
Half-yearly financial report

2011

For the six months ended 30 September 2011



Financial highlights (continuing operations)⁴

FirstGroup plc is the leading transport operator in the UK and North America. With revenues of **over £6 billion** a year, we employ **approximately 125,000 staff** and transport **over 2.5 billion passengers** every year.

Our commitment to safety and customer service lies at the heart of our business and underpins everything we do.

2011

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Revenue

£3,168.8m

2010: £3,069.9m

Adjusted EBITDA¹

£323.4m

2010: £331.3m

Adjusted operating profit²

£163.0m

2010: £170.4m

Operating profit

£216.3m

2010: £173.5m

Adjusted profit before tax²

£84.5m

2010: £77.5m

Profit before tax

£127.8m

2010: £81.8m

Adjusted basic EPS²

11.2p

2010: 10.5p

Basic EPS

18.3p

2010: 11.4p

Proposed dividend per share

7.62p

2010: 7.12p

Net debt³

£2,058.7m

2010: £2,190.8m

¹ Adjusted operating profit plus depreciation.

² Before amortisation charges, ineffectiveness on financial derivatives, exceptional items, loss on disposal of properties and discontinued operations. All references to 'adjusted' figures throughout this report are defined in this way.

³ Net debt is stated excluding accrued bond interest.

⁴ For all businesses excluding UK Rail this half year includes 27 weeks compared to 26 weeks for the corresponding period last year.

Chairman's statement

I am pleased to report that during the first half of the current financial year the Group again demonstrated the inherent strength it derives from a diverse portfolio of operations that are fundamentally strong.

While addressing the challenges of the current weak economic environment in certain markets in which we operate, management has a clear focus on creating a stronger business, centred on our core operations, and is taking the necessary forward looking decisions to ensure the business is well positioned to deliver sustainable growth for the longer term.

There is no doubt that public transport is a key enabler of economic growth and an essential component of vibrant and sustainable local and regional economies. The Group, which has grown rapidly and achieved considerable success since its formation, is going through an important stage in its development. Under Tim O'Toole's leadership there is clear focus to drive greater operational performance and efficiency across the business and to ensure that the Group will benefit from future growth opportunities as the economic environment improves.

We remain focused on cash generation to support capital investment, debt reduction and dividend growth. The Board remains committed to an investment grade credit rating for the Group. Last year we made good progress in reducing leverage to levels closer to our target range and will continue to progress our plans in the current year.

Dividend growth is a key element in the investment decision for many shareholders and we are committed to delivering sustained real growth in dividends. The Board has proposed an interim dividend per share of 7.62p representing an increase of 7%, in line with our current commitment, which will be paid on 1 February 2012 to shareholders on the register at 6 January 2012.

In September Jeff Carr, Finance Director, informed the Board of his intention to leave the Group to take up the role of Chief Financial Officer for Royal Ahold NV based in the Netherlands. Jeff will leave the Group on 11 November 2011 and a search for his replacement is underway, enabling the Board to consider internal and external candidates. I would like to thank Jeff for his contribution to the Group and wish him every success in his new role. Nick Chevis, who has been with the Group since 1997 and held a number of senior finance roles, will become Acting Finance Director to ensure the continuation of strong financial leadership and control.

Finally, on behalf of the Board I would like to extend our sincere thanks and gratitude to our 125,000 employees across the UK and North America. Their professionalism and commitment to serving the 2.5 billion passengers that we transport each year is key to our success now and for the future.

With leading positions in its core markets and a clear focus on creating a stronger business for the future, the Board is confident that the Group has good prospects to continue to deliver long term value for shareholders.

Martin Gilbert Chairman

Operating profit referred to throughout this report refers to operating profit before amortisation charges, ineffectiveness on financial derivatives, exceptional items, loss on disposal of properties and discontinued operations. EBITDA is adjusted operating profit plus depreciation.

For all businesses excluding UK Rail this half year includes 27 weeks compared to 26 weeks for the corresponding period last year.

Operating and financial review

Group revenue increased by 3.2% to £3,168.8m (2010: £3,069.9m) and adjusted operating profit was £163.0m (2010: £170.4m), reflecting the expected reduction in First Student profits partly offset by higher profits and margin improvement in all the other businesses. Statutory operating profit increased to £216.3m (2010: £173.5m) reflecting a favourable outcome on net exceptional items compared to the same period last year. Adjusted basic EPS increased by 6.7% to 11.2p (2010: 10.5p). Adjusted EBITDA was £323.4m (2010: £331.3m).

Divisional results

	6 months to 30 September 2011 ¹			6 months to 30 September 2010			Year to 31 March 2011		
	Revenue £m	Operating profit ² £m	Operating margin ² %	Revenue £m	Operating profit ² £m	Operating margin ² %	Revenue £m	Operating profit ² £m	Operating margin ² %
First Student	683.3	5.5	0.8	711.4	28.0	3.9	1,594.4	128.3	8.0
First Transit	387.3	27.2	7.0	392.7	26.0	6.6	771.5	57.2	7.4
Greyhound	343.6	30.5	8.9	337.6	25.6	7.6	634.6	40.2	6.3
UK Bus	586.9	59.4	10.1	570.5	55.4	9.7	1,137.5	148.8	13.1
UK Rail	1,162.6	55.7	4.8	1,053.1	48.4	4.6	2,269.8	108.7	4.8
Group ³	5.1	(15.3)	-	4.6	(13.0)	-	8.9	(26.5)	-
Total Group	3,168.8	163.0	5.1	3,069.9	170.4	5.6	6,416.7	456.7	7.1

1 For all businesses excluding UK Rail this half year includes 27 weeks compared to 26 weeks for the corresponding period last year.

2 Adjusted.

3 Tram operations, central management and other items.

First Student

As previously indicated, trading during the first six months of the current financial year reflected the carry-over of last year's performance. Revenue was \$1,107.6m or £683.3m (2010: \$1,074.6m or £711.4m). Adjusting for the extra week versus the same period last year, US Dollar revenues were 2.4% lower year-on-year. Operating profit was \$9.0m or £5.5m (2010: \$40.0m or £28.0m).

We are pleased with the progress we are making in executing our business recovery plan and with good momentum now achieved across the business we are seeing positive early indicators.

As a result of the improved performance during the recent bidding season, together with the actions we are taking, we expect operating margin for the second half of the year to be broadly in line with the same period last year.

Despite the challenges presented by ongoing pressure on school board budgets, our strategy to focus on retention delivered an improved performance in the recent bidding round for the 2011/12 school year.

We strengthened our commercial team and implemented our plan to reduce the amount of contract churn in our portfolio. As a result retention returned to approximately 90% and we were pleased that our ten largest contracts up for renewal during the last bid season were all retained.

Overall conversion activity is high as a result of budgetary pressures on school boards, however the pace of outsourcing industry-wide remains slow. During the recent bid season we won 11 conversion contracts to operate approximately 330 buses in states including Pennsylvania and Michigan. We are focusing our activity in a number of targeted states where there is greater potential for outsourcing.

During the period we completed a significant restructuring of the business to create a more agile and sustainable operating model. The new role mandates we have introduced provide clarity across the organisation enabling our regional and local management to focus on what is important supported by a revised performance management process, incentive structure and key performance indicators. As we progress our plans to achieve the operational

excellence and efficiency that should derive from our scale we are systematically rolling out best practices across all of our locations.

Improving labour productivity is a key area within our business recovery plan. We continue to advance the roll out of FOCUS, our GPS software that links on-board data with engineering, payroll and back office systems. This enables us to manage standard driving hours more accurately as well as eliminate excess miles and reduce idling time. We are also trialling certain elements of FOCUS to give customers direct access to real time information and performance metrics to enable them to respond quickly and accurately to queries. Positive feedback from customers supports our view that FOCUS will provide differentiation within the market in the future.

We are driving efficiency improvements across the business including in the areas of engineering and maintenance, where we are implementing lean practices that will deliver productivity and efficiency improvements. We are very encouraged by the efficiencies identified, which indicate scope to achieve approximately 10% productivity improvement in maintenance processes as best practices are rolled out across our locations.

Early indications suggest that the charter market is beginning to stabilise. We are progressing opportunities and implementing plans to increase our charter activity, including rolling out best practices across our operations and launching a pilot to create contact centres covering key markets where we see significant potential. As a result we have seen encouraging growth particularly in the non-school charter market.

As the market leader First Student is uniquely placed to leverage its scale. As we build the Student business for the future we will continue to invest in significant programmes, including comprehensive training at the local level, creating a unified direction with more efficient and consistent practices. With a more agile business model and significantly improved operating leverage, First Student will be well positioned to harness its potential and extend its leadership position to deliver long term, sustainable growth.

First Transit

Revenue increased to \$627.3m or £387.3m (2010: \$596.5m or £392.7m). After adjusting for the extra week, US Dollar revenues increased by 1.2% from the same period last year. Operating profit was \$44.1m or £27.2m (2010: \$39.6m or £26.0m) and operating margin improved to 7.0%.

We continue to focus on our core business segments and delivered a strong performance from our shuttle bus business. During the period we won new business including contracts to operate shuttle bus services at Yale and Kennesaw State universities and also additional services within existing contracts including in Fort McMurray in Alberta, Canada. We have been notified of the award of significant contracts for a non-emergency medical transportation call centre in Colorado and to provide fixed route and paratransit services in Fort Bend, Texas.

First Transit is benefiting from our investment in innovation as we introduce new products to build on our industry leading position. Our Vehicle Diagnostic System will enable First Transit and First Vehicle Services to provide more effective diagnostic services to our customers, including a more efficient way of working through an improvement in bus maintenance turnaround times together with fewer mechanical errors. In April, we began operating 31 cutting edge hybrid-electric buses on behalf of Connecticut Transit.

Across our core business segments we have a strong pipeline of opportunities and continue to make the case for conversion to outsourcing based on our reputation for delivery and track record of generating efficiencies to reduce costs for customers. This robust operational and financial performance has led to several key contract extensions and renewals including the paratransit call centre in New York City; the contract to provide fixed route and paratransit service in Yuma, Arizona after we stepped in to operate at short notice last year and the contract to provide fixed route services in Pomona, California.

