

TRANSFORMING TRAVEL



FINANCIAL HIGHLIGHTS

	2005	2004 ⁴
Revenue (£m)	1,376.5	1,207.3
Operating profit ¹ (£m)	81.4	85.6
Profit before taxation (£m)	55.3	64.3
Adjusted basic earnings per share (pence)	9.2	10.9
Basic earnings per share (pence)	9.0	11.0
Dividend per share (pence)	4.55	4.125
EBITDA ² (£m)	135.3	133.0
EBITDA: interest cover ³	5.2x	6.1x

¹ Before intangible asset amortisation, bid costs and profit on disposal of fixed assets.

² Operating profit as defined plus depreciation.

³ EBITDA divided by net interest payable and similar charges.

⁴ 2004 as restated for transition to International Financial Reporting Standards.

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CHAIRMAN'S STATEMENT

We were all deeply shocked and saddened by the tragic events in London on 7 July. On behalf of the Board of FirstGroup plc and all of its employees I would like to express my condolences to the injured and the bereaved. As a major transport operator in the capital we are proud of the exceptional efforts our staff made to continue their duties and assist passengers in very difficult circumstances.

Safety is our highest priority and we continuously strive to improve our performance to achieve the highest standards.

I am pleased to report another strong set of results for the first half. Group revenue increased by 14% to £1,376.5m (2004: £1,207.3m) and profit before tax was £55.3m (2004: £64.3m). This is a creditable performance given the additional cost increases, most notably fuel prices which had an overall impact of £13.0m during the period. Cash generation has remained strong with EBITDA (Group operating profit* plus depreciation) for the period rising to £135.3m (2004: £133.0m). Adjusted basic earnings per share (before intangible asset amortisation, bid costs and property profits) was 9.2p (2004: 10.9p). In recognition of the Group's continuing strong cash generation the Board has recommended an increase in the

interim dividend of 10% to 4.55p (2004: 4.125p). The dividend will be paid on 8 February 2006 to shareholders on the register on 13 January 2006. The Board remains confident that this level of dividend growth is sustainable for the medium term.

We have now been operating First ScotRail, Scotland's national railway and the UK's largest rail franchise, for 12 months. A tremendous amount has been achieved during this first year and we continue to initiate improvements to services and facilities to benefit passengers. We are shortlisted for three new enlarged rail franchises worth up to £1.1bn of additional revenue per annum and during the period we submitted bids for these important rail franchises.

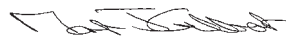
In our UK Bus business we are encouraged by growth in areas where we are able to develop partnerships with Local Authorities to improve services through bus priority schemes and other traffic management measures.

Contract retention remains high within our North American division. We continue to grow and win new business across all of our North American operations. In October our Services division commenced operation of a major contract for the US Navy.

In July Professor David Begg joined the Board as a Non-Executive Director. David has vast experience and an impressive record in public transport and transport policy. Sid Barrie joined the Board as Commercial Director in August and his appointment further strengthens our commercial team. I am confident that both will make a significant contribution to the Group.

I would like to take this opportunity to thank all employees for their continued hard work and commitment in delivering another year of growth and to welcome new staff to the Group who have joined our businesses in the UK and US during the period.

Our strategy is to deliver shareholder value by continuing to grow in our core businesses and explore opportunities to develop in new markets. As well as investing for growth we remain committed to a programme of progressive dividend growth and share repurchases, while maintaining a strong balance sheet.



Martin Gilbert
Chairman
8 November 2005

*Operating profit referred to throughout this document refers to operating profit before intangible asset amortisation, bid costs and profit on disposal of fixed assets.

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 actively endorse a culture of 'Safety First' throughout our business. We continually assess our working practices and procedures to ensure that we are doing everything we can to meet the highest possible standards of safety.

Results

Revenue has increased to £1,376.5m (2004: £1,207.3m). Operating profit was £81.4m (2004: £85.6m). Operating profit was impacted by £13.0m by the significant rise in fuel costs as a result of the increase in global oil prices. The Group generated EBITDA (operating profit as defined plus depreciation) of £135.3m (2004: £133.0m) enabling us to invest £113.1m in the business predominantly in our UK Bus and North American businesses.

UK Rail

The UK Rail division operates passenger and freight services in the UK. Passenger rail franchises consist of First Great Western, First Great Western Link, First TransPennine Express and First ScotRail. We also operate Hull Trains, a non-franchised open access intercity passenger train operator, and we provide rail freight services through GB Railfreight.

Results

Revenue in the Group's rail division increased by 18% to £526.0m (2004: £446.6m). Operating profit was £34.3m (2004: £32.7m). This is a particularly strong performance, given the effect of the terrorist attacks on London which had a significant adverse impact on our rail franchises during the second quarter, and demonstrates

the strength of our longer-term rail franchises First TransPennine Express and First ScotRail.

Current operations

It is now 12 months since we commenced operation of First ScotRail. The strong performance reflects the enormous effort put in to delivering service enhancements for passengers and raising standards across all areas of the franchise. We have worked particularly hard to improve train service performance and as a result have seen a 20% reduction in operator delays, for which we are responsible, in the past 12 months, compared to a franchise commitment of a 2% reduction per annum.

Significant improvements have also been made in other areas. For example, we have brought our on-board catering in-house, established a new Customer Contact Centre and introduced new passenger information services such as JourneyCheck and JourneyAlert enabling passengers to receive instant information on how services are running and details of planned engineering works. We launched a Customer Service Quality Initiative aimed at delivering cleaner stations and trains, a safer environment with improved CCTV and better information for customers. We were delighted to record the strongest customer satisfaction figures for punctuality and reliability for the past five years. We have also seen significant improvements in customer satisfaction for on-train cleanliness, comfort, provision of information on trains and at stations and in many other areas of the business.

