

FIRSTGROUP PLC
HALF-YEARLY RESULTS
FOR THE SIX MONTHS TO 30 SEPTEMBER 2008

- **EXCELLENT FIRST HALF OF THE YEAR – UNDERPINNED BY STRONG, BALANCED PORTFOLIO OF OPERATIONS**
 - Group revenue up by 56.5% and adjusted operating profit up 75.8%
 - Group operating margin¹ increased by 70bps
 - Strong EBITDA² growth of £306m up 79.1%
 - Adjusted basic EPS 15.6p up 40.5%
- **NORTH AMERICA – 12 MONTHS SINCE LAIDLAW ACQUISITION**
 - Synergy outperformance – reached \$150m run rate ahead of plan
 - First Student – contract retention >93%, margin increased, developing pipeline of conversion opportunities
 - First Transit – continued profitable expansion and margin improvement
 - Greyhound – delivering revenue growth of 5% and improved operating performance up 10%
- **UK BUS – PASSENGER REVENUE AND VOLUME GROWTH**
 - Signs of modal shift towards the bus
 - Strong passenger revenue growth up 7.7% with volumes increasing c.2%
 - Further margin improvement
 - Improved quality through investment in people and vehicles
- **UK RAIL – GOOD GROWTH ACROSS RAIL DIVISION**
 - Strong passenger revenue growth up 9.8% and volumes up 5.9%
 - Delivering improved performance across all our franchises
 - Investment in customer service and performance
 - Balanced portfolio of rail operations
- **BALANCE SHEET AND CASH GENERATION**
 - Refinancing now largely complete
 - Refinanced \$1.95bn of \$2.25bn acquisition bridge term loan
 - £505m revolving credit facility extended to February 2012
 - Low refinancing requirements to December 2011
 - Free cash flow generation targeted for further debt reduction

FINANCIAL SUMMARY

- Revenue £2,768.5m (2007: £1,768.9m)
- Adjusted operating profit¹ £181.2m (2007: £103.1m)
- Operating profit £128.5m (2007: £99.9m)
- Adjusted EBITDA² £306.0m (2007: £170.9m)
- Adjusted profit before taxation¹ £107.1m (2007: £74.5m)
- Profit before taxation £54.4m (2007: £71.3m)
- Adjusted basic earnings per share 15.6p (2007: 11.1p)
- Basic earnings per share 5.0p (2007: 12.9p)
- Adjusted EBITDA: interest cover³ 4.4x (2007: 7.0x)
- Interim dividend per share up 10% to 6.05p (2007: 5.5p)

¹ Before amortisation charges, non-recurring bid costs, other non-recurring items and (loss)/profit on disposal of properties, as shown in the consolidated income statement on page 20.

² Adjusted operating profit plus depreciation.

³ Adjusted EBITDA divided by the net of finance costs and investment income calculated on an annualised basis.

Results for the six months to 30 September 2008 include the contribution from Laidlaw International, Inc. acquired on 1 October 2007

Commenting on the results for the six months to 30 September 2008, FirstGroup's Chief Executive, Sir Moir Lockhead said:

"I am delighted to report another set of record results. The Group has delivered a robust performance in the first half of the year. Across all of our businesses trading has been good and we have achieved strong revenue growth underpinned by our investment in operational performance and customer service.

"It is now 12 months since we acquired Laidlaw and firmly established the Group as the market leader in North America. The integration of the two businesses has been a substantial task and I am delighted with the excellent progress we have made. We have successfully achieved our key objectives to consolidate operations, maintain our strong contract retention record, improve operating efficiencies and deliver substantial synergies from the combined operations. Since we announced the acquisition in February 2007 we have more than doubled our original synergy target and I am pleased to report that we have now achieved a synergy run rate of \$150m per annum, significantly ahead of our plan.

"Across our UK businesses we are seeing the results of our investment in customer service, quality and operational performance. In UK Bus we have achieved 7.7% passenger revenue growth and further increased the operating margin. Bus passenger volumes increased by approximately 2% and we are encouraged by the growing number of people switching to public transport from other modes of travel. We are committed to promoting bus travel through the development of quality partnerships backed by investment in service quality, people and new vehicles to support passenger growth. In UK Rail we have achieved a further period of good passenger revenue growth of 9.8%. Overall strong passenger volume growth of 5.9% was achieved during the period. Across our UK Rail division a relentless focus on operating performance has delivered improved results for all of our rail franchises. Our North American business is uniquely positioned to offer unrivalled value and quality. The extent of our operations enables us to share scale benefits with our customers and we continue to pursue the opportunities that the current economic climate in the US presents for us to expand our business. At Greyhound we have delivered a step change in the performance of the business. The historic declining revenue and performance trends have been reversed to achieve 5% revenue growth and a 10% increase in On Time Performance, a measure of operating efficiency.

"I am pleased to report that the refinancing of the shorter-dated Laidlaw acquisition debt is largely complete. We have now repaid \$1.95bn of the \$2.25bn Laidlaw acquisition term loan from the proceeds of new equity raised, medium term bank facilities, a 10-year bond issue and medium term finance leases successfully completed. Free cash flow generation will support growth and further debt reduction.

"These results demonstrate the strength and resilience of the Group despite the uncertain economic environment. With strong operating cash flows and opportunities for future growth across all divisions, the Board is confident of the Group's prospects. Looking ahead, we will continue to bear down on costs and deliver further efficiencies across our business where necessary. While the Group is not wholly immune to macroeconomic developments, it has established a strong balanced portfolio of businesses with approximately 50% of Group revenues secured under medium term contracts with Government agencies and other large organisations in the UK and North America. Trading in the second half of the year has started well and is in line with our expectations."

Enquiries FirstGroup plc :

Sir Moir Lockhead, Chief Executive

Tel: 020 7291 0512

Nick Chevis, Acting Finance Director

Tel: 020 7291 0512

Rachael Borthwick, Corporate Communications Director

Tel: 020 7291 0508

**A CONFERENCE CALL OF THE PRESENTATION TO ANALYSTS WILL BE HELD AT 9:00AM FOR DETAILS
PLEASE CONTACT FIRSTGROUP TEL: 020 7291 0507**

PHOTOGRAPHS FOR THE MEDIA ARE ALSO AVAILABLE FROM WWW.NEWSCAST.CO.UK

NOTES TO EDITORS:

FirstGroup plc is the world's leading transport company with annualised revenues of over £5 billion a year. We employ approximately 137,000 staff throughout the UK and North America and transport some 2.5 billion passengers a year.

UK Bus

- The Group is Britain's largest bus operator running more than one in five of all local bus services. A fleet of nearly 9,000 buses carries approximately 3 million passengers a day in more than 40 major towns and cities.

UK Rail

- The Group operates one quarter of the UK passenger rail network, with a balanced portfolio of intercity, commuter and regional services, carrying over 280 million passengers per annum.
- The Group is the UK's largest rail operator with four passenger franchises - First Capital Connect, First Great Western, First ScotRail and First TransPennine Express - and one open access operator, Hull Trains.
- The Group operates rail freight services through First GBRf and operates the Croydon Tramlink network on behalf of Transport for London carrying over 26 million passengers a year.

North America

- In North America the Group has four operating divisions: Yellow School Buses (First Student), Transit Contracting and Management Services (First Transit), Vehicle Fleet Maintenance and Support Services (First Services) and intercity coach services (Greyhound). Headquartered in Cincinnati, FirstGroup America Inc. operates across the US and Canada.
- **First Student** is the largest provider of student transportation in North America with a fleet of approximately 60,000 yellow school buses, carrying nearly 4 million students every day across the US and Canada.
- **First Transit** is one of the largest private sector providers of transit management and contracting, managing public transport systems on behalf of city transit authorities. It is one of the largest providers of airport shuttle bus services in the US and also manages call centres, paratransit operations and other light transit activities.
- **First Services** is the largest private sector provider of vehicle maintenance and ancillary support services in the US. Providing fleet maintenance for public sector customers such as the Federal Government and fire and police departments it also provides support services such as vehicle maintenance, logistics support and facilities management to public and private sector clients including the US Navy and Air Force.
- **Greyhound** is the only national provider of scheduled intercity coach services in the US and Canada. Based in Dallas, Greyhound provides scheduled passenger services to approximately 3,100 destinations throughout the US and Canada carrying approximately 25 million passengers annually.

In mainland Europe we operate some 150 buses in south west Germany and, from January 2009, we will operate, with our partner DSB, the Øresund rail franchise which includes routes in and between Denmark and Sweden.

Chairman's statement

I am delighted with the Group's performance in delivering excellent results in the first half of this financial year. We continue to create value for shareholders through our strategy to provide safe, high quality and reliable services and through profitable growth in our core markets. The safety and security of our passengers and employees is at the heart of everything we do and I am proud that we continue to lead the industry with pioneering initiatives in this key area.

Across the Group strong trading together with a constant focus on quality, service provision and cost control has produced an excellent set of financial results for the first half of this year. Adjusted basic earnings per share increased by 40.5% to 15.6p (2007: 11.1p). The Board has proposed an interim dividend of 6.05p (2007: 5.5p) an increase of 10%. It will be paid on 4 February 2009 to shareholders on the register on 9 January 2009. The Board's commitment to increase dividends is underpinned by our confidence in the Group's prospects.

I am pleased to report the significant progress we have made in replacing shorter-dated Laidlaw acquisition debt as part of our refinancing strategy. We have now repaid \$1.95bn of the \$2.25bn Laidlaw acquisition term loan from the proceeds of new equity raised, medium term bank facilities, a 10 year bond issue and medium term finance leases successfully completed. Free cash flow generation will support growth and further debt reduction.

It is now just over 12 months since we acquired Laidlaw and firmly established FirstGroup as the market leader in North America. The integration of the two businesses has been a substantial task and I am very pleased with the excellent progress we have made since the acquisition. We have successfully achieved our initial objectives to consolidate the businesses, maintain our excellent record of contract retention, improve operating efficiencies and to extract substantial synergies from the combined operations. Since we announced the acquisition in February 2007 we have more than doubled our original synergy target to \$150m per annum.

In the UK we have focused on developing strong partnerships and have invested to deliver an improved network of services, greater reliability and to promote passenger growth. Across the industry there are signs of modal shift and we are encouraged by growing numbers of passengers switching from the private car to public transport as consumers experience rising costs of living coupled with a greater awareness of the environmental benefits of public transport.

The continued success of the Group is a credit to the hard work and dedication of our 137,000 employees. On behalf of the Board I would like to thank all of our staff across the Group for their continued commitment to providing safe, high quality and reliable services and in delivering another period of profitable growth.