Greyhound

As a result of the actions we have taken to transform the network and increase operating leverage Greyhound has delivered encouraging growth. Like-for-like passenger revenue increased by 3.7% (2010: 1.9%) and revenue was \$556.6m or £343.6m (2010: \$513.0m or £337.6m). Operating profit was \$49.4m or £30.5m (2010: \$39.2m or £25.6m) and operating margin improved to 8.9%.

We are making Greyhound a more modern and efficient network and delivering improved service quality at the same time. During the period we added 42 new vehicles to our fleet, with a further 14 new coaches due to enter service in the autumn for our operations that serve the Hispanic market domestically and internationally along and across the southwest border with Mexico. We also refurbished a further 100 vehicles, bringing the total to almost 230 to date, and are

significantly improving the passenger experience with amenities including Wi-Fi, at seat power plugs and additional legroom. By the end of the current financial year we expect that over half the fleet will be new or refurbished to 'like new' standard.

Our customer proposition has been transformed with the launch of Greyhound Express 11 months ago. Passengers are able to travel non-stop on new or refurbished coaches on high volume routes between major cities and take advantage of yield managed fares and reserve guaranteed seats online. In addition to the two original Greyhound Express networks serving the Midwest and Northeast, during the period we also expanded services to the Southeast from a hub in Atlanta, from which we will launch a further two destinations during November.

We are taking opportunities to right-size and relocate Greyhound's properties in the US to more appropriate, accessible and convenient sites for passengers across the network. During the period we completed the sale of our Washington DC terminal for \$46.7m and will relocate our services to the multimodal hub at the city's Union Station by early 2013.

In November we launched a national initiative with 7-Eleven and PayNearMe, which will open up online fares and discounts to a new market. Around 50% of Greyhound's customers use cash to pay for their tickets and from November customers without access to credit cards can order their tickets online and pay in cash at one of 6,400 7-Eleven stores nationwide. This follows a successful three month trial in the Dallas area, which saw some 10% of Greyhound internet transactions for the area being completed through 7-Eleven. Last year we relaunched our web offering through www.greyhound.com and continue to see encouraging growth in sales from this channel which now represents around 28% of total US ticket purchases.

In Canada we are on track to deliver our profit recovery plan as we continue to right-size our network, reducing uneconomic routes and condensing the fleet size to a smaller core of refurbished coaches. We are modernising the network and will launch Greyhound Express in four of the largest cities in Alberta during November. We continue to develop further opportunities to expand the service.

UK Bus

Our UK Bus division performed steadily during the period. Revenue was £586.9m (2010: £570.5m). Adjusting for the extra week overall revenue was down 1.2% compared to the same period last year reflecting mileage reductions in the second half of last year and the softening macroeconomic environment.

During the period passenger revenues, on a like-for-like basis, increased by 1.4%. Operating profit increased by 7.2% to £59.4m (2010: £55.4m) and operating margin improved to 10.1%. However, looking ahead as the macroeconomic environment has continued to soften, we anticipate trading conditions will remain challenging as a result of lower economic activity in the major urban areas where we operate and the impact of reduced funding available to the industry.

We made further progress in our programme of selective asset and business disposals as part of our strategy to focus on our core operations in the UK and North America. In April we sold our local bus operations in King's Lynn and in September we sold our German subsidiary, which operates approximately 130 buses in the Frankfurt and Heidelberg area, to Marwyn European Transport plc for a gross consideration of €5.5m.

We remain focused on developing the opportunities that exist to transition to increased growth within our networks, while retaining our strong cost discipline to manage the immediate challenges presented by the weak economy and reduced funding as a result of the Comprehensive Spending Review. The UK Bus team is committed to delivering consistent, efficient and effective services across all of our networks and establishing the platform to achieve increased growth. During the summer we completed a reorganisation to ensure that our networks are locally managed and delivered to enable greater focus on our commercial growth plans.

To help equip us for future growth we have committed significant investment over the next two years. We are investing £160m in approximately 1,000 new vehicles, as well as refurbishing our mid-life vehicles, which will create a step change to our fleet profile. As part of this investment, we are taking delivery of some 40 hybrid buses for services in Leeds, Manchester and Glasgow which are partially funded by the Green Bus Funds of the Department for Transport (DfT) and the Scottish Government. This will enable us to gain good experience of this technology and better understand the marketing opportunities these vehicles provide.

We are also investing £27m in innovative new ticketing technology for our bus fleet in England, outside London. This equipment will be installed progressively from November and will accept ITSO smartcards. However, the technology will also allow us, by late 2012, to offer customers 'touch in, touch out' contactless payment using their bank cards. This will allow us to revolutionise the fares transaction, reducing cash payments and speeding up boarding times. It will also enable us to offer a wide range of ticket products and has the capability to accept payment by mobile phone.

Across a number of our operating areas we have seen a reduction in Local Authority support for tendered services. Where possible we have worked with those Authorities to mitigate the effects on networks. Additionally, we are working with a number of Authorities to enable school children to take up spare capacity on commercial services, saving the Authority the requirement to provide bespoke contracted school services. In the Bristol area where the level of tendered work has reduced, we have reinvested the mileage saved by enhancing frequencies on our key corridors which have growth potential. Fares promotions have also been introduced and, alongside the delivery of highway infrastructure improvements by our Local Authority partners as part of the Greater Bristol Bus Network, we have seen encouraging patronage growth to date this year.

Across all of our networks we are introducing simpler fares products through appropriate combinations of flat fares, route and network tickets. A number of specific fares promotions have been run to stimulate demand. We are encouraged by research findings that show a 35% increase in our customers who now consider our pricing to demonstrate value for money compared to 12 months ago.

We continue to benefit from developing strong partnerships with Local Authorities across our networks. For example, our partnership with the City and County of Swansea delivered substantial highway infrastructure improvements and reduced journey times last year and our ftmetro service has seen growth of 10% coupled with strong, positive feedback from customers.

In West Yorkshire we strongly support the Association of Bus Operators' proposal to Metro to deliver bus services through a wide-ranging partnership which will focus on all aspects of network delivery and customer experience. Fundamental to this will be a commitment

by all the parties – Metro, district councils and the operators – to identify and agree programmes which will reduce congestion on bus routes and consequently achieve journey time reductions for users.

In Sheffield, in partnership with South Yorkshire PTE and other operators, we introduced the first of a series of Quality Partnership Corridors in July. The second corridor was introduced at the end of October. These partnerships enable coordinated frequencies and inter-available ticketing between operators coupled with service quality commitments and roadside infrastructure investment.

We are encouraged by our operational performance in London where we deliver better than network average and, on most measures, are near the top of Transport for London (TfL) league tables. In June we successfully mobilised over 100 additional buses on three new TfL routes from our Lea Interchange depot, which opened last year. We are delighted that TfL has awarded us funding to purchase 22 hybrid buses for route 23, which will enter service from April 2012.

As previously announced, next year our bus operations will provide spectator transport during the London 2012 Games. We are providing around 500 buses for shuttle services at Games venues and Park & Ride services from sites around the edge of London to the Olympic Park as well as those for the sailing venue in Weymouth and rowing venue in Eton Dorney. We will also be operating a network of express coach services from across the country to the Olympic Park and Weymouth. The contract includes a reservation and ticketing system as well as support staff at all bus and coach locations to manage the fleet.

We continue to work closely with the Competition Commission as it completes its inquiry into the local bus services market outside London. We were pleased that its provisional decision on remedies, published in October, recognised that no fundamental change to the structure or regulation of the industry was required. We continue to actively engage with the Commission on the detail of its proposals.

UK Rail

Our rail companies benefited from continued strong demand, with revenue increased to £1,162.6m (2010: £1,053.1m) and operating profit increased to £55.7m (2010: £48.4m). Across all of our Train Operating Companies we saw increased demand with like-for-like passenger revenues increased by 9.0%.

During the period we announced that our First TransPennine Express franchise was extended to April 2015 and First Capital Connect will be refranchised in 2012/13, with a replacement franchise to commence from September 2013, in order to facilitate the ongoing delivery of the Thameslink Programme and in particular the introduction of new rolling stock funded by the DfT. We are one of four pre-qualifying bidders for the InterCity West Coast franchise, which the Government has announced will be awarded in 2012.

We were pleased to announce in September that Vernon Barker was appointed to the senior management team as Managing Director of the UK Rail division. Vernon has been the Managing Director of First TransPennine Express since the Group commenced operation of the franchise in 2004. During this time passenger numbers have grown from 13 million to 24 million per annum and a number of significant improvements in performance, punctuality and customer satisfaction have been delivered. Vernon's proven track record in railway management and strong focus on customer service will be invaluable as we develop our existing and new rail interests.

We have unrivalled expertise operating different types of franchises and delivering major infrastructure improvements in partnership with stakeholders. We look forward to building on our market leadership position in rail and developing further opportunities once the DfT's new franchising programme commences next year.

First Capital Connect

We continue to focus on improving performance at First Capital Connect (FCC). Our Public Performance Measurement (PPM) of reliability and punctuality stands at 89.1% on a Moving Annual Average (MAA) basis. We have made encouraging progress on the Thameslink route, however, infrastructure performance on the Great Northern route needs to improve and we are working with Network Rail, as a high priority, to reduce delays for passengers.

The December timetable change will see longer 12-carriage trains operating four of the peak time services on the Thameslink route, whereas four-carriage services will reduce from 15 to 11 in the morning peak. In the coming months refurbishment and transformation work will be finished at Blackfriars, Farringdon and West Hampstead stations. On the Great Northern route we have added around 6,500 peak seats through our 'More Seats for You' initiative.

We are continuing to work on improving our customer information provision, with smartphones issued to staff, customer information screen updates and PCs available at ticket barriers. Responding to the changing ways in which passengers like to receive information, we increased our provision of updates through social media including Twitter. We are pleased that complaints regarding customer information have reduced by 40% year-on-year.

