

# transforming travel

# Financial highlights

For the six months ended 30 September 2004

	2004	2003	%
Turnover (£m)	<b>1,207.3</b>	1,127.7	+7
Operating profit <sup>1</sup> (£m)	<b>84.0</b>	78.1	+8
Profit before taxation <sup>1</sup> (£m)	<b>62.1</b>	56.8	+9
Profit on ordinary activities before taxation (£m)	<b>50.2</b>	23.7	+112
Adjusted basic earnings per share (pence)	<b>10.6</b>	9.6	+10
Basic earnings per share (pence)	<b>8.8</b>	4.6	+91
Dividend per share (pence)	<b>4.125</b>	3.75	+10
EBITDA <sup>2</sup> (£m)	<b>131.4</b>	125.0	+5
Interest cover <sup>3</sup>	<b>6.0x</b>	5.9x	+2

<sup>1</sup>Before goodwill, rail bid costs, exceptional items and profit on disposal of fixed assets

<sup>2</sup>Operating profit<sup>1</sup> as defined plus depreciation

<sup>3</sup>Calculated as EBITDA<sup>2</sup> divided by net interest payable and similar charges before exceptional items

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## Chairman's statement

Safety is our highest priority. Buses and trains remain the safest methods of surface transport and we will strive to improve our performance wherever possible.

I am pleased to report an excellent set of results for the first half. Group turnover has increased by 7% to £1,207.3m and profit before tax, goodwill amortisation, rail bid costs and exceptional items has risen to £62.1m (2003: £56.8m), an increase of 9%. Cash generation has remained strong. EBITDA (Group operating profit\* plus depreciation) was £131.4m for the period (2003: £125.0m). Adjusted basic earnings per share (before goodwill amortisation, rail bid costs, exceptional items and property profits) increased by 10% to 10.6p (2003: 9.6p). In recognition of the Group's continuing strong cash generation the Board has recommended an increase in the interim dividend of 10% to 4.125p (2003: 3.75p). The dividend will be paid on 9 February 2005 to shareholders on the register on 14 January 2005. The Board is confident that this level of dividend growth is sustainable for the medium term.

On 1 April we commenced operation of First Great Western Link which operates suburban rail services from London Paddington. The integration of this franchise has been successful and is performing ahead of our expectations, positioning us well to bid for the Greater Western franchise next year. We were delighted to be awarded the ScotRail franchise during the period and I am pleased to report the successful commencement of services on 17 October 2004. We have also been shortlisted for the Intercity East Coast and Integrated Kent franchises.

Our North American businesses continue to perform well. We have an active acquisition pipeline and our

school bus business is on track to gain over 1,000 new buses by the year end. In First Services we made a strategic acquisition through which we gained entry to the large Federal services market, doubling the size of our services business.

We continue to see growth in our London bus business and outside London we are encouraged by growth in urban areas where we have been able to develop partnerships with local authorities to introduce bus priority measures.

I would like to take this opportunity to thank all employees for their continued hard work and commitment which has made these results possible, and to welcome new staff who have joined First in the UK and US during the period. I hope that the expansion of the Group's businesses will continue to create opportunities for both existing and new employees.

All of our businesses are strong cash generators with excellent opportunities for growth. While we continue to invest for growth we are also committed to increasing shareholder value through a programme of progressive dividend growth and where appropriate share repurchases.



**Martin Gilbert**

**Chairman**

2 November 2004

\*Operating profit referred to throughout this document refers to operating profit before goodwill amortisation, rail bid costs and exceptional items.

## Chief Executive's operating review

### Overview

#### Safety

The safety and security of our passengers and staff is at the forefront of everything we do and we continue to promote a culture of safety throughout our business. I am pleased to report that during the period we have again seen some positive trends in key safety indicators and we will strive to ensure that we build on these improvements.

#### Results

Turnover has increased to £1,207.3m (2003: £1,127.7m). Operating profit, before goodwill amortisation, rail bid costs, exceptional items and profits on disposal of fixed assets was £84.0m (2003: £78.1m).

The Group has generated £131.4m (2003: £125.0m) of EBITDA (operating profit as defined plus depreciation). We have invested £31.1m in the business through capital expenditure and the acquisition of new operations in the US.

#### North America

In North America the Group is the second largest operator of student transportation with some 18,000 school buses across the US and Canada. We operate the largest transit contracting and management business in North America and we have an expanding management and maintenance services division.

#### Results

In the six months to 30 September 2004 turnover from our three North American operations was £284.3m or \$514.6m (2003: £286.1m or \$460.9m). Operating profit for the same period was £14.7m or \$26.0m (2003: £18.0m or \$28.8m). Operating profit in our First Student operation was adversely affected by up to five less trading days in the period as a result of a late Labor Day in the calendar, which meant that the North Eastern and mid Atlantic regions of the US had a later school start. In addition the effect of hurricanes in states such as Florida, South Carolina and Louisiana resulted in a number of lost school days during September.

#### First Student

Our US school bus business has continued to grow strongly. As in previous years, the seasonal nature of this business, with the summer holidays being a period when we earn minimal revenue but still incur fixed costs,

means that first half results are not representative of the full year. We retained over 90% of our existing business that came up for renewal, a particularly pleasing result as this year we had a high level of school bus contracts up for renewal. We have made a good start to the new academic year which began in September, with contracts to operate 700 new buses gained through new business wins, acquisitions and organic growth. New business was won in the states of Massachusetts, California, Maine, New Jersey, Pennsylvania, Illinois, South Carolina, New York, Connecticut and Oregon. Contributions from in-fill acquisitions made in New Hampshire, New York and Vermont are also included in these results for the first time. In addition, we have an active pipeline of new business acquisitions for the remainder of this year and are on target to add over 1,000 buses to the business in the full year.

#### First Transit

US Dollar turnover increased by 12.8% and operating profit by 6%. We won new business to operate transit management contracts in the Philadelphia region and further contracts in Los Angeles. We were very pleased to retain the New York paratransit call centre contract during the period and to win two contracts for call centres in Portland, Oregon. Our strategy is to focus on fast growing call centre, paratransit, and public/private shuttle services markets where we can utilise our expertise and grow this side of the business.

#### First Services

This division, which provides a range of management and maintenance services, has had a very successful

first half with US Dollar turnover increasing by 34% and operating profit by 43%.

We were very pleased to retain all of our contracts that were up for renewal during the period. In addition we continued to grow through new business wins to provide fleet vehicle maintenance including one for the State of Virginia's Department of Transport.

In August we acquired SKE Support Services Inc, for a net cost of \$26m representing an EBITDA multiple of less than four times. This business manages and maintains over 13,000 vehicles everyday and has annualised revenues of around \$71m. SKE provides a range of services including logistics support, fleet services and telecommunications systems to the US Federal Government and private companies. This strategic acquisition gives the division entry to the growing US Federal market for outsourced services.

