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Interim Report 2003

for the six months ended 30 September 2003

Financial highlights

For the six months ended 30 September 2003

	2003	2002	%
Turnover (£m)	**1,127.7**	1,068.9	+6
Operating profit (£m)[1]	**78.1**	84.4	–7
Profit before taxation (£m)[1]	**56.8**	55.8	+2
Adjusted basic earnings per share (pence)	**9.6**	9.3	+3
Dividend per share (pence)	**3.75**	3.55	+6
EBITDA (£m)[2]	**125.0**	133.5	–6
EBITDA : interest cover[3]	**5.9x**	4.7x	+26

[1]Before goodwill amortisation, exceptional items and profit on disposal of fixed assets
[2]Operating profit[1] as defined plus depreciation
[3]Calculated as EBITDA[2] divided by net interest payable and similar charges before exceptional items

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Chairman's statement

I am pleased to report another period of solid operational performance. Group turnover has increased by 5.5% to £1,127.7m and profit before tax, goodwill amortisation and exceptional items has risen to £56.8m (2002: £55.8m). This is a strong performance given the additional £7.0m of National Insurance and pension costs in our UK operations and the combined £7.7m reduction in rail subsidies and increased franchise payments. Adjusted earnings per share (before goodwill amortisation, restructuring and exceptional costs, and property profits) increased by 3% to 9.6p (2002: 9.3p). In line with the indications given in May, the Board has recommended an increase in the interim dividend ahead of inflation to 3.75p (2002: 3.55p), an increase of 5.6%. The dividend will be paid on 11 February 2004 to shareholders on the register on 16 January 2004.

Safety continues to be the primary concern of our business and all our companies focus on ensuring that we operate in the safest possible way for our passengers and staff.

In May, we acquired the transit division of Coach USA. This acquisition is a good strategic fit with our existing transit operations in the US. In August, our offer for GB Railways plc was declared wholly unconditional. This acquisition fits well with our existing rail operations and provides an entry into the growing rail freight market.

In the US, we are very encouraged by the continued progress of our school bus division which has had a strong bidding season, gaining contracts for some 1,468 new buses for operation from September 2003. We have an active pipeline of further acquisition opportunities for the remainder of the year which will bring our school bus additions to the top end of our expectations. We are also optimistic about the opportunities to develop our services division and anticipate accelerated growth during the remainder of the year.

Our London bus business has grown by 23% following the introduction of congestion charging. Outside London we are seeing encouraging growth in our urban bus operations through improved marketing of services and working with local authorities to introduce more bus priority measures.

In UK Rail we were delighted to be awarded the franchise for TransPennine Express with our partner Keolis and to be selected as the preferred bidder for the Thames Trains franchise. We are also bidding for the Northern and ScotRail franchises.

All our businesses continue to be strong generators of cash that can be used to invest in further growth, buy back equity or pay down debt. Our North American business is now self-funding for maintenance and growth capital expenditure.

The Group's strategy of developing businesses in major transport markets has continued to deliver value for shareholders. Our strategic positions in the UK and US markets ensure that we have a strong base for future expansion. The opportunities for our businesses on both sides of the Atlantic are excellent. I am confident that we will be able to continue to grow earnings and dividends ahead of the rate of inflation.

Martin Gilbert
Chairman
4 November 2003

Chief Executive's operating review

Overview

Results

This has been an exciting six months for the Group with continued expansion in North America, the acquisition of GB Railways and the award of the TransPennine Express rail franchise. Turnover has increased to £1,127.7m (2002: £1,068.9m). Operating profit, before goodwill amortisation, exceptional costs and profit on disposal of fixed assets was £78.1m (2002: £84.4m). In this period we have had to absorb substantial increases of £7.0m in National Insurance and pension contributions in our UK operations. In UK Rail, profits were also impacted by £7.7m through the contractual reduction in rail subsidy and increased franchise premium. The Group has generated £125.0m (2002: £133.5m) of EBITDA (operating profit before goodwill amortisation, exceptional items and profit on disposal of fixed assets plus depreciation) which has been used to invest £93.5m in the business through capital expenditure and the acquisition of new operations in the US and UK.

North America
In North America the Group is the second largest operator of student transportation with over 16,000 school buses across the US and Canada. We also operate transit contracting and management, and vehicle maintenance services.

Results
In the six months to 30 September 2003 turnover increased to £286.1m (2002: £261.6m). The underlying increase at constant exchange rates was 18%. Operating profit for the same period was £18.0m (2002: £16.5m) an increase at constant exchange rates of 21%. Margins have been maintained at 6.3%.

First Student
Our US school bus business has continued to grow strongly. At constant exchange rates turnover increased by 12% and operating profit by 14%. We retained approximately 90% of our existing business that came up for renewal and we have had an excellent year for new business wins, increasing our current base by 9% with the addition of 1,468 new buses. We were particularly pleased to be awarded the management contract to run all of the 683 school buses on behalf of the City of Boston. The start-up of this large contract and the other new business has gone extremely well. New contracts have been acquired at our target margins and we are on course to maintain the full year margins. We have an active pipeline of new business acquisitions for the remainder of this year which will bring growth in the division to the top end of our expectations. We believe that we will be able to continue to grow this division by 8-10% per annum over the next few years.

First Transit
At constant exchange rates turnover increased by 23% and operating profit by 33%. In May, we were pleased to announce the acquisition of the Transit Division of Coach USA for a purchase price of $22.5m. The business is an excellent strategic fit with our existing operations and has an annualised turnover of $95m with contracts to operate some 1,200 buses on behalf of transit authorities and other bodies in states such as California, Florida and New York. During this period we renewed a significant five-year contract with the city of Miami and going forward we have an active acquisition pipeline. Our strategy is to be the lowest cost provider in our core market of transit management and operation. In addition, we will develop in the fast expanding markets of call centre management (through our Dyntek operation), paratransit and other related light transit markets.

