

FIRSTGROUP PLC

HALF-YEARLY RESULTS FOR THE SIX MONTHS TO 30 SEPTEMBER 2017

Overview

- Overall trading for the Group in the first half was consistent with plans outlined at start of the financial year
- Strong cash performance in addition to inflows from recent start of South Western Railway ('SWR')

Financial summary

- Group revenue +8.1% including new SWR rail franchise from 20 August and favourable foreign exchange; excluding these, Group revenue was +0.9%
- Adjusted¹ operating profit flat, with solid trading performances and favourable foreign exchange offset by c.£6m impact of severe North American hurricanes, mainly on First Transit's three contracts in Puerto Rico; in constant currency, adjusted¹ operating profit (9.1)%
- Adjusted¹ EPS +35.7% reflecting lower interest costs tempered by significantly higher tax rate as expected; adjusted¹ EPS flat in constant currency
- Net cash inflow of £97.0m (H1 2016: outflow of £64.3m) in the period includes a cash flow improvement of £86.2m in addition to a £75.1m working capital inflow from the start of the SWR franchise
- Net debt: EBITDA improved to 1.7 times at the half year, compared to 2.4 times a year ago
- Statutory operating profit decline of £20.5m, statutory loss before tax of £1.9m and statutory EPS reduction to 0.2p principally reflect a gain on disposal of property in the prior period which did not recur

Adjusted ¹	H1 2017 £m	H1 2016 £m	Change	Change in constant currency ²	SWR-adjusted change in constant currency ³
Revenue	2,771.3	2,564.7	+8.1%	+3.5%	+0.9%
Operating profit	89.4	89.0	+0.4%	(9.1)%	
Operating profit margin	3.2%	3.5%	(30)bps	(50)bps	
Profit before tax	30.5	21.9	+39.3%	+2.0%	
EPS	1.9p	1.4p	+35.7%	flat	
Net debt ⁴	1,179.9	1,491.5	(20.9)%	(20.3)%	

Statutory	H1 2017 £m	H1 2016 £m	Change
Revenue	2,771.3	2,564.7	+8.1%
Operating profit	57.4	77.9	(26.3)%
Operating profit margin	2.1%	3.0%	(90)bps
(Loss)/profit before tax	(1.9)	11.1	n/m ⁵
EPS	0.2p	0.7p	(71.4)%

Divisional summary

- First Student delivered +5.3% average price increases and 83% retention through our 'up or out' bidding strategy, successfully managed school start up despite ongoing driver shortages, and completed an acquisition in the period
- First Transit growth and contract wins continued but margin affected by severe hurricane impact mainly on our Puerto Rico operations, and higher driver shortage costs due to strength of US employment market
- Greyhound like-for-like⁶ revenue +1.2%, including +7.8% in Greyhound Express and other short haul growth while long haul declined; fuel and cost savings partially offset higher inflation and maintenance costs
- First Bus like-for-like⁶ passenger revenue +0.6% including +1.3% from commercial passengers; adjusted¹ margin improved 50bps in period, driven by systematic programme of management actions
- First Rail like-for-like⁶ passenger revenue +3.2% and cost efficiencies contributed to an increased margin; SWR franchise commenced towards end of period

Looking ahead

- Our overall trading and cash performance in first half, excluding the short term impact of the severe hurricanes, affirms our confidence that the Group will make further progress and deliver substantial cash generation for the full year

Commenting, Chief Executive Tim O'Toole said:

"The overall trading performance and significantly increased free cash generation of the Group in the first half was consistent with the plans we outlined at the start of the financial year. Solid performances from most of our businesses are partially obscured by the impact of the recent severe hurricane on our operations in Puerto Rico. In the second half we will benefit from our normal seasonal bias, our ongoing focus on cost efficiencies and from additional business which commenced in the period, including the South Western Railway franchise. We expect to make further progress and deliver substantial free cash generation for the year as a whole."

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A presentation for investors and analysts will be held at 9:00am today – attendance is by invitation. A live telephone 'listen in' facility is available – for joining details please call +44 (0) 20 7725 3354. A playback facility will be available together with presentation slides and a pdf copy of this report at www.firstgroupplc.com/investors.

Notes

- ¹ 'Adjusted' figures throughout this document are before other intangible asset amortisation charges and certain other items as set out in note 3 to the condensed consolidated financial statements.
- ² Changes 'in constant currency' throughout this document are based on retranslating H1 2016 foreign currency amounts at H1 2017 rates.
- ³ Growth excluding revenue associated with the South Western Railway franchise which became part of the First Rail portfolio towards the end of the period, in constant currency.
- ⁴ Net debt is stated excluding accrued bond interest, as explained on page 11.
- ⁵ Period on period percentage change not meaningful.
- ⁶ References to like-for-like revenue adjust for certain factors which distort the period-on-period trends in our passenger revenue businesses, as described on page 11.

Legal Entity Identifier (LEI): 549300DEJZCPWA4HKM93. Classification as per DTR 6 Annex 1R: 1.2.

FirstGroup plc (LSE: FGP.L) is a leading transport operator in the UK and North America. With £5.7 billion in revenue and more than 100,000 employees, we transported around two billion passengers last year. Each of our five divisions is a leader in its field: In North America, First Student is the largest provider of student transportation with a fleet of more than 40,000 yellow school buses, First Transit is one of the largest providers of outsourced transit management and contracting services, while Greyhound is the only nationwide operator of scheduled intercity coaches. In the UK, First Bus is one of Britain's largest bus operators, transporting 1.6 million passengers a day, and we are one of the country's most experienced rail operators, carrying around 130 million passengers last year.

Our vision is to provide solutions for an increasingly congested world... keeping people moving and communities prospering.

Visit our website at www.firstgroupplc.com and follow us @firstgroupplc on Twitter.

Chief Executive's report

Our overall trading performance and free cash generation in the first half was consistent with the plans we outlined at the start of the financial year, with solid performances from most of our businesses partially obscured by the impact of the recent severe hurricanes, particularly on our operations in Puerto Rico.

First Student continued to execute our pricing strategy, focusing on retaining or bidding for contracts at prices that reflect appropriate returns, and delivered ongoing price increases and contract retention. Margin in the seasonally weaker first half was lower than the prior period mainly due to fewer operating days, as anticipated. With school start-up completed we are well positioned to deliver further progress for the full year, notwithstanding the ongoing industry-wide driver shortage challenges in parts of the US. In August we acquired Falcon Transportation in Illinois, a 94 bus operation which extends our relationship with the Chicago public school system and offers synergies with our other operations in the city.

First Transit had a difficult first half, with continued revenue growth insufficient to offset higher costs resulting from driver shortages and the impact of the severe hurricanes including Maria, which devastated the island of Puerto Rico where we have two vehicle services contracts and a fixed route business. We are confident margins will be restored to more typical levels for the division in the second half and beyond, and First Transit has continued to retain existing business and win new contracts in the period.

Greyhound's overall growth modestly accelerated in the period, and it is becoming increasingly clear that in current market conditions our opportunity is strongest for our point-to-point Greyhound Express and other short haul trips, where we saw significant growth in the period. Long haul demand currently remains weak in the face of competition from budget airlines. We continue to adapt our business in response to these divergent trends, in order to capture the opportunities for profitable growth available to us as a result of our unique nationwide coverage and the new business tools at our disposal.

First Bus delivered encouraging like-for-like passenger revenue growth overall in the period, though industry conditions remain uncertain. Margin in the period mainly benefitted from our systematic programme of management actions to maximise patronage, increase efficiency and reduce cost, including the recent closure of three depots. We anticipate an acceleration of efficiencies and savings in the second half, as we focus our investment only on those local markets where our stakeholders recognise the value to the community of successful bus services, and where our ability to generate sustainable value is strongest.

First Rail revenues increased significantly, reflecting the inclusion of the South Western Railway franchise for the first time as well as passenger revenue growth in our pre-existing businesses. Our plans for each of our franchises are based on improving the experiences of our passengers through fleet upgrades, timetable improvements and performance enhancements, though some of these are reliant on infrastructure upgrades managed by our industry partners, particularly in GWR, which are progressing at a slower pace than originally envisaged.

In the second half we will benefit from our normal seasonal bias, our ongoing focus on cost efficiencies and from additional business which commenced in the period. Notwithstanding some of the challenges faced in the first half, we expect to make further progress over the full year, while our cash performance so far affirms our confidence in generating substantial free cash flow for the year as a whole.

Last Thursday marked one year since the fatal derailment of a tram we operate on behalf of Transport for London in Croydon, a tragedy which continues to weigh heavily on us. We continue to provide our full support to the ongoing investigations into the incident, as it is absolutely essential that the reasons for the derailment are established.

Tim O'Toole
Chief Executive
14 November 2017

Operating and financial review

Group revenue in the first half increased by 8.1% reflecting the impact of First Rail's new SWR franchise and translation of our US dollar-based businesses into sterling at more favourable rates than the prior period. Group revenue increased by 0.9% in constant currency and after adjusting for the new SWR franchise, with revenue growth on this basis in all divisions except First Student, where our pricing strategy continues to result in a smaller but higher returning portfolio of contracts.

Group adjusted operating profit in the first half increased modestly to £89.4m (H1 2016: £89.0m), with growth, ongoing cost efficiencies and favourable currency translation offset by the impact of the recent severe hurricanes, particularly for First Transit's operations in Puerto Rico, fewer First Student operating days in the first half as expected and the initial impact of the SWR franchise, which commenced during the Waterloo platform upgrade in late August.

Net finance costs before adjustments were £58.9m (H1 2016: £67.1m) with the decrease principally reflecting the lower level of net debt and lower interest rates, and adjusted profit before tax increased by 39.3% to £30.5m (H1 2016: £21.9m). Adjusted profit attributable to ordinary shareholders was £22.4m (H1 2016: £16.3m) with higher adjusted profit before tax and a loss attributable to non-controlling interest due to the start of the SWR franchise partly offset by a higher effective tax rate of 30.0% (H1 2016: 25.1%). Adjusted EPS increased by 35.7% to 1.9p (H1 2016: 1.4p). Excluding the changes in First Rail's franchise portfolio and in constant currency, adjusted EPS increased by 10.5%. EBITDA increased by 10.5% to £278.2m (H1 2016: £251.7m).

Statutory operating profit decreased by 26.3% to £57.4m (H1 2016: £77.9m), principally reflecting the gain on disposal of a Greyhound terminal of £21.6m in the prior period. Statutory profit attributable to equity shareholders was £2.1m (H1 2016: £9.0m), and statutory EPS decreased to 0.2p in the period (H1 2016: 0.7p).