Revenue protection is one of our key priorities and we have implemented a

number of initiatives to improve ticket purchasing opportunities and increase ticket checks across the network. As a result we have seen a substantial reduction in revenue leakage across the franchise.

First TransPennine Express has performed extremely well with passenger income increased by 12.7%. Passenger volumes across the First TransPennine network increased by 6% in the first 12 months of operation with substantial volume growth of 29% achieved on key services to and from Manchester Airport. We have continued to focus on train performance and introduced a team of technical riding inspectors who are on call to travel around the network and attend to faults on trains in service that might otherwise have led to delay or cancellation. Initiatives such as these have led to a significant improvement in the performance of the rolling stock. We continue to manage the introduction of a new fleet of 51 new 100mph Siemens trains. The first of the new trains is due to arrive for testing in the UK in December with entry into passenger service scheduled for spring 2006.

In First Great Western we are working closely with Network Rail and other industry partners as part of a Joint Performance Improvement Plan. First Great Western has reduced the operator delays, for which they are responsible, by over 30% in the last four years. In September we launched a further integrated transport initiative with the launch of a new range of PlusBus season tickets enabling passengers to switch between bus and rail services with one ticket. PlusBus can be added to both ends of a rail journey allowing passengers

to leave their car at home and make their entire journey by public transport. We were pleased that our Exeter St Davids station was the latest First Great Western station to be accredited with 'Secure Station' status, further demonstrating our commitment to enhance security and safety at our stations for the benefit of our staff and passengers.

We have now successfully delivered the integrated timetable for First Great Western and First Great Western Link. This major overhaul to the scheduling of services has enabled us to offer passengers increased capacity, faster trains and improved journey times on certain routes. We were pleased to launch a package of security and safety improvements, in partnership with Transport for London (TfL), for stations across the First Great Western Link network. Improvements such as new CCTV and Help Points at stations provide increased security for rail users.

Hull Trains, our non-franchised, open access intercity train company operating between London King's Cross and Hull, performed well during the period with strong revenue and passenger growth. In May we introduced new 125mph trains into service which are performing well. We were granted regulatory approval to introduce two new weekday services which commenced operation in June. We were delighted to be awarded the *Guardian, Observer* and *Guardian Unlimited* Travel Award for Best Train Operator 2005.

GB Railfreight

GB Railfreight (GBRF), our freight company, has continued to show encouraging growth with a number of new contract wins including Royal Mail, Knights Rail, Petrochem Carless, Angel

Trains and Network Rail. Most recently GBRF won a significant contract with Metronet to transport infrastructure materials as part of the programme to renew the London Underground network. A number of locomotives and wagons have been ordered, for delivery early next year, to support the new contracts.

Franchise bidding

We were delighted to be shortlisted for the three new enlarged rail franchises: Integrated Kent, Thameslink/Great Northern and Greater Western. We have now submitted bids for all three franchises to the Department for Transport and hope to hear the outcome towards the end of the year.

North America

In North America the Group is the second largest operator of student transportation with over 20,000 yellow school buses carrying nearly two million students every day across the US and Canada. We operate the largest transit contracting and management business in North America and we have an expanding services business.

Results

Our three North American operations achieved their highest level of first half revenue and earnings and delivered margin improvement during the period. Revenue was £353.3m or \$647.2m (2004: £284.3m or \$514.6m), an increase of 25.8% in US Dollar terms. Operating profit was £19.0m or \$35.9m (2004: £15.3m or \$27.1m). Results from this division were impacted by additional fuel costs as a result of global oil price increases.

We continue to generate excellent returns in our three North American

businesses with EBITDA of £39.6m or \$74.0m (2004: £33.0m or \$59.0m) and the division remains self-financing for maintenance capital expenditure, organic growth and in-fill acquisitions.

First Student

During the period we have continued to grow our yellow school bus operations and deliver margin improvement despite ongoing fuel cost pressures. US Dollar revenue increased by 22% and US Dollar operating profit rose by 31%. As in previous years, the highly seasonal nature of this business (with the summer holidays being a period when we earn minimal revenue but still incur fixed costs) means that results in the first half of the year are not representative of the full year. Contract retention remained high with over 90% of our existing business that came up for renewal retained by First Student. We continued to gain market share during the period through a combination of new business wins, acquisitions and organic growth. New business was won in the states of California, Massachusetts, Vermont, Illinois, Iowa, Louisiana, Minnesota and Maryland and we made two in-fill acquisitions in Ohio and Wisconsin. First Student was pleased to be able to assist the relief effort in Louisiana following the impact of Hurricane Katrina. Yellow school buses were used to evacuate people from the region and provide transport for children who were relocated to new schools outside of the state.

First Transit

US Dollar revenue increased by 15%, however operating profit was impacted by additional fuel costs. During the period we successfully commenced operation of new contracts in Texas,

CHIEF EXECUTIVE'S OPERATING REVIEW CONTINUED

Washington DC, New York and North Carolina. In addition we were pleased to retain a number of important contracts that came up for renewal including paratransit business in Houston and management and contracting business in Los Angeles and Colorado as well as contracts in Massachusetts, North Carolina, Illinois and Alabama. We also renewed an important shuttle bus service contract with Philadelphia Airport. In October we were delighted to be awarded a new contract to operate a call centre in Indianapolis.

We continue to focus on expanding in the fast growing 'light transit' market such as call centre operations, logistics consultancy, paratransit, and public/private shuttle services where we can utilise our expertise and continue to profitably grow this side of the business.