First Services
At constant exchange rates turnover has grown by 37% and operating profit by 39% reflecting the inclusion for

the first time of the L&E Mobile business acquired in February this year. During the period L&E expanded its operations with a major contract award with the Massachusetts State Police and First Vehicle Services won a major contract in Atlantic City. The business is targeting to expand into the $21bn private sector fleet services market and to develop new add-on services that are complementary to its existing skill sets. It is intended to continue to expand L&E's turnkey business, which fits communication equipment to emergency service vehicles. First Services has active plans to grow strongly both organically and through acquisition and has already won a number of new public and private client service contracts to commence operation in the second half of the year.

Summary
We have successfully expanded our North American operations by 50% in the four years since acquisition and we expect to see this pace of growth maintained over the next few years.

UK Bus
We are the largest bus operator in the UK with a fleet of some 9,500 buses, running more than 1 in 5 of all local bus services and carrying 2.7 million passengers every day.

Results
For the six months to 30 September 2003 turnover increased by 5.8% to £443.0m (2002: £418.7m). Operating profit before contract hire leasing costs increased to £46.2m (2002: £45.9m). This result was achieved after absorbing increases in National Insurance contributions of £2m and additional pension contributions of £4m. Increases in bus fares were held at or below the level of inflation, resulting in a slight fall in operating margin to 10.4% (2002: 11.0%).

London
We have continued to see substantial growth in our London bus operations. Turnover year on year has grown by 23% and now represents approximately 21% of our total UK Bus business. During the period we have gained eight new contracts and we now operate approximately 1,300 buses for Transport for London. We are opening a new depot in Willesden which will increase capacity and be used as the base for new articulated bus services due to commence early next year.

Outside London
Outside London we have continued to see encouraging passenger growth of 1.5% in our urban bus operations that comprise approximately 56% of turnover. We will continue to improve the marketing of our services and work with local authorities to develop new bus priority measures. We have started work on the Yorkshire showcase project in Leeds and Sheffield in partnership with local Passenger Transport Executives and the Department for Transport. This project is based on new vehicles, quicker schedules, a simplified route network and enhanced bus priority measures and is predicted to increase growth by 5% per annum on targeted routes.

Costs
We continue to bear down on costs and target further efficiencies. As our largest single cost item is labour we are focusing on improved driver recruitment and retention and enhanced scheduling and rostering systems to maximise driver output. We are also introducing improvements to our engineering systems that will increase the productivity of our fleet and reduce the amount of time that vehicles are off the road.

We are achieving useful savings in purchasing and we have centralised all of our accounting functions through the new Shared Service Centre in Aberdeen with consequent increased efficiency and reductions in overhead costs.

UK Rail
Our Rail division operates passenger and freight services in the UK. Our passenger operations include intercity (First Great Western, Anglia Railways and Hull Trains), London commuter (First Great Eastern) and regional (First North Western). We have been awarded the contract to operate TransPennine Express starting in February 2004. We also operate freight services through GB Railfreight.

Results
Rail turnover during the period was £395.4m (2002: £385.4m) an increase of 2.6%. Passenger income on First Great Western and First Great Eastern has increased by 4%. Operating profit was £22.1m (2002: £29.5m) which is a strong performance given the combined reduction in subsidy and increase in franchise payments of £7.7m.

Chief Executive's operating review

Current operations
Performance at First Great Eastern has continued at a high level and we have successfully introduced a £80m fleet of 21 new Desiro trains into service. We have seen some slow down in season ticket revenues but this has been countered by an increase in full fare travel.

First Great Western has continued to improve its operating performance and we have reduced delays attributable to us by over 20%. Our engineering enhancements to the High Speed Train fleet proved extremely successful during the hot summer period with train availability almost doubling. The level of delays attributable to Network Rail is continuing to cause concern and we are working closely with them to improve the situation.

We operate First North Western on behalf of the Strategic Rail Authority (SRA). We receive a management fee and do not take revenue risk on the operations.

At the National Rail Awards we were delighted that First Great Eastern won Best Operator for the second time and one of our Train Managers from First Great Western won the Rail Personality award for customer service.

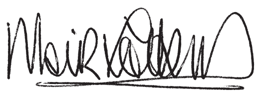
GB Railways
GB Railways operates Anglia Railways, Hull Trains and GB Railfreight (GBRf). Anglia holds the franchise to operate the intercity services from London to Ipswich and Norwich and connecting local services in East Anglia. Hull Trains is a non-franchised, open access train operating company running trains between London Kings Cross and Hull. GB Railways is bidding for the Greater Anglia franchise that will incorporate all passenger rail operations from London Liverpool Street. GBRf provides freight services in the UK for customers such as Network Rail, British Gypsum and Medite Shipping Company Limited. We are optimistic about the opportunities for this business and look forward to increasing our presence in the rapidly expanding rail freight market.

New franchises
In September, we were pleased to be awarded, with our partner Keolis, the contract to operate the new TransPennine Express franchise for a period of eight years from early 2004 with an option to extend for a further five years. We have already ordered a £260m fleet of new trains and contracted for two new maintenance depots for the franchise that will greatly improve the service offered to passengers in the region.

In November we were delighted to be selected as the preferred bidder for the Thames Trains franchise. This two-year franchise will run from April 2004 and allow us to benefit passengers through the integration of services into Paddington ahead of the creation of the Greater Western franchise in 2006. In addition, we have submitted our bids for the new Northern and ScotRail franchises and we are interested in bidding for the new Integrated Kent franchise.