The DfT has announced that the end date for the FCC franchise has been brought forward to September 2013. At FCC we are working closely with the DfT and Network Rail to successfully deliver the initial phase of the ongoing Thameslink transformation project. This new end date provides the best opportunity in the programme to allow an effective transition to a potential new franchisee, particularly in relation to the introduction of new rolling stock which will be completed after the end date of the current franchise. This major investment is already bringing benefits to passengers and will transform a key part of London's transport network. Our unrivalled knowledge and experience of managing this key project gives us a strong foundation to continue to help deliver this important programme in the future.

First Great Western

Punctuality during the period has been improving with delay minutes down by a third and we continue to challenge Network Rail to reduce infrastructure failures. Operational performance is below our target with PPM MAA just below 90%. As announced in May, we took the commercial decision not to take up our option to extend the franchise for a further three years from March 2013. We are committed to delivering further improvements for passengers and intend to bid for the new long term Greater Western franchise reflecting the changed environment and significant Government investment in the region.

The Cotswold Line saw an extra 16 miles of track redoubling completed by Network Rail over the summer, allowing us to run an additional six daily services over the route. From December we will be launching a trial early morning departure from Charlbury station, via Oxford, arriving at London Paddington by 08:30am. This development is welcomed by local stakeholders and customers, as are five car park extensions being put into place, funded by Network Rail and the DfT.

Our £8m programme to improve our Turbo Class 16x fleet, which operates in the London and Thames Valley area, is now complete. The upgrade to 151 carriages, which carry more than 36 million passengers a year, has led to significant increases in our customer satisfaction monitor scores, with an eight point improvement in customer views on comfort. We have also reached agreement with the DfT to introduce six new carriages to the Bristol area, releasing 900 additional seats to commuters in time for the winter timetable.

Six of our routes were named by ATOC in the top ten fastest growing rural branch lines and our work with Community Rail Partnerships across our network contributed to our achieving ten awards at the Community Rail Awards in September, as well as overall winner of the 'Outstanding Delivery of the Community Rail Strategy' for the second year in a row.

First ScotRail

First ScotRail (FSR) continues to perform well and deliver improvements in passenger satisfaction. In the Spring 2011 National Passenger Survey 86% of passengers said they were satisfied with FSR's service, which is above the national average, and FSR outperformed the average in 30 out of 33 categories. Significant improvements were seen in categories such as staff helpfulness and attitude, availability of train times and platform information.

Our new 38-strong fleet of Class 380 electric trains from the Scottish Government are now all in service, running between Glasgow Central and Ayrshire; Inverclyde and Renfrewshire, and Edinburgh to North Berwick and Dunbar. We have a £4m project to refurbish the Class 334 fleet starting in November, creating additional jobs in Ayrshire. Across our fleet we continue to invest to improve reliability and comfort.

We have invested in CCTV and help points across the network, reducing crime for the seventh year in a row, whilst the installation of ticket barriers at five central Glasgow stations will help reduce lost revenue. The implementation of our winter weather schemes last year reduced train failures by 30% and led to a win at the Railway Innovation Awards. As well as the heated train 'skirts' and polytunnels introduced last year, this winter we are using a system of hot water sprinklers to remove snow and ice from undercarriages quickly.

FSR and Network Rail are developing a pioneering alliance framework agreement in order to better align overall objectives, deliver value for money and increase focus on passenger requirements. We are agreeing a joint programme of projects with Network Rail and are working more closely than ever before on a number of issues including timetabling and winter preparation. It is expected that the alliance framework will include simplification of station and depot repair and management and the establishment of joint Scotland control and performance teams.

First TransPennine Express

We were delighted that the DfT took the decision to extend First TransPennine Express (FTPE). We will operate the franchise for a further three years from February 2012 at an operating margin closer to the industry average. Since we started operating the franchise in 2004 we have delivered a number of improvements including the introduction of a £260m new train fleet and passenger numbers have grown from 13 million to 24 million per annum. We will work closely with the DfT and our stakeholders in the region over the remaining time of the franchise to develop plans for the future of rail in the north of England and to further develop the Anglo-Scottish services.

Our PPM MAA is above the national average at 91.1% and we achieved a passenger satisfaction rating of 89% in the National Passenger Survey. This is a record score for FTPE and a 15% improvement since the start of the franchise.

Passenger growth has been aided by advance purchase fares offering greater value-for-money journeys. Over 10 million people in the region will have seen FTPE advertising on television and ticket sales through our website www.tpexpress.co.uk, which increased by 85% in the year to March 2011, are continuing to grow. FTPE also launched a GPS-enabled mobile website during the period, giving customers an additional way of accessing train information. We were pleased that 91% of passengers surveyed say that they are pleased with the way that FTPE communicates.

First Hull Trains

First Hull Trains topped the National Passenger Survey with an overall customer satisfaction score of 95%. We launched our refreshed Class 180 fleet in May and our trains now offer free on-board Wi-Fi, at seat power sockets, leather seats in First Class and improved catering and have been well received by passengers.

Exceptional items and amortisation charges

	6 months to 30 September 2011 £m	6 months to 30 September 2010 £m	Year to 31 March 2011 £m
UK Bus Pension Scheme changes	73.3	–	–
UK Rail bid costs	(2.1)	–	(2.7)
Competition Commission costs	(1.0)	–	(1.4)
UK Rail First Great Western contract provision	–	–	(59.9)
First Student recovery plan	–	–	(39.5)
First Transit goodwill impairment and contract provision	–	–	(16.6)
UK Rail claim	–	22.5	22.5
UK Rail joint venture provision	–	–	(1.8)
UK Bus restructuring costs	–	–	(1.0)
Other exceptional items	(1.1)	(0.2)	(0.4)
Total exceptional items	69.1	22.3	(100.8)
Amortisation charges	(15.1)	(17.7)	(42.9)
Loss on disposal of properties	(0.7)	(1.5)	(4.4)
Operating profit credit/(charge)	53.3	3.1	(148.1)
Ineffectiveness on financial derivatives	(10.0)	1.2	0.3
Profit before tax credit/(charge)	43.3	4.3	(147.8)
Tax (charge)/credit	(9.2)	0.3	43.0
(Loss)/profit on disposal of discontinued operations	(9.2)	6.7	6.7
Exceptional items for the period	24.9	11.3	(98.1)

UK Bus Pension Scheme changes

During the period certain changes were agreed in principle with the participating members and the Scheme trustees, the most significant of which is that pension increases will be linked to consumer price inflation (CPI) rather than retail price inflation (RPI). As a result of these changes future pension liabilities have decreased and a one-off exceptional gain of £73.3m (2010: £nil) was realised.

UK Rail bid costs

Costs of £2.1m (2010: £nil) were incurred during the year principally on preparatory work on our bid for the Intercity West Coast franchise.

Competition Commission costs

Costs of £1.0m (2010: £nil) were incurred on the ongoing Competition Commission investigation into the UK Bus market.

Other exceptional items

Costs of £1.1m (2010: £0.2m) were incurred principally on effecting the changes to the UK Bus Pension Scheme as described above.

Amortisation charges

The charge for the period was £15.1m (2010: £17.7m) with the reduction principally due to fully writing off the remaining First Great Western intangible in the year to 31 March 2011.

Loss on disposal of properties

A loss on disposal of properties of £0.7m (2010: £1.5m) was recorded during the period. A Greyhound property in Washington was sold which generated a small gain but this was more than offset by losses on disposals in UK Bus and First Student.

Ineffectiveness on financial derivatives

The principal component of the £10.0m non-cash charge (2010: £1.2m credit) relates to fixed interest rate swaps which do not qualify for hedge accounting but do provide a cash flow hedge against variable rate debt from 2012 to 2015. It is anticipated that the charge in respect of these swaps will reverse over their contractual term.

Tax

The tax charge as a result of these exceptional items was £9.2m (2010: credit of £0.3m).

Finance costs and investment income

Net finance costs, before exceptional items, were £78.5m (2010: £92.9m) with the reduction principally due to lower interest rates on US Dollar denominated debt.

Profit before tax

Adjusted profit before tax was £84.5m (2010: £77.5m) with the increase due principally to lower net finance costs partly offset by lower adjusted operating profit. An overall credit of £43.3m (2010: £4.3m) for exceptional items and amortisation charges resulted in statutory profit before tax of £127.8m (2010: £81.8m).

Tax

The tax charge, on adjusted profit before tax, for the period was £18.8m (2010: £19.3m) and is based on the estimated effective rate for the year of 22.3% (2010: 25.0%). The tax charge of £9.2m (2010: credit of £0.3m) relating to amortisation charges and exceptional items resulted in a total tax charge of £28.0m (2010: £19.0m) on continuing operations.

The actual tax paid during the period was £4.3m (2010: £9.8m). North American cash tax remains low due to tax losses brought forward and tax depreciation in excess of book depreciation. We expect the North American cash tax rate to remain low for the near term.

EBITDA

	6 months to 30 September 2011 ¹			6 months to 30 September 2010			Year to 31 March 2011		
	Revenue £m	EBITDA ² £m	EBITDA ² %	Revenue £m	EBITDA ² £m	EBITDA ² %	Revenue £m	EBITDA ² £m	EBITDA ² %
First Student	683.3	79.9	11.7	711.4	105.3	14.8	1,594.4	278.1	17.4
First Transit	387.3	31.7	8.2	392.7	30.8	7.8	771.5	66.3	8.6
Greyhound	343.6	45.4	13.2	337.6	40.3	11.9	634.6	68.7	10.8
UK Bus	586.9	96.5	16.4	570.5	91.5	16.0	1,137.5	220.5	19.4
UK Rail	1,162.6	84.6	7.3	1,053.1	74.9	7.1	2,269.8	166.1	7.3
Group	5.1	(14.7)	-	4.6	(11.5)	-	8.9	(22.8)	-
Total Group	3,168.8	323.4	10.2	3,069.9	331.3	10.8	6,416.7	776.9	12.1

1 For all businesses excluding UK Rail this half year includes 27 weeks compared to 26 weeks for the corresponding period last year.

2 Adjusted operating profit plus depreciation.

Discontinued operations

A loss on disposal of £9.2m arose on the sale of FirstGroup Deutschland GmbH representing gross consideration of €5.5m less the carrying value of net assets, including goodwill, and transaction costs. This, as well as the operating loss after tax to the date of disposal of £0.3m (2010: profit of £0.3m), has been classified within discontinued operations in the consolidated income statement.

