

**HALF-YEARLY
FINANCIAL REPORT 2009**

For the six months ended 30 September 2009



**The leading transport
operator in the UK and
North America**

Our business



FirstGroup plc is the leading transport operator in the UK and North America with annualised revenues of over **£6 billion** a year. We employ more than **130,000 staff** throughout the UK and North America and transport some **2.5 billion passengers** a year.

Our core values of safety and customer service are at the heart of our business and underpin everything we do. There is no higher priority than the safety and security of our passengers and our staff.

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Financial highlights

We are the leading transport operator in the UK and North America. Our strategy is to provide safe, reliable, innovative and sustainable services and to increase shareholder value through profitable growth in our core markets.

	2009	2008
Revenue (£m)	2,902.6	2,768.5
Adjusted EBITDA ² (£m)	319.4	306.0
Operating profit (£m)	123.1	128.5
Adjusted operating profit ¹ (£m)	166.5	181.2
Profit before tax (£m)	30.3	54.4
Adjusted profit before tax ¹ (£m)	69.7	107.1
Basic EPS (pence)	3.9	5.0
Adjusted basic EPS ¹ (pence)	9.3	15.6
Proposed dividend per share (pence)	6.65	6.05
Net debt ³ (£m)	2,373.8	2,195.1

1 Before amortisation charges, hedge ineffectiveness on financial derivatives, non-recurring bid costs, other non-recurring items and loss on disposal of properties.

2 Adjusted operating profit plus depreciation.

3 Net debt is stated excluding accrued bond interest.

Chairman's statement

Our strategy to build a balanced, diverse portfolio has provided stability and insulation against a fast changing economic environment.

While there can be no doubt that the current global economic climate presents a number of challenges I am pleased that our management team has demonstrated their ability to respond swiftly to changing demand and take the necessary action to reduce our cost base. Our strategy to build a balanced, diverse portfolio of operations in the UK and North America, with some 50% of Group revenues underpinned by medium term contracts, has provided stability and insulation against a fast changing economic environment and ensured that the Group is not dependent on one particular market.

We are committed to providing safe, high quality and reliable services. The safety and security of our passengers and employees is our chief priority and a continued focus was rigorously applied to this key area during the period as we strive to advance our industry leading programmes and initiatives.

We have made further progress in realising our strategy to extend the maturity profile of the Group's debt and reduce reliance on bank borrowings. Following the issue of £350m 12-year bonds in April, we issued £200m of 15-year bonds in September, both of which were substantially oversubscribed. The proceeds were used to repay existing bank debt and our average debt duration has been extended to 6.4 years. We are delighted by the continued support from fixed income investors demonstrating confidence in the strength and resilience of the Group.

In line with our commitment to increase dividends, the Board has proposed an interim dividend of 6.65p (2008: 6.05p) an increase of 10%. It will be paid on 3 February 2010 to shareholders on the register on 8 January 2010.

During the period we added further strength and experience to the Group with the appointment of two new Executive Directors. Ellis Watson was appointed to the Board as Business Development and Marketing

Director in July 2009. In September 2009, Jeff Carr joined the Board as Finance Director. Both bring considerable experience together with a track record of achievement in their respective careers and I am confident they will make a significant contribution to the ongoing success of the Group.

This has been a period of considerable change for our employees. On behalf of the Board I would like to extend sincere thanks to all our staff across the Group for their continued commitment and dedication to providing safe, high quality and reliable services. There is no doubt that the weaker economic environment and the process of change can create a sense of uncertainty for staff. However, the action taken by management has provided a strong foundation for the Group to continue to grow and benefit from economic recovery in the future.

Looking ahead the Group will continue to benefit from a diverse revenue stream that is well balanced between contract-backed and passenger revenues. In those areas of our business that are dependent on passenger revenues we have responded quickly to match supply to demand and reduce our cost base. This action, combined with a rigorous focus on budgetary control, has ensured that we remain on course to achieve our cash generation and earnings targets. The Board remains confident in the underlying strength and resilience of the business and its ability to continue to deliver long term value for our shareholders.



Martin Gilbert
Chairman

3 November 2009

*Operating profit referred to throughout this document refers to operating profit before amortisation charges, hedge ineffectiveness on financial derivatives, non-recurring bid costs, other non-recurring items and (loss)/profit on disposal of properties. EBITDA is adjusted operating profit plus depreciation.

Chief Executive's operating review

The actions we have taken across the business will ensure the Group is well placed to benefit from future economic recovery.

OVERVIEW

Safety

The safety and security of our customers and our employees is at the heart of our business and underpins everything we do. While we have made significant progress in achieving our aim to embed a rigorous culture of safety throughout the Group, there is still more to be done. A zero tolerance approach to unsafe acts and practices is supported by the industry leading initiatives, such as Injury Prevention, that we have firmly established across the Group. Despite this good progress we are never complacent and constantly seek new ways to ensure that we achieve the safest possible way of conducting our business for our customers and our staff.

Results

I am pleased to report a good performance during the first half of the year particularly against the backdrop of continued global economic weakness and significant cost headwinds. Group revenue was £2,902.6m (2008: £2,768.5m), an increase of 4.8% in Sterling terms after £230.2m of favourable foreign exchange movements. Operating profit reduced to £166.5m (2008: £181.2m) as a result of increased fuel costs and the impact of the recession on Greyhound's revenue but was significantly mitigated by the positive impact of our cost reduction actions. Statutory profit before taxation was £30.3m (2008: £54.4m) reflecting the lower operating profit and higher net finance costs as a result of the issue of bonds in September 2008 and April 2009. Adjusted basic earnings per share was 9.3p (2008: 15.6p). EBITDA rose by 4.4% to £319.4m (2008: £306.0m).

The good performance is underpinned by the Group's diverse portfolio of operations together with prompt actions we have taken, particularly in UK Bus and Greyhound, to utilise the flexible business models that exist and match supply to demand. The cost actions we have taken across all areas of the Group will deliver annual savings of at least £200m starting this year. As part of this cost reduction programme we have reduced headcount by 4,400 throughout the Group. During this year the Group will absorb a significant increase of approximately £100m in its hedged fuel costs which we anticipate will recover in 2010/11.

We have outlined our key priorities to continue to deliver strong cash generation and reduce the Group's leverage. The actions we have taken have ensured that we remain on course to achieve our cash generation targets of £100m per annum in this current financial year and for 2010/11, which will be applied to reduce net debt.

NORTH AMERICA

The Group is the leading provider of transport services in North America. First Student is the largest provider of student transportation with approximately 60,000 yellow school buses operating every day across the US and Canada. We operate a transit contracting and management business in North America and provide vehicle fleet maintenance and support services.

Contract businesses

In our North American division approximately 75% of revenues derive from the less cyclical contracted businesses of Student, Transit and Services.

Revenue from our contract businesses was marginally reduced to \$1,649.9m or £1,047.1m (2008: \$1,730.1m or £895.9m) however operating profit increased to \$89.1m or £60.2m (2008: \$83.9m or £44.4m) reflecting the positive impact of the cost reduction actions and margin improvement programme, which has more than offset the increase in hedged fuel costs. EBITDA grew to \$208.9m or £135.4m (2008: \$192.8m or £100.7m).

It is now two years since we completed the acquisition of Laidlaw and I am very pleased with the excellent progress made in integrating the contract businesses of both companies. While the initial synergy target has already been achieved we continue to drive out opportunities for further cost and operating efficiencies throughout the North American operations.

The actions we have taken across our North American contract businesses will ensure that the operations remain resilient and in a strong position for future growth through unrivalled quality, a greater range of products, operating and cost efficiencies and significant scale benefits.

First Student

We are the largest operator of school transportation with a fleet of approximately 60,000 yellow buses providing home to school transport on behalf of school boards and authorities across the US and Canada. The resilient school bus market is estimated to be worth some \$22 billion per annum and is backed by a local government requirement for schools to provide transportation through the provision of contracts averaging approximately three to five years in length. I am pleased to report that our focus on customer service and operational performance, together with the sustainable economies that we can pass on to customers, has delivered another period of strong contract retention of over 90%.

In the current recessionary environment we have seen school districts under pressure to reduce their budgets and, as a result, scale back on the level of organic growth, primarily new services added to an existing contract, we would expect in a normal year. Against this backdrop, we expect that the number of buses operated to be similar to last year.

After adjusting for the impact of movements in the US Dollar:Canadian Dollar exchange rate and the lower number of operating days in the current year, US Dollar revenue was reduced by 3.3%. This is largely as a result of our business in the Fort McMurray area now being reported as part of First Transit and the progress made with our margin enhancement programme, which saw First Student exit a number of contracts where an acceptable margin could not be secured.

First Student is uniquely placed to pass on its significant scale benefits to new and existing customers through cost and operating efficiencies and procurement savings. We continue to develop the opportunities to win new contracts including 'converting' those that were previously operated within the public sector. Our expectation is that despite the pressures on public spending and increased expressions of interest in outsourcing, conversions will remain slow to materialise.

We continue to focus on improving operational performance and delivered a successful 'start up' for the new school year supported by good staff availability. We were pleased to commence operation of a number of contracts including in Cincinnati, Ohio where we won the tender to become the sole provider of services for a contract that was previously operated by three separate contractors.

During the period we advanced the roll out of GPS equipment to our fleet which will help us to deliver greater customer service, improved operating performance and continue to deliver increased efficiencies in scheduling and routing.

Notwithstanding the challenges of the current economic climate, we believe that the North American school bus market provides a significant opportunity for future growth. Our scale efficiencies, together with the actions we have taken to reduce our cost base and drive out greater efficiencies, will provide a strengthened base from which to continue to grow, particularly as the economy recovers.

First Transit

Our First Transit business has delivered another successful period of growth with US Dollar revenue increased by 2.2%. The operating margin increased to 5.9% (2008: 3.2%), having been impacted last year by additional costs incurred in respect of a small number of First Services contracts that expired during the period and the loss of a legal dispute.

Strong contract retention rates of over 90% were achieved and we continued to increase our share of the outsourced transit market with a number of new contract wins including the provision of transit management services in New York and Connecticut. In line with our strategy to grow our presence in the typically higher margin light transit markets we were delighted to win a number of new contracts to provide shuttle bus services at the Universities of Alabama, Chicago and Louisiana and at Savannah College.