We are particularly pleased with the growth in First Services and expect to see an increasing contribution from this business going forward.

## UK Rail

The Rail division operates passenger and freight services in the UK. Passenger operations consist of First Great Western, First North Western, First TransPennine Express, First Great Western Link, Hull Trains and First ScotRail (from 17 October 2004). Freight services are operated by GB Railfreight.

## Results

Rail turnover during the period was £446.6m (2003: £395.4m). Operating profit was £34.3m (2003: £22.1m). This very strong performance is a result of improved service delivery and increased passenger volumes across all of our train operating companies.

## Current operations

Passenger income on First Great Western has grown strongly in the period with an increase of 12.1%. Operating performance has continued to improve with reliability reaching a moving annual average of 99.5% for the year to date, the highest level since before Hatfield, and punctuality 83.2%, the highest level for over three years. In terms of delays caused by the operator to its own services, First Great Western is the most improved Intercity train operator.

On 1 April we commenced operation of the First Great Western Link franchise which runs suburban rail

services from Paddington. Passenger income is running ahead of plan at 8.5% on the comparable period last year and operating performance is improving. In December we will launch an integrated timetable with First Great Western which will offer a 20% increase in peak time capacity on suburban services and improvements to long distance Intercity services to the West Country. Performance at First TransPennine Express, which commenced trading on 1 February 2004, has been encouraging, with passenger volumes running ahead of our bid model, due to increasing road congestion on the core Leeds to Manchester corridor. Passenger income increased by 11.5% on the comparable period last year. In December we will introduce the first phase of our timetable improvements followed by the introduction of new rolling stock in 2006.

On 17 October we took over the ScotRail franchise. The handover has gone very smoothly and we have already started on a programme of passenger improvements which will result in cleaner, more punctual rail services for Scotland. Our initial view is that passenger revenues are strong and we are optimistic that we can meet the challenging quality requirements of this franchise and exceed our bid model for profitability.

We have further strengthened our rail team with the appointment of John Curley to the newly created role of Infrastructure Director. John joins us from Network Rail where he was instrumental in turning around the performance of the rail network across the South West of England and South Wales. Using his experience of more than 25 years in the rail industry, in both train operations and infrastructure provision, he will develop infrastructure initiatives to enhance performance and customer benefits and work on the forthcoming franchise bids.

## Franchise bidding

We have been shortlisted for two very important franchises – Intercity East Coast (ICEC) and the Integrated Kent Franchise (IKF). Our final bid for ICEC will be submitted in early December this year and we expect to complete our bid for IKF in the new year. The Government has confirmed that the timetable for the award of these two franchises next year is on target. We believe that our excellent track record in running intercity and suburban railways puts us in a strong position to win these franchises.

## Chief Executive's operating review

We have already established a highly experienced team, with a proven record of delivery across the region, to work on the new Greater Western franchise which is due to start in 2006. Since the commencement of the Great Western franchise the number of trains operated each day has increased by 35% and the number of passenger journeys has increased by 54%. We have introduced a fleet of 70 new 125mph Adelante diesel units which have increased the capacity on our Bristol and South Wales services throughout the day to a half hourly frequency. Further improvements in both suburban and intercity services will be introduced in December 2004 with the addition of five extra High Speed Trains to the fleet, together with a new integrated timetable. A subsidy of over £50m per annum in 1996 will have been converted into a premium payable to the Government of over £10m per annum by the end of the franchise in 2006. Our aim is to bring consistently high quality services at affordable prices to customers across the region. We believe that our unrivalled knowledge and experience of working across the whole Greater Western region will place us at the forefront of bidding for this franchise.

### UK Bus

We are the largest bus operator in the UK with a fleet of some 9,300 buses, running more than 1 in 5 of all local bus services and carrying 2.8 million passengers every day.

### Results

For the six months to 30 September 2004 turnover increased by 7% to £473.1m (2003: £443.0m). Operating profit before the finance element of leasing costs was £45.4m (2003: £46.2m). These results were impacted by approximately £3m as a result of a strike in South Yorkshire which has now been settled. We are also focusing on service reliability and we have invested £3m in improvements to our engineering processes. We expect to see the benefit of this through improved vehicle reliability over the next few years. Operating margin would have been maintained before the impact of the industrial action and the additional investment in engineering. After these charges margins were 9.6% (2003: 10.4%).

During the period we restructured the UK Bus business by removing a layer of divisional management to create a greater focus on service delivery at the operating level and also, where appropriate, to create efficiencies through standardised operating procedures and centralised support activities.

### London

We have continued to see growth in our London bus operations. We have secured the site for a new depot facility at Dagenham which, together with our renewed facility at Rainham, will provide increased capacity and position us strongly for the anticipated population and employment growth in the Thames Gateway corridor. Similarly, we are well served in West London with our recently opened facility at Willesden Junction and our extended depot at Westbourne Park which will strengthen our competitive advantage to provide further bus services if the congestion charge is extended to the west.

### Outside London

Outside London in our urban bus operations, which comprise approximately 55% of UK Bus turnover, we have continued to see revenue growth in locations where we have been able to forge quality partnerships with local authorities. Passenger growth continues to be driven by a combination of marketing initiatives and partnerships with local authorities to develop bus priority measures. Our policy is to allocate capital investment to those locations where there is a clear commitment to develop bus services through active traffic management and car restraint.

New buses have been allocated to Quality Partnership routes in Leeds and Sheffield and further deliveries will be used to upgrade services in Bath, Bristol, Devon and Cornwall, Edinburgh and the Lothians, Glasgow, Greater Manchester and South Wales. In July we opened the fifth Park and Ride site in York, and we are already operating over 12,000 passenger journeys per week from this new site. We now carry two million passengers per annum in our Park and Ride schemes in York.

Patronage on 'Aircoach', our premium shuttle service between Dublin's city centre and the Airport, reached an all time high in September this year. During the period we launched further express services linking the Airport with Portlaoise, Cork and Belfast. We believe there will be further opportunities for expansion of bus services in the Irish Republic as the regulatory regime is liberalised.

### Costs

Driver recruitment, efficiency and retention remains a high priority within the Bus division. During the period we have introduced a number of initiatives at local level to address this important issue. In particular we are the first in our sector to recruit drivers and engineers from

an alternative labour market with approximately 80 drivers and engineers from Poland joining our Bus operations in the South West. This pilot has proved to be very successful and we anticipate further schemes of this nature.

### **Business development**

The Group continues to develop new ideas and initiatives to extend and enhance the services we provide.

In September we announced a new concept in passenger transport, called 'ftr', designed to offer a quality and frequency of service that will encourage motorists out of their cars. The key element of 'ftr' is the development of a route system with tram-like priorities, terminus points and information systems operated with an innovative articulated vehicle called 'Streetcar' which has been designed with input from existing and potential customers as well as drivers and engineers. 'ftr' will be trialled in Yorkshire and interest in the concept has already been expressed in Scotland and Wales.