The strength of our Group is demonstrated by our continued growth across our core markets. As the market leader in the UK and North America the Group is well positioned to benefit from continued modal shift towards public transport. We remain committed to investing to promote growth and to improve services for passengers and will continue to rigorously manage costs and develop ways to increase efficiency and productivity. While the Group is not wholly immune to macroeconomic developments we have established a resilient and balanced portfolio of operations, with approximately 50% of the Group's revenues secured under medium-term contracts with Government agencies and other large organisations. While we continue to closely monitor economic developments, there are good prospects for growth in all of our markets and the outlook remains positive.

Martin Gilbert
Chairman

**Operating profit referred to throughout this document refers to operating profit before amortisation charges, 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

OVERVIEW

Safety

The safety and security of our passengers and staff is at the heart of our business and underpins everything that we do. We have made good progress during the period in progressing our clear aim to embed a culture of safety throughout the entire Group and we continue to rigorously apply a zero tolerance approach to unsafe acts and practices. We are committed to ensuring safety is the highest priority at every level in our organisation. I am delighted that FirstGroup America has been awarded the 2009 Green Cross Safety Medal Award from the National Safety Council in the US in recognition of our commitment to improving safety and health in the workplace. I am also very pleased that our UK Bus division has won an award at this year's European Commission Excellence in Road Safety Awards. We continue to lead the industry with our safety initiatives, however, we cannot afford to be complacent and will continually seek to find ways to improve our practices and provide the safest possible services for passengers and staff.

Results

I am pleased to report another period of record performance by the Group, which includes a full six month contribution from our enlarged North American business following the completion of our Laidlaw acquisition in October 2007. Group revenue increased by 56.5% to £2,768.5m (2007: £1,768.9m). Adjusted operating profit was £181.2m (2007: £103.1m) an increase of 75.8% and the Group operating margin rose to 6.5% (2007: 5.8%). Profit before tax was £54.4m (2007: £71.3m) a reduction of £16.9m mainly due to higher non-recurring items in relation to the integration of the Laidlaw acquisition. Strong cash generation is a feature of our businesses and I am pleased to report EBITDA growth of 79.1% to £306.0m (2007: £170.9m), enabling us to continue to invest in the business for growth and to increase the interim dividend by 10%.

NORTH AMERICA

The Group is now the leading provider of transportation 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, a vehicle fleet maintenance and support services division. Greyhound is the only national provider of scheduled intercity coach services in the US and Canada. With scheduled services to approximately 3,100 destinations it carries over 25 million passengers per annum.

Results

Revenue from our four businesses comprising Student, Transit, Services and Greyhound increased by 229% in US Dollar terms to \$2,363.0m or £1,221.9m (2007: \$717.2m or £358.5m) reflecting a half-year contribution from our acquisition of Laidlaw. Revenue, on a proforma basis including Laidlaw businesses for the comparable period in 2007, increased by 5.2%. Operating profit was \$165.0m or £86.0m (2007: \$34.1m or £17.2m) an increase of 384% at constant exchange rates. Operating profit, on a proforma basis including Laidlaw businesses for the comparable period in 2007, increased by 45%. EBITDA increased by 314% to \$297.8m (2007: \$71.9m) enabling us to invest to deliver future growth in our North American operations.

During the first half of this new financial year we have continued our successful integration of Laidlaw operations into our business. I am delighted with the progress made in achieving our integration plans and in securing the synergies from the combined operations. We have already reached our target \$150m per annum run rate earlier than anticipated.

I am pleased to report that we are seeing the positive effects of our focus on customer service, quality and operational performance. Our businesses in North America are in a strong position to continue to grow by offering unrivalled quality, a greater range of products and significant scale efficiencies.

First Student

US Dollar revenue increased by 222.8%, operating profit increased by 326.5% and the operating margin improved by 130bps despite additional fuel costs.

A key focus for the business, during this period of integration, has been to continue our excellent customer retention record and I am pleased to report that First Student retained over 93% of contracts that came up for renewal. In August and September we delivered a successful start up of new and retained contracts for the new school year.

We are experiencing a marked increase in the number of 'expressions of interest' received from school boards in respect of outsourcing school transportation. Our scale and expertise enables us to offer enhanced quality and value to customers and we are pursuing the opportunities that the current economic climate in the US presents for us to expand our business and product offering. We have a strong, experienced team heading our business development activities who have established a platform to proactively develop this pipeline of opportunities as well as seeking further opportunities. During the period we were delighted to win contracts for 360 new school buses that were previously operated within the public sector.

We continue to create opportunities to expand our range of services. The US school bus charter market is estimated to be worth some \$700m. Yellow school buses are hired for 'charter trips' such as after school activities, day trips and for social groups. As part of our plans to further develop our presence in this market we are rolling out a number of 'Charter Centres' and have launched a new website where customers can request a charter trip quote online which is automatically forwarded to the appropriate First Student location for fulfilment.

The extent of our school transportation business enables us to leverage our scale and share the benefits with our customers and stakeholders. In May we signed a \$750m agreement with Navistar IC Bus to purchase 13,000 new yellow school buses over the next three years. All of the buses will be built to customer specifications and equipped with safety enhancements including front safety crossing gates to prevent children stepping out directly in front of the vehicle, electronic child check reminder systems and GPS technology to meet our safety requirements.

First Transit

Our Transit business has delivered another successful period of growth with US Dollar revenue increased by 76.4%, operating profit increased by 115.4% and a further improvement in the operating margin.

The integration of Laidlaw Transit Services into First Transit operations was successfully achieved while at the same time continuing to grow our share of the transit market in the US and Canada. I am pleased to report that during the period we continued to expand our business with a number of transit contracting and transit management contract wins in states including California, Louisiana, Maryland, Massachusetts, New Jersey, New York, North Carolina and Pennsylvania.

I am pleased that our relentless focus on customer service was recognised with several accolades during the period including awards for 'Outstanding Metropolitan System' for one of our transit operations in Texas and another in Indiana.

The enlarged Transit business is well placed to offer greater value and expertise to new and existing customers and continue to grow its presence in the higher margin shuttle and paratransit markets.

First Services

Revenue in our Services business grew by 17.4% in US Dollar terms. Operating profit was impacted by the loss of a legal dispute and additional costs incurred in respect of a small number of contracts which expire during this financial year. Our vehicle fleet maintenance business continued to win new contracts with private corporations and with public sector agencies including the City of Irving in Texas where we now maintain their police vehicle fleet. We have restructured this business and implemented a number of management changes. First Services is now incorporated within our First Transit management structure.

Greyhound

Greyhound had an excellent first half with revenue of \$632.9m and operating profit of \$81.1m. The business is highly seasonal with a greater proportion of its revenue and earnings being achieved during the busy summer months. I am delighted with the progress we have made in strengthening this business. When we acquired Greyhound, as part of Laidlaw in October 2007, revenue trends were declining. As a result of our initiatives we have achieved revenue growth of 5%. We continue to believe that there is a substantial opportunity to generate further revenue growth at Greyhound and are very encouraged by the response to the early actions we have taken.

BoltBus, our low cost, high quality intercity coach service operating between key city pairs on the East Coast, has proved extremely popular with customers and a great success. We launched BoltBus in March this year and are delighted to report that the service is already achieving revenues of over \$1m per month. A strong demand for BoltBus services has resulted in high load factors, which continued to increase throughout the summer months. We are introducing a new schedule for the autumn including additional services between New York and Boston to accommodate the increasing demand. A further six buses will be added to the BoltBus fleet to increase capacity.

A key priority is to improve the operational performance of Greyhound which had been declining over several years. We have taken a number of actions to improve productivity and scheduling and have introduced more frequent and closer monitoring and reporting of On Time Performance. I am pleased to report that during the period Greyhound's On Time Performance has improved by 10% to over 80% and we continue to target further improvement.

We are progressing our plans to improve the quality and performance of the fleet and have placed an order for 140 new vehicles. This much needed investment will substantially improve the on-board environment for passengers with benefits including increased leg room, three point seat belt system, Wi-Fi and power plug provision.

UK BUS

The Group is the largest bus operator in the UK with a market share of approximately 23%. Our fleet of almost 9,000 buses carries 3 million passengers every day.

Results

I am delighted to report that our UK Bus division has delivered another very strong performance during the period. Total revenue rose by 7.1% to £578.6m (2007: £540.1m) as a result of volume growth, including concessions, and pricing. Passenger revenue rose by 7.7% with increased passenger volumes as growing numbers of people chose to take the bus. Revenue growth was achieved across the division with the strongest performance in our high density networks in towns and city centres. Operating profit increased by 26.1% to £60.0m

(2007: £47.6m). Strong EBITDA growth to £96.1m (2007: £83.5m) was achieved during the period.

We continue to promote bus travel and are pleased that growing numbers of people are switching to the bus from other modes of transport. We continue to invest in service quality, our people and new vehicles to support passenger growth. Our commitment to managing our controllable costs across the division, our revenue growth initiatives and the continued improvement of our operating companies in rural areas has improved profitability. I am pleased to report that our operating margin has increased to 10.4% (2007: 8.8%) despite higher fuel costs in the period.

Investment

Our continued strong performance enables us to invest in our people, our fleet and our infrastructure. We have focused our capital expenditure on the major towns and cities where we are delivering passenger growth. During the period, we invested £70.6m in our UK Bus division including new, environmentally friendly buses for our operating companies in Bradford, Bristol, Leeds, Manchester and South Yorkshire. Our investment included 17 new vehicles for the City of York Park & Ride contract which we successfully retained in July. We are pleased to report an increase in the number of Park & Ride services operated across our UK Bus division with the addition of two new five-year contracts in Doncaster and Ipswich.

I am pleased to report that driver turnover has reduced to less than 22% as a result of our investment in programmes and initiatives to encourage recruitment and greater retention and to promote greater engagement with our employees.

Marketing

This summer we launched our “Fuel for Thought” campaign to highlight the competitive advantage of bus travel compared to the cost of fuelling a car. We also launched our FuelBuster ticket, a new product allowing our customers to fix their travel costs for a six month period. We continue to promote buses as a more environmentally friendly way to travel and are marketing our new environmentally friendly vehicles to non-bus users. We believe there is growing acknowledgement that achieving modal shift from cars to buses will reduce congestion and contribute to lowering greenhouse gas emissions that contribute to climate change.

Partnerships

The Sheffield Bus Agreement, our Voluntary Quality Partnership agreement with South Yorkshire Passenger Transport Executive and Sheffield City Council, celebrated its first anniversary in May. The Agreement has delivered impressive growth in the number of people travelling on buses in Sheffield. Infrastructure improvements, better enforcement of bus lanes and customer service initiatives has reduced journey times, increased customer satisfaction and attracted new passengers to the network. We continue to work closely with our local authority partners and are investing £9m in 58 new vehicles for the city to support growth.

