ Tim O'Toole joined the Board as a Non-Executive Director in May 2009. He was subsequently appointed as Group Chief Operating Officer on 14 June 2010 and as Chief Executive on 1 November 2010.

² Sir Moir Lockhead resigned as Chief Executive in November 2010.

³ Tim O'Toole waived his bonus in 2011/12 and 2012/13.

⁴ The 2008, 2009 and 2010 LTIP awards lapsed. Following testing of the performance conditions for vesting of the 2011 award at 31 March 2014 the Committee determined on 13 May 2014 that neither the EPS nor the TSR targets had been met and accordingly the award has lapsed.

External Board Appointments

Where Board approval is given for an Executive Director to accept an outside non-executive directorship, unless the appointment is in connection with the Group business, the individual Director is entitled to retain any fees received. For serving as a Director of CSX Corporation, Tim O'Toole receives a fee of \$70,000 which is taken in CSX common shares and an annual grant of \$150,000 also in CSX common shares. Both elements are deferred until Tim O'Toole leaves the board of CSX Corporation and therefore he does not receive any current compensation.

Implementation of the Remuneration Policy for Executive Directors for 2015

The policy will apply to any remuneration paid on or after 16 July 2014.

Salary

The basic salary for Tim O'Toole at £845,625 per annum and Chris Surch at £450,000 per annum remain unchanged.

Benefits

These will remain as a car allowance, private medical insurance (for himself and spouse) and reimbursement of advisory fees relating to tax advice for Tim O'Toole and private medical insurance for Chris Surch (for himself and spouse).

Pension

The current pension arrangements described above will remain in place for the forthcoming financial year.

Annual Bonus – EABP

The annual bonus for 2014/15 will operate on the same basis as in 2013/14. The Committee has approved a maximum bonus opportunity of 100% of salary for Chris Surch and of 120% for Tim O'Toole. 50% of any bonus will be payable in cash with the remaining 50% in the form of deferred shares.

Proposed target levels have been set to be challenging relative to the budget for the year. The threshold is 94% of Group budget operating profit target with maximum paid at 105%. Specific targets are deemed to be commercially sensitive and therefore will not be published until such time that the Committee is confident that there will be no adverse impact on the Company of such disclosure. The maximum potential bonus is 120% for the Chief Executive and 100% for the Group Finance Director.

Measure	Weighting	Measure	Threshold	Target	Stretch
Financial	60%	Operating profit performance	0%	50%	100%
	10%	Cash generation	0%	50%	100%
Non-financial	7.5%	Safety performance	0%	100%	–
	7.5%	Customer service performance	0%	100%	–
	15%	Personal performance	0%	100%	–
Total (% of maximum)	100%				

LTIP

For 2014, the LTIP will continue to operate on the same basis as in the 2013 LTIP. Executive Directors will each receive an award of 120% of salary with 50% of the award subject to the growth in the Company's earnings per share and the remaining 50% of the award subject to the Company's total shareholder return.

Details of the performance measures and targets for the LTIP 2014 are set out below.

In respect of the half of the 2014 award which is subject to EPS growth the following targets apply:

EPS Growth Target	Portion of award vesting
<10p	0%
10p	10%
12p	25%
≥16p	100%

Between 10% and 25% will vest on a straight line apportionment basis if EPS at the end of the performance period is between 10p and 12p.

Between 25% and 100% will vest on a straight line apportionment basis if EPS at the end of the performance period is between 12p and 16p.

The half of the 2014 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 FTSE 250 (excluding financial services and extraction companies) is the comparator group for 2014 awards, which remains unchanged from 2013.

Total Shareholder Return (position of the Company within the comparator group)	Portion of award vesting
Below Median	0%
Median	25%
Upper quartile	100%

Between median and the upper quartile of the comparator group, vesting will be on a straight line apportionment basis between 25% and 100%.

Directors' annual report on remuneration

continued

Implementation of Non-Executive Director Remuneration Policy

Chairman and Non-Executive Director fees

In May 2014, the Board reviewed Non-Executive Directors' fees. Following consideration of actual and proposed salary increases across the Group and indicative fee increases at sector and FTSE comparators, the Board determined that the base fee should be increased from £50,000 p.a. to £52,500 p.a. and that additional fees should be increased by a similar rate. The Committee approved a fee payable to the new Chairman on his appointment of £250,000 p.a. A summary of fee increases, which are effective from 1 April 2014, is set out in the table below. Fee levels are reviewed on a regular basis.

	2013/2014 Fees £'000	2014/2015 Fees £'000
Base Fees		
Chairman	191	250
Non-Executive Director	50	52.5
Group Employee Director	37.5	39.4
Additional Fees		
Senior Independent Director	Nil	7.5
Chairman of Audit Committee	10	12
Chairman of Remuneration Committee	10	10
Chairman of Board Safety Committee	10	10

Statement of Voting on the Remuneration Report at the AGM

	Votes cast For	For %	Votes cast against	Against %	Votes withheld
2013 Vote	553,828,337	70.51%	231,648,104	29.49%	5,269,308

Feedback from shareholders indicated that the votes against the Directors' remuneration report at last year's AGM were largely a result of two main factors. The first was the decision that the Executive Directors would be eligible to receive a bonus in a year when operating profit was reduced compared with the prior year. As noted above, Tim O'Toole waived his bonus for the year. However, much of the profit reduction was due to specific issues that were known in advance of the financial year and which were already reflected in external market forecasts for the year. These included a reduction in UK Rail earnings, principally as a result of the First TransPennine Express franchise entering a three year extension period at margins closer to the industry average, and a reduction in UK Bus earnings, where Government funding available to the industry was reduced. The Group's North American operations were also adversely affected during the year by Hurricane Sandy. The Remuneration Committee therefore had to take these structural non-trading issues into account when setting bonus targets. To do otherwise would have resulted in unrealistic targets being set, which would have been demotivating to the executive team. The other issue on which we received shareholder feedback was the payment of a cash bonus to Chris Surch on joining the Company. This was compensation for a cash bonus he would have received had he stayed with Shanks Group plc. The amount of the bonus and terms on which it would have been paid were verified with Shanks Group plc. The Company's position was explained to leading shareholders prior to the AGM.

Engagement with Shareholders on Remuneration

The Chairman of the Remuneration Committee regularly engages with relevant organisations concerning the Company's approach to remuneration and reports back to the other members of the Remuneration Committee on such dialogue as necessary. In particular the Remuneration Committee consulted extensively with major institutional shareholders in respect of the operation of the LTIP scheme and in respect of the policy for inclusion in this Directors' remuneration report. The Chairman of the Board also received feedback on remuneration issues when he met shareholders as part of his induction programme. Further details may be found on page 66 of the Directors' and corporate governance report.

Approval

This report was approved by the Board of Directors, on the recommendation of the Remuneration Committee, on 21 May 2014 and signed on its behalf by:

Professor David Begg

Chairman of the Remuneration Committee

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.

The Directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's and the Group's performance, business model and strategy.

By order of the Board

Tim O'Toole
Chief Executive
21 May 2014

Chris Surch
Group Finance Director
21 May 2014

Consolidated income statement

For the year ended 31 March

		2014			Restated ¹ 2013		
	Notes	Adjusted results ² £m	Adjustments ³ £m	Total £m	Adjusted results ² £m	Adjustments ³ £m	Total £m
Revenue	3,4	6,717.4	–	6,717.4	6,900.9	–	6,900.9
Operating costs		(6,449.4)	(35.8)	(6,485.2)	(6,646.8)	(114.3)	(6,761.1)
Operating profit	4,6	268.0	(35.8)	232.2	254.1	(114.3)	139.8
Amortisation charges		–	(53.4)	(53.4)	–	(52.0)	(52.0)
Exceptional items		–	17.6	17.6	–	(62.3)	(62.3)
		–	(35.8)	(35.8)	–	(114.3)	(114.3)
Investment income	8	1.7	–	1.7	1.8	–	1.8
Finance costs	8	(157.8)	(17.6)	(175.4)	(165.0)	(5.5)	(170.5)
Profit/(loss) before tax		111.9	(53.4)	58.5	90.9	(119.8)	(28.9)
Tax	9	(22.4)	28.1	5.7	(17.5)	41.4	23.9
Profit/(loss) for the year		89.5	(25.3)	64.2	73.4	(78.4)	(5.0)
Attributable to:							
Equity holders of the parent		79.3	(25.1)	54.2	65.1	(82.9)	(17.8)
Non-controlling interests		10.2	(0.2)	10.0	8.3	4.5	12.8
		89.5	(25.3)	64.2	73.4	(78.4)	(5.0)
Earnings per share							
Basic	10	7.5p	(2.4)p	5.1p	11.0p	(14.0)p	(3.0)p
Diluted	10	7.5p	(2.4)p	5.1p	10.9p	(13.9)p	(3.0)p

Dividends of £nil (2013: £114.0m) were paid during the year. Dividends of £nil (2013: £nil) are proposed for approval in respect of the year.

¹ Restated for adoption of IAS19 (revised) on pensions, the reclassification of certain exceptional items and the impact of the rights issue on EPS as set out in note 2.

² Adjusted trading results before items outlined in 3 below.

³ Adjustments relate to amortisation charges, ineffectiveness on financial derivatives, exceptional items and tax thereon.

Consolidated statement of comprehensive income

Year ended 31 March

	2014 £m	Restated ¹ 2013 £m
Profit/(loss) for the year	64.2	(5.0)
Items that will not be reclassified subsequently to profit or loss		
Actuarial (losses)/gains on defined benefit pension schemes	(33.5)	7.5
Deferred tax on actuarial losses/gains on defined benefit pension schemes	3.0	0.2
	(30.5)	7.7
Items that may be reclassified subsequently to profit or loss		
Derivative hedging instrument movements	44.3	(52.7)
Deferred tax on derivative hedging instrument movements	(3.9)	7.6
Exchange differences on translation of foreign operations	(231.1)	103.2
	(190.7)	58.1
Other comprehensive (expense)/income for the year	(221.2)	65.8
Total comprehensive (expense)/income for the year	(157.0)	60.8
Attributable to:		
Equity holders of the parent	(167.0)	48.0
Non-controlling interests	10.0	12.8
	(157.0)	60.8

¹ Restated as set out in note 2.

Consolidated balance sheet

Year ended 31 March

	Note	2014 £m	Restated ¹ 2013 £m	Restated ¹ 2012 £m
Non-current assets				
Goodwill	12	1,509.5	1,665.8	1,599.3
Other intangible assets	13	217.9	281.8	318.8
Property, plant and equipment	14	1,864.9	1,977.6	2,006.3
Deferred tax assets	25	35.8	53.2	43.3
Retirement benefit assets	35	29.9	15.4	25.2
Derivative financial instruments	24	25.9	63.3	72.6
Investments		2.8	3.2	7.2
		3,686.7	4,060.3	4,072.7
Current assets				
Inventories	16	71.4	79.9	91.0
Trade and other receivables	17	663.6	641.0	601.9
Cash and cash equivalents	20	553.9	682.1	499.7
Assets held for sale	18	6.2	44.7	3.7
Derivative financial instruments	24	26.0	23.3	43.5
		1,321.1	1,471.0	1,239.8
Total assets		5,007.8	5,531.3	5,312.5
Current liabilities				
Trade and other payables	19	1,219.8	1,256.7	1,271.5
Tax liabilities		34.2	28.7	21.8
Financial liabilities	21	127.8	441.3	195.3
Derivative financial instruments	24	17.7	64.7	17.1
		1,399.5	1,791.4	1,505.7
Net current liabilities		78.4	320.4	265.9
Non-current liabilities				
Financial liabilities	21	1,823.9	2,317.4	2,252.9
Derivative financial instruments	24	9.2	21.7	50.1
Retirement benefit liabilities	35	290.6	263.2	293.1
Deferred tax liabilities	25	37.0	62.2	95.6
Provisions	26	224.6	260.9	242.5
		2,385.3	2,925.4	2,934.2
Total liabilities		3,784.8	4,716.8	4,439.9
Net assets		1,223.0	814.5	872.6
Equity				
Share capital	27	60.2	24.1	24.1
Share premium	28	676.4	676.4	676.4
Hedging reserve	28	7.8	(32.6)	12.5
Other reserves	28	4.6	4.6	4.6
Own shares		(1.8)	(1.1)	(1.1)
Translation reserve	29	17.8	248.9	145.7
Retained earnings		446.4	(130.5)	(12.0)
Equity attributable to equity holders of the parent		1,211.4	789.8	850.2
Non-controlling interests		11.6	24.7	22.4
Total equity		1,223.0	814.5	872.6

¹ Restated as set out in note 2.

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 2012 as previously reported	24.1	676.4	12.5	4.6	(1.1)	145.7	(3.6)	858.6	22.4	881.0
Prior year adjustment	–	–	–	–	–	–	(8.4)	(8.4)	–	(8.4)
Balance at 1 April 2012 restated	24.1	676.4	12.5	4.6	(1.1)	145.7	(12.0)	850.2	22.4	872.6
Total comprehensive income for the year	–	–	(45.1)	–	–	103.2	(10.1)	48.0	12.8	60.8
Dividends paid	–	–	–	–	–	–	(114.0)	(114.0)	(10.5)	(124.5)
Share-based payments	–	–	–	–	–	–	5.6	5.6	–	5.6
Balance at 31 March 2013 restated	24.1	676.4	(32.6)	4.6	(1.1)	248.9	(130.5)	789.8	24.7	814.5
Rights issue ¹	36.1	–	–	–	–	–	548.3	584.4	–	584.4
Total comprehensive income for the year	–	–	40.4	–	–	(231.1)	23.7	(167.0)	10.0	(157.0)
Movement in EBT and treasury shares	–	–	–	–	(0.7)	–	0.3	(0.4)	–	(0.4)
Dividends paid	–	–	–	–	–	–	–	–	(23.1)	(23.1)
Share-based payments	–	–	–	–	–	–	4.6	4.6	–	4.6
Balance at 31 March 2014	60.2	676.4	7.8	4.6	(1.8)	17.8	446.4	1,211.4	11.6	1,223.0

¹ The rights issue which completed in June 2013 was effected through a legal structure that resulted in the excess of the proceeds over the nominal value of the share capital being recognised as a distributable reserve within retained earnings.

Consolidated cash flow statement

Year ended 31 March

	Note	2014 £m	2013 £m
Net cash from operating activities	31	292.3	332.7
Investing activities			
Interest received		2.0	1.8
Proceeds from disposal of property, plant and equipment		14.1	14.7
Purchases of property, plant and equipment		(277.0)	(213.1)
Disposal of subsidiary/business		76.3	39.2
Net cash used in investing activities		(184.6)	(157.4)
Financing activities			
Dividends paid		–	(114.0)
Dividends paid to non-controlling shareholders		(21.3)	(10.7)
Shares purchased by Employee Benefit Trust		(2.0)	–
Proceeds from rights issue		614.4	–
Fees paid on rights issue		(30.0)	–
Proceeds from bond issues		–	325.0
Repayment of bonds		(300.0)	–
Drawdowns from bank facilities		20.1	63.3
Repayment of bank debt		(416.9)	(197.8)
Repayments under HP contracts and finance leases		(101.8)	(55.8)
Fees for bank facility amendments and bond issues		–	(6.2)
Net cash flow from financing activities		(237.5)	3.8
Net (decrease)/increase in cash and cash equivalents before foreign exchange movements		(129.8)	179.1
Cash and cash equivalents at beginning of year		682.1	499.7
Foreign exchange movements		1.6	3.3
Cash and cash equivalents at end of year per consolidated balance sheet		553.9	682.1

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

	2014 £m	2013 £m
Net (decrease)/increase in cash and cash equivalents in year	(129.8)	179.1
Decrease/(increase) in debt and finance leases	798.6	(134.7)
Inception of new HP contracts and finance leases	(57.5)	(125.0)
Fees capitalised against bank facilities and bond issues	–	6.2
Net cash flow	611.3	(74.4)
Foreign exchange movements	68.2	(63.1)
Other non-cash movements in relation to financial instruments	(4.2)	(4.1)
Movement in net debt in year	675.3	(141.6)
Net debt at beginning of year	(1,979.1)	(1,837.5)
Net debt at end of year	(1,303.8)	(1,979.1)

Net debt excludes all accrued interest.