The net cash inflow for the period of £97.0m (H1 2016: outflow £64.3m) represents an improvement of £86.2m compared with the prior period together with a First Rail start of franchise cash inflow of £75.1m. The improvement in cash flow before First Rail start of franchise cash flows was driven by higher EBITDA, timing of certain working capital flows and lower capital expenditure partly offset by lower proceeds from the disposal of property, plant and equipment primarily due to the sale of a Greyhound terminal in the prior period. The net cash inflow, combined with movements in debt due to foreign exchange, resulted in a net debt decrease in the first half of £110.0m relative to the 31 March position (H1 2016: increase of £81.3m). As at 30 September 2017, the net debt: EBITDA ratio was 1.7 times (H1 2016: 2.4 times). Liquidity within the Group has remained strong; as at 30 September 2017 there was £844.1m (H1 2016: £824.8m) of committed headroom and free cash, being £800.0m (H1 2016: £745.0m) of committed headroom and £44.1m (H1 2016: £79.8m) of free cash. Our average debt maturity was 3.2 years (H1 2016: 3.9 years).

During the period gross capital investment of £205.9m (H1 2016: £161.3m) was made in our business. As previously indicated this increased investment was primarily in First Rail (increasing to £56.5m from £22.8m in H1 2016), and is incorporated into our franchise bidding assumptions. ROCE was 7.9% (H1 2016: 8.3% at constant exchange rates).

	6 months to 30 September 2017			6 months to 30 September 2016			Year to 31 March 2017		
	Revenue £m	Operating profit ¹ £m	Operating margin ¹ %	Revenue £m	Operating profit ¹ £m	Operating margin ¹ %	Revenue £m	Operating profit ¹ £m	Operating margin ¹ %
First Student	763.1	14.8	1.9	719.5	14.0	1.9	1,780.3	171.1	9.6
First Transit	536.4	20.9	3.9	482.5	30.0	6.2	1,042.0	73.3	7.0
Greyhound	358.8	23.5	6.5	333.4	25.8	7.7	684.7	42.6	6.2
First Bus	428.2	15.8	3.7	426.1	13.5	3.2	861.7	37.0	4.3
First Rail	677.4	31.1	4.6	595.8	22.1	3.7	1,268.8	53.8	4.2
Group ²	7.4	(16.7)		7.4	(16.4)		15.8	(38.8)	
Total Group	2,771.3	89.4	3.2	2,564.7	89.0	3.5	5,653.3	339.0	6.0
North America in US Dollars	\$m	\$m	%	\$m	\$m	%	\$m	\$m	%
First Student	982.8	18.1	1.8	1,004.5	26.2	2.6	2,323.3	222.0	9.6
First Transit	692.0	26.7	3.9	663.6	41.4	6.2	1,358.9	95.2	7.0
Greyhound	463.0	30.5	6.6	457.5	34.3	7.5	894.0	55.2	6.2
Total North America	2,137.8	75.3	3.5	2,125.6	101.9	4.8	4,576.2	372.4	8.1

¹ Adjusted.

² Tramlink operations, central management and other items.

First Student

6 months to 30 September	\$m		£m		Change in constant currency ¹
	2017	2016	2017	2016	
Revenue	982.8	1,004.5	763.1	719.5	(1.9)%
Adjusted operating profit	18.1	26.2	14.8	14.0	(26.7)%
Adjusted operating margin	1.8%	2.6%	1.9%	1.9%	(70)bps

¹ Based on retranslating H1 2016 foreign currency amounts at H1 2017 rates.

In the recently completed bid season, First Student continued to execute our pricing strategy focusing on retaining or bidding for contracts at prices that reflect an appropriate return on the capital we invest. In light of the substantial proportion of the portfolio which has now been bid under the strategy, the moderating 5.3% average price increase on 'at risk' business and higher retention rate of 83% on 'at risk' contracts compared with prior year were as expected. Across the entire portfolio of multi-year contracts, retention was 94%, with overall price increases of 3.4%. Combined with a modest level of organic growth and conversion of previously insourced work, we expect to operate a slightly smaller, but higher returning, bus fleet of approximately 43,000 vehicles for the balance of the year, in line with our strategy. First Student's revenue in the first half was \$982.8m or £763.1m (H1 2016: \$1,004.5m or £719.5m). Compared with the prior period, revenues principally reflect the net effect of our pricing strategy noted above and fewer operating days in the half as anticipated, due to the timing of Easter at the start of the period.

Adjusted operating profit was \$18.1m or £14.8m (H1 2016: \$26.2m or £14.0m), resulting in an adjusted operating margin of 1.8% (H1 2016: 2.6%). Excluding the effect of fewer operating days in the period, the adjusted margin was flat, with management actions, fuel savings and weather recoveries offsetting ongoing employee cost pressures due to driver shortages as a result of the strong employment market in parts of the US.

In August we acquired Falcon Transportation, a Chicago-based provider of school and charter transportation services. Falcon started in 1996 and expanded to a fleet of 94 school buses. With this acquisition, First Student extends its market presence in Illinois and its relationship with Chicago Public Schools.

Overall First Student's first half performance has been solid and we were pleased with this year's school start-up, notwithstanding continued driver recruitment challenges in some markets. The division's results are always heavily weighted to the second half because of the overlay of our financial year on the North American school calendar, so as usual our performance in the second half is key. However our performance in the first half means we are positioned to deliver progress for the full year.

First Transit

6 months to 30 September	\$m		£m		Change in constant currency ¹
	2017	2016	2017	2016	
Revenue	692.0	663.6	536.4	482.5	+4.3%
Adjusted operating profit	26.7	41.4	20.9	30.0	(34.9)%
Adjusted operating margin	3.9%	6.2%	3.9%	6.2%	(230)bps

¹ Based on retranslating H1 2016 foreign currency amounts at H1 2017 rates.

First Transit's revenue in the first half was \$692.0m or £536.4m (H1 2016: \$663.6m or £482.5m), an increase of 4.3% in constant currency. The revenue performance benefitted from contract awards and organic growth, partially offset by the impact of recent severe hurricanes, particularly on our Puerto Rico operations.

Adjusted operating profit was \$26.7m or £20.9m (H1 2016: \$41.4m or £30.0m), resulting in an adjusted operating margin of 3.9% (H1 2016: 6.2%). First Transit's adjusted operating profit was reduced by approximately \$6m due to the effects of the recent hurricane season, principally the impact of hurricane Maria which devastated the island of Puerto Rico in September. Margin was also affected by higher costs driven by driver shortages in certain regions, as the US employment market continues to tighten. First Transit also experienced higher costs in relation to certain poorly performing contracts which completed in the period.

We were awarded 14 new contracts and achieved a 94% retention rate in the period. Wins or retentions included large fixed route contracts in Los Angeles and Denver, vehicle services business for Seminole County, the City of Arlington and the Maine Department of Transport, and shuttle contracts for Clemson University and the University of Connecticut. In the period First Transit also signed an agreement with GoMentum Station, a California-based proving ground, to use the facility as a test site for a pilot project to deploy the first commercially operated shared autonomous vehicle on public roads in the US.

Through the continued delivery of our longstanding strategy, First Transit is focused on continuing to drive growth by applying our skills and capabilities in both our core and adjacent markets; and we expect to restore margins to more typical levels in the second half and beyond.

Greyhound

6 months to 30 September	\$m		£m		Change in constant currency ¹
	2017	2016	2017	2016	
Revenue	463.0	457.5	358.8	333.4	+1.3%
Adjusted operating profit	30.5	34.3	23.5	25.8	(11.7)%
Adjusted operating margin	6.6%	7.5%	6.5%	7.7%	(100)bps

¹ Based on retranslating H1 2016 foreign currency amounts at H1 2017 rates.

Greyhound's revenue was \$463.0m or £358.8m (H1 2016: \$457.5m or £333.4m) in the first half, and overall like-for-like revenue increased by 1.2%. Short haul journeys, including our point-to-point Greyhound Express business which delivered like-for-like revenue growth of 7.8%, outperformed long haul, where competition from the budget airlines remains most intense. We are also experiencing muted cross-border traffic in the US south west region due to tighter immigration enforcement. In the period we continued to reduce mileage modestly while achieving load factor and revenue per mile growth.

Adjusted operating profit was \$30.5m or £23.5m (H1 2016: \$34.3m or £25.8m), or an adjusted operating margin of 6.6% (H1 2016: 7.5%). With the growth prospects in different parts of our business diverging, we are adapting our business in response, and we expect adjusted operating performance this year to be less seasonally weighted to the first half than in previous years. However in the period cost savings and a fuel cost benefit were not sufficient to offset the impact of higher fleet maintenance and driver costs including training. We are modestly increasing marketing spend to support awareness of the changes we have made to our service, and investing additional resources in our fleet and elsewhere: Greyhound launched e-tickets in September in selected city pairs, bus-side ticket scanning continues to roll out and further customer service training and terminal development was undertaken in the period. Greyhound also ended its cooperation arrangements with Peter Pan Lines in the US North East region at the end of the period, while in Canada Greyhound has recently applied to the authorities in British Columbia for certain reductions to its services in the province.

With the inherent strengths of our unique nationwide coverage, and the new tools at our disposal, we are well positioned to capture the opportunities for profitable growth available to us.

First Bus

6 months to 30 September	£m		Change in constant currency ¹
	2017	2016	
Revenue	428.2	426.1	+0.3%
Adjusted operating profit	15.8	13.5	+15.3%
Adjusted operating margin	3.7%	3.2%	+50bps

¹ Based on retranslating H1 2016 foreign currency amounts at H1 2017 rates.

First Bus reported revenue of £428.2m (H1 2016: £426.1m) in the period, with like-for-like passenger revenue increasing by 0.6%, though demand patterns vary widely across the division's local markets. Industry conditions remain uncertain, with high street retail footfall trends and congestion affecting passenger demand in many of our markets, particularly in the North and Scotland. Commercial passenger revenue increased by 1.3% while commercial passenger volumes decreased by 0.3% in the period. We continue to focus on improving the reliability of our services and the convenience of our ticket options to drive patronage. In some cases we are adjusting our fares to encourage passengers to move to mobile ticketing and cashless payment.

Adjusted operating profit was £15.8m (H1 2016: £13.5m) and adjusted operating margin was 3.7% (H1 2016: 3.2%), reflecting depot consolidation actions from second half of the prior year, further cost efficiency actions in the period including an additional depot closure, additional optimisation of our mileage and network structures at a local level, and a benefit from fuel hedging, partially offset by inflation. In the second half we anticipate the pace of our cost efficiency programme to accelerate.

We are investing in First Bus at lower levels than the prior year, as we begin to focus our capital budget only on those markets where the local transport strategy recognises the importance of bus services in responding to the problems of congestion, air quality, parking and issues of social exclusion. For the current year we

expect to take delivery of approximately 180 new buses (year to March 2017: 272 buses). We also continue to invest in technology which simplifies our passengers' journeys, and are particularly pleased with the success of our contactless ticketing trials in Aberdeen and Bristol.

We have had an encouraging first half in First Bus, despite industry conditions remaining relatively challenging. In the face of these market uncertainties, our systematic programme of actions to raise margin and restore our ability to create sustainable value in First Bus envisages an acceleration in the second half – including further changes to the shape and breadth of our networks. We are focusing our investments on those local markets where our stakeholders recognise the value of bus services, allowing us to capture the best opportunities for growing patronage and generate acceptable returns.

