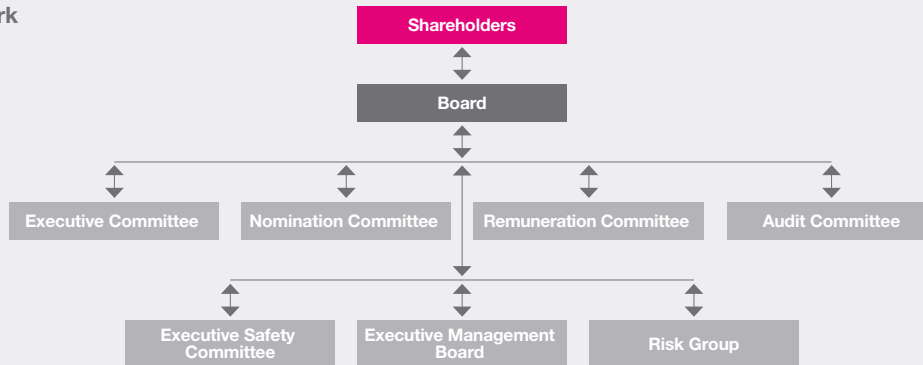


Corporate governance

Governance framework



The Company applies all of the main and supporting principles of good governance set out in section 1 of the Combined Code on Corporate Governance issued by the Financial Reporting Council in 2008 (the 'Code'). The way in which it has applied those principles is set out below. The Company has complied with all of the provisions of section 1 of the Code. The new UK Corporate Governance Code issued by the Financial Reporting Council in June 2010 (the 'New Code') applies to the Company for the accounting period commencing on 1 April 2011.

1 The Board and its principal committees

Details of the Board, its members and its principal committees are set out below.

1.1 The Board

(a) Board structure and responsibilities

The Board currently consists of the Chairman, three Executive Directors and five Non-Executive Directors. The Board meets at least nine times each year and is responsible for setting and reviewing the Company's strategy and objectives, reviewing the financial and operational performance of each of the Group's business units, agreeing and reviewing progress against the Group's annual budgets and setting and reviewing on a regular basis its longer-term business plans. It also has a schedule of matters specifically reserved to it including approval of the half-year and full-year financial statements, financing arrangements, material capital commitments, business acquisitions and disposals, relationships with regulatory authorities and operating and accounting policies.

During the year, the Board met nine times and all members of the Board attended all meetings whilst they were members.

On 8 June 2010, Nicola Shaw, Director Bus UK, Ireland and Germany resigned as a Director.

On 1 November 2010, Sir Moir Lockhead, Chief Executive, resigned as a Director but remained as an employee of the Group until his retirement on 31 March 2011.

(b) Board balance and independence

The independence of the Non-Executive Directors has been reviewed against the definition of independence in the Code. Audrey Baxter, David Begg, Colin Hood and John Sievwright are considered to be independent within this definition. As Martyn

Williams is an employee of one of the Group's subsidiaries, he cannot be considered to be independent. However, the Board feels strongly that it is beneficial for its employees to be represented on the Board in this way so that important employee-related issues can be raised at the highest level and a two-way communication process between the management of the Company and its employees is maintained.

Therefore, the Company complies with the Code provision that at least one half of the Board, excluding the Chairman, is made up of Non-Executive Directors who are considered by the Board to be independent. The Directors are satisfied that the current Board possesses the breadth of business, financial and international experience necessary to manage effectively an organisation of the size and complexity of the Group.

(c) Roles of the Chairman and Chief Executive

The Chairman

The Chairman of the Board is Martin Gilbert. He has a written statement of responsibilities which has been approved by the Board.

The Chairman is responsible for:

- ▶ leadership of the Board, ensuring its effectiveness on all aspects of its role and setting its agenda, taking into account the issues relevant to the Group and the concerns of all Board members;
- ▶ ensuring, with the Chief Executive and Company Secretary, the provision of accurate, timely and clear information to the Board;
- ▶ ensuring effective communication with shareholders and that the Board develops an understanding of the views of major investors;
- ▶ managing the Board, ensuring that sufficient time is allowed for the discussion of complex or contentious issues;
- ▶ ensuring a regular evaluation of the performance of the Board as a whole, its Committees and individual Directors;
- ▶ taking the lead in identifying and meeting the development needs of individual Directors and the Board as a whole, with a view to enhancing the overall effectiveness of the team;
- ▶ facilitating the effective contribution of Non-Executive Directors and ensuring constructive relations between Executive and Non-Executive Directors;
- ▶ ensuring, with the Chief Executive and Company Secretary, that new Directors receive a comprehensive induction programme to ensure their early contribution to the Board; and
- ▶ encouraging active engagement by all members of the Board.