Notes to the consolidated financial statements

1 General information

FirstGroup plc is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is 395 King Street, Aberdeen AB24 5RP. The nature of the Group's operations and its principal activities are set out in the Strategic Report on pages 4 to 49.

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 69. The principal accounting policies adopted are set out below.

The figures for the year to 31 March 2014 include the results of the rail business for the year to 31 March 2014 and the results of all the other businesses for the 52 weeks ended 29 March 2014. 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.

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.

Restatement of prior year numbers

The following tables show the restated prior year comparative figures for the divisions and for the Group for the financial year ended 31 March 2013. The restatement reflects (a) the retrospective adjustment from the adoption of the changes in IAS 19 '*Employee Benefits*' (revised), (b) the reclassification of certain exceptional items and (c) the retrospective adjustment of earnings per share figures as required by IAS 33 '*Earnings Per Share*', reflecting the rights issue completed in June 2013.

(a) IAS 19 (revised)

IAS 19 (revised) applies to financial years beginning on 1 January 2013 or later. The key impact on the Group from the revised standard 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. The actual benefits and the cash contributions for these plans are not impacted by IAS 19 (revised).

(b) Exceptional items

The Directors have decided to reclassify certain generally recurring costs that were previously treated as exceptional. Principally these relate to costs incurred relating to bidding for rail franchises and the profit/(loss) on disposal of properties.

(c) Rights issue

Pursuant to the rights issue, on 10 June 2013, 722,859,586 new ordinary shares of 5 pence each were issued, with three new ordinary shares issued for every two existing ordinary shares held. As a result the total issued share capital increased to 1,204.9m ordinary shares. For the calculation of earnings per share, the number of shares held prior to 10 June 2013 has been increased by a factor of 1.227 to reflect the bonus element of the rights issue.

Notes to the consolidated financial statements

continued

2 Significant accounting policies continued

	Year to 31 March 2013				
	Reported £m	Impact of IAS 19 £m	Exceptional items £m	Impact of rights issue £m	Restated £m
Adjusted results¹:					
First Student	109.9	–	0.2		110.1
First Transit	49.1	–	–		49.1
Greyhound	52.0	2.5	(0.2)		54.3
UK Bus	90.7	(37.2)	(2.7)		50.8
UK Rail	63.2	(25.2)	(18.7)		19.3
Group items	(29.5)	–	–		(29.5)
Adjusted operating profit	335.4	(59.9)	(21.4)		254.1
Net finance costs	(163.0)	(0.2)	–		(163.2)
Adjusted profit before tax	172.4	(60.1)	(21.4)		90.9
Tax	(34.7)	12.1	5.1		(17.5)
Adjusted profit for the year	137.7	(48.0)	(16.3)		73.4
Attributable to:					
Equity holders of the parent	129.4	(48.0)	(16.3)		65.1
Non-controlling interests	8.3	–	–		8.3
	137.7	(48.0)	(16.3)		73.4
Weighted average number of shares (million)	481.7	–	–	109.1	590.8
Adjusted EPS (p)	26.9	(10.0)	(3.4)	(2.5)	11.0
Adjusted profit attributable to equity holders of the parent	129.4	(48.0)	(16.3)		65.1
Adjustments²:					
Amortisation charges	(52.0)	–	–		(52.0)
Exceptionals and property disposals	(83.2)	(6.0)	21.4		(67.8)
Tax thereon	45.3	1.2	(5.1)		41.4
Non-controlling interests	(4.5)	–	–		(4.5)
Profit/(loss) for the year	35.0	(52.8)	–		(17.8)
Basic EPS (p)	7.3	(10.8)	–	0.5	(3.0)

¹ Adjusted trading results before items outlined in 2 below.

² Adjustments relate to amortisation charges, ineffectiveness on financial derivatives, exceptional items and tax thereon.

2 Significant accounting policies continued

Condensed consolidated statement of comprehensive income

Year to 31 March 2013

	Reported £m	Impact of IAS 19 £m	FGW IAS 19 £m	Restated £m
Profit/(loss) for the year	47.8	(48.0)	(4.8)	(5.0)
Items that will not be reclassified subsequently to profit or loss				
Actuarial (losses)/gains on defined benefit pension schemes	(63.1)	60.1	10.5	7.5
Deferred tax on actuarial losses/gains on defined benefit pension schemes	14.4	(12.1)	(2.1)	0.2
	(48.7)	48.0	8.4	7.7
Items that may be reclassified subsequently to profit or loss				
Derivative hedging instrument movements	(52.7)	–	–	(52.7)
Deferred tax on derivative hedging instrument movements	7.6	–	–	7.6
Exchange differences on translation of foreign operations	103.2	–	–	103.2
	58.1	–	–	58.1
Other comprehensive income for the year	9.4	48.0	8.4	65.8
Total comprehensive income for the year	57.2	–	3.6	60.8
Attributable to:				
Equity holders of the parent	44.4	–	3.6	48.0
Non-controlling interests	12.8	–	–	12.8
	57.2	–	3.6	60.8

First Great Western contract provision

At 31 March 2013

	Reported £m	Impact of IAS 19 ¹ £m	Impact of IAS 19 ² £m	Restated £m
At 1 April 2012	56.9	10.5	–	67.4
Provided in the year	9.9	–	6.0	15.9
Utilised in the year	(32.9)	(10.5)	–	(43.4)
At 31 March 2013	33.9	–	6.0	39.9

¹ IAS 19 (revised) increases the accounting losses on the First Great Western contract. The incremental loss for the year to 31 March 2013 of £10.5m has been treated as a prior year adjustment as at 1 April 2012 with utilisation of £10.5m in the year to 31 March 2013 respectively.

² The incremental loss on the First Great Western contract of £6.0m for the 7 period extension to October 2013 has been included in the restatement of the exceptional charge for the year to 31 March 2013.

Business segments and geographical information

The presentation of total assets and total liabilities by business segment for March 2013 has been restated to be consistent with how the Directors view the business. Segment assets and liabilities are determined by identifying the assets and liabilities that relate to the business of each segment but excluding intercompany balances, net debt and taxation.

Notes to the consolidated financial statements

continued

2 Significant accounting policies continued

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 shareholder's 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 does not constitute 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, assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

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

Assets held for sale

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

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

Goodwill and intangible assets

Goodwill arising on consolidation 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), which 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 initial term of the franchise (2 to 10 years)

In the event of a franchise extension a new intangible asset is set up and is amortised over the term of the extension on a straight-line basis.

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 trade and other payables under the heading of season ticket deferred income and recognised in the income statement over the period covered by the relevant ticket.

2 Significant accounting policies continued

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 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 below).

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 Group, 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.

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 24 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, relationship to current trading activities 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.

Subsequent revisions to the same exceptional items are also recognised as an exceptional item in future periods. In the current year exceptional items principally relate to business disposals and the residual release of the First Great Western provision, which was previously recognised as exceptional, but is now no longer required. In the prior year exceptional items principally related to aged legal claims associated with previous acquisitions, business disposals, revisions to onerous contract provisions previously recognised as exceptional items and the isolated recovery of UK rail bid costs.

Notes to the consolidated financial statements

continued

2 Significant accounting policies continued

Retirement benefit costs

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

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

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

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

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

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

Tax

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

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

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

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

The carrying amount of the deferred tax asset 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 17 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.

2 Significant accounting policies continued

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 only to the extent 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.

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 rate 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 TOCs 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.

Notes to the consolidated financial statements

continued

2 Significant accounting policies continued

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 denominated assets.

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

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

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

Provisions

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

Self-insurance

The Group's policy is to self-insure high frequency, low value claims within the businesses. In addition there are typically a smaller number of major claims during a financial year which may be subject to an insurance deductible. To provide protection against these major 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.

2 Significant accounting policies continued

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 IAS 36 (May 2013)	Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014
IFRIC 21	Levies	1 January 2014
Amendments to IAS 32 (December 2011)	Offsetting Financial Assets and Financial Liabilities	1 January 2014
IFRS 9	Financial Instruments	1 January 2017
IFRS 12	Disclosure of Interests in Other Entities	1 January 2013 ¹
IFRS 11	Joint Arrangements	1 January 2013 ¹
IFRS 10	Consolidated Financial Statements	1 January 2013 ¹

¹ Mandatory for accounting periods starting on or after 1 January 2014 under EU adopting regulations.

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

Adoption of new and revised standards

In the current year, the Group has applied a number of new and revised IAS/IFRSs. None of these have resulted in a material impact with the exception of IAS 19 (revised), which has had a material impact on the consolidated balance sheet. In accordance with the amendments to IAS 1, the Group has presented a third balance sheet as at 31 March 2012 without the related notes except for the disclosure requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* as shown in note 2. The application of IFRS 13 has not had a material impact on the amounts recognised in the consolidated financial statements other than the additional disclosures that are required under this IFRS. This has been disclosed in note 24.

Critical accounting judgments 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 judgments 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 £1,509.5m (2013: £1,665.8m; 2012: £1,599.3m) as set out in note 12 and the carrying amount of other intangible assets at the balance sheet date was £217.9m (2013: £281.8m; 2012: £318.8m) as set out in note 13.

Notes to the consolidated financial statements

continued

2 Significant accounting policies continued

Contract and franchise accounting

Judgments 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 franchises and long term service contracts. Regular forecasts are compiled on the outcome of these types of franchises and contracts, which require assessments and judgments relating to the expected level of revenues and costs and, in cases where options exist, the life of the contract or franchise.

The useful economic lives of assets are determined by reference to the length of a franchise and matched to the franchise end date. The residual value of assets is determined by their condition at the franchise end date and by the amount of maintenance that has been carried out during the period of operation.

In particular UK Rail has a number of contractual relationships including those with the DfT and Network Rail. Due to the regulated nature of the UK Rail industry, disputes and claims typically arise with such bodies as well as other Train Operating Companies (TOCs) where one or more TOCs have access to common infrastructure such as railway lines. Judgment is required by management as to the amounts receivable and also payable taking account of the information available at the time.

In the current year particular judgments related to the First Great Western contract provision (see note 5) and the evaluation of other potential onerous contracts.

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 £3m and £29m respectively. A 0.1% movement in the inflation rate would impact operating profit and the balance sheet position by approximately £3m and £21m respectively. The net pension deficit as at the balance sheet date was £260.7m (2013: £247.8m; 2012: £267.9m) as set out in note 35.

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 £294.8m (2013: £332.6m; 2012: £336.0m) as set out in note 26.

3 Revenue

	2014 £m	2013 £m
Services rendered	5,908.3	6,080.8
UK Rail franchise subsidy receipts	572.1	504.2
UK Rail revenue support	237.0	315.9
	6,717.4	6,900.9
Finance income	1.7	1.8
Total revenue as defined by IAS 18	6,719.1	6,902.7

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 strategic report.

The segment results for the year to 31 March 2014 are as follows:

	First Student £m	First Transit £m	Greyhound £m	UK Bus £m	UK Rail £m	Group items ¹ £m	Total £m
Revenue	1,467.4	811.9	624.6	930.2	2,870.1	13.2	6,717.4
EBITDA²	241.1	72.0	74.9	105.9	117.1	(31.2)	579.8
Depreciation	(147.6)	(11.7)	(28.5)	(61.5)	(94.3)	(0.6)	(344.2)
Capital grant amortisation	–	–	–	–	32.4	–	32.4
Segment results²	93.5	60.3	46.4	44.4	55.2	(31.8)	268.0
Amortisation charges	(41.5)	(3.9)	(3.0)	–	(5.0)	–	(53.4)
Exceptional items	–	–	–	13.0	4.6	–	17.6
Operating profit³	52.0	56.4	43.4	57.4	54.8	(31.8)	232.2
Investment income							1.7
Finance costs							(157.8)
Ineffectiveness on financial derivatives							(17.6)
Profit before tax							58.5
Tax							5.7
Profit after tax							64.2

	First Student £m	First Transit £m	Greyhound £m	UK Bus £m	UK Rail £m	Group items ¹ £m	Total £m
Other information							
Capital additions	169.1	17.7	45.8	77.4	69.4	1.6	381.0

	Total assets £m	Total liabilities £m	Net assets/ (liabilities) £m
Balance sheet⁴			
First Student	2,280.8	(383.0)	1,897.8
First Transit	404.9	(136.4)	268.5
Greyhound	542.6	(269.2)	273.4
UK Bus	720.7	(271.2)	449.5
UK Rail	328.3	(605.0)	(276.7)
	4,277.3	(1,664.8)	2,612.5
Group items ¹	140.8	(191.1)	(50.3)
Net debt	553.9	(1,857.7)	(1,303.8)
Taxation	35.8	(71.2)	(35.4)
Total	5,007.8	(3,784.8)	1,223.0

¹ Group items comprise Tram operations, central management and other items.

² Adjusted.

³ Although the segment results are used by management to measure performance, statutory operating profit by operating division is also disclosed for completeness.

⁴ Segment assets and liabilities are determined by identifying the assets and liabilities that relate to the business of each segment but excluding intercompany balances, net debt and taxation.

Notes to the consolidated financial statements

continued

4 Business segments and geographical information continued

The restated 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 ² £m	Restated ¹ total £m
Revenue	1,503.1	814.6	647.1	1,128.2	2,795.1	12.8	6,900.9
EBITDA³	259.0	60.0	83.2	120.4	91.7	(28.6)	585.7
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 results³	110.1	49.1	54.3	50.8	19.3	(29.5)	254.1
Amortisation charges	(43.1)	(3.9)	(3.1)	–	(1.9)	–	(52.0)
Exceptional items	(22.5)	(11.8)	–	(19.8)	(8.2)	–	(62.3)
Operating profit⁴	44.5	33.4	51.2	31.0	9.2	(29.5)	139.8
Investment income							1.8
Finance costs							(165.0)
Ineffectiveness on financial derivatives							(5.5)
Loss before tax							(28.9)
Tax							23.9
Loss after tax							(5.0)

	First Student £m	First Transit £m	Greyhound £m	UK Bus £m	UK Rail £m	Group items ² £m	Total £m
Other information							
Capital additions	150.8	18.0	51.3	81.4	63.9	4.7	370.1

	Total assets £m	Total liabilities £m	Restated net assets/ (liabilities) £m
Balance sheet⁵			
First Student	2,519.7	(400.9)	2,118.8
First Transit	439.0	(151.6)	287.4
Greyhound	581.2	(344.9)	236.3
UK Bus	751.5	(229.2)	522.3
UK Rail	334.6	(587.9)	(253.3)
	4,626.0	(1,714.5)	2,911.5
Group items ²	170.0	(250.2)	(80.2)
Net debt	682.1	(2,661.2)	(1,979.1)
Taxation	53.2	(90.9)	(37.7)
Total	5,531.3	(4,716.8)	814.5

¹ Restated for adoption of IAS 19 (revised) on pensions and the reclassification of certain exceptional items as set out in note 2.