First Services

This has been another very successful period for our Services division, which provides a range of outsourced vehicle maintenance, operations and support services to public and private sector clients. US Dollar revenue rose by 73% and operating profit increased by 112% primarily as a result of a full six months trading contribution from the services business we acquired last year. First Vehicle Services continued to win new business in the private sector with vehicle maintenance contracts in Massachusetts and California. We also won new contracts to fit specialist communications and mobile technology products for clients in Tennessee, Kansas, New York, Florida and Los Angeles. In October First Services commenced operation of a substantial contract to provide a range of land-based support services to the US Navy.

UK Bus

The Group is the largest bus operator in the UK with a fleet of 9,300 buses and a market share of approximately 23%. We carry some 2.8 million passengers every day.

Results

During the period on-bus revenue increased by 5.9% and total revenue rose to £493.6m (2004: £473.1m) as a result of revenue growth initiatives, patronage growth, improved tender revenues and pricing. Operating profit before the finance element of leasing costs was £40.7m (2004: £49.4m). UK Bus faced significant cost pressures throughout the first half most notably the increase in fuel costs, which were partly mitigated through revenue growth initiatives, cost reductions through further operational efficiencies and pricing. We are now fully hedged for our fuel consumption in the UK for the remainder of the financial year to 31 March 2006. We also made significant investment in our engineering and maintenance functions to improve operational performance. We are encouraged to see that this is already beginning to yield results with lost mileage currently at its lowest level in two years. While we continue to face margin pressure in UK Bus our priority is to achieve sustainable profit growth and continue to bear down on costs and drive more efficient processes and higher productivity. We are closely managing the issue of driver retention and, as a result of our initiatives such as the recruitment of European drivers, have seen a very encouraging decrease in driver turnover.

In London we were pleased to significantly improve our performance in the league tables issued by Transport for London (TfL) for punctuality and

reliability. This marked improvement reflects the significant effort to improve service quality and the investment in additional focused supervision of specific routes. We were also delighted to be awarded the contract to operate one of the two Heritage Bus Routes on behalf of TfL. The service, which will commence on 14 November, is a high profile contract and we are pleased to be entrusted with providing this high quality service.

The Mayor of London has now approved plans to extend the Congestion Charging zone westward in 2007. We have already prepared, and are well positioned with depot location and capacity, to provide further services should they be required in order to meet the needs of passengers.

Following the announcement in July that London is to host the Olympics in 2012 we look forward to working closely with the Olympic Transport Authority to develop innovative and comprehensive transport plans that will deliver the best transport system for London and the Olympic Games.

Outside London in our urban bus operations, which comprise approximately 60% of UK Bus revenue, we have continued to see strong revenue growth in those towns and cities where we are able to work with Local Authorities to provide bus services alongside traffic management schemes to tackle congestion. We continue our policy to target our capital investment in those areas where there is a clear commitment to support public transport.

We have developed 'Punctuality Improvement Partnerships' (PIPs) where we work together with Local Authorities to minimise the impact of traffic

congestion and identify areas where we can deliver time-saving services to improve the reliability of services. The first PIP was introduced in Manchester earlier this year and we are working closely with Local Authorities throughout the UK to roll out these innovative partnerships across our operating areas.

In Glasgow, which has one of the fastest growing bus networks in the UK, we were delighted to join Glasgow City Council in a £30m partnership agreement over ten years to boost bus transport in the city. This innovative agreement will see Glasgow City Council, together with West Dunbartonshire Council with backing from the Scottish Executive and Strathclyde Passenger Transport, invest £27m to provide bus information and signalling systems, traffic management measures on key corridors to improve journey times and reliability as well as other infrastructure such as new bus shelters and bus access. The Group has already made a significant investment in 220 new vehicles for the city and will contribute a further £4m towards bus improvements including tracking equipment linked to the Council's traffic control systems and improved security equipment such as CCTV. This partnership, known as 'Streamline', is a complete package which is only possible when the public and private sector work together to deliver a high quality public transport system which provides a viable alternative to the car.

Capital expenditure has been focused on areas with the potential for high passenger growth. During the period £52.1m was spent on new, low floor, easy access buses for towns and cities including Aberdeen, Bath, Edinburgh,

Glasgow, Manchester, Halifax, Huddersfield, Norwich and Stoke-on-Trent.

Investment in our people is key to our success and we continue to develop a number of employee training programmes and facilities. During the last year over 200 managers and supervisors have completed specially tailored training courses. For the current trading year a further 560 places are being taken up ensuring that our staff have the necessary skills and training to meet the needs of passengers. In London we have introduced, in partnership with London Buses, a simulator for bus drivers. The simulator, based at our Willesden Junction depot, will be used to support traditional driver training for new and existing employees.

We were delighted that our bus operations in York won 'Public Transport Operator of the Year' at the National Transport Awards in June. It was particularly pleasing to have been nominated for this award by the City of York Council in recognition of the close and effective partnership between us.

As part of our ongoing drive to improve operational efficiency and increase productivity we have continued to make significant investment in our engineering and maintenance functions. We have rolled out standardised maintenance procedures across all of our operating companies and we have reviewed and improved our processes for inspection and repair. We have already started to see a positive impact from these reforms and expect to continue to see an improved operating performance and reduction in costs over the medium term.