Yorcard, a new smartcard being piloted for public transport users in Yorkshire, has now been introduced on selected First bus services in Sheffield. Yorcard follows a similar concept to London's Oyster card. The pilot is being led by South Yorkshire Passenger Transport Executive, in partnership with Metro, and will continue into 2009. Yorcard could be rolled-out across all forms of public transport throughout Yorkshire and Humberside.

Our partnership with Metro and Leeds City Council continues to deliver benefits for passengers. In September the partners relaunched the Scott Hall Road guided busway ten years after its completion. Metro has invested in the shelters along the route fitting the 'yournextbus' real time passenger information system and Leeds City Council is planning to improve bus priority along the route which will see further reductions in journey time. We are investing £3m in new buses for services operating on the busway. Our joint ftr initiative

introduced in June 2007 has increased passenger numbers on the route by 15% and improved customer satisfaction. We are delighted that our operating company in Leeds was highly commended in the Public Transport Operator of the Year award at the National Transport Awards.

In July we published our second Route Development Plan (RDP) for bus services in Greater Glasgow. The RDP is one of a number of commitments in the Stability and Growth Pact we signed with Glasgow City Council and Strathclyde Partnership for Transport last year and outlines the key changes proposed for the Glasgow route network. The RDP builds on our achievements over the period which include the provision of increased capacity across many routes, success in new markets and ongoing improvements in reliability and punctuality, all of which have contributed to an increase in patronage and the creation of more than 100 new jobs.

Our Joint Investment Plan with Norwich City Council and Norfolk County Council is delivering new vehicles to support passenger growth and resulted in doubling the frequency of our flagship X1 route. We are delighted that Leon Wells from our operation in Ipswich won the prestigious Bus Driver of the Year competition.

In April we relaunched our bus network in Plymouth. 'ugobus' offers simplified timetables and fare structures, supported by a local branding campaign, and has delivered a 7% increase in passenger numbers.

Policy

The Local Transport Bill has now completed its remaining stages in the House of Commons. While we support the Government's objective of increasing bus patronage through more effective voluntary quality partnerships we are disappointed by the Department for Transport's decision, at this late stage in the legislative process, to amend the Bill by replacing approvals boards for quality contract schemes with "QCS boards". The QCS board's role would be advisory rather than its opinion being binding on the local authority. We believe this amendment could weaken the independent scrutiny of local authority proposals for quality contract schemes.

We welcomed the report of the Yellow School Bus Commission, chaired by the Rt. Hon. David Blunkett MP. We believe the recommendations set out in the authoritative report would reduce congestion caused by the school run and lead to an overall increase in the number of children walking, cycling and taking the bus to school.

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 Hull Trains, a non-franchised open access intercity passenger train operator, and we provide rail freight services through First GBRf. We are the UK's largest rail operator carrying over 280 million passengers per annum.

Results

I am pleased by the continued strong performance of our UK Rail division in the first six months of the year. Revenue increased by 11.2% to £960.6m (2007: £863.6m) reflecting good growth across all of our rail businesses. During the period demand for services remained strong with passenger volumes increased by 5.9%. Operating profit was £48.3m (2007: £48.2m). All of our rail franchises have improved their operating performance year on year with each franchise delivering a Public Performance Measure (PPM) score of over 90% in the last period. We continue to invest in our rail businesses to build on this improvement and to drive passenger growth. Overall passenger growth supports the industry view that customers are being attracted to the railway as a result of the increasing costs of motoring

and as a more environmentally friendly mode of travel. Across our rail division we have established a diverse range of franchises including London commuter, intercity and regional, providing a balanced mix of operations and mitigating reliance on any specific market.

First ScotRail

We are delighted that the Scottish Government has extended our successful First ScotRail franchise for a further three years to November 2014. Operational performance continues to be strong with a record high PPM in April of over 94% and since the start of the franchise we have reduced delays caused by First ScotRail by some 50%. We were pleased to record an overall satisfaction score of 88% in the National Passenger Survey, up five percentage points year on year. Our continued commitment to improving performance and customer service, together with the re-opening of the Stirling-Alloa-Kincardine line in May, has contributed to passenger growth of more than 4% and over 20% since the start of the franchise in October 2004.

In July Transport Scotland announced a £200m investment in 38 Class 380 trains for routes in Ayrshire and Inverclyde in 2010, including the new Glasgow Airport Rail Link. The new trains will release rolling stock for the new Airdrie-Bathgate line which will open in 2010. We were delighted to achieve Investors in People accreditation this year and are one of the largest private sector organisations in Scotland to attain the standard. We invest more than £1m a year in training and development across the company to ensure our staff are fully equipped to do their jobs and are opening a second training academy. In September ScotRail celebrated its 25th anniversary and the Transport Minister announced a package of new services and reduced journey times which will be implemented in December. We are very proud of our track record of operating Scotland's railway and were delighted to receive the unanimous decision of the judges at this year's National Rail Awards in achieving the accolade of Passenger Operator of the Year.

First TransPennine Express

We are pleased that the Department for Transport (DfT) confirmed in its High Level Output Statement update that First TransPennine Express is included in the first phase of the 1,300 additional rail vehicles required to accommodate expected demand across the UK's rail network. We have entered into discussions with the DfT to add capacity to the TransPennine network.

This summer operational performance at First TransPennine Express was affected by an unprecedented series of thefts of lineside cabling. The British Transport Police has set up a dedicated national squad working closely with civil police forces and Network Rail to minimise the opportunities for theft.

We are pleased with the success of our Manchester Airport to Glasgow and Edinburgh services. Since we began operating the services last December passenger journeys increased 23%. We are introducing two additional return services per day in December 2008, bringing the total to 18 services per day.

We are committed to reducing our impact on the environment and are pleased with the response of our staff to initiatives such as driver training. We are also working with Siemens, the manufacturer of our Pennine Class 185 fleet of trains, to reduce our fuel usage and carbon dioxide emissions. We were pleased to achieve ISO14001, the international accreditation for environmental management standards, for our environmental programme which includes recycling on trains, at stations and in our depots and offices.

Our £12m station investment programme is nearing completion with Cleethorpes and Hull the most recent stations to benefit. We were pleased that Grange-over-Sands won the Best Small Station of the Year at the National Rail Awards. Our new timetable in December will benefit

passengers on the Blackpool-Manchester Airport route by providing faster journey times and additional capacity into Manchester in the morning peak.

First Great Western

First Great Western's operational performance has substantially improved since last year and we are currently achieving a consistent PPM of around 90%. A significant contributing factor in this pattern of improving performance has been the recruitment of new drivers, guards and technicians who have now become productive having completed the necessary training.

We continue to work closely with Network Rail to address the challenges posed by the ageing infrastructure on the route. The upgrading of the majority of the Reading-London Paddington relief line to 90mph was completed in August, creating greater capacity, punctuality and improved journey times for passengers in the Thames Valley area and long distance high speed services. We are also working closely with Network Rail on the £350m Reading remodelling project. The work will address a major bottleneck and the single biggest challenge to performance on the Western route.

In May we increased capacity on Cardiff-Portsmouth services to three cars on virtually every train and Devon branch lines have also seen capacity increases, particularly around the Exeter area.

We are investing more than £6m in refreshing our Turbo fleet, which serves the London and Thames Valley area. First Great Western will acquire an additional High Speed Train (HST) in November, which will be ready for service by March 2009. In the interim, three Class 180 Adelante trains have been retained to improve performance on Oxford and Cotswold services. Our Sleeper fleet has been refreshed and we are on course to complete our West fleet refresh early next year.

We are making good progress with our £40m investment programme to enhance station environments for customers. We are also investing £15m in a new station information and security system and Network Rail has committed a further £15m to support this upgrade. The system will be operational at Slough and Oxford stations by the end of 2008 and progressively rolled out to the 210 stations managed by First Great Western.

Over the next two years, all our front line staff will complete our 'Putting Customers First' development programme, designed to raise customer satisfaction levels. We are delighted that Bristol Temple Meads was awarded Major Station of the Year in the National Rail Awards in September, in recognition of the way the station is presented and the helpfulness of the station team. The Taunton station team and our £200m HST refresh were also highly commended.

First Capital Connect

We are pleased by the continued progress of our First Capital Connect franchise. During August and September the company recorded its best ever PPM score of 94%. We were pleased with the improvement in First Capital Connect's National Passenger Survey results with overall customer satisfaction increased by 6% to 77%. However, there is more to do and, in particular, overcrowding continues to be a challenge for First Capital Connect.

We are working closely with the DfT and Network Rail to implement the Cambridge and Peterborough Capacity Study that will increase peak capacity by 15% and more efficiently match supply to demand across our routes. The study recommended the introduction of a new timetable, upgraded infrastructure including lengthened platforms and the introduction of additional train carriages. We are working with our industry partners to complete the necessary infrastructure enhancements and rolling stock plans so we can deliver the capacity increase in May 2009.

The Thameslink Programme will provide additional capacity and preparatory work is underway. Bombardier is currently building 23 four carriage Class 377 units that First Capital Connect will progressively roll out on the Thameslink route in 2009. Overall, the Thameslink Programme will deliver longer trains and a higher frequency during the morning and evening peaks, longer platforms, improved station facilities and more destinations by 2015.

We were delighted that our “keeping you safe with us” campaign to reduce crime and anti-social behaviour, in partnership with the British Transport Police, won the ‘London Team of the Year’ at the National Rail Awards in September.

Hull Trains

Hull Trains, our non-franchised, open access intercity train operating company between London Kings Cross and Hull has acquired four Class 180 trains to operate existing services and respond to new opportunities. We have identified an opportunity to significantly grow the rail market through the establishment of direct services between Harrogate and London. In May we applied to the Office of Rail Regulation to establish a new route between Harrogate and London, providing four direct services every day in each direction.

First GBRf

I am pleased that First GBRf won the ‘Freight Achievement of the Year’ award at the National Rail Awards. First GBRf has increased its share of the rail borne coal market to 12% from a standing start and continues to win new contracts. In August we were awarded a contract for the movement and service of newly manufactured rail vehicles for Bombardier. In September First GBRf secured a six-year contract with Railcare Ltd in Scotland for the movement of rail units to Glasgow for maintenance exams. The contract marks First GBRf’s entry into the Scottish rail freight market.