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

³ Adjusted.

⁴ Although the segment results are used by management to measure performance, statutory operating profit by operating division is also disclosed for completeness.

⁵ Segment assets and liabilities are determined by identifying the assets and liabilities that relate to the business of each segment but excluding intercompany balances, net debt and taxation.

4 Business segments and geographical information continued

Geographical information

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

Revenue	2014 £m	2013 £m
United Kingdom	3,813.5	3,936.1
United States of America	2,409.2	2,439.3
Canada	494.7	525.5
Total revenue	6,717.4	6,900.9

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

	Non-current assets excluding financial instruments, deferred tax and pensions		Additions to property, plant & equipment and intangible assets		Carrying amount of segment total assets	
	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m
United Kingdom	773.8	784.7	148.4	150.0	1,653.9	1,802.5
United States of America	2,435.7	2,677.7	196.7	180.9	2,865.3	3,132.3
Canada	385.6	466.0	35.9	39.2	452.8	543.3
Unallocated corporate items	–	–	–	–	35.8	53.2
	3,595.1	3,928.4	381.0	370.1	5,007.8	5,531.3

Notes to the consolidated financial statements

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5 Exceptional items, amortisation charges and other adjustments

	2014 £m	Restated ¹ 2013 £m
Disposals		
UK Bus depot sales and closures	13.0	(19.8)
First Transit FSS disposal and exit of Diego Garcia operations	–	(12.6)
	13.0	(32.4)
Onerous contracts/impairments		
UK Rail First Great Western contract provision	4.6	(15.9)
UK Rail joint venture provision (DSBFirst)	–	(5.0)
First Student onerous contract	–	(2.7)
	4.6	(23.6)
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 Rail bid cost recoveries	–	12.7
	–	12.7
Exceptional items credited/(charged) to operating profit	17.6	(62.3)
Amortisation charges	(53.4)	(52.0)
Operating profit charge	(35.8)	(114.3)
Ineffectiveness on financial derivatives charged to finance costs	(17.6)	(5.5)
Net charge before tax	(53.4)	(119.8)
Tax credit	28.1	41.4
Net charge	(25.3)	(78.4)

¹ Restated for adoption of IAS 19 (revised) on pensions and the reclassification of certain exceptional items as explained in note 2.

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. The principal amount in the period represents a £16.5m gain on the disposal of the eight London bus depots, which completed during the year, offset by £3.5m of losses on depots sold or closed.

UK Rail First Great Western contract provision

The total loss in the final seven periods of the franchise was not as high as initially projected partly due to contractual changes agreed with the DfT. As a result £4.6m has been released as an exceptional credit.

UK Rail bid cost recoveries

The Group received £12.7m of bid cost recoveries during the year to 31 March 2013 representing cost reimbursement from the DfT following the cancellation of the InterCity West Coast Franchise process.

Amortisation charges

The charge for the year was £53.4m (2013: £52.0m) with the increase mainly due to the amortisation of the First Great Western contract intangible recognised as a result of the contract extension partly offset by the impact of foreign exchange movements.

Ineffectiveness on financial derivatives

There was a £17.6m non-cash charge (2013: £5.5m) to the income statement during the year due to ineffectiveness on financial derivatives. The principal component of this non-cash charge relates to certain US Dollar interest rate swaps, which are no longer required as the underlying US Dollar debt was repaid from the proceeds of the rights issue.

Tax

The tax credit as a result of these amortisation charges and exceptional items was £24.9m (2013: £39.4m). In addition there was a one-off deferred tax credit of £3.2m (2013: £2.0m) as a result of the reduction in the UK corporation tax rate from 23% to 20% (2013: 24% to 23%).

6 Operating profit

	2014 £m	Restated ¹ 2013 £m
Operating profit has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment (note 14)	344.2	364.7
Operating lease charges (note 33)	888.3	816.0
Amortisation charges (note 13)	53.4	52.0
Capital grant amortisation	(32.4)	(33.1)
Cost of inventories recognised as an expense	701.3	745.6
Employee costs (note 7)	2,824.0	2,930.0
Auditor's remuneration (see below)	2.5	2.1
UK Rail franchise payments	550.3	663.5
Other operating costs ²	1,153.6	1,220.3
	6,485.2	6,761.1

¹ Restated for adoption of IAS 19 (revised) on pensions and the reclassification of certain exceptional items as explained in note 2.

² Includes £71.5m (2013: £82.6m) received or receivable from government bodies in respect of bus service operator grants and fuel duty rebates.

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

	2014 £m	2013 £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	0.2	0.3
Other services	0.8	0.2
Other taxation advisory services	–	0.1
Total non-audit fees	1.0	0.6

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

7 Employee costs

The average monthly number of employees (including Executive Directors) was:	2014 Number	2013 Number
Operational	110,032	113,916
Administration	6,465	6,559
	116,497	120,475

The aggregate remuneration (including Executive Directors) comprised:	2014 £m	Restated 2013 £m
Wages and salaries	2,468.4	2,618.5
Social security costs	254.1	217.2
Other pension costs (note 36)	101.5	94.3
	2,824.0	2,930.0

Wages and salaries include a charge in respect of share-based payments of £4.6m (2013: £5.6m).

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 Conduct Authority are contained in the tables/notes within the Directors' Remuneration Report on pages 70 to 92 and form part of these audited financial statements.

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8 Investment income and finance costs

	2014 £m	Restated 2013 £m
Investment income		
Bank interest receivable	(1.7)	(1.8)
Finance costs		
Bonds	88.9	97.7
Bank borrowings	22.4	31.8
Senior unsecured loan notes	4.1	4.1
Loan notes	1.0	1.0
Finance charges payable in respect of hire purchase contracts and finance leases	13.0	10.7
Notional interest on long term provisions	19.5	19.5
Notional interest on pensions	8.9	0.2
Adjusted finance costs	157.8	165.0
Hedge ineffectiveness on financial derivatives	17.6	5.5
	175.4	170.5
Net finance costs	173.7	168.7

Finance costs are stated after charging fee expenses of £4.1m (2013: £3.3m). There was no interest capitalised into qualifying assets in either the year ended 31 March 2014 or 31 March 2013.

9 Tax on profit/(loss) on ordinary activities

	2014 £m	Restated 2013 £m
Current tax	5.3	10.6
Deferred tax (note 25)	(11.0)	(34.5)
Total tax credit	(5.7)	(23.9)

UK corporation tax is calculated at 23% (2013: 24%) of the estimated assessable profit for the year. Tax for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The credit for the year can be reconciled to the profit/(loss) per the income statement as follows:

	2014 £m	2014 %	Restated 2013 £m	Restated 2013 %
Profit/(loss) before tax	58.5	100.0	(28.9)	100.0
Tax at the UK corporation tax rate of 23% (2013: 24%)	13.5	23.0	(7.0)	24.0
Tax effect of expenses that are not deductible in determining taxable profit	(0.1)	(0.1)	7.0	(24.0)
Reduced tax in subsidiaries operating in other jurisdictions	(5.0)	(8.6)	(21.8)	75.4
Disposal of subsidiaries	(7.1)	(12.1)	—	—
Impact of reduction in UK tax rate on current year's deferred tax	2.2	3.8	2.7	(9.3)
Impact of reduction in UK tax rate on prior year's deferred tax	(3.2)	(5.5)	(2.0)	6.9
Adjustments to tax in respect of prior years	(6.0)	(10.2)	(2.8)	9.7
Tax credit and effective tax rate for the year	(5.7)	(9.7)	(23.9)	82.7

In addition to the amount charged/(credited) to the income statement, deferred tax relating to actuarial gains/(losses) £(3.0)m (2013: £(0.2)m) and cash flow and net investment hedges £3.9m (2013: £(7.6)m), amounting to a total charge of £0.9m (2013: total credit £(7.8)m) has been taken directly to equity in accordance with IAS 12.

10 Earnings per share (EPS)

EPS is calculated by dividing the profit attributable to equity shareholders of £54.2m (2013: loss £17.8m) by the weighted average number of ordinary shares of 1,059.3m (2013: 590.8m). The numbers of ordinary shares used for the basic and diluted calculations are shown in the table below.

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

	2014 Number m	Restated 2013 Number m
Weighted average number of shares used in basic calculation	1,059.3	590.8
SAYE share options	–	0.2
Executive share options	3.0	2.9
Weighted average number of shares used in the diluted calculation	1,062.3	593.9

The adjusted EPS is intended to highlight the recurring results of the Group before amortisation charges, ineffectiveness on financial derivatives and exceptional items. A reconciliation is set out below:

	2014		Restated 2013	
	£m	EPS (p)	£m	EPS (p)
Basic profit/(loss)/EPS	54.2	5.1	(17.8)	(3.0)
Amortisation charges ¹	53.2	5.0	51.8	8.8
Ineffectiveness on financial derivatives	17.6	1.7	5.5	0.9
Exceptional items	(17.6)	(1.7)	62.3	10.5
Non-controlling interests on exceptional items	–	–	4.7	0.8
Tax effect of above adjustments	(24.9)	(2.3)	(39.4)	(6.7)
Deferred tax credit due to change in UK corporation tax rate	(3.2)	(0.3)	(2.0)	(0.3)
Adjusted profit/EPS	79.3	7.5	65.1	11.0

¹ Amortisation charges of £53.4m per note 13 less £0.2m (2013: £52.0m less £0.2m) attributable to equity non-controlling interests.

	2014 pence	Restated 2013 pence
Diluted EPS		
Basic	5.1	(3.0)
Adjusted	7.5	(10.9)

11 Dividends

	2014 £m	2013 £m
Final dividend per share paid for the year ended 31 March 2013 of nil p (2012: 16.05p)	–	77.3
Interim dividend per share paid for the year ended 31 March 2014 of nil p (2013: 7.62p)	–	36.7
Amounts recognised as distributions to equity holders in the year	–	114.0
Proposed final dividend per share for the year ended 31 March 2014 of nil p (2013: nil p)	–	–

There is no proposed final dividend for this year.

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12 Goodwill

	2014 £m	2013 £m	2012 £m
Cost			
At 1 April	1,669.8	1,604.3	1,613.0
Additions	–	–	2.9
Disposals	(7.7)	(11.5)	(11.3)
Foreign exchange movements	(148.6)	77.0	(0.3)
At 31 March	1,513.5	1,669.8	1,604.3
Accumulated impairment losses			
At 1 April	4.0	5.0	5.0
Impairment losses for the year (recorded in exceptional items)	–	4.0	–
Disposals	–	(5.0)	–
At 31 March	4.0	4.0	5.0
Carrying amount			
At 31 March	1,509.5	1,665.8	1,599.3

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

	2014 £m	2013 £m	2012 £m
Carrying amount			
First Student	975.7	1,081.4	1,029.6
First Transit	232.0	254.0	247.3
Greyhound	218.8	239.5	227.4
UK Bus	77.4	85.3	89.4
UK Rail	5.6	5.6	5.6
	1,509.5	1,665.8	1,599.3

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 2014/15 and Five Year Plan projections up to 2018/19 which take account of both past performance and expectations for future market developments. The projections for First Student assume the incremental benefits of the existing recovery plan, and the programme to address contract portfolio pricing together with an economic recovery. Cash flows in 2018/19 are extrapolated using estimated growth rates of 2.5% (2013: 2.5%) for the United Kingdom and 3.0% (2013: 3.0%) for North America which do not exceed the long term average growth rate for the market. A risk adjustment is then made using a pre-tax discount rate of 9.0% (2013: 10.0%) for the United Kingdom CGUs and 10.0% (2013: 10.0%) for the North American CGUs to arrive at the value in use. The pre-tax discount rates applied are derived from a market participant'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 in respect of the First Transit, Greyhound, UK Bus and UK Rail divisions.

The value in use of the First Student division exceeds its carrying amount by £127.4m (2013: £258.9m). The sensitivity analysis indicates that the First Student margin or growth rates would need to fall in excess of 69 or 55 basis points respectively compared to future projections for there to be an impairment to the carrying value of net assets in this business. An increase in the discount rate in excess of 45 basis points would lead to the value in use of the division being less than its carrying amount.

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

13 Other intangible assets

	Customer contracts £m	Greyhound brand and trade name £m	Rail franchise agreements £m	Total £m
Cost				
At 1 April 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
Additions	1.6	–	13.7	15.3
Disposals	–	–	(35.3)	(35.3)
Foreign exchange movements	(39.7)	(6.7)	–	(46.4)
At 31 March 2014	362.2	58.1	36.1	456.4
Amortisation				
At 1 April 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
Charge for year	45.4	3.0	5.0	53.4
Disposals	–	–	(35.3)	(35.3)
Foreign exchange movements	(18.5)	(2.1)	–	(20.6)
At 31 March 2014	194.5	19.2	24.8	238.5
Carrying amount				
At 31 March 2014	167.7	38.9	11.3	217.9
At 31 March 2013	232.7	46.5	2.6	281.8
At 31 March 2012	266.9	47.4	4.5	318.8

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.

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 addition in the year relates to the new First Great Western franchise and the disposals relate to the ending of the old First Great Western and First Capital Connect contracts. The largest element of the franchise intangible relates to the First Great Western £10.4m (2013: £nil) and First ScotRail franchise £0.9m (2013: £2.0m).

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14 Property, plant and equipment

	Land and buildings £m	Passenger carrying vehicle fleet £m	Other plant and equipment £m	Total £m
Cost				
At 1 April 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
Additions in the year	15.4	259.1	106.5	381.0
Disposals	(10.1)	(98.0)	(16.9)	(125.0)
Reclassified as held for sale	(10.2)	(69.2)	–	(79.4)
Foreign exchange movements	(27.8)	(204.9)	(20.4)	(253.1)
At 31 March 2014	451.9	2,656.3	825.4	3,933.6
Accumulated depreciation and impairment				
At 1 April 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
Charge for year	9.9	209.5	124.8	344.2
Disposals	(3.5)	(97.2)	(15.9)	(116.6)
Reclassified as held for sale	(6.9)	(62.0)	–	(68.9)
Foreign exchange movements	(5.2)	(103.7)	(13.6)	(122.5)
At 31 March 2014	89.4	1,346.9	632.4	2,068.7
Carrying amount				
At 31 March 2014	362.5	1,309.4	193.0	1,864.9
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

An amount of £18.5m (2013: £14.3m; 2012: £17.1m) in respect of assets under construction is included in the carrying amount of property, plant and equipment.

At 31 March 2014 the Group had entered into contractual capital commitments amounting to £233.3m (2013: £167.6m; 2012: £161.6m), principally representing buses ordered in the United Kingdom and North America and commitments under the new First Great Western franchise.

14 Property, plant and equipment continued

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

	2014 £m	2013 £m	2012 £m
Passenger carrying vehicle fleet – cost	491.3	607.3	494.1
– depreciation	(126.9)	(128.4)	(113.8)
Net passenger carrying vehicle fleet	364.4	478.9	380.3
Other plant and equipment – cost	4.4	4.4	4.4
– depreciation	(2.7)	(2.7)	(2.6)
Net other plant and equipment	1.7	1.7	1.8
Total net book value	366.1	480.6	382.1

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

15 Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given in note 3 to the Company's separate financial statements on page 157.

16 Inventories

	2014 £m	2013 £m	2012 £m
Spare parts and consumables	71.3	79.7	90.6
Property development work in progress	0.1	0.2	0.4
	71.4	79.9	91.0

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 £8.0m (2013: £8.2m; 2012: £8.0m).