First Rail

	£m		
6 months to 30 September	2017	2016	Change
Revenue	677.4	595.8	+13.7%
Adjusted operating profit	31.1	22.1	+40.7%
Adjusted operating margin	4.6%	3.7%	+90bps

First Rail revenues increased to £677.4m (H1 2016: £595.8m), reflecting four weeks of the new SWR franchise and like-for-like passenger revenue growth of 3.2% on our pre-existing businesses. Passenger volumes in the first half increased by 1.0%, showing tentative signs of improvement compared with prior periods, though the key drivers of the recent slowdown – macroeconomic uncertainty, modal shift due to sustained lower fuel prices, and the magnitude of the infrastructure upgrade works taking place on the GWR network – have not definitively improved. Adjusted operating profit was £31.1m (H1 2016: £22.1m), principally benefitting from the stronger revenue performance and cost efficiencies, partially offset by the initial impact of SWR which commenced during the Waterloo platform upgrade in late August and a lower margin on TPE.

Trading in SWR in the short period since taking over the franchise has been in line with our expectations, and our plans for the network commenced with the launch of the new brand on 4 September. Network Rail's electrification work continues on the Great Western mainline, albeit at a slower pace than originally envisaged, and we are working with our industry partners to reflect the impact of these delays in the level of our franchise commitments and model. Shortly after the period end, GWR introduced into service the first of the new Hitachi Intercity Express Train fleet, which will continue to roll out across the network over the coming year. The new trains, which are performing well following some initial teething issues, have substantially greater seating capacity than the trains they replace as well as a range of other passenger improvements; once Network Rail's electrification programme has been completed the fleet will add 40% more seats than today and provide quicker, more frequent journeys. TPE's first fully-refurbished 'Class 185' trainset returned to service; upgrades as part of the £32m programme include brand new seats throughout, information screens, free, fast Wi-Fi and an on-board entertainment system. We are progressing our franchise commitments to transform TPE into a true intercity service for the North, which call for substantial passenger journey growth, facilitated by additional capacity from our plans to introduce 220 new carriages from summer 2018, together with the denser operating timetable permitted by the upgraded fleet.

Once again Hull Trains was the UK's top performing long distance operator in the independent National Rail Passenger survey, and GWR was named rail operator of the year at the recent National Transport Awards, having scored their highest ever National Rail Passenger Survey customer satisfaction figures in 2016.

We remain cautious on the rate of passenger growth for the balance of the year in light of recent industry conditions, and continue to expect the full year margin to be lower than prior year as a result. With the successful start-up of SWR, we would expect to make modest progress for the year as a whole in First Rail.

Finance costs and investment income

Net finance costs before adjustments were £58.9m (H1 2016: £67.1m) with the decrease principally reflecting the lower level of net debt and lower interest rates.

Profit before tax

Adjusted profit before tax as set out in note 3 to the condensed consolidated financial statements was £30.5m (H1 2016: £21.9m). An overall charge of £32.4m (H1 2016: £10.8m) for adjustments including other intangible asset amortisation charges of £32.0m (H1 2016: £28.5m) resulted in a statutory loss before tax of £1.9m (H1 2016: profit before tax of £11.1m).

Tax

The tax charge, on adjusted profit before tax, for the period was £9.2m (H1 2016: £5.5m) representing an effective rate of 30.0% (H1 2016: 25.1%). The effective rate is higher due to the anticipated increased weighting of North American profits for the full year, where corporate tax rates are higher than in the UK. There was a tax credit of £12.1m (H1 2016: credit of £3.5m) relating to other intangible asset amortisation charges and other adjustments. The total tax credit was £2.9m (H1 2016: charge of £2.0m). The actual tax paid during the period was £7.1m (H1 2016: £5.1m).

EPS

Adjusted EPS was 1.9p (H1 2016: 1.4p). Basic EPS was 0.2p (H1 2016: 0.7p).

Shares in issue

As at 30 September 2017 there were 1,206.4m shares in issue (H1 2016: 1,204.3m), excluding treasury shares and own shares held in trust for employees of 2.8m (H1 2016: 0.9m). The weighted average number of shares in issue for the purpose of basic EPS calculations (excluding treasury shares and own shares held in trust for employees) was 1,206.2m (H1 2016: 1,204.3m).

Reconciliation to non-GAAP measures and performance

Note 3 to the condensed consolidated financial statements sets out the reconciliations of operating profit and profit before tax to their adjusted equivalents. The principal adjusting items are as follows:

Other intangible asset amortisation charges

The charge for the period was £32.0m (H1 2016: £28.5m). The increase primarily reflects the higher charge for software intangible amortisation this period.

Ineffectiveness on financial derivatives

There was a £0.4m non-cash charge (H1 2016: credit £0.3m) in the period due to ineffectiveness on financial derivatives.

Capital expenditure

Cash capital expenditure was £191.1m (H1 2016: £206.5m) and comprised First Student £69.5m (H1 2016: £97.2m), First Transit £9.2m (H1 2016: £6.9m), Greyhound £14.4m (H1 2016: £14.9m), First Bus £39.7m (H1 2016: £58.7m), First Rail £57.1m (H1 2016: £28.5m) and Group items £1.2m (H1 2016: £0.3m). First Rail capital expenditure is typically matched by franchise receipts or other funding. In addition, during the period we entered into operating leases for passenger carrying vehicles with capital values in First Transit of £nil (H1 2016: £8.0m).

Gross capital investment (fixed asset and software additions plus the capital value of new operating leases) was £205.9m (H1 2016: £161.3m) and comprised First Student £123.8m (H1 2016: £84.2m), First Transit £9.4m (H1 2016: £13.6m), Greyhound £11.6m (H1 2016: £6.8m), First Bus £3.4m (H1 2016: £33.6m), First Rail £56.5m (H1 2016: £22.8m) and Group items £1.2m (H1 2016: £0.3m).

Balance sheet

Net assets have decreased by £176.0m since the start of the period. The principal reasons for this are translation reserve movements of £210.0m partly offset by actuarial gains on defined benefit pension schemes (net of deferred tax) of £19.1m and favourable after tax hedging reserve movements of £16.3m.

Cash flow

The net cash inflow for the period of £97.0m (H1 2016: outflow £64.3m) represents an improvement of £86.2m compared with the prior period together with a First Rail start of franchise cash inflow of £75.1m. The improvement in cash flow before First Rail start of franchise cash flows was driven by higher EBITDA, timing of certain working capital flows and lower capital expenditure partly offset by lower proceeds from the disposal of property, plant and equipment primarily due to the sale of a Greyhound terminal in the prior period. The net

cash inflow, combined with movements in debt due to foreign exchange, resulted in a net debt decrease in the first half of £110.0m relative to the 31 March position (H1 2016: increase of £81.3m), as follows:

	6 months to 30 September		Year to
	2017	2016	31 March 2017
	£m	£m	£m
EBITDA	278.2	251.7	686.6
Other non-cash income statement charges/(credits)	7.7	8.0	(6.2)
Working capital excluding First Rail start of franchise cash flows	57.7	(6.0)	23.9
Movement in other provisions	(19.3)	(19.8)	(30.6)
Pension payments in excess of income statement charge	(31.0)	(26.1)	(37.6)
Cash generated by operations excluding First Rail start of franchise cash flows	293.3	207.8	636.1
Capital expenditure and acquisitions	(194.0)	(206.5)	(404.3)
Proceeds from disposal of property, plant and equipment	7.0	29.1	43.0
Interest and tax	(80.0)	(81.3)	(116.3)
Dividends paid to non-controlling minority shareholders	-	(11.9)	(11.9)
Other	(4.4)	(1.5)	0.6
Net cash inflow/(outflow) before First Rail start of franchise cash flows	21.9	(64.3)	147.2
First Rail start of franchise cash flows	75.1	-	-
Net cash inflow/(outflow) after First Rail start of franchise cash flows	97.0	(64.3)	147.2
Foreign exchange movements	13.9	(16.0)	(26.5)
Other non-cash movements	(0.9)	(1.0)	(0.4)
Movement in net debt in the period	110.0	(81.3)	120.3

Funding and risk management

Liquidity within the Group has remained strong. At 30 September 2017, there was £844.1m (H1 2016: £824.8m) of committed headroom and free cash, being £800.0m (H1 2016: £745.0m) of committed headroom and £44.1m (H1 2016: £79.8m) of free cash. Largely due to the seasonality of First Student, committed headroom typically reduces during the financial year up to October and increases thereafter. Treasury policy requires a minimum of £150m of committed headroom at all times. Our average debt maturity was 3.2 years (H1 2016: 3.9 years). The Group's main revolving bank facilities require renewal in July 2021. The Group does not enter into speculative financial transactions and uses only authorised financial instruments for certain financial risk management purposes.

Net debt

The Group's net debt at 30 September 2017 was £1,179.9m (H1 2016: £1,491.5m) and comprised:

	30 September 2017	30 September 2016	31 March 2017
	£m	£m	£m
Analysis of net debt			
Sterling bond (2018)	299.3	298.8	298.8
Sterling bond (2019)	249.8	249.8	249.8
Sterling bond (2021)	348.3	348.3	348.3
Sterling bond (2022)	321.1	320.5	321.1
Sterling bond (2024)	199.6	199.6	199.6
Sterling bank loans	-	52.5	-
HP contracts and finance leases	144.2	207.4	183.7
Senior unsecured loan notes	36.9	115.5	80.0
Loan notes	9.5	9.6	9.5
Gross debt excluding accrued interest	1,608.7	1,802.0	1,690.8
Cash	(44.1)	(79.8)	(141.1)
First Rail ring-fenced cash and deposits	(383.8)	(228.0)	(255.8)
Other ring-fenced cash and deposits	(0.9)	(2.7)	(4.0)
Net debt excluding accrued interest	1,179.9	1,491.5	1,289.9

Under the terms of the First Rail franchise agreements, cash can only be distributed by the Train Operating Companies (TOCs) either up to the lower amount of their retained profits or the amount determined by prescribed liquidity ratios. The ring-fenced cash represents that which is not available for distribution or the amount required to satisfy the liquidity ratio at the balance sheet date. First Rail ring-fenced cash increased

by £128.0m in the period principally due to the commencement of the SWR franchise and working capital inflows at GWR.

Interest rate risk

We seek to reduce our exposure by using a combination of fixed rate debt and interest rate derivatives to achieve an overall fixed rate position over the medium term of at least 50% of net debt.

Foreign currency risk

'Certain' and 'highly probable' foreign currency transaction exposures may be hedged at the time the exposure arises for up to two years at specified levels, or longer if there is a very high degree of certainty. The Group does not hedge the translation of earnings into the Group reporting currency (pounds Sterling), but accepts that reported Group earnings will fluctuate as exchange rates against pounds Sterling fluctuate for the currencies in which the Group does business. During the period, the net cash generated in each currency may be converted by Group Treasury into pounds Sterling by way of spot transactions in order to keep the currency composition of net debt broadly constant.

