

Directors' report

The Directors have pleasure in submitting their Annual Report and Financial Statements for the year ended 31 March 2008.

Principal activity

The principal activity of the Group is the provision of passenger transport services.

Review of the business

Reviews of the business and principal events and likely future developments are given in the Chairman's statement, Chief Executive's review and in the Finance Director's review set out on pages 3 to 27. Our review of the principal risks and uncertainties of the business is set out on pages 34 to 35.

Results and dividends

The results for the year are set out in the consolidated income statement on page 46. The Directors recommend payment of a final dividend of £50.4m (11.55p per share), which, with the interim dividend of £23.9m (5.5p per share) paid on 6 February 2008, gives a total dividend of £74.3m (17.05p per share) for the year. The proposed final dividend, if approved, will be paid on 22 August 2008 to shareholders on the register at the close of business on 18 July 2008.

Share capital

Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year, are set out in note 28 to the financial statements. The Company has one class of ordinary shares which carry no right to fixed income. As at 13 May 2008, there were 438,278,798 ordinary shares of 5 pence each in issue including 395,071 ordinary shares held in treasury.

Shareholders who are present at a general meeting and duly appointed proxies present at a general meeting can vote on a show of hands. They will have one vote each. On a poll, every shareholder present in person or by proxy will have one vote for every share he/she holds. The notice of the 2008 Annual General Meeting accompanying this document specifies the deadlines for exercising voting rights. All proxy votes are counted and the number for, against and withheld in relation to each resolution are announced at the meeting and published on the Company's website after the meeting.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out on page 38 and in note 35 to the financial statements.

Kleinwort Benson (Guernsey) Trustees Limited, as trustee of FirstGroup plc Employee Benefit Trust, holds shares in the Company in trust in order to satisfy awards made to participants in the Company's Executive Share Option Scheme and Executive Annual Bonus Plan and abstain from voting.

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

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

Authority for the Company to purchase its own shares

At the Annual General Meeting of the Company in 2007 authority was granted under section 166 of the Companies Act 1985 for the Company to purchase up to 10% of its ordinary shares. During the year, no ordinary shares were purchased. Under the existing authority, the Company may purchase up to 43,750,000 ordinary shares. This authority remains in place until the 2008 Annual General Meeting, when it is intended to seek a further renewal.

Articles of Association

The Articles of Association may be amended by special resolution of the shareholders. At the forthcoming Annual General Meeting, a resolution will be proposed to amend the existing Articles of Association to incorporate changes introduced by the Companies Act 2006. Further details are set out in the notice of Annual General Meeting accompanying this document.

Directors

The Directors of the Company who served during the year were Martin Gilbert, Moir Lockhead, Sidney Barrie, Audrey Baxter, David Begg, David Dunn, Dean Finch, Jim Forbes, David Leeder, John Siewwright and Martyn Williams. Biographical details of all the serving Directors are set out on pages 28 and 29.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Combined Code, the Companies Acts and related legislation. The Company shall be managed by the Directors, who may exercise all powers of the Company which are not required to be exercised by the shareholders of the Company by voting in general meeting.

Senior executives of FirstGroup America and its operating units have been provided with executive employment agreements that provide, in part, some compensation for any termination other than a termination for cause. Severance payments range from one to two years in duration. This is customary practice in the US market. There are no other agreements between the Company and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid.

In accordance with the Company's Articles of Association, Martin Gilbert, David Dunn and David Begg will retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

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 37 to 41.

Directors' interests

The Directors who held office at the end of the year had the following interests in the ordinary shares of the Company:

	Ordinary 5p shares			
	At beginning of year or subsequent appointment		At end of year	
	Beneficial	Non-beneficial	Beneficial	Non-beneficial
Sidney Barrie	20,000	–	20,000	–
Audrey Baxter	3,619	–	7,281	–
David Begg	5,603	–	8,149	–
David Dunn	24,837	–	24,837	–
Dean Finch	16,411	–	66,650	–
Jim Forbes	21,467	–	24,470	–
Martin Gilbert	85,328	–	96,229	–
David Leeder	15,260	–	27,327	–
Moir Lockhead	1,174,412	470,690	1,174,412	470,690
John Sievwright	28,288	–	30,834	–
Martyn Williams	3,422	–	4,319	–

Details of the Directors' share options are set out in the Directors' Remuneration Report on pages 37 to 41. Moir Lockhead also holds nominal non-beneficial interests in a number of the Company's subsidiary undertakings.