The Board is of the opinion, reinforced by the performance evaluation review referred to below, that Martin Gilbert's significant and in depth knowledge and experience of the Group's business, combined with his external business experience, enables him to provide effective leadership of the Board and to continue to make a positive contribution to the Group's ongoing business.

The Chairman's other significant business commitments, which remain relatively unchanged from last year, are described in his biography on page 34. The Board performance evaluation process referred to below confirmed that the other Board members are satisfied that Martin Gilbert has the necessary time available to devote to the proper performance of his duties as Chairman.

The Chief Executive

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

The Chief Executive is responsible for:

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

(d) Senior Independent Non-Executive Director

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

(e) Information and professional development of Board members

The Board receives detailed papers on the business to be conducted at each meeting well in advance and individual Board members have direct access to senior executives should they wish to receive additional information on any of the items for discussion. The head of each operating division attends Board meetings on a regular basis to ensure that the Board is properly informed about the performance of and current issues facing that division. Management give presentations on current issues facing the business.

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

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

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

(f) Performance evaluation

During the course of the year, the Board undertook an evaluation of its performance. The Chairman led the process, assisted by the Company Secretary. The objectives of this exercise were to ensure that the Board, its Committees and each individual Director continued to act effectively and to fulfil the duties and responsibilities expected of them and to identify any additional training requirements. A tailored questionnaire was developed, which each Director completed. The responses were analysed and discussed at a meeting of the Board. The Senior Independent Non-Executive Director led a process of evaluation of the performance of the Chairman. No significant issues were raised in the course of the evaluation process.

(g) Re-election of Directors

Whilst the Company was not required to comply with the New Code for the accounting period ended on 31 March 2011, all the Directors are offering themselves for re-election in accordance with the provisions of the New Code at the Annual General Meeting to be held on Friday 15 July 2011.

(h) Appointment of Non-Executive Directors

Non-Executive Directors are appointed by the Board for an initial term of three years, subject to re-appointment by shareholders. They have letters of appointment which are available on request for inspection.

(i) Directors' and Officers' liability insurance

The Company maintained Directors' and Officers' liability insurance cover throughout the year as permitted by the Companies Act 2006. The cover was renewed on 1 April 2011.

2 Committees of the Board

In addition to the Audit, Remuneration and Nomination Committees, the terms of reference for which are published on the Company's website and details of which are set out below, the Board has also delegated certain matters to Committees. The principal such Committees are:

2.1 Executive Safety Committee ('ESC')

The ESC is chaired by the Chief Executive and meets on a monthly basis. It comprises the Executive Directors, other senior managers and safety officers. The ESC reviews the Group's safety performance and practices, develops safety policies and procedures and follows up on outstanding issues. During the year a number of meetings were attended by independent safety experts and senior representatives of relevant industry bodies, including the Health & Safety Executive.

2.2 Executive Management Board ('EMB')

The EMB, which comprises the Executive Directors and certain senior business managers, is chaired by the Chief Executive. It acts as a general operating management committee and meets on a monthly basis to review outstanding issues and to consider the Group's operational and financial performance.

2.3 Executive Committee

The Executive Committee comprises the Executive Directors and meets on an ad hoc basis to consider matters which arise in the ordinary course of the Group's operations. It is chaired by the Chief Executive and has specific delegated powers within prescribed limits to deal with matters arising in the ordinary course of business which need to be considered before the next scheduled Board meeting.

2.4 Nomination Committee and appointments to the Board

The Nomination Committee is chaired by Martin Gilbert, the Chairman, and includes Audrey Baxter, David Begg, Colin Hood and John Sievwright. Tim O'Toole attends meetings of the Committee at the invitation of the Chairman of the Committee and Martyn Williams also attends such meetings at the invitation of the Chairman of the Committee to represent the Group's employees. The Committee meets as required to discuss appointments to the Board of both Executive and Non-Executive Directors. Its recommendations are then put to the full Board for consideration. External search consultants are used to assist the process, where appropriate.

During the year the Committee met twice and all members of the Committee attended each meeting held whilst they were Directors.

The Employee Director is elected by the Employee Directors' forum, which comprises the Employee Directors and representatives of the Company's UK subsidiaries, and serves a maximum of three three-year terms.