Dividends

The interim dividend per ordinary share of 7.62p (2010: 7.12p) represents an increase of 7.0%. The interim dividend will be paid on 1 February 2012 to shareholders on the register of members at the close of business on 6 January 2012.

EPS

The adjusted basic EPS was 11.2p (2010: 10.5p), an increase of 6.7%. Basic EPS was 18.3p (2010: 11.4p), an increase of 60.5%.

EBITDA

EBITDA by division is set out below:

Cash flow

The net cash outflow was £64.2m (2010: £15.7m) for the half year. This contributed to a net debt increase of £109.3m (2010: reduction of £90.7m) as detailed below:

	6 months to 30 September 2011 £m	6 months to 30 September 2010 £m	Year to 31 March 2011 £m
Operational cash flows before working capital	394.8	358.6	708.8
Working capital	(26.5)	(16.4)	78.4
Movement in provisions	(46.2)	(30.2)	0.4
Pension payments in excess of income statement charge	(117.8)	(14.8)	(43.5)
Cash generated by operations	204.3	297.2	744.1
Capex and acquisitions	(91.8)	(147.2)	(261.8)
Interest and tax	(102.5)	(117.9)	(186.7)
Dividends	(79.7)	(72.1)	(113.2)
Proceeds from sale of business	5.5	24.3	24.3
Other	-	-	3.1
Net cash (outflow)/inflow	(64.2)	(15.7)	209.8
Foreign exchange movements	(42.6)	109.7	129.2
Other non-cash movements in relation to financial instruments	(2.5)	(3.3)	(6.9)
Movement in net debt in period	(109.3)	90.7	332.1

The reduction in net cash flow was primarily due to:

- ▶ Higher pension payments in excess of income statement charge of £103.0m principally due to the non-cash exceptional gain in relation to the UK Bus Pension Scheme changes and additional cash contributions in Greyhound.
- ▶ Working capital and movements in provisions outflows unfavourable by £26.1m principally caused by higher receivables due to the extra week of trading in North America and UK Bus.
- ▶ Lower proceeds from sale of business of £18.8m due to the sale of GB Railfreight in the prior period.
- ▶ Higher dividend payments of £7.6m.

Partly offset by:

- ▶ Lower capital expenditure and acquisitions of £55.4m principally due to reduced spend in UK Bus, First Student and Greyhound, greater use of operating leases in UK Bus and higher disposal receipts.
- ▶ Operating cash flows before working capital being £36.2m higher principally due to the exceptional gain in relation to the UK Bus Pension Scheme changes partly offset by the Network Rail settlement in the prior period.
- ▶ Lower tax and interest payments of £15.4m principally due to lower interest rates on US Dollar denominated debt.

Net debt

The Group's net debt at 30 September 2011 was £2,058.7m (2010: £2,190.8m) and comprised:

	30 September 2011			30 September 2010	31 March 2011
	Fixed £m	Variable £m	Total £m	Total £m	Total £m
Sterling bond (2013) ¹	298.5	-	298.5	298.0	298.0
Sterling bond (2018) ²	335.8	-	335.8	330.3	325.9
Sterling bond (2019) ²	-	268.9	268.9	277.1	273.4
Sterling bond (2021) ³	335.2	-	335.2	332.9	331.1
Sterling bond (2024) ¹	199.0	-	199.0	199.0	199.0
Sterling bank loans	-	25.0	25.0	-	-
US Dollar bank loans	-	398.3	398.3	698.7	506.3
Canadian Dollar bank loans	-	119.7	119.7	130.8	113.1
Euro and other bank loans	-	17.2	17.2	29.6	29.0
HP contracts and finance leases	213.1	73.4	286.5	219.4	251.9
Senior unsecured loan notes	95.9	-	95.9	-	-
Other loan notes	8.7	1.0	9.7	9.7	9.7
Cash	-	(81.3)	(81.3)	(99.5)	(89.4)
UK Rail ring-fenced cash and deposits	-	(233.6)	(233.6)	(219.3)	(283.8)
Other ring-fenced cash and deposits	-	(16.1)	(16.1)	(15.9)	(14.8)
Interest rate swaps	385.0	(385.0)	-	-	-
Total	1,871.2	187.5	2,058.7	2,190.8	1,949.4

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.

Average debt maturity at the end of the period was 5.9 years (2010: 5.6 years). Liquidity headroom under the committed \$1.25bn syndicated bank revolver at 30 September 2011 was £601m (2010: £934m).

Leverage reduction is a key priority. At 30 September 2011 the net debt to EBITDA ratio was 2.7 times (2010: 2.8 times).

Shares in issue

As at 30 September 2011 there were 481.4m shares in issue (2010: 480.4m), excluding treasury shares and own shares held in trust for employees of 0.7m (2010: 1.7m). The weighted average number of shares in issue for the purpose of basic EPS calculations (excluding treasury shares and own shares held in trust for employees) was 481.2m (2010: 480.3m).

Foreign exchange

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

	6 months to 30 September 2011		6 months to 30 September 2010		Year to 31 March 2011	
	Closing rate	Effective rate	Closing rate	Effective rate	Closing rate	Effective rate
US Dollar	1.56	1.62	1.58	1.50	1.60	1.56
Canadian Dollar	1.64	1.59	1.62	1.44	1.57	1.56

Pensions

The Group has updated its pension assumptions as at 30 September 2011 for the defined benefit schemes in the UK and North America.

The net pension deficit of £243m at the beginning of the period has increased to £261m at the end of the period principally due to actuarial losses as a result of changes in assumptions and lower than expected returns on assets partly offset by the one-off benefit of the changes to the UK Bus Scheme described above and higher cash payments into the schemes.

The main factors that influence the balance sheet position for pensions and the sensitivities to their movement at 30 September 2011 are set out below:

	Movement	Impact
Discount rate	+0.1%	Reduce deficit by £24m
Inflation	+0.1%	Increase deficit by £15m

Fuel hedging

For the current year 84% of UK 'at risk' crude volumes (2.6m barrels) and 59% of North American 'at risk' volumes (1.7m barrels) are hedged at \$88 and \$95 respectively.

For 2012/13 'at risk' crude volumes, the UK is 65% hedged at \$101 per barrel and North America is 48% hedged at \$93 per barrel.

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 2011 Annual Report. The principal risks and uncertainties, which are set out in detail on pages 40 to 42 of the Annual Report and Accounts 2011, are:

- ▶ Economy in the UK and North America
- ▶ Pension assets and liabilities valuations
- ▶ Customer service and associated contract retention
- ▶ Competitive pressures
- ▶ Legislation and regulation
- ▶ Labour costs and employee relations
- ▶ Unhedged fuel costs
- ▶ Treasury risks and insurance costs
- ▶ Terrorism
- ▶ Rail franchise agreements
- ▶ Retention of key management
- ▶ 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).

Outlook

We remain focused on cash generation to support capital investment, debt reduction and dividend growth. We continue to target a net cash inflow of £150m for 2011/12 including further selective asset and business disposals.

With market-leading positions and operations that are fundamentally strong, together with our clear focus on creating a stronger business for the future, the Group has good prospects to deliver long term value for shareholders in a sector which is a key enabler of economic growth.

Tim O'Toole
Chief Executive

Jeff Carr
Finance Director

Condensed consolidated income statement

For the 6 months to 30 September based on unaudited figures

	Notes	6 months to 30 September 2011 ¹			6 months to 30 September 2010			Year to 31 March 2011
		Adjusted results ² £m	Adjustments ³ £m	Total £m	Adjusted results ² £m	Adjustments ³ £m	Total £m	Total £m
Continuing operations								
Revenue	2,3	3,168.8	-	3,168.8	3,069.9	-	3,069.9	6,416.7
Operating costs before loss on disposal of properties		(3,005.8)	54.0	(2,951.8)	(2,899.5)	4.6	(2,894.9)	(6,103.7)
Operating profit before loss on disposal of properties		163.0	54.0	217.0	170.4	4.6	175.0	313.0
Amortisation charges		-	(15.1)	(15.1)	-	(17.7)	(17.7)	(42.9)
Exceptional items		-	69.1	69.1	-	22.3	22.3	(100.8)
		-	54.0	54.0	-	4.6	4.6	(143.7)
Loss on disposal of properties		-	(0.7)	(0.7)	-	(1.5)	(1.5)	(4.4)
Operating profit	3	163.0	53.3	216.3	170.4	3.1	173.5	308.6
Investment income	4	0.8	-	0.8	0.7	-	0.7	1.9
Finance costs	4	(79.3)	(10.0)	(89.3)	(93.6)	1.2	(92.4)	(184.0)
Profit before tax		84.5	43.3	127.8	77.5	4.3	81.8	126.5
Tax	5	(18.8)	(9.2)	(28.0)	(19.3)	0.3	(19.0)	(16.7)
Profit for the period from continuing operations		65.7	34.1	99.8	58.2	4.6	62.8	109.8
Discontinued operations								
(Loss)/profit for the period from discontinued operations	6	(0.3)	(9.2)	(9.5)	0.3	6.7	7.0	7.3
Profit for the period		65.4	24.9	90.3	58.5	11.3	69.8	117.1
Attributable to:								
Equity holders of the parent		53.5	25.0	78.5	50.4	11.4	61.8	103.2
Non-controlling interests		11.9	(0.1)	11.8	8.1	(0.1)	8.0	13.9
		65.4	24.9	90.3	58.5	11.3	69.8	117.1
Earnings per share								
Continuing operations								
Basic	8	11.2p	7.1p	18.3p	10.5p	0.9p	11.4p	20.0p
Diluted		11.1p	7.1p	18.2p	10.4p	0.9p	11.3p	19.8p
Continuing and discontinued operations								
Basic	8	11.1p	5.2p	16.3p	10.5p	2.4p	12.9p	21.5p
Diluted		11.1p	5.2p	16.3p	10.4p	2.3p	12.7p	21.3p

1 For all businesses excluding UK Rail this half year includes 27 weeks compared to 26 weeks for the corresponding period last year.