Group outlook

We remain optimistic about our future prospects. In UK Rail our two longer-term franchises, First TransPennine Express and First ScotRail, continue to outperform and we are well positioned to benefit from rail re-franchising, having been shortlisted and now submitted bids for three new enlarged rail franchises in this current round. Our North American business has highly dependable revenue streams, of which 80% are covered by medium-term contracts, and has continued to deliver excellent returns. In UK Bus we are seeing strong revenue growth together with encouraging passenger growth where we are able to work with Local Authorities who are committed to public transport and reducing congestion through traffic management measures. Our investment in service quality and reliability has already begun to deliver some encouraging improvements and we continue to bear down on costs and drive further process efficiencies and increased productivity. Our strategy remains clear – we will use the Group's strong cash flows to invest for growth in our core businesses; we will explore opportunities to develop in new markets and we will increase dividends and buy back shares while maintaining a strong balance sheet. Early indications are that trading in the second half of the year is in line with our expectations.



Moir Lockhead
Chief Executive

8 November 2005

FINANCE DIRECTOR'S REVIEW

Divisional results	6 months to 30 September 2005			6 months to 30 September 2004			Year to 31 March 2005		
	Revenue £m	Operating profit ¹ £m	Operating margin ¹ %	Revenue £m	Operating profit ¹ £m	Operating margin ¹ %	Revenue £m	Operating profit ¹ £m	Operating margin ¹ %
UK Bus	493.6	40.7	8.2	473.1	49.4	10.4	960.7	115.2	12.0
UK Rail	526.0	34.3	6.5	446.6	32.7	7.3	1,059.7	64.5	6.1
North America	353.3	19.0	5.4	284.3	15.3	5.4	665.8	62.4	9.4
Financing element of leases ²	–	(4.5)	–	–	(4.5)	–	–	(9.0)	–
Other ³	3.6	(8.1)	–	3.3	(7.3)	–	7.2	(18.3)	–
Total Group	1,376.5	81.4	5.9	1,207.3	85.6	7.1	2,693.4	214.8	8.0

¹Before intangible asset amortisation, bid costs and profit on disposal of fixed assets.

²Financing element of UK PCV operating lease costs.

³Tram operations, central management and other items.

Throughout the Finance Director's review, operating profit and operating margin are defined as being before intangible asset amortisation and bid costs.

Overview

FirstGroup has a portfolio of businesses in the UK and North America which generate strong predictable profits and cash flows which are used to increase shareholder value by investing for growth, increasing dividends and where appropriate, repurchasing shares. We aim to create value for our shareholders through a competitive dividend yield, our progressive dividend growth policies and earnings growth.

This is the first set of results prepared under International Financial Reporting Standards (IFRS) and comparative results for the six months to 30 September 2004 and the year to 31 March 2005 have been restated under IFRS.

Results

I am pleased to report revenue growth of 14% for the Group as a whole. We are currently bidding for three rail franchises worth up to £1.1 bn of additional revenue per annum.

UK Bus revenue was £493.6m (six months to 30 September 2004: £473.1m) an increase of 4.3%. Operating profit was £40.7m (six months to 30 September 2004: £49.4m). There were significant cost pressures during the period in particular fuel costs and drivers' wage settlements in excess of inflation. The period also saw a continued investment in engineering. These cost pressures were partly mitigated by price/yield activities and reduced costs elsewhere through operational efficiencies. UK operations are now 100% hedged on crude oil price risk for the remainder of financial year 2005/06 at \$38 per barrel. Fuel aside, we are focusing on improving bus

margins and believe that opportunities exist to both grow revenues and improve efficiency.

UK Rail revenue was £526.0m (six months to 30 September 2004: £446.6m), an increase of 17.8%. Operating profit was £34.3m (six months to 30 September 2004: £32.7m). There were extremely strong performances during the period from both First ScotRail and First TransPennine Express. First Great Western profits however were down on last year due to a lower subsidy and the impact of the London bombings. We have submitted bids for three major franchises – Integrated Kent, Greater Western and Great Northern/Thameslink and we anticipate hearing the outcomes of these bids by the end of the year.

North America revenue was £353.3m (six months to 30 September 2004: £284.3m), an increase of 25.8% in

US Dollar terms. Operating profit was £19.0m (six months to 30 September 2004: £15.3m), an increase of 32.5% at constant exchange rates. Operating margin in US Dollars increased to 5.5% from 5.3%. First Student benefited by \$4.0m in incremental profit recovering the 'lost' operational days from 2004/05. Student results were impacted however by additional fuel costs of a similar amount. First Services performed extremely well with profits up by 112% principally due to a full half year of SKE which was acquired towards the end of the first half of last year. First Transit results were down year on year principally due to higher fuel costs.

Operating profit in both UK Rail and North America have grown with record first half earnings in both divisions. Overall operating profit is down by 5% as a result of both high fuel costs and continued investment in improving engineering reliability in UK Bus. We are pleased to report a strong turnaround in the reliability of our UK Bus services both in terms of Transport for London league tables and overall lost mileage.

Property

Property gains on disposal of £11.8m (six months to 30 September 2004: £3.7m) were realised during the period with the most significant being the disposals of depots in Leicester and Motherwell. These sales reflect the Group's ongoing programme of disposing of older UK Bus depots in high value city centre locations and re-investing in more modern and efficient facilities.

Bid costs

Bid costs of £10.0m (six months to 30 September 2004: £2.7m) were incurred during the period principally on our bids for Integrated Kent, Greater Western and Great Northern/Thameslink franchises as well as the Docklands Light Railway bid.

Intangible asset amortisation

The intangible asset amortisation charge for the period was £2.0m (six months to 30 September 2004: £0.4m) with the increase due to amortisation on the ScotRail pension intangible, which arose in the second half of last year, and a full period charge for contract related intangibles acquired in financial year 2004/05.

Interest payable and similar charges

The net interest charge was £25.9m (six months to 30 September 2004: £21.9m) with the increase principally due to a higher average level of net debt compared to the first half of last year. The net interest charge is covered 5.2 times (six months to 30 September 2004: 6.1 times) by earnings before interest, taxation, depreciation and amortisation (EBITDA).