During the period First Services won a further contract to provide support and ancillary services on behalf of the US military.

GREYHOUND

Greyhound is the only national provider of intercity coach transportation services in the US and Canada. Greyhound provides scheduled passenger services to approximately 3,800 destinations throughout the US and Canada carrying some 22 million passengers annually.

As previously indicated, Greyhound continues to be impacted by the weak economic environment and increased unemployment in North America. Revenue was \$493.5m or £309.4m (2008: \$632.9m or £326.0m), a reduction of 20.1%, at constant US Dollar:Canadian Dollar exchange rates. Revenue trends stabilised over the period and began to show some improvement towards the end of the second quarter. We are encouraged that the trends continue to improve.

Greyhound contributes less than 10% of the Group's operating profit. Its unique characteristics, in particular the highly flexible business model, have enabled us to take prompt, direct action to mitigate the impact of recession. Approximately 60% of the cost base is variable therefore we have been able to rapidly match supply to demand and reduce overheads to protect revenue per mile. We have reduced mileage by 13% in the US and by 10% in Canada.

We have also taken a number of actions to considerably reduce our operating costs including the integration of several back office functions with existing FirstGroup America operations. It has also been necessary to implement a programme to substantially decrease headcount which has now reduced by 1,845.

Despite the actions to moderate the impact of the economy and to modernise Greyhound's operating model, our focus on customer service and reliability has remained a key priority. I am pleased to report that On Time Performance has continued to improve across both Greyhound's US and Canadian operations.

BoltBus, our low cost, high quality, point to point coach service from New York to Boston, Washington and Baltimore continues to attract new customers and grow new markets. The response from customers continues to be extremely positive and we are developing opportunities to expand BoltBus to new city pair destinations.

While the economy remains weak we are delaying any major capital investment for Greyhound and will continue to dynamically manage the business to moderate the impact of recession. The measures we have taken at Greyhound have transformed the operating model and will ensure that the business has a stronger foundation for future growth and is well placed to benefit from economic recovery.

UK BUS

The Group is the largest bus operator in the UK with a market share of approximately 23%. Our fleet of approximately 8,500 buses carries 3 million passengers every day.

Our UK Bus division has delivered a robust performance during the period despite challenging economic conditions. Total revenue increased by 1.2% to £585.6m (2008: £578.6m) and like-for-like passenger revenue increased by 2.4%. Passenger volumes were reduced by approximately 1% as a result of the challenging economic climate and increased unemployment. The increase to our hedged fuel costs impacted operating profit which was reduced by 15.3% to £50.8m (2008: £60.0m).

UK Bus, outside of London, has a highly flexible operating model. In response to the current economic environment we are matching our services to changes in demand to protect revenue per mile and, as a result, have reduced mileage by 4% during the period. This, together with the cost reduction programme we have implemented, has ensured that profitability has remained on course.

Driver turnover has continued to improve and has now reduced to approximately 17%. As well as our initiatives to promote retention, the current labour market conditions and in particular higher levels of unemployment have contributed to the low levels of staff turnover.

We recognise that value for money is a key driver for our customers in this current economic climate and we continue to introduce ticketing and travel initiatives designed to promote the cost and environmental benefits of bus travel. Our focus remains on improving service quality and operational performance. Punctuality and reliability has improved during the period with further reductions in lost mileage.

Despite the recessionary pressures, we have continued to invest in our people and our business to maintain our industry leading position. During the period we made selected investment and targeted capital expenditure on the major towns and cities where our partnerships with local authorities have delivered passenger growth including new environmentally friendly vehicles for our operating companies in West and North Yorkshire, Bristol, Somerset and Avon, Glasgow and Hampshire and Dorset. We also invested in 14 new buses for the five Chester Park & Ride services. We are pleased to renew this contract and with our continued good performance in winning Park & Ride contracts across the UK.

Following successful trials at depots in London, Bradford and Glasgow we are installing new 'DriveGreen' technology across our entire bus fleet to improve driving styles and reduce the carbon footprint of our buses through greater fuel efficiency. The roll out will be complete by the summer of 2010.

This summer we launched our 'Staycations' marketing campaign to promote bus travel by linking with local attractions to provide travel and entry offers to our customers. The major public transport groups also launched 'Greener Journeys', a campaign encouraging people to get out of their cars and on to buses and coaches. The campaign aims to reduce carbon emissions by changing travel behaviour and by switching one in 25 journeys from car to bus or coach. This would mean one billion fewer car journeys on our roads over the next three years.

In September we launched Greyhound UK operating high quality, low cost services between London and the two cities of Portsmouth and Southampton with yield managed fares starting from as low as £1 plus booking fee. We are encouraged by the early progress of this new initiative.

We believe that voluntary quality partnerships offer the most effective way to increase public transport usage, meet the carbon challenge and reduce congestion in towns and cities. We continue to work with local authorities across the UK on joint initiatives to improve the punctuality and reliability of bus services and to promote bus services to car users.

We support Greater Manchester Passenger Transport Executive's (GMPTE) plans to improve three major routes into and through Manchester city centre including highway, bus priority and congestion management measures. Our customers want punctual and reliable journeys and GMPTE's proposals would ensure that large numbers of bus passengers in Greater Manchester benefit from more reliable bus journey times and quicker cross-city journeys.

Working closely with Strathclyde Partnership for Transport we continue to develop our network in Greater Glasgow with new services to work, retail and leisure centres and the launch of new 'Hampden Express' services which offer a premium fare express route to large events at Scotland's national stadium. We are also developing key commuter markets through investments in services including the 'Lanarkshire Express' and a new express service from Cumbernauld to Glasgow city centre.

In September we officially launched our ftrmetro project in Swansea. Our long term partnership with the City and County of Swansea and the Welsh Assembly Government has delivered a £14m package to improve public transport in Swansea including dedicated infrastructure and new vehicles as well as upgrading the engineering and parking facilities at our depot. ftrmetro will encourage modal shift by providing state-of-the art vehicles and punctual and reliable journeys as a result of the many priority measures on its route through Swansea city centre via the railway station.

In May we completed the integration of Truronian into our Devon and Cornwall business to improve the network for our Cornish customers with changes that will deliver increased frequency and more capacity. In October we extended the 'ugobus' network in Plymouth with four new routes. The changes build on the success of the network launched in April 2008 to provide our customers with simplified routes, timetables and fares.

We were pleased to officially open our new state-of-the-art bus depot in Aberdeen in October. The new depot includes many features to lessen its environmental impact and provides improved facilities for staff. In June our partnership with Bath and North East Somerset Council successfully delivered the transition to the new bus station in Bath which is now providing customers with better facilities and easier connections to Bath Spa railway station.

UK RAIL

Our UK Rail division operates passenger and freight services. Passenger rail franchises consist of First Capital Connect, First Great Western, First ScotRail and First TransPennine Express. We also operate First Hull Trains, a non-franchised open access intercity passenger train operator, and provide rail freight services through First GBRf. We are the UK's largest rail operator carrying over 280 million passengers per annum.

Results

The weaker economy and increased unemployment has had a clear impact on the UK's railways. Despite this we continue to deliver growth with like-for-like passenger revenue increased by 1.7% during the period. We are substantially insulated from the effects of the recession on passenger demand through the unique position of our contractual revenue support and share arrangements. We are currently receiving revenue support at the highest level of 80% for both of our London based passenger rail franchises.

Revenue from our UK Rail division was £949.1m (2008: £960.6m) reflecting a change in the Network Rail access charging regime which reduced revenue by £81.5m with no impact on operating profit. Operating profit increased to £50.8m (2008: £48.3m). As we anticipated, demand for services slowed during the period, particularly in the London commuter market, as a result of higher unemployment and lower levels of economic activity. However, trends remained relatively stable over the period particularly in the second quarter. We have a diverse range of rail franchises including London commuter, intercity and regional, which provide a balanced mix of operations and mitigate reliance on any one specific market.

We experienced strong demand for advance purchase and other discounted tickets with weaker demand for First Class fares reflecting the recessionary pressures our customers are facing. We continue to focus on operating performance and all of our rail franchises are achieving a Public Performance Measure (PPM) score of over 90% on a moving annual average.

First ScotRail

We were pleased to record an overall customer satisfaction score of 89% in the National Passenger Survey (NPS) and continue to deliver further improvements to the franchise. In May we introduced

a new timetable with additional East Coast commuter services and improvements to services in Fife, the Highlands and the West Coast. We also launched a new direct morning commuter service from Alloa to Edinburgh to build on the successful reintroduction of passenger services to Alloa. We were delighted that Laurencekirk station reopened in May after 42 years providing a real boost to the local community, improving access to jobs, education and leisure. The number of passengers using the station is higher than predicted.

In partnership with Transport Scotland we are launching a new timetable in December to introduce a new hourly service between Glasgow and Edinburgh via Shotts, a much improved service between Glasgow and Kilmarnock and better connections from Ayr and Gourock into Glasgow and between Dumfries and Carlisle and North Berwick and Edinburgh for early morning services to London.

We are working with Transport Scotland and other partners to deliver a new fleet of 38 Class 380 electric trains to run between Glasgow Central, Ayrshire, Inverclyde and Renfrewshire. The £200m investment by Transport Scotland will add 9,000 seats to Scotland's rail network from September 2010. We are also trialling smartcard technology on the Edinburgh-Glasgow route and plan to issue 10,000 smartcard tickets over the next two years with the roll out to customers planned for the autumn.

We are delighted that First ScotRail won Passenger Operator of the Year at the National Rail Awards in September, the only Train Operating Company to receive the award for two consecutive years. First ScotRail was also named Public Transport Operator of the Year at the National Transport Awards in July.

First TransPennine Express

During the period First TransPennine Express delivered its best ever levels of train punctuality and reliability improving PPM, on a moving annual average basis, to almost 92%.

For 11 weeks over the summer we had significant engineering work on our route between Doncaster and Cleethorpes to allow Network Rail to remove a severe temporary speed restriction. The work was completed on time and we have welcomed customers back with a fares promotion.

In December we will provide two additional Monday to Friday services between Manchester Airport and Scotland, increasing service provision to 11 trains in each direction. These additional services will improve our competitive position and allow us to stimulate further the high passenger demand that exists on this corridor.