2 Adjusted trading results before items noted in 3 below.

3 Amortisation charges, ineffectiveness on financial derivatives, exceptional items, loss on disposal of properties and (loss)/profit on disposal of discontinued operations and tax thereon.

Condensed consolidated statement of comprehensive income

	Unaudited 6 months to 30 September 2011 £m	Unaudited 6 months to 30 September 2010 £m	Audited year to 31 March 2011 £m
Profit for the period	90.3	69.8	117.1
Other comprehensive income			
Derivative hedging instrument movements	(91.8)	74.7	193.4
Deferred tax on derivative hedging instrument movements	24.4	(10.1)	(44.0)
Exchange differences on translation of foreign operations	24.4	(135.8)	(143.9)
Unrealised losses on executive deferred compensation plans	–	(0.3)	(0.1)
Actuarial losses on defined benefit pension schemes	(135.8)	(116.3)	(55.5)
RPI to CPI change in defined benefit pension schemes	–	70.2	84.9
Deferred tax on actuarial losses and RPI to CPI change on defined benefit pension schemes	43.8	16.6	(5.9)
Other comprehensive income for the period	(135.0)	(101.0)	28.9
Total comprehensive income for the period	(44.7)	(31.2)	146.0
Attributable to:			
Equity holders of the parent	(56.2)	(38.6)	132.6
Non-controlling interests	11.5	7.4	13.4
	(44.7)	(31.2)	146.0

Condensed consolidated balance sheet

	Unaudited 30 September 2011 £m	Unaudited 30 September 2010 £m	Audited 31 March 2011 £m
Non-current assets			
Goodwill	1,634.7	1,623.8	1,608.0
Other intangible assets	338.9	375.7	348.6
Property, plant and equipment	2,041.7	2,154.8	2,082.9
Deferred tax assets	53.0	31.6	30.0
Retirement benefit assets	32.5	11.6	30.7
Derivative financial instruments	65.4	57.1	58.1
Investments	7.4	4.6	3.2
	4,173.6	4,259.2	4,161.5
Current assets			
Inventories	90.0	91.4	91.4
Trade and other receivables	620.1	576.2	555.5
Cash and cash equivalents	331.0	334.7	388.0
Assets held for sale	7.7	2.4	4.6
Derivative financial instruments	30.5	26.9	65.1
	1,079.3	1,031.6	1,104.6
Total assets	5,252.9	5,290.8	5,266.1
Current liabilities			
Trade and other payables	1,185.5	1,041.7	1,129.9
Tax liabilities	59.4	51.5	49.0
Financial liabilities – bank loans	96.3	181.6	93.5
– bonds	35.7	35.6	73.3
– HP contracts and finance leases	46.0	38.4	42.8
Derivative financial instruments	41.4	82.9	38.5
	1,464.3	1,431.7	1,427.0
Net current liabilities	385.0	400.1	322.4
Non-current liabilities			
Financial liabilities – bank loans	464.0	677.6	554.9
– bonds	1,439.1	1,430.8	1,417.1
– HP contracts and finance leases	240.5	181.0	209.1
– loan notes	9.7	9.7	9.7
– senior unsecured loan notes	95.9	–	–
Derivative financial instruments	84.6	59.2	29.7
Retirement benefit liabilities	293.7	361.2	273.9
Deferred tax liabilities	69.2	63.6	93.0
Provisions	269.8	263.9	300.8
	2,966.5	3,047.0	2,888.2
Total liabilities	4,430.8	4,478.7	4,315.2
Net assets	822.1	812.1	950.9
Equity			
Share capital	24.1	24.1	24.1
Share premium	676.4	676.4	676.4
Hedging reserve	(32.0)	(49.4)	35.4
Other reserves	4.6	4.6	4.6
Own shares	(2.2)	(6.1)	(5.0)
Translation reserve	181.2	164.8	156.6
Retained earnings	(44.5)	(20.5)	41.5
Equity attributable to equity holders of the parent	807.6	793.9	933.6
Non-controlling interests	14.5	18.2	17.3
Total equity	822.1	812.1	950.9

Condensed consolidated statement of changes in equity

	Share capital £m	Share premium £m	Hedging reserve £m	Other reserves £m	Own shares £m	Translation reserve £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
Balance at 1 April 2011	24.1	676.4	35.4	4.6	(5.0)	156.6	41.5	933.6	17.3	950.9
Total comprehensive income for the period	–	–	(67.4)	–	–	24.6	(13.4)	(56.2)	11.5	(44.7)
Dividends paid	–	–	–	–	–	–	(72.1)	(72.1)	(14.3)	(86.4)
Movement in EBT and treasury shares	–	–	–	–	2.8	–	(3.0)	(0.2)	–	(0.2)
Share-based payments	–	–	–	–	–	–	2.8	2.8	–	2.8
Deferred tax on share-based payments	–	–	–	–	–	–	(0.3)	(0.3)	–	(0.3)
Balance at 30 September 2011	24.1	676.4	(32.0)	4.6	(2.2)	181.2	(44.5)	807.6	14.5	822.1
Balance at 1 April 2010	24.1	676.4	(114.0)	4.6	(6.5)	300.0	10.2	894.8	15.7	910.5
Total comprehensive income for the period	–	–	64.6	–	–	(135.2)	32.0	(38.6)	7.4	(31.2)
Dividends paid	–	–	–	–	–	–	(67.2)	(67.2)	(4.9)	(72.1)
Movement in EBT and treasury shares	–	–	–	–	0.4	–	(0.5)	(0.1)	–	(0.1)
Share-based payments	–	–	–	–	–	–	3.9	3.9	–	3.9
Deferred tax on share-based payments	–	–	–	–	–	–	1.1	1.1	–	1.1
Balance at 30 September 2010	24.1	676.4	(49.4)	4.6	(6.1)	164.8	(20.5)	793.9	18.2	812.1
Balance at 1 April 2010	24.1	676.4	(114.0)	4.6	(6.5)	300.0	10.2	894.8	15.7	910.5
Total comprehensive income for the period	–	–	149.4	–	–	(143.4)	126.6	132.6	13.4	146.0
Dividends paid	–	–	–	–	–	–	(101.4)	(101.4)	(11.8)	(113.2)
Movement in EBT and treasury shares	–	–	–	–	1.5	–	(1.7)	(0.2)	–	(0.2)
Share-based payments	–	–	–	–	–	–	7.7	7.7	–	7.7
Deferred tax on share-based payments	–	–	–	–	–	–	0.1	0.1	–	0.1
Balance at 31 March 2011	24.1	676.4	35.4	4.6	(5.0)	156.6	41.5	933.6	17.3	950.9

Condensed consolidated cash flow statement

	Note	Unaudited 6 months to 30 September 2011 £m	Unaudited 6 months to 30 September 2010 £m	Audited year to 31 March 2011 £m
Net cash from operating activities	19	101.1	178.4	555.7
Investing activities				
Interest received		0.7	0.9	1.7
Proceeds from disposal of property, plant and equipment		29.9	13.4	21.8
Purchases of property, plant and equipment		(65.8)	(142.1)	(210.3)
Disposal of subsidiary		5.5	24.3	24.3
Acquisition of businesses		–	–	(3.1)
Net cash used in investing activities		(29.7)	(103.5)	(165.6)
Financing activities				
Monies received on exercise of share options		–	–	3.1
Dividends paid		(72.1)	(67.2)	(101.4)
Dividends paid to non-controlling shareholders		(7.6)	(4.9)	(11.8)
Proceeds from senior unsecured loan notes		90.2	–	–
Proceeds from bank facilities		36.0	105.4	124.1
Repayment of bank debt		(146.7)	(86.7)	(307.7)
Repayments under HP contracts and finance leases		(26.7)	(19.5)	(35.9)
Repayment of loan notes		–	(0.8)	(0.8)
Fees for bank facility amendments and bond issues		(1.5)	(0.2)	(6.3)
Net cash flow from financing activities		(128.4)	(73.9)	(336.7)
Net (decrease)/increase in cash and cash equivalents before foreign exchange movements		(57.0)	1.0	53.4
Cash and cash equivalents at beginning of period		388.0	335.0	335.0
Foreign exchange movements		–	(1.3)	(0.4)
Cash and cash equivalents at end of period per condensed consolidated balance sheet		331.0	334.7	388.0

Cash and cash equivalents are included within current assets on the condensed consolidated balance sheet.

	6 months to 30 September 2011 £m	6 months to 30 September 2010 £m	Year to 31 March 2011 £m
Note to the condensed consolidated cash flow statement – reconciliation of net cash flow to movement in net debt			
Net (decrease)/increase in cash and cash equivalents in period	(57.0)	1.0	53.4
Decrease in debt and finance leases	47.2	1.6	220.3
Inception of new HP contracts and finance leases	(55.9)	(18.5)	(70.2)
Fees capitalised against bank facilities and bond issues	1.5	0.2	6.3
Net cash flow	(64.2)	(15.7)	209.8
Foreign exchange movements	(42.6)	109.7	129.2
Other non-cash movements in relation to financial instruments	(2.5)	(3.3)	(6.9)
Movement in net debt in period	(109.3)	90.7	332.1
Net debt at beginning of period	(1,949.4)	(2,281.5)	(2,281.5)
Net debt at end of period	(2,058.7)	(2,190.8)	(1,949.4)

Net debt includes the value of derivatives in connection with the bonds maturing in 2018, 2019 and 2021 and excludes all accrued interest. These bonds are included in non-current liabilities in the condensed consolidated balance sheet.

Notes to the half-yearly financial report

1 Basis of preparation

This half-yearly financial report does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The statutory accounts for the year ended 31 March 2011 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 498(2) or (3) of the Companies Act 2006.

The figures for the six months to 30 September 2011 include the results of the rail division for the period ended 17 September 2011 and the results for the other divisions for the 27 weeks ended 1 October 2011. The comparative figures for the six months to 30 September 2010 include the results of the rail division for the period ended 18 September 2010 and the results of the other divisions for the 26 weeks ended 25 September 2010.