Taxation

The taxation charge for the period, on profit before tax after exceptional items, was £15.2m (six months to 30 September 2004: £17.6m) with the reduction being principally due to lower pre-tax profits. 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 30 September 2004: 27.5%) on profit before intangible asset amortisation and bid costs. The actual cash cost of taxation to the Group is estimated to be 5% of

profit before tax after exceptional items for the full year (year to 31 March 2005: 16%). The reduction in the cash tax rate is largely due to tax depreciation from higher capital expenditure, pension payments and increased property gains.

Dividends

The interim dividend of 4.55 pence (six months to 30 September 2004: 4.125 pence) per ordinary share represents an increase of 10.3%. The interim dividend will be paid on 8 February 2006 to shareholders on the register of members at the close of business on 13 January 2006. Under the new international accounting rules this interim dividend has not been provided in the accounts as at 30 September 2005.

EPS

The adjusted basic EPS, before intangible asset amortisation, bid costs and profit on disposal of fixed assets, was 9.2 pence (six months to 30 September 2004: 10.9 pence). Basic EPS was 9.0 pence (six months to 30 September 2004: 11.0 pence).

FINANCE DIRECTOR'S REVIEW CONTINUED

EBITDA by division	6 months to 30 September 2005			6 months to 30 September 2004			Year to 31 March 2005		
	Revenue £m	EBITDA £m	EBITDA %	Revenue £m	EBITDA £m	EBITDA %	Revenue £m	EBITDA £m	EBITDA %
UK Bus	493.6	69.6	14.1	473.1	76.2	16.1	960.7	168.6	17.5
UK Rail	526.0	37.3	7.1	446.6	34.4	7.7	1,059.7	69.4	6.5
North America	353.3	39.6	11.2	284.3	33.0	11.6	665.8	109.3	16.4
Financing element of leases	–	(4.5)	–	–	(4.5)	–	–	(9.0)	–
Other	3.6	(6.7)	–	3.3	(6.1)	–	7.2	(15.9)	–
Total Group	1,376.5	135.3	9.8	1,207.3	133.0	11.0	2,693.4	322.4	12.0

Cash flow

The Group's businesses continue to generate strong operating profits which are converted into cash. EBITDA for the period was £135.3m (six months to 30 September 2004: £133.0m and year to 31 March 2005: £322.4m). EBITDA by division is set out above.

During the period there was a working capital outflow of £27.2m which was principally due to pension payments and growth in both the United Kingdom and North America.

Capital expenditure and acquisitions

Capital expenditure, as set out in note 9 to the interim financial information, was £113.1m (six months to 30 September 2004: £47.3m and year to 31 March 2005: £135.3m). Capital expenditure was predominantly in North American operations of £52.9m and UK Bus operations of £55.8m.

The North American division acquired US School Bus businesses for a total consideration of £3.5m. Provisional goodwill arising amounted to £2.3m.

Net cash invested in capital expenditure and acquisitions was £107.8m (six months to 30 September 2004: £31.1m), with the increase principally due to the timing of new bus purchases in the UK and North America, partly offset by a lower level of acquisitions, in the first half of this year compared to the first half of last year.

Net debt

The Group's net debt at 30 September 2005 was £759.9m and was comprised, as set out on page 9.

Balance sheet and net assets

Net assets increased by £46.2m over the period principally reflecting retained earnings for the period of £35.5m, an increase in the hedging reserve of £23.2m, favourable movements on foreign exchange reserves of £18.5m, and higher minority interest (net of dividends paid to minority shareholders) for the period of £2.4m, partly offset by dividends paid of £34.2m.

Shares in issue

As at 30 September 2005 there were 393.6m (30 September 2004: 398.4m and 31 March 2005: 393.6m) shares in issue, excluding treasury shares. 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 393.3m (six months to 30 September 2004: 400.9m and year to 31 March 2005: 399.2m).

Foreign exchange

The results of the North American businesses have been translated at an average rate of £1:\$1.83 (six months to 30 September 2004: £1:\$1.82 and year to 31 March 2005: £1:\$1.85). The period end rate was £1:\$1.78 (30 September 2004: £1:\$1.80 and 31 March 2005: £1:\$1.87).

Accounting policies

The Interim Report for the six months to 30 September 2005 has been prepared using accounting policies that comply with International Accounting

Analysis of net debt	Fixed £m	Variable £m	Total £m
Cash	–	48.4	48.4
Rail ring-fenced cash and deposits	–	71.4	71.4
Sterling bond (2013: 6.875%) ¹	(296.2)	–	(296.2)
Sterling bond (2019: 6.125%) ²	(245.2)	–	(245.2)
Sterling bank loans and overdrafts	–	(231.6)	(231.6)
US Dollar bank loans and overdrafts	(3.6)	(13.5)	(17.1)
Canadian Dollar bank loans and overdrafts	(2.5)	(39.8)	(42.3)
Euro bank loans and overdrafts	–	(10.0)	(10.0)
HP and finance leases	(8.5)	(8.2)	(16.7)
Loan notes	(8.7)	(11.9)	(20.6)
Interest rate swaps	(57.0)	57.0	–
Total	(621.7)	(138.2)	(759.9)

¹Excludes accrued interest.

²Excludes accrued interest, swapped to US Dollars and is stated net of a gain on the associated currency swaps.

Standards (IAS) and IFRS. These accounting policies were used for the preparation of the restated IFRS financial information for the six months ended 30 September 2004 and the year ended 31 March 2005, issued in a press release on 28 September 2005. The accounting policies and the IFRS restatements are available on the Group's website, www.firstgroup.com.

may be issued by the International Financial Reporting Interpretations Committee, and interpretation of existing IFRS or industry practice may evolve.