Fuel price risk

We use a progressive forward hedging programme to manage commodity risk. We have hedged 89% of the 'at risk' crude requirements for the current year in the UK (1.9m barrels p.a.) at an average rate of \$60 per barrel, 63% of our 'at risk' UK crude requirements for the year to 31 March 2019 at \$55 per barrel and 26% of our requirements for the year to 31 March 2020 at \$50 per barrel.

In North America, we have hedged 63% of current year 'at risk' crude oil volumes (1.4m barrels p.a.) at an average rate of \$56 per barrel, 38% of the volumes for the year to 31 March 2019 at \$50 per barrel and 21% of our volumes for the year to 31 March 2020 at \$50 per barrel.

Foreign exchange

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

	6 months to 30 September 2017		6 months to 30 September 2016		Year to 31 March 2017	
	Closing rate	Effective rate	Closing rate	Effective rate	Closing rate	Effective rate
US Dollar	1.35	1.27	1.30	1.45	1.25	1.29
Canadian Dollar	1.67	1.96	1.71	2.01	1.67	1.74

Seasonality

First Student generates lower revenues and profits in the first half of the financial 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 stronger in the summer months.

Pensions

We have updated our pension assumptions as at 30 September 2017 for the defined benefit schemes in the UK and North America. The net pension deficit of £358.5m at the beginning of the period has decreased by £62.3m to £296.2m at the end of the period, principally due to a higher real discount rate in the UK together with favourable foreign exchange movements. The increase in assets, liabilities and adjustments during the period principally relate to the SWR franchise. The main factors that influence the balance sheet position for pensions and the sensitivities to their movement at 30 September 2017 are set out below:

	Movement	Impact
Discount rate	+0.1%	Reduce deficit by £37.3m
Inflation	+0.1%	Increase deficit by £31.7m

Dividends

The Board recognises that dividends are an important component of total shareholder return for many investors and remains committed to reinstating a sustainable dividend at the appropriate time, having regard to the Group's financial performance, balance sheet and outlook. The Board is not proposing to pay a dividend in respect of the six months to 30 September 2017 but will continue to review the appropriate timing for restarting dividend payments.

Forward-looking statements

Certain statements included or incorporated by reference within this document may constitute 'forward-looking statements' with respect to the business, strategy and plans of the Group and our current goals, assumptions and expectations relating to our future financial condition, performance and results. By their nature, forward-

looking statements involve known and unknown risks, assumptions, uncertainties and other factors that cause actual results, performance or achievements of the Group to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Shareholders are cautioned not to place undue reliance on the forward-looking statements. Except as required by the UK Listing Rules and applicable law, the Group does not undertake any obligation to update or change any forward-looking statements to reflect events occurring after the date of this document.

Other information

Unless otherwise stated, all financial figures for the six months to 30 September 2017 (the 'first half', the 'period' or 'H1 2017') include the results and financial position of the First Rail business for the period ended 16 September 2017 and the results and financial position of all the other businesses for the 26 weeks ended 23 September 2017. The figures for the six months to 30 September 2016 (the 'prior period' or 'H1 2016') include the results and financial position of First Rail for the period ended 17 September 2016 and the results and financial position of all the other businesses for the 26 weeks ended 24 September 2016. Figures for the year to 31 March 2017 include the results and financial position of the First Rail division for the year ended 31 March 2017 and the results and financial position of all the other businesses for the 52 weeks ended 25 March 2017. Full year results for 2018 will include the results and financial position of First Rail for the year to 31 March 2018 and the results and financial position of all the other businesses for the 53 weeks ended 31 March 2018.

All references to 'adjusted' figures throughout this document are before other intangible asset amortisation charges and certain other items as set out in note 3 to the condensed consolidated financial statements.

'ROCE' or Return on Capital Employed is a measure of capital efficiency and is calculated by dividing adjusted operating profit after tax by all year end assets and liabilities excluding debt items.

'EBITDA' is adjusted operating profit less capital grant amortisation plus depreciation.

'Net debt' is the value of Group external borrowings excluding the fair value adjustment for coupon swaps designated against certain bonds, excluding accrued interest, less cash balances.

References to 'like-for-like' revenue adjust for changes in the composition of the divisional portfolio, holiday timing, severe weather and other factors, for example engineering possessions in First Rail, that distort the period-on-period trends in our passenger revenue businesses.

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. The principal risks and uncertainties, which are set out in detail on pages 32 to 37 of the Annual Report and Accounts 2017, are summarised below:

Economic conditions including Brexit implications

A worsening economic outlook could result in reduced demand particularly in First Rail; while an improving economic climate, particularly combined with lower fuel prices, may result in reduced demand for Greyhound and First Bus as alternative transport modes become relatively more affordable. Improving conditions may also lead to a tightening of labour markets resulting in employee shortages or pressure to increase pay.

Political and regulatory

The political and regulatory landscape – including government policy, funding regimes, or the legal and regulatory framework – within which the Group operates is constantly changing, which may result in structural market changes or impact the Group's operations.

Contract businesses including rail franchising

The Group's contract-based businesses are dependent on the ability to renew and secure new contract wins on profitable terms in a competitive environment. Incorrect modelling or bid assumptions could lead to higher costs or losses, while failure to comply with contract terms could result in termination, litigation and financial penalties and failure to win further contracts. Our rail franchises cover a period during which there is significant change (major infrastructure work, electrification and resignalling, introduction of new trains). These changes require careful planning, management and negotiation with industry partners, in particular where delays can impact the delivery of franchise assumptions. Failure to manage these risks adequately could result in financial and reputational impacts to the Group.

Competition and emerging technologies

The Group competes in the areas of pricing and service and faces competition from a number of sources, including the private car, existing and new public and private transport operators across all our markets, and emerging technologies such as Uber, ride sharing apps and price comparison websites.

Information technology and cyber security

The Group relies on IT in all aspects of our businesses. Any service interruption, accident or misappropriation of confidential information resulting from significant disruption or failure of IT, or failure to properly manage the implementation of new IT systems, may lead to revenue loss or increased costs, fines, penalties or additional insurance requirements.

Treasury and credit rating

Treasury risks include liquidity risks, risks arising from changes to foreign exchange and interest rates and fuel price risk, and ineffective hedging arrangements may not fully mitigate losses or may increase them. A downgrade in the Group's credit ratings to below investment grade may lead to increased financing costs and other consequences and affect the Group's ability to invest in its operations.

Pension scheme funding

The Group sponsors or participates in a number of significant defined benefit pension schemes, primarily in the UK. Future accounting cost and cash contribution requirements may increase or decrease materially based upon various factors outside of the control of the Group.

Compliance, litigation and claims, health and safety

The Group's operations are subject to a wide range of legislation and regulation, and failure to comply can lead to litigation, claims, damages, fines and penalties. The Group has three main insurable risks: third party injury and other claims arising from vehicle and general operations, employee injuries and property damage. The Group is also subject to other litigation, which is not insured, particularly in North America, including contractual claims and those relating to employee wage and hour and meal and break matters.

Labour costs, employee relations, recruitment and retention

Employee costs represent the largest component of the Group's operating costs, and political or union pressure to increase wages could increase these costs. Competition for employees or high employee turnover can lead to shortages which increase costs and affect service delivery. Similarly, industrial action could adversely impact customer service and have a financial impact on the Group's operations.

Disruption to infrastructure/operations

Our operations, and the infrastructure on which they depend, can be affected by a number of different external factors, many of which are not within our control, including terrorism, adverse weather events and potentially climate change or pandemics.

Condensed consolidated income statement

	Notes	Unaudited 6 months to 30 September 2017 £m	Unaudited 6 months to 30 September 2016 £m	Year to 31 March 2017 £m
Revenue	2, 4	2,771.3	2,564.7	5,653.3
Operating costs		(2,713.9)	(2,486.8)	(5,369.7)
Operating profit		57.4	77.9	283.6
Investment income	5	0.4	0.7	1.2
Finance costs	5	(59.7)	(67.5)	(132.2)
(Loss)/profit before tax		(1.9)	11.1	152.6
Tax	6	2.9	(2.0)	(36.5)
Profit for the period		1.0	9.1	116.1
Attributable to:				
Equity holders of the parent		2.1	9.0	112.3
Non-controlling interests		(1.1)	0.1	3.8
		1.0	9.1	116.1
Earnings per share				
Basic	7	0.2p	0.7p	9.3p
Diluted		0.2p	0.7p	9.2p
Adjusted results¹				
Adjusted operating profit	3	89.4	89.0	339.0
Adjusted profit before tax	3	30.5	21.9	207.0
Adjusted EPS	7	1.9p	1.4p	12.4p

¹ Adjusted for certain items as set out in note 3.

Condensed consolidated statement of comprehensive income

	Unaudited 6 months to 30 September 2017 £m	Unaudited 6 months to 30 September 2016 £m	Year to 31 March 2017 £m
Profit for the period	1.0	9.1	116.1
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains/(losses) on defined benefit pension schemes	23.6	(232.1)	(89.7)
Deferred tax on actuarial gains/(losses) on defined benefit pension schemes	(4.5)	(1.2)	7.3
	19.1	(233.3)	(82.4)
Items that may be reclassified subsequently to profit or loss			
Derivative hedging instrument movements	22.4	51.8	69.7
Deferred tax on derivative hedging instrument movements	(6.1)	(14.1)	(19.0)
Exchange differences on translation of foreign operations	(210.0)	244.8	356.2
	(193.7)	282.5	406.9
Other comprehensive (expense)/income for the period	(174.6)	49.2	324.5
Total comprehensive (expense)/income for the period	(173.6)	58.3	440.6
Attributable to:			
Equity holders of the parent	(172.5)	58.2	436.8
Non-controlling interests	(1.1)	0.1	3.8
	(173.6)	58.3	440.6