We continue to promote rail travel to and from Manchester Airport and we have seen continued passenger journey growth to the airport despite falling numbers of air passengers. With some of the UK's leading tourist destinations on our network including the Lake District and many seaside resorts we continue to target our marketing efforts on leisure promotions and special offers including 'Kids go Free' and 'Club 55'.

We strengthened key services to popular leisure destinations including earlier and additional weekend services to Windermere and Scarborough and increased capacity on trains to Blackpool. We also added capacity to services for key events such as the Edinburgh Festival and provided effective promotion of these events and opportunities to travel.

First Great Western

First Great Western's operational improvement has continued during the period and our PPM, on a moving annual average basis, is over 92%. Our customers have welcomed the improved punctuality and reliability of our services and this was reflected in the NPS with 81% of customers satisfied, a nine point improvement on results in the same period last year.

We have continued to invest in improving customer service and introduced a new Customer Information System to a number of smaller stations. Feedback from customers has been extremely positive and we are installing enhanced Help Points at ten more stations on the Severn Beach line in Bristol. As part of our initiative to improve on-board catering for longer distance services, we introduced the first of our fleet of 19 Express Cafes in June. The remaining buffet carriages are being introduced progressively and the programme is expected to complete early next year. We are also updating the buffet carriages on a further ten of our High Speed Trains.

The branch lines on our Devon and Cornwall services have seen significant growth as a result of our successful partnerships with local authorities and community groups to promote use of the routes. We were delighted that some of this work was recognised at the Community Rail Awards in September with a large number of winners and highly commended initiatives from across our network. In addition we were pleased to be presented with the Operations Award at the Railway Industry Innovation Awards in June.

First Capital Connect

The Thameslink Programme continues with work progressing well at Blackfriars and Farringdon stations in London. Our campaign to communicate the Thameslink Programme to customers won two awards at the Railway Industry Innovation Awards in June and was highly commended in the 'Putting Passengers First' category at the National Rail Awards in September. However, the late delivery of the new fleet of Class 377 trains by Bombardier and ongoing reliability problems are affecting operational performance on our Thameslink route. The continued delivery of the additional trains will enable us to add a further 900 seats in December and help reduce overcrowding on the route.

Punctuality and reliability on the Great Northern route has been consistently above 95% during the period and in May we implemented 'Seats for You', a major timetable change on the route. Five extra trains and changes to stopping patterns created over 5,000 additional seats, which we targeted at some of the most overcrowded services in the UK. The changes were implemented as a result of our Peterborough and Cambridge Capacity Study and our work with Network Rail and the Department for Transport.

We introduced a new Super Off-Peak ticket offering 25% off weekend travel to London from mid-June to September. Following the success of the campaign, our Super Off-Peak fares are now permanent. We continue to build our partnerships with airlines operating at both Gatwick and Luton Airports.

First Hull Trains

We introduced two successful marketing campaigns during the period. Our family campaign led to an increase in bookings from Hull to London over the summer. Our ongoing 'London for less than a tenner' campaign promotes our 'evening express' services and has continued to increase passenger loadings on our new seventh path.

First GBRf

In April we signed new contracts with Network Rail to continue to operate and manage its Whitemoor terminal and to run infrastructure trains in the south east of England. We also signed a contract with MSC to run intermodal trains from the Port of Felixstowe and, in September, extended our services at the port with an agreement to move containers to the Birmingham Intermodal and Doncaster Europort freight terminals. We continue to build our share of the coal market with a five year deal with EDF and an extension of our contract with Drax. We also signed a new contract with Lafarge Aggregates to move materials across the Midlands. In September we introduced new services to carry mail order returns for Royal Mail.

GROUP OUTLOOK

The Group has delivered a good performance in the first half against a tough economic backdrop and increased fuel costs. During the full year the Group will absorb a significant increase of approximately £100m in hedged fuel costs which is set to recover in 2010/11.

The successful implementation of our cost reduction plan, which will achieve annual savings of at least £200m in this financial year, and the action we have taken to mitigate changing patterns of passenger demand, have ensured that we remain on course to achieve our earnings targets and cash generation of £100m per annum to reduce net debt.

Our strategy to build a diverse portfolio of operations in the UK and North America, that are well balanced between contract-backed and passenger revenues, underpins the strength and resilience of the Group and provides greater insulation against a fast changing economic environment. In those areas of our business where we are dependent on passenger demand we have demonstrated our ability to flex the operating models to respond rapidly to changing market conditions.

While the current economic environment presents a number of challenges for the transport industry, the Board remains confident in the underlying strength and resilience of the Group. The actions we have taken across the business to reduce costs will ensure the Group is well placed to benefit from future economic recovery and has a robust and efficient base from which to continue to deliver long term value for shareholders. After a resilient performance in the first half of the year, overall trading remains in line with our expectations.



Sir Moir Lockhead

Chief Executive

3 November 2009

Finance Director's review

OVERVIEW

We are pleased to announce a good set of half year numbers despite the economic headwinds that have continued to affect certain parts of the business. Additionally, we have experienced increased hedged fuel costs across our businesses most of which will reverse in 2010/11.

To counter the effects of the economic weakness and increased fuel costs we continue to focus on the delivery of our £200m cost reduction programme. In the period headcount reductions of 2,700 were implemented bringing the total headcount reductions to 4,400 which represents significant progress in achieving the full benefits of the programme.

In addition to cost reductions our UK Bus and Greyhound businesses have flexible models and we have been reviewing and optimising our networks. As a consequence mileage reductions of 4% and 13% have been implemented at UK Bus and Greyhound respectively. Similarly, in our First Student business we have adopted a policy of either improving or exiting low margin contracts which has resulted in a small reduction in growth rates.

During the period we continued our strategy to extend the maturity profile of our debt whilst at the same time reducing reliance on the banking market. In April 2009 we issued £350m of 12-year bonds and in September 2009 we issued £200m of 15-year bonds. Both of these bonds were significantly oversubscribed. As a result of these actions our average debt duration has increased to 6.4 years (full year 2009: 4.6 years). Group leverage continues to improve and liquidity headroom under committed bank facilities was increased further to £826m at 30 September 2009.

RESULTS

Group revenue rose to £2,902.6m (2008: £2,768.5m), an increase of 4.8% in Sterling terms after £230.2m of favourable foreign exchange movements. Operating profit was £166.5m (2008: £181.2m), a reduction of 8.1% principally due to Greyhound revenue weakness and higher hedged fuel costs across the Group of £74m. We anticipate that the additional hedged fuel costs for the current financial year will be approximately £100m which we expect to reverse in 2010/11.

North American contract business revenue was £1,047.1m or \$1,649.9m (2008: £895.9m or \$1,730.1m), an increase of 16.9% in Sterling terms but a reduction of 4.6% in US Dollar terms. Operating profit was £60.2m or \$89.1m (2008: £44.4m or \$83.9m), an increase of 35.6% in Sterling terms and 6.2% in US Dollar terms. Our North America contract businesses performed well over the period with high contract retention rates of over 90%. The reduction in US Dollar revenues includes a lower number of First Student operating days in the current half year and the impact of movements in the US Dollar:Canadian Dollar exchange rate. Excluding these effects revenue was down 1.2% in US Dollar terms. Additionally we are seeing the positive results of our margin enhancement programme, where we aim to improve margins on or exit low margin contracts, in both First Student and First Transit.

Greyhound revenue was £309.4m or \$493.5m (2008: £326.0m or \$632.9m) and operating profit was £13.9m or \$23.5m (2008: £41.6m or \$81.1m). Revenue has fallen as a result of the weak US economy and increased unemployment. In constant currency terms revenue fell by approximately 20% during the first six months with bus miles operated being reduced by

Headcount reductions	UK Bus	UK Rail	North America	Greyhound	Total
Period to 31 March 2009	390	215	170	925	1,700
6 months to 30 September 2009	740	395	645	920	2,700
Total	1,130	610	815	1,845	4,400

Divisional results	6 months to 30 September 2009			6 months to 30 September 2008			Year to 31 March 2009		
	Revenue	Operating profit ¹	Operating margin ¹	Revenue	Operating profit ¹	Operating margin ¹	Revenue	Operating profit ¹	Operating margin ¹
	£m	£m	%	£m	£m	%	£m	£m	%
UK Bus	585.6	50.8	8.7	578.6	60.0	10.4	1,182.0	134.0	11.3
UK Rail	949.1	50.8	5.4	960.6	48.3	5.0	2,121.5	94.2	4.4
North America	1,047.1	60.2	5.7	895.9	44.4	5.0	2,224.1	246.1	11.1
Greyhound	309.4	13.9	4.5	326.0	41.6	12.8	642.4	48.5	7.5
Group ²	11.4	(9.2)	–	7.4	(13.1)	–	17.3	(25.3)	–
Total Group	2,902.6	166.5	5.7	2,768.5	181.2	6.5	6,187.3	497.5	8.0

1 Before amortisation charges, hedge ineffectiveness on financial derivatives, non-recurring bid costs, other non-recurring items and (loss)/profit on disposal of properties.

2 Tram operations, German Bus, central management and other items.

13% in order to protect revenue per mile. Additional management actions will further reduce the cost base and increase efficiencies while continuing to focus on improving customer service and On Time Performance. Greyhound now has a stronger foundation on which to build and is well placed to benefit from economic recovery when it arises.

UK Bus continues to grow, albeit at lower rates than previously achieved. Revenue was £585.6m (2008: £578.6m), an increase of 1.2%. Operating profit was £50.8m (2008: £60.0m), a reduction of 15.3% principally due to higher fuel costs. Like-for-like passenger revenues grew by 2.4% however passenger volumes decreased by approximately 1% largely as a result of the recession. We expect like-for-like passenger revenue growth for the full year to be between 1% and 2%. We have utilised the flexible operating model outside of London by optimising our network and matching our services to the reduction in demand to protect operating margins. Consequently we have reduced mileage by 4% during the period, while ensuring a continued focus on service quality, operational performance and cost efficiencies. This, together with our cost reduction programme, has ensured that profitability has remained in line with our expectations. We expect that there will be a positive impact on the second half margin as the cost initiatives are fully realised.