17 Trade and other receivables

	2014 £m	2013 £m	2012 £m
Amounts due within one year			
Trade receivables	361.9	340.2	299.8
Provision for doubtful receivables	(2.9)	(3.2)	(4.5)
Other receivables	54.3	52.4	72.8
Other prepayments	117.6	116.6	112.1
Accrued income	132.7	135.0	121.7
	663.6	641.0	601.9

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 £663.6m (2013: £641.0m; 2012: £601.9m), cash and cash equivalents of £553.9m (2013: £682.1m; 2012: £499.7m) and derivative financial instruments of £51.9m (2013: £86.6m; 2012: £116.1m).

The Group's maximum exposure to credit risk for all financial assets at the balance sheet date was £1,271.5m (2013: £1,409.7m; 2012: £1,217.7m). The exposure is spread over a large number of unconnected counterparties and the maximum single concentration with any one counterparty was £70.0m (2013: £51.3m; 2012: £81.1m) 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 £2.9m (2013: £3.2m; 2012: £4.5m).

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

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17 Trade and other receivables continued

The counterparties for bank balances and derivative financial instruments are mainly represented by large banks with a minimum of 'A' credit ratings assigned by international credit rating agencies. These counterparties are subject to approval by the Board. Group treasury policy limits the maximum deposit with any one counterparty to £75m, and limits the maximum term to three months.

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

Ageing past due but not impaired trade receivables	2014 £m	2013 £m	2012 £m
Less than 30 days	31.7	32.9	31.2
30 – 90 days	10.6	9.6	12.5
90 – 180 days	9.7	3.8	7.9
180+ days	2.3	1.7	1.9
Total	54.3	48.0	53.5

Movement in the provision for doubtful receivables	2014 £m	2013 £m	2012 £m
At 1 April	3.2	4.5	7.5
Amounts written off during the year	(2.8)	(3.9)	(3.4)
Amounts recovered during the year	(0.2)	(0.3)	(0.5)
Increase in allowance recognised in the income statement	2.9	2.8	0.9
Foreign exchange movements	(0.2)	0.1	–
At 31 March	2.9	3.2	4.5

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

18 Assets held for sale

	2014 £m	2013 £m	2012 £m
Assets held for sale	6.2	44.7	3.7

The 2014 balance includes £3.3m of Dagenham land and buildings that are actively being marketed for sale and expected to be sold within 12 months.

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

The 2013 balance comprises mainly the fixed assets of the eight London depots which were disposed of on 22 June 2013 (note 30).

Movement in assets held for sale	£m
At 1 April 2013	44.7
London depot disposals (note 30)	(43.1)
Net book value of additions	10.5
Net book value of disposals	(4.9)
Foreign exchange movements	(1.0)
At 31 March 2014	6.2

19 Trade and other payables

	2014 £m	Restated 2013 £m	Restated 2012 £m
Amounts falling due within one year			
Trade payables	372.3	402.0	397.6
Other payables	212.4	184.3	169.1
Accruals	497.6	515.1	558.0
Deferred income	59.4	82.1	78.7
Season ticket deferred income	78.1	73.2	68.1
	1,219.8	1,256.7	1,271.5

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 35 days (2013: 36 days; 2012: 40 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.

20 Cash and cash equivalents

	2014 £m	2013 £m	2012 £m
Cash and cash equivalents	553.9	682.1	499.7

The fair value of cash and cash equivalents approximates to the carrying value. Cash and cash equivalents includes ring-fenced cash of £361.6m (2013: £288.2m; 2012: £335.7m). 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 £0.7m (2013: £14.4m; 2012: £12.5m) are held outside the UK Rail subsidiaries.

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21 Financial liabilities – borrowings

	2014 £m	2013 £m	2012 £m
On demand or within 1 year			
Short term loans	–	–	69.3
Finance leases (note 22)	68.9	62.7	52.4
Bond 6.875% (repayable 2013)	–	319.8	20.3
Bond 8.125% (repayable 2018)	12.9	12.8	12.9
Bond 6.125% (repayable 2019)	3.0	3.0	3.0
Bond 8.75% (repayable 2021)	30.1	30.1	30.2
Bond 5.25% (repayable 2022)	5.7	5.7	–
Bond 6.875% (repayable 2024)	7.2	7.2	7.2
Total current liabilities	127.8	441.3	195.3
Within 1 – 2 years			
Syndicated loans	–	49.3	46.9
Finance leases (note 22)	70.4	63.3	51.9
Bond 6.875% (repayable 2013)	–	–	298.5
Loan notes (note 23)	9.7	9.7	9.7
	80.1	122.3	407.0
Within 2 – 5 years			
Syndicated loans	–	336.1	379.1
Finance leases (note 22)	159.7	203.3	154.7
Bond 8.125% (repayable 2018)	297.4	–	–
Bond 6.125% (repayable 2019)	284.5	–	–
Senior unsecured loan notes	89.9	98.3	31.1
	831.5	637.7	564.9
Over 5 years			
Finance leases (note 22)	45.6	88.9	76.3
Bond 8.125% (repayable 2018)	–	297.1	296.7
Bond 6.125% (repayable 2019)	–	305.4	299.7
Bond 8.75% (repayable 2021)	347.6	347.4	347.1
Bond 5.25% (repayable 2022)	319.6	319.1	–
Bond 6.875% (repayable 2024)	199.5	199.5	199.0
Senior unsecured loan notes	–	–	62.2
	912.3	1,557.4	1,281.0
Total non-current liabilities at amortised cost	1,823.9	2,317.4	2,252.9

21 Financial liabilities – borrowings continued

Fair value of bonds and senior unsecured loan notes issued

	Par value £m	Interest payable	Month	2014 Fair value £m	2013 Fair value £m	2012 Fair value £m
Bond 6.875% (repayable 2013)	300.0	Annually	April	–	320.3	330.8
Bond 8.125% (repayable 2018)	300.0	Annually	September	369.9	374.5	371.4
Bond 6.125% (repayable 2019)	250.0	Annually	January	277.6	277.6	272.1
Bond 8.75% (repayable 2021)	350.0	Annually	April	469.4	473.9	462.5
Bond 5.25% (repayable 2022)	325.0	Annually	November	349.4	346.6	–
Bond 6.875% (repayable 2024)	200.0	Annually	September	241.3	238.0	226.2
\$m						
Senior unsecured loan notes	150.0	Semi-annually	April & October	100.6	110.2	109.1

The fair value of the bonds and senior unsecured loan notes are inclusive of accrued interest. The fair values are calculated by discounting the future cash flow that will arise under the contracts.

Effective interest rates

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

	2014	2013	2012
Bank overdraft	LIBOR + 1%	LIBOR + 1%	LIBOR + 1%
Bank borrowings	LIBOR + 1%	LIBOR + 1.5% to 1.75%	LIBOR + 0.75% to 1.65%
Bond 2013	–	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%	5.49%	–
Bond 2024	6.95%	6.95%	6.95%
Senior unsecured loan notes	4.39%	4.39%	4.39%
HP contracts and finance leases	LIBOR + 0.6% up to average fixed rate of 4.0%	LIBOR + 0.6% up to average fixed rate of 4.0%	LIBOR up to average fixed rate of 4.1%
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	2014 £m	2013 £m	2012 £m
Sterling	1,568.4	1,965.6	1,625.1
Euro	–	11.8	11.7
US Dollar	361.6	745.1	677.0
Canadian Dollar	21.7	36.2	134.4
	1,951.7	2,758.7	2,448.2
Currency swaps			
US Dollar	–	450.0	450.0
Sterling	–	(450.0)	(450.0)
	1,951.7	2,758.7	2,448.2

Notes to the consolidated financial statements

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21 Financial liabilities – borrowings continued

Borrowing facilities

The Group had £796.2m (2013: £821.6m; 2012: £631.8m) of undrawn committed borrowing facilities as at 31 March 2014. Total bank borrowing facilities at 31 March 2014 stood at £856.1m (2013: £1,302.9m; 2012: £1,221.3m) of which £826.3m (2013: £1,259.4m; 2012: £1,178.2m) was committed and £29.8m (2013: £43.5m; 2012: £43.1m) was uncommitted.

Capital management

Overall the Group's objective is to achieve a post-tax return on capital employed (ROCE) in the range of 10% to 12% in the medium term. We also aim to maintain an investment grade credit rating and appropriate balance sheet liquidity headroom. The Group has net debt: EBITDA of 2.2 times (2013: 3.4 times) as at March 2014 and is targeting net debt: EBITDA of 2.0 times in the medium term.

ROCE is calculated by dividing adjusted operating profit after tax by net assets, excluding debt items.

Liquidity within the Group has remained strong. At 31 March 2014 there was £988.5m (2013: £1,215.5m) of committed headroom and free cash. Largely due to seasonality in the First Student school bus business, committed headroom typically reduces during the financial year through October and increases thereafter. The Group's treasury policy requires a minimum of £250m of committed headroom at all times.

The Group's net debt, excluding accrued bond interest at 31 March 2014, was £1,303.8m (2013: £1,979.1m) as set out on page 48 of the Financial review.

22 HP contracts and finance leases

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

	2014 Minimum payments £m	2014 Present value of payments £m	2013 Minimum payments £m	2013 Present value of payments £m	2012 Minimum payments £m	2012 Present value of payments £m
Due in less than one year	70.9	68.9	64.5	62.7	54.0	52.4
Due in more than one year but not more than two years	74.6	70.4	66.9	63.3	54.8	51.9
Due in more than two years but not more than five years	178.9	159.7	226.9	203.3	173.9	154.7
Due in more than five years	55.0	45.6	107.3	88.9	92.6	76.3
	379.4	344.6	465.6	418.2	375.3	335.3
Less future financing charges	(34.8)	–	(47.4)	–	(40.0)	–
	344.6	344.6	418.2	418.2	335.3	335.3

HP lease obligations

Sterling denominated fixed rate leases

	2014	2013	2012
Sterling fixed rate leases	£17.8m	£21.0m	£25.9m
Average remaining lives	3 years	3 years	3 years
Effective borrowing rate	3.06%	3.06%	3.45%

US Dollar denominated fixed rate leases

	2014	2013	2012
US Dollar fixed rate leases	£271.7m	£288.7m	£214.2m
Average remaining lives	3 years	4 years	4 years
Effective borrowing rate	2.89%	2.93%	3.26%

Canadian Dollar denominated fixed rate leases

	2014	2013	2012
Canadian Dollar fixed rate leases	£21.7m	£20.7m	£20.5m
Average remaining lives	3 years	4 years	4 years
Effective borrowing rate	3.92%	3.98%	4.08%

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 £277.7m (2013: £304.1m; 2012: £225.8m). The fair value is calculated by discounting future cash flows that will arise under the lease agreements.

23 Loan notes

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

	2014 £m	2013 £m	2012 £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 (2013: £8.7m; 2012: £8.7m) are supported by unsecured bank guarantees.

The loan notes have an average effective borrowing rate of 10.1% (2013: 10.1%; 2012: 10.1%) and an average remaining term of 6 years (2013: 7 years; 2012: 8 years) assuming that the holders do not request redemption. The fair value of the loan notes has been determined to be £13.6m (2013: £15.0m; 2012: £15.8m). This has been calculated by discounting future cash flows that will arise under the loan notes.

24 Derivative financial instruments

	2014 £m	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)	24.1	45.7	43.8
Fuel derivatives (cash flow hedge)	1.8	2.4	5.6
	25.9	63.3	72.6
Current assets			
Cross currency swaps (net investment hedge)	–	3.6	4.3
Coupon swaps (fair value hedge)	11.1	13.2	9.5
Fuel derivatives (cash flow hedge)	6.4	6.5	29.7
	17.5	23.3	43.5
Current liabilities			
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)	5.1	4.8	3.5
	5.1	60.5	12.7
Non-current liabilities			
Interest rate derivatives (cash flow hedge)	–	11.8	13.7
Cross currency swaps (net investment hedge)	–	–	27.1
Fuel derivatives (cash flow hedge)	1.3	0.8	0.9
	1.3	12.6	41.7
Derivatives classified as held for trading			
Current assets			
Interest rate swaps	8.5	–	–
Current liabilities			
Interest rate swaps	12.6	4.2	4.4
Non-current liabilities			
Interest rate swaps	7.9	9.1	8.4
Total non-current assets	25.9	63.3	72.6
Total current assets	26.0	23.3	43.5
Total assets	51.9	86.6	116.1
Total current liabilities	17.7	64.7	17.1
Total non-current liabilities	9.2	21.7	50.1
Total liabilities	26.9	86.4	67.2

Notes to the consolidated financial statements

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24 Derivative financial instruments continued

Total cash flow hedges are an asset of £1.8m (2013: £16.6m liability; 2012: £9.2m asset). Total fair value hedges are an asset of £35.2m (2013: £58.9m; 2012: £53.3m).

During the year £0.2m was credited to the hedging reserve in respect of cash flow hedges (2013: £7.7m debit; 2012: £0.5m debit).

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:

	2014 £m	2013 £m
Finance cost	(19.8)	(7.1)
Operating costs	1.7	26.2
	(18.1)	19.1

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis:

	Level 1 £m	Level 2 £m	Level 3 £m	Fair value Total £m	2014 Carrying value Total £m
Financial assets					
Cash and cash equivalents	553.9	–	–	553.9	553.9
Derivative financial instruments	–	51.9	–	51.9	51.9
Financial liabilities and derivatives					
Financial liabilities	–	2,172.4	–	2,172.4	1,951.7
Derivative financial instruments	–	26.9	–	26.9	26.9

	Level 1 £m	Level 2 £m	Level 3 £m	Fair value Total £m	2013 Carrying value Total £m
Financial assets					
Cash and cash equivalents	682.1	–	–	682.1	682.1
Derivatives financial instruments	–	86.6	–	86.6	86.6
Financial liabilities and derivatives					
Financial liabilities	385.4	2,589.7	–	2,975.1	2,758.7
Derivative financial instruments	–	86.4	–	86.4	86.4

Level 1: Quoted prices in active markets for identical assets and liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly.

Level 3: Inputs for the asset or liability that are not based on observable market data.

24 Derivative financial instruments continued

There were no transfers between level 1 and level 2 during the current or prior year.

Financial assets/(liabilities)	Fair values at		Fair value hierarchy	Valuation technique(s) and key inputs
	31 March 2014 £m	31 March 2013 £m		
Derivative contracts				
1) Cross currency swaps	–	(28.8)	Level 2	Discounted cash flow; future cash flows are estimated based on forward exchange rates and contract exchange rates and then discounted at a rate that reflects the credit risk of the various counterparties.
2) Interest rate swaps	23.2	25.7	Level 2	Discounted cash flow; future cash flows are estimated based on forward interest rates and contract interest rates and then discounted at a rate that reflects the credit risk of the various counterparties.
3) Fuel derivatives	1.8	3.3	Level 2	Discounted cash flow; future cash flows are estimated based on forward fuel prices and contract fuel rates and then discounted at a rate that reflects the credit risk of the various counterparties.

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

	2014 £m	2013 £m
(Losses)/gains on hedging instruments in fair value hedges	(21.5)	5.6
Gains/(losses) on hedged item attributable to hedged risk (Bond 2019) fair value hedges	20.9	(5.6)
Change in the fair value of derivatives classified as held for trading	(16.4)	(4.3)
Hedge ineffectiveness on net investment hedges	(0.6)	(1.2)
	(17.6)	(5.5)

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 that sufficient committed liquidity resources exist. The Group has a diversified debt structure largely represented by medium term unsecured syndicated 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 2014, the total amount of these facilities stood at £826.3m (2013: £1,259.4m; 2012: £1,178.2m), and committed headroom was £796.2m (2013: £821.6m; 2012: £631.8m), in addition to free cash balances of £192.3m (2013: £393.9m; 2012: £164.0m). In May 2014, the Group signed a five year, £800.0m revolving credit facility with our relationship banks. 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 2014 was 6.1 years (2013: 5.4 years; 2012: 5.5 years).