The Company's policy is to permit Executive Directors to accept a limited number of outside non-executive directorships, recognising that this is an effective way to broaden their knowledge and expertise. However, no such appointment can be taken up without prior Board approval. The Company's policy on fees relating to such outside directorships is set out on page 46 of the Directors' Remuneration Report.

2.5 Remuneration Committee

The Remuneration Committee, under the chairmanship of Audrey Baxter, met eight times during the year and all members of the Committee attended all of its meetings held whilst they were Directors except for Audrey Baxter and Colin Hood, who were each absent from one of these meetings. Details of the membership of the Committee are set out in the Directors' Remuneration Report on pages 44 to 49, together with a statement of the Group's remuneration strategy and policy. Full details of Directors' remuneration appear on page 47.

2.6 Audit Committee

The Audit Committee is chaired by John Sievwright and includes Audrey Baxter, David Begg and Colin Hood. It met four times during the year and all members attended each meeting except for Tim O'Toole who was absent from one of these meetings whilst he was a member. The Group Director of Internal Audit and the Company's external auditors attended all of these meetings. Executive Directors

and other senior managers attended where requested and as appropriate.

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

Under its remit, the Committee keeps under review the effectiveness of the Company's financial reporting and internal control policies and procedures for the identification, assessment and reporting of risk. It also keeps under review the nature, scope and results of the audits conducted by the internal audit department and the external auditors, the consistency of accounting policies and reporting across the Group and the half-year and full-year financial statements before they are presented to the Board.

The Committee considers the Group's compliance with the Code and its related guidance and oversees the objectivity and effectiveness of internal audit. The work of the internal audit department is focused on areas of priority as identified by risk analysis and in accordance with an annual audit plan approved by the Committee and the Board. Reports are sent to senior executives of the Group and subsidiary units and there is a follow-up process to ensure that actions to resolve identified control weaknesses are implemented. The Group Director of Internal Audit has the right of direct access to the Chairman of the Audit Committee.

The Committee is responsible for making recommendations to the Board in respect of the appointment or re-appointment of the Group's external auditors and recommends to the Board the audit fee to be paid to the external auditors. The Board's decision on these matters is subject to the approval of shareholders. The independence, objectivity and effectiveness of the external auditors have been examined by the Committee and discussions were held regarding their terms of engagement, remuneration and proposal for partner rotation. The appointment of Senior Statutory Auditor is rotated every five years. Deloitte LLP were originally appointed in 1999.

The majority of non-audit work is put out to tender, with the exception of due diligence work on acquisitions or potential acquisitions in both the UK and overseas, where the current auditors' knowledge of the Company's business processes and controls means that they are best placed to undertake this work cost-effectively on the Company's behalf. Details of the audit and non-audit fees, including a breakdown of the non-audit fee, are set out in note 6 to the financial statements. The Committee concluded that the nature and extent of the non-audit fees did not compromise audit independence.

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

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

The business considered and discussed by the Committee during the year included the reports of the external auditors on the half-year and full-year results, the 2011/12 internal audit plan and budget, papers concerning any regular and special audits and an executive summary of each internal audit report, risk analysis assessments and a review of the implications of changes in accounting standards.

3 Financial reporting

The Directors have a commitment to best practice in the Group's external financial reporting in order to present a balanced and comprehensible assessment of the Group's financial position and prospects to its shareholders, employees, customers, suppliers and other third parties. This commitment encompasses all published information including, but not limited to, the year-end and half-yearly financial statements, regulatory news announcements and other public information. A statement of the Directors' responsibilities for preparing the financial statements may be found on page 53.

4 Internal controls

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

4.1 Responsibility

The Board has overall responsibility for the system of internal control and assessing risk. The responsibility for establishing detailed control and risk management procedures within each subsidiary lies with the Executive Directors and subsidiary unit managing directors. A sound system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

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

4.2 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 Social Responsibility Policy and applies to all of its subsidiary undertakings, a copy of which is available on the Company's website.

In addition, the Board has established an anti-bribery policy pursuant to the provisions of the Bribery Act 2010, a copy of which is available on the Company's website. It has also established a Group Hospitality and Gifts Register which records all hospitality or gifts, the value of which exceeds a de minimis amount, given or received by all Board and EMB members. Additional Hospitality and Gift Registers are also maintained at the divisional level ensuring that all senior management in the Group are required to disclose hospitality or gifts given or received.