In our Rail division we have invested in three driver simulators and a driver training academy to enhance driver training and ensure that key skills are developed and practiced in relation to everyday performance incidents. It is intended that further simulators will be purchased for First TransPennine Express and First ScotRail.

Our UK Bus and Rail divisions have invested in new technology to enable passengers to access journey information through both e-mail bulletins and mobile phones.

Our UK Yellow school bus initiative continues to attract considerable interest. We recently launched two further operations in Northampton and Carmarthenshire and we believe that with Government and local authority support there is significant potential for this business to expand.

On integrated transport we are a proven leader in delivering joined-up journeys in the West of England and Wales whether by train, bus or other modes. We participate in over 160 through-ticketing schemes in the region. It is intended that these successful initiatives will be extended throughout our other rail operations including First ScotRail in due course.

Our innovative timetable proposals for the integration of services from London Paddington were a key factor in the award of the First Great Western Link franchise, enabling us to provide a 20% increase in passenger capacity on the existing infrastructure and some faster journey times.

### **Group outlook**

The Group has very strong and predictable cash flows with approximately 50% of our revenues coming from contracted business. In recognition of this the Board has increased the interim dividend by 10% and is confident that this improved level of dividend growth is sustainable for the medium term. Going forward, we will continue to use the Group's strong free cash flows to grow our businesses in the UK and North America, increase dividends and, where appropriate, buy back shares and pay down debt. The second half of the year has started well and we expect to achieve our earnings targets for the full year.



**Moir Lockhead**  
Chief Executive

2 November 2004

## Finance Director's review

	6 months to 30 September 2004			6 months to 30 September 2003			Year to 31 March 2004		
	Turnover £m	Operating profit <sup>1</sup> £m	Operating margin <sup>1</sup> %	Turnover £m	Operating profit <sup>1</sup> £m	Operating margin <sup>1</sup> %	Turnover £m	Operating profit <sup>1</sup> £m	Operating margin <sup>1</sup> %
<b>Divisional results</b>									
UK Bus	473.1	45.4	9.6	443.0	46.2	10.4	906.2	111.2	12.3
UK Rail	446.6	34.3	7.7	395.4	22.1	5.6	945.0	49.8	5.3
North America	284.3	14.7	5.2	286.1	18.0	6.3	620.7	63.5	10.2
Financing element of leases <sup>2</sup>	–	(4.5)	–	–	(4.1)	–	–	(8.3)	–
Other <sup>3</sup>	3.3	(5.9)	–	3.2	(4.1)	–	7.1	(12.1)	–
<b>Total Group</b>	<b>1,207.3</b>	<b>84.0</b>	<b>7.0</b>	<b>1,127.7</b>	<b>78.1</b>	<b>6.9</b>	<b>2,479.0</b>	<b>204.1</b>	<b>8.2</b>

<sup>1</sup>Before goodwill amortisation, rail bid costs, exceptional items and profit on disposal of fixed assets

<sup>2</sup>Financing element of UK PCV operating lease costs

<sup>3</sup>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, rail bid costs and exceptional items

### Overview

The Group has a portfolio of businesses in the UK and North America which generate strong and predictable revenue streams with 50% of turnover arising from contracts with government and statutory bodies in the UK and North America. The Group's cash flows are used to increase shareholder value by investing for growth, increasing dividends and, where appropriate, repurchasing shares. The results for the six months to 30 September 2004 are particularly encouraging with growth in adjusted basic earnings per share (EPS) in excess of 10%. The interim dividend has been set at 4.125p per share, an increase of 10% and this rate of dividend increase has been adopted as the medium-term dividend policy. In addition during the first half of 2004 we have returned £11.8m to shareholders through share repurchases and, despite an expected working capital outflow of £43m on the loss of the Great Eastern Railways franchise, have achieved a year on year reduction in net debt of £16.9m.

### Results

Turnover was £1,207.3m (2003: £1,127.7m), an increase of 7.1%. Operating profit was £84.0m (2003: £78.1m), an increase of 7.6%. The Rail division performed extremely well as a result of volume growth. North American profits were down due to a combination of an anticipated lower level of contracted school operating days, adverse foreign exchange movements

and other one-off items. UK Bus produced a creditable performance with improved results before the impact of a strike in South Yorkshire.

UK Rail turnover was £446.6m (six months to 30 September 2003: £395.4m). Operating profit was £34.3m (six months to 30 September 2003: £22.1m). Inclusion of the operating results for a full six periods of TransPennine Express and FGW Link franchises more than made up for the loss of the Great Eastern franchise. Passenger revenue growth in First Great Western (FGW) was 12.1% during the period compared to an industry average of 6.0% enabling FGW to deliver improved results despite a further reduction in subsidy of £4.6m. As a result of changes to our rail franchise portfolio, the performance of our rail operations has changed from being second half biased to a more even spread of turnover and profits throughout the year. The Group was awarded the ScotRail franchise during the period and commenced operating this franchise during October 2004. In addition we have been shortlisted for the Intercity East Coast and Integrated Kent franchises.

North American turnover was £284.3m or \$514.6m (six months to 30 September 2003: £286.1m or \$460.9m). Operating profit was £14.7m or \$26.0m (six months to 30 September 2003: £18.0m or \$28.8m). During the period, both First Transit and First Vehicle delivered improved profits, however profits in First Student were

down due to the timing of school holidays which resulted in up to five fewer operating days in the period compared to the first half of last year. The revenue days lost in the first half of 2004 will be recovered during May and June 2005. The results were also impacted by hurricanes, fuel costs and one-off dilapidations.

UK Bus turnover was £473.1m (six months to 30 September 2003: £443.0m), an increase of 6.8%. Operating profit was £45.4m (six months to 30 September 2003: £46.2m), a reduction of 1.7%. In our London division we were successful in winning contracts for a net 62 new buses and revenues have increased by 15% when compared to the first half of last year. UK Bus results were hit by a three-week strike in South Yorkshire that had an impact of approximately £3m. The period also saw a significant investment in engineering and it is anticipated that this will lead to improved reliability and reduced lost mileage.

#### **Property**

Property gains on disposal of £3.7m (six months to 30 September 2003: £6.1m) were realised during the period as part of the Group's ongoing programme of disposing of older UK Bus depots in high value city centre locations and re-investing in out of town brownfield sites with more modern and efficient facilities.

#### **Goodwill**

The goodwill amortisation charge for the period was £12.9m (six months to 30 September 2003: £13.0m) with favourable foreign exchange movements of £1.0m offsetting £0.9m of incremental goodwill on acquisitions made either during the period or the preceding financial year.

#### **UK Rail bid costs and other exceptional items**

UK Rail bid costs of £2.7m (six months to 30 September 2003: £3.1m) were incurred during the period. There were no other exceptional costs during the period (2003: £4.4m).