Group outlook

Across all of our businesses trading has been good and we have achieved strong revenue growth underpinned by our investment in operational performance and customer service. With strong operating cash flows and opportunities for future growth across all divisions, the Board is confident of the Group’s prospects. Looking ahead, we will continue to bear down on costs and deliver further efficiencies across our business where necessary. While the Group is not wholly immune to macroeconomic developments, it has established a strong balanced portfolio of businesses with approximately 50% of Group revenues secured under medium term contracts with Government agencies and other large organisations in the UK and North America. Trading in the second half of the year has started well and is in line with our expectations.

Sir Moir Lockhead

Chief Executive

4 November 2008

Finance Director's review

Overview

We are pleased to report another record set of results and are encouraged by the Group's continued strong trading performance despite challenging economic conditions in both the UK and North America. Adjusted basic EPS of 15.6 pence is an increase of 40.5% over last year. This is after consolidation of the second six months of the Laidlaw business.

UK Bus like-for-like passenger revenues grew by 7.7% benefiting from continued improvements in quality and service delivery as well as modal shift driven by changing customer attitudes and high fuel prices.

Across all of our UK Rail franchises operating performance improved and revenues remained strong. Over the period like-for-like passenger revenue growth averaged 9.8%.

In North America we reached our \$150m synergy run rate earlier than expected, and the turnaround of the Greyhound business continued, reporting a 5% increase in passenger revenues.

The refinancing of the Laidlaw acquisition debt due February 2010 is almost complete despite difficult market conditions through a combination of equity and longer dated debt. The remaining balance is now \$300m, reduced from \$2.25bn at March 2008. Over the period we have increased the average debt maturity to 4.9 years (March 2008: 3.5 years). Our remaining total refinancing commitments up until September 2011 are relatively light at £329m.

We remain committed to maintaining an investment grade rating. Our businesses continue to generate strong cash flows which will support growth and further debt reduction.

While the economic outlook remains uncertain and challenging, and we are not wholly immune to the effects, we are however, well positioned with the defensive characteristics of our businesses. Over 50% of Group revenues are contract backed with government and large organisations.

Both our UK Bus and Greyhound businesses have highly flexible business models and are both benefiting from improvements in operating performance and changes in attitude to public transport. Within UK Rail we have a diverse mix of franchises and 'cap and collar' profit and revenue regimes, which significantly de-risk the franchises.

Our First Student and Transit businesses in North America benefit from revenues secured under medium term contracts predominantly with Government agencies.

Results

Group revenue rose to £2,768.5m (2007: £1,768.9m), an increase of 56.5%. Adjusted operating profit was £181.2m (2007: £103.1m), an increase of 75.8%. Profit before taxation was £54.4m (2007: £71.3m), a reduction of £16.9m principally due to non-recurring Laidlaw integration costs and an increase in the 'non-cash' amortisation charges post the Laidlaw acquisition. Adjusted basic EPS was 15.6 pence (2007: 11.1 pence), an increase of 40.5%. Earnings before interest, taxation, depreciation and amortisation (EBITDA) was £306.0m (2007: £170.9m), an increase of 79.1%.

	6 months to 30 September 2008			6 months to 30 September 2007			Year to 31 March 2008		
	Revenue £m	Operating Profit £m	Operating margin ¹ %	Revenue £m	Operating profit ¹ £m	Operating margin ¹ %	Revenue £m	Operating profit ¹ £m	Operating margin ¹ %
Divisional results									
UK Bus	578.6	60.0	10.4	540.1	47.6	8.8	1,104.9	122.0	11.0
UK Rail	960.6	48.3	5.0	863.6	48.2	5.6	1,937.0	120.0	6.2
North America	895.9	44.4	5.0	358.5	17.2	4.8	1,370.3	130.7	9.5
Greyhound	326.0	41.6	12.8	-	-	-	280.8	8.8	3.1
Group ²	7.4	(13.1)	-	6.7	(9.9)	-	14.6	(21.4)	-
Total Group	2,768.5	181.2	6.5	1,768.9	103.1	5.8	4,707.6	360.1	7.6

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

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

UK Bus had a particularly strong period. Revenue was £578.6m (2007: £540.1m), an increase of 7.1%. Operating profit was £60.0m (2007: £47.6m), an increase of 26.1%. Like-for-like passenger revenues grew by 7.7% and passenger volumes increased by approximately 2% as growing numbers of passengers switched to the bus from other modes of transport. The revenue growth, combined with cost reduction and efficiency initiatives, led to a further increase in margin to 10.4% from 8.8% in the first half of last year. London revenues were up by 5.9% on a like-for-like basis. There was a continued focus on service, quality and operational performance and we are pleased to report further improvements, with lost mileage remaining below 1% and driver turnover dropping below 22%. Our strategy remains to encourage growth and to support partnerships with local authorities throughout the UK with targeted investments in new vehicles.

UK Rail revenue was £960.6m (2007: £863.6m), an increase of 11.2%. Operating profit was £48.3m (2007: £48.2m). Across all the franchises we operate, passenger revenue growth remained strong during the period, achieving an increase of 9.8% on a like-for-like basis with volume growing by almost 6%. At First Capital Connect, which has a high proportion of central London commuters, the rate of strong growth slowed marginally in the final month of the period, delivering revenue growth of over 8%. Public Performance Measures (PPM) at all our TOCs showed a significant improvement when compared to the previous year. First Capital Connect, First ScotRail and First TransPennine Express all reported a moving annual average PPM of 91% or above. The strengthened management team and investments at First Great Western have started to produce results. The moving annual average PPM has increased by 4% over last year, with the average period performance over the last six months running at over 90%. In the current uncertain economic environment we continue to closely monitor the performance of our rail businesses for changing patterns of customer behaviour.

North American revenue was £895.9m (2007: £358.5m), an increase of 141% in US Dollars, due to a full six months' contribution from the former Laidlaw businesses. Operating profit was £44.4m (2007: £17.2m). We are pleased with the continued success of our enlarged businesses and, in First Student, enjoyed a successful start up of new and retained business for the new school year which commenced in August and September retaining over 93% of contract rebids. In the period we achieved our increased synergy target of \$150m on an annual run rate basis ahead of forecast. These synergies are principally in the areas of corporate costs, administration costs and salaries, branch and facilities consolidation, insurance and procurement initiatives and, when combined with the cash tax and capital expenditure synergies, means we have now extracted a cash synergies run rate of over \$200m. The calculations of these savings are based on comparing the budgeted costs in our legacy FirstGroup business and the independently prepared Laidlaw budget, before the combination of the businesses, to the costs in the enlarged Group. The successful integration of the Laidlaw business has resulted in a platform that will enable us to use our scale to offer enhanced quality and value to customers. The current economic climate in North America presents opportunities for us to expand our business and product offerings, as authorities and other bodies look to save money by outsourcing certain functions.

First Student revenue was \$1,176.9m (2007: \$364.6m) and operating profit was \$66.1m (2007: \$15.5m). First Student margin increased by 1.3% to 5.6% despite higher fuel costs. We are pleased that our contract renewal rate was back to our typically high levels and that there was no overhang from the US Department of Justice review of the Laidlaw acquisition. The high level of outsourcing enquiries received from School Boards presents an opportunity which we are addressing with a strong and experienced development team.

First Transit revenue was \$416.2m (2007: \$235.9m) and operating profit was \$26.5m (2007: \$12.3m). First Transit margin increased by 1.2% to 6.4%. There were new contract wins in both contracting and management.

First Services revenue was \$137.0m (2007: \$116.7m) and operating loss was \$8.7m (2007: operating profit of \$6.3m). Results were impacted by the settlement of a large legal claim and operational issues on a small number of contracts, nearing the end of their respective terms, which have now been rectified. We have now brought First Services under the same management structure as First Transit.

Greyhound revenue was £326.0m (2007: £nil) and operating profit was £41.6m (2007: £nil). During the period the Greyhound team have achieved a great deal and the transformation of this business has continued to exceed expectations. Operating performance is up over 10% and they have continued to implement further cost and revenue initiatives. This has resulted in like-for-like revenue growth of 5%. These measures, coupled with the seasonal profile of the Greyhound business, resulted in a six monthly operating margin of 12.8%. BoltBus, our new low-cost service operating key city pairs on the East Coast, exceeded expectations and reached profitability well ahead of plan.

Non-recurring items and amortisation charges

	Six months to 30 September 2008 £m	Six months to 30 September 2007 £m	Year to 31 March 2008 £m
North American integration costs	34.5	-	55.5
UK Rail	-	-	16.8
European bid costs	1.5	1.7	3.7
UK Rail bid costs	-	3.5	3.5
Other non-recurring costs	0.4	-	-
Loss/(profit) on disposal of properties	2.8	(6.9)	(5.8)
Non-recurring bank facility costs	-	-	4.5
Total non-recurring items	39.2	(1.7)	78.2
Amortisation charges	13.5	4.9	18.9
Total	52.7	3.2	97.1

North American Integration costs

These costs reflect costs directly attributable to the integration of Laidlaw and include severance, IT expenses, location closure costs and rebranding.

European bid costs

Bid costs of £1.5m (2007: £1.7m) were incurred during the period principally on further potential opportunities in Germany and Scandinavia.

Property

Losses on disposals of £2.8m (2007: profit on disposal of £6.9m) were incurred during the period and relate to minor property disposals in both the UK and North America.

Amortisation charges

Amortisation charges were £13.5m (2007: £4.9m) with the increase mainly due to the customer contracts and trade-name intangibles purchased as part of the Laidlaw acquisition.

Finance costs and investment income

The net finance cost was £74.1m (2007: £28.6m) with the increase due to higher debt levels following the Laidlaw acquisition partly mitigated by lower interest rates on US Dollar denominated debt and the proceeds from the equity placement in May 2008. Net finance cost is covered 4.4 times (2007: 7.0 times) by EBITDA, calculated on an annualised basis.

Taxation

The taxation charge, on adjusted profit before tax, for the period was £26.0m (2007: £20.3m) and is based on the estimated effective rate for the full year of 24.3% (2007: 27.2%).

Amortisation charges, non-recurring bid costs, other non-recurring items and (loss)/profit on disposal of properties amounting to £52.7m generated a tax credit of £18.1m that, after offset with a one-off charge of £15.2m for deferred tax, reduced the tax charge to £23.1m (2007: £9.4m). The one-off deferred tax charge is 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 £6.6m (2007: £4.4m). 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 taxation remains low due to pension payments exceeding pension charges and interest paid on increased debt levels.

Dividends

The interim dividend of 6.05 pence (2007: 5.5 pence) per ordinary share represents an increase of 10%. The interim dividend will be paid on 4 February 2009 to shareholders on the register of members at the close of business on 9 January 2009. In accordance with IFRS and in line with the prior period, this interim dividend has not been provided in the accounts as at 30 September 2008.