Rail freight
We are excited at the opportunities to grow our UK Rail operations further and to expand in the rail freight market. We have asked the management of GBRf to develop plans to accelerate the growth of this business and for investment in new rolling stock and equipment.

Group outlook
Going forward, we will continue to bear down on costs while growing our businesses in North America and the UK. The second half of the year has started in line with expectations and we expect to achieve our earnings targets for the remainder of the year.



Moir Lockhead
Chief Executive
4 November 2003

Finance Director's review

Overall

Turnover increased by £58.8m (5.5%) to £1,127.7m and operating profit, before goodwill amortisation and exceptional items was £78.1m (2002: £84.4m).

	6 months to 30 September 2003			6 months to 30 September 2002			Year to 31 March 2003		
Divisional results	**Turnover £m**	**Operating profit[1] £m**	**Operating margin[1] %**	Turnover £m	Operating profit[1] £m	Operating margin[1] %	Turnover £m	Operating profit[1] £m	Operating margin[1] %
UK Bus	**443.0**	**46.2**	**10.4**	418.7	45.9	11.0	859.4	111.7	13.0
UK Rail	**395.4**	**22.1**	**5.6**	385.4	29.5	7.7	842.3	61.3	7.3
North America	**286.1**	**18.0**	**6.3**	261.6	16.5	6.3	582.4	61.3	10.5
Financing element of leases[2]	**–**	**(4.1)**	**–**	–	(2.9)	–	–	(6.7)	–
Other[3]	**3.2**	**(4.1)**	**–**	3.2	(4.6)	–	6.9	(11.5)	–
Total Group	**1,127.7**	**78.1**	**6.9**	1,068.9	84.4	7.9	2,291.0	216.1	9.4

[1] Before goodwill amortisation, exceptional items and profit on disposal of fixed assets
[2] Financing element of UK PCV operating lease costs
[3] Tram operations, central management, Group information technology and other items

Throughout the Finance Director's review, operating profit and operating margin are defined as being before goodwill amortisation and exceptional items

North American turnover was £286.1m (six months to 30 September 2002: £261.6m), an increase of 9.4% (17.6% before exchange rate movements). We have added 1,468 yellow school buses during the period including a significant new contract win in Boston. In addition we acquired Coach USA's transit business in May 2003. North American operating profit was £18.0m (six months to 30 September 2002: £16.5m), an increase of 9.1% (20.7% before exchange rate movements) and the overall margin was maintained at 6.3%.

UK Bus turnover was £443.0m (six months to 30 September 2002: £418.7m), an increase of 5.8%. Urban passenger volumes outside London increased by 1.5% and new London tenders accounted for £17.0m of the uplift in turnover. UK Bus operating profit was £46.2m (six months to 30 September 2002: £45.9m), an increase of 0.7%. This increase in operating profit was after the impact of significant cost pressures, in particular additional pension and National Insurance costs year on year of £6.0m. In addition there was industrial action during the period which combined with the cost pressures, saw the operating margin fall to 10.4% from 11.0% last half year.

UK Rail turnover was £395.4m (six months to 30 September 2002: £385.4m), an increase of 2.6%. Passenger income increased by 4% in First Great Western and First Great Eastern. UK Rail operating profit was £22.1m (six months to 30 September 2002: £29.5m) with the reduction principally due to subsidy reduction of £4.7m in First Great Western and an increase in the franchise payment of £3.0m in First Great Eastern. We have been awarded the new TransPennine Express franchise along with our partner, Keolis, which we expect to start operating in early 2004 and we have been selected as the preferred bidder for the Thames Trains two-year franchise extension. We await the outcome of our bids for the Northern and ScotRail franchises.

Interest charge before exceptional items
The net interest charge was £21.3m (six months to 30 September 2002: £28.6m) with the reduction principally due to the cancellation of the interest rate

Finance Director's review

swaps referred to below. The interest charge before exceptional items was covered 5.9 times (six months to 30 September 2002: 4.7 times) by EBITDA.

Taxation
The taxation charge, on profit before tax after exceptional items, was £4.6m (six months to 30 September 2002: £12.2m). The reduction in the taxation charge is principally due to higher exceptional charges in the first half of 2003 compared to last year. No tax has been provided on property gains as these do not give rise to a chargeable gain for tax purposes. The taxation charge for the half year has been based on the estimated effective rate for the full year of 30% (six months to 30 September 2002: 30%) on profit before goodwill and exceptional items. The actual cash cost of taxation to the Group is estimated to be 17% of profit before tax after exceptional items for the full year (year to 31 March 2003: 20%).

Goodwill amortisation, exceptional items and property gains on disposal
Property disposal gains of £6.1m (six months to 30 September 2002: £11.2m) were realised as part of our ongoing property disposal programme.

Goodwill amortisation was £13.0m (six months to 30 September 2002: £13.1m) with favourable foreign exchange movements of £1.0m offsetting £0.9m of additional goodwill on acquisitions.

During the six months to 30 September 2003 we incurred an exceptional charge of £18.7m in relation to the cancellation of certain US Dollar and Sterling interest rate swaps. New US Dollar swaps were implemented with a significantly lower average interest rate of 2.85%, and for a longer term than the cancelled US Dollar swaps.

Other exceptional items were £7.5m (six months to 30 September 2002: £1.0m) and comprised £3.6m of UK Bus restructuring costs, £3.1m of UK Rail bid costs and £0.8m in North America.