#### **Interest payable and similar charges**

The net interest charge was £21.9m (six months to 30 September 2003: £21.3m) with the increase of £0.6m principally due to higher interest rates. The net interest charge is covered 6.0 times (six months to 30 September 2003: 5.9 times) by earnings before interest, taxation, depreciation and amortisation (EBITDA).

There was no exceptional interest charge during the period whereas in the period to 30 September 2003 there was an exceptional charge of £18.7m in relation to the cancellation of certain interest rate swaps.

#### **Taxation**

The taxation charge for the period, on profit before tax after exceptional items, was £12.3m (six months to 30 September 2003: £4.6m). The increase in the taxation charge is due to a higher operating profit and a lower level of exceptional charges (including interest) in the first half of this year. No tax has been provided on property gains as it is not envisaged that tax will become payable on these gains. The taxation charge for the half year has been based on the estimated effective rate for the full year of 27.5% (six months to September 2003: 30.0%) on profit before goodwill and exceptional items. The reduction in the effective tax rate reflects favourable settlements achieved during the period and we anticipate that this benefit will extend into the next financial year. The actual cash cost of taxation to the Group is estimated to be 16% of profit before tax after exceptional items for the full year (year to 31 March 2004: 17%).

#### **Dividends**

The interim dividend of 4.125p (six months to 30 September 2003: 3.75p) per ordinary share represents an increase of 10.0%. The interim dividend will be paid on 9 February 2005 to shareholders on the register of members at the close of business on 14 January 2005.

#### **EPS**

The adjusted basic EPS, before goodwill amortisation, rail bid costs, exceptional items and profit on disposal of fixed assets, was 10.6p (six months to 30 September 2003: 9.6p), an increase of 10.4%. Basic EPS was 8.8p (six months to 30 September 2003: 4.6p) with the increase due to a higher operating profit and a lower level of exceptional charges (including interest) in the first half of this year.

## Finance Director's review

EBITDA by division	6 months to 30 September 2004			6 months to 30 September 2003			Year to 31 March 2004		
	Turnover £m	EBITDA £m	EBITDA %	Turnover £m	EBITDA £m	EBITDA %	Turnover £m	EBITDA £m	EBITDA %
UK Bus	473.1	72.2	15.3	443.0	71.8	16.2	906.2	163.4	18.0
UK Rail	446.6	36.0	8.1	395.4	24.9	6.3	945.0	55.2	5.8
North America	284.3	32.4	11.4	286.1	35.9	12.5	620.7	107.1	17.3
Financing element of leases	–	(4.5)	–	–	(4.1)	–	–	(8.3)	–
Other	3.3	(4.7)	–	3.2	(3.5)	–	7.1	(10.3)	–
<b>Total Group</b>	<b>1,207.3</b>	<b>131.4</b>	<b>10.9</b>	<b>1,127.7</b>	<b>125.0</b>	<b>11.1</b>	<b>2,479.0</b>	<b>307.1</b>	<b>12.4</b>

### Cash flow

The Group's businesses continue to generate strong operating profits which are converted into cash. EBITDA for the period was £131.4m (six months to 30 September 2003: £125.0m and year to 31 March 2004: £307.1m). EBITDA by division is set out above.

During the period there was a working capital outflow of £91.4m of which the largest element was the working capital outflow of £43m on the loss of the Great Eastern franchise. The Group anticipates an overall working capital inflow of a similar magnitude to the Great Eastern outflow in the second half of the year as a result of winning the ScotRail franchise.

### Capital expenditure and acquisitions

Capital expenditure, as set out in note 7 to the interim financial information, was £47.3m (six months to 30 September 2003: £81.8m and year to 31 March 2004: £164.7m). Capital expenditure was predominantly in North American operations of £26.1m and UK Bus operations of £13.9m.

In August 2004 First Services acquired SKE Support Services Inc for a net cash consideration of \$26.0m. Provisional goodwill arising on this acquisition amounted to \$17.4m.

In addition the North American division acquired US School Bus businesses for a total consideration of \$4.5m. Provisional goodwill arising amounted to \$3.3m.

Net investment in capital expenditure and acquisitions was £31.1m (six months to 30 September 2003: £93.5m), with the reduction principally due to the timing of new bus purchases in the UK and North America, higher property receipts and a lower level of acquisitions, in the first half of this year compared to the first half of last year.

### Balance sheet and net assets

Net assets increased by £9.5m over the period principally reflecting retained earnings for the period of £18.8m, net movement in minority interest (net of dividends paid to minority shareholders) for the period of £1.9m and favourable foreign exchange movements of £1.3m partly offset by share repurchases of £12.9m.

### Shares in issue

During the period 4.6m shares were repurchased for a total consideration of £12.9m (see note 13). Of these 4.2m shares were cancelled during the period whereas 0.4m shares were held as treasury shares at period end. As at 30 September 2004 there were 398.8m (30 September 2003: 413.4m and 31 March 2004: 403.0m) shares in issue. The weighted average number of shares in issue for the purpose of EPS calculations (excluding own shares held in trust for employees and treasury shares) was 400.9m (six months to 30 September 2003: 413.2m and year to 31 March 2004: 410.0m).

<b>Analysis of net debt</b>	Fixed £m	Variable £m	Total £m
Cash	–	19.8	19.8
Rail ring-fenced cash and deposits	–	61.7	61.7
Sterling bond (2013: 6.875%)	(295.8)	–	(295.8)
Bond (2019: 6.125%)*	(240.4)	–	(240.4)
Sterling bank loans and overdrafts	–	(156.1)	(156.1)
US Dollar bank loans and overdrafts	–	(13.9)	(13.9)
Canadian Dollar bank loans and overdrafts	–	(12.0)	(12.0)
Euro bank loans and overdrafts	–	(9.3)	(9.3)
HP and finance leases	(12.7)	(12.9)	(25.6)
Loan notes	(8.7)	(12.3)	(21.0)
Interest rate swaps, net	18.4	(18.4)	–
<b>Total</b>	<b>(539.2)</b>	<b>(153.4)</b>	<b>(692.6)</b>

\*The 2019 bond was swapped to floating rate US Dollars, and is shown net of arrangement costs and foreign exchange gains on translation to Sterling at period end.

### Net debt

The Group's net debt at 30 September 2004 was £692.6m and was comprised as above.

### Foreign exchange

The results of the North American businesses have been translated at an average rate of £1:\$1.82 (six months to 30 September 2003: £1:\$1.62 and year to 31 March 2004: £1:\$1.69). The period end rate was £1:\$1.80 (30 September 2003: £1:\$1.66 and 31 March 2004: £1:\$1.81).