Condensed consolidated balance sheet

	Note	Unaudited 30 September 2017 £m	Unaudited 30 September 2016 £m	31 March 2017 £m
Non-current assets				
Goodwill	8	1,826.7	1,887.4	1,956.1
Other intangible assets	9	117.2	155.8	150.6
Property, plant and equipment	10	2,166.9	2,246.7	2,276.5
Deferred tax assets		17.6	49.5	25.8
Retirement benefit assets	22	41.8	20.0	34.0
Derivative financial instruments	17	45.5	70.3	48.6
Investments		31.3	29.8	33.3
		4,247.0	4,459.5	4,524.9
Current assets				
Inventories		62.2	62.0	64.5
Trade and other receivables	12	780.3	696.6	790.9
Current tax assets		4.1	-	0.7
Cash and cash equivalents		428.8	310.5	400.9
Assets held for sale	11	3.0	3.9	2.9
Derivative financial instruments	17	4.2	1.1	1.7
		1,282.6	1,074.1	1,261.6
Total assets		5,529.6	5,533.6	5,786.5
Current liabilities				
Trade and other payables	13	1,283.8	1,034.1	1,155.3
Tax liabilities – Current tax liabilities		2.1	16.7	5.1
– Other tax and social security		34.4	27.5	20.3
Borrowings	14	432.6	173.9	204.4
Derivative financial instruments	17	13.7	36.3	29.5
		1,766.6	1,288.5	1,414.6
Net current liabilities		484.0	214.4	153.0
Non-current liabilities				
Borrowings	14	1,246.3	1,725.4	1,586.4
Derivative financial instruments	17	4.7	18.1	8.6
Retirement benefit liabilities	22	338.0	520.3	392.5
Deferred tax liabilities		21.0	15.4	24.3
Provisions	18	253.1	280.6	284.2
		1,863.1	2,559.8	2,296.0
Total liabilities		3,629.7	3,848.3	3,710.6
Net assets		1,899.9	1,685.3	2,075.9
Equity				
Share capital	20	60.5	60.2	60.4
Share premium		679.9	676.4	678.9
Hedging reserve		(1.6)	(30.9)	(17.9)
Other reserves		4.6	4.6	4.6
Own shares		(3.3)	(1.6)	(1.2)
Translation reserve		498.4	597.0	708.4
Retained earnings		642.8	363.0	621.9
Equity attributable to equity holders of the parent		1,881.3	1,668.7	2,055.1
Non-controlling interests		18.6	16.6	20.8
Total equity		1,899.9	1,685.3	2,075.9

Condensed consolidated statement of changes in equity

	Share capital £m	Share premium £m	Hedging reserve £m	Other reserves £m	Own shares £m	Translation reserve £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
Balance at 1 April 2017	60.4	678.9	(17.9)	4.6	(1.2)	708.4	621.9	2,055.1	20.8	2,075.9
Total comprehensive expense for the period	-	-	16.3	-	-	(210.0)	21.2	(172.5)	(1.1)	(173.6)
Shares issued	0.1	1.0	-	-	-	-	-	1.1	-	1.1
Dividends paid/other	-	-	-	-	-	-	-	-	(1.1)	(1.1)
Movement in EBT and treasury shares	-	-	-	-	(2.1)	-	(4.7)	(6.8)	-	(6.8)
Share-based payments	-	-	-	-	-	-	4.4	4.4	-	4.4
Balance at 30 September 2017 (unaudited)	60.5	679.9	(1.6)	4.6	(3.3)	498.4	642.8	1,881.3	18.6	1,899.9
Balance at 1 April 2016	60.2	676.4	(68.6)	4.6	(1.4)	352.2	585.4	1,608.8	24.4	1,633.2
Total comprehensive income for the period	-	-	37.7	-	-	244.8	(224.3)	58.2	0.1	58.3
Dividends paid/other	-	-	-	-	-	-	-	-	(7.9)	(7.9)
Movement in EBT and treasury shares	-	-	-	-	(0.2)	-	(1.7)	(1.9)	-	(1.9)
Share-based payments	-	-	-	-	-	-	3.6	3.6	-	3.6
Balance at 30 September 2016 (unaudited)	60.2	676.4	(30.9)	4.6	(1.6)	597.0	363.0	1,668.7	16.6	1,685.3
Balance at 1 April 2016	60.2	676.4	(68.6)	4.6	(1.4)	352.2	585.4	1,608.8	24.4	1,633.2
Total comprehensive income for the period	-	-	50.7	-	-	356.2	29.9	436.8	3.8	440.6
Shares issued	0.2	2.5	-	-	-	-	-	2.7	-	2.7
Dividends paid/other	-	-	-	-	-	-	-	-	(7.4)	(7.4)
Movement in EBT and treasury shares	-	-	-	-	0.2	-	(1.6)	(1.4)	-	(1.4)
Share-based payments	-	-	-	-	-	-	8.2	8.2	-	8.2
Balance at 31 March 2017	60.4	678.9	(17.9)	4.6	(1.2)	708.4	621.9	2,055.1	20.8	2,075.9

Condensed consolidated cash flow statement

	Note	Unaudited 6 months to 30 September 2017 £m	Unaudited 6 months to 30 September 2016 £m	Year to 31 March 2017 £m
Net cash from operating activities	21	288.0	125.8	520.4
Investing activities				
Interest received		0.4	0.7	1.2
Proceeds from disposal of property and plant and equipment		7.0	29.1	43.0
Purchases of property, plant and equipment		(183.9)	(197.6)	(374.1)
Purchases of software		(7.2)	(8.9)	(30.2)
Acquisition of business	19	(2.9)	-	-
Net cash used in investing activities		(186.6)	(176.7)	(360.1)
Financing activities				
Dividends paid to non-controlling shareholders		-	(11.9)	(11.9)
Shares purchased by Employee Benefit Trust		(5.2)	(1.5)	(1.5)
Shares issued		0.8	-	2.1
Drawdowns from bank facilities		-	52.5	-
Repayment of senior unsecured loans		(38.7)	-	(41.0)
Repayment of loan notes		-	(0.1)	(0.1)
Repayments under HP contracts and finance leases		(30.1)	(47.7)	(75.0)
Fees for bank facility amendments		-	-	(1.8)
Net cash flow used in financing activities		(73.2)	(8.7)	(129.2)
Net increase/(decrease) in cash and cash equivalents before foreign exchange movements		28.2	(59.6)	31.1
Cash and cash equivalents at beginning of period		400.9	360.1	360.1
Foreign exchange movements		(0.3)	10.0	9.7
Cash and cash equivalents at end of period per consolidated balance sheet		428.8	310.5	400.9

Cash and cash equivalents are included within current assets on the condensed consolidated balance sheet. Cash and cash equivalents includes ring-fenced cash of £384.7m (H1 2016: £230.7m; full year 2017: £259.8m).

Note to the condensed consolidated cash flow statement – reconciliation of net cash flow to movement in net debt

	Unaudited 6 months to 30 September 2017 £m	Unaudited 6 months to 30 September 2016 £m	Year to 31 March 2017 £m
Net increase/(decrease) in cash and cash equivalents in period	28.2	(59.6)	31.1
Decrease/(increase) in debt and finance leases	68.8	(4.7)	116.1
Net cash flow	97.0	(64.3)	147.2
Foreign exchange movements	13.9	(16.0)	(26.5)
Other non-cash movements in relation to financial instruments	(0.9)	(1.0)	(0.4)
Movement in net debt in period	110.0	(81.3)	120.3
Net debt at beginning of period	(1,289.9)	(1,410.2)	(1,410.2)
Net debt at end of period	(1,179.9)	(1,491.5)	(1,289.9)

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

Notes to the half yearly financial report

1 Basis of preparation

This half-yearly financial report does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The statutory accounts for the year ended 31 March 2017 have been delivered to the Registrar of Companies. The auditor reported on those accounts; their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The figures for the six months to 30 September 2017 include the results and financial position of the First Rail division for the period ended 16 September 2017 and the results and financial position for the other divisions for the 26 weeks ended 23 September 2017. The comparative figures for the six months to 30 September 2016 include the results and financial position of the First Rail division for the period ended 17 September 2016 and the results and financial position of the other divisions for the 26 weeks ended 24 September 2016.

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

The accounting policies used in this half-yearly financial report are consistent with International Financial Reporting Standards (IFRS) as adopted by the European Union. The accounting policies applied are consistent with those described in the Group's latest annual audited financial statements, except for a number of amendments to IFRSs which became effective for the financial year beginning on 1 April 2017. There has been no material change as a result of applying these new accounting standards. We have also included certain non-GAAP measures in order to reflect management's reported view of financial performance excluding other intangible asset amortisation charges and certain other items.

These results are unaudited but have been reviewed by the auditor. The comparative figures for the six months to 30 September 2016 are unaudited and are derived from the half-yearly financial report for that period, which was also reviewed by the auditor.

The Directors have carried out a review of the Group's budget for the year to 31 March 2018 and medium term plans, with due regard for the risks and uncertainties to which the Group is exposed, the uncertain economic climate and the impact that this could have on trading performance. Based on this review, the Directors believe that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the condensed consolidated financial statements have been prepared on the going concern basis in preparing this half-yearly report.

The operating and financial review statement contained in this half-yearly report, including the summarised principal risks and uncertainties, has been prepared by the Directors in good faith based on the information available to them up to the time of their approval of this report solely for the Company's shareholders as a body, so as to assist them in assessing the Group's strategies and the potential for those strategies to succeed and accordingly should not be relied on by any other party or for any other purpose and the Company hereby disclaims any liability to any such other party or for reliance on such information for any such other purpose.

The operating and financial review considers the impact of seasonality on the Group and also the principal risks and uncertainties facing it in the remaining six months of the financial year.

This half-yearly report has been prepared in respect of the Group as a whole and accordingly matters identified as being significant or material are so identified in the context of FirstGroup plc and its subsidiary undertakings taken as a whole.

This half-yearly financial report was approved by the Board on 14 November 2017.

2 Revenue

	6 months to 30 September 2017 £m	6 months to 30 September 2016 £m	Year to 31 March 2017 £m
Services rendered	2,771.3	2,564.7	5,653.3
Investment income	0.4	0.7	1.2
Total revenue as defined by IAS 18	2,771.7	2,565.4	5,654.5

3 Reconciliation to non-gaap measures and performance

In measuring the Group adjusted operating performance, additional financial measures derived from the reported results have been used in order to eliminate factors which distort year-on-year comparisons. The Group's adjusted performance is used to explain year-on-year changes when the effect of certain items is significant, including restructuring and reorganisation costs relating to the business turnarounds, property disposals, aged legal and self-insurance claims, revisions to onerous contracts and pension settlement gains or losses. In addition, management assess divisional performance before other intangible asset amortisation charges as these are typically a result of Group decisions and therefore the divisions have little or no control over these charges. Management consider that this overall basis more appropriately reflects operating performance and provide a better understanding of the key performance indicators of the business.

	6 months to 30 September 2017 £m	6 months to 30 September 2016 £m	Year to 31 March 2017 £m
Reconciliation of operating profit to adjusted operating profit			
Operating profit	57.4	77.9	283.6
Adjustments for:			
Other intangible asset amortisation charges	32.0	28.5	60.2
Gain on disposal of property	-	(21.6)	(21.6)
Restructuring and reorganisation costs	-	4.2	16.8
Total operating profit adjustments	32.0	11.1	55.4
Adjusted operating profit	89.4	89.0	339.0

	6 months to 30 September 2017 £m	6 months to 30 September 2016 £m	Year to 31 March 2017 £m
Reconciliation of (loss)/profit before tax to adjusted profit before tax			
(Loss)/profit before tax	(1.9)	11.1	152.6
Operating profit adjustment (see table above)	32.0	11.1	55.4
Ineffectiveness on financial derivatives	0.4	(0.3)	(1.0)
Adjusted profit before tax	30.5	21.9	207.0
Adjusted tax charge	(9.2)	(5.5)	(53.8)
Non-controlling interests	1.1	(0.1)	(3.8)
Adjusted earnings	22.4	16.3	149.4

The principal adjusting items are as follows:

Other intangible asset amortisation charges

The charge for the period was £32.0m (H1 2016: £28.5m). The increase primarily reflects the higher charge on software intangible amortisation this period.