EPS

The adjusted basic EPS, before amortisation charges, non-recurring bid costs, other non-recurring items and (loss)/profit on disposal of properties was 15.6 pence (2007: 11.1 pence), an increase of 40.5%. Basic EPS was 5.0 pence (2007: 12.9 pence). The reduction in basic EPS was mainly due to the North American integration costs incurred.

EBITDA

The Group continues to generate strong operating results that are converted into cash. EBITDA was £306.0m (2007: £170.9m).

EBITDA by division is set out below:

	6 months to 30 September 2008			6 months to 30 September 2007			Year to 31 March 2008		
	Revenue £m	EBITDA ¹ £m	EBITDA ¹ %	Revenue £m	EBITDA ¹ £m	EBITDA ¹ %	Revenue £m	EBITDA ¹ £m	EBITDA ¹ %
UK Bus	578.6	96.1	16.6	540.1	83.5	15.5	1,104.9	193.5	17.5
UK Rail	960.6	66.3	6.9	863.6	59.4	6.9	1,937.0	148.7	7.7
North America	895.9	100.7	11.2	358.5	36.0	10.0	1,370.3	213.6	15.6
Greyhound	326.0	53.9	16.5	-	-	-	280.8	22.6	8.0
Group	7.4	(11.0)	-	6.7	(8.0)	-	14.6	(17.6)	-
Total Group	2,768.5	306.0	11.1	1,768.9	170.9	9.7	4,707.6	560.8	11.9

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

Operating Cash flow

Cash generated by operations was £175.7m (2007: £102.6m) with the increase principally due to the contribution from the acquired Laidlaw businesses. Included in operating cash

flows were outflows on working capital of £75.2m (2007: £40.2m) and an amount of £27.1m for defined benefit pension payments, in excess of the income statement charge. The increase in the working capital outflow largely relates to the timing of certain UK Rail payments. It is anticipated that the majority of this working capital outflow will reverse in the second half of the year.

Capital expenditure and acquisitions

Capital expenditure, as set out in note 9 to the half-yearly financial report was £188.1m (2007: £160.2m). The divisional split of capital expenditure was £77.8m (2007: £60.5m) in North America, £70.6m (2007: £29.0m) in UK Bus and £39.7m (2007: £70.6m) in UK Rail.

During the period the Group acquired a small UK based bus operator for £2.4m. Provisional goodwill arising on this acquisition amounted to £1.9m.

Fair values of assets and liabilities on the Laidlaw acquisition were finalised during the period as set out in note 15. As a result the provisional goodwill on this acquisition has been increased by £28.8m (\$57.5m).

Net debt

The Group's net debt at 30 September 2008 was £2,195.1m and was comprised as follows:

Analysis of net debt	Fixed £m	Variable £m	Total £m
Cash	-	62.9	62.9
UK Rail ring-fenced cash and deposits	-	151.6	151.6
Other ring-fenced cash and deposits	-	13.2	13.2
Sterling bond (2013) ¹	(297.1)	-	(297.1)
Sterling bond (2018) ²	(280.4)	-	(280.4)
Sterling bond (2019) ²	(234.8)	-	(234.8)
Sterling bank loans and overdrafts	-	(141.4)	(141.4)
US Dollar bank loans and overdrafts	-	(1,229.8)	(1,229.8)
Canadian Dollar bank loans and overdrafts	(5.2)	(104.6)	(109.8)
Euro and other bank loans and overdrafts	-	(21.4)	(21.4)
HP and finance leases	(32.4)	(65.2)	(97.6)
Loan notes	(8.7)	(1.8)	(10.5)
Interest rate swaps	(1,222.7)	1,222.7	-
Total	(2,081.3)	(113.8)	(2,195.1)

¹ excludes accrued interest

² stated excluding accrued interest, swapped to US Dollars less gains on associated derivatives

The \$2.25bn Laidlaw acquisition bridge term loan due 2010 has been substantially refinanced by new equity and longer-term debt. During the period 43.8m shares were issued for gross proceeds of approximately £236m. A £300m ten-year bond was issued with the proceeds swapped into fixed rate US dollars at 6.9% and two new medium-term bank facilities for a total of \$450m were entered into. From these sources we repaid \$1.45bn of the acquisition term loan by the end of September 2008. Since the period end we have obtained UK and US finance leasing and committed medium term unsecured bank facilities. As a result, we have now successfully refinanced \$1.95bn of the \$2.25bn acquisition term loan.

We also extended £505m of our committed revolver facility from March 2010 to February 2012.

Average debt maturity at the end of the period was 4.9 years compared with 3.5 years at the beginning of the period. As a result of our refinancing activities since March 2008, the total debt falling due for repayment over the next three years to September 2011, including the

remaining balance of the term loan, is £329m. Headroom under committed revolver facilities (which expire in February 2012) at 30 September 2008 was £474m.

We remain focused on continuing to reduce our leverage. Net debt to EBITDA stood at 3.1 times at September 2008 compared to a pro forma ratio of 3.5 times at the beginning of October 2007 immediately post the acquisition. Free cash flow generated going forward will be applied for growth and debt reduction.

Shares in issue

Following the equity placing described above, as at the period end there were 480.8m (2007: 434.5m; full year 2008: 436.6m) shares in issue, excluding treasury shares and shares held in trust for employees. 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 468.9m (2007: 434.3m; full year 2008: 434.8m).

Balance sheet and net assets

Net assets have increased by £172.8m since the start of the period. The principal reasons for this are an increase of £228.6m in the share premium account as a result of the equity placing, favourable translation reserve movements of £56.8m and retained profits of £31.3m partly offset by net actuarial losses on defined benefit pension schemes of £97.4m and dividends paid of £55.5m.

Foreign exchange

The operating results of the North American businesses have been translated at an average rate of £1:\$1.94 (2007: £1:\$2.00; full year 2008: £1:\$2.01). The period end rate used for balance sheet translation was £1:\$1.84 (2007: £1:\$2.03; full year 2008: £1:\$2.00). Changes in the US Dollar/Sterling exchange rate currently have a minimal effect on adjusted EPS due to the US Dollar earnings being broadly offset by Dollar denominated fuel purchases for our UK businesses and interest on our US Dollar denominated debt.

Fuel hedging

In the UK, 100% of the Group's current year exposure to crude oil prices (2.7m barrels p.a.) is hedged at \$76 per barrel. In North America 100% of current year "at risk" volumes (2.4m barrels p.a.) are hedged at \$84 per barrel. In North America the Group's exposure relates only to those requirements not covered by pass through or escalation clauses in contracts.

For 2009/10 in the UK, 100% of the Group's exposure is hedged at \$111 per barrel and 100% of North American "at risk" volumes are hedged at \$116 per barrel.

Pensions

As a result of significant fluctuations in financial markets, in particular equities in both the UK and North America, the Group has updated the pension assumptions as at 30 September 2008 for the defined benefit schemes in the UK and North America. As a result, the net pension surplus of £89m at the beginning of the period has moved to a net pension deficit of £25m at the end of the period principally due to falls in equity markets being partly offset by an increase in the discount rate used.

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

	Movement	£m
Discount rate	+/- 0.1%	23
Inflation	+/- 0.1%	14
Salary growth	+/- 0.1%	2

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 2008 Annual Report. The principal risks and uncertainties, which are set out in detail on pages 34 and 35 of the Annual Report and Accounts 2008, are:

- Economy in the UK and North America
- Competitive pressures
- Rail franchise agreements
- Legislation and regulation
- Labour costs
- Fuel costs
- Insurance costs
- Terrorism
- Retention of key management
- Customer service and contract retention

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).

Nick Chevis

Acting Finance Director

4 November 2008

Consolidated income statement

	Notes	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	Adjusted results ¹ 6 months to 30 September 2007 £m	Adjustments ² 6 months to 30 September 2007 £m	Unaudited Total 6 months to 30 September 2007 £m	Audited Total year to 31 March 2008 £m
Revenue								
Continuing operations	2	2,768.5	-	2,768.5	1,768.9	-	1,768.9	4,707.6
Operating costs before (loss)/profit on disposal of properties								
Continuing operations		(2,587.3)	(49.9)	(2,637.2)	(1,665.8)	(10.1)	(1,675.9)	(4,445.9)
Operating profit before (loss)/profit on disposal of properties								
Continuing operations		181.2	(49.9)	131.3	103.1	(10.1)	93.0	261.7
Operating profit before amortisation charges, non-recurring bid costs and other non-recurring items								
		181.2	-	181.2	103.1	-	103.1	360.1
Amortisation charges								
		-	(13.5)	(13.5)	-	(4.9)	(4.9)	(18.9)
Non-recurring bid costs								
		-	(1.5)	(1.5)	-	(5.2)	(5.2)	(7.2)
Other non-recurring items								
		-	(34.9)	(34.9)	-	-	-	(72.3)
Operating profit before (loss)/profit on disposal of properties								
		181.2	(49.9)	131.3	103.1	(10.1)	93.0	261.7
(Loss)/profit on disposal of properties								
		-	(2.8)	(2.8)	-	6.9	6.9	5.8
Operating profit								
		181.2	(52.7)	128.5	103.1	(3.2)	99.9	267.5
Investment income								
	3	3.8	-	3.8	8.8	-	8.8	14.9
Finance costs								
	3	(77.9)	-	(77.9)	(37.4)	-	(37.4)	(130.5)
Profit before tax								
		107.1	(52.7)	54.4	74.5	(3.2)	71.3	151.9
Tax								
	4	(26.0)	2.9	(23.1)	(20.3)	10.9	(9.4)	(18.6)
Profit for the period from continuing operations								
		81.1	(49.8)	31.3	54.2	7.7	61.9	133.3
Attributable to:								
Equity holders of the parent								
		73.1	(49.7)	23.4	48.3	7.8	56.1	120.4
Minority interest								
		8.0	(0.1)	7.9	5.9	(0.1)	5.8	12.9
		81.1	(49.8)	31.3	54.2	7.7	61.9	133.3
Basic earnings per share								
	6			5.0p			12.9p	27.7p
Diluted earnings per share								
	6			4.9p			12.8p	27.4p

Dividends of £55.5m were paid during the period (2007: £45.6m). Dividends of £29.1m were proposed for approval during the period (2007: £23.9m; full year 2008: £55.5m).

¹Adjusted trading results before items noted in 2 below.

²Amortisation charges, non-recurring bid costs, other non-recurring items and (loss)/profit on disposal of properties.

