

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 (the 'Regulations'). It also meets the requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the main supporting principles of the Combined Code on Corporate Governance issued by the Financial Reporting Council in 2006 (the 'Code') relating to Directors' remuneration. The Company complies with all of the provisions of the Code. A resolution to approve this report will be proposed at the Company's Annual General Meeting to be held on 10 July 2008.

The Regulations require the Company's auditors to report to the Company's shareholders on the 'auditable' part of the Directors' Remuneration Report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). This report has therefore been divided into separate sections for audited and unaudited information.

Unaudited information Remuneration Committee

The Remuneration Committee is chaired by Jim Forbes. The other current members of the Committee are David Begg, David Dunn, John Sievwright and Audrey Baxter. The Board considers each of the members of the Committee to be independent in accordance with the Code. None of the members of the Committee has any personal financial interest (other than as a shareholder) in the matters to be decided, conflict of interest arising from cross-directorships or any involvement in the day-to-day running of the business.

The remit of the Committee was adopted in March 2004 in the light of the revisions to the Code and its terms of reference are available on request and are also published on the Company's website. These terms of reference will be kept under review to take into account any changes to the Code and corporate governance practice. The principal purpose of the Committee is to consider matters related to the remuneration of the Executive Directors and senior management below Board level.

The Committee met four times during the year and all members attended each meeting held whilst they were Directors except for John Sievwright who was absent from one of these meetings.

Remuneration policy Aim

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

Structure of remuneration packages

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

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

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

group with variable additional remuneration to reflect outstanding performance.

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

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

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

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

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

Basic salary and benefits in kind

The basic salary and benefits in kind for each Executive Director are determined by the Committee for each financial year and when an individual changes position or responsibility. In determining appropriate levels, the Committee considers the Group as a whole and also the packages received by similar individuals at the Company's peers in the public transport sector and other companies of comparable market capitalisation. Details of the salaries and benefits in kind received by each of the Executive Directors in the year are shown on page 40.

Executive Annual Bonus Plan

The Group operates a discretionary performance-related bonus plan for its senior management under which payment of bonuses is linked to achievement of budgeted annual Group operating profit targets and personal objectives (including safety targets). Where an Executive Director is also directly responsible for one or more operating division(s), payment of a proportion of the bonus is also linked to the profitability of those divisions. The Committee considers and agrees the Group and divisional objectives for all Executive Directors and the personal objectives for the Chief Executive. The Chief Executive, in consultation with the Committee, agrees the personal objectives for the other Executive Directors.

Each year, the Board sets challenging budget targets for the Group as a whole and for each business unit within the Group. The Committee's policy continues to be that bonuses will be payable for Group performance against budget of between 90% and 110% although the level of bonus payable is heavily skewed towards performance in excess of 100% of budget. 70% of any bonus payable is dependent upon Group performance and the balance upon the achievement of safety objectives (up to 20%) and personal objectives (up to 10%).

Bonus payments comprise a mixture of cash and deferred share awards. Share awards will lapse if the relevant individual leaves the Group during the deferral period for any reason other than redundancy, retirement

or ill-health. The Committee considers it is appropriate for a proportion of the annual bonus to be taken in the form of deferred shares as this acts as a retention mechanism and also aligns that Executives' longer-term interests with those of the Company's shareholders.

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

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

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

Share Schemes

Executive Share Option Scheme

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

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

Save As You Earn ('SAYE') Scheme

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

Buy As You Earn ('BAYE') Scheme

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

Special Share Award

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

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

Retirement benefits

Executive Directors are members of a number of defined benefit Group pension schemes. Their dependants are eligible for dependants' pensions and the payment of a lump sum in the event of death in service. Further details are set out on page 40.

Service contracts

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

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

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

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

Non-Executive Directors

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

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

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

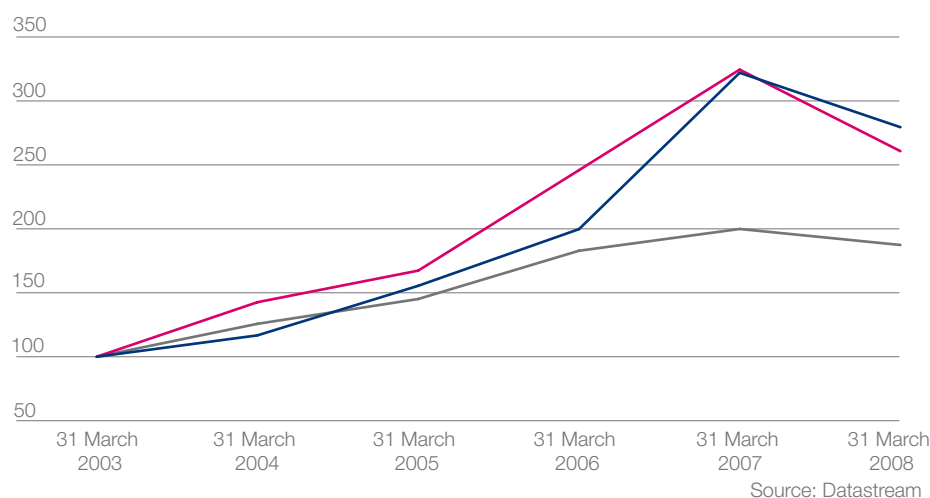
Non-Executive Directors, other than the Group Employee Director, cannot participate in any of the Company's share option schemes or the proposed LTIP and are not eligible to join a Company pension scheme. Each of the Non-Executive Directors (other than David Dunn, who, with effect from January 2006 elected to receive all of his fees in cash and Audrey Baxter, who receives all of her fees in the form of shares in the Company) has elected to receive 40% of his fees in the form of shares in the Company (in the case of Martyn Williams, with effect from January 2006) in order to ensure that their interests are more closely aligned to those of the Company's shareholders. The shares are purchased on a monthly basis in the market. The appointment of each of the Non-Executive Directors is subject to early termination without compensation if he/she is not re-appointed at a meeting of shareholders where he/she is up for re-election.