Ineffectiveness on financial derivatives

There was a £0.4m non-cash charge (H1 2016: credit £0.3m) in the period due to ineffectiveness on financial derivatives.

4 Business segments information

The segment results for the six months to 30 September 2017 are as follows:

	First Student £m	First Transit £m	Greyhound £m	First Bus £m	First Rail £m	Group items ¹ £m	Total £m
Revenue	763.1	536.4	358.8	428.2	677.4	7.4	2,771.3
EBITDA²	104.1	31.4	40.1	47.4	70.9	(15.7)	278.2
Depreciation	(89.3)	(10.5)	(16.6)	(31.6)	(43.5)	(1.0)	(192.5)
Capital grant amortisation	-	-	-	-	3.7	-	3.7
Segment results	14.8	20.9	23.5	15.8	31.1	(16.7)	89.4
Other intangible asset amortisation charges	(25.3)	(0.5)	(5.3)	-	(0.9)	-	(32.0)
Operating profit	(10.5)	20.4	18.2	15.8	30.2	(16.7)	57.4

	Total assets £m	Total liabilities £m	Net assets/(liabilities) £m
Balance sheet			
First Student	2,641.9	(400.5)	2,241.4
First Transit	580.6	(137.4)	443.2
Greyhound	636.0	(326.9)	309.1
First Bus	753.9	(306.1)	447.8
First Rail	344.6	(670.8)	(326.2)
	4,957.0	(1,841.7)	3,115.3
Group items	122.1	(121.8)	0.3
Net debt	428.8	(1,608.7)	(1,179.9)
Taxation	21.7	(57.5)	(35.8)
Total	5,529.6	(3,629.7)	1,899.9

The segment results for the six months to 30 September 2016 are as follows:

	First Student £m	First Transit £m	Greyhound £m	First Bus £m	First Rail £m	Group items ¹ £m	Total £m
Revenue	719.5	482.5	333.4	426.1	595.8	7.4	2,564.7
EBITDA²	98.4	38.6	43.2	45.5	41.4	(15.4)	251.7
Depreciation	(84.4)	(8.6)	(17.4)	(32.0)	(22.3)	(1.0)	(165.7)
Capital grant amortisation	-	-	-	-	3.0	-	3.0
Segment results	14.0	30.0	25.8	13.5	22.1	(16.4)	89.0
Other intangible asset amortisation charges	(23.6)	(1.6)	(3.3)	-	-	-	(28.5)
Other adjustments (note 3)	(1.9)	(0.2)	19.8	-	-	(0.3)	17.4
Operating profit	(11.5)	28.2	42.3	13.5	22.1	(16.7)	77.9

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

² EBITDA is adjusted operating profit less capital grant amortisation plus depreciation.

	Total assets £m	Total liabilities £m	Net assets/(liabilities) £m
Balance sheet			
First Student	2,775.4	(410.5)	2,364.9
First Transit	571.0	(150.5)	420.5
Greyhound	672.4	(346.4)	326.0
First Bus	774.9	(435.7)	339.2
First Rail	236.4	(467.4)	(231.0)
	5,030.1	(1,810.5)	3,219.6
Group items	143.5	(203.7)	(60.2)
Net debt	310.5	(1,802.0)	(1,491.5)
Taxation	49.5	(32.1)	17.4
Total	5,533.6	(3,848.3)	1,685.3

4 Business segments information (continued)

The segment results for the year to 31 March 2017 are as follows:

	First Student £m	First Transit £m	Greyhound £m	First Bus £m	First Rail £m	Group items ¹ £m	Total £m
Revenue	1,780.3	1,042.0	684.7	861.7	1,268.8	15.8	5,653.3
EBITDA²	348.7	91.9	79.4	104.5	98.8	(36.7)	686.6
Depreciation	(177.6)	(18.6)	(36.8)	(67.5)	(50.3)	(2.1)	(352.9)
Capital grant amortisation	-	-	-	-	5.3	-	5.3
Segment results	171.1	73.3	42.6	37.0	53.8	(38.8)	339.0
Other intangible asset amortisation charges	(49.6)	(1.8)	(8.5)	-	(0.3)	-	(60.2)
Other adjustments (note 3)	(2.5)	(0.2)	19.6	(10.9)	-	(1.2)	4.8
Operating profit	119.0	71.3	53.7	26.1	53.5	(40.0)	283.6

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

² EBITDA is adjusted operating profit less capital grant amortisation plus depreciation.

Balance sheet	Total assets £m	Total liabilities £m	Net assets/(liabilities) £m
First Student	2,918.4	(414.9)	2,503.5
First Transit	600.6	(161.1)	439.5
Greyhound	694.5	(363.7)	330.8
First Bus	769.5	(364.6)	404.9
First Rail	245.8	(482.8)	(237.0)
	5,228.8	(1,787.1)	3,441.7
Group items	130.3	(183.0)	(52.7)
Net debt	400.9	(1,690.8)	(1,289.9)
Taxation	26.5	(49.7)	(23.2)
Total	5,786.5	(3,710.6)	2,075.9

5 Investment income and finance costs

	6 months to 30 September 2017 £m	6 months to 30 September 2016 £m	Year to 31 March 2017 £m
Investment income			
Bank interest receivable	(0.4)	(0.7)	(1.2)
Finance costs			
Bonds	41.3	42.1	83.7
Bank borrowings	3.3	6.8	11.4
Senior unsecured loan notes	1.0	2.3	4.3
Loan notes	0.5	0.5	1.0
Finance charges payable in respect of HP contracts and finance leases	2.4	3.4	6.4
Notional interest on long term provisions	5.6	7.9	17.5
Notional interest on pensions	5.2	4.8	8.9
Finance costs before adjustments	59.3	67.8	133.2
Hedge ineffectiveness on financial derivatives	0.4	(0.3)	(1.0)
Net finance costs	59.7	67.5	132.2
Finance costs before adjustments	59.3	67.8	133.2
Investment income	(0.4)	(0.7)	(1.2)
Net finance costs before adjustments	58.9	67.1	132.0

6 Tax on profit on ordinary activities

	6 months to 30 September 2017 £m	6 months to 30 September 2016 £m	Year to 31 March 2017 £m
Current tax	0.8	1.8	(4.3)
Deferred tax	(3.7)	0.2	40.8
Total tax (credit)/charge	(2.9)	2.0	36.5

The tax effect of the adjustments disclosed in note 3 was a credit of £12.1m (H1 2016: credit of £3.5m; full year 2017: credit of £17.3m).

7 Earnings per share (EPS)

EPS is calculated by dividing the profit attributable to equity shareholders of £2.1m (H1 2016: £9.0m; full year 2017: £112.3m) by the weighted average number of ordinary shares in issue of 1,206.2m (H1 2016: 1,204.3m; full year 2017: 1,204.8m). The number of ordinary shares used for the basic and diluted calculations are shown in the table below.

The difference in the number of shares between the basic calculation and the diluted calculation represents the weighted average number of potentially dilutive ordinary share options.

	30 September 2017 number m	30 September 2016 number m	31 March 2017 number m
Weighted average number of shares used in basic calculation	1,206.2	1,204.3	1,204.8
Executive share options	13.0	8.0	11.5
Weighted average number of shares used in the diluted calculation	1,219.2	1,212.3	1,216.3

The adjusted EPS is intended to highlight the recurring results of the Group before amortisation charges, ineffectiveness on financial derivatives and certain other adjustments as set out in note 3. A reconciliation is set out below:

	6 months to 30 September 2017		6 months to 30 September 2016		Year to 31 March 2017	
	£m	EPS (p)	£m	EPS (p)	£m	EPS (p)
Basic profit / EPS	2.1	0.2	9.0	0.7	112.3	9.3
Other intangible asset amortisation charges (note 9)	32.0	2.7	28.5	2.4	60.2	5.0
Ineffectiveness on financial derivatives	0.4	-	(0.3)	-	(1.0)	(0.1)
Other adjustments (note 3)	-	-	(17.4)	(1.4)	(4.8)	(0.4)
Tax effect of above adjustments	(12.1)	(1.0)	(3.5)	(0.3)	(17.3)	(1.4)
Adjusted profit / EPS	22.4	1.9	16.3	1.4	149.4	12.4

	6 months to 30 September 2017 pence		6 months to 30 September 2016 pence		Year to 31 March 2017 pence	
Diluted EPS	0.2		0.7		9.2	
Adjusted diluted EPS	1.8		1.3		12.3	

8 Goodwill

	£m
Cost	
At 1 April 2017	1,960.1
Additions (note 19)	1.2
Foreign exchange movements	(130.6)
At 30 September 2017	1,830.7
Accumulated impairment losses	
At 1 April 2017 and 30 September 2017	4.0
Carrying amount	
At 30 September 2017	1,826.7
At 31 March 2017	1,956.1
At 30 September 2016	1,887.4

Disclosures including goodwill by cash generating unit, details of impairment testing and sensitivities thereon are set out on page 106 of the 2017 Annual Report. The projections for First Student assume the incremental benefits of the existing recovery plan, the programme to address contract portfolio pricing together with an economic recovery.

The sensitivity analysis indicated that the First Student margin or growth rates would need to fall in excess of 218 or 184 basis points respectively compared to medium term double digit margin expectations for there to be an impairment to the carrying value of net assets in this business. An increase in the discount rate in excess of 161 basis points would have led to the value in use of the division being less than its carrying amount.

9 Other intangible assets

	Customer contracts £m	Greyhound brand and trade name £m	Software £m	Total £m
Cost				
At 1 April 2017	491.0	74.7	42.9	608.6
Acquisitions (note 19)	0.7	-	-	0.7
Additions	-	-	7.2	7.2
Disposals	-	-	(1.6)	(1.6)
Foreign exchange movements	(32.7)	(4.7)	(3.0)	(40.4)
At 30 September 2017	459.0	70.0	45.5	574.5
Amortisation				
At 1 April 2017	415.5	35.7	6.8	458.0
Charge for the period	25.0	1.8	5.2	32.0
Disposals	-	-	(0.9)	(0.9)
Foreign exchange movements	(28.9)	(2.2)	(0.7)	(31.8)
At 30 September 2017	411.6	35.3	10.4	457.3
Carrying amount				
At 30 September 2017	47.4	34.7	35.1	117.2
At 31 March 2017	75.5	39.0	36.1	150.6
At 30 September 2016	97.3	39.3	19.2	155.8

Intangible assets include customer contracts and the Greyhound brand and trade name which were acquired through the purchases of businesses and subsidiary undertakings and software. These are being amortised on a straight-line basis over their useful lives which are between 3 and 20 years.