Notes to the consolidated financial statements

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24 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.

					2014
	< 1 year £m	1 – 2 years £m	2 – 5 years £m	> 5 years £m	Total £m
Interest rate derivatives	4.2	7.3	1.1	–	12.6
Coupon swaps	(15.3)	(15.3)	(45.9)	–	(76.5)
Coupon swaps	4.1	5.1	29.3	–	38.5
Fuel derivatives	(1.3)	(0.5)	–	–	(1.8)
	(8.3)	(3.4)	(15.5)	–	(27.2)

					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)

Total amounts payable per the tables are £51.1m (2013: £594.1m; 2012: £650.3m). Total amounts receivable per the tables are £78.3m (2013: £595.7m; 2012: £701.9m). For all years above, the tables include the settlement of principal amounts at the end of the term of the cross currency swaps.

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

Currency risk

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

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.

24 Derivative financial instruments continued

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

	2014 £m	2013 £m	2012 £m
Impact on profit after tax	10.9	11.8	9.9
Impact on hedging reserve	(0.1)	2.7	0.4

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 policy objective is primarily achieved through fixed rate debt. The main floating rate benchmarks on variable rate debt are US Dollar LIBOR and pounds Sterling LIBOR.

At 31 March 2014, 85% (2013: 88%; 2012: 81%) of gross debt was fixed. This fixed rate protection had an average duration of 6.3 years (2013: 5.5 years; 2012: 5.7 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 pounds Sterling bond relating to the LIBOR element are hedged with coupon swaps. These swaps offset 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 are 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.

	2014 £m	2013 £m	2012 £m
Impact on profit after tax	2.6	1.5	(0.9)
Impact on hedging reserve	–	6.9	8.9

Interest rate hedges

The following table details the notional amounts of interest rate swap contracts designated as cash flow or fair value hedges which were 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)		
	2014 %	2013 %	2012 %	2014 £m	2013 £m	2012 £m	2014 £m	2013 £m	2012 £m
Cash flow hedges									
Less than one year	–	2.38	2.45	–	155	94	–	(15.9)	(12.5)
One to two years	–	2.70	2.38	–	507	147	–	(11.2)	(11.4)
Two to five years	–	3.03	2.81	–	263	744	–	(6.2)	(10.7)
Fair value hedges									
Two to five years	6.13	–	–	250	–	–	35.0	–	–
More than five years	–	6.13	6.13	–	250	250	–	55.9	59.2

Notes to the consolidated financial statements

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24 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 to 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 2014, the Group was hedged 83% on fuel price risk.

The Group has also entered into swaps for periods from April 2014 to March 2016 with the majority of these swaps relating to the year to 31 March 2015. 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:

	2014 £m	2013 £m	2012 £m
Impact on profit after tax	(2.6)	(3.2)	(4.6)
Impact on hedging reserve	19.7	16.8	19.2

Volume at risk for the year to 31 March 2015 is 3.7m (2014: 3.8m) barrels for which 85% is hedged to diesel price risk.

25 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	Retirement benefit schemes £m	Other temporary differences £m	Tax losses £m	Total £m
At 1 April 2012 as previously reported	228.7	(84.2)	90.6	(180.7)	54.4
Prior year adjustment	–	–	(2.1)	–	(2.1)
At 1 April 2012 restated	228.7	(84.2)	88.5	(180.7)	52.3
(Credit)/charge to income	(60.3)	9.7	(5.2)	21.3	(34.5)
Credit to equity	–	(0.2)	(7.6)	–	(7.8)
Foreign exchange movements	7.1	(3.4)	4.3	(9.0)	(1.0)
At 31 March 2013	175.5	(78.1)	80.0	(168.4)	9.0
(Credit)/charge to income	(28.1)	2.1	43.3	(28.3)	(11.0)
(Credit)/charge to equity	–	(3.0)	3.9	–	0.9
Foreign exchange movements	(11.0)	6.8	(11.4)	17.9	2.3
At 31 March 2014	136.4	(72.2)	115.8	(178.8)	1.2

Certain deferred tax assets and liabilities have been offset as per the accounting policy in note 2. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2014 £m	Restated 2013 £m	Restated 2012 £m
Deferred tax assets	(35.8)	(53.2)	(43.3)
Deferred tax liabilities	37.0	62.2	95.6
	1.2	9.0	52.3

No deferred tax asset has been recognised in respect of £nil (2013: £4m; 2012: £5m) of capital losses.

26 Provisions

	2014 £m	2013 £m	2012 £m
Insurance claims	191.6	216.2	218.4
Legal and other	29.6	40.8	19.9
Pensions	3.4	3.9	4.2
Non-current liabilities	224.6	260.9	242.5

	Insurance claims £m	Legal and other £m	Restated FGW contract provision £m	Pensions £m	Restated total £m
At 1 April 2013	332.6	50.8	39.9	3.9	427.2
Charged/(credited) to the income statement	144.5	2.0	(4.6)	–	141.9
Utilised in the year	(176.1)	(8.8)	(35.3)	(0.5)	(220.7)
Notional interest	19.5	–	–	–	19.5
Foreign exchange movements	(25.7)	(4.1)	–	–	(29.8)
At 31 March 2014	294.8	39.9	–	3.4	338.1
Current liabilities	103.2	10.3	–	–	113.5
Non-current liabilities	191.6	29.6	–	3.4	224.6
At 31 March 2014	294.8	39.9	–	3.4	338.1

Current liabilities	116.4	10.0	39.9	–	166.3
Non-current liabilities	216.2	40.8	–	3.9	260.9
At 31 March 2013	332.6	50.8	39.9	3.9	427.2
Current liabilities	117.6	4.2	67.4	–	189.2
Non-current liabilities	218.4	19.9	–	4.2	242.5
At 31 March 2012	336.0	24.1	67.4	4.2	431.7

The current liabilities above are included within accruals in note 19.

The insurance claims provision arises from estimated exposures for incidents occurring prior to the balance sheet date. It is anticipated that the majority of such claims will be settled within the next six years although certain liabilities in respect of lifetime obligations of £17.7m (2013: £20.0m) can extend for up to 30 years. The utilisation of £176.1m (2013: £173.1m; 2012: £162.8m) 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 pension's 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.

27 Called up share capital

	2014 £m	2013 £m	2012 £m
Allotted, called up and fully paid			
482.1m ordinary shares of 5p each	24.1	24.1	24.1
722.8m new ordinary shares of 5p each issued	36.1	–	–
1,204.9m ordinary shares of 5p each	60.2	24.1	24.1

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

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28 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:

	2014 £m	2013 £m	2012 £m
Balance at 1 April	(32.6)	12.5	35.4
Gains/(losses) recognised:			
Interest rate swaps	–	(6.3)	(20.6)
Currency forwards	–	–	(0.8)
Cross currency swaps	26.0	(25.9)	10.5
Fuel derivatives	0.2	(1.4)	20.9
Charged/(credited) to income statement:			
Interest rate swaps	19.8	7.1	8.6
Fuel derivatives	(1.7)	(26.2)	(54.7)
Tax on derivative hedging instrument movements	(3.9)	7.6	13.2
Balance at 31 March	7.8	(32.6)	12.5

Own shares

The number of own shares held by the Group at the end of the year was 769,374 (2013: 283,374; 2012: 692,536) FirstGroup plc ordinary shares of 5p each. Of these, 577,124 (2013: 90,075; 2012: 398,587) were held by the FirstGroup plc Employee Benefit Trust, 32,520 (2013: 32,520; 2012: 32,520) by the FirstGroup plc Qualifying Employee Share Ownership Trust and 159,730 (2013: 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 ordinary shares. The market value of the shares at 31 March 2014 was £1.1m (2013: £0.6m; 2012: £1.2m).

	Capital redemption reserve £m	Capital reserve £m	Total other reserves £m
At 31 March 2014, 31 March 2013 and 31 March 2012	1.9	2.7	4.6

Other reserves

There have been no movements on the capital redemption reserve or capital reserve during the year ended 31 March 2014. 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.

29 Translation reserve

	£m
Balance at 1 April 2012	145.7
Movement for the financial year	103.2
At 31 March 2013	248.9
Movement for the financial year	(231.1)
At 31 March 2014	17.8

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.

30 Acquisition and disposal of businesses and subsidiary undertakings

Acquisition of businesses and subsidiary undertakings	2014 £m	2013 £m	2012 £m
Fair values of net assets acquired:			
Property, plant and equipment	–	–	4.1
Other current assets	–	–	0.5
Other liabilities	–	–	(4.1)
	–	–	0.5
Goodwill (note 12)	–	–	2.9
Satisfied by cash paid and payable	–	–	3.4

The business acquired during the year contributed £nil (2013: £nil; 2012: £0.4m) to the Group's net operating cash flows and utilised £nil (2013: £nil; 2012: £nil) for capital expenditure.

The business acquired during the year contributed £nil (2013: £nil; 2012: £1.1m) to Group revenue and £nil (2013: £nil; 2012: £0.4m) to Group adjusted operating profit from date of acquisition to 31 March 2014.

If the acquisition of the business acquired during the year had been completed on the first day of the financial year, Group revenue from this acquisition for the period would have been £nil (2013: £nil; 2012: £6.1m) and the Group adjusted operating profit from this acquisition attributable to equity holders of the parent would have been £nil (2013: £nil; 2012: £0.8m).

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	2014 £m	2013 £m	2012 £m
Carrying value of net assets disposed of:			
Goodwill ¹	7.7	6.5	11.3
Property, plant and equipment	41.2	17.4	14.7
Current assets	1.9	7.9	1.6
Cash and cash equivalents	–	1.8	1.6
Other liabilities	(0.1)	(1.6)	(0.5)
	50.7	32.0	28.7
Redundancy and other	9.6	–	–
Professional fees	2.3	1.5	2.7
Gain/(loss) on disposal	16.5	(8.8)	(11.7)
Satisfied by cash received and receivable	79.1	24.7	19.7

¹ Goodwill disposed of during 2013 per note 12 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 22 June 2013, the Group completed the disposal of eight London bus depots. The £79.1m consideration represents £76.3m cash received in the year and £2.8m of deferred consideration.

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 US\$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.

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31 Net cash from operating activities

	2014 £m	Restated 2013 £m
Operating profit	232.2	139.8
Adjustments for:		
Depreciation charges	344.2	364.7
Capital grant amortisation	(32.4)	(33.1)
Amortisation charges	53.4	52.0
(Gain)/loss on disposal of businesses and subsidiary undertakings	(16.5)	8.8
Impairment charges	–	13.3
Share-based payments	4.6	5.6
Loss on disposal of property, plant and equipment	3.2	4.0
Operating cash flows before working capital	588.7	555.1
Decrease in inventories	4.8	10.6
Increase in receivables	(60.0)	(8.2)
Decrease in payables	(18.2)	(32.3)
Decrease in provisions	(36.1)	(12.2)
Defined benefit pension payments in excess of income statement charge	(27.7)	(34.1)
Cash generated by operations	451.5	478.9
Tax paid	(8.2)	(6.3)
Interest paid	(138.1)	(129.0)
Interest element of HP contracts and finance leases	(12.9)	(10.9)
Net cash from operating activities	292.3	332.7

32 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 £504.8m (2013: £566.2m; 2012: £532.5m) and letters of credit for £303.3m (2013: £321.7m; 2012: £299.3m). The performance bonds relate to the North American businesses of £337.8m (2013: £354.7m; 2012: £314.2m) and the UK Rail franchise operations of £167.0m (2013: £211.5m; 2012: £218.3m). The letters of credit relate substantially to insurance arrangements in the UK and North America.

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 pounds Sterling bondholders, to lenders participating in the Group's £751.3m (2013: £822.5m; 2012: £780.8m) syndicated unsecured bank facility and to certain bilateral bank facilities for £75.0m (2013: £436.9m; 2012: £397.3m) and to senior unsecured loan notes for £89.9m (2013: £98.3m; 2012: £93.3m).

The Group has issued guarantees of £4.0m (2013: £7.0m; 2012: £7.0m) to the Danish and Swedish authorities in respect of DSBFirst. These guarantees relate to the operational performance of the Danish rail activities and certain train maintenance activities in Sweden.

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 government and other organisations.

33 Operating lease arrangements

	2014 £m	2013 £m	2012 £m
Minimum lease payments made under operating leases recognised in the income statement for the year:			
Plant and machinery	10.0	21.9	22.9
Track and station access	624.4	525.5	403.5
Hire of rolling stock	200.4	200.0	195.7
Other assets	53.5	68.6	61.1
	888.3	816.0	683.2

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:

	2014 £m	2013 £m	2012 £m
Within one year	497.1	866.2	814.4
In the second to fifth years inclusive	194.2	557.8	957.7
After five years	109.1	131.0	121.6
	800.4	1,555.0	1,893.7

Included in the above commitments are contracts held by the UK Rail businesses with Network Rail for access to the railway infrastructure track, stations and depots of £293.4m (2013: £957.9m; 2012: £1,178.2m). They also have contracts under which they lease rolling stock of £202.3m (2013: £245.1m; 2012: £366.7m).

34 Share-based payments

Equity-settled share option plans

The Group recognised total expenses of £4.6m (2013: £5.6m) related to equity-settled share-based payment transactions.

(a) Save as you earn (SAYE)

The Group operates an HMRC 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 2009 Options Number	SAYE Dec 2010 Options Number	SAYE Dec 2011 Options Number	SAYE Dec 2012 Options Number	SAYE Dec 2013 Options Number
Outstanding at the beginning of the year	2,092,655	2,284,801	2,530,668	2,957,100	–
Granted during the year	–	–	–	–	7,411,980
Bonus element of rights issue	469,111	483,423	533,497	643,399	–
Exercised during the year	–	–	–	(1,049)	–
Lapsed during the year	(2,561,766)	(591,832)	(555,406)	(500,300)	(51,844)
Outstanding at the end of the year	–	2,176,392	2,508,759	3,099,150	7,360,136
Exercisable at the end of the year	–	2,176,392	–	–	–
Weighted average exercise price (pence)	310.0	319.0	271.5	143.9	94.1
Bonus element of rights issue (pence)	(57.3)	(58.9)	(50.1)	(26.6)	–
New weighted average exercise price (pence)	252.7	260.1	221.4	117.3	–
Weighted average share price at date of exercise (pence)	N/A	N/A	N/A	122.5	N/A

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34 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 2003 Options Number	ESOS 2004 Options Number
Outstanding at the beginning of the year	258,183	254,426
Bonus element of rights issue	–	57,618
Lapsed during the year	(258,183)	–
Outstanding at the end of the year	–	312,044
Exercisable at the end of the year	–	312,044
Weighted average exercise price as adjusted for bonus element of rights issue (pence)	234.0	224.3
Weighted average share price at date of exercise (pence)	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
Outstanding at the beginning of the year	5,989	32,952	86,616	170,397	75,048
Bonus element of rights issue	1,356	7,465	19,124	35,255	16,705
Exercised during the year	–	(5,495)	(2,510)	(17,652)	(5,272)
Outstanding at the end of the year	7,345	34,922	103,230	188,000	86,481
Exercisable at the end of the year	7,345	34,922	103,230	188,000	86,481
Weighted average exercise price (pence)	Nil	Nil	Nil	Nil	Nil
Weighted average share price at date of exercise (pence)	N/A	139.6	124.7	196.4	129.0

	DBS 2009 Options Number	DBS 2010 Options Number	DBS 2011 Options Number	DBS 2012 Options Number	DBS 2013 Options Number
Outstanding at the beginning of the year	81,569	399,822	493,304	919,120	–
Granted during the year	–	–	–	–	1,748,987
Bonus element of rights issue	18,064	51,791	107,302	198,562	396,196
Forfeited during the year	–	–	(24,680)	(70,558)	(114,427)
Exercised during the year	(14,504)	(233,165)	(13,822)	(21,915)	–
Outstanding at the end of the year	85,129	218,448	562,104	1,025,209	2,030,756
Exercisable at the end of the year	85,129	218,448	–	–	–
Weighted average exercise price (pence)	Nil	Nil	Nil	Nil	Nil
Weighted average share price at date of exercise (pence)	128.4	157.2	166.8	216.1	N/A

(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 2014 there were 7,903 (2013: 8,306; 2012: 8,354) participants in the BAYE scheme who have cumulatively purchased 9,201,084 (2013: 6,159,479; 2012: 6,869,043) shares with the Company contributing 2,998,927 (2013: 1,936,789; 2012: 2,128,810) matching shares on a cumulative basis.