Consolidated balance sheet

	Notes	Unaudited 30 September 2008 £m	Unaudited 30 September 2007 £m	Audited 31 March 2008 restated ¹ £m
Non-current assets				
Goodwill	7	1,416.9	464.7	1,310.1
Other intangible assets	8	381.4	55.5	367.5
Property, plant and equipment	9	2,062.2	1,135.7	1,919.8
Financial assets - derivative financial instruments	13	46.1	38.2	45.4
Investments		4.3	-	4.0
		3,910.9	1,694.1	3,646.8
Current assets				
Inventories		87.1	77.4	82.7
Trade and other receivables	10	654.0	414.8	590.2
Financial assets - cash and cash equivalents		227.6	379.6	242.3
- derivative financial instruments	13	69.1	26.2	78.1
		1,037.8	898.0	993.3
Non-current assets classified as held for sale	11	5.6	8.3	10.2
Retirement benefit surplus	21	114.3	81.0	186.2
Total assets		5,068.6	2,681.4	4,836.5
Current liabilities				
Trade and other payables	12	1,011.5	707.6	1,035.8
Tax liabilities		57.9	60.8	46.8
Financial liabilities - obligations under finance leases		26.7	13.1	32.4
- bank overdrafts and loans		30.4	18.9	26.4
- loan notes		-	5.1	4.6
- derivative financial instruments	13	39.4	5.9	36.9
- bonds		20.7	20.1	23.2
		1,186.6	831.5	1,206.1
Net current (liabilities)/assets		(148.8)	66.5	(212.8)
Non-current liabilities				
Financial liabilities - obligations under finance leases		71.0	65.0	70.8
- bank loans		1,471.8	407.1	1,745.1
- loan notes		10.5	10.5	10.5
- derivative financial instruments	13	37.5	17.3	27.8
- bonds		840.8	537.2	545.9
Retirement benefit obligation	21	139.7	31.7	97.2
Deferred tax liabilities		130.3	143.3	159.9
Long-term provisions	14	302.8	33.3	268.4
		3,004.4	1,245.4	2,925.6
Total liabilities		4,191.0	2,076.9	4,131.7
Net assets		877.6	604.5	704.8
Equity				
Share capital	16	24.1	21.9	21.9
Share premium account	17	676.4	447.8	447.8
Hedging reserve	17	55.9	35.3	49.7
Other reserves	17	4.6	4.6	4.6
Own shares	17	(5.7)	(15.2)	(7.6)
Translation reserves	18	(13.5)	(83.8)	(70.3)
Retained earnings	17	116.3	180.7	245.5
Equity attributable to equity holders of the parent		858.1	591.3	691.6
Minority interests		19.5	13.2	13.2
Total equity		877.6	604.5	704.8

¹ restated for fair value adjustments as set out in note 15.

Consolidated cash flow statement

	Unaudited 6 months to 30 September 2008 £m	Unaudited 6 months to 30 September 2007 £m	Audited Year to 31 March 2008 £m	
Net cash from operating activities	19	93.2	55.3	365.8
Investing activities				
Interest received	4.6	8.9	14.0	
Proceeds from disposal of property, plant and equipment	2.8	12.5	32.5	
Purchases of property, plant and equipment	(176.2)	(149.0)	(302.6)	
Investment in joint venture	-	-	(1.2)	
Acquisition of businesses	(2.4)	(7.2)	(1,464.1)	
Net cash used in investing activities	(171.2)	(134.8)	(1,721.4)	
Financing activities				
Dividends paid	(55.5)	(45.6)	(69.5)	
Dividends paid to minority shareholders	(2.6)	(4.0)	(11.1)	
Proceeds from bond issue	300.0	-	-	
Proceeds from new bank borrowings	225.5	-	1,514.5	
Proceeds from existing bank borrowings	126.0	110.1	-	
Repayment of existing bank borrowings	(724.9)	-	(335.8)	
Repayment of obligations under finance leases	(17.9)	(3.8)	(17.5)	
Repayment of loan notes	(4.6)	(0.1)	(0.7)	
Payment of new bank facility and Bond issue costs	(5.7)	(0.7)	(9.6)	
Gross proceeds on issue of shares	236.5	-	-	
Costs of issue of shares	(5.7)	-	-	
Release of insurance captive assets	-	-	115.7	
Monies received on exercise of options	0.5	0.2	5.5	
Net cash from financing activities	71.6	56.1	1,191.5	
Net decrease in cash and cash equivalents before foreign exchange movements	(6.4)	(23.4)	(164.1)	
Cash and cash equivalents at beginning of period	239.7	410.3	410.3	
Effect of foreign exchange rate changes	(5.7)	(8.1)	(6.5)	
Cash and cash equivalents at end of period	227.6	378.8	239.7	
	30 September 2008 £m	30 September 2007 £m	31 March 2008 £m	
Cash and cash equivalents for cash flow statement purposes comprise:				
Cash and cash equivalents per balance sheet	227.6	379.6	242.3	
Overdrafts	-	(0.8)	(2.6)	
	227.6	378.8	239.7	

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

Consolidated statement of recognised income and expense

	Unaudited 6 months to 30 September 2008 £m	Unaudited 6 months to 30 September 2007 £m	Audited Year to 31 March 2008 £m
Derivative hedging instrument movements	(1.2)	8.7	33.2
Deferred tax on derivative hedging instrument movements	7.4	(0.1)	(10.2)
Exchange differences on translation of foreign operations	56.8	(26.0)	(12.5)
Unrealised (losses)/gains on executive deferred compensation plans	(1.4)	-	1.2
Actuarial (losses)/gains on defined benefit pension schemes	(120.7)	-	61.0
Movement in irrecoverable surplus on defined benefit pension schemes	(20.4)	-	(23.9)
Deferred tax on movements in defined benefit schemes	43.7	-	(10.4)
Net income recognised directly in equity	(35.8)	(17.4)	38.4
Profit for the period	31.3	61.9	133.3
Total recognised income and expense for the period	(4.5)	44.5	171.7
Attributable to:			
Equity holders of the parent	(12.4)	38.7	158.8
Minority interests	7.9	5.8	12.9
	(4.5)	44.5	171.7

Notes to the half-yearly financial statements

1 Basis of preparation

This half-yearly financial report does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. The statutory accounts for the year ended 31 March 2008 have been delivered to the Registrar of Companies. The report of the auditors was not qualified 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 2008 include the results of the rail businesses for the period ended 13 September 2008 and the results for the other businesses for the 26 weeks ended 27 September 2008.

The accounting policies used in the half-yearly financial statements are consistent with International Financial Reporting Standards and those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2008. The condensed set of financial statements included in this half-yearly financial report have 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. The comparative figures for the six months to 30 September 2007 are unaudited and are derived from the half-yearly financial report for the six months ended 30 September 2007, which was also reviewed by the auditors.

This half-yearly financial report will be sent to all shareholders in November 2008 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 4 November 2008.

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

	UK Bus £m	UK Rail £m	North America £m	Grey- hound £m	Group items £m	Total £m
Revenue	578.6	960.6	895.9	326.0	7.4	2,768.5
Adjusted operating profit¹	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

The segment results for the six months to 30 September 2007 are as follows:

	UK Bus £m	UK Rail £m	North America £m	Group items £m	Total £m
Revenue	540.1	863.6	358.5	6.7	1,768.9
Adjusted operating profit¹	47.6	48.2	17.2	(9.9)	103.1
Amortisation charges	-	(3.8)	(1.1)	-	(4.9)
Non-recurring bid costs	-	(3.5)	-	(1.7)	(5.2)
Profit on disposal of properties	6.9	-	-	-	6.9
Operating profit	54.5	40.9	16.1	(11.6)	99.9
Investment income					8.8
Finance costs					(37.4)
Profit before tax					71.3
Tax					(9.4)
Profit for the period					61.9

¹operating profit before amortisation charges, 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 2008 are as follows:

	UK Bus £m	UK Rail £m	North America £m	Grey- hound £m	Group items £m	Total £m
Revenue	1,104.9	1,937.0	1,370.3	280.8	14.6	4,707.6
Adjusted operating profit¹	122.0	120.0	130.7	8.8	(21.4)	360.1
Amortisation charges	-	(8.2)	(9.5)	(1.2)	-	(18.9)
Non-recurring bid costs	-	(3.5)	-	-	(3.7)	(7.2)
Other non-recurring items	-	(16.8)	(52.2)	(3.3)	-	(72.3)
Profit on disposal of properties	5.8	-	-	-	-	5.8
Operating profit	127.8	91.5	69.0	4.3	(25.1)	267.5
Investment income						14.9
Finance costs						(126.0)
One-off finance cost						(4.5)
Profit before tax						151.9
Tax						(18.6)
Profit for the period						133.3

¹operating profit before amortisation charges, non-recurring bid costs, other non-recurring items and profit on disposal of properties.

3 Investment income and finance costs

	6 months to 30 September 2008 £m	6 months to 30 September 2007 £m	Year to 31 March 2008 £m
Investment income	3.8	8.8	14.9
Bonds, bank loans and overdrafts	(65.2)	(30.8)	(107.3)
Loan notes	(0.6)	(0.7)	(1.5)
Finance charges payable in respect of finance leases	(3.2)	(2.4)	(5.9)
Notional interest on long-term provisions	(8.9)	(3.5)	(11.3)
Total finance costs before non-recurring items	(77.9)	(37.4)	(126.0)
Short term bank facility costs	-	-	(4.5)
Net finance costs	(74.1)	(28.6)	(115.6)

4 Tax

	6 months to 30 September 2008 £m	6 months to 30 September 2007 £m	Year to 31 March 2008 £m
Corporation tax	6.1	6.2	9.4
Deferred tax	1.8	12.1	17.8
Non-recurring deferred tax charge/(credit)	15.2	(8.9)	(8.6)
Tax on profit on ordinary activities	23.1	9.4	18.6

5 Dividends paid and proposed

	6 months to 30 September 2008 £m	6 months to 30 September 2007 £m	Year to 31 March 2008 £m
Final dividend paid for the year ended 31 March 2008 of 11.55p (2007: 10.5p) per share	55.5	45.6	45.6
Interim dividend paid for the year ended 31 March 2008 of 5.5p (2007: 5.0p) per share	-	-	23.9
Amounts recognised as distributions to equity holders in the period	55.5	45.6	69.5
Proposed interim dividend for the year ended 31 March 2009 of 6.05p (2008: 5.5p) per share	29.1	23.9	-

The proposed interim dividend will be paid on 4 February 2009 to shareholders on the register of members at the close of business on 9 January 2009. The proposed interim dividend has not been included as a liability as at 30 September 2008.