UK Rail revenue was £949.1m (2008: £960.6m), a decrease of 1.2%. A change in the Control Period (CP4) arrangements with Network Rail meant an £81.5m reduction in both DfT grant revenue and Network Rail charges with no impact on operating profit. Operating profit was £50.8m (2008: £48.3m), an increase of 5.2%. Like-for-like passenger revenue growth across all TOCs was 1.7%. Despite the clear impact of the weaker economy on the UK's railways, we are substantially insulated from the full effects of the recession by the contractual revenue support mechanisms in place. We are currently receiving revenue support at the highest level of 80% for both First Great Western and First Capital Connect. In addition, significant progress was made during the period to deliver cost savings in the addressable cost base. We anticipate that second half passenger revenues will be broadly flat compared to last year with regulated fares reducing by 0.4% from January 2010.

Net Group costs were £9.2m (2008: £13.1m) with the improvement being due to lower central costs as a result of headcount reductions and a lower share-based payment charge as the performance criteria on certain executive share incentives, which were set prior to the current economic decline, are now considered unlikely to be achieved.

	6 months to 30 September 2009	6 months to 30 September 2008	Year to 31 March 2009
	£m	£m	£m
Non-recurring items and amortisation charges			
North America and Greyhound integration costs	7.0	34.5	70.1
Fuel hedge provision	4.8	–	23.1
UK Rail restructuring costs	0.1	–	10.3
North America and Greyhound restructuring costs	5.8	–	9.9
UK Bus restructuring costs	3.6	–	2.1
European bid costs	–	1.5	3.5
Other non-recurring costs	3.8	0.4	–
Total non-recurring items	25.1	36.4	119.0
Amortisation charges	17.1	13.5	33.1
	42.2	49.9	152.1
Loss/(profit) on disposal of properties	1.2	2.8	(25.7)
Hedge ineffectiveness on financial derivatives	(4.0)	–	–
	39.4	52.7	126.4

North America and Greyhound integration costs

North America and Greyhound integration costs were £7.0m (2008: £34.5m). These reflect major IT integration projects and the conclusion of the Greyhound back-office consolidation which commenced last year.

Fuel hedge provision

Fuel hedge provision was £4.8m (2008: £nil) and represents a reduction in 2009/10 fuel requirements due to changes to contractual terms in certain First Student and First Transit contracts whereby the Group now has less 'at risk' fuel.

Restructuring costs

Restructuring costs were £9.5m (2008: £nil) and represent redundancy costs in respect of the headcount reductions across all businesses as part of the £200m cost reduction action plan.

Other non-recurring costs

The £3.8m charge includes the non-capital costs of the roll out of a new vehicle tracking system in the North American contract businesses.

Amortisation charges

Amortisation charges were £17.1m (2008: £13.5m) with the increase mainly due to foreign exchange movements.

Property

Losses on disposals of £1.2m (2008: £2.8m) were incurred during the period and relate to minor property disposals in both the UK and North America.

Hedge ineffectiveness on financial derivatives

Due to the ineffective element of the fair value movements on cross-currency swaps there was a £4.0m credit to the income statement during the period (2008: £nil). Any future ineffectiveness on these financial instruments will be disclosed in this way.

Finance costs and investment income

The net finance cost was £92.8m (2008: £74.1m) with the increase principally due to the September 2008 and April 2009 long term bond issues and foreign exchange on US Dollar denominated interest cost.

	6 months to 30 September 2009			6 months to 30 September 2008			Year to 31 March 2009		
	Revenue £m	EBITDA ¹ £m	EBITDA ¹ %	Revenue £m	EBITDA ¹ £m	EBITDA ¹ %	Revenue £m	EBITDA ¹ £m	EBITDA ¹ %
EBITDA by division									
UK Bus	585.6	88.5	15.1	578.6	96.1	16.6	1,182.0	205.4	17.4
UK Rail	949.1	74.5	7.8	960.6	66.3	6.9	2,121.5	137.2	6.5
North America	1,047.1	135.4	12.9	895.9	100.7	11.2	2,224.1	374.2	16.8
Greyhound	309.4	28.3	9.1	326.0	53.9	16.5	642.4	76.6	11.9
Group	11.4	(7.3)	–	7.4	(11.0)	–	17.3	(21.2)	–
Total Group	2,902.6	319.4	11.0	2,768.5	306.0	11.1	6,187.3	772.2	12.5

¹ Operating profit before amortisation charges, hedge ineffectiveness on financial derivatives, non-recurring bid costs, other non-recurring items and (loss)/profit on disposal of properties plus depreciation.

Profit before tax

Adjusted profit before tax was £69.7m (2008: £107.1m) due principally to lower operating profit and higher net finance costs. Exceptional costs of £39.4m (2008: £52.7m) resulted in statutory profit before tax of £30.3m (2008: £54.4m).

Tax

The tax charge, on adjusted profit before tax, for the period was £17.0m (2008: £26.0m) and is based on the estimated effective rate for the full year of 24.4% (2008: 24.3%). Amortisation charges, hedge ineffectiveness on financial derivatives, non-recurring bid costs, other non-recurring items and loss on disposal of properties amounting to £39.4m generated a tax credit of £13.6m that reduced the total tax charge to £3.4m (2008: total tax charge £23.1m). Last year there was a one-off deferred tax charge due to an increase in the UK deferred tax liability arising on the abolition of Industrial Buildings Allowances.

The actual tax paid during the period was £1.3m (2008: £6.6m). North American cash tax remains low due to tax losses brought forward and tax depreciation in excess of book depreciation. We believe this will remain low for the medium term. The UK cash cost of tax remains low due to pension payments exceeding pension charges and tax relief on interest payments.

Dividends

The interim dividend of 6.65 pence (2008: 6.05 pence) per ordinary share represents an increase of 10%. The interim dividend will be paid on 3 February 2010 to shareholders on the register of members at the close of business on 8 January 2010.

EPS

The adjusted basic EPS, before amortisation charges, hedge ineffectiveness on financial derivatives, non-recurring bid costs, other non-recurring items and loss on disposal of properties was 9.3 pence (2008: 15.6 pence), a reduction of 40.4%. Basic EPS was 3.9 pence (2008: 5.0 pence), a reduction of 22.0%.

EBITDA

Adjusted EBITDA by division is set out above.

Operating cash flow

Cash generated by operations was £164.4m (2008: £175.7m) with the improved operating cash flow offset by adverse working capital, principally the CP4 charging mechanism changes in UK Rail.

Net debt

The Group's net debt at 30 September 2009 was £2,373.8m (2008: £2,195.1m; full year 2009: £2,503.5m) and was comprised as follows:

Analysis of net debt	Fixed £m	Variable £m	Total £m
Cash	–	(126.7)	(126.7)
UK Rail ring-fenced cash and deposits	–	(175.8)	(175.8)
Other ring-fenced cash and deposits	–	(23.4)	(23.4)
Sterling bond (2013) ¹	297.4	–	297.4
Sterling bond (2018) ²	327.4	–	327.4
Sterling bond (2019) ²	–	274.8	274.8
Sterling bond (2021) ³	331.7	–	331.7
Sterling bond (2024) ¹	198.9	–	198.9
Sterling bank loans and overdrafts	–	33.0	33.0
US Dollar bank loans and overdrafts ⁴	–	806.5	806.5
Canadian Dollar bank loans and overdrafts	1.6	132.2	133.8
Euro and other bank loans and overdrafts	–	47.0	47.0
HP contracts and finance leases	120.9	117.8	238.7
Loan notes	8.7	1.8	10.5
Interest rate swaps	1,097.1	(1,097.1)	–
Total	2,383.7	(9.9)	2,373.8

1 Excludes accrued interest.

2 Stated excluding accrued interest, swapped to US Dollars and adjusted for movements on associated derivatives.

3 Stated excluding accrued interest, partially swapped to US Dollars and adjusted for movements on associated derivatives.

4 Includes £46.2m of Euro bank loans swapped into US Dollars.

Average debt maturity at the end of the period was 6.4 years (full year 2009: 4.6 years). Headroom under committed revolver facilities at 30 September 2009 was £826m (2008: £474m).

We remain focused on continuing to reduce our leverage. At 30 September 2009 net debt to EBITDA, calculated on a rolling 12 monthly basis, stood at 3.0 times (March 2009: 3.2 times).

Shares in issue

As at the period end there were 479.9m (2008: 480.8m) shares in issue, excluding treasury shares and shares held in trust for employees. The number of treasury shares and shares held in trust for employees at 30 September 2009 was 2.2m (2008: 1.3m). The weighted average number of shares in issue for the

purpose of EPS calculations (excluding treasury shares and shares held in trust for employees) was 480.9m (2008: 468.9m).

Total equity

Total equity has decreased by £125.4m since the start of the period. The principal reasons for this are actuarial losses on defined benefit pension schemes, net of deferred tax, of £142.4m, adverse foreign exchange movements of £148.8m and dividends paid of £65.7m partly offset by favourable movements on derivative hedging instruments, net of deferred tax, of £205.4m and profit for the period of £26.9m.

Foreign exchange

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

	6 months to 30 September 2009		6 months to 30 September 2008		Year to 31 March 2009	
	Closing rate	Effective rate	Closing rate	Effective rate	Closing rate	Effective rate
US Dollar	1.60	1.53	1.84	1.91	1.43	1.63
Canadian Dollar	1.77	1.88	1.90	1.97	1.78	1.95

Fuel hedging

In the UK, 100% of the Group's current year exposure to crude oil prices (2.6m barrels p.a.) is hedged at \$111 per barrel. In North America 100% of current year 'at risk' volumes (1.9m barrels p.a.) are hedged at \$116 per barrel and relate only to those requirements not covered by pass through or escalation clauses in contracts.

For 2010/11 in the UK, 82% of the Group's exposure is hedged at \$76 per barrel and 82% of North American 'at risk' volumes are hedged at \$89 per barrel.

Pensions

The Group has updated the pension assumptions as at 30 September 2009 for the defined benefit schemes in the UK and North America. As a result, the net pension deficit of £169m at the beginning of the period has moved to a net pension deficit of £345m at the end of the period principally due to the reduction in the discount rate used from 6.75% to 5.45%, partly offset by improvements in asset returns over the period.