34 Share-based payments continued

(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 adjusted EPS performance over the vesting period and the other 50% being dependent upon total shareholder return over the same period assessed in relation to a comparator group.

	LTIP 2010 Options Number	LTIP 2011 Options Number	LTIP 2012 Options Number	LTIP 2013 Options Number
Outstanding at the beginning of the year	3,774,007	4,726,555	5,998,235	–
Granted during the year	–	–	–	12,926,564
Bonus element of rights issue	–	953,212	1,280,765	–
Forfeited during the year	–	(846,544)	(770,863)	(364,239)
Lapsed during the year	(3,774,007)	–	–	–
Outstanding at the end of the year	–	4,833,223	6,508,137	12,562,325
Weighted average share price at date of exercise (pence)	Nil	Nil	Nil	Nil

(f) Tim O'Toole retention award

	2012 Number	2013 Number	2014 Number	Award price (p)
Outstanding at the beginning of the year	214,826	214,826	214,826	Nil
Bonus element of rights issue	–	–	48,664	–
Exercised during the year	–	–	(263,490)	–
Outstanding at the end of the year	214,826	214,826	–	–

These options vested on 1 November 2013. There were no performance conditions attaching to these options.

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34 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:

	2014	2013
Weighted average share price at grant date (pence)		
– DBS	127.4	220.1
– SAYE December 2012	–	188.9
– SAYE December 2013	116.0	–
– LTIP	119.0	223.1
Weighted average exercise price at grant date (pence)		
– DBS	–	–
– SAYE December 2012	–	143.9
– SAYE December 2013	94.1	–
– LTIP	–	–
Expected volatility (%)		
– DBS	N/A	43
– SAYE December 2012	–	35
– SAYE December 2013	35	–
– LTIP	48	31
Expected life (years)		
– DBS	3	3
– SAYE schemes	3	3
– LTIP	2	3
Rate of interest (%)		
– DBS	N/A	0.4
– SAYE December 2012	–	0.4
– SAYE December 2013	1.0	–
– LTIP	0.6	0.4
Expected dividend yield (%)		
– DBS	0	10.8
– SAYE December 2012	–	12.5
– SAYE December 2013	0	–
– LTIP	0	10.6

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.

	2014 pence	2013 pence
Weighted average fair value of options at grant date		
– DBS	127.4	161.9
– SAYE December 2012	–	26.0
– SAYE December 2013	39.5	–
– LTIP	81.9	104.7

35 Retirement benefit schemes

Defined contribution plans

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.

UK

The Group operates defined contribution retirement benefit plans for all Group and UK Bus division employees who have joined a pension arrangement from January 2011 and April 2013, respectively. They will receive a company match to their contributions, which varies by salary level. The default member contribution rate is 5%, which is matched by the company, although auto-enrolees are stepping up to this level from an initial 2% matched contribution.

Auto-enrolment legislation has been implemented which requires employees to be automatically entered into a pension scheme. This has resulted in an increase in contributions to defined contribution arrangements during the financial year compared to 2012/13.

North America

Employees in the US have been able to join a defined contribution arrangement for many years. They will receive a company match to their contributions, which varies by employment status. The company match is 50% of member contributions, to a company maximum of 3% for full-time employees and \$250 per annum for part-time employees.

All new employees in Canada join a defined contribution arrangement. Union employees join the Eastern or Western plan, dependent upon their geographical location, whilst managers and supervisors join the Supervisory plan, for non-union employees. Members of the Western and Supervisory plans can contribute 2%, 3%, 4% or 5%, and receive a 50% company match. New members of the Eastern plan from 3 October 2013 may contribute 2%, 3% or 4%, and receive a 100% company match.

The total expense recognised in the consolidated income statement of £13.6m (2013: £8.4m) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

Defined benefit plans

The Group sponsors 18 funded defined benefit plans across its operations, covering approximately 80,000 former and current employees.

UK

The majority of defined benefit provision is through Trust based schemes. With the exception of the Railways Pension Schemes, these arrangements are now closed to new entrants. In these arrangements the assets of the schemes are invested separately from those of the Group, and the schemes are run by independent Trustee boards. The Trustee board of the pension schemes is required by law, or by their Articles of Association, to act in the best interest of the fund and of all relevant stakeholders in the scheme, i.e. active employees, inactive employees, retirees, beneficiaries and employers. There is a requirement for the Trustee board to have member representation with the other Trustees being company appointed.

The Trustee board is responsible for the investment policy in respect of the assets of the fund, although the Company must be consulted on this, and typically has some input into the investment decisions.

Schemes are valued at least triennially, when the cost of future service is calculated and the funding position established. The Company and Trustee board are required to agree on assumptions for the valuation and to agree the contributions that result from this. The contributions may need to incorporate deficit recovery contributions in addition to future service contributions, if a deficit position is determined through the valuation. If a surplus is shown at the valuation, this may be used to reduce future service contributions. In agreeing contribution rates, reference must be made to the affordability of contributions by the employer.

In most arrangements, any surplus after benefits have been paid/secured, can be repaid to the employer.

The First UK Bus Pension Scheme

This predominantly provides pension benefits to employees in the UK Bus division. Historically the Scheme provided final salary benefits and career average benefits. However, with effect from April 2012, the Scheme only provides career average benefits with a retirement age linked to State Pension age and a cap on the pensionable pay on which defined benefits can be built. For 2013/14 this was £30,660.

The cost of future service is split so that the employer meets 60% of the cost and the employees 40%, subject to caps and collars around employee contributions. These caps and collars have never been utilised.

In addition there is a smaller Group scheme which provided defined benefit pensions to Group employees and executives. This closed to new entrants in 2011.

The Railways Pension Scheme

The Group currently sponsors six sections of the Railways Pension Scheme (RPS), relating to its franchising obligations for its TOCs, and for Hull Trains, its Open Access operator.

Under this scheme members build a 1/60th pension and 1/40th lump sum based upon their pensionable pay. Some members of the Railways Pension Scheme are subject to Protected Persons legislation, which requires individual consent to changes to benefits, and certain rights upon transfer between sections of the scheme.

The RPS is a shared cost arrangement. All costs, and any deficit or surplus is shared 60% by the employer and 40% by the members. Furthermore, under the franchising obligations, the responsibility of the employer is to pay the contributions requested of the Trustee whilst it operates the franchise. There is no residual liability or asset for any deficit, or surplus, which remains at the end of the franchise period.

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35 Retirement benefit schemes continued

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. Allowance is also made in the preparation of the financial statements for the cost sharing nature of the benefit and in particular, only 60% of the total profit and loss charge and balance sheet position are attributed to the Group and recognised in the accounts.

Hull Trains is not subject to franchising obligations, and as such it is accounted for under IAS19 as a Defined Benefit scheme, although subject to the same cost sharing obligations as for the franchised sections.

Local Government Pension Schemes

The Group participates in five Local Government Pension Schemes (LGPS), three in England and two in Scotland. These differ from Trust based schemes in that their benefits are prescribed by legislation, and they are administered by Local Authorities, and pension committees consisting of local councillors. Typically the Group has less control over the investment strategy adopted by the LGPS compared to the UK Trust based schemes.

Historically benefit accrual in these schemes has been based on final salary. However the benefit structure is changing to a 1/47th career average benefit in England in April 2014 and in Scotland in 2015. Normal pension age will be aligned with State Pension Age from that time. Some members have a right to receive some of their benefits on an unreduced basis, conditional on age and service.

As with the Trust based schemes, valuations take place at least triennially. Generally contribution rates are agreed for the three year period until the next valuation. Whilst these are balance of cost schemes, at termination there is no right for the Company to receive any surplus in the schemes, although there is an obligation on the Company to fully fund the benefits. To reflect this, the Group only recognise existing surpluses relating to the LGPS when determining the balance sheet position, to the extent that these surpluses could be recouped by the reduction of future company contributions.

North America

US

The Group operates two defined benefit arrangements in the US. These are legacy arrangements with benefit accrual having ceased some years ago. The schemes are valued annually, when the funding position and minimum and maximum contributions are established.

Changes in funding position create new surplus or deficit each year, which is normally spread over seven years, as required by legislation. However, funding relief passed by Congress in 2010, and again in 2012, has allowed greater flexibility following the global financial crisis. The most recent funding relief passed in 2012 had the short term effect of increasing the funding discount rate, which acts to lower liabilities, deficits and contributions. This effect will reduce over time.

Greyhound Canada

There are three plans, relating to Eastern, Western and Supervisory employees. All these plans are now closed to new members, although benefit accrual continues for existing members. Small executive arrangements also exist.

The plans are valued annually, where the cost of future service and the funding position are identified. Future service costs are shared in proportion between the members and the Company, although there are caps on the member rates. Deficit contributions are met entirely by the Company. Cash contributions are required to fund the plans on a 'going concern' basis, whilst the (usually higher) 'solvency' deficit can be made good through a Letter of Credit. There is a cap on the value of the Letter of Credit, which cannot exceed 15% of the value of the assets held in the plan.

At their last triennial valuations, the defined benefit schemes had funding levels between 70.5% and 101.9% (2013: 61.0% and 101.9%; 2012: 61.0% and 101.9%). The market value of the assets at 31 March 2014 for all defined benefit schemes totalled £3,902m (2013: £3,777m; 2012: £3,397m).

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

	UK Bus 2014 %	UK Rail 2014 %	North America 2014 %	UK Bus 2013 %	UK Rail 2013 %	North America 2013 %	UK Bus 2012 %	UK Rail 2012 %	North America 2012 %
Key assumptions used:									
Discount rate	4.40	4.40	4.00	4.50	4.50	4.00	4.65	4.65	4.20
Expected rate of salary increases	2.10/3.15	3.65	2.50	2.15/3.20	3.70	2.50	3.75	3.75	3.25
Inflation – RPI	3.15	3.15	2.00	3.20	3.20	2.00	2.75	2.75	2.25
Inflation – CPI	2.10	2.10	–	2.15	2.15	–	1.75	1.75	–
Future pension increases	2.10/3.05	2.10	–	2.05/2.15/3.10	2.15	–	1.65/1.75/2.65	1.75	–

Disclosures on the sensitivity of the defined benefit obligation to changes in the relevant actuarial assumptions can be found in the table/notes in the financial review on page 49 which forms part of these audited financial statements.

35 Retirement benefit schemes continued

a) Income statement

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

Year to 31 March 2014	UK Bus £m	UK Rail £m	North America £m	Total £m
Current service cost (including employer expenses)	(24.1)	(56.9)	(6.9)	(87.9)
Net interest cost	(0.5)	(11.7)	(7.7)	(19.9)
Interest on franchise adjustment	–	11.0	–	11.0
	(24.6)	(57.6)	(14.6)	(96.8)

Year to 31 March 2013 restated	UK Bus £m	UK Rail £m	North America £m	Total £m
Current service cost (including employer expenses)	(25.0)	(55.7)	(4.9)	(85.6)
Net interest cost as restated	0.3	3.1	(10.8)	(7.4)
Interest on franchise adjustment	–	7.2	–	7.2
	(24.7)	(45.4)	(15.7)	(85.8)

Net interest cost comprises:	2014 £m	2013 £m
Interest cost (table (c))	(161.1)	(149.4)
Interest income on assets (table (d))	142.9	132.9
Interest on irrecoverable surplus (table (i))	(1.7)	(1.4)
FGW prior year adjustment (note 2)	–	10.5
	(19.9)	(7.4)

During the year £9.9m (2013: £8.5m) of administrative expenses were incurred. IAS 19 (revised) increases the accounting losses on the FGW contract. The incremental loss of £6.0m for the seven period extension to October 2013 has been included in the restatement of the exceptional charge for the year 31 March 2013. The interest cost together with the interest on franchise adjustment has been included within Finance Costs (see note 8).

Actuarial gains and losses have been reported in the consolidated statement of comprehensive income.

The actual return on scheme assets was:

	2014 £m	2013 £m
UK Bus	82.8	226.0
UK Rail	70.8	102.6
North America	(6.9)	69.0
	146.7	397.6

Reconciliation of the actual return on scheme assets:

	2014 £m	2013 £m
Interest income on assets	142.9	132.9
Employee share of return on assets (UK Rail)	26.2	39.1
Employee share of administration expenses	2.1	1.9
Actuarial gain on assets	34.1	202.1
Currency (loss)/gain	(58.6)	21.6
Actual return on scheme assets	146.7	397.6

Notes to the consolidated financial statements

continued

35 Retirement benefit schemes continued

(b) Balance sheet

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

At 31 March 2014	UK Bus £m	UK Rail £m	North America £m	Total £m
Fair value of schemes' assets	2,033.3	1,405.4	463.1	3,901.8
Present value of defined benefit obligations	(2,062.5)	(1,881.2)	(615.5)	(4,559.2)
Deficit before adjustments	(29.2)	(475.8)	(152.4)	(657.4)
Adjustment for irrecoverable surplus ¹ (table (i))	(65.0)	–	–	(65.0)
UK Rail franchise adjustment (table (e)) (60%)	–	271.5	–	271.5
Adjustment for employee share of RPS deficits (40%)	–	190.2	–	190.2
Deficit in schemes	(94.2)	(14.1)	(152.4)	(260.7)
Liability recognised in the balance sheet	(94.2)	(14.1)	(152.4)	(260.7)
The amount is presented in the consolidated balance sheet as follows:				
Non-current assets	29.9	–	–	29.9
Non-current liabilities	(124.1)	(14.1)	(152.4)	(290.6)
	(94.2)	(14.1)	(152.4)	(260.7)

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 (table (i))	(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 LGPS.