Dean Finch
Finance Director
8 November 2005

We expect to use consistent accounting policies for the preparation of the results for the year ending 31 March 2006. There is, however, a possibility that the accounting policies may have to be changed due to any new standards that may be issued by the International Accounting Standards Board between now and our financial year end. In addition, interpretations

CONSOLIDATED INCOME STATEMENT

Revenue

Continuing operations

Operating costs before profit on disposal of fixed assets

Continuing operations

Operating profit before profit on disposal of fixed assets

Continuing operations

Operating profit before amortisation, impairment charges and bid costs

Amortisation and impairment charges

Bid costs

Operating profit before profit on disposal of fixed assets

Profit on disposal of fixed assets

Operating profit

Finance income

Finance cost

Profit before taxation

Taxation

Profit for the period from continuing operations

Attributable to:

Equity holders of the parent

Minority interests

Basic earnings per share

Diluted earnings per share

Dividends of £34.2m were paid during the period (30 September 2004: £31.8m). Dividends of £17.9m were proposed for approval during the period (30 September 2004: £16.4m and 31 March 2005: £34.2m).

Notes	Unaudited before amortisation, impairment charges and bid costs 6 months to 30 September 2005 £m	Unaudited amortisation, impairment charges and bid costs 6 months to 30 September 2005 £m	Unaudited total 6 months to 30 September 2005 £m	Unaudited before amortisation, impairment charges and bid costs 6 months to 30 September 2004 £m	Unaudited amortisation, impairment charges and bid costs 6 months to 30 September 2004 £m	Unaudited total 6 months to 30 September 2004 £m	Unaudited year to 31 March 2005 £m
2	1,376.5	-	1,376.5	1,207.3	-	1,207.3	2,693.4
	(1,295.1)	(12.0)	(1,307.1)	(1,121.7)	(3.1)	(1,124.8)	(2,492.7)
	81.4	(12.0)	69.4	85.6	(3.1)	82.5	200.7
	81.4	-	81.4	85.6	-	85.6	214.8
	-	(2.0)	(2.0)	-	(0.4)	(0.4)	(2.2)
	-	(10.0)	(10.0)	-	(2.7)	(2.7)	(11.9)
	81.4	(12.0)	69.4	85.6	(3.1)	82.5	200.7
	-	11.8	11.8	-	3.7	3.7	3.3
	81.4	(0.2)	81.2	85.6	0.6	86.2	204.0
3	5.2	-	5.2	1.5	-	1.5	4.3
3	(31.1)	-	(31.1)	(23.4)	-	(23.4)	(52.6)
	55.5	(0.2)	55.3	63.7	0.6	64.3	155.7
4	(15.3)	0.1	(15.2)	(17.4)	(0.2)	(17.6)	(41.4)
	40.2	(0.1)	40.1	46.3	0.4	46.7	114.3
	35.9	(0.4)	35.5	43.6	0.4	44.0	107.8
	4.3	0.3	4.6	2.7	-	2.7	6.5
	40.2	(0.1)	40.1	46.3	0.4	46.7	114.3
6			9.0p			11.0p	27.0p
6			9.0p			10.9p	26.8p

CONSOLIDATED BALANCE SHEET

	Notes	Unaudited 30 September 2005 £m	Unaudited 30 September 2004 £m	Unaudited 31 March 2005 £m
Non-current assets				
Goodwill	7	485.8	469.9	465.8
Other intangible assets	8	28.0	8.0	29.4
Property, plant and equipment	9	904.9	789.8	835.0
		1,418.7	1,267.7	1,330.2
Current assets				
Inventories		54.4	40.8	40.1
Trade and other receivables	10	396.4	375.1	368.7
Financial assets	13	57.4	–	–
Short-term deposits		–	5.1	7.5
Cash and cash equivalents		119.8	76.4	146.6
		628.0	497.4	562.9
Non-current assets classified as held for sale	11	5.7	5.8	5.2
Total assets		2,052.4	1,770.9	1,898.3
Current liabilities				
Trade and other payables	12	503.1	468.9	503.5
Retirement benefit obligation		4.0	3.9	3.8
Tax liabilities		59.1	61.3	52.8
Obligations under finance leases	13	5.2	14.3	9.0
Bank overdrafts and loans	13	6.1	20.0	51.4
Loan notes	13	2.8	0.3	0.5
		580.3	568.7	621.0
Net current assets/(liabilities)		47.7	(71.3)	(58.7)
Non-current liabilities				
Financial liabilities – other	13	2.4	–	–
Bonds	13	576.8	536.2	527.9
Bank loans	13	294.9	171.3	192.8
Retirement benefit obligation		205.4	233.0	221.1
Deferred tax liabilities		62.6	19.2	39.0
Long-term provisions	14	38.2	31.6	44.6
Obligations under finance leases	13	11.5	11.3	15.1
Loan notes	13	17.8	20.7	20.5
		1,209.6	1,023.3	1,061.0
Total liabilities		1,789.9	1,592.0	1,682.0
Net assets		262.5	178.9	216.3
Equity				
Share capital	16	19.9	19.9	19.9
Share premium account	17	238.8	238.8	238.8
Hedging reserves	17	23.2	–	–
Other reserves	17	4.6	4.6	4.6
Own shares	17	(18.8)	(1.3)	(18.9)
Translation reserves	18	13.3	1.3	(14.2)
Retained earnings	17	(31.5)	(88.4)	(24.5)
Equity attributable to equity holders of the parent		249.5	174.9	205.7
Minority interests		13.0	4.0	10.6
Total equity		262.5	178.9	216.3