The Group has a defined divisional organisational structure with lines of authority and delegated responsibility which allows the Board to plan, execute, control and monitor the business in a manner consistent with the Group's objectives. The day-to-day business management is delegated to the Executive Directors and subsidiary unit managing directors under the overall direction of the Chief Executive. As noted above, the Board reserves to itself a number of specific items, which ensures that it retains control over key business decisions and significant transactions in terms of size, type or risk. A number of the Group's key functions, including treasury, taxation, insurance, corporate finance, legal, corporate communications and procurement are dealt with centrally. Each of these functions is monitored by an Executive Director.

4.3 Monitoring

The Group adopts a financial reporting and information system which complies with generally accepted accounting practice. The Group Finance Manual, circulated by the Group Finance function to all subsidiaries, details the Group accounting policies and procedures with which subsidiaries must comply. These are also available on the Group's intranet. Budgets are prepared by subsidiary company management and are subject to review by both Group management and the Executive Directors. Regular forecast updates are completed during the year and compared against actions required. Each subsidiary unit prepares a monthly report of operating performance, with a commentary on variances against budget and prior year. Similar reports are prepared at a Group level. Key performance indicators, both financial and operational, are monitored on a weekly basis. In addition, business units participate in strategic reviews which include consideration of long-term financial projections and the evaluation of business alternatives.

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

4.4 Risks and uncertainties

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

Competitive pressures

All of the Group's businesses compete in the areas of pricing and service and face competition from a number of sources.

In UK Bus, the main competitor remains the car. The cost of driving a car is often perceived as being lower than travelling by bus, especially if there is more than one person in the car. To make bus travel an attractive alternative to the car, the Group continues to focus on improvements to the whole bus journey experience, including working with its Local Authority partners to introduce bus priority measures and general infrastructure measures for the benefit of customers. The UK Bus market is deregulated and very competitive with low public subsidies. There are over 500 bus operators in the UK and in all markets in which the Group operates it faces competitive activity. The success of deregulation is demonstrated by high levels of customer satisfaction. Notwithstanding this, there is currently ongoing a Competition Commission Inquiry into the supply of local bus services in the United Kingdom, excluding London and Northern Ireland. The Competition Commission has recently published its preliminary findings and we are currently reviewing these before submitting our response.

The main competitor to the Group's UK Rail businesses is again the car and, to a lesser extent, long distance coach and budget airlines. To help mitigate the risks posed by these pressures the Group is working with a number of local and national bodies to ensure that the services provided meet, or exceed, the requirements of our stakeholders.

In North America, the Group's businesses cover a wide geographic spread competing with several large companies as well as a substantial number of smaller, locally owned operators. Our competitors in the yellow school bus business also include school districts which self-operate approximately two thirds of yellow school buses in North America. Similarly, while there is a significant amount of transit and service businesses operated by private entities, including several large companies, our First Transit and First Services businesses also compete with many public authorities who self-operate their service. Our Greyhound coach operations face competition from a number of other coach operators in North America as well as from budget airlines. In North America all of our businesses continue to compete on service, quality and price.

Rail franchise agreements

The Group is required to comply with certain conditions as part of its rail franchise agreements. If it fails to comply with these conditions it may be liable to penalties including the potential termination of one or more of the rail franchise agreements. This would result in the Group losing the right to continue operating the affected operations and, consequently, the related revenues or cash flows. The Group may also lose some or all of the amounts set aside as security for performance bonds and season ticket bonds.

Compliance with franchise conditions is closely managed and monitored on a monthly basis by senior management and procedures are in place to minimise the risk of non-compliance.

Legislation and regulation

Our businesses are subject to numerous laws regulating safety procedures, equipment specifications, employment requirements, environmental procedures, insurance coverage and other operating issues and considerations. These laws and regulations are constantly subject to change. The costs associated with complying with the adoption of new legislation, regulation or other laws and reduced funding available for public transport could adversely impact the results of our operations.

To help mitigate the risk of legislative or regulatory changes the Group regularly lobbies both Government and transport bodies.

Labour costs and employee relations

Labour costs represent the largest component of the Group's operating costs. Future labour shortages or decreasing unemployment rates could hinder the Group's ability to recruit and retain qualified employees leading to a higher than expected increase in the cost of recruitment, training and other staff costs.

In addition, it is important for a labour intensive Group that good employee relations are maintained. The Group seeks to mitigate these risks by its recruitment and retention policies, training schemes and working practices.

Fuel costs

Fuel prices and supply levels can be influenced significantly by international, political and economic circumstances. If fuel supply shortages were to arise because of national strikes, world supply difficulties, disruption of refining capacity or oil imports, the resultant higher fuel prices and disruption to services could adversely impact the Group's operating results and financial position.