Dividends
The interim dividend of 3.75p (six months to 30 September 2002: 3.55p) per ordinary share represents an increase of 5.6%.

Earnings per share (EPS)
The adjusted basic EPS was 9.6p (six months to 30 September 2002: 9.3p), an increase of 3.2%. Basic EPS was 4.6p (six months to 30 September 2002: 9.7p) with the reduction principally due to higher exceptional charges and lower property disposal gains.

EBITDA and investment in the business
EBITDA was £125.0m (six months to 30 September 2002: £133.5m). Capital expenditure was £81.8m (six months to 30 September 2002: £67.9m) which consisted principally of £20.2m for new passenger carrying vehicles in the UK and £46.8m for yellow school buses in North America. In addition, in the first half we invested £28.9m (six months to 30 September 2002: £9.7m) in acquisitions, net of £10.4m (6 months to 30 September 2002: £1.8m) of cash acquired, as set out below.

Acquisitions
On 21 May 2003, we acquired the Transit business of Coach USA for a total consideration of $22.5m. Goodwill arising on this acquisition amounted to $5.4m.

On 14 August 2003, our offer for GB Railways plc was declared unconditional in all respects. As at 30 September 2003 we had acquired 89.4% of the share capital of this company for an initial consideration of £22.0m. Provisional goodwill arising on this acquisition amounted to £17.2m.

No disclosure has been given of the results of acquisitions in the six months to 30 September 2003 as the results are not considered material enough to warrant separate disclosure.

Net debt
Net debt at 30 September 2003 was £709.5m (30 September 2002: £691.7m), an increase year on year of only £17.8m, despite significant investment through capital expenditure and acquisitions. This once again clearly demonstrates the Group's strong cash generation from operating activities.

Since 1 April 2003, the Sterling value of the Group's Dollar borrowings has decreased by £14.8m as a result of the period end exchange rate movement to £1:$1.66 from an opening rate of £1:$1.57.

In line with policy on interest rate risk, 81% (30 September 2002: 78%) of the Group's net debt is on fixed terms. Net debt at 30 September 2003 included $497m (30 September 2002: $409m) to hedge the net assets of the North American businesses.

Analysis of net debt	Fixed £m	Variable £m	Total £m
Cash	–	0.1	0.1
Rail ring-fenced cash and deposits	–	73.3	73.3
Sterling bond (2013: 6.875%)	(295.3)	–	(295.3)
Sterling bank loans and overdrafts	–	(113.8)	(113.8)
US Dollar bank loans and overdrafts	–	(299.6)	(299.6)
Canadian Dollar bank loans and overdrafts	–	(10.4)	(10.4)
HP and finance leases	(34.1)	(8.3)	(42.4)
Loan notes	(8.7)	(12.7)	(21.4)
Interest rate swaps	(237.9)	237.9	–
Total	**(576.0)**	**(133.5)**	**(709.5)**

Balance sheet and net assets
Net assets decreased over the period by £19.9m principally reflecting a retained profit for the period of £3.6m offset by adverse foreign exchange movements of £24.1m.

Shares in issue
As at 30 September 2003 there were 413.4m (30 September 2002: 417.7m) shares in issue. The average number of shares in issue (excluding own shares held) was 413.2m (six months to 30 September 2002: 418.1m).

Foreign exchange
The results of the North American businesses have been translated at an average rate of £1:$1.62 (six months to 30 September 2002: £1:$1.49 and year to 31 March 2003: £1:$1.55). The period end rate was £1:$1.66 (30 September 2002: £1:$1.56 and 31 March 2003: £1:$1.57).

Accounting policies
The Group has continued to account for pension costs under SSAP 24 and will continue to do so until the adoption of International Accounting Standards in 2005/06.

Iain M. [signature]

Iain M Lanaghan
Finance Director
4 November 2003

Consolidated profit and loss account

Turnover	
Continuing operations	
Operating profit	
Continuing operations	
Group operating profit before goodwill amortisation and exceptional items	
Goodwill amortisation	
Exceptional items, net	
Operating profit	
Profit on disposal of fixed assets	
Profit on ordinary activities before interest	
Net interest payable and similar charges	
Profit on ordinary activities before taxation	
Tax on profit on ordinary activities	
Profit on ordinary activities after taxation	
Equity minority interests	
Profit for the financial period	
Equity dividends paid and proposed	
Retained profit for the financial period	
Adjusted basic earnings per share	
Adjusted cash earnings per share	
Basic earnings per share	
Diluted earnings per share	

Notes	Unaudited before goodwill amortisation and exceptional items 6 months to 30 September 2003 £m	Unaudited goodwill amortisation and exceptional items 6 months to 30 September 2003 £m	Unaudited total 6 months to 30 September 2003 £m	Unaudited before goodwill amortisation and exceptional items 6 months to 30 September 2002 £m	Unaudited goodwill amortisation and exceptional items 6 months to 30 September 2002 £m	Unaudited total 6 months to 30 September 2002 £m	Audited Year to 31 March 2003 £m
	1,127.7	**–**	**1,127.7**	1,068.9	–	1,068.9	2,291.0
	78.1	**(20.5)**	**57.6**	84.4	(14.1)	70.3	179.7
	78.1	**–**	**78.1**	84.4	–	84.4	216.1
	–	**(13.0)**	**(13.0)**	–	(13.1)	(13.1)	(25.8)
	–	**(7.5)**	**(7.5)**	–	(1.0)	(1.0)	(10.6)
	78.1	**(20.5)**	**57.6**	84.4	(14.1)	70.3	179.7
	–	**6.1**	**6.1**	–	11.2	11.2	10.0
	78.1	**(14.4)**	**63.7**	84.4	(2.9)	81.5	189.7
	(21.3)	**(18.7)**	**(40.0)**	(28.6)	–	(28.6)	(56.3)
	56.8	**(33.1)**	**23.7**	55.8	(2.9)	52.9	133.4
3	**(17.0)**	**12.4**	**(4.6)**	(16.7)	4.5	(12.2)	(35.8)
	39.8	**(20.7)**	**19.1**	39.1	1.6	40.7	97.6
	–	**–**	**–**	–	–	–	(0.1)
	39.8	**(20.7)**	**19.1**	39.1	1.6	40.7	97.5
4	**(15.5)**	**–**	**(15.5)**	(14.8)	–	(14.8)	(45.5)
13	**24.3**	**(20.7)**	**3.6**	24.3	1.6	25.9	52.0
5			**9.6p**			9.3p	26.8p
5			**21.0p**			21.1p	50.6p
5			**4.6p**			9.7p	23.4p
5			**4.6p**			9.7p	23.4p