### Commodity price risk

In the UK we remain insulated from the recent crude oil price fluctuations this year through our fully hedged position and we have hedges that protect 80% of our requirements in North America. Looking forward we expect to achieve 70% coverage in the UK at approximately \$32 per barrel for 2005/06. In North America we already have 70% of our requirement for 2005/06 covered at an average price of \$28 per barrel. We will continue to monitor the market seeking opportunities to increase our cover to 100% for 2005/06.

### International Financial Reporting Standards (IFRS)

The Group has made significant progress in the conversion to IFRS and will report under IFRS for the first time when we report our interim results for financial year 2005/06.

### Accounting policies

The Group has adopted UITF 38 'Accounting for ESOP Trusts'. Investments in own shares are now deducted from shareholders' funds whereas previously such investments were treated as fixed assets. Further details are set out in note 2 to the interim financial information.

The Group has continued to account for pension costs on a SSAP 24 basis and will continue to do so until the adoption of IAS 19 in financial year 2005/06.



**Dean Finch**  
Finance Director  
2 November 2004

## Consolidated profit and loss account

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**Turnover**

Continuing operations

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**Operating profit**

Continuing operations

Group operating profit before goodwill amortisation, rail bid costs and exceptional items

Goodwill amortisation

Rail bid costs

Other exceptional items

Operating profit

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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**

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**Adjusted basic earnings per share**

**Adjusted cash earnings per share**

**Basic earnings per share**

**Diluted earnings per share**

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Notes	Unaudited before goodwill amortisation and rail bid costs 6 months to 30 September 2004 £m	Unaudited goodwill amortisation and rail bid costs 6 months to 30 September 2004 £m	Unaudited total 6 months to 30 September 2004 £m	Unaudited before goodwill amortisation, rail bid costs and exceptional items 6 months to 30 September 2003 £m	Unaudited goodwill amortisation, rail bid costs and exceptional items 6 months to 30 September 2003 £m	Unaudited total 6 months to 30 September 2003 £m	Audited year to 31 March 2004 £m
	<b>1,207.3</b>	<b>-</b>	<b>1,207.3</b>	1,127.7	-	1,127.7	2,479.0
	<b>84.0</b>	<b>(15.6)</b>	<b>68.4</b>	78.1	(20.5)	57.6	164.7
	<b>84.0</b>	<b>-</b>	<b>84.0</b>	78.1	-	78.1	204.1
	<b>-</b>	<b>(12.9)</b>	<b>(12.9)</b>	-	(13.0)	(13.0)	(25.9)
	<b>-</b>	<b>(2.7)</b>	<b>(2.7)</b>	-	(3.1)	(3.1)	(5.9)
	<b>-</b>	<b>-</b>	<b>-</b>	-	(4.4)	(4.4)	(7.6)
	<b>84.0</b>	<b>(15.6)</b>	<b>68.4</b>	78.1	(20.5)	57.6	164.7
	<b>-</b>	<b>3.7</b>	<b>3.7</b>	-	6.1	6.1	19.6
	<b>84.0</b>	<b>(11.9)</b>	<b>72.1</b>	78.1	(14.4)	63.7	184.3
	<b>(21.9)</b>	<b>-</b>	<b>(21.9)</b>	(21.3)	(18.7)	(40.0)	(61.5)
	<b>62.1</b>	<b>(11.9)</b>	<b>50.2</b>	56.8	(33.1)	23.7	122.8
3	<b>(17.1)</b>	<b>4.8</b>	<b>(12.3)</b>	(17.0)	12.4	(4.6)	(30.6)
	<b>45.0</b>	<b>(7.1)</b>	<b>37.9</b>	39.8	(20.7)	19.1	92.2
	<b>(2.7)</b>	<b>-</b>	<b>(2.7)</b>	-	-	-	(0.9)
	<b>42.3</b>	<b>(7.1)</b>	<b>35.2</b>	39.8	(20.7)	19.1	91.3
4	<b>(16.4)</b>	<b>-</b>	<b>(16.4)</b>	(15.5)	-	(15.5)	(47.3)
13	<b>25.9</b>	<b>(7.1)</b>	<b>18.8</b>	24.3	(20.7)	3.6	44.0
5			<b>10.6p</b>			9.6p	27.3p
5			<b>22.4p</b>			21.0p	52.4p
5			<b>8.8p</b>			4.6p	22.3p
5			<b>8.7p</b>			4.6p	22.2p

## Consolidated balance sheet

	Notes	Unaudited 30 September 2004 £m	Unaudited 30 September 2003 (restated) £m	Audited 31 March 2004 (restated) £m
<b>Assets employed:</b>				
<b>Fixed assets</b>				
Goodwill	6	461.3	486.4	461.2
Tangible fixed assets	7	795.6	803.9	797.6
		<b>1,256.9</b>	1,290.3	1,258.8
<b>Current assets</b>				
Stocks		40.8	31.8	35.1
Debtors	8	438.6	403.1	394.7
Investments	9	5.1	45.8	30.3
Cash at bank and in hand		76.4	27.6	94.9
		<b>560.9</b>	508.3	555.0
<b>Creditors: amounts falling due within one year</b>	10	<b>(590.5)</b>	(595.8)	(647.9)
<b>Net current (liabilities)/assets</b>				
Amounts due within one year		<b>(84.2)</b>	(133.4)	(143.0)
Amounts due after more than one year	8	<b>54.6</b>	45.9	50.1
<b>Net current liabilities</b>		<b>(29.6)</b>	(87.5)	(92.9)
<b>Total assets less current liabilities</b>		<b>1,227.3</b>	1,202.8	1,165.9
<b>Creditors: amounts falling due after more than one year</b>	10	<b>(739.5)</b>	(695.7)	(682.8)
<b>Provisions for liabilities and charges</b>	11	<b>(123.3)</b>	(124.7)	(128.1)
		<b>364.5</b>	382.4	355.0
<b>Financed by:</b>				
<b>Capital and reserves</b>				
Called up share capital	12	19.9	20.7	20.1
Share premium account	13	238.8	238.8	238.8
Revaluation reserve	13	1.8	3.5	3.4
Other reserves	13	4.6	3.8	4.4
Profit and loss account	13	95.4	113.9	86.2
<b>Equity shareholders' funds</b>		<b>360.5</b>	380.7	352.9
<b>Equity minority interests</b>		<b>4.0</b>	1.7	2.1
		<b>364.5</b>	382.4	355.0