To mitigate the risk of volatile fuel costs the Group regularly enters into forward contracts providing fixed prices. In addition, the Group may limit the impact of unexpected fuel price rises through efficiency and pricing measures.

Treasury risks and insurance costs

The Board maintains a comprehensive policy for the management of treasury risks. These include liquidity risks and risks arising from changes to foreign exchange rates, fuel prices and interest rates. This is set out in more detail in note 25 to the financial statements. The policy and delegated authorities are reviewed periodically to ensure compliance with best practice and to control and monitor these risks effectively.

The Group has three main insurable risks: third party claims arising from vehicle and general operations, employee injuries and property damage. The size of the Group's operations is such that there is a high frequency of low value claims which the Group self-insures up to certain limits, and purchases insurance above these limits from reputable global insurance firms.

Although the Group seeks to mitigate the risk of rising insurance costs through its emphasis on safety, there can be no assurance that future self-insurance and external insurance costs may not adversely impact the Group's business and results of operations.

Risk	Impact	Mitigating control
Competitive pressures	Loss of business	Focus on stakeholder requirements including service, quality and price
Rail franchise agreements	Potential termination of one or more of the rail franchise agreements	Close monitoring and management of all franchise obligations
Legislation and regulation	Adverse impact on our ability to operate	Regular lobbying of both Government and transport bodies and monitoring of quality procedures
Labour costs and employee relations	Inability to recruit and retain qualified employees	Adoption of appropriate recruitment and retention, training and working practices
Fuel costs	Adverse impact on operating results	Adoption of forward contracts to buy fuel at fixed costs together with efficiency and pricing measures
Treasury risks and insurance costs	Funding not achieved/adverse impact on operating results	Comprehensive treasury management policies, monitoring and oversight, and Group emphasis on safety
Pensions	Material changes to accounting cost and cash requirements	Diversification of investments and regular review of investment positions
Terrorism	Reputational damage and the demand for our services	Implementation of security measures and the training of employees
Retention of key management	Inability to execute Group strategy	Adoption of market based compensation packages
Customer service and associated contract retention	Revenue levels reduce and impact on brand image	Intensive staff training on service requirements and close monitoring of service KPIs
Environmental	Financial loss/reputational damage	Detailed fuel handling procedures, monitoring of utilities usage, adoption of emission reduction policies and comprehensive Corporate Social Responsibility programmes
Economy	Loss of business	Organisational structure of businesses and close monitoring of prices, capacity and demand

Pensions

The Group has significant defined benefit pension obligations relating to its UK Bus, Rail and Greyhound businesses. Under the franchise arrangements the UK Rail business is not responsible for any residual deficit at the end of a franchise so there is only short-term cash-flow risk within this business. For both UK Bus and Greyhound the volatility of the underlying investments and liabilities can create material changes in the accounting cost and cash requirements in subsequent years. Through diversification of investments the Group seeks to mitigate these risks, although in extreme market conditions it is not possible to completely negate them.

Terrorism

The threat from terrorism remains a concern in the countries in which we operate. We recognise that public transport has been subject to attack previously and it is important we take all reasonable steps to help guard against such activity on any of the services we operate. Taking these steps helps protect our customers and staff, provides reassurance and supports our commitment to safety and security. Our Group Head of Security leads this and coordinates the work needed to respond effectively to this threat. This includes developing and applying good practice and training our employees so that they can respond effectively to any perceived threat or incident.

Retention of key management

Attracting and keeping key members of senior management is vital in ensuring that the Group continues to have the necessary expertise and continuity to execute its strategy. In order that management have diverse and challenging careers they are given autonomy, within parameters set by the Board, to run their businesses. The Group also offers market based compensation packages consisting of an appropriate mix of long- and short-term incentives.

Customer service and associated contract retention

The Group's revenues are at risk if it does not continue to provide the level of service expected by customers. This could result in contracts not being renewed in the case of our North American business and passengers no longer using our services in the UK and North America. To mitigate this risk, relevant staff undertake intensive training programmes to ensure they are aware of and abide by the levels of service that are required by our customers in each business. The Board also monitors in detail a series of customer service KPIs at each meeting to ensure strict targets are being met.

Environmental

We store and manage large quantities of fuel at our maintenance sites, which presents a potential regulatory and financial risk in the event of significant loss or spillage. To mitigate these risks our storage facilities are subject to regular inspection and all fuel handling operations are subject to detailed operating procedures.