Consolidated balance sheet

	Notes	**Unaudited 30 September 2003 £m**	Unaudited 30 September 2002 £m	Audited 31 March 2003 £m
Assets employed:				
Fixed assets				
Goodwill	6	**486.4**	501.9	496.7
Tangible fixed assets	7	**803.9**	790.3	775.8
Investments		**0.5**	1.1	0.7
		1,290.8	1,293.3	1,273.2
Current assets				
Stocks		**31.8**	27.0	28.9
Debtors	8	**403.1**	347.1	345.8
Investments	9	**45.8**	50.9	45.7
Cash at bank and in hand		**27.6**	39.5	35.6
		508.3	464.5	456.0
Creditors: amounts falling due within one year	10	**(595.8)**	(611.2)	(571.5)
Net current (liabilities)/assets				
Amounts due within one year		**(133.4)**	(183.3)	(159.3)
Amounts due after more than one year	8	**45.9**	36.6	43.8
Net current liabilities		**(87.5)**	(146.7)	(115.5)
Total assets less current liabilities		**1,203.3**	1,146.6	1,157.7
Creditors: amounts falling due after more than one year	10	**(695.7)**	(635.4)	(630.9)
Provisions for liabilities and charges	11	**(124.7)**	(119.7)	(124.0)
		382.9	391.5	402.8
Financed by:				
Capital and reserves				
Called up share capital	12	**20.7**	20.9	20.7
Share premium account	13	**238.8**	236.7	238.8
Revaluation reserve	13	**3.5**	3.6	3.5
Other reserves	13	**3.8**	3.6	3.8
Profit and loss account	13	**114.4**	125.7	134.9
Equity shareholders' funds		**381.2**	390.5	401.7
Equity minority interests		**1.7**	1.0	1.1
		382.9	391.5	402.8

Consolidated cash flow statement

	Notes	**Unaudited 6 months to 30 September 2003 £m**	Unaudited 6 months to 30 September 2002 £m	Audited Year to 31 March 2003 £m
Net cash inflow from operating activities	14(a)	**92.6**	79.6	219.7
Returns on investments and servicing of finance	14(b)	**(52.6)**	(15.1)	(31.0)
Taxation				
Corporation tax paid		**(15.0)**	(11.3)	(23.6)
Capital expenditure and financial investment	14(c)	**(64.6)**	(71.9)	(82.2)
Acquisitions and disposals	14(d)	**(28.9)**	(9.7)	(23.8)
Equity dividends paid		**(30.6)**	(29.4)	(44.0)
Cash (outflow)/inflow before use of liquid resources and financing		**(99.1)**	(57.8)	15.1
Management of liquid resources				
(Increase)/decrease in liquid bank deposits		**(0.1)**	9.5	14.7
Financing	14(e)	**77.9**	44.6	(47.4)
Decrease in cash in period		**(21.3)**	(3.7)	(17.6)

Reconciliation of net cash flows to movement in net debt

	Notes	**Unaudited 6 months to 30 September 2003 £m**	Unaudited 6 months to 30 September 2002 £m	Audited Year to 31 March 2003 £m
Decrease in cash in period		**(21.3)**	(3.7)	(17.6)
Cash (inflow)/outflow from (increase)/decrease in debt and HP contract and finance lease financing		**(78.3)**	(50.0)	32.7
Movement in current asset investments		**0.1**	(9.5)	(14.7)
Fees on issue of bond and loan facility		**–**	0.2	1.6
Amortisation of debt issuance fees		**(0.4)**	(0.2)	(0.5)
Foreign exchange differences		**14.8**	24.0	26.6
Movement in net debt in period		**(85.1)**	(39.2)	28.1
Net debt at beginning of period	15	**(624.4)**	(652.5)	(652.5)
Net debt at end of period	15	**(709.5)**	(691.7)	(624.4)

Consolidated statement of total recognised gains and losses

	Unaudited 6 months to 30 September 2003 £m	Unaudited 6 months to 30 September 2002 £m	Audited Year to 31 March 2003 £m
Profit for the financial period	**19.1**	40.7	97.5
Foreign exchange differences	**(24.1)**	(49.0)	(53.2)
Total recognised (losses)/gains for the period	**(5.0)**	(8.3)	44.3

Reconciliation of movement in shareholders' funds

	Unaudited 6 months to 30 September 2003 £m	Unaudited 6 months to 30 September 2002 £m	Audited Year to 31 March 2003 £m
Profit for the financial period	**19.1**	40.7	97.5
Dividends	**(15.5)**	(14.8)	(45.5)
	3.6	25.9	52.0
Shares issued to QUEST	**–**	–	2.1
Own shares purchased and cancelled	**–**	(5.4)	(17.1)
Write down of own shares held by QUEST	**–**	–	(1.1)
Foreign exchange differences	**(24.1)**	(49.0)	(53.2)
Net reduction in shareholders' funds	**(20.5)**	(28.5)	(17.3)
Shareholders' funds at beginning of period	**401.7**	419.0	419.0
Shareholders' funds at end of period	**381.2**	390.5	401.7

No note of historical cost profits and losses is given as there are no material differences between the results as set out in the consolidated profit and loss account and their historical cost equivalents.