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

	Movement	Impact
Discount rate	+ 0.1%	Reduce deficit by £30m
Inflation	+ 0.1%	Increase deficit by £19m

Seasonality

The First Student business generates lower revenues and profits in the first half of the year than in the second half of the year as the school summer holidays fall into the first half. Greyhound operating profits are typically higher in the first half of the year due to demand being strongest in the summer months.

PRINCIPAL RISKS AND UNCERTAINTIES FOR THE REMAINING SIX MONTHS OF THE FINANCIAL YEAR

There are a number of risks and uncertainties facing the Group in the remaining six months of the financial year. These are considered to be the same as disclosed in the 2009 Annual Report. The principal risks and uncertainties, which are set out in detail on pages 38 to 40 of the Annual Report and Accounts 2009, are:

- Economy in the UK and North America
- Pensions
- Competitive pressures
- Legislation and regulation
- Labour costs and employee relations
- Fuel costs
- Treasury risks and insurance costs
- Terrorism
- Rail franchise agreements
- Retention of key management
- Customer service and contract retention
- Environmental

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 "Interim Financial Reporting";
- the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).



Jeff Carr
Finance Director
3 November 2009

Condensed consolidated income statement

Revenue

Operating costs before (loss)/profit on disposal of properties

Operating profit before (loss)/profit on disposal of properties

Amortisation charges

Non-recurring bid costs

Other non-recurring items

(Loss)/profit on disposal of properties

Operating profit

Investment income

Finance costs

Profit before tax

Tax

Profit for the period

Attributable to:

Equity holders of the parent

Minority interest

Basic earnings per share

Diluted earnings per share

All results relate to continuing operations.

Dividends of £61.1m were paid during the period (2008: £55.5m; full year 2009: £84.6m). Dividends of £32.0m were proposed for approval during the period (2008: £29.1m; full year 2009: £61.1m) per note 5.

1 Adjusted trading results before items noted in 2 below.

2 Amortisation charges, hedge ineffectiveness on financial derivatives, non-recurring bid costs, other non-recurring items and (loss)/profit on disposal of properties and tax thereon.

Notes	Adjusted results ¹ 6 months to 30 September 2009 £m	Adjustments ² 6 months to 30 September 2009 £m	Unaudited total 6 months to 30 September 2009 £m	Adjusted results ¹ 6 months to 30 September 2008 £m	Adjustments ² 6 months to 30 September 2008 £m	Unaudited total 6 months to 30 September 2008 £m	Audited total year to 31 March 2009 £m
2	2,902.6	-	2,902.6	2,768.5	-	2,768.5	6,187.3
	(2,736.1)	(42.2)	(2,778.3)	(2,587.3)	(49.9)	(2,637.2)	(5,841.9)
	166.5	(42.2)	124.3	181.2	(49.9)	131.3	345.4
	-	(17.1)	(17.1)	-	(13.5)	(13.5)	(33.1)
	-	-	-	-	(1.5)	(1.5)	(3.5)
	-	(25.1)	(25.1)	-	(34.9)	(34.9)	(115.5)
	-	(42.2)	(42.2)	-	(49.9)	(49.9)	(152.1)
	-	(1.2)	(1.2)	-	(2.8)	(2.8)	25.7
2	166.5	(43.4)	123.1	181.2	(52.7)	128.5	371.1
3	1.0	-	1.0	3.8	-	3.8	7.9
3	(97.8)	4.0	(93.8)	(77.9)	-	(77.9)	(179.0)
	69.7	(39.4)	30.3	107.1	(52.7)	54.4	200.0
4	(17.0)	13.6	(3.4)	(26.0)	2.9	(23.1)	(43.0)
	52.7	(25.8)	26.9	81.1	(49.8)	31.3	157.0
	44.5	(25.7)	18.8	73.1	(49.7)	23.4	143.3
	8.2	(0.1)	8.1	8.0	(0.1)	7.9	13.7
	52.7	(25.8)	26.9	81.1	(49.8)	31.3	157.0
6			3.9p			5.0p	30.2p
6			3.9p			4.9p	30.0p

Condensed consolidated balance sheet

	Notes	Unaudited 30 September 2009 £m	Unaudited 30 September 2008 £m	Audited 31 March 2009 £m
Non-current assets				
Goodwill	7	1,662.6	1,416.9	1,820.0
Other intangible assets	8	403.6	381.4	456.7
Property, plant and equipment	9	2,280.0	2,062.2	2,398.1
Deferred tax assets		43.1	–	50.2
Retirement benefit assets	19	3.8	114.3	111.5
Derivative financial instruments	13	51.0	46.1	24.8
Investments		4.6	4.3	5.1
		4,448.7	4,025.2	4,866.4
Current assets				
Inventories		98.1	87.1	110.0
Trade and other receivables	10	592.5	654.0	610.3
Financial assets – cash and cash equivalents		325.9	227.6	322.5
Assets classified as held for sale	11	4.3	5.6	4.2
Derivative financial instruments	13	16.6	69.1	3.1
		1,037.4	1,043.4	1,050.1
Total assets		5,486.1	5,068.6	5,916.5
Current liabilities				
Trade and other payables	12	1,084.1	1,011.5	1,124.7
Tax liabilities		45.3	57.9	47.2
Financial liabilities – bank overdrafts and loans		1.6	30.4	210.7
– bonds		36.3	20.7	36.0
– obligations under HP contracts and finance leases		38.6	26.7	34.3
Derivative financial instruments	13	183.9	39.4	304.5
		1,389.8	1,186.6	1,757.4
Net current liabilities		352.4	143.2	707.3
Non-current liabilities				
Financial liabilities – bank loans		1,018.7	1,471.8	1,408.1
– bonds		1,411.4	840.8	870.2
– obligations under HP contracts and finance leases		200.1	71.0	194.6
– loan notes		10.5	10.5	10.5
Derivative financial instruments	13	124.8	37.5	243.6
Retirement benefit liabilities	19	348.8	139.7	280.2
Deferred tax liabilities		6.7	130.3	20.6
Provisions	14	296.4	302.8	327.0
		3,417.4	3,004.4	3,354.8
Total liabilities		4,807.2	4,191.0	5,112.2
Net assets		678.9	877.6	804.3
Equity				
Share capital	16	24.1	24.1	24.1
Share premium account		676.4	676.4	676.4
Hedging reserve		(147.4)	55.9	(352.8)
Other reserves		4.6	4.6	4.6
Own shares		(8.0)	(5.7)	(3.4)
Translation reserve		189.0	(13.5)	337.4
Retained earnings		(82.4)	116.3	98.5
Equity attributable to equity holders of the parent		656.3	858.1	784.8
Minority interests		22.6	19.5	19.5
Total equity		678.9	877.6	804.3

Condensed consolidated statement of comprehensive recognised income

	Unaudited 6 months to 30 September 2009 £m	Unaudited 6 months to 30 September 2008 £m	Audited year to 31 March 2009 £m
Derivative hedging instrument movements	263.1	(1.2)	(539.6)
Deferred tax on derivative hedging instrument movements	(57.7)	7.4	137.1
Exchange differences on translation of foreign operations	(148.8)	57.8	409.6
Unrealised losses on executive deferred compensation plans	(0.4)	(1.4)	(3.1)
Actuarial losses on defined benefit pension schemes	(193.6)	(141.1)	(308.3)
Deferred tax on actuarial losses on defined benefit pension schemes	51.2	43.7	102.2
Net expense recognised directly in equity	(86.2)	(34.8)	(202.1)
Profit for the period	26.9	31.3	157.0
Total recognised income and expense for the period	(59.3)	(3.5)	(45.1)
Attributable to:			
Equity holders of the parent	(67.0)	(12.4)	(60.7)
Minority interests	7.7	8.9	15.6
	(59.3)	(3.5)	(45.1)

Condensed consolidated statement of changes in equity

	Share capital £m	Share premium account £m
Balance at 1 April 2009	24.1	676.4
Profit for the period	–	–
Exchange differences on translation of foreign operations	–	–
Actuarial loss on defined benefit pension schemes	–	–
Deferred tax on actuarial losses on defined benefit pension schemes	–	–
Unrealised losses on executive deferred compensation plans	–	–
Derivative hedging instrument movements	–	–
Deferred tax on derivative hedging instrument movements	–	–
Total comprehensive income for the period	–	–
Dividends paid	–	–
Movement in EBT and treasury shares	–	–
Share-based payments	–	–
Deferred tax on share-based payments	–	–
Balance at 30 September 2009	24.1	676.4
Balance at 1 April 2008	21.9	447.8
Profit for the period	–	–
Exchange differences on translation of foreign operations	–	–
Actuarial loss on defined benefit pension schemes	–	–
Deferred tax on actuarial losses on defined benefit pension schemes	–	–
Unrealised losses on executive deferred compensation plans	–	–
Derivative hedging instrument movements	–	–
Deferred tax on derivative hedging instrument movements	–	–
Total comprehensive income for the period	–	–
Issue of share capital	2.2	228.6
Dividends paid	–	–
Movement in EBT and treasury shares	–	–
Share-based payments	–	–
Current tax on share-based payments	–	–
Balance at 30 September 2008	24.1	676.4
Balance at 1 April 2008	21.9	447.8
Profit for the period	–	–
Exchange differences on translation of foreign operations	–	–
Actuarial loss on defined benefit pension schemes	–	–
Deferred tax on actuarial losses on defined benefit pension schemes	–	–
Unrealised losses on executive deferred compensation plans	–	–
Derivative hedging instrument movements	–	–
Deferred tax on derivative hedging instrument movements	–	–
Total comprehensive income for the period	–	–
Issue of share capital	2.2	228.6
Dividends paid	–	–
Movement in EBT and treasury shares	–	–
Share-based payments	–	–
Deferred tax on share-based payments	–	–
Current tax on share-based payments	–	–
Current tax on foreign exchange movements	–	–
Balance at 31 March 2009	24.1	676.4