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

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 35. The comparative figures for the six months to 30 September 2010 are unaudited and are derived from the half-yearly financial report for that period, which was also reviewed by the auditors.

There continue to be no significant debt repayments due until 2013. After taking this into account and the committed liquidity headroom available under the \$1.25bn committed revolver facility and making enquiries and reviewing the outlook for 2011/12 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 this half-yearly financial report.

This half-yearly financial report will be sent to all shareholders later in November 2011 and will 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 9 November 2011.

	6 months to 30 September 2011 £m	6 months to 30 September 2010 £m	Year to 31 March 2011 £m
2 Revenue			
Continuing operations			
Services rendered	2,854.5	2,799.7	5,857.7
UK Rail franchise subsidy receipts	193.9	176.8	390.8
UK Rail revenue support	120.4	93.4	168.2
	3,168.8	3,069.9	6,416.7
Finance income	0.8	0.7	1.9
Total revenue from continuing operations as defined by IAS 18	3,169.6	3,070.6	6,418.6
Discontinued operations			
Services rendered	5.3	15.4	22.0
UK Rail franchise subsidy receipts	–	0.4	0.4
Total revenue from discontinued operations as defined by IAS 18	5.3	15.8	22.4
Total revenue as defined by IAS 18	3,174.9	3,086.4	6,441.0

3 Segment information

The segment results for the six months to 30 September 2011 are as follows:

	First Student £m	First Transit £m	Greyhound £m	UK Bus £m	UK Rail £m	Group items ¹ £m	Total ² £m
Revenue	683.3	387.3	343.6	586.9	1,162.6	10.4	3,174.1
Discontinued operations	-	-	-	-	-	(5.3)	(5.3)
Revenue continuing operations	683.3	387.3	343.6	586.9	1,162.6	5.1	3,168.8
EBITDA³	79.9	31.7	45.4	96.5	84.6	(14.7)	323.4
Depreciation	(74.4)	(4.5)	(14.9)	(37.1)	(28.9)	(0.6)	(160.4)
Segment results³	5.5	27.2	30.5	59.4	55.7	(15.3)	163.0
Amortisation charges	(9.8)	(2.2)	(1.6)	-	(1.5)	-	(15.1)
Exceptional items	-	-	-	72.3	(2.1)	(1.1)	69.1
(Loss)/profit on disposal of properties	(0.3)	-	0.9	(1.3)	-	-	(0.7)
Operating profit	(4.6)	25.0	29.8	130.4	52.1	(16.4)	216.3
Investment income							0.8
Finance costs							(79.3)
Ineffectiveness on financial derivatives							(10.0)
Profit before tax							127.8
Tax							(28.0)
Profit for the period from continuing operations							99.8
Discontinued operations							(9.5)
Profit for the period							90.3

The segment results for the six months to 30 September 2010 are as follows:

	First Student £m	First Transit £m	Greyhound £m	UK Bus £m	UK Rail £m	Group items ¹ £m	Total £m
Revenue	711.4	392.7	337.6	570.5	1,063.0	10.5	3,085.7
Discontinued operations	-	-	-	-	(9.9)	(5.9)	(15.8)
Revenue continuing operations	711.4	392.7	337.6	570.5	1,053.1	4.6	3,069.9
EBITDA³	105.3	30.8	40.3	91.5	74.9	(11.5)	331.3
Depreciation	(77.3)	(4.8)	(14.7)	(36.1)	(26.5)	(1.5)	(160.9)
Segment results³	28.0	26.0	25.6	55.4	48.4	(13.0)	170.4
Amortisation charges	(10.4)	(2.5)	(1.6)	-	(3.2)	-	(17.7)
Exceptional items	-	-	-	-	22.5	(0.2)	22.3
Loss on disposal of properties	-	-	-	(1.5)	-	-	(1.5)
Operating profit	17.6	23.5	24.0	53.9	67.7	(13.2)	173.5
Investment income							0.7
Finance costs							(93.6)
Ineffectiveness on financial derivatives							1.2
Profit before tax							81.8
Tax							(19.0)
Profit for the period from continuing operations							62.8
Discontinued operations							7.0
Profit for the period							69.8

1 Group items comprise Tram operations, central management and other items.

2 For all businesses excluding UK Rail this half year includes 27 weeks compared to 26 weeks for the corresponding period last year.

3 Adjusted.

3 Segment information continued

The segment results for the year to 31 March 2011 are as follows:

	First Student £m	First Transit £m	Greyhound £m	UK Bus £m	UK Rail £m	Group items ¹ £m	Total £m
Revenue	1,594.4	771.5	634.6	1,137.5	2,279.7	21.4	6,439.1
Discontinued operations	-	-	-	-	(9.9)	(12.5)	(22.4)
Revenue continuing operations	1,594.4	771.5	634.6	1,137.5	2,269.8	8.9	6,416.7
EBITDA²	278.1	66.3	68.7	220.5	166.1	(22.8)	776.9
Depreciation	(149.8)	(9.1)	(28.5)	(71.7)	(57.4)	(3.7)	(320.2)
Segment results²	128.3	57.2	40.2	148.8	108.7	(26.5)	456.7
Amortisation charges	(20.4)	(4.7)	(3.1)	-	(14.7)	-	(42.9)
Exceptional items	(39.5)	(16.6)	-	(2.4)	(41.9)	(0.4)	(100.8)
Loss on disposal of properties	(0.1)	-	(1.2)	(3.1)	-	-	(4.4)
Operating profit	68.3	35.9	35.9	143.3	52.1	(26.9)	308.6
Investment income							1.9
Finance costs							(184.3)
Ineffectiveness on financial derivatives							0.3
Profit before tax							126.5
Tax							(16.7)
Profit for the year from continuing operations							109.8
Discontinued operations							7.3
Profit for the year							117.1

1 Group items comprise Tram operations, central management and other items.

2 Adjusted.

	30 September 2011 £m	30 September 2010 £m	31 March 2011 £m
Total assets			
United Kingdom	4,481.4	4,849.9	5,374.7
United States of America	3,022.3	3,046.5	3,405.4
Canada	501.7	518.7	521.3
Eliminations	(2,805.5)	(3,155.9)	(4,065.3)
Unallocated corporate items	53.0	31.6	30.0
	5,252.9	5,290.8	5,266.1

	6 months to 30 September 2011 £m	6 months to 30 September 2010 £m	Year to 31 March 2011 £m
4 Investment income and finance costs			
Investment income			
Bank interest receivable	(0.8)	(0.7)	(1.9)
Finance costs			
Bonds	47.0	46.2	91.6
Bank borrowings	17.0	33.8	64.2
Senior unsecured loan notes	1.7	–	–
Loan notes	0.5	0.5	1.0
Finance charges payable in respect of HP contracts and finance leases	3.8	3.3	7.8
Notional interest on long term provisions	9.3	9.8	19.7
Finance costs before non-recurring items	79.3	93.6	184.3
Ineffectiveness on financial derivatives	10.0	(1.2)	(0.3)
	89.3	92.4	184.0
Net finance costs	88.5	91.7	182.1
	6 months to 30 September 2011 £m	6 months to 30 September 2010 £m	Year to 31 March 2011 £m
5 Tax on profit on ordinary activities			
Current tax	8.2	14.7	36.7
Deferred tax	19.8	4.3	(20.0)
Tax on profit from continuing operations	28.0	19.0	16.7
Current tax – discontinued operations	–	0.2	0.4
Total tax charge	28.0	19.2	17.1

The tax effect of the adjustments disclosed in the condensed consolidated income statement was a charge of £9.2m (2010: credit of £0.3m).

6 Discontinued operations

On 30 September 2011 the Group disposed of FirstGroup Deutschland GmbH and as a consequence the results of this business have been classified as discontinued operations, as detailed below.

On 28 May 2010 the Group disposed of its interest in GB Railfreight. The results up to the date of disposal have been classified as discontinued operations in the prior periods in the table below.

	6 months to 30 September 2011 £m	6 months to 30 September 2010 £m	Year to 31 March 2011 £m
Revenue	5.3	15.8	22.4
Operating costs	(5.6)	(15.3)	(21.4)
(Loss)/profit before tax	(0.3)	0.5	1.0
Attributable tax expense	–	(0.2)	(0.4)
(Loss)/profit for the period from discontinued operations	(0.3)	0.3	0.6
(Loss)/profit on disposal of discontinued operations	(9.2)	6.7	6.7
Net (loss)/profit attributable to discontinued operations	(9.5)	7.0	7.3

There was no attributable tax on the profit on disposal of discontinued operations.

During the period, discontinued operations contributed £0.6m (2010: £2.0m; full year 2011: £2.7m) to the Group's net operating cash flows, paid £nil (2010: £0.4m; full year 2011: £0.7m) in respect of investing activities and paid £nil (2010: £nil; full year 2011: £nil) in respect of financing activities.

Details of the loss on disposal of FirstGroup Deutschland GmbH are set out in note 17.

The effect of discontinued operations on segment results is disclosed in note 3.

	6 months to 30 September 2011 £m	6 months to 30 September 2010 £m	Year to 31 March 2011 £m
7 Dividends			
Final dividend per share paid for the year ended			
31 March 2011 of 15.0p (2010: 14.0p)	72.1	67.2	67.2
Interim dividend per share paid for the year ended			
31 March 2011 of 7.12p (2010: 6.65p)	–	–	34.2
Amounts recognised as distributions to equity holders in the period	72.1	67.2	101.4
Proposed interim dividend per share for the year ended			
31 March 2012 of 7.62p (2011: 7.12p)	36.7	34.2	–

The proposed interim dividend will be paid on 1 February 2012 to shareholders on the register of members at the close of business on 6 January 2012.

8 Earnings per share (EPS)

Basic EPS is calculated by dividing the profit attributable to equity shareholders of £78.5m (2010: £61.8m; full year 2011: £103.2m) by the weighted average number of ordinary shares in issue (excluding own shares held in the EBT and treasury shares) of 481.2m (2010: 480.3m; full year 2011: 480.4m).