35 Retirement benefit schemes continued

(c) Defined benefit obligations (DBO)

Movements in the present value of DBO were as follows:

	UK Bus £m	UK Rail £m	North America £m	Total £m
At 1 April 2013	1,954.6	1,730.0	715.0	4,399.6
Current service cost (excluding employer expenses)	20.0	59.8	4.2	84.0
Interest cost	86.9	47.5	26.7	161.1
Employee share of change in DBO (not attributable to franchise adjustment)	13.6	77.0	1.6	92.2
Experience loss on DBO	36.9	1.6	5.7	44.2
Loss/(gain) on change of assumptions (financial)	22.4	10.6	(3.9)	29.1
Benefit payments	(71.9)	(45.3)	(53.6)	(170.8)
Currency gain	–	–	(80.2)	(80.2)
At 31 March 2014	2,062.5	1,881.2	615.5	4,559.2

	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 (excluding employer expenses)	19.8	52.8	4.5	77.1
Interest cost	79.9	40.7	28.8	149.4
Employee share of change in DBO (not attributable to franchise adjustment)	17.3	114.4	1.9	133.6
Experience loss/(gain) on DBO	(31.5)	7.2	2.9	(21.4)
Loss on change of assumptions (demographic)	56.9	–	7.0	63.9
Loss on change of assumptions (financial)	135.4	73.8	17.5	226.7
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

Notes to the consolidated financial statements

continued

35 Retirement benefit schemes continued

(d) Fair value of schemes' assets

Movements in the fair value of schemes' assets were as follows:

	UK Bus £m	UK Rail £m	North America £m	Total £m
At 1 April 2013	1,965.4	1,307.2	504.8	3,777.4
Interest income on assets	88.0	35.9	19.0	142.9
Company contributions	47.3	48.3	20.0	115.6
Employee contributions	13.7	29.5	1.7	44.9
Employee share of return on assets	–	26.2	–	26.2
Actuarial gain/(loss) on assets	(5.2)	6.7	32.6	34.1
Benefit paid from schemes	(71.9)	(45.3)	(53.6)	(170.8)
Employer administration expenses	(4.0)	(3.1)	(2.8)	(9.9)
Currency loss	–	–	(58.6)	(58.6)
At 31 March 2014	2,033.3	1,405.4	463.1	3,901.8

	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
Interest income on assets	81.7	33.2	18.0	132.9
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	144.3	28.3	29.5	202.1
Benefit paid from schemes	(78.9)	(34.5)	(54.3)	(167.7)
Settlement payment	(4.2)	–	–	(4.2)
Employer administration expenses	(5.2)	(2.9)	(0.4)	(8.5)
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

35 Retirement benefit schemes continued

(e) UK Rail franchise adjustment

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

	2014 £m	2013 £m	2012 £m
At 1 April	401.3	257.5	127.8
First Great Western/First TransPennine Express extension	(22.9)	–	(2.3)
Interest on franchise adjustment	11.0	7.2	4.2
Employee share of change in franchise adjustment	29.6	57.5	52.8
Actuarial gain on franchise adjustment	33.5	79.1	75.0
At 31 March	452.5	401.3	257.5

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

The vast majority of the assets held by the pension arrangements are invested in pooled funds with a quoted market price. The analysis of the schemes' assets at the balance sheet dates were as follows:

	UK Bus £m	UK Rail £m	North America £m	Total £m
At 31 March 2014				
Equities	797.5	–	243.6	1,041.1
Bonds	737.5	66.9	185.9	990.3
Property	67.6	–	17.0	84.6
Cash	93.4	5.1	8.6	107.1
Infrastructure	–	68.6	2.4	71.0
Cash plus	235.6	1,099.6	5.6	1,340.8
Commodities	20.3	–	–	20.3
Private equity	81.4	165.2	–	246.6
	2,033.3	1,405.4	463.1	3,901.8
At 31 March 2013				
Equities	749.8	–	253.0	1,002.8
Bonds	764.6	61.7	215.8	1,042.1
Property	94.4	–	15.6	110.0
Cash	38.6	11.1	5.9	55.6
Infrastructure	–	64.4	1.0	65.4
Cash plus	217.9	1,010.6	13.5	1,242.0
Commodities	17.3	–	–	17.3
Private equity	82.8	159.4	–	242.2
	1,965.4	1,307.2	504.8	3,777.4

Notes to the consolidated financial statements

continued

35 Retirement benefit schemes continued

At 31 March 2012	UK Bus £m	UK Rail £m	North America £m	Total £m
Equities	706.5	–	216.8	923.3
Bonds	630.2	57.3	205.6	893.1
Property	97.2	–	13.5	110.7
Cash	29.5	5.0	7.6	42.1
Infrastructure	–	58.2	–	58.2
Cash plus	209.3	911.6	16.5	1,137.4
Private equity	76.7	143.8	–	220.5
Other	12.0	–	–	12.0
	1,761.4	1,175.9	460.0	3,397.3

(g) 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:

	2014 £m	2013 £m	2012 £m
Balance sheet			
Pension deficit	(271.5)	(240.8)	(154.5)
Intangible assets	(11.4)	(2.6)	(4.5)
Deferred tax	56.6	56.0	38.2
Impact on net assets	(226.3)	(187.4)	(120.8)
Income statement			
Unwinding of discount on franchise adjustment	(11.0)	(7.2)	(4.2)
Intangible asset amortisation	5.0	1.9	3.4
Deferred tax	1.2	1.2	0.2
Impact on profit for the year from continuing operations	(4.8)	(4.1)	(0.6)
Consolidated statement of comprehensive income			
Actuarial gains on franchise adjustment	(33.5)	(79.1)	(75.0)
Deferred tax on actuarial gains	6.7	18.2	18.0
	26.8	(60.9)	(57.0)

(h) Consolidated statement of comprehensive income

Amounts presented in the consolidated statement of comprehensive income comprise:

	2014 £m	2013 £m
Actuarial loss on DBO	(73.3)	(269.3)
Actuarial gain on assets	34.1	202.1
Actuarial gain on franchise adjustment	33.5	79.1
Adjustment for irrecoverable surplus	(27.8)	(4.4)
Actuarial (losses)/gains on defined benefit schemes	(33.5)	7.5

35 Retirement benefit schemes continued

(i) UK Bus irrecoverable surplus

Movements in the total UK Bus irrecoverable surplus were as follows:

	2014 £m	2013 £m
At 1 April	(35.5)	(29.7)
Interest on irrecoverable surplus	(1.7)	(1.4)
Actuarial loss on irrecoverable surplus	(27.8)	(4.4)
At 31 March	(65.0)	(35.5)

The estimated amounts of contributions expected to be paid to the schemes during the financial year to 31 March 2015 is £137.4m (year to 31 March 2014: £122.2m)

Risks associated with defined benefit plans:

Generally the number of employees in defined benefit plans is reducing rapidly, as these plans are largely closed to new entrants, and in many cases to future accrual. Consequently, the number of defined contribution members is increasing.

Despite remaining open to new entrants and future accrual, the risks posed by the Railways Pension Scheme are limited, as under the franchise arrangements, the UK Rail TOCs are not responsible for any residual deficit at the end of a franchise. As such, there is only short term cash flow risk within this business.

The key risks relating to the defined benefit pension arrangements and the steps taken by the Group to mitigate them are as follows:

Risk	Description	Mitigation
Asset volatility	The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. Most of the defined benefit arrangements hold a significant proportion of return-seeking assets (equities, diversified growth funds and global absolute return funds) which, though expected to outperform corporate bonds in the long term, create volatility and risk in the short term.	Asset liability modelling has been undertaken recently in all significant plans to ensure that any risks taken are rewarded.
Inflation risk	A significant proportion of the UK benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities.	The business has certain inflation linking in its revenue streams, which helps to offset this risk. In addition, the investment strategy reviews have led to inflation hedging, whether through swaps or holding Index Linked Gilts in the UK schemes.
Uncertainty over level of future contributions	Contributions to defined benefit schemes can be unpredictable and volatile as a result of changes in the funding level revealed at each valuation.	The Group is engaging with the Trustees to consider how contribution requirements can be made more stable. The level of volatility and the Group's ability to control contribution levels varies between arrangements.
Life expectancy	The majority of the Scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.	Linking retirement age to UK State Pension Age (as in the UK Bus Pension Scheme and LGPS) should mitigate this risk to some extent.
Trapped surplus	At termination of LGPS arrangements there is no right for the Company to receive any surplus that exists within the scheme. Therefore there is a risk of overfunding the schemes.	The Group takes professional advice in relation to this issue although there is limited scope to mitigate the risk.
Legislative risk	<p>Future legislative changes are uncertain. In the past these have led to increases in obligations, through introducing pension increases, and vesting of deferred pensions, or reduced investment return through the ability to reclaim Advance Corporation Tax.</p> <p>We are aware that the UK Government has already legislated to end contracting out in 2016 and that there is an intention to implement legislation which could result in an increase in the value of Guaranteed Minimum Pension. If this legislation is implemented, this would increase the defined benefit obligation of the UK arrangements.</p>	<p>The UK Bus Pension Scheme and the main section of the FirstGroup Pension Scheme are now contracted into the State Second Pension reducing the impact of the cessation of contracting out on the Group.</p> <p>The Group takes professional advice to keep abreast of legislative changes.</p>

Notes to the consolidated financial statements

continued

36 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 70 to 92.

	Year to 31 March 2014 £m	Year to 31 March 2013 £m
Basic salaries ¹	1.6	1.6
Performance related bonuses	0.9	0.3
Compensatory bonuses	–	0.2
Retention bonuses	0.3	–
Benefits in kind ¹	0.0	0.0
Fees	0.5	0.5
Pension contributions	–	0.1
Share-based payment	0.3	0.5
	3.6	3.2

¹ Basic salaries include cash emoluments in lieu of retirement benefits and car and tax allowances. Prior year balances have been restated to reflect this.

Independent auditor's report to the members of FirstGroup plc

Opinion on financial statements of FirstGroup plc

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2014 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements 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 36, the parent company balance sheet, and the related notes to the parent company balance sheet 1 to 11. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Going concern

As required by the Listing Rules we have reviewed the Directors' statement contained within the Directors' and corporate governance report on page 69 that the Group is a going concern. We confirm that:

- we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Independent auditor's report to the members of FirstGroup plc

continued

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Risk

Carrying value of goodwill and intangible assets

The annual impairment test is a complex process requiring significant management judgment and is based on assumptions about future profitability. The Cash Generating Unit (CGU) most sensitive to variation in assumptions is the First Student CGU as disclosed in note 12 to the financial statements.

Valuation and completeness of third party claims and associated provisions and assets

The valuation and completeness of both legal and self-insurance provisions are a source of estimation uncertainty, which require management's best estimate in assessing the likelihood and valuation of settlement and where applicable the discount rate applied to the expected settlement values.

Valuation of pension scheme liabilities

The Group operates in a labour intensive industry with large membership to a number of defined benefit pension schemes. The gross pension liabilities as disclosed in note 35 to the financial statements are materially sensitive to changes in the underlying assumptions adopted.

Management exercise significant judgment when determining those assumptions, particularly the discount rate, inflation and mortality rates.

Revenue recognition including contract accounting

The Group operates a number of long term contracts including UK rail franchises and certain North American passenger and service contracts.

Management exercise judgment in determining the appropriate timing and valuation of revenue recognised, valuation of associated deferred and accrued income and the evaluation of the overall profitability of these contracts.

How the scope of our audit responded to the risk

We assessed management's assumptions used in the impairment model for goodwill and intangible assets, described in note 12 to the financial statements, specifically including the cash flow projections, discount rates and growth rates applied.

Our procedures included reviewing forecast cash flows with reference to historical trading performance, using our valuation specialists to challenge the discount rates applied and through review of underlying calculations and comparison of inputs to market data. In addition we have benchmarked key assumptions such as growth rates and discount rates to external macro-economic and market data. We have re-run the sensitivities applied by management and considered their reasonableness.

We worked with our own actuarial experts to test the range of estimates determined by management and their external actuary considering the methodologies employed, comparing assumptions used to the Group's historical experience. We independently developed an actuarial calculation and compared the provision recorded to the actuarial range calculated by the external actuary.

We also tested a sample of the underlying data used to develop the provision for completeness and accuracy and challenged the appropriateness of the discount rate used through comparison to previous years and those used by similar entities.

As part of our assessment of legal provisions, we obtained confirmations from internal and independent external legal counsel.

We worked with our own actuarial experts to test the assumptions used by management in valuing the Group's defined benefit pension scheme liabilities such as the discount rate, inflation and mortality rate, performed sensitivity analysis on the key assumptions and compared them to industry benchmarks and prior years' rates adopted.

We have assessed the judgments taken by management in determining the valuation and timing of revenue recognition and associated deferred and accrued income with reference to the underlying contract terms and applicable accounting standards.

We considered the completeness of onerous contract provisions by challenging profit forecasts prepared by management with reference to the historical trading performance and forecasting accuracy.

The Audit Committee's consideration of these risks is set out on page 64 of the Directors' and corporate governance report.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the group to be £5.6m, which is 5% of adjusted pre-tax profit (as defined on page 94 to the financial statements), and below 1% of equity. The adjusted pre-tax profit measure has been used to exclude the volatility of non-recurring items. In addition, the exclusion of amortisation and the income statement effect of ineffective and unhedged financial derivative valuation is consistent with the key measure used by the Group for internal and external reporting purposes. This measure has been used to facilitate a better understanding of the trading performance of the Group.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £100,000 as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our group audit scope primarily on the four UK Bus operating regions, four significant Train Operating Companies, the operations in North America and the Group, Rail Division and Bus Division corporate head office functions as well as the UK Shared Service Centre. These locations were subject to full audit procedures. First Rail Holdings was subject to specified audit procedures on rail franchise bid costs based on our assessment of the risks of material misstatement and of the materiality of the Group's operations at that location. The locations, subject to full audit procedures, represent the principal business units and account for 89.2% of the Group's net assets, 98.0% of the Group's revenue and 99.7% of the Group's profit before tax. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work at these locations was executed at levels of materiality applicable to each individual location which was lower than Group materiality.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

We include all component audit teams in our team briefing, discuss their risk assessment and a senior member of the Group audit team has visited all locations to review documentation of the findings from their work.

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 Strategic Report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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 are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Independent auditor's report to the members of FirstGroup plc

continued

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the 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 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 Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team, strategically focused second partner reviews and independent partner reviews.

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.

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 and 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 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.

Graham Richardson (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

London

21 May 2014

Group financial summary

	2014 £m	Restated 2013 £m	Restated 2012 £m	Restated 2011 £m	Restated 2010 £m
Consolidated income statement – continuing operations					
Group revenue	6,717.4	6,900.9	6,678.7	6,416.7	6,249.4
Operating profit before amortisation charges and exceptional items	268.0	254.1	361.0	403.1	433.8
Amortisation charges	(53.4)	(52.0)	(30.9)	(42.9)	(34.7)
Exceptional items	17.6	(62.3)	59.6	(98.1)	(49.6)
Operating profit	232.2	139.8	389.7	262.1	349.5
Net finance cost	(156.1)	(163.2)	(155.6)	(184.7)	(195.0)
Exceptional finance items	(17.6)	(5.5)	(11.0)	0.3	1.0
Profit/(loss) before tax	58.5	(28.9)	223.1	77.7	155.5
Tax	5.7	23.9	(34.9)	(3.6)	(26.9)
Profit/(loss) for the year from continuing operations	64.2	(5.0)	188.2	74.1	128.6
(Loss)/profit for the year from discontinued operations	–	–	(9.5)	7.3	3.5
Profit/(loss) for the year	64.2	(5.0)	178.7	81.4	132.1
EBITDA	579.8	585.7	675.4	715.3	740.8
Earnings per share					
	pence	pence	pence	pence	pence
Adjusted	7.5	11.0	24.4	26.6	28.9
Basic	5.1	(3.0)	27.8	10.2	19.3
Consolidated balance sheet					
	£m	£m	£m	£m	£m
Non-current assets	3,686.7	4,060.3	4,072.7	4,161.5	4,526.2
Net current liabilities	(78.4)	(320.4)	(265.9)	(322.4)	(283.8)
Non-current liabilities	(2,123.7)	(2,602.3)	(2,596.1)	(2,494.4)	(2,967.6)
Provisions	(261.6)	(323.1)	(338.1)	(393.8)	(364.3)
Net assets	1,223.0	814.5	872.6	950.9	910.5
Share data (restated for rights issue)					
Number of shares in issue (excluding treasury share and shares in trusts)	millions	millions	millions	millions	millions
At year end	1,204.9	591.2	590.7	589.9	589.2
Average	1,059.3	590.8	590.7	589.5	589.6
Share price					
	pence	pence	pence	pence	pence
At year end	146	201	238	326	359
High	224	261	370	413	442
Low	92	176	238	323	288
Market capitalisation					
	£m	£m	£m	£m	£m
At year end	1,759	969	1,147	1,572	1,724

The table above has been restated to reflect (a) the retrospective adjustment from the adoption of the changes in IAS 19 *Employee Benefits (revised)*, (b) the reclassification of certain exceptional items and (c) the retrospective adjustment of earnings per share figures as required by IAS 33 *Earnings Per Share*, reflecting the rights issue completed in June 2013.