6 Earnings per share (EPS)

Basic EPS is based on earnings of £23.4m (2007: £56.1m; full year 2008: £120.4m) and on a weighted average number of ordinary shares (excluding own shares held in trust for employees and treasury shares) of 468.9m (2007: 434.3m; full year 2008: 434.8m) in issue.

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, non-recurring bid costs, other non-recurring items and (loss)/profit on disposal of properties. A reconciliation of the earnings used in the bases is set out below:

	6 months to 30 September 2008	
	£m	Earnings per share (p)
Profit for EPS calculation	23.4	5.0
Amortisation charges ¹	13.4	2.9
Non-recurring items	36.4	7.8
Loss on disposal of properties	2.8	0.6
Taxation effect of above adjustments	(18.1)	(3.9)
Non-recurring deferred tax charge on abolition of Industrial Buildings Allowances	15.2	3.2
Profit for adjusted EPS calculation	73.1	15.6
Depreciation ²	124.4	26.5
Profit for adjusted cash EPS calculation	197.5	42.1

¹Amortisation of £13.5m per note 2 less £0.1m attributable to equity minority interests.

²Depreciation charge of £124.8m per note 9 less £0.4m of depreciation attributable to equity minority interests.

6 Earnings per share (EPS) (continued)

	6 months to 30 September 2007	
	£m	Earnings per share (p)
Profit for EPS calculation	56.1	12.9
Amortisation charges ¹	4.8	1.1
Non-recurring bid costs	5.2	1.2
Profit on disposal of properties	(6.9)	(1.6)
Taxation effect of above adjustments	(2.0)	(0.5)
Non-recurring deferred tax credit on change in UK corporation tax rate	(8.9)	(2.0)
Profit for adjusted EPS calculation	48.3	11.1
Depreciation ²	67.4	15.5
Profit for adjusted cash EPS calculation	115.7	26.6

¹Amortisation of £4.9m per note 2 less £0.1m attributable to equity minority interests.

²Depreciation charge of £67.8m less £0.4m of depreciation attributable to equity minority interests.

	Year to 31 March 2008	
	£m	Earnings per share (p)
Profit for EPS calculation	120.4	27.7
Amortisation charges ¹	18.7	4.3
Non-recurring bid costs	7.2	1.6
Other non-recurring items	76.8	17.7
Profit on disposal of properties	(5.8)	(1.3)
Taxation effect of above adjustments	(31.0)	(7.1)
Non-recurring deferred tax credit on change in UK corporation tax rate	(8.6)	(2.0)
Profit for adjusted EPS calculation	177.7	40.9
Depreciation ²	199.8	45.9
Profit for adjusted cash EPS calculation	377.5	86.8

¹Amortisation charge of £18.9m per note 2 less £0.2m attributable to equity minority interests.

²Depreciation charge of £200.7m less £0.9m of depreciation attributable to equity minority interests.

Diluted EPS is based on the same earnings and on the weighted average number of ordinary shares of 473.0m (2007: 439.0m; full year 2008: 439.8m). 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.

Diluted EPS	6 months to 30 September 2008	6 months to 30 September 2007	Year to 31 March 2008
	Pence	Pence	Pence
Diluted basic EPS	4.9	12.8	27.4
Diluted adjusted basic EPS	15.5	11.0	40.4

7 Goodwill

	£m
Cost	
At 1 April 2008 as previously reported	1,281.3
Fair value adjustments (note 15)	28.8
At 1 April 2008 as restated	1,310.1
Additions	1.9
Exchange rate movements	104.9
At 30 September 2008	1,416.9
Accumulated impairment losses	
At 1 April 2008 and 30 September 2008	-
Carrying amount	
At 30 September 2008	1,416.9
At 31 March 2008 as restated	1,310.1
At 30 September 2007	464.7

8 Other intangible assets

	Customer contracts £m	Greyhound brand and trade name £m	UK Rail franchise agreements £m	Total £m
Cost				
At 1 April 2008	297.4	49.2	56.3	402.9
Exchange rate movements	24.8	4.3	-	29.1
At 30 September 2008	322.2	53.5	56.3	432.0
Amortisation				
At 1 April 2008	13.3	1.2	20.9	35.4
Charge for period	9.1	1.2	3.2	13.5
Exchange rate movements	1.5	0.2	-	1.7
At 30 September 2008	23.9	2.6	24.1	50.6
Carrying amount				
At 30 September 2008	298.3	50.9	32.2	381.4
At 31 March 2008	284.1	48.0	35.4	367.5
At 30 September 2007	15.7	-	39.8	55.5

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, which is on average, seven years.

9 Property, plant and equipment

	Land and buildings £m	Passenger carrying vehicle fleet £m	Other plant and equipment £m	Total £m
Cost				
At 1 April 2008 as previously reported	417.9	1,981.7	416.9	2,816.5
Fair value adjustments (note 15)	-	-	(3.9)	(3.9)
At 1 April 2008 as restated	417.9	1,981.7	413.0	2,812.6
Subsidiary undertakings and businesses acquired	-	2.5	0.1	2.6
Additions	29.2	112.3	46.6	188.1
Disposals	(3.1)	(41.4)	(2.4)	(46.9)
Reclassified as held for sale	-	14.9	-	14.9
Exchange rate movements	19.1	88.7	7.4	115.2
At 30 September 2008	463.1	2,158.7	464.7	3,086.5
Depreciation				
At 1 April 2008	35.3	700.8	156.7	892.8
Charge for period	6.1	91.0	27.7	124.8
Disposals	(0.3)	(33.0)	(2.2)	(35.5)
Reclassified as held for sale	-	9.5	-	9.5
Exchange rate movements	1.0	28.0	3.7	32.7
At 30 September 2008	42.1	796.3	185.9	1,024.3
Carrying amount				
At 30 September 2008	421.0	1,362.4	278.8	2,062.2
At 31 March 2008 as restated	382.6	1,280.9	256.3	1,919.8
At 30 September 2007	157.1	764.6	214.0	1,135.7

10 Trade and other receivables

	30 September 2008 £m	30 September 2007 £m	31 March 2008 restated £m
Amounts due within one year			
Trade receivables	459.6	272.8	424.8
Other receivables	98.2	69.9	95.1
Prepayments and accrued income	96.2	72.1	70.3
	654.0	414.8	590.2

11 Non-current assets classified as held for sale

Non-current assets held for sale comprise 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 income statement.

12 Trade and other payables

	30 September 2008 £m	30 September 2007 £m	31 March 2008 restated £m
Amounts falling due within one year			
Trade payables	261.3	194.1	247.6
Other payables	118.7	115.3	115.7
Accruals and deferred income	577.2	348.7	616.3
Season ticket deferred income	54.3	49.5	56.2
	1,011.5	707.6	1,035.8

13 Derivative financial instruments

	30 September 2008 £m	30 September 2007 £m	31 March 2008 £m
Non-current assets			
Interest rate and foreign exchange derivatives	21.9	31.3	25.4
Fuel derivatives	24.2	6.9	20.0
	46.1	38.2	45.4
Current assets			
Interest rate and foreign exchange derivatives	14.4	13.0	10.5
Fuel derivatives	54.7	13.2	67.6
	69.1	26.2	78.1
Total assets	115.2	64.4	123.5
Current liabilities			
Interest rate and foreign exchange derivatives	16.3	5.9	36.9
Fuel derivatives	23.1	-	-
	39.4	5.9	36.9
Non-current liabilities			
Interest rate and foreign exchange derivatives	19.7	17.3	27.8
Fuel derivatives	17.8	-	-
	37.5	17.3	27.8
Total liabilities	76.9	23.2	64.7

14 Long-term provisions

	Insurance Claims ¹ £m	Legal and other £m	Pensions £m	Total £m
At 1 April 2008 as previously reported	201.7	42.3	5.9	249.9
Fair value adjustments (note 15)	6.4	12.1	-	18.5
As 1 April 2008 as restated	208.1	54.4	5.9	268.4
Provided in the period	65.8	1.2	-	67.0
Utilised in the period	(58.7)	(3.9)	(0.1)	(62.7)
Notional interest on long-term provisions	8.9	-	-	8.9
Exchange rate movements	17.0	4.2	-	21.2
At 30 September 2008	241.1	55.9	5.8	302.8
At 30 September 2007	27.2	-	6.1	33.3

¹Insurance claims accruals due within one year at 30 September 2008 amounted to £110.5m (2007: £42.1m; full year 2008: £108.6m) and are included in "accruals and deferred income" in note 12.

15 Business combinations

	30 September 2008 £m	30 September 2007 £m	31 March 2008 £m
Provisional fair values of net assets acquired:			
Property, plant and equipment	2.4	5.0	792.9
Intangible assets	-	0.2	325.4
Other current assets	0.8	2.3	354.9
Cash at bank and in hand	-	0.2	0.2
Bank loans and overdrafts	-	(1.6)	(300.1)
Finance Leases	(1.3)	-	-
Other creditors	(1.4)	(4.8)	(200.9)
Pension deficit	-	-	(23.0)
Provision for liabilities and charges	-	-	(273.5)
Deferred tax	-	-	(1.1)
	0.5	1.3	674.8
Goodwill (note 7)	1.9	5.9	800.2
Satisfied by cash paid and payable	2.4	7.2	1,475.0

On 8 April 2008 the Group acquired 100% of the voting equity instruments of Truronian Limited.

Acquisition of Laidlaw International, Inc

In the year ending 31 March 2008, the Group acquired Laidlaw International, Inc. Following reassessment of fair values on acquisition the following adjustments have been made:

		Provisional fair value as previously reported \$m	Final fair value adjustments \$m	Acquired value \$m
Property, plant and equipment	a	1,592.2	(7.7)	1,584.5
Intangible assets		660.1	-	660.1
Current assets	b	717.8	(9.3)	708.5
Current liabilities	c	(487.0)	(51.7)	(538.7)
Insurance provision	d	(463.6)	(12.0)	(475.6)
Pension deficit		(46.7)	-	(46.7)
Deferred tax	e	(1.0)	34.6	33.6
Income taxes recoverable		1.3	-	1.3
Net debt		(606.0)	-	(606.0)
Net assets		1,367.1	(46.1)	1,321.0
Total cost of acquisition (excluding acquired debt)		2,941.5	11.4	2,952.9
Net assets acquired		(1,367.1)	46.1	(1,321.0)
Goodwill on acquisition		1,574.4	57.5	1,631.9

The adjustments represent:

(a) Property, plant and equipment was valued at market value by third party specialists at date of acquisition. These have been further adjusted to write down certain assets and certain classes of asset to fair value.

(b) Certain receivables and inventories have been written down to fair value.