Hedging reserve £m	Other reserves £m	Own shares £m	Translation reserve £m	Retained earnings £m	Total £m	Minority interests £m	Total equity £m
(352.8)	4.6	(3.4)	337.4	98.5	784.8	19.5	804.3
-	-	-	-	18.8	18.8	8.1	26.9
-	-	-	(148.4)	-	(148.4)	(0.4)	(148.8)
-	-	-	-	(193.6)	(193.6)	-	(193.6)
-	-	-	-	51.2	51.2	-	51.2
-	-	-	-	(0.4)	(0.4)	-	(0.4)
263.1	-	-	-	-	263.1	-	263.1
(57.7)	-	-	-	-	(57.7)	-	(57.7)
205.4	-	-	(148.4)	(124.0)	(67.0)	7.7	(59.3)
-	-	-	-	(61.1)	(61.1)	(4.6)	(65.7)
-	-	(4.6)	-	-	(4.6)	-	(4.6)
-	-	-	-	2.7	2.7	-	2.7
-	-	-	-	1.5	1.5	-	1.5
(147.4)	4.6	(8.0)	189.0	(82.4)	656.3	22.6	678.9
49.7	4.6	(7.6)	(70.3)	245.5	691.6	13.2	704.8
-	-	-	-	23.4	23.4	7.9	31.3
-	-	-	56.8	-	56.8	1.0	57.8
-	-	-	-	(141.1)	(141.1)	-	(141.1)
-	-	-	-	43.7	43.7	-	43.7
-	-	-	-	(1.4)	(1.4)	-	(1.4)
(1.2)	-	-	-	-	(1.2)	-	(1.2)
7.4	-	-	-	-	7.4	-	7.4
6.2	-	-	56.8	(75.4)	(12.4)	8.9	(3.5)
-	-	-	-	-	230.8	-	230.8
-	-	-	-	(55.5)	(55.5)	(2.6)	(58.1)
-	-	1.9	-	(1.5)	0.4	-	0.4
-	-	-	-	3.1	3.1	-	3.1
-	-	-	-	0.1	0.1	-	0.1
55.9	4.6	(5.7)	(13.5)	116.3	858.1	19.5	877.6
49.7	4.6	(7.6)	(70.3)	245.5	691.6	13.2	704.8
-	-	-	-	143.3	143.3	13.7	157.0
-	-	-	407.7	-	407.7	1.9	409.6
-	-	-	-	(308.3)	(308.3)	-	(308.3)
-	-	-	-	102.2	102.2	-	102.2
-	-	-	-	(3.1)	(3.1)	-	(3.1)
(539.6)	-	-	-	-	(539.6)	-	(539.6)
137.1	-	-	-	-	137.1	-	137.1
(402.5)	-	-	407.7	(65.9)	(60.7)	15.6	(45.1)
-	-	-	-	-	230.8	-	230.8
-	-	-	-	(84.6)	(84.6)	(9.3)	(93.9)
-	-	4.2	-	(3.9)	0.3	-	0.3
-	-	-	-	6.3	6.3	-	6.3
-	-	-	-	(1.7)	(1.7)	-	(1.7)
-	-	-	-	0.1	0.1	-	0.1
-	-	-	-	2.7	2.7	-	2.7
(352.8)	4.6	(3.4)	337.4	98.5	784.8	19.5	804.3

Condensed consolidated cash flow statement

	Note	Unaudited 6 months to 30 September 2009 £m	Unaudited 6 months to 30 September 2008 £m	Audited year to 31 March 2009 £m
Net cash from operating activities	17	74.9	93.2	494.4
Investing activities				
Interest received		1.0	4.6	9.0
Proceeds from disposal of property, plant and equipment		21.5	2.8	54.7
Purchases of property, plant and equipment		(93.1)	(176.2)	(320.2)
Acquisition of businesses		-	(2.4)	(6.5)
Net cash used in investing activities		(70.6)	(171.2)	(263.0)
Financing activities				
Shares purchased by Employee Benefit Trust		(1.4)	-	-
Monies received on exercise of options		1.4	0.5	0.5
Dividends paid		(61.1)	(55.5)	(84.6)
Dividends paid to minority shareholders		(4.6)	(2.6)	(9.3)
Proceeds from bond issues		550.0	300.0	300.0
Proceeds from new bank facilities		-	225.5	436.1
Proceeds from existing bank facilities		46.0	126.0	6.4
Repayment of bank debt		(509.4)	(724.9)	(1,062.4)
Repayments under HP contracts and finance leases		(11.3)	(17.9)	(43.3)
Repayment of loan notes		-	(4.6)	(4.6)
Fees for bank facility amendments and bond issue costs		(4.5)	(5.7)	(10.4)
Proceeds from sale and finance lease-back of buses		-	-	70.3
Net proceeds on issue of shares		-	230.8	230.8
Net cash from financing activities		5.1	71.6	(170.5)
Net increase/(decrease) in cash and cash equivalents before foreign exchange movements		9.4	(6.4)	60.9
Cash and cash equivalents at beginning of period		322.5	239.7	239.7
Foreign exchange movements		(6.0)	(5.7)	21.9
Cash and cash equivalents at end of period per condensed consolidated balance sheet		325.9	227.6	322.5

Cash and cash equivalents for the purposes of the condensed consolidated cash flow statement comprise cash at bank and in hand and other short-term highly liquid investments with a maturity of three months or less.

Notes to the half-yearly financial report

1 BASIS OF PREPARATION

This half-yearly financial report does not constitute statutory accounts within the meaning of section 435 of the Companies Act 2006. The statutory accounts for the year ended 31 March 2009 have been delivered to the Registrar of Companies. The auditors reported on those accounts; their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

The figures for the six months to 30 September 2009 include the results of the rail businesses for the period ended 19 September 2009 and the results for the other businesses for the 26 weeks ended 26 September 2009.

The accounting policies used in the half-yearly financial report are consistent with International Financial Reporting Standards. The same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Group's latest annual audited financial statements, except for as described below.

In the current financial year, the Group has adopted International Financial Reporting Standard (IFRS) 8 "Operating Segments" and International Accounting Standard (IAS) 1 "Presentation of Financial Statements" (revised 2007). As a result of the adoption of IFRS 8 total assets are disclosed by segment. As a result of the adoption of IAS 1, a condensed consolidated statement of changes in equity has been included in the primary statements, showing changes in each component of equity for each period presented.

The Directors have revised the balance sheet presentation of assets classified as held for sale as current assets and retirement benefit assets and deferred tax assets are included as non-current assets. The Directors have revised the condensed consolidated cash flow statement for the year to 31 March 2009 to show proceeds from bond issues on a gross basis with an equal increase in fees for bond issue costs. The Directors have also revised the presentation of minority interests in the condensed consolidated statement of comprehensive recognised income to include foreign exchange gains and losses on translation of foreign minority interests. This has not impacted the Group's net assets or the minority interests in the Group.

The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

These results are unaudited but have been reviewed by the auditors, whose report is given on page 34. The comparative figures for the six months to 30 September 2008 are unaudited and are derived from the half-yearly financial report for the six months ended 30 September 2008, which was also reviewed by the auditors.

The Group has continued to extend the maturity profile of debt as discussed in the Finance Director's review. There continues to be no significant repayments, other than finance leases, until 2012. After taking this into account and making enquiries and reviewing the outlook for 2010/11 and medium term plans, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the half-yearly financial report.

This half-yearly financial report will be available to all shareholders in November 2009 and will also be available to the public at the Registered Office of the Company, 395 King Street Aberdeen AB24 5RP.

This half-yearly financial report was approved by the Board on 3 November 2009.

2 SEGMENT INFORMATION

For management purposes, the Group is currently organised into four operating divisions – UK Bus, UK Rail, North America and Greyhound. These divisions are the basis on which the Group reports its primary segment information. The principal activities of these divisions are set out in the Chief Executive's operating review.

The First Student business generates lower revenues and profits in the first half of the financial year than in the second half as the school summer holidays fall into the first half. Greyhound profits are typically higher in the first half of the financial year due to demand being stronger in the summer months.

The segment results for the six months to 30 September 2009 are as follows:

	UK Bus £m	UK Rail £m	North America £m	Greyhound £m	Group items £m	Total £m
Revenue	585.6	949.1	1,047.1	309.4	11.4	2,902.6
Segment results¹	50.8	50.8	60.2	13.9	(9.2)	166.5
Amortisation charges	–	(3.3)	(12.3)	(1.5)	–	(17.1)
Non-recurring items	(3.6)	(0.1)	(14.0)	(7.0)	(0.4)	(25.1)
(Loss)/profit on disposal of properties	(1.3)	–	–	0.1	–	(1.2)
Operating profit	45.9	47.4	33.9	5.5	(9.6)	123.1
Investment income						1.0
Finance costs						(97.8)
Hedge ineffectiveness on financial derivatives						4.0
Profit before tax						30.3
Tax						(3.4)
Profit for the period						26.9

The segment results for the six months to 30 September 2008 are as follows:

	UK Bus £m	UK Rail £m	North America £m	Greyhound £m	Group items £m	Total £m
Revenue	578.6	960.6	895.9	326.0	7.4	2,768.5
Segment results¹	60.0	48.3	44.4	41.6	(13.1)	181.2
Amortisation charges	–	(3.2)	(9.1)	(1.2)	–	(13.5)
Non-recurring bid costs	–	–	–	–	(1.5)	(1.5)
Other non-recurring items	–	–	(33.3)	(1.2)	(0.4)	(34.9)
Loss on disposal of properties	(1.8)	–	(1.0)	–	–	(2.8)
Operating profit	58.2	45.1	1.0	39.2	(15.0)	128.5
Investment income						3.8
Finance costs						(77.9)
Profit before tax						54.4
Tax						(23.1)
Profit for the period						31.3

¹ Before amortisation charges, hedge ineffectiveness on financial derivatives, non-recurring bid costs, other non-recurring items and (loss)/profit on disposal of properties.

2 SEGMENT INFORMATION continued

The segment results for the year to 31 March 2009 are as follows:

	UK Bus £m	UK Rail £m	North America £m	Greyhound £m	Group items £m	Total £m
Revenue	1,182.0	2,121.5	2,224.1	642.4	17.3	6,187.3
Segment results¹	134.0	94.2	246.1	48.5	(25.3)	497.5
Amortisation charges	–	(7.1)	(23.1)	(2.9)	–	(33.1)
Non-recurring bid costs	–	–	–	–	(3.5)	(3.5)
Other non-recurring items	(9.5)	(12.7)	(70.1)	(23.2)	–	(115.5)
Profit on disposal of properties	9.2	–	3.0	13.5	–	25.7
Operating profit	133.7	74.4	155.9	35.9	(28.8)	371.1
Investment income						7.9
Finance costs						(179.0)
Profit before tax						200.0
Tax						(43.0)
Profit for the period						157.0

1 Before amortisation charges, hedge ineffectiveness on financial derivatives, non-recurring bid costs, other non-recurring items and profit on disposal of properties.