CONSOLIDATED CASH FLOW STATEMENT

	Note	Unaudited 6 months to 30 September 2005 £m	Unaudited 6 months to 30 September 2004 £m	Unaudited year to 31 March 2005 £m
Net cash from operating activities	20	62.9	13.9	193.7
Investing activities				
Interest received		2.7	1.1	6.8
Proceeds of disposal of property, plant and equipment		2.0	17.6	27.1
Purchases of property, plant and equipment		(106.3)	(30.1)	(124.3)
Acquisition of businesses		(3.5)	(2.6)	(14.9)
Acquisition of subsidiaries		–	(16.0)	(22.3)
Net cash used in investing activities		(105.1)	(30.0)	(127.6)
Financing activities				
Repurchase of ordinary share capital		–	(11.8)	(29.7)
Shares purchased by Employee Benefit Trust		(0.7)	(0.3)	(0.3)
Dividends paid		(34.0)	(31.5)	(48.0)
Dividends paid to minority shareholders		(2.5)	(0.8)	(3.1)
Repayments of bank borrowings		(22.8)	–	–
Repayment of obligations under finance leases		(7.4)	(11.3)	(20.2)
Repayment of loan notes		(0.4)	(0.3)	(0.3)
Payment of new bank facility issue costs		(1.0)	–	–
New bank loans raised		286.8	61.2	90.4
Net cash from financing activities		18.0	5.2	(11.2)
Net (decrease)/increase in cash and cash equivalents		(24.2)	(10.9)	54.9
Cash and cash equivalents at beginning of period		145.9	92.2	92.2
Effect of foreign exchange rate changes		(1.9)	0.2	(1.2)
Cash and cash equivalents at end of period		119.8	81.5	145.9

Cash and cash equivalents for cash flow statement purposes comprise:

	30 September 2005 £m	30 September 2004 £m	31 March 2005 £m
Cash and cash equivalents per balance sheet	119.8	76.4	146.6
Short-term bank deposits	–	5.1	7.5
Overdrafts	–	–	(8.2)
	119.8	81.5	145.9

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

RECONCILIATION OF NET CASH FLOWS TO MOVEMENT IN NET DEBT

	Unaudited 6 months to 30 September 2005 £m	Unaudited 6 months to 30 September 2004 £m	Unaudited year to 31 March 2005 £m
(Decrease)/Increase in cash and cash equivalents in year	(24.2)	(10.9)	54.9
Cash inflow from increase in debt and HP contract and finance lease financing	(56.2)	(49.6)	(70.0)
Debt acquired on acquisition of businesses	–	–	(20.6)
Lease and hire purchase contracts acquired with new franchise	–	–	(2.2)
Fees on issue of loan facility	1.0	–	–
Foreign exchange differences	(15.9)	(1.0)	7.0
Other non-cash movements in relation to financial instruments	(1.5)	(0.4)	(1.5)
Movement in net debt in period	(96.8)	(61.9)	(32.4)
Net debt at beginning of period	(663.1)	(630.7)	(630.7)
Net debt at end of period	(759.9)	(692.6)	(663.1)

Net debt includes the value of foreign exchange derivatives in connection to the £250m bond and excludes all accrued interest.

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

	Unaudited 6 months to 30 September 2005 £m	Unaudited 6 months to 30 September 2004 £m	Unaudited year to 31 March 2005 £m
Derivative hedging instrument movements	(13.8)	–	–
Share based payments	1.6	1.4	2.9
Exchange differences on translation of foreign operations	35.2	1.3	(14.2)
Actuarial gains on defined benefit pension schemes	–	–	20.8
Movement in EBT, QUEST and Treasury Shares during period	(0.6)	(0.7)	(17.8)
Deferred tax on share based payments	(0.2)	0.3	0.9
Deferred tax on actuarial gains	–	–	(6.3)
Net income recognised directly in equity	22.2	2.3	(13.7)
Profit for the period	40.1	46.7	114.3
Total recognised income and expense for the period	62.3	49.0	100.6
Attributable to:			
Equity holders of the parent	57.7	46.3	94.1
Minority interests	4.6	2.7	6.5
	62.3	49.0	100.6
Balances recognised on 1 April 2005 on adoption of IAS 39, net of tax	20.3	–	–

NOTES TO THE INTERIM FINANCIAL INFORMATION

1 Basis of preparation

This interim consolidated report is for the six months ended 30 September 2005. IFRS 1 'First-time Adoption of IFRS' has been applied as the accounting period forms part of the Group's first IFRS financial statements for the year ended 31 March 2006. The comparatives for the period 30 September 2004 and the year ended 31 March 2005 have been restated under IFRS. The transition date to IFRS is 1 April 2004.

This interim consolidated report has been prepared in accordance with the accounting policies that are anticipated to be used in preparation of the annual financial statements those IFRS standards and IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing this report. The IFRS standards and IFRIC interpretations that will be applicable at 31 March 2006, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these financial statements. In particular, the accounting policies assume that the amendments to IAS 19 'Employee Benefits', allowing actuarial gains and losses to be recognised in full through reserves, is adopted by the European Union.

The Group prepared financial statements in accordance with UK Generally Accepted Accounting Principles (UK GAAP) until 31 March 2005. UK GAAP differs in some areas from IFRS. IFRS accounting policies, reconciliations and descriptions of the effect of the transition from UK GAAP to IFRS on the Group's equity at 1 April 2004, 30 September 2004 and 31 March 2005 and on its profit for the 6 months ended 30 September 2004 and for the year ended 31 March 2005 are available on the Company's website www.firstgroup.com.