The adjusted basic EPS is intended to highlight the recurring results of the Group before amortisation charges, ineffectiveness on financial derivatives, exceptional items and loss on disposal of properties. A reconciliation is set out below:

	6 months to		6 months to		Year to	
	30 September 2011	EPS (p)	30 September 2010	EPS (p)	31 March 2011	EPS (p)
	£m		£m		£m	
Basic profit/EPS from continuing operations	88.0	18.3	54.8	11.4	95.9	20.0
Basic profit/EPS from discontinued operations	(9.5)	(2.0)	7.0	1.5	7.3	1.5
Basic profit/EPS	78.5	16.3	61.8	12.9	103.2	21.5
Amortisation charges ¹	15.0	3.1	17.6	3.6	42.7	8.9
Ineffectiveness on financial derivatives	10.0	2.1	(1.2)	(0.3)	(0.3)	(0.1)
Exceptional items	(69.1)	(14.4)	(22.3)	(4.7)	100.8	21.0
Non-controlling interests on exceptional items	-	-	-	-	(3.1)	(0.6)
Loss on disposal of properties	0.7	0.2	1.5	0.3	4.4	0.9
Business disposals	9.2	1.9	(6.7)	(1.3)	(6.7)	(1.4)
Tax effect of above adjustments	9.2	1.9	(0.3)	-	(43.0)	(9.0)
Adjusted profit/EPS	53.5	11.1	50.4	10.5	198.0	41.2
Adjusted profit/EPS from discontinued operations	0.3	0.1	(0.3)	-	(0.6)	(0.1)
Adjusted profit/EPS from continuing operations	53.8	11.2	50.1	10.5	197.4	41.1

¹ Amortisation charges of £15.1m (2011: £17.7m; full year 2011: £42.9m) per note 10 less £0.1m (2010: £0.1m; full year 2011: £0.2m) attributable to equity non-controlling interests.

Diluted EPS is based on the same earnings and on a weighted average number of ordinary shares in issue of 483.6m (2010: 484.8m; full year 2011: 484.6m). 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 the share options.

9 Goodwill

	£m
Cost	
At 1 April 2011	1,613.0
Disposals	(6.1)
Foreign exchange movements	32.9
At 30 September 2011	1,639.8
Accumulated impairment losses	
At 1 April 2011	5.0
Foreign exchange movements	0.1
At 30 September 2011	5.1
Carrying amount	
At 30 September 2011	1,634.7
At 31 March 2011	1,608.0
At 30 September 2010	1,623.8

Disclosures including goodwill by cash generating unit, details of impairment testing and sensitivities thereon are set out on pages 76 and 77 of the 2011 Annual Report. The projections for First Student assume the incremental benefits of the recovery plan together with a moderate economic recovery and as a result operating profits and margins are projected to recover to historic levels by the end of 2013/14. Based on these projections the First Student margin would need to fall in excess of 1.5% compared to the projections for there to be an impairment on the business.

Projections for all businesses are currently being updated and detailed disclosures as described above will be included in the 2012 Annual Report.

	Customer contracts £m	Greyhound brand and trade name £m	Rail franchise agreements £m	Total £m
10 Other intangible assets				
Cost				
At 1 April 2011	381.5	61.9	56.3	499.7
Foreign exchange movements	6.9	0.8	-	7.7
At 30 September 2011	388.4	62.7	56.3	507.4
Amortisation				
At 1 April 2011	90.1	11.2	49.8	151.1
Charge for period	12.1	1.5	1.5	15.1
Foreign exchange movements	2.1	0.2	-	2.3
At 30 September 2011	104.3	12.9	51.3	168.5
Carrying amount				
At 30 September 2011	284.1	49.8	5.0	338.9
At 31 March 2011	291.4	50.7	6.5	348.6
At 30 September 2010	305.0	52.8	17.9	375.7

Intangible assets include customer contracts and the Greyhound brand and trade name which were acquired through the purchases of businesses and subsidiary undertakings. These are being amortised 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 that is realised as a result of recognising our share of the rail pension deficit on the date of commencement of each respective franchise and is amortised on a straight-line basis over the initial term of each respective franchise.

11 Property, plant and equipment

	Land and buildings £m	Passenger carrying vehicle fleet £m	Other plant and equipment £m	Total £m
Cost				
At 1 April 2011	536.5	2,565.2	596.7	3,698.4
Subsidiary undertakings disposed of	(2.8)	(4.0)	(0.6)	(7.4)
Additions	9.2	99.0	37.5	145.7
Disposals	(31.9)	(34.5)	(12.2)	(78.6)
Transfers	–	6.0	(6.0)	–
Reclassified as held for sale	–	(48.0)	–	(48.0)
Foreign exchange movements	2.8	28.7	4.3	35.8
At 30 September 2011	513.8	2,612.4	619.7	3,745.9
Accumulated depreciation and impairment				
At 1 April 2011	75.0	1,231.6	308.9	1,615.5
Subsidiary undertakings disposed of	(0.3)	(2.0)	(0.4)	(2.7)
Charge for period	6.4	109.4	44.8	160.6
Disposals	(1.8)	(34.5)	(11.8)	(48.1)
Transfers	–	(24.0)	24.0	–
Reclassified as held for sale	–	(39.0)	–	(39.0)
Foreign exchange movements	0.4	14.8	2.7	17.9
At 30 September 2011	79.7	1,256.3	368.2	1,704.2
Carrying amount				
At 30 September 2011	434.1	1,356.1	251.5	2,041.7
At 31 March 2011	461.5	1,333.6	287.8	2,082.9
At 30 September 2010	474.6	1,403.8	276.4	2,154.8

12 Trade and other receivables

	30 September 2011 £m	30 September 2010 £m	31 March 2011 £m
Amounts due within one year			
Trade receivables	458.1	431.4	408.7
Provision for doubtful receivables	(5.2)	(7.1)	(7.5)
Other receivables	61.0	53.8	53.4
Other prepayments and accrued income	106.2	98.1	100.9
	620.1	576.2	555.5

13 Assets held for sale

	30 September 2011 £m	30 September 2010 £m	31 March 2011 £m
Assets held for sale	7.7	2.4	4.6

These comprise First Student yellow school buses which are surplus to requirements and are being actively marketed on the Internet. Gains or losses arising on the disposal of such assets are included in arriving at operating profit in the condensed consolidated income statement.

14 Trade and other payables

	30 September 2011 £m	30 September 2010 £m	31 March 2011 £m
Amounts falling due within one year			
Trade payables	332.5	290.1	312.2
Other payables	154.1	98.9	113.9
Accruals and deferred income	639.7	598.0	640.5
Season ticket deferred income	59.2	54.7	63.3
	1,185.5	1,041.7	1,129.9

15 Derivative financial instruments

	30 September 2011 £m	30 September 2010 £m	31 March 2011 £m
Derivatives designated and effective as hedging instruments carried at fair value			
Non-current assets			
Cross currency swaps (net investment hedge)	12.7	15.5	22.2
Coupon swaps (fair value hedge)	49.6	39.0	21.0
Fuel derivatives (cash flow hedge)	3.1	2.6	14.9
	65.4	57.1	58.1
Current assets			
Cross currency swaps (net investment hedge)	3.6	6.5	4.6
Coupon swaps (fair value hedge)	9.6	10.3	6.7
Currency forwards (cash flow hedge)	0.3	–	1.2
Fuel derivatives (cash flow hedge)	17.0	10.1	52.6
	30.5	26.9	65.1
Current liabilities			
Interest rate derivatives (cash flow hedge)	9.9	30.4	15.0
Cross currency swaps (net investment hedge)	19.2	27.3	23.3
Fuel derivatives (cash flow hedge)	11.0	25.2	0.1
	40.1	82.9	38.4
Non-current liabilities			
Interest rate derivatives (cash flow hedge)	13.4	6.5	1.5
Cross currency swaps (net investment hedge)	48.9	42.7	28.2
Fuel derivatives (cash flow hedge)	12.4	10.0	–
	74.7	59.2	29.7
Derivatives classified as held for trading			
Current liabilities			
Interest rate swaps	1.3	–	0.1
Non-current liabilities			
Interest rate swaps	9.9	–	–
Total non-current assets	65.4	57.1	58.1
Total current assets	30.5	26.9	65.1
Total assets	95.9	84.0	123.2
Total current liabilities	41.4	82.9	38.5
Total non-current liabilities	84.6	59.2	29.7
Total liabilities	126.0	142.1	68.2

	30 September 2011 £m	30 September 2010 £m	31 March 2011 £m
16 Provisions			
Insurance claims	216.0	219.0	221.0
Legal and other	22.8	39.9	26.4
FGW contract provision	26.5	–	48.7
Pensions	4.5	5.0	4.7
Non-current liabilities	269.8	263.9	300.8

	Insurance claims ¹ £m	Legal and other ² £m	FGW contract provision £m	Pensions £m	Total £m
At 1 April 2011	221.0	26.4	48.7	4.7	300.8
Provided in the period	40.2	0.2	–	–	40.4
Utilised in the period	(59.5)	(4.7)	–	(0.2)	(64.4)
Reclassified to amounts falling due within one year	–	–	(22.2)	–	(22.2)
Notional interest	9.4	–	–	–	9.4
Foreign exchange movements	4.9	0.9	–	–	5.8
At 30 September 2011	216.0	22.8	26.5	4.5	269.8
At 30 September 2010	219.0	39.9	–	5.0	263.9

1 Insurance claims accruals due within one year at 30 September 2011 amounted to £116.3m (2010: £117.8m; full year 2011: £119.5m) and are included in 'accruals and deferred income' within note 14. The amount included within provisions above represents the estimate of amounts due after more than one year.

2 Legal and other accruals due within one year at 30 September 2011 amounted to £9.7m (2010: £6.7m; full year 2010: £11.2m) and are included in 'accruals and deferred income' within note 14. The amount included within provisions above represents the estimate of amounts due after more than one year.