	30 September 2009 £m	30 September 2008 £m	31 March 2009 £m
Total assets			
United Kingdom	5,010.7	4,754.9	4,680.2
North America	3,923.6	4,557.0	5,121.9
Eliminations	(3,491.3)	(4,243.3)	(3,935.8)
Unallocated corporate items	43.1	–	50.2
	5,486.1	5,068.6	5,916.5

	6 months to 30 September 2009 £m	6 months to 30 September 2008 £m	Year to 31 March 2009 £m
3 INVESTMENT INCOME AND FINANCE COSTS			
Investment income	(1.0)	(3.8)	(7.9)
Bonds	39.6	14.9	44.9
Bank borrowings	44.7	50.3	106.6
Loan notes	0.5	0.6	1.2
Finance charges payable in respect of HP contracts and finance leases	4.2	3.2	7.5
Notional interest on provisions	8.8	8.9	18.8
Hedge ineffectiveness on financial derivatives	(4.0)	–	–
Finance costs	93.8	77.9	179.0
Net finance costs	92.8	74.1	171.1

	6 months to 30 September 2009 £m	6 months to 30 September 2008 £m	Year to 31 March 2009 £m
4 TAX			
Corporation tax	2.2	6.1	7.3
Deferred tax	1.2	1.8	20.5
Non-recurring deferred tax charge	–	15.2	15.2
Tax on profit on ordinary activities	3.4	23.1	43.0

The tax effect of amortisation charges, hedge ineffectiveness on financial derivatives, non-recurring bid costs, other non-recurring items and (loss)/profit on disposal of properties was a credit of £13.6m (2008: credit of £18.1m; full year 2009: credit of £53.8m).

	6 months to 30 September 2009 £m	6 months to 30 September 2008 £m	Year to 31 March 2009 £m
5 DIVIDENDS			
Final dividend paid for the year ended 31 March 2009 of 12.7p (2008: 11.55p) per share	61.1	55.5	55.5
Interim dividend paid for the year ended 31 March 2009 of 6.05p (2008: 5.5p) per share	–	–	29.1
Amounts recognised as distributions to equity holders in the period	61.1	55.5	84.6
Proposed interim dividend for the year ended 31 March 2010 of 6.65p (2009: 6.05p) per share	32.0	29.1	–

The proposed interim dividend will be paid on 3 February 2010 to shareholders on the register of members at the close of business on 8 January 2010. The proposed interim dividend has not been included as a liability as at 30 September 2009.

6 EARNINGS PER SHARE (EPS)

Basic EPS is based on post-tax earnings of £18.8m (2008: £23.4m; full year 2009: £143.3m) and on a weighted average number of ordinary shares in issue (excluding own shares held in trust for employees and treasury shares) of 480.9m (2008: 468.9m; full year 2009: 474.8m).

The adjusted basic EPS and adjusted cash EPS as set out below are intended to demonstrate recurring elements of the results of the Group and as such are calculated before amortisation charges, hedge ineffectiveness on financial derivatives, non-recurring bid costs, other non-recurring items and (loss)/profit on disposal of properties. A reconciliation of the earnings used in the alternative bases is set out below:

	6 months to 30 September 2009		6 months to 30 September 2008		Year to 31 March 2009	
	£m	EPS (p)	£m	EPS (p)	£m	EPS (p)
Profit for EPS calculation	18.8	3.9	23.4	5.0	143.3	30.2
Amortisation charges ¹	17.0	3.5	13.4	2.9	32.9	6.9
Hedge ineffectiveness on financial derivatives	(4.0)	(0.8)	–	–	–	–
Non-recurring bid costs	–	–	1.5	0.3	3.5	0.7
Other non-recurring items	25.1	5.2	34.9	7.5	115.5	24.3
Loss/(profit) on disposal of properties	1.2	0.3	2.8	0.6	(25.7)	(5.4)
Tax effect of above adjustments	(13.6)	(2.8)	(18.1)	(3.9)	(53.8)	(11.3)
Non-recurring deferred tax charge on abolition of Industrial Buildings Allowances	–	–	15.2	3.2	15.2	3.2
Profit for adjusted EPS calculation	44.5	9.3	73.1	15.6	230.9	48.6
Depreciation ²	152.5	31.7	124.4	26.5	273.6	57.7
Profit for adjusted cash EPS calculation	197.0	41.0	197.5	42.1	504.5	106.3

1 Amortisation charges of £17.1m (2008: £13.5m; full year 2009: £33.1m) per note 2 less £0.1m (2008: £0.1m; full year 2009: £0.2m) attributable to equity minority interests.

2 Depreciation charge of £152.9m (2008: £124.8m; full year 2009: £274.7m) per note 9 less £0.4m (2008: £0.4m; full year 2009: £1.1m) of depreciation attributable to equity minority interests.

Diluted EPS is based on the same earnings and on a weighted average number of ordinary shares of 482.3m (2008: 473.0m; full year 2009: 478.0m). The difference in the number of shares between the basic calculation and the diluted calculation represents the weighted average number of potentially dilutive ordinary shares from share options.

	6 months to 30 September 2009	6 months to 30 September 2008	Year to 31 March 2009
Diluted EPS	Pence	Pence	Pence
Diluted EPS	3.9	4.9	30.0
Adjusted diluted EPS	9.2	15.5	48.3

7 GOODWILL

	£m
Cost	
At 1 April 2009	1,820.0
Additions	–
Foreign exchange movements	(157.4)
At 30 September 2009	1,662.6
Accumulated impairment losses	
At 1 April 2009 and 30 September 2009	–
Carrying amount	
At 30 September 2009	1,662.6
At 31 March 2009	1,820.0
At 30 September 2008	1,416.9

8 OTHER INTANGIBLE ASSETS

	Customer contracts £m	Greyhound brand and trade name £m	UK Rail franchise agreements £m	Total £m
Cost				
At 1 April 2009	412.1	65.9	56.3	534.3
Foreign exchange movements	(35.1)	(5.1)	–	(40.2)
At 30 September 2009	377.0	60.8	56.3	494.1
Amortisation				
At 1 April 2009	44.6	5.0	28.0	77.6
Charge for period	12.3	1.5	3.3	17.1
Foreign exchange movements	(3.9)	(0.3)	–	(4.2)
At 30 September 2009	53.0	6.2	31.3	90.5
Carrying amount				
At 30 September 2009	324.0	54.6	25.0	403.6
At 31 March 2009	367.5	60.9	28.3	456.7
At 30 September 2008	298.3	50.9	32.2	381.4

Contracts acquired through the purchases of businesses and subsidiary undertakings, are amortised on a straight-line basis over their useful lives which are between nine and twenty years.

The rail franchise agreements intangible asset represents the part of the economic benefit derived from the rail franchise agreements that is realised as a result of recognising our share of the rail pension deficit and is amortised on a straight-line basis over the term of the franchise.

	Land and buildings £m	Passenger carrying vehicle fleet £m	Other plant and equipment £m	Total £m
9 PROPERTY, PLANT AND EQUIPMENT				
Cost				
At 1 April 2009	531.5	2,598.1	514.4	3,644.0
Additions	12.8	134.2	28.2	175.2
Disposals	(0.4)	(49.4)	(5.2)	(55.0)
Reclassified as held for sale	–	(9.0)	–	(9.0)
Foreign exchange movements	(25.0)	(133.8)	(14.3)	(173.1)
At 30 September 2009	518.9	2,540.1	523.1	3,582.1
Depreciation				
At 1 April 2009	51.6	974.7	219.6	1,245.9
Charge for period	6.7	114.3	31.9	152.9
Disposals	(0.2)	(32.2)	(3.6)	(36.0)
Reclassified as held for sale	–	(6.6)	–	(6.6)
Foreign exchange movements	(1.8)	(44.8)	(7.5)	(54.1)
At 30 September 2009	56.3	1,005.4	240.4	1,302.1
Carrying amount				
At 30 September 2009	462.6	1,534.7	282.7	2,280.0
At 31 March 2009	479.9	1,623.4	294.8	2,398.1
At 30 September 2008	421.0	1,362.4	278.8	2,062.2

	30 September 2009 £m	30 September 2008 £m	31 March 2009 £m
10 TRADE AND OTHER RECEIVABLES			
Amounts due within one year			
Trade receivables	442.5	459.6	453.0
Other receivables	67.2	98.2	67.2
Prepayments and accrued income	82.8	96.2	90.1
	592.5	654.0	610.3

	30 September 2009 £m	30 September 2008 £m	31 March 2009 £m
11 ASSETS CLASSIFIED AS HELD FOR SALE			
Assets classified as held for sale	4.3	5.6	4.2

Assets classified as held for sale comprise principally First Student buses which are surplus to requirement 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 condensed consolidated income statement.

	30 September 2009 £m	30 September 2008 £m	31 March 2009 £m
12 TRADE AND OTHER PAYABLES			
Amounts falling due within one year			
Trade payables	265.3	261.3	314.5
Other payables	173.1	118.7	129.2
Accruals and deferred income	591.8	577.2	623.0
Season ticket deferred income	53.9	54.3	58.0
	1,084.1	1,011.5	1,124.7

	30 September 2009 £m	30 September 2008 £m	31 March 2009 £m
13 DERIVATIVE FINANCIAL INSTRUMENTS			
Non-current assets			
Interest rate and foreign exchange derivatives	46.4	21.9	21.7
Fuel derivatives	4.6	24.2	3.1
	51.0	46.1	24.8
Current assets			
Interest rate and foreign exchange derivatives	13.8	14.4	3.1
Fuel derivatives	2.8	54.7	–
	16.6	69.1	3.1
Total assets	67.6	115.2	27.9
Current liabilities			
Interest rate and foreign exchange derivatives	48.7	16.3	52.4
Fuel derivatives	135.2	23.1	252.1
	183.9	39.4	304.5
Non-current liabilities			
Interest rate and foreign exchange derivatives	84.3	19.7	161.7
Fuel derivatives	40.5	17.8	81.9
	124.8	37.5	243.6
Total liabilities	308.7	76.9	548.1

	Insurance claims ¹ £m	Legal and other £m	Pensions £m	Total £m
14 PROVISIONS				
At 1 April 2009	262.0	59.5	5.5	327.0
Provided in the period	63.8	3.1	–	66.9
Utilised in the period	(80.0)	(5.6)	(0.2)	(85.8)
Transfers from current liabilities ²	–	8.2	–	8.2
Notional interest	8.8	–	–	8.8
Foreign exchange movements	(23.6)	(5.1)	–	(28.7)
At 30 September 2009	231.0	60.1	5.3	296.4
At 30 September 2008	241.1	55.9	5.8	302.8

1 Insurance claims accruals due within one year at 30 September 2009 amounted to £124.4m (2008: £110.5m; full year 2009: £141.1m) and are included in "accruals and deferred income" in note 12.