We are subject to ongoing changes in environmental regulations. Our operations are covered by the Carbon Reduction Commitment Energy Efficiency Scheme, which came into force in April 2010. Purchasing of carbon allowances has now been delayed to 2012 and current proposals suggest the costs to the Group may be higher than originally anticipated. In response we have put in place a comprehensive data management and reporting package for monitoring the utilities usage covered by the regulations and are developing an energy reduction strategy to deliver greater reductions in energy usage.

Along with all businesses we face the challenge of addressing climate change, both managing its impact and reducing emissions, in line with the targets established in the Climate Change Act. Climate change has the potential to impact on our UK and North American operations, a risk we need to keep under review. We continue to reduce our own emissions and promote passenger growth to ensure we capitalise on the opportunities the need to reduce carbon emissions brings for a business such as ours that offers low carbon solutions to people's mobility needs.

Economy

An economic downturn, whether at a global, regional or national level could have a negative impact on the Group's businesses and the opportunity to grow existing contracts. The level of economic activity affects the number of bus and train journeys taken by passengers in the UK and North America. Many areas of the Group's business offer a certain degree of protection against economic downturn in specific geographic markets, in particular the North American school bus business and the revenue support and profit sharing arrangements in place in certain rail franchises, the ability of most UK Bus operating companies to modify services on giving 56 days' notice and the even greater flexibility given to the Greyhound operations, particularly in North America.

4.5 Whistleblowing

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

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

4.6 Review of effectiveness of financial controls

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

4.7 Treasury operations

The Board has set a policy for the management of the risks from treasury operations and this is set out in more detail in note 25 to the financial statements. A Group Treasury Policy has been formulated and adopted to ensure compliance with best practice and to control and monitor effectively the risks attendant upon treasury and banking operations.

Currency exchange rate fluctuation and exposure

The Group's principal operations are in the UK, the US and Canada and are therefore subject to currency fluctuations, both in terms of its trading activities and the translation of its financial statements. The Group currently has a significant natural hedge arising from dollar-denominated earnings in the US businesses offset by dollar-denominated interest costs and fuel costs in its UK businesses.

4.8 Significant agreements – change of control

(a) Financing agreements

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

The £300m 6.875% bonds due 2013, the US \$150m 4.26% notes due in three instalments of US \$50m from 2016 to 2017, the £250m 6.125% bonds due 2019, the £300m 8.125% bonds due 2018, the £350m 8.750% bonds due 2021 and the £200m 6.875% bonds due 2024 issued by the Company may also be affected by a change of control of the Company. A change of control in respect of the £300m 6.875% bonds due 2013 and the £250m 6.125% bonds due 2019 may result in an increase in the interest rate payable on those bonds of 1.5% per annum. However, the interest rate on the bonds will only be so increased if certain further conditions in relation to the credit rating of the bonds are also satisfied. In respect of the £300m 8.125% bonds due 2018, the £350m 8.750% bonds due 2021 and the £200m 6.875% bonds due 2024, upon a change of control of the Company, together with the satisfaction of certain further conditions in relation to the credit rating of the bonds, the bondholders have the option to require the Company to redeem the bonds. In respect of the US \$150m 4.26% notes from 2016 to 2017, upon a change of control, the Company must make an offer to noteholders to prepay the notes.

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

(c) Joint venture agreements

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

(d) London bus contracts

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

4.9 Auditors

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

5 Relations with shareholders

The Group recognises the importance of regular communication with all of its shareholders. The full Annual Report and Accounts are made available to all shareholders and a Half-yearly Financial Report is published and sent to shareholders at the half-year. These reports are intended to provide shareholders and other interested parties with a clear and balanced understanding of the Group's operational performance, its financial results and prospects.

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

Regular reports on investor relations activity and feedback from investors are submitted to the Board and senior management. The Non-Executive Directors have also had informal contact with major shareholders regarding the Group during the year and they expect that informal dialogue to continue.

6 Annual General Meeting

All shareholders have the opportunity to put questions to the Directors at the Company's Annual General Meeting, at which a report is made on the highlights of the key business developments during the year under review. The Chairmen of the Nomination, Remuneration and Audit Committees attend the Annual General Meeting to answer specific questions from shareholders. All Directors who then held office were present at the 2010 Annual General Meeting.

Notice of the Annual General Meeting is circulated to all shareholders at least 20 working days prior to the meeting. Separate resolutions are proposed at the Annual General Meeting on each substantially separate issue. Proxy votes are counted on all resolutions and, where votes are taken on a show of hands, the proxy results are subsequently announced to the meeting.