Between 1 April 2008 and 14 May 2008, the following changes occurred to Directors' interests:

David Leeder acquired 25 shares on 25 April 2008 and 25 shares on 1 May 2008 pursuant to the Company's Buy As You Earn Scheme. On 25 April 2008, Martin Gilbert acquired 1,140 shares, Jim Forbes acquired 315 shares, each of David Begg and John Sievwright acquired 267 shares, Martyn Williams acquired 116 shares and Audrey Baxter acquired 396 shares under the standing arrangements whereby they have elected to receive 40% (except for Audrey Baxter who has elected to receive 100%) of their monthly fees in the form of shares in the Company.

No Director is materially interested in any significant contract or agreement with the Group, other than their service contracts.

Significant interests

At 14 May 2008, 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	%
Ameriprise Financial, Inc.	35,070,076	8.01
Lloyds TSB Group plc	30,098,851	6.87
AXA S.A.	25,591,363	5.84
JP Morgan Chase & Co	21,423,964	4.89
Standard Life Investments Ltd	17,766,759	4.06
Legal & General plc	17,446,053	3.98
Resolution Investment Services Limited	13,759,891	3.14

Employees

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

The Group also has a regular dialogue with employees and representatives from trades unions. Most operating companies have either an elected Company Council or, more typically, an Employee Director on its board.

This principle extends to the plc Board where one of the Employee Directors is elected by his or her peers to represent employees across the Group.

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

The Group is committed to wide employee share ownership. During the year, employees continued to have the opportunity to participate in the Group's Save As You Earn and Buy As You Earn schemes, details of which are set out in note 35 to the financial statements.

The Group is committed to equality of opportunity in all its employment practices, policies and procedures. To this end, within the framework of the law, we are committed wherever practicable to achieving and maintaining a workforce which broadly reflects the local catchment area within which we operate. We aim to ensure that no employee or potential employee will receive less favourable treatment due to their race, colour, nationality, ethnic origin, religion, sex, gender reassignment, sexual orientation, marital status, trade union membership, age or disability.

Corporate social responsibility

The system of internal controls described on pages 33 to 35 covers significant risks associated with social, environmental and health and safety issues. The Group publishes a separate Corporate Social Responsibility Report covering these matters, which is available on our website at www.firstgroup.com.

Charitable and political contributions

The Group made various donations to UK charities totalling approximately £120,000 during the year (2007: £100,000). No payments were made for political purposes.

Creditors

It is the Group's policy to abide by the payment terms agreed with suppliers wherever it is satisfied that the supplier has provided goods and services in accordance with agreed terms and conditions. A number of significant purchases including fuel, tyres and commitments under hire purchase contracts, finance leases and operating leases are paid by direct debit. At 31 March 2008, the Group had the equivalent of 30 days' (2007: 31 days') purchases outstanding, based on the ratio of Group trade creditors at the end of the year to the amounts invoiced during the year by trade creditors. The Company does not have any trade creditors in its balance sheet.

Audit information

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

- so far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the Company's auditors are unaware; and
- each of the Directors has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information.

Forward-looking statements

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

Annual General Meeting

The Annual General Meeting will be held at the Aberdeen Exhibition and Conference Centre, Bridge of Don, Aberdeen, Scotland AB23 8BL on Thursday, 10 July 2008 at 11.00 am. The notice of Annual General Meeting is contained in a separate letter from the Chairman accompanying this report.

Going concern

Whilst any consideration of future matters involves making a judgement, at a particular point in time, about future events which are inherently uncertain, after making enquiries, the Directors have formed the judgement, at the time of approving these financial statements, that there is a reasonable expectation that the Company and the Group have adequate resources to continue operating for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing these financial statements.

By order of the Board



Sidney Barrie
Company Secretary
14 May 2008

395 King Street
Aberdeen
AB24 5RP