(c) Current liabilities represent additional liability for change of control payments arising on acquisition, environmental reserves, legal reserves, provision for safety related items and provision for loss making contracts. Following reassessments of these, further provision was made for certain existing legal claims, loss making contracts, safety repairs net of downward assessment of environmental liabilities acquired.

(d) Reassessment of insurance liabilities required in light of updated actuarial estimates.

(e) Deferred tax adjustment on the items noted above.

In accordance with IFRS 3 the Group balance sheet as at 31 March 2008 has been restated to reflect the fair value adjustments set out above:

	As reported 31 March 2008 £m	Final fair value adjustments £m	Restated 31 March 2008 £m
Non-current assets			
Goodwill	1,281.3	28.8	1,310.1
Other intangible assets	367.5	-	367.5
Property, plant and equipment	1,923.7	(3.9)	1,919.8
Financial assets - derivative financial instruments	45.4	-	45.4
Investments	4.0	-	4.0
	<u>3,621.9</u>	<u>24.9</u>	<u>3,646.8</u>
Current assets			
Inventories	83.6	(0.9)	82.7
Trade and other receivables	594.0	(3.8)	590.2
Financial assets - cash and cash equivalents	242.3	-	242.3
- derivative financial instruments	78.1	-	78.1
	<u>998.0</u>	<u>(4.7)</u>	<u>993.3</u>
Non-current assets classified as held for sale	10.2	-	10.2
Retirement benefit surplus	186.2	-	186.2
Total assets	<u>4,816.3</u>	<u>20.2</u>	<u>4,836.5</u>
Current liabilities			
Trade and other payables	1,016.8	19.0	1,035.8
Tax liabilities	46.8	-	46.8
Financial liabilities - obligations under finance leases	32.4	-	32.4
- bank overdrafts and loans	26.4	-	26.4
- loan notes	4.6	-	4.6
- derivative financial instruments	36.9	-	36.9
- bonds	23.2	-	23.2
	<u>1,187.1</u>	<u>19.0</u>	<u>1,206.1</u>
Net current liabilities	<u>(189.1)</u>	<u>(23.7)</u>	<u>(212.8)</u>
Non-current liabilities			
Financial liabilities - obligations under finance leases	70.8	-	70.8
- bank loans	1,745.1	-	1,745.1
- loan notes	10.5	-	10.5
- derivative financial instruments	27.8	-	27.8
- bonds	545.9	-	545.9
Retirement benefit obligation	97.2	-	97.2
Deferred tax liabilities	177.2	(17.3)	159.9
Long-term provisions	249.9	18.5	268.4
	<u>2,924.4</u>	<u>1.2</u>	<u>2,925.6</u>
Total liabilities	<u>4,111.5</u>	<u>20.2</u>	<u>4,131.7</u>
Net assets	<u>704.8</u>	<u>-</u>	<u>704.8</u>
Equity			
Share capital	21.9	-	21.9
Share premium account	447.8	-	447.8
Hedging reserve	49.7	-	49.7
Other reserves	4.6	-	4.6
Own shares	(7.6)	-	(7.6)
Translation reserves	(70.3)	-	(70.3)
Retained earnings	245.5	-	245.5
Equity attributable to equity holders of the parent	<u>691.6</u>	<u>-</u>	<u>691.6</u>
Minority interests	<u>13.2</u>	<u>-</u>	<u>13.2</u>
Total equity	<u>704.8</u>	<u>-</u>	<u>704.8</u>

16 Share capital

	30 September 2008 £m	30 September 2007 £m	31 March 2008 £m
Authorised:			
Ordinary shares of 5p each	32.5	230.0	230.0
Allotted, called up and fully paid			
Ordinary shares of 5p each	24.1	21.9	21.9

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 480.8m (2007: 434.5m; full year 2008: 436.6m). At the end of the period 0.3m shares (2007: 3.3m shares; full year 2008: 0.5m shares) were being held as treasury shares and 1.0m (2007: 0.5m; full year 2008: 1.2m) were being held in trust to satisfy the exercise of employee share options.

17 Statement of changes in equity

	Hedging reserve £m	Share premium account £m	Own shares £m	Retained earnings £m
At 1 April 2008	49.7	447.8	(7.6)	245.5
Retained profit for the financial period	-	-	-	23.4
Dividends paid	-	-	-	(55.5)
Premium arising on issue of equity shares ¹	-	228.6	-	-
Actuarial loss on defined benefit schemes	-	-	-	(141.1)
Deferred tax on actuarial loss on defined benefit schemes	-	-	-	43.7
Unrealised losses on Executive Deferred Compensation Plans	-	-	-	(1.4)
Movement in EBT, QUEST and treasury shares during the period	-	-	1.9	(1.5)
Derivative hedging instrument movements	(1.2)	-	-	-
Deferred taxation on derivative hedging instrument movements	7.4	-	-	-
Share-based payments	-	-	-	3.1
Current tax on share-based payments	-	-	-	0.1
At 30 September 2008	55.9	676.4	(5.7)	116.3
At 30 September 2007	35.3	447.8	(15.2)	180.7

¹On 18 May 2008 43.8m shares were issued at 540 pence per share for gross proceeds of £236.5m. The movement in the share premium account reflects these gross proceeds less the par value of the shares of £2.2m and direct costs of £5.7m.

	Capital redemption reserve £m	Capital reserve £m	Total other reserves £m
At 1 April 2008 and 30 September 2008	1.9	2.7	4.6
At 30 September 2007	1.9	2.7	4.6

18 Translation reserves

	<u>£m</u>
At 1 April 2008	(70.3)
Movement for the financial period	56.8
At 30 September 2008	(13.5)
At 30 September 2007	<u>(83.8)</u>

The translation reserve represents the retranslation of net assets denominated in foreign currencies. The movement for the financial period reflects the fact that the US Dollar exchange rate moved from \$2.00:£1 at 1 April 2008 to \$1.84:£1 at 30 September 2008.

19 Notes to the consolidated cash flow statement

	6 months to 30 September 2008 £m	6 months to 30 September 2007 £m	Year to 31 March 2008 £m
Operating profit before (loss)/profit on disposal of properties	131.3	93.0	261.7
Adjustments for:			
Depreciation charges	124.8	67.8	200.7
Impairment of fixed assets	-	-	5.4
Amortisation charges	13.5	4.9	18.9
Share-based payments	3.1	2.1	4.2
Loss on disposal of property, plant and equipment	5.3	0.5	1.4
Operating cash flows before working capital	278.0	168.3	492.3
Increase in inventories	(5.7)	(4.6)	(7.7)
(Increase)/decrease in receivables	(38.3)	(34.8)	6.2
(Decrease)/increase in payables	(31.2)	(0.8)	31.3
Defined benefit pension payments in excess of income statement charge	(27.1)	(25.5)	(51.3)
Cash generated by operations	175.7	102.6	470.8
Corporation tax paid	(6.6)	(4.4)	(6.7)
Interest paid	(72.2)	(41.2)	(93.9)
Interest element of finance lease payments	(3.7)	(1.7)	(4.4)
Net cash from operating activities	93.2	55.3	365.8

20 Reconciliation of net cash flows to movement in net debt

	6 months to 30 September 2008 £m	6 months to 30 September 2007 £m	Year to 31 March 2008 £m
Decrease in cash and cash equivalents in period	(6.4)	(23.4)	(164.1)
Decrease/(increase) in debt and finance lease financing	95.9	(105.5)	(1,160.5)
Inception of new finance leases	(12.7)	-	-
Debt acquired on acquisition of businesses	(1.3)	(1.0)	(300.1)
Fees on issue of new loan facility	5.7	-	9.6
Foreign exchange movements	(110.4)	(3.4)	(27.6)
Other non-cash movements in relation to financial instruments	(4.9)	(0.5)	(2.1)
Movement in net debt in period	(34.1)	(133.8)	(1,644.8)
Net debt at beginning of period	(2,161.0)	(516.2)	(516.2)
Net debt at end of period	(2,195.1)	(650.0)	(2,161.0)

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

21 Retirement benefit schemes

Defined benefit schemes

The Group operates or participates in a number of pension schemes which cover the majority of UK employees and certain North American employees. The scheme details are described in page 84 of the Annual Report for the year end 31 March 2008.

The market value of the assets at 30 September 2008 for all defined benefit schemes totalled £2,744m (full year 2008: £2,911m). The Group has elected to update these valuations in the half-yearly report for the first time due to the current fluctuations in financial markets. Comparative half-year figures are therefore not shown.

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:

	North		North				
	UK	America	UK	America			
	30 September 2008 %	30 September 2008 %	31 March 2008 %	31 March 2008 %	31 March 2007 %	31 March 2006 %	31 March 2005 %
Discount rate	7.2	6.4	6.85	6.0	5.45	5.0	5.5
Expected return on scheme assets	7.85	7.5	7.85	7.5	7.5	7.3	7.6
Expected rate of salary increases	4.8	3.75	4.8	3.5	4.3	4.1	4.1
Inflation	3.3	2.5	3.3	2.5	2.8	2.6	2.6
Future pension increases	3.3	-	3.3	-	2.8	2.6	2.6

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

	30 September 2008 £m	31 March 2008 £m	31 March 2007 £m	31 March 2006 £m	31 March 2005 £m
Current service cost	34.2	74.9	75.2	53.4	46.1
Interest cost	77.8	125.4	102.0	89.0	80.0
Expected return on scheme assets	(96.5)	(174.4)	(140.5)	(107.6)	(87.9)
Interest on franchise adjustment	0.4	(0.1)	(1.0)	(2.3)	(1.5)
Past service cost	-	(1.7)	(13.2)	(16.6)	-
	15.9	24.1	22.5	15.9	36.7

Actuarial gains and losses have been reported in the statement of recognised income and expense.

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

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

This amount is presented in the balance sheet as follows:

Non-current assets	114.3	186.2	57.1	-	-
Non-current liabilities	(139.7)	(97.2)	(33.3)	(132.0)	(221.1)
(Liabilities)/assets recognised in the balance sheet	(25.4)	89.0	23.8	(132.0)	(221.1)

¹ The irrecoverable surplus represents the amount of the surplus that the Group could not recover through reducing future company contributions to UK Bus Local Government Pension Schemes and the UK Bus Scheme. This is in accordance with IFRIC 14 "IAS 19 - The Limit on a Defined Benefit pension Asset, Minimum Funding Requirements and their Interaction".

22 Subsequent events

Subsequent to the balance sheet date, the Group entered into three new term loan facilities of \$175m US Dollars, €100m Euros and \$72m Canadian Dollars respectively. The earliest point at which any of these can mature is October 2011. These facilities have been used to further repay the \$2.25bn US Dollar term loan due February 2010, thus continuing to improve the Group's debt maturity profile.