	30 September 2011 £m	30 September 2010 £m	31 March 2011 £m
17 Disposal of businesses and subsidiary undertakings			
Fair values of net assets disposed of:			
Goodwill	6.1	14.2	14.2
Property, plant and equipment	4.7	3.8	3.8
Current assets	1.2	12.0	12.0
Cash and cash equivalents	1.6	–	–
Deferred tax	–	(1.6)	(1.6)
Other liabilities	(0.5)	(10.8)	(10.8)
	13.1	17.6	17.6
Costs of disposal	1.6	–	–
(Loss)/profit on disposal	(9.2)	6.7	6.7
Satisfied by cash received and receivable	5.5	24.3	24.3
Net cash inflow arising on disposal:			
Cash consideration	5.5	24.3	24.3
	5.5	24.3	24.3

On 30 September 2011, the Group disposed of its interest in FirstGroup Deutschland GmbH. The impact of FirstGroup Deutschland GmbH on the Group's results in the current and prior periods is disclosed in note 6.

On 28 May 2010, the Group disposed of its interest in GB Railfreight. The details of this disposal are included in the prior period figures in the table above.

	30 September 2011 £m	30 September 2010 £m	31 March 2011 £m
18 Share capital			
Allotted, called up and fully paid:			
482.1m 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 481.4m (2010: 480.4m; full year 2011: 480.8m). At the end of the period 0.3m shares (2010: 1.0m shares; full year 2011: 0.3m shares) were being held as treasury shares and 0.4m shares (2010: 0.7m shares; full year 2011: 1.0m shares) were being held in trust to satisfy the exercise of employee share options.

	30 September 2011 £m	30 September 2010 £m	31 March 2011 £m
19 Net cash from operating activities			
Operating profit before loss on disposal of properties	217.0	175.0	313.0
Operating (loss)/profit of discontinued operations	(0.3)	0.5	1.0
Adjustments for:			
Depreciation charges	160.6	161.3	321.0
Amortisation charges	15.1	17.7	42.9
Impairment charges	–	–	19.5
Share-based payments	2.8	3.9	7.7
(Profit)/loss on disposal of property, plant and equipment	(0.4)	0.2	3.7
Operating cash flows before working capital	394.8	358.6	708.8
Decrease/(increase) in inventories	0.8	(2.0)	(3.2)
(Increase)/decrease in receivables	(42.1)	(8.9)	25.9
Increase/(decrease) in payables	14.8	(5.5)	55.7
(Decrease)/increase in provisions	(46.2)	(30.2)	0.4
Defined benefit pension payments in excess of income statement charge	(117.8)	(14.8)	(43.5)
Cash generated by operations	204.3	297.2	744.1
Tax paid	(4.3)	(9.8)	(25.0)
Interest paid	(95.1)	(105.4)	(155.2)
Interest element of HP contracts and finance leases	(3.8)	(3.6)	(8.2)
Net cash from operating activities	101.1	178.4	555.7

20 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 in page 96 of the Annual Report and Accounts for the year ended 31 March 2011.

First Greater Western Limited, First Capital Connect Limited, First ScotRail Limited, Hull Trains Limited and First/Keolis TransPennine Express Limited have sections in the Railways Pension Scheme (RPS), which is an industry-wide arrangement. Under the terms of the RPS, any fund deficit or surplus is shared by the employer (60%) and the employees (40%). In calculating the Group's pension obligations in respect of the RPS the Group has calculated the total pension deficits in each of the RPS sections in accordance with IAS 19. These deficits are reduced by a "franchise adjustment" which is that portion of the deficit which is projected to exist at the end of the franchise and for which the Group will not be required to fund. The franchise adjustment, which has been calculated by the Group's actuaries, is offset against the present value of the RPS liabilities so as to fairly present the financial performance, position and cash flows of the Group's obligations.

The market value of the assets at 30 September 2011 for all defined benefit schemes totalled £3,227m (2010: £3,160m; full year 2011: £3,289m).

Contributions are paid to all defined benefit pension 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 Bus 30 Sept 2011 %	UK Rail 30 Sept 2011 %	North America 30 Sept 2011 %	UK Bus 30 Sept 2010 %	UK Rail 30 Sept 2010 %	North America 30 Sept 2010 %	UK Bus 31 March 2011 %	UK Rail 31 March 2011 %	North America 31 March 2011 %
Key assumptions used:									
Discount rate	5.10	5.10	4.05	5.05	5.05	4.70	5.50	5.50	5.25
Expected return on scheme assets	7.40	8.60	6.90	7.90	7.90	7.40	7.90	7.90	6.90
Expected rate of salary increases	3.75	3.75	3.25	4.00	4.00	3.25	4.20	4.20	–
Inflation – RPI	2.8	2.8	–	3.0	3.0	2.25	3.2	3.2	2.25
Inflation – CPI	2.0	2.0	–	2.4	2.4	–	2.4	2.4	–
Future pension increases	1.9	2.0	–	3.0	3.0	–	2.4/3.1	2.4	–

During the period certain changes to the UK Bus Pension Scheme were agreed in principle with the participating members and the Scheme trustees, the most significant of which is that pension increases will be linked to CPI rather than RPI. The impact of these changes has been assessed at £73.3m and is shown within exceptional items in the condensed consolidated income statement.

20 Retirement benefit schemes continued

Amounts (charged)/credited to the condensed consolidated income statement before exceptional items in respect of these defined benefit schemes are as follows:

6 months to 30 September 2011	UK Bus £m	UK Rail £m	North America £m	Total £m
Current service cost	(14.1)	(24.8)	(2.2)	(41.1)
Interest cost	(42.5)	(20.1)	(16.1)	(78.7)
Expected return on scheme assets	63.2	27.0	14.9	105.1
Interest on franchise adjustment	–	1.9	–	1.9
	6.6	(16.0)	(3.4)	(12.8)

6 months to 30 September 2010	UK Bus £m	UK Rail £m	North America £m	Total £m
Current service cost	(18.0)	(27.9)	(2.7)	(48.6)
Interest cost	(47.7)	(22.8)	(16.8)	(87.3)
Expected return on scheme assets	60.9	26.3	15.2	102.4
Interest on franchise adjustment	–	4.8	–	4.8
	(4.8)	(19.6)	(4.3)	(28.7)

Year to 31 March 2011	UK Bus £m	UK Rail £m	North America £m	Total £m
Current service cost	(31.9)	(51.5)	(4.4)	(87.8)
Interest cost	(87.8)	(42.2)	(34.1)	(164.1)
Expected return on scheme assets	121.6	52.4	31.1	205.1
Interest on franchise adjustment	–	5.7	–	5.7
	1.9	(35.6)	(7.4)	(41.1)

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

20 Retirement benefit schemes continued

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

	UK Bus £m	UK Rail £m	North America £m	Total £m
At 30 September 2011				
Fair value of schemes' assets	1,668.9	1,112.3	445.9	3,227.1
Present value of defined benefit obligations	(1,611.1)	(1,378.7)	(683.7)	(3,673.5)
(Deficit)/surplus before adjustments	57.8	(266.4)	(237.8)	(446.4)
Adjustment for irrecoverable surplus ¹	(53.3)	-	-	(53.3)
UK Rail franchise adjustment (60%)	-	131.9	-	131.9
Adjustment for employee share of RPS deficits (40%)	-	106.6	-	106.6
(Deficit)/surplus in schemes	4.5	(27.9)	(237.8)	(261.2)
(Liability)/asset recognised in the condensed consolidated balance sheet	4.5	(27.9)	(237.8)	(261.2)
This amount is presented in the condensed consolidated balance sheet as follows:				
Non-current assets	32.5	-	-	32.5
Non-current liabilities	(28.0)	(27.9)	(237.8)	(293.7)
	4.5	(27.9)	(237.8)	(261.2)

	UK Bus £m	UK Rail £m	North America £m	Total £m
At 30 September 2010				
Fair value of schemes' assets	1,643.1	1,049.2	467.4	3,159.7
Present value of defined benefit obligations	(1,765.3)	(1,360.0)	(650.0)	(3,775.3)
Deficit before adjustments	(122.2)	(310.8)	(182.6)	(615.6)
UK Rail franchise adjustment (60%)	-	141.8	-	141.8
Adjustment for employee share of RPS deficits (40%)	-	124.2	-	124.2
Deficit in schemes	(122.2)	(44.8)	(182.6)	(349.6)
Liability recognised in the condensed consolidated balance sheet	(122.2)	(44.8)	(182.6)	(349.6)
This amount is presented in the condensed consolidated balance sheet as follows:				
Non-current assets	11.6	-	-	11.6
Non-current liabilities	(133.8)	(44.8)	(182.6)	(361.2)
	(122.2)	(44.8)	(182.6)	(349.6)

	UK Bus £m	UK Rail £m	North America £m	Total £m
At 31 March 2011				
Fair value of schemes' assets	1,701.6	1,114.3	473.0	3,288.9
Present value of defined benefit obligations	(1,649.8)	(1,333.3)	(631.4)	(3,614.5)
(Deficit)/surplus before adjustments	51.8	(219.0)	(158.4)	(325.6)
Adjustment for irrecoverable surplus ¹	(81.9)	-	-	(81.9)
UK Rail franchise adjustment (60%)	-	76.7	-	76.7
Adjustment for employee share of RPS deficits (40%)	-	87.6	-	87.6
Deficit in schemes	(30.1)	(54.7)	(158.4)	(243.2)
Liability recognised in the condensed consolidated balance sheet	(30.1)	(54.7)	(158.4)	(243.2)
This amount is presented in the condensed consolidated balance sheet as follows:				
Non-current assets	30.7	-	-	30.7
Non-current liabilities	(60.8)	(54.7)	(158.4)	(273.9)
	(30.1)	(54.7)	(158.4)	(243.2)

¹ The irrecoverable surplus represents the amount of the surplus that the Group could not recover through reducing future company contributions to Local Government Pension Schemes.

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 2011, 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 20. 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 (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" 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 2011 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 Auditor

London

United Kingdom

9 November 2011

Shareholder information



Financial calendar

Shares trade ex dividend	4 January 2012
Record date for interim dividend ¹	6 January 2012
Interim dividend paid	1 February 2012
Financial year end	31 March 2012
Full year results announced	May 2012
Annual General Meeting	July 2012
Final dividend paid	August 2012

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
T. 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.

Find out more about FirstGroup on our website www.firstgroup.com



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