## Consolidated cash flow statement

	Notes	Unaudited 6 months to 30 September 2004 £m	Unaudited 6 months to 30 September 2003 £m	Audited year to 31 March 2004 £m
<b>Net cash inflow from operating activities</b>	14(a)	<b>37.3</b>	92.6	312.3
<b>Returns on investments and servicing of finance</b>	14(b)	<b>(26.1)</b>	(52.6)	(65.2)
<b>Taxation</b>				
Corporation tax received/(paid)		<b>3.0</b>	(15.0)	(23.7)
<b>Capital expenditure and financial investment</b>	14(c)	<b>(12.5)</b>	(64.6)	(147.3)
<b>Acquisitions and disposals</b>	14(d)	<b>(18.6)</b>	(28.9)	(49.7)
<b>Equity dividends paid</b>		<b>(31.5)</b>	(30.6)	(45.9)
Cash outflow before use of liquid resources and financing		<b>(48.4)</b>	(99.1)	(19.5)
<b>Management of liquid resources</b>				
(Decrease)/increase in liquid bank deposits		<b>25.2</b>	(0.1)	15.4
<b>Financing</b>	14(e)	<b>37.5</b>	77.9	46.2
<b>Increase/(decrease) in cash in period</b>		<b>14.3</b>	(21.3)	42.1

## Reconciliation of net cash flows to movements in net debt

	Notes	Unaudited 6 months to 30 September 2004 £m	Unaudited 6 months to 30 September 2003 £m	Audited year to 31 March 2004 £m
Increase/(decrease) in cash in period		<b>14.3</b>	(21.3)	42.1
Cash inflow from increase in debt and HP contract and finance lease financing		<b>(49.6)</b>	(78.3)	(75.4)
Movement in current asset investments		<b>(25.2)</b>	0.1	(15.4)
Fees on issue of Bond and loan facility		-	-	1.3
Amortisation of debt issuance fees		<b>(0.4)</b>	(0.4)	(0.8)
Foreign exchange differences		<b>(1.0)</b>	14.8	41.9
Movement in net debt in period		<b>(61.9)</b>	(85.1)	(6.3)
Net debt at beginning of period	15	<b>(630.7)</b>	(624.4)	(624.4)
Net debt at end of period	15	<b>(692.6)</b>	(709.5)	(630.7)

## Consolidated statement of total recognised gains and losses

	Unaudited 6 months to 30 September 2004 £m	Unaudited 6 months to 30 September 2003 £m	Audited year to 31 March 2004 £m
Profit for the financial period	35.2	19.1	91.3
Foreign exchange differences	1.3	(24.1)	(63.0)
Total recognised gains/(losses) for the period	<b>36.5</b>	(5.0)	28.3
Prior period adjustment on adoption of UITF 38	<b>(0.6)</b>		
Total recognised gains since last annual report	<b>35.9</b>		

## Reconciliation of movements in shareholders' funds

	Unaudited 6 months to 30 September 2004 £m	Unaudited 6 months to 30 September (restated) 2003 £m	Audited year to 31 March (restated) 2004 £m
Profit for the financial period	35.2	19.1	91.3
Dividends	<b>(16.4)</b>	(15.5)	(47.3)
	<b>18.8</b>	3.6	44.0
Own shares purchased and cancelled	<b>(11.8)</b>	–	(29.2)
Movement in EBT, QUEST and treasury shares during the period	<b>(0.7)</b>	0.2	0.1
Foreign exchange differences	1.3	(24.1)	(63.0)
Net addition to/(reduction in) shareholders' funds	<b>7.6</b>	(20.3)	(48.1)
Shareholders' funds at beginning of period	<b>352.9</b>	401.0	401.0
Shareholders' funds at end of period	<b>360.5</b>	380.7	352.9

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 2004 include the results of the rail businesses for the period ended 18 September 2004 and the results of the other businesses for the 26 weeks ended 25 September 2004.

These results are unaudited but have been reviewed by the auditors, whose review report is given on page 24. The comparative figures for the six months to 30 September 2003 are unaudited and are derived from the interim report for the six months ended 30 September 2003, which was also reviewed by the auditors.

The comparative figures for the year to 31 March 2004 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.

The comparative figures have been restated for the adoption of UITF 38 as explained in note 2.

This interim report will be sent to all shareholders in November 2004 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 2 November 2004.

## 2 Principal accounting policies

The results for the six months ended 30 September 2004 have been prepared using the same accounting policies as were used in the preparation of the annual report for the year ended 31 March 2004 except as set out below.

UITF 38 'Accounting for ESOP Trusts' has been adopted. Investments in own shares are now deducted from shareholders' funds whereas previously such investments were treated as assets. The impact of this restatement is to reduce shareholders' funds at 30 September 2003 by £0.5m and to reduce shareholders' funds at 31 March 2004 by £0.6m.

	<b>6 months to 30 September 2004 £m</b>	6 months to 30 September 2003 £m	Year to 31 March 2004 £m
<b>3 Tax on profit on ordinary activities</b>			
Corporation tax	<b>10.0</b>	1.9	21.3
Deferred tax	<b>2.3</b>	2.7	9.3
	<b>12.3</b>	4.6	30.6

## Notes to the interim financial information

<b>4 Dividends</b>	<b>6 months to 30 September 2004 £m</b>	6 months to 30 September 2003 £m	Year to 31 March 2004 £m
Ordinary shares of 5p each			
– Interim proposed	<b>16.4</b>	15.5	15.5
– Final paid	<b>–</b>	–	31.8
	<b>16.4</b>	15.5	47.3

The interim dividend of 4.125p per ordinary share will be paid on 9 February 2005 to shareholders on the register of members at the close of business on 14 January 2005.

### 5 Earnings per share (EPS)

Basic EPS is based on earnings of £35.2m (six months to 30 September 2003: £19.1m and year to 31 March 2004: £91.3m) and on a weighted average number of ordinary shares of 400.9m (six months to 30 September 2003: 413.2m and year to 31 March 2004: 410.0m) 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 403.7m (six months to 30 September 2003: 415.7m and year to 31 March 2004: 411.5m). 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:

	<b>6 months to 30 September 2004 £m</b>	<b>Earnings per share (p)</b>
Profit for basic EPS calculation	<b>35.2</b>	<b>8.8</b>
Goodwill amortisation	<b>12.9</b>	<b>3.2</b>
Rail bid costs	<b>2.7</b>	<b>0.7</b>
Profit on disposal of fixed assets	<b>(3.7)</b>	<b>(0.9)</b>
Taxation effect of adjustments	<b>(4.8)</b>	<b>(1.2)</b>
Profit for adjusted basic EPS calculation	<b>42.3</b>	<b>10.6</b>
Depreciation <sup>1</sup>	<b>47.3</b>	<b>11.8</b>
Profit for adjusted cash EPS calculation	<b>89.6</b>	<b>22.4</b>

<sup>1</sup>Depreciation charge of £47.4m per note 7 less £0.1m of depreciation attributable to equity minority interests.