Total shareholder return

The following graph shows, for the last five financial years of the Company, the total shareholder return on a holding of shares in the Company as against that of a hypothetical holding of shares made up of shares of the same kinds and number as those by reference to which the FTSE 100 Index and the FTSE All-Share Transport Index are calculated.

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

Total shareholder return



FirstGroup plc
Total shareholder return

FTSE All-Share Transport Index
Total shareholder return

FTSE 100 Index
Total shareholder return

Audited information

Market price of FirstGroup plc shares

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

Directors' remuneration

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

Emoluments and compensation

The total salaries, fees and benefits paid to, or receivable by, each person who served as a Director of the Company at any time during the year for the period of such directorship are shown in the table below. These include any and all payments for services as a Director of the Company, its subsidiaries or otherwise in connection with the management of the Group.

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

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

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

Retirement benefits

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

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

1 Aberdeen City Council No.2 Pension Fund.

2 FirstGroup Flexible Benefits Scheme.

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

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

Directors' share options

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

Directors	Scheme		At beginning of year or date of appointment (number of shares)	Granted during the year (number of shares)	Exercised during the year (number of shares)	Lapsed/ waived during the year (number of shares)	At end of year (number of shares)	Exercise price (pence)	Date from which exercisable	Expiry date
Moir Lockhead	ESOS:	2001	130,985	–	–	–	130,985	346.5	15.8.04	15.8.11
		2002	173,784	–	–	–	173,784	269	21.6.05	21.6.12
		2003	166,958	–	–	–	166,958	287	18.11.06	18.11.13
		2004	193,277	–	–	–	193,277	275.08	10.6.07	10.6.14
	Deferred share bonus ¹ :	2004	34,062	–	–	–	34,062	nil	1.4.07	1.4.14
		2005	36,787	–	–	–	36,787	nil	1.4.08	1.4.15
		2006	61,567	–	–	–	61,567	nil	1.4.11	1.4.16
		2007	–	37,362	–	–	37,362	nil	1.4.12	1.4.17
Sidney Barrie	Deferred share bonus ¹ :	2006	18,657	–	–	–	18,657	nil	1.4.11	1.4.16
		2007	–	16,983	–	–	16,983	nil	1.4.12	1.4.17
	SAYE:	2005/06	678	–	–	–	678	325	1.5.09	31.10.09
Dean Finch	ESOS:	2004	90,883 ²	–	90,883	–	–	275.08	10.6.07	10.6.14
	Deferred share bonus ¹ :	2004	27,029 ²	–	27,029	–	–	nil	1.4.07	1.4.14
		2005	38,344	–	–	–	38,344	nil	1.4.08	1.4.15
		2006	37,313	–	–	–	37,313	nil	1.4.11	1.4.16
		2007	–	24,342	–	–	24,342	nil	1.4.12	1.4.17
Special share award:	2006	200,000	–	–	–	200,000	nil	31.3.11	30.3.12	
David Leeder	ESOS:	2002	26,914	–	–	–	26,914	269	21.6.05	21.6.12
		2003	64,643	–	–	–	64,643	287	18.11.06	18.11.13
		2004	90,883 ²	–	90,883	–	–	275.08	10.6.07	10.6.14
	Deferred share bonus ¹ :	2004	19,941 ²	–	19,941	–	–	nil	1.4.07	1.4.14
		2005	29,311	–	–	–	29,311	nil	1.4.08	1.4.15
		2006	31,872	–	–	–	31,872	nil	1.4.11	1.4.16
		2007	–	20,792	–	–	20,792	nil	1.4.12	1.4.17
SAYE:	2005/06	678	–	–	–	678	325	1.5.09	31.10.09	
Martyn Williams	SAYE:	2004/05	567 ³	–	567	–	–	267	1.2.08	31.07.08
		2005/06	345	–	–	–	345	325	1.5.09	31.10.09
		2006/07	340	–	–	–	340	444	1.2.10	31.07.10
		2007/08	–	263	–	–	263	583	1.2.11	31.07.11

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

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

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

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



James Forbes
Chairman of the
Remuneration Committee