10 Property, plant and equipment

	Land and buildings £m	Passenger carrying vehicle fleet £m	Other plant and equipment £m	Total £m
Cost				
At 1 April 2017	522.1	3,469.3	777.9	4,769.3
Acquisitions (note 19)	-	1.6	-	1.6
Additions	4.1	128.3	64.7	197.1
Disposals	(1.9)	(18.6)	(5.5)	(26.0)
Reclassified as held for sale	-	(75.6)	-	(75.6)
Foreign exchange movements	(19.9)	(176.4)	(23.5)	(219.8)
At 30 September 2017	504.4	3,328.6	813.6	4,646.6
Accumulated depreciation and impairment				
At 1 April 2017	100.1	1,789.6	603.1	2,492.8
Charge for period	5.7	121.9	64.9	192.5
Disposals	(1.1)	(9.5)	(5.4)	(16.0)
Reclassified as held for sale	-	(75.6)	-	(75.6)
Foreign exchange movements	(4.2)	(91.3)	(18.5)	(114.0)
At 30 September 2017	100.5	1,735.1	644.1	2,479.7
Carrying amount				
At 30 September 2017	403.9	1,593.5	169.5	2,166.9
At 31 March 2017	422.0	1,679.7	174.8	2,276.5
At 30 September 2016	417.8	1,653.1	175.8	2,246.7

11 Assets held for sale

	30 September 2017 £m	30 September 2016 £m	31 March 2017 £m
Assets held for sale	3.0	3.9	2.9

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

12 Trade and other receivables

	30 September 2017 £m	30 September 2016 £m	31 March 2017 £m
Amounts due within one year			
Trade receivables	420.7	352.4	457.3
Provision for doubtful receivables	(7.7)	(5.2)	(4.2)
Accrued income	217.2	205.5	184.2
Other prepayments	79.3	83.4	79.0
Other receivables	70.8	60.5	74.6
	780.3	696.6	790.9

13 Trade and other payables

	30 September 2017 £m	30 September 2016 £m	31 March 2017 £m
Amounts falling due within one year			
Trade payables	232.8	199.0	255.6
Other payables	230.7	189.2	217.6
Accruals	675.7	574.3	607.3
Deferred income	62.7	47.3	49.7
Season ticket deferred income	81.9	24.3	25.1
	1,283.8	1,034.1	1,155.3

14 Borrowings

	30 September 2017 £m	30 September 2016 £m	31 March 2017 £m
On demand or within 1 year			
Finance leases (note 15)	56.7	55.9	65.3
Senior unsecured loan notes	36.9	77.1	80.0
Bond 8.125% (repayable 2018)	299.6	0.7	12.9
Bond 6.125% (repayable 2019)	10.4	10.7	3.0
Bond 8.75% (repayable 2021)	14.5	14.5	30.2
Bond 5.25% (repayable 2022)	14.3	14.6	5.8
Bond 6.875% (repayable 2024)	0.2	0.4	7.2
Total current liabilities	432.6	173.9	204.4
Within 1 – 2 years			
Finance leases (note 15)	48.2	60.0	53.5
Loan notes (note 16)	9.5	9.6	9.5
Bond 8.125% (repayable 2018)	-	298.8	298.8
Bond 6.125% (repayable 2019)	264.3	-	270.0
Senior unsecured loan notes	-	38.4	-
	322.0	406.8	631.8
Within 2 – 5 years			
Finance leases (note 15)	39.2	91.5	64.8
Syndicated bank loans	-	52.5	-
Bond 6.125% (repayable 2019)	-	276.7	-
Bond 8.75% (repayable 2021)	364.3	377.8	369.0
	403.5	798.5	433.8
More than 5 years			
Finance leases (note 15)	0.1	-	0.1
Bond 5.25% (repayable 2022)	321.1	320.5	321.1
Bond 6.875% (repayable 2024)	199.6	199.6	199.6
	520.8	520.1	520.8
Total non-current liabilities at amortised cost	1,246.3	1,725.4	1,586.4

15 Hire Purchase (HP) contracts and finance leases

The Group had the following obligations under HP contracts and finance leases as at the balance sheet dates:

	30 September 2017		30 September 2016		31 March 2017	
	Minimum payments £m	Present value of payments £m	Minimum payments £m	Present value of payments £m	Minimum payments £m	Present value of payments £m
Due within 1 year	58.2	56.7	57.4	55.9	66.9	65.3
Due within 1 – 2 years	50.8	48.2	63.1	60.0	56.4	53.5
Due within 2 – 5 years	42.6	39.2	100.1	91.5	70.2	64.8
Due in more than 5 years	0.1	0.1	-	-	0.1	0.1
	151.7	144.2	220.6	207.4	193.6	183.7
Less future financing charges	(7.5)	-	(13.2)	-	(9.9)	-
	144.2	144.2	207.4	207.4	183.7	183.7

16 Loan notes

The Group had the following loan notes issued as at the balance sheet dates:

	30 September 2017 £m	30 September 2016 £m	31 March 2017 £m
Due within 2 – 5 years	9.5	9.6	9.5

17 Derivative financial instruments

	30 September 2017 £m	30 September 2016 £m	31 March 2017 £m
Total derivatives			
Total non-current assets	45.5	70.3	48.6
Total current assets	4.2	1.1	1.7
Total assets	49.7	71.4	50.3
Total current liabilities	13.7	36.3	29.5
Total non-current liabilities	4.7	18.1	8.6
Total liabilities	18.4	54.4	38.1

Derivatives designated and effective as hedging instruments carried at fair value

Non-current assets

Coupon swaps (fair value hedge)	42.2	67.2	48.6
Fuel derivatives (cash flow hedge)	3.3	3.1	-
	45.5	70.3	48.6

Current assets

Fuel derivatives (cash flow hedge)	4.2	0.9	0.6
Currency forwards (cash flow hedge)	-	0.2	0.7
	4.2	1.1	1.3

Current liabilities

Fuel derivatives (cash flow hedge)	9.0	36.3	29.4
Currency forwards (cash flow hedge)	4.5	-	0.1
	13.5	36.3	29.5

Non-current liabilities

Fuel derivatives (cash flow hedge)	3.5	18.1	8.6
Currency forwards (cash flow hedge)	1.2	-	-
	4.7	18.1	8.6

Derivatives classified as held for trading

Current assets

Currency forwards	-	-	0.4
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Current liabilities

Currency forwards	0.2	-	-
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The fair value measurements of the financial derivatives held by the Group have been derived based on observable market inputs (as categorised within Level 2 of the fair value hierarchy under IFRS 7 (2009)).

17 Derivative financial instruments (continued)

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis:

30 September 2017					
	Level 1 £m	Level 2 £m	Level 3 £m	Fair value Total £m	Carrying value Total £m
Financial assets					
Cash and cash equivalents	428.8	-	-	428.8	428.8
Trade and other receivables	-	483.8	-	483.8	483.8
Derivative financial instruments	-	49.7	-	49.7	49.7
Financial liabilities and derivatives					
Financial liabilities	-	1,892.0	-	1,892.0	1,678.9
Trade and other payables	-	1,283.8	-	1,283.8	1,283.8
Derivative financial instruments	-	18.4	-	18.4	18.4

30 September 2016					
	Level 1 £m	Level 2 £m	Level 3 £m	Fair value Total £m	Carrying value Total £m
Financial assets					
Cash and cash equivalents	310.5	-	-	310.5	310.5
Trade and other receivables	-	407.7	-	407.7	407.7
Derivative financial instruments	-	71.4	-	71.4	71.4
Financial liabilities and derivatives					
Financial liabilities	52.5	2,104.3	-	2,156.8	1,899.3
Trade and other payables	-	1,034.1	-	1,034.1	1,034.1
Derivative financial instruments	-	54.4	-	54.4	54.4

31 March 2017					
	Level 1 £m	Level 2 £m	Level 3 £m	Fair value Total £m	Carrying value Total £m
Financial assets					
Cash and cash equivalents	400.9	-	-	400.9	400.9
Trade and other receivables	-	527.7	-	527.7	527.7
Derivative financial instruments	-	50.3	-	50.3	50.3
Financial liabilities and derivatives					
Financial liabilities	-	1,958.7	-	1,958.7	1,790.8
Trade and other payables	-	1,155.3	-	1,155.3	1,155.3
Derivative financial instruments	-	38.1	-	38.1	38.1

Level 1: Quoted prices in active markets for identical assets and liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly.

Level 3: Inputs for the asset or liability that are not based on observable market data.

There were no transfers between level 1 and level 2 during the current or prior periods.

Financial assets/(liabilities)	Fair values (£m) at			Fair value hierarchy	Valuation technique(s) and key inputs
	30 September 2017	30 September 2016	31 March 2017		
Derivative contracts					
1. Interest rate swaps	42.2	67.2	48.6	Level 2	Discounted cash flow; future cash flows are estimated based on forward interest rates and contract interest rates then discounted at a rate that reflects the credit risk of the various counterparties.
2. Fuel derivatives	(5.0)	(50.4)	(37.4)	Level 2	Discounted cash flow; future cash flows are estimated based on forward fuel priced and contract rates and then discounted at a rate that reflects the credit risk of the various counterparties.
3. Currency forwards	(5.9)	0.2	1.0	Level 2	Discounted cash flow; future cash flows are estimated based on forward exchange rates and contract rates and then discounted at a rate that reflects the credit risk of the various counterparties.
4. Trade and other receivables	483.8	407.7	527.7	Level 2	Carried at amortised cost using the effective interest rate method.
5. Trade and other payables	1,283.8	1,034.1	1,155.3	Level 2	Initially measured at fair value, and are subsequently measured at amortised cost using the effective interest rate method.
6. Borrowings	1,892.0	2,156.8	1,958.7	Level 2	Measured either on an amortised cost basis or at fair value. The fair values are calculated by discounting the future cash flows that will arise under the contracts.

18 Provisions

	30 September 2017 £m	30 September 2016 £m	31 March 2017 £m
Insurance claims	215.1	228.9	236.1
Legal and other	35.7	49.1	45.7
Pensions	2.3	2.6	2.4
Non-current liabilities	253.1	280.6	284.2

	Insurance claims £m	Legal and other £m	Pensions £m	Total £m
At 1 April 2017	391.0	60.4	2.4	453.8
Charged to the income statement	78.2	2.3	-	80.5
Utilised in the period	(93.5)	(11.6)	(0.1)	(105.2)
Notional interest	5.6	-	-	5.6
Foreign exchange movements	(24.7)	(1.9)	-	(26.6)
At 30 September 2017	356.6	49.2	2.3	408.1

Current liabilities	141.5	13.5	-	155.0
Non-current liabilities	215.1	35.7	2.3	253.1
At 30 September 2017	356.6	49.2	2.3	408.1

Current liabilities	154.9	14.7	-	169.6
Non-current liabilities	236.1	45.7	2.4	284.2
At 31 March 2017	391.0	60.4	2.4	453.8

Current liabilities	149.1	10.9	-	160.0
Non-current liabilities	228.9	49.1	2.6	280.6
At 30 September 2016	378.0	60.0	2.6	440.6

The current liabilities above are included within accruals in note 13.