Notes to the interim financial information

1 Basis of preparation

This interim report does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985.

The figures for the six months to 30 September 2003 include the results of the rail businesses for the 24 weeks ended 13 September 2003 and the results of the other businesses for the 26 weeks ended 27 September 2003.

These results are unaudited but have been reviewed by the auditors, whose review report is given on page 21. The comparative figures for the six months to 30 September 2002 are unaudited and are derived from the interim report for the six months ended 30 September 2002, which was also reviewed by the auditors.

The comparative figures for the year to 31 March 2003 are not the Company's statutory accounts for that financial year but have been derived from them. Those accounts have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

This interim report will be sent to all shareholders in November 2003 and will be available to the public at the Registered Office of the Company, 395 King Street, Aberdeen AB24 5RP. This interim report was approved by the Board on 4 November 2003.

2 Principal accounting policies

The results for the six months ended 30 September 2003 have been prepared using the same accounting policies as were used in the preparation of the annual report for the year ended 31 March 2003.

3 Tax on profit on ordinary activities	**6 months to 30 September 2003 £m**	6 months to 30 September 2002 £m	Year to 31 March 2003 £m
Corporation tax	**1.9**	9.6	27.2
Deferred tax	**2.7**	2.6	8.6
	4.6	12.2	35.8

Notes to the interim financial information

4 Dividends	**6 months to 30 September 2003 £m**	6 months to 30 September 2002 £m	Year to 31 March 2003 £m
Ordinary shares of 5p each			
– Interim proposed	**15.5**	14.8	14.8
– Final paid	**–**	–	30.8
– Adjustment to prior year final dividend in respect of shares cancelled	**–**	–	(0.1)
	15.5	14.8	45.5

The interim dividend of 3.75p per ordinary share will be paid on 11 February 2004 to shareholders on the register of members at the close of business on 16 January 2004.

5 Earnings per share (EPS)

Basic EPS is based on earnings of £19.1m (six months to 30 September 2002: £40.7m and year to 31 March 2003: £97.5m) and on a weighted average number of ordinary shares of 413.2m (six months to 30 September 2002: 418.1m and year to 31 March 2003: 416.7m) in issue.

Diluted EPS is based on the same earnings for each of the periods and on the weighted average number of ordinary shares of 415.7m (six months to 30 September 2002: 419.1m and year to 31 March 2003: 417.4m). The difference in the number of shares between the basic calculation and the diluted calculation represents the weighted average number of potentially dilutive ordinary shares.

The adjusted basic EPS and adjusted cash EPS are intended to demonstrate recurring elements of the results of the Group before goodwill amortisation. A reconciliation of the earnings used in the bases is set out below:

	£m	**6 months to 30 September 2003 Earnings per share p**
Profit for basic EPS calculation	**19.1**	**4.6**
Goodwill amortisation	**13.0**	**3.1**
Exceptional items, net	**7.5**	**1.8**
Exceptional interest rate charge	**18.7**	**4.6**
Profit on disposal of fixed assets	**(6.1)**	**(1.5)**
Taxation effect of adjustments	**(12.4)**	**(3.0)**
Profit for adjusted basic EPS calculation	**39.8**	**9.6**
Depreciation	**46.9**	**11.4**
Profit for adjusted cash EPS calculation	**86.7**	**21.0**

5 Earnings per share continued	£m	6 months to 30 September 2002 Earnings per share p
Profit for basic EPS calculation	40.7	9.7
Goodwill amortisation	13.1	3.1
Exceptional items, net	1.0	0.3
Profit on disposal of fixed assets	(11.2)	(2.7)
Taxation effect of adjustments	(4.5)	(1.1)
Profit for adjusted basic EPS calculation	39.1	9.3
Depreciation	49.1	11.8
Profit for adjusted cash EPS calculation	88.2	21.1

	£m	Year to 31 March 2003 Earnings per share p
Profit for basic EPS calculation	97.5	23.4
Goodwill amortisation	25.8	6.2
Exceptional items, net	10.6	2.5
Profit on disposal of fixed assets	(10.0)	(2.4)
Taxation effect of adjustments	(12.1)	(2.9)
Profit for adjusted basic EPS calculation	111.8	26.8
Depreciation	99.2	23.8
Profit for adjusted cash EPS calculation	211.0	50.6

6 Goodwill	£m
Cost	
At 1 April 2003	584.8
Additions	23.3
Exchange rate differences	(25.0)
At 30 September 2003	**583.1**
Amortisation	
At 1 April 2003	88.1
Charge for the period	13.0
Exchange rate differences	(4.4)
At 30 September 2003	**96.7**
Net book value	
At 30 September 2003	**486.4**
At 31 March 2003	496.7
At 30 September 2002	501.9