(a) IAS 19 (revised)

IAS 19 (revised) applies to financial years beginning on 1 January 2013 or later. The key impact on the Group from the revised standard 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. The actual benefits and the cash contributions for these plans are not impacted by IAS 19 (revised).

(b) Exceptional items

The Directors have decided to reclassify certain generally recurring costs that were previously treated as exceptional. Principally these relate to costs incurred relating to bidding for rail franchises and the profit/(loss) on disposal of properties.

(c) Rights issue

Pursuant to the rights issue, on 10 June 2013, 722,859,586 new ordinary shares of 5 pence each were issued, with three new ordinary shares issued for every two existing ordinary shares held. As a result the total issued share capital increased to 1,204.9m ordinary shares. For the calculation of earnings per share, the number of shares held prior to 10 June 2013 has been increased by a factor of 1.227 to reflect the bonus element of the rights issue.

Company balance sheet

Year ended 31 March

	Note	2014 £m	2013 £m
Fixed assets			
Investments	3	2,073.2	1,775.4
Current assets			
Cash and cash equivalents		37.5	231.3
Derivative financial instruments – due within one year	4	26.0	23.3
– due after more than one year	4	25.9	63.3
Debtors – due within one year	5	1,712.7	2,187.4
– due after more than one year	5	1.0	2.4
		1,803.1	2,507.7
Current liabilities			
Creditors: amounts falling due within one year	7	(368.3)	(790.2)
Derivative financial instruments	4	(17.7)	(64.7)
		(386.0)	(854.9)
Net current assets		1,417.1	1,652.8
Total assets less current liabilities		3,490.3	3,428.2
Creditors: amounts falling due after more than one year	7	(1,538.5)	(1,952.2)
Derivative financial instruments	4	(9.2)	(21.7)
Net assets		1,942.6	1,454.3
Capital and reserves			
Called up share capital	8	60.2	24.1
Share premium	9	676.4	676.4
Other reserves	9	268.8	227.5
Own shares	9	(1.8)	(1.1)
Retained earnings	9	939.0	527.4
Shareholders' funds		1,942.6	1,454.3

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 69.

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 any 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 pounds 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 re-measured 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.

Notes to the Company financial statements

continued

2 (Loss)/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 loss for the financial year ended 31 March 2014 of £140.2m (2013: profit £65.3m).

Proposed final dividend per share for the year ended 31 March 2014 of Nil p (2013: Nil p).

Fees payable to the Company's auditor for the audit of the Company's annual financial statements are disclosed in note 6 on page 113.

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

3 Fixed asset investments

	Unlisted subsidiary undertakings £m
Cost	
At 1 April 2013	1,791.3
Additions	297.8
At 31 March 2014	2,089.1
Provisions for impairment	
At 1 April 2013 and 31 March 2014	(15.9)
Net book value	
At 31 March 2014	2,073.2
At 31 March 2013	1,775.4

3 Fixed asset investments continued

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

UK local bus and coach operators

First Aberdeen Limited¹
 First Beeline Buses Limited
 First Bristol Limited
 First Cymru Buses Limited
 First Devon & Cornwall Limited
 First Eastern Counties Buses Limited
 First Essex Buses Limited
 First Glasgow (No. 1) Limited¹
 First Glasgow (No. 2) Limited¹
 First Hampshire and Dorset Limited
 First Manchester Limited
 First Midland Red Buses Limited
 First Potteries Limited
 First Scotland East Limited¹
 First Somerset & Avon Limited
 First South Yorkshire Limited
 First West Yorkshire Limited
 First York Limited
 Leicester CityBus Limited (94%)
 Midland Bluebird Limited

Rail companies

First Capital Connect Limited
 First Greater Western Limited
 First/Keolis TransPennine Limited (55%)
 First ScotRail Limited¹
 Hull Trains Company Limited (80%)

North American school bus operators

Cardinal Coach Lines Limited (60%)²
 First Canada ULC²
 First Student, Inc³

Transit contracting and fleet maintenance

First Transit, Inc³
 First Vehicle Services, Inc³

North American coach operators

Americanos USA, Inc³
 Greyhound Lines, Inc³
 Greyhound Canada Transportation ULC²

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.

Notes to the Company financial statements

continued

4 Derivative financial instruments

	2014 £m	2013 £m
Derivatives designated and effective as hedging instruments carried at fair value		
Non-current assets		
Gross currency swaps (net investment hedge)	–	15.2
Coupon swaps (fair value hedge)	24.1	45.7
Fuel derivatives (cash flow hedge)	1.8	2.4
	25.9	63.3
Assets due within one year		
Gross currency swaps (net investment hedge)	–	3.6
Coupon swaps (fair value hedge)	11.1	13.2
Fuel derivatives (cash flow hedge)	6.4	6.5
	17.5	23.3
Creditors: amounts falling due within one year		
Interest rate derivatives (cash flow hedge)	–	8.1
Gross currency swaps (net investment hedge)	–	47.6
Fuel derivatives (cash flow hedge)	5.1	4.8
	5.1	60.5
Creditors: amounts falling due after more than one year		
Interest rate derivatives (cash flow hedge)	–	11.8
Fuel derivatives (cash flow hedge)	1.3	0.8
	1.3	12.6
Derivatives classified as held for trading		
Current assets		
Interest rate swaps	8.5	–
Creditors: amounts falling due within one year		
Interest rate derivatives	12.6	4.2
Creditors: amounts falling due after one year		
Interest rate derivatives	7.9	9.1
Total assets: amounts due after more than one year	25.9	63.3
Total assets: amounts due within one year	26.0	23.3
Total assets	51.9	86.6
Total creditors: amounts falling due within one year	17.7	64.7
Total creditors: amounts falling due after more than one year	9.2	21.7
Total liability	26.9	86.4

Full details of the Group's financial risk management objectives and procedures can be found in note 24 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.

5 Debtors

	2014 £m	2013 £m
Amounts due within one year		
Amounts due from subsidiary undertakings	1,708.1	2,185.9
Deferred tax asset (note 6)	1.0	1.5
Corporation tax recoverable	3.2	–
Other debtors	0.4	–
	1,712.7	2,187.4
Amounts due after more than one year		
Deferred tax asset (note 6)	1.0	2.4

6 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 differences £m
At 1 April 2013	(3.9)
Charge to income	(2.4)
Charge to equity	4.5
At 31 March 2014	(1.8)

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

	2014 £m	2013 £m
Deferred tax asset due within one year	(1.0)	(1.5)
Deferred tax assets due after more than one year	(1.0)	(2.4)
Deferred tax liabilities due within one year	0.2	–
	(1.8)	(3.9)

Notes to the Company financial statements

continued

7 Creditors

	2014 £m	2013 £m
Amounts falling due within one year		
Bank loans and overdrafts	34.1	124.0
£300.0m Sterling bond – 6.875% 2013	–	299.4
Bond interest accrual	58.9	79.2
Amounts due to subsidiary undertakings	256.6	270.7
Accruals and deferred income	18.5	16.9
Deferred tax liabilities (note 6)	0.2	–
	368.3	790.2
	£m	£m
Amounts falling due after more than one year		
Bank loans	–	385.4
£300.0m Sterling bond – 8.125% 2018	297.4	297.1
£250.0m Sterling bond – 6.125% 2019	284.5	305.4
£350.0m Sterling bond – 8.750% 2021	347.6	347.4
£325.0m Sterling bond – 5.250% 2022	319.6	319.1
£200.0m Sterling bond – 6.875% 2024	199.5	199.5
Senior unsecured loan notes	89.9	98.3
	1,538.5	1,952.2

Borrowing facilities

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

	2014 £m	2013 £m
Facilities maturing:		
– Due in more than two years	796.2	821.6

8 Called up share capital

	2014 £m	2013 £m
Allotted, called up and fully paid		
482.1m ordinary shares of 5p each	24.1	24.1
722.8m new ordinary shares of 5p each issued	36.1	–
1,204.9m ordinary shares of 5p each	60.2	24.1

The number of ordinary shares of 5p in issue, excluding treasury shares held in trust for employees, at the end of the period was 1,203.8m (2013: 481.8m). At the end of the period 1.1m shares (2013: 0.3m shares) were being held as treasury shares and own share held in trust for employees.

9 Reserves

	Share premium £m	Own shares £m	Profit and loss account £m
At 1 April 2013	676.4	(1.1)	527.4
Retained loss for the year	–	–	(140.2)
Rights issue	–	–	548.3
Share-based payment provision	–	–	4.6
Movement in EBT, QUEST and treasury shares during the year	–	(0.7)	(1.1)
At 31 March 2014	676.4	(1.8)	939.0

Own shares

The number of own shares held by the Group at the end of the year was 769,374 (2013: 283,374) FirstGroup plc ordinary shares of 5p each. Of these, 577,124 (2013: 90,075) were held by the FirstGroup plc Employee Benefit Trust, 32,520 (2013: 32,520) by the FirstGroup plc Qualifying Employee Share Ownership Trust and 159,730 (2013: 160,779) 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 2014 was £1.1m (2013: £0.6m).

	Hedging reserve £m	Capital redemption reserve £m	Capital reserve £m	Merger reserve £m	Total other reserves £m
Other reserves					
At 1 April 2013	(34.6)	1.9	93.8	166.4	227.5
Derivative hedging instrument movement	41.3	–	–	–	41.3
At 31 March 2014	6.7	1.9	93.8	166.4	268.8

10 Reconciliation of movement in shareholders' funds

	2014 £m	2013 £m
(Loss)/profit for the financial year	(140.2)	65.3
Share-based payments provision	4.6	5.6
Rights issue	584.4	–
Movement in EBT, QUEST and treasury shares during the year	(1.8)	–
Dividends	–	(114.0)
	447.0	(43.1)
Derivative hedging instrument movement	41.3	(25.4)
Net increase/(reduction) to shareholders' funds	488.3	(68.5)
Shareholders' funds at beginning of year	1,454.3	1,522.8
Shareholders' fund at end of year	1,942.6	1,454.3

11 Contingent liabilities

To support subsidiary undertakings in their normal course of business, the Company and certain subsidiaries have indemnified certain banks and insurance companies who have issued performance bonds for £504.8m (2013: £566.2m) and letters of credit for £303.3m (2013: £321.7m). The performance bonds relate to the North American businesses of £337.8m (2013: £354.7m) and the UK Rail franchise operations of £167.0m (2013: £211.5m). The letters of credit relate substantially to insurance arrangements in the UK and North America.

The Company has provided an unsecured loan facility of £25.0m (2013: £25.0m) to First ScotRail Limited. Under this facility, £nil (2013: £nil) was drawn at 31 March 2014.

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 pounds Sterling bondholders and to lenders participating in the Group's £751.3m (2013: £822.5m) syndicated unsecured bank facility, to certain bilateral bank facilities for £75.0m (2013: £436.9m) and to senior unsecured loan notes for £89.9m (2013: £98.3m).

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

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

Contact information

FirstGroup plc offices

Registered office

FirstGroup plc

395 King Street
Aberdeen AB24 5RP
Tel: +44 (0)1224 650100
Fax: +44 (0)1224 650140

London corporate office

FirstGroup plc

50 Eastbourne Terrace
London W2 6LG
Tel: +44 (0)20 7291 0505
Fax: +44 (0)20 7636 1338

Shareholder enquiries

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

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

Equiniti

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

Employee share schemes

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

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

Duplicate shareholder accounts

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

Unsolicited mail

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

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 31 March 2014

	Number of shareholders	%	Shares held	%
By category				
Nominee	630	1.6	1,071,626,065	88.9
Individuals	37,282	95.4	58,743,107	4.9
Limited Company	959	2.5	22,796,793	1.9
Other Organisation	207	0.5	43,432,707	3.6
Bank	5	–	8,131,625	0.7
Public Limited Company	3	–	189,731	–
Pension Fund	2	–	6,428	–
Insurance Company	1	–	300	–
	39,089	100.0	1,204,926,756	100.0
By size of holding				
1-1,000	27,876	71.3	7,159,888	0.6
1,001-5,000	8,239	21.1	19,456,555	1.6
5,001-10,000	1,547	4.0	10,955,083	0.9
10,001-100,000	1,100	2.8	26,860,551	2.2
Over 100,000	327	0.8	1,140,494,679	94.7
	39,089	100.0	1,204,926,756	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 which are of benefit to all shareholders.

Financial calendar

Annual General Meeting	16 July 2014
Half yearly results announcement	November 2014
Preliminary announcement of full year results	May 2015

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.

ABI

Association of British Insurers

APB

Auditing Practices Board, part of the Financial Reporting Council

AGM

Annual General Meeting

BAYE

Buy As You Earn

The Board

The Board of Directors of the Company

Company

FirstGroup plc, a company registered in Scotland with number SC157176 whose registered office is at 395 King Street, Aberdeen AB24 5RP

CPI

Consumer price index, an inflation measure that excludes certain housing related costs

CR

Corporate Responsibility refers to the way we manage the economic, social and environmental impacts of our activities

DECC

Department of Energy and Climate Change

DEFRA

Department for Environment, Food and Rural Affairs

DfT

Department for Transport

Dividend

Amount payable per ordinary share on an interim and final basis

EABP

Executive annual bonus plan

EBITDA

Earnings before interest, tax, depreciation and amortisation

EBT

Employee benefit trust

EPS

Earnings per share

ESOS

Executive share option scheme

FSS

First Support Services, a unit of First Transit disposed of in the 2012/13 financial year

GHG

Greenhouse gas emissions

GPS

Global positioning system

Group

FirstGroup plc and its subsidiaries

IAS

International Accounting Standards

IFRS

International Financial Reporting Standards

KPIs

Key performance indicators are financial and non-financial metrics used to define and measure progress towards our objectives

Local authority

Local government organisations including unitary, metropolitan, district and county councils

LTIs

Lost Time Injuries refer to any injury at work that has resulted in a staff member being unable to work for more than one day

LTIP

Long Term Incentive Plan

MAA

Moving annual average

NAPF

National Association of Pension Funds

Network Rail

Owner and operator of Britain's rail infrastructure

OECD

Organisation for Economic Cooperation and Development

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 in a single performance measure

QUEST

Qualifying Employee Share Ownership Trust

RFID

Radio-frequency identification

ROCE

Return on capital employed

RPI

Retail price index, an inflation measure that includes certain housing related costs

SAYE

Save As You Earn

SSA

Senior Statutory Auditor

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



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