2 During the period the timing of the settlement of certain legal and other claims was reassessed and amounts previously included within "accruals and deferred income" (note 12) have been transferred to provisions.

	30 September 2009 £m	30 September 2008 £m	31 March 2009 £m
15 BUSINESS COMBINATIONS			
Provisional fair values of net assets acquired:			
Property, plant and equipment	–	2.4	2.3
Other current assets	–	0.8	0.7
Finance leases	–	(1.3)	(1.3)
Other creditors	–	(1.4)	(1.7)
	–	0.5	–
Goodwill (note 7)	–	1.9	6.5
Satisfied by cash paid and payable	–	2.4	6.5

	30 September 2009 £m	30 September 2008 £m	31 March 2009 £m
16 SHARE CAPITAL			
Authorised:			
Ordinary shares of 5p each	32.5	32.5	32.5
Allotted, called up and fully paid:			
Ordinary shares of 5p each	24.1	24.1	24.1

The number of ordinary shares of 5p each in issue, excluding treasury shares and shares held in trust for employees, at the end of the period was 479.9m (2008: 480.8m; full year 2009: 480.8m). At the end of the period 1.2m shares (2008: 0.3m shares; full year 2009: 0.3m shares) were being held as treasury shares and 1.0m shares (2008: 1.0m shares; full year 2009: 1.0m shares) were being held in trust to satisfy the exercise of employee share options.

	6 months to 30 September 2009 £m	6 months to 30 September 2008 £m	Year to 31 March 2009 £m
17 NOTES TO THE CONDENSED CONSOLIDATED CASH FLOW STATEMENT			
Operating profit before (loss)/profit on disposal of properties	124.3	131.3	345.4
Adjustments for:			
Depreciation charges	152.9	124.8	274.7
Amortisation charges	17.1	13.5	33.1
Share-based payments	2.7	3.1	6.3
Loss on disposal of property, plant and equipment	0.4	5.3	3.2
Operating cash flows before working capital	297.4	278.0	662.7
Decrease/(increase) in inventories	5.0	(5.7)	(17.2)
(Increase)/decrease in receivables	(29.9)	(38.3)	114.7
Decrease in payables	(90.8)	(31.2)	(69.8)
Defined benefit pension payments in excess of income statement charge	(17.3)	(27.1)	(50.7)
Cash generated by operations	164.4	175.7	639.7
Tax paid	(1.3)	(6.6)	(8.9)
Interest paid	(83.1)	(72.2)	(129.0)
Interest element of HP contracts and finance leases	(5.1)	(3.7)	(7.4)
Net cash from operating activities	74.9	93.2	494.4

	6 months to 30 September 2009	6 months to 30 September 2008	Year to 31 March 2009
	£m	£m	£m
18 RECONCILIATION OF NET CASH FLOWS TO MOVEMENT IN NET DEBT			
Increase/(decrease) in cash and cash equivalents in period	9.4	(6.4)	60.9
(Increase)/decrease in debt and finance lease financing	(75.3)	95.9	369.8
Inception of new HP contracts and finance leases	(32.0)	(12.7)	(155.9)
Debt acquired on acquisition of businesses	–	(1.3)	(1.3)
Fees on issue of bank facilities amendments and bond issue costs	4.5	5.7	8.4
Foreign exchange movements	225.1	(110.4)	(614.9)
Other non-cash movements in relation to financial instruments	(2.0)	(4.9)	(9.5)
Movement in net debt in period	129.7	(34.1)	(342.5)
Net debt at beginning of period	(2,503.5)	(2,161.0)	(2,161.0)
Net debt at end of period	(2,373.8)	(2,195.1)	(2,503.5)

19 RETIREMENT BENEFIT SCHEMES

The Group operates or participates in a number of defined benefit pension schemes which cover the majority of UK employees and certain North American employees. The scheme details are described on page 94 of the Annual Report and Accounts for the year ended 31 March 2009.

The market value of the assets at 30 September 2009 for all defined benefit schemes totalled £2,864m (2008: £2,744m and full year 2009: £2,465m).

Contributions are paid to all defined benefit schemes in accordance with rates recommended by the schemes' actuaries. The valuations are made using the Projected Unit Credit Method.

The key assumptions were as follows:

	UK 30 Sept 2009	North America 30 Sept 2009	UK 30 Sept 2008	North America 30 Sept 2008	UK 31 March 2009	North America 31 March 2009
	%	%	%	%	%	%
Discount rate	5.45	5.1	7.2	6.4	6.75	6.15
Expected return on scheme assets	7.6	7.0	7.85	7.5	7.75	7.5
Expected rate of salary increases	4.4	3.5	4.8	3.75	4.1	3.0
Inflation	2.9	2.3	3.3	2.5	2.6	2.0
Future pension increases	2.9	–	3.3	–	2.5	–

	UK 31 March 2008	North America 31 March 2008	UK 31 March 2007	UK 31 March 2006	UK 31 March 2005
	%	%	%	%	%
Discount rate	6.85	6.0	5.45	5.0	5.5
Expected return on scheme assets	7.85	7.5	7.5	7.3	7.6
Expected rate of salary increases	4.8	3.5	4.3	4.1	4.1
Inflation	3.3	2.5	2.8	2.6	2.6
Future pension increases	3.3	–	2.8	2.6	2.6

19 RETIREMENT BENEFIT SCHEMES continued

Amounts recognised in the condensed consolidated income statement in respect of these defined benefit schemes are as follows:

	30 September 2009 £m	30 September 2008 £m	31 March 2009 £m	31 March 2008 £m	31 March 2007 £m	31 March 2006 £m	31 March 2005 £m
Current service cost	29.3	34.2	70.1	74.9	75.2	53.4	46.1
Interest cost	77.9	77.8	158.6	125.4	102.0	89.0	80.0
Expected return on scheme assets	(81.8)	(96.5)	(196.2)	(174.4)	(140.5)	(107.6)	(87.9)
Interest on franchise adjustment	(2.6)	0.4	0.8	(0.1)	(1.0)	(2.3)	(1.5)
Past service cost	–	–	(3.0)	(1.7)	(13.2)	(16.6)	–
	22.8	15.9	30.3	24.1	22.5	15.9	36.7

Actuarial gains and losses have been reported in the condensed consolidated statement of comprehensive income.

The amount included in the condensed consolidated balance sheet arising from the Group's obligations in respect of its defined benefit pension schemes is as follows:

	30 September 2009 £m	30 September 2008 £m	31 March 2009 £m	31 March 2008 £m	31 March 2007 £m	31 March 2006 £m	31 March 2005 £m
Fair value of schemes' assets	2,863.9	2,743.6	2,464.9	2,911.4	2,506.7	1,992.6	1,578.4
Present value of defined benefit obligations	(3,600.4)	(2,760.4)	(2,789.6)	(2,788.3)	(2,488.5)	(2,193.8)	(1,881.8)
Rail franchise adjustment (60%)	219.2	14.1	75.9	(13.8)	2.2	38.3	41.7
Irrecoverable surplus	–	(51.1)	–	(30.7)	(6.8)	–	–
Adjustment for employee share of Rail Pension Schemes' deficits (40%)	172.3	28.4	80.1	10.4	10.2	30.9	40.6
(Deficits)/surplus in schemes	(345.0)	(25.4)	(168.7)	89.0	23.8	(132.0)	(221.1)

This amount is presented in the condensed consolidated balance sheet as follows:

Non-current assets	3.8	114.3	111.5	186.2	57.1	–	–
Non-current liabilities	(348.8)	(139.7)	(280.2)	(97.2)	(33.3)	(132.0)	(221.1)
(Deficits)/surplus in schemes	(345.0)	(25.4)	(168.7)	89.0	23.8	(132.0)	(221.1)

Independent review report to FirstGroup plc

INTRODUCTION

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2009, which comprises the condensed consolidated income statement, the condensed consolidated balance sheet, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement and related notes 1 to 19. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements 2410 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

DIRECTORS' RESPONSIBILITIES

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

OUR RESPONSIBILITY

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of the interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2009 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

DELOITTE LLP

Chartered Accountants and Statutory Auditors

London

United Kingdom

3 November 2009

Find out more about First

ANNUAL REPORT

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- Measuring our performance against our strategy
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WEBSITE

www.firstgroup.com

- Our Company
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CSR REPORT

- Introduction and overview
- Message from the Chief Executive
- Viewpoint of Jonathon Porritt, Founding Director of Forum for the Future and Chairman of the UK Sustainable Development Commission
- The future for public transport
- Performance against last year's targets
- CSR targets for 2009/10
- Our CSR External Advisory Group

Shareholder information

FINANCIAL CALENDAR

Shares trade ex dividend	6 January 2010
Record date for interim dividend ¹	8 January 2010
Interim dividend paid	3 February 2010
Financial year end	31 March 2010
Full year results announced	May 2010
Annual General Meeting	July 2010
Final dividend paid	August 2010



¹ Shareholders recorded on the register at this date will receive the interim dividend.



SHAREHOLDER ENQUIRIES

Enquiries relating to administrative matters such as dividend and tax vouchers, dividend mandates, loss of share certificates and change of address should be addressed to the Company's registrars at:

Equiniti, Aspect House, Spencer Road,
Lancing, West Sussex BN99 6DA.

Telephone **0871 384 2046**.

The registrars also provide an online service to enable you to access details of your shareholding. To view your details and a range of general information about holding shares, visit www.shareview.co.uk.



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