Notes to the interim financial information

7 Tangible fixed assets	Land and buildings £m	Passenger carrying vehicle fleet £m	Other plant and equipment £m	Total £m
Cost or valuation				
At 1 April 2003	128.4	1,134.5	142.3	1,405.2
Subsidiary undertakings and businesses acquired	1.8	9.3	3.3	14.4
Additions	5.8	71.2	4.8	81.8
Disposals	(2.1)	(17.4)	(0.7)	(20.2)
Exchange rate differences	(1.1)	(22.5)	(1.5)	(25.1)
At 30 September 2003	**132.8**	**1,175.1**	**148.2**	**1,456.1**
Depreciation				
At 1 April 2003	19.9	520.5	89.0	629.4
Subsidiary undertakings and businesses acquired	0.2	–	1.7	1.9
Charge for period	1.5	37.9	7.5	46.9
Disposals	(0.2)	(15.0)	(0.6)	(15.8)
Exchange rate differences	(0.2)	(9.2)	(0.8)	(10.2)
At 30 September 2003	**21.2**	**534.2**	**96.8**	**652.2**
Net book value				
At 30 September 2003	**111.6**	**640.9**	**51.4**	**803.9**
At 31 March 2003	108.5	614.0	53.3	775.8
At 30 September 2002	105.6	630.1	54.6	790.3

8 Debtors	**30 September 2003 £m**	30 September 2002 £m	31 March 2003 £m
Amounts due within one year			
Trade debtors	**219.8**	187.6	190.5
Other debtors	**64.4**	40.8	44.5
Deposit paid for rolling stock	**–**	16.7	–
Pension funds' prepayments	**10.2**	6.6	8.1
Other prepayments and accrued income	**62.8**	58.8	58.9
	357.2	310.5	302.0
Amounts due after more than one year			
Pension funds' prepayments	**44.6**	35.1	42.4
Other prepayments and accrued income	**1.3**	1.5	1.4
	45.9	36.6	43.8
	403.1	347.1	345.8

9 Current asset investments	**30 September 2003 £m**	30 September 2002 £m	31 March 2003 £m
Bank deposits	**45.8**	50.9	45.7

10 Creditors	**30 September 2003 £m**	30 September 2002 £m	31 March 2003 £m
Amounts falling due within one year			
Bank loans and overdrafts	**60.6**	98.2	40.0
Obligations under hire purchase contracts and finance leases	**26.3**	47.2	34.2
Loan notes	**0.3**	1.3	0.6
Trade creditors	**94.5**	125.7	102.9
Corporation tax	**14.3**	22.1	27.2
Other tax and social security	**24.7**	19.1	18.5
Other creditors	**53.1**	23.3	33.0
Pension funds' creditors	**12.3**	10.3	11.3
Accruals and deferred income	**256.9**	214.6	235.0
Season ticket deferred income	**36.9**	34.6	37.8
Proposed dividends	**15.9**	14.8	31.0
	595.8	611.2	571.5
Amounts falling due after more than one year			
Bank loans			
Due in more than one year but not more than two years	**–**	267.2	–
Due in more than two years but not more than five years	**363.2**	9.6	286.8
Obligations under hire purchase contracts and finance leases			
Due in more than one year but not more than two years	**12.8**	27.3	21.5
Due in more than two years but not more than five years	**3.3**	14.2	6.1
Due in more than five years	**–**	0.2	0.1
Loan notes			
Due in more than one year but not more than two years	**21.1**	22.1	21.3
£300.0m Sterling bond – 6.875% 2013	**295.3**	294.8	295.1
	695.7	635.4	630.9

Bank loans and overdrafts

Whilst advances under bank facilities are generally repayable within a few months of the balance sheet date, they have been classified by reference to the maturity date of the longest refinancing permitted under these facilities in accordance with FRS 4. The bank loans and overdrafts are unsecured.

Hire purchase contracts and finance leases

Hire purchase contract and finance lease liabilities are secured on the assets to which they relate. The contracts vary in length between 4 and 12 years. No new contracts were entered into during the period.

Loan notes

The loan notes have been classified by reference to the earliest date on which the loan note holders can request redemption. Loan notes of £20.4m (30 September 2002: £21.3m and 31 March 2003: £20.6m) are supported by bank guarantees.

Notes to the interim financial information

10 Creditors continued

Bond

The bond is repayable in 2013 and is shown net of £4.7m (30 September 2002: £5.2m and 31 March 2003: £4.9m) of issue related costs which are being amortised over the term of the bond. Certain subsidiaries have issued guarantees to the Company's bondholders. These guarantees rank pari passu with guarantees provided by those subsidiaries to the Group's other major unsecured lenders.

11 Provisions for liabilities and charges	Deferred tax £m	Insurance claims £m	Pensions £m	Total £m
At 1 April 2003	88.2	29.8	6.0	124.0
Provided in the period	2.7	8.6	0.1	11.4
Utilised in the period	–	(10.9)	–	(10.9)
Subsidiary undertakings acquired	(0.4)	–	–	(0.4)
Notional interest	–	1.3	0.1	1.4
Exchange rate differences	(0.2)	(0.6)	–	(0.8)
At 30 September 2003	**90.3**	**28.2**	**6.2**	**124.7**

12 Called up share capital	**30 September 2003 £m**	30 September 2002 £m	31 March 2003 £m
Authorised:			
Ordinary shares of 5p each	**30.0**	30.0	30.0
Allotted, called up and fully paid:			
Ordinary shares of 5p each	**20.7**	20.9	20.7

The number of ordinary shares of 5p each in issue at the end of the period was 413.4m (30 September 2002: 417.7m and 31 March 2003: 413.4m).