**5 Earnings per share** continued

	6 months to 30 September 2003	
	€m	Earnings per share (p)
Profit for basic EPS calculation	19.1	4.6
Goodwill amortisation	13.0	3.1
Rail bid costs	3.1	0.7
Other exceptional items	4.4	1.1
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

  

	Year to 31 March 2004	
	€m	Earnings per share (p)
Profit for basic EPS calculation	91.3	22.3
Goodwill amortisation	25.9	6.3
Rail bid costs	5.9	1.4
Other exceptional items	7.6	1.9
Exceptional interest rate charge	18.7	4.6
Profit on disposal of fixed assets	(19.6)	(4.8)
Taxation effect of adjustments	(17.8)	(4.4)
Profit for adjusted basic EPS calculation	112.0	27.3
Depreciation	103.0	25.1
Profit for adjusted cash EPS calculation	215.0	52.4

## Notes to the interim financial information

<b>6 Goodwill</b>	<b>£m</b>
<b>Cost</b>	
At 1 April 2004	562.6
Additions	11.4
Exchange rate differences	2.1
<b>At 30 September 2004</b>	<b>576.1</b>
<b>Amortisation</b>	
At 1 April 2004	101.4
Charge for the period	12.9
Exchange rate differences	0.5
<b>At 30 September 2004</b>	<b>114.8</b>
<b>Net book value</b>	
<b>At 30 September 2004</b>	<b>461.3</b>
At 31 March 2004	461.2
At 30 September 2003	486.4

<b>7 Tangible fixed assets</b>	<b>Land and buildings £m</b>	<b>Passenger carrying vehicle fleet £m</b>	<b>Other plant and equipment £m</b>	<b>Total £m</b>
<b>Cost or valuation</b>				
At 1 April 2004	141.5	1,174.0	154.6	1,470.1
Subsidiary undertakings and businesses acquired	–	0.8	1.9	2.7
Additions	4.3	35.5	7.5	47.3
Disposals	(3.5)	(10.1)	(3.4)	(17.0)
Exchange rate differences	0.2	1.7	0.2	2.1
<b>At 30 September 2004</b>	<b>142.5</b>	<b>1,201.9</b>	<b>160.8</b>	<b>1,505.2</b>
<b>Depreciation</b>				
At 1 April 2004	21.5	548.5	102.5	672.5
Subsidiary undertakings and businesses acquired	–	–	0.1	0.1
Charge for period	1.6	38.4	7.4	47.4
Disposals	(0.5)	(8.2)	(2.3)	(11.0)
Exchange rate differences	–	0.6	–	0.6
<b>At 30 September 2004</b>	<b>22.6</b>	<b>579.3</b>	<b>107.7</b>	<b>709.6</b>
<b>Net book value</b>				
<b>At 30 September 2004</b>	<b>119.9</b>	<b>622.6</b>	<b>53.1</b>	<b>795.6</b>
At 31 March 2004	120.0	625.5	52.1	797.6
At 30 September 2003	111.6	640.9	51.4	803.9

	30 September 2004 £m	30 September 2003 £m	31 March 2004 £m
<b>8 Debtors</b>			
<b>Amounts due within one year</b>			
Trade debtors	262.6	219.8	233.9
Other debtors	52.3	64.4	52.7
Pension funds' prepayments	10.2	10.2	10.4
Other prepayments and accrued income	58.9	62.8	47.6
	<b>384.0</b>	357.2	344.6
<b>Amounts due after more than one year</b>			
Pension funds' prepayments	53.3	44.6	48.7
Other prepayments and accrued income	1.3	1.3	1.4
	<b>54.6</b>	45.9	50.1
	<b>438.6</b>	403.1	394.7
<b>9 Current asset investments</b>			
Bank deposits	5.1	45.8	30.3
<b>10 Creditors</b>			
<b>Amounts falling due within one year</b>			
Bank loans and overdrafts	20.0	60.6	52.0
Obligations under hire purchase contracts and finance leases	14.3	26.3	20.8
Loan notes	0.3	0.3	0.3
Trade creditors	128.2	94.5	156.4
Corporation tax	38.3	14.3	25.1
Other tax and social security	23.0	24.7	21.2
Other creditors	37.8	53.1	15.9
Pension funds' creditors	9.3	12.3	11.7
Accruals and deferred income	291.7	256.9	271.8
Season ticket deferred income	11.2	36.9	40.3
Proposed dividends	16.4	15.9	32.4
	<b>590.5</b>	595.8	647.9

## Notes to the interim financial information

<b>10 Creditors</b> continued	<b>30 September 2004 £m</b>	30 September 2003 £m	31 March 2004 £m
<b>Amounts falling due after more than one year</b>			
Bank loans			
Due in more than two years but not more than five years	<b>171.3</b>	363.2	110.6
Obligations under hire purchase contracts and finance leases			
Due in more than one year but not more than two years	<b>3.6</b>	12.8	7.7
Due in more than two years but not more than five years	<b>3.4</b>	3.3	3.6
Due in more than five years	<b>4.3</b>	–	4.8
Loan notes			
Due in more than one year but not more than two years	<b>20.7</b>	21.1	21.0
Bonds due in more than five years			
£300m Sterling bond – 6.875% 2013	<b>295.8</b>	295.3	295.5
£250m bond – 6.125% 2019	<b>240.4</b>	–	239.6
	<b>739.5</b>	695.7	682.8

### 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 £20.2m (30 September 2003: £20.5m and 31 March 2004: £20.5m) are supported by bank guarantees.

### Bonds

The £300m bond is repayable in 2013 and is shown net of £4.2m (30 September 2003: £4.7m and 31 March 2004: £4.5m) of issue related costs which are being amortised over the term of the bond.

The £250m bond is repayable in 2019 and was swapped to US Dollars on a floating six month LIBOR basis. The Sterling equivalent shown is net of a foreign exchange gain of £8.3m (30 September 2003: £nil and 31 March 2004: gain of £9.1m) on retranslation at period end and is also shown net of £1.3m (30 September 2003: £nil and 31 March 2004: £1.3m) of issue related costs which are being amortised over the term of the bond.

<b>11 Provisions for liabilities and charges</b>	<b>Deferred tax £m</b>	<b>Insurance claims<sup>1</sup> £m</b>	<b>Pensions £m</b>	<b>Total £m</b>
At 1 April 2004	96.4	25.8	5.9	128.1
Provided in the period	2.3	10.9	–	13.2
Utilised in the period	–	(17.3)	–	(17.3)
Subsidiary undertakings acquired	(2.2)	–	–	(2.2)
Notional interest	–	1.3	–	1.3
Exchange rate differences	0.1	0.1	–	0.2
<b>At 30 September 2004</b>	<b>96.6</b>	<b>20.8</b>	<b>5.9</b>	<b>123.3</b>

<sup>1</sup>Insurance claims accruals due within one year at 30 September 2004 amounted to £42.8m (31 March 2004: £36.1m) and are included in 'accruals and deferred income' within note 10.