The insurance claims provision arises from estimated exposures for incidents occurring prior to the balance sheet date. It is anticipated that the majority of such claims will be settled within the next six years although certain liabilities in respect of lifetime obligations of £21.4m (H1 2016: £22.7m) can extend for up to 30 years. The utilisation of £93.5m (H1 2016: £95.0m) represents payments made largely against the current liability of the preceding year.

The total insurance provision of £356.6m includes £25.6m which is recoverable from insurance companies and is included within other receivables in note 12.

Legal and other provisions relate to estimated exposures for cases filed or thought highly likely to be filed for incidents that occurred prior to the balance sheet date. It is anticipated that most of these items will be settled within 10 years. Also included are provisions in respect of costs anticipated on the exit of surplus properties which are expected to be settled over the remaining terms of the respective leases and dilapidation and other provisions in respect of contractual obligations under rail franchises. The dilapidation provisions are expected to be settled at the end of the respective franchise.

The pension's provision relates to unfunded obligations that arose on the acquisition of certain First Bus companies. It is anticipated that this will be utilised over five to 10 years.

19 Acquisition of businesses and subsidiary undertakings

	30 September 2017 £m	30 September 2016 £m	31 March 2017 £m
Provisional fair value of net assets acquired:			
Property, plant and equipment	1.6	-	-
Other intangible assets	0.7	-	-
Other liabilities	(0.3)	-	-
	2.0	-	-
Goodwill	1.2	-	-
Satisfied by cash paid and payable	3.2	-	-

On 11 August 2017, the Group completed the acquisition of Falcon Transportation, a Chicago-based provider of school and charter transportation services. The £3.2m consideration represent £2.9m cash paid in the period and £0.3m of deferred consideration.

20 Called up share capital

	30 September 2017 £m	30 September 2016 £m	31 March 2017 £m
Allotted, called up and fully paid			
1,209.2m ordinary shares of 5p each	60.5	60.2	60.4

The Company has one class of ordinary shares which carries no right to fixed income. 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 1,206.4m (H1 2016: 1,204.3m). At the end of the period 2.8m shares (H1 2016: 0.9m shares) were being held as treasury shares and own shares held in trust for employees.

21 Net cash for operating activities

	30 September 2017 £m	30 September 2016 £m	31 March 2017 £m
Operating profit	57.4	77.9	283.6
Adjustments for:			
Depreciation charges	192.5	165.7	352.9
Capital grant amortisation	(3.7)	(3.0)	(5.3)
Amortisation charges	32.0	28.5	60.2
Impairment charges	-	-	4.5
Share-based payments	4.4	3.6	8.2
Loss/(profit) on disposal of property, plant and equipment	3.3	(17.2)	(18.9)
Operating cash flows before working capital and pensions	285.9	255.5	685.2
(Increase)/decrease in inventories	(0.1)	2.5	1.3
(Increase)/decrease in receivables	(24.8)	39.7	(36.7)
Increase/(decrease) in payables	157.7	(44.0)	56.3
Decrease in provisions	(19.3)	(19.8)	(30.6)
Defined benefit pension payments in excess of income statement charge	(31.0)	(26.1)	(37.6)
Cash generated by operations	368.4	207.8	637.9
Tax paid	(7.1)	(5.1)	(10.2)
Interest paid	(70.9)	(73.5)	(100.9)
Interest element of HP contracts and finance leases	(2.4)	(3.4)	(6.4)
Net cash from operating activities	288.0	125.8	520.4

22 Retirement benefit schemes

The Group operates or participates in a number of defined benefit pension schemes which cover the majority of UK employees and certain North American employees. The scheme details are described on pages 125 to 126 of the Annual Report and Accounts for the year ended 31 March 2017.

The Group currently sponsors six sections of the RPS, relating to its franchising obligations for its TOCs, and for Hull Trains, its Open Access operator. The RPS is governed by the Railways Pension Trustee Company Limited, and is subject to regulation from the Pensions Regulator and relevant UK legislation. The RPS is a shared cost arrangement. All costs, and any deficit or surplus, are shared 60% by the employer and 40% by the members. For the TOC sections, under the franchising obligations, the employer's responsibility is to pay the contributions requested by the Trustee, whilst it operates the franchise. There is no residual liability or asset for any deficit, or surplus, which remains at the end of the franchise period.

Since the contributions being paid to each TOC section are lower than the share of the service cost that would normally be calculated under IAS19, the Group does not make any contribution towards the sections' deficits. Therefore, the Group does not need to reflect any deficit on its balance sheet. A franchise adjustment (asset) exists that exactly offsets any section deficit that would otherwise remain after reflecting the cost sharing with the members.

The market value of the assets at 30 September 2017 for all defined benefit schemes totalled £4,994m (H1 2016: £4,154m; full year 2017: £4,141m).

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

The key assumptions were as follows:

	30 September 2017			30 September 2016			31 March 2017		
	First Bus %	First Rail %	North America %	First Bus %	First Rail %	North America %	First Bus %	First Rail %	North America %
Key assumptions used:									
Discount rate	2.85	2.85	3.45	2.40	2.40	3.10	2.80	2.80	3.65
Expected rate of salary increases	3.55	3.55	2.50	3.45	3.20	2.50	2.00	3.35	2.50
Inflation – CPI	1.95	1.95	2.00	1.85	1.85	2.00	2.00	2.00	2.00
Future pension increases	1.95	1.95	-	1.85	1.85	-	2.00	2.00	-

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

	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
6 months to 30 September 2017					
Current service cost	(10.2)	(5.3)	(15.5)	(29.1)	(44.6)
Impact of franchise adjustment on operating cost	-	-	-	17.9	17.9
Net interest cost	(1.6)	(3.6)	(5.2)	(4.7)	(9.9)
Impact of franchise adjustment on net interest cost	-	-	-	4.7	4.7
	(11.8)	(8.9)	(20.7)	(11.2)	(31.9)
6 months to 30 September 2016					
Current service cost	(8.2)	(4.6)	(12.8)	(15.3)	(28.1)
Impact of franchise adjustment on operating cost	-	-	-	4.9	4.9
Net interest cost	(0.4)	(3.7)	(4.1)	(2.6)	(6.7)
Impact of franchise adjustment on net interest cost	-	-	-	2.6	2.6
	(8.6)	(8.3)	(16.9)	(10.4)	(27.3)
Year to 31 March 2017					
Current service cost	(16.7)	(9.9)	(26.6)	(37.1)	(63.7)
Impact of franchise adjustment on operating cost	-	-	-	11.3	11.3
Past service gain on TOC schemes	-	-	-	4.1	4.1
Net interest cost	(1.1)	(7.7)	(8.8)	(5.8)	(14.6)
Impact of franchise adjustment on net interest cost	-	-	-	5.8	5.8
	(17.8)	(17.6)	(35.4)	(21.7)	(57.1)

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

22 Retirement benefit schemes (continued)

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

As at 30 September 2017	First Bus £m	North America £m	Total non- rail £m	First Rail £m	Total £m
Fair value of schemes' assets	2,595.4	489.8	3,085.2	1,909.2	4,994.4
Present value of defined benefit obligations	(2,525.5)	(675.4)	(3,200.9)	(2,721.8)	(5,922.7)
Surplus/(deficit) before adjustments	69.9	(185.6)	(115.7)	(812.6)	(928.3)
Adjustment for irrecoverable surplus ¹	(178.5)	-	(178.5)	-	(178.5)
First Rail franchise adjustment (60%)	-	-	-	485.6	485.6
Adjustment for employee share of RPS deficits (40%)	-	-	-	325.0	325.0
Liability recognised in the condensed consolidated balance sheet	(108.6)	(185.6)	(294.2)	(2.0)	(296.2)
The amount is presented in the condensed consolidated balance sheet as follows:					
Non-current assets	41.8	-	41.8	-	41.8
Non-current liabilities	(150.4)	(185.6)	(336.0)	(2.0)	(338.0)
	(108.6)	(185.6)	(294.2)	(2.0)	(296.2)

As at 30 September 2016	First Bus £m	North America £m	Total non- rail £m	First Rail £m	Total £m
Fair value of schemes' assets	2,603.6	513.9	3,117.5	1,036.6	4,154.1
Present value of defined benefit obligations	(2,777.5)	(748.2)	(3,525.7)	(1,594.6)	(5,120.3)
Deficit before adjustments	(173.9)	(234.3)	(408.2)	(558.0)	(966.2)
Adjustment for irrecoverable surplus ¹	(89.5)	-	(89.5)	-	(89.5)
First Rail franchise adjustment (60%)	-	-	-	332.2	332.2
Adjustment for employee share of RPS deficits (40%)	-	-	-	223.2	223.2
Liability recognised in the condensed consolidated balance sheet	(263.4)	(234.3)	(497.7)	(2.6)	(500.3)
The amount is presented in the condensed consolidated balance sheet as follows:					
Non-current assets	20.0	-	20.0	-	20.0
Non-current liabilities	(283.4)	(234.3)	(517.7)	(2.6)	(520.3)
	(263.4)	(234.3)	(497.7)	(2.6)	(500.3)

As at 31 March 2017	First Bus £m	North America £m	Total non- rail £m	First Rail £m	Total £m
Fair value of schemes' assets	2,614.5	508.7	3,123.2	1,018.0	4,141.2
Present value of defined benefit obligations	(2,586.6)	(725.4)	(3,312.0)	(1,519.9)	(4,831.9)
Surplus/(deficit) before adjustments	27.9	(216.7)	(188.8)	(501.9)	(690.7)
Adjustment for irrecoverable surplus ¹	(167.7)	-	(167.7)	-	(167.7)
First Rail franchise adjustment (60%)	-	-	-	299.1	299.1
Adjustment for employee share of RPS deficits (40%)	-	-	-	200.8	200.8
Liability recognised in the condensed consolidated balance sheet	(139.8)	(216.7)	(356.5)	(2.0)	(358.5)
The amount is presented in the condensed consolidated balance sheet as follows:					
Non-current assets	34.0	-	34.0	-	34.0
Non-current liabilities	(173.8)	(216.7)	(390.5)	(2.0)	(392.5)
	(139.8)	(216.7)	(356.5)	(2.0)	(358.5)

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

Responsibility statement

Each of the Directors confirms that to the best of his/her knowledge:

- The condensed set of financial statements, which has been prepared in accordance with the applicable set of accounting standards, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer, or the undertakings included in the consolidation as a whole as required by DTR 4.2.4R;
- The interim management report includes a fair review of the information required by DTR 4.2.7R; and
- The interim management report includes a fair review of the information required by DTR 4.2.8R.

The Directors of FirstGroup plc are listed on the Group's website at www.firstgroupplc.com.

Tim O'Toole
Chief Executive
14 November 2017

Matthew Gregory
Chief Financial Officer
14 November 2017

Independent review report to FirstGroup plc

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2017 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement and related notes 1 to 22. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

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

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

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Statutory Auditor
London, United Kingdom
14 November 2017