13 Reserves	Share premium account £m	Revaluation reserve £m	Profit and loss account £m
At 1 April 2003	238.8	3.5	134.9
Retained profit for the financial period	–	–	3.6
Foreign exchange differences	–	–	(24.1)
At 30 September 2003	**238.8**	**3.5**	**114.4**

	Capital redemption reserve £m	Capital reserve £m	Total other reserves £m
At 1 April 2003 and 30 September 2003	**1.1**	**2.7**	**3.8**

14 Notes to the consolidated cash flow statement

	6 months to 30 September 2003 £m	6 months to 30 September 2002 £m	Year to 31 March 2003 £m
(a) Reconciliation of operating profit to net cash inflow from operations			
Group operating profit	**57.6**	70.3	179.7
Depreciation charges	**46.9**	49.1	99.2
Goodwill amortisation	**13.0**	13.1	25.8
Loss on sale of non-property fixed assets	**0.2**	–	0.2
Profit on sale of investment in joint venture	**–**	(2.5)	(2.5)
(Increase)/decrease in stocks	**(0.1)**	0.2	–
Increase in debtors	**(42.6)**	(47.6)	(77.3)
Increase/(decrease) in creditors and provisions	**17.6**	(3.0)	(5.4)
Net cash inflow from operating activities	**92.6**	79.6	219.7
(b) Returns on investments and servicing of finance			
Interest received	**0.9**	1.0	2.7
Interest paid	**(32.9)**	(12.1)	(25.1)
Cancellation of interest rate swaps	**(18.7)**	–	–
Interest element of hire purchase contracts and finance lease payments	**(1.9)**	(4.0)	(7.0)
Fees on issue of bond and loan facilities	**–**	–	(1.6)
Net cash outflow from returns on investments and servicing of finance	**(52.6)**	(15.1)	(31.0)
(c) Capital expenditure and financial investment			
Purchase of tangible fixed assets	**(69.8)**	(74.7)	(107.4)
Sale of fixed asset properties	**2.5**	2.0	4.4
Sale of other tangible fixed assets	**2.7**	0.8	4.1
Deposits for rolling stock	**–**	–	16.7
Net cash outflow from capital expenditure and financial investment	**(64.6)**	(71.9)	(82.2)
(d) Acquisitions and disposals			
Purchase of subsidiary undertakings	**(21.9)**	–	–
Purchase of businesses	**(17.4)**	(14.0)	(28.1)
Net cash acquired with purchase of subsidiary undertakings and businesses	**10.4**	1.8	1.8
Sale of investment in joint venture	**–**	2.5	2.5
Net cash outflow from acquisitions and disposals	**(28.9)**	(9.7)	(23.8)

Notes to the interim financial information

14 Notes to the consolidated cash flow statement continued	**6 months to 30 September 2003 £m**	6 months to 30 September 2002 £m	Year to 31 March 2003 £m
(e) Financing			
Issue of share capital	**–**	–	2.5
Own shares repurchased	**–**	(5.4)	(17.1)
Shares purchased by Employee Benefit Trust	**(0.5)**	–	–
New bank loans	**98.4**	125.9	312.1
Repayments of amounts borrowed:			
– Bank loans	**–**	(44.6)	(285.1)
– Loan notes	**(0.5)**	(0.9)	(2.5)
Capital element of hire purchase and finance lease payments	**(19.5)**	(30.4)	(57.3)
Net cash inflow/(outflow) from financing	**77.9**	44.6	(47.4)

15 Analysis of net debt	**At 31 March 2003 £m**	**Cash flow £m**	**Other non-cash changes £m**	**At 30 September 2003 £m**
Current asset investments	45.7	0.1	–	**45.8**
Cash at bank and in hand	35.6	(7.7)	(0.3)	**27.6**
Bank overdrafts	(10.0)	(13.6)	–	**(23.6)**
Cash	25.6	(21.3)	(0.3)	**4.0**
Bank loans due within one year	(30.0)	(7.0)	–	**(37.0)**
Bank loans due after one year	(286.8)	(91.3)	14.9	**(363.2)**
Sterling bond 2013	(295.1)	–	(0.2)	**(295.3)**
Obligations under hire purchase contracts and finance leases	(61.9)	19.5	–	**(42.4)**
Loans and loan notes	(21.9)	0.5	–	**(21.4)**
Financing	(695.7)	(78.3)	14.7	**(759.3)**
Net debt	(624.4)	(99.5)	14.4	**(709.5)**

Other non-cash changes include £14.8m (six months to 30 September 2002: £24.0m and year to 31 March 2003: £26.6m) of foreign exchange movements.

Independent review report to FirstGroup plc

Introduction

We have been instructed by the Company to review the financial information for the six months ended 30 September 2003, which comprise the consolidated profit and loss account, the consolidated balance sheet, the consolidated cash flow statement, the reconciliation of net cash flows to movement in net debt, the consolidated statement of total recognised gains and losses, the reconciliation of movement in shareholders' funds and related notes 1 to 15. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority, which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reason for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists primarily of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data, and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom auditing standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review, we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 September 2003.

Deloitte & Touche LLP
Chartered Accountants
London
4 November 2003

Financial calendar

Shares trade ex dividend	14 January 2004
Record date for interim dividend*	16 January 2004
Interim dividend paid	11 February 2004
Financial year end	31 March 2004
Full year results announced	May 2004
Annual General Meeting	July 2004
Final dividend paid	August 2004

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

Shareholder enquiries

Enquiries relating to administrative matters such as dividend and tax vouchers, dividend mandates, loss of share certificates and change of address should be addressed to the Company's registrars at Lloyds TSB Registrars, Registrar Department, The Causeway, Worthing, West Sussex BN99 6DA. Telephone 0870 600 3973. The registrars also provide an online service to enable you to access details of your shareholding. To view your details and a range of general information about holding shares, visit www.shareview.co.uk.

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