<b>12 Called up share capital</b>	<b>30 September 2004 £m</b>	<b>30 September 2003 £m</b>	<b>31 March 2004 £m</b>
<b>Authorised:</b>			
Ordinary shares of 5p each	<b>30.0</b>	30.0	30.0
<b>Allotted, called up and fully paid:</b>			
Ordinary shares of 5p each	<b>19.9</b>	20.7	20.1

The number of ordinary shares of 5p each in issue, excluding treasury shares, at the end of the period was 398.4m (30 September 2003: 413.4m and 31 March 2004: 403.0m).

<b>13 Reserves</b>	<b>Share premium account £m</b>	<b>Revaluation reserve £m</b>	<b>Profit and loss account £m</b>
At 1 April 2004 as previously reported	238.8	3.4	86.8
Prior period adjustment on adoption of UITF 38	–	–	(0.6)
At 1 April 2004 as restated	238.8	3.4	86.2
Cancellation of shares	–	–	(11.8)
Retained profit for the financial period	–	–	18.8
Movement in EBT, QUEST and treasury shares during the period	–	–	(0.7)
Transfer of realised revaluation reserve	–	(1.6)	1.6
Foreign exchange differences	–	–	1.3
<b>At 30 September 2004</b>	<b>238.8</b>	<b>1.8</b>	<b>95.4</b>
	<b>Capital redemption reserve £m</b>	<b>Capital reserve £m</b>	<b>Total other reserves £m</b>
At 1 April 2004	1.7	2.7	4.4
Cancellation of shares	0.2	–	0.2
<b>At 30 September 2004</b>	<b>1.9</b>	<b>2.7</b>	<b>4.6</b>

## Notes to the interim financial information

### 13 Reserves continued

Between 14 May 2004 and 24 September 2004, 4,200,000 shares were repurchased at a total cost of £11.8m and cancelled. In addition 400,000 shares were repurchased at a total cost of £1.1m and are being held as treasury shares at 30 September 2004.

	6 months to 30 September 2004 £m	6 months to 30 September 2003 £m	Year to 31 March 2004 £m
<b>14 Notes to the consolidated cash flow statement</b>			
<b>(a) Reconciliation of operating profit to net cash inflow from operations</b>			
Group operating profit	68.4	57.6	164.7
Depreciation charges	47.4	46.9	103.0
Goodwill amortisation	12.9	13.0	25.9
Loss on sale of non-property fixed assets	-	0.2	1.3
Increase in stocks	(0.7)	(0.1)	(1.3)
Increase in debtors	(47.4)	(42.6)	(49.4)
(Decrease)/increase in creditors and provisions	(43.3)	17.6	68.1
<b>Net cash inflow from operating activities</b>	<b>37.3</b>	<b>92.6</b>	<b>312.3</b>
<b>(b) Returns on investments and servicing of finance</b>			
Interest received	1.1	0.9	2.4
Interest paid	(25.1)	(32.9)	(44.3)
Cancellation of interest rate swaps	-	(18.7)	(18.7)
Interest element of hire purchase contracts and finance lease payments	(1.3)	(1.9)	(3.3)
Dividends paid to minority shareholders	(0.8)	-	-
Fees on issue of bond and loan facility	-	-	(1.3)
<b>Net cash outflow from returns on investments and servicing of finance</b>	<b>(26.1)</b>	<b>(52.6)</b>	<b>(65.2)</b>
<b>(c) Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets	(30.1)	(69.8)	(179.8)
Sale of fixed asset properties	16.9	2.5	25.4
Sale of other tangible fixed assets	0.7	2.7	7.1
<b>Net cash outflow from capital expenditure and financial investment</b>	<b>(12.5)</b>	<b>(64.6)</b>	<b>(147.3)</b>

<b>14 Notes to the consolidated cash flow statement</b> continued	<b>6 months to 30 September 2004 £m</b>	6 months to 30 September 2003 £m	Year to 31 March 2004 £m	
<b>(d) Acquisitions and disposals</b>				
Purchase of subsidiary undertakings	<b>(18.8)</b>	(21.9)	(33.7)	
Purchase of businesses	<b>(2.6)</b>	(17.4)	(26.4)	
Net cash acquired with purchase of subsidiary undertakings and businesses	<b>2.8</b>	10.4	10.4	
<b>Net cash outflow from acquisitions and disposals</b>	<b>(18.6)</b>	(28.9)	(49.7)	
<b>(e) Financing</b>				
Own shares repurchased	<b>(11.8)</b>	–	(29.2)	
Bond 2019	–	–	250.0	
Shares purchased by Employee Benefit Trust	<b>(0.3)</b>	(0.5)	–	
New bank loans	<b>61.2</b>	98.4	–	
Repayments of amounts borrowed:				
– Bank loans	–	–	(149.2)	
– Loan notes	<b>(0.3)</b>	(0.5)	(0.6)	
New hire purchase contracts and finance leases	–	–	10.2	
Capital element of hire purchase and finance lease payments	<b>(11.3)</b>	(19.5)	(35.0)	
<b>Net cash inflow from financing</b>	<b>37.5</b>	77.9	46.2	
<b>15 Analysis of net debt</b>				
	<b>At 31 March 2004 £m</b>	<b>Cash flow £m</b>	<b>Other non-cash changes £m</b>	<b>At 30 September 2004 £m</b>
Cash at bank and in hand	94.9	(18.7)	0.2	<b>76.4</b>
Bank overdrafts	(33.0)	33.0	–	–
Cash	61.9	14.3	0.2	<b>76.4</b>
Current asset investments	30.3	(25.2)	–	<b>5.1</b>
Bank loans due within one year	(19.0)	(1.0)	–	<b>(20.0)</b>
Bank loans due after one year	(110.6)	(60.2)	(0.5)	<b>(171.3)</b>
Sterling bond 2013	(295.5)	–	(0.3)	<b>(295.8)</b>
Bond 2019	(239.6)	–	(0.8)	<b>(240.4)</b>
Obligations under hire purchase contracts and finance leases	(36.9)	11.3	–	<b>(25.6)</b>
Loans and loan notes	(21.3)	0.3	–	<b>(21.0)</b>
Financing	(722.9)	(49.6)	(1.6)	<b>(774.1)</b>
Net debt	(630.7)	(60.5)	(1.4)	<b>(692.6)</b>

Other non-cash charges include £1.0m (six months to 30 September 2003: £14.8m and year to 31 March 2004: £41.9m) 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 2004, which comprise the consolidated profit and loss account, the consolidated balance sheet, the consolidated cash flow statement, the reconciliation of net cash flows to movements in net debt, the consolidated statement of total recognised gains and losses, the reconciliation of movements 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 2004.

## Deloitte & Touche LLP

Chartered Accountants

London

2 November 2004

## Financial calendar

Shares trade ex dividend	12 January 2005
Record date for interim dividend*	14 January 2005
Interim dividend paid	9 February 2005
Financial year end	31 March 2005
Full year results announced	May 2005
Annual General Meeting	July 2005
Final dividend paid	August 2005

\*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](http://www.shareview.co.uk).

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