The accounting policies have been consistently applied to all the periods presented except those relating to the classification and measurement of financial instruments. The Group has made use of the exemption available under IFRS 1 to only apply IAS 32 'Financial Instrument: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' from 1 April 2005.

The results for the six months ended 30 September 2005 are unaudited but have been reviewed by the auditors, whose review report is given on page 28. The information shown for the year ended 31 March 2005 has been derived from the IFRS transition document published on the Group's website on 28 September 2005. The audited UK GAAP annual financial statements for 31 March 2005, which represents the statutory accounts for that year, and on which the auditors gave an unqualified opinion, have been delivered to the Registrar of Companies.

The figures for the six months to 30 September 2005 include the results of the rail businesses for the period ended 17 September 2005 and the results of the other businesses for the 26 weeks ended 24 September 2005.

This interim consolidated report is unaudited and does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. The interim report will be sent to all shareholders in November 2005 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 8 November 2005.

2 Segment information

For management purposes, the Group is currently organised into three operating divisions – UK Bus, UK Rail and North America. These divisions are the basis on which the Group reports its primary segment information. The principal activities of these divisions are set out in the Chief Executive's operating review.

The segment results for the six months to 30 September 2005 are as follows:

	UK Bus £m	UK Rail £m	North America £m	Group items £m	Total £m
Revenue	493.6	526.0	353.3	3.6	1,376.5
Segment results¹	40.7	34.3	19.0	(8.1)	85.9
Amortisation of intangible assets	–	(1.3)	(0.7)	–	(2.0)
Financing element of operating leases	(4.5)	–	–	–	(4.5)
Bid costs	–	(9.5)	–	(0.5)	(10.0)
Profit on disposal of fixed assets	11.8	–	–	–	11.8
Operating profit	48.0	23.5	18.3	(8.6)	81.2
Investment income					5.2
Finance costs					(31.1)
Profit before tax					55.3
Tax					(15.2)
Profit for the period					40.1

The segment results for the six months to 30 September 2004 are as follows:

	UK Bus £m	UK Rail £m	North America £m	Group items £m	Total £m
Revenue	473.1	446.6	284.3	3.3	1,207.3
Segment results¹	49.4	32.7	15.3	(7.3)	90.1
Amortisation of intangible assets	–	(0.3)	(0.1)	–	(0.4)
Financing element of operating leases	(4.5)	–	–	–	(4.5)
Bid costs	–	(2.7)	–	–	(2.7)
Profit on disposal of fixed assets	3.7	–	–	–	3.7
Operating profit	48.6	29.7	15.2	(7.3)	86.2
Investment income					1.5
Finance costs					(23.4)
Profit before tax					64.3
Tax					(17.6)
Profit for the period					46.7

¹ Before amortisation of intangible assets, financing element of operating leases, bid costs and profit on disposal of fixed assets.

NOTES TO THE INTERIM FINANCIAL INFORMATION

2 Segment information continued

The segment results for the year to 31 March 2005 are as follows:

	UK Bus £m	UK Rail £m	North America £m	Group items £m	Total £m
Revenue	960.7	1,059.7	665.8	7.2	2,693.4
Segment results¹	115.2	64.5	62.4	(18.3)	223.8
Amortisation of intangible assets	–	(1.6)	(0.6)	–	(2.2)
Financing element of operating leases	(9.0)	–	–	–	(9.0)
Bid costs	–	(11.4)	–	(0.5)	(11.9)
Profit on disposal of fixed assets	3.3	–	–	–	3.3
Operating profit	109.5	51.5	61.8	(18.8)	204.0
Investment income					4.3
Finance costs					(52.6)
Profit before tax					155.7
Tax					(41.4)
Profit for the period					114.3

¹ Before amortisation of intangible assets, financing element of operating leases, bid costs and profit on disposal of fixed assets.

3 Net finance costs

	6 months to 30 September 2005 £m	6 months to 30 September 2004 £m	Year to 31 March 2005 £m
Interest income on bank deposits	5.2	1.5	4.3
Bond and bank facilities	(26.9)	(20.2)	(43.3)
Loan notes	(0.9)	(0.8)	(1.6)
Finance charges payable in respect of hire purchase contracts and finance leases	(0.5)	(1.1)	(2.2)
Notional interest	(2.8)	(1.3)	(5.5)
Finance costs	(31.1)	(23.4)	(52.6)
Net finance costs	(25.9)	(21.9)	(48.3)

4 Tax

	6 months to 30 September 2005 £m	6 months to 30 September 2004 £m	Year to 31 March 2005 £m
Corporation tax	2.6	10.0	19.0
Deferred tax	12.6	7.6	22.4
Total tax charge	15.2	17.6	41.4

	6 months to 30 September 2005 £m	6 months to 30 September 2004 £m	Year to 31 March 2005 £m
5 Dividends paid and proposed			
Final dividend paid for the year ended 31 March 2005 of 8.69p (2004: 7.9p) per share	34.2	31.8	31.8
Interim dividend paid for the year ended 31 March 2005 of 4.125p per share	–	–	16.4
Amounts recognised as distributions to equity holders in the period	34.2	31.8	48.2
Proposed interim dividend for the year ended 31 March 2006 of 4.55p (2005: 4.125p) per share	17.9	16.4	–

The proposed interim dividend will be paid on 8 February 2006 to shareholders on the register of members at the close of business on 13 January 2006. The proposed interim dividend has not been included as a liability as at 30 September 2005.

6 Earnings per share (EPS)

Basic EPS is based on earnings of £35.5m (six months to 30 September 2004: £44.0m and year to 31 March 2005: £107.8m) and on a weighted average number of ordinary shares (excluding own shares held in trust for employees and treasury shares) of 393.3m (six months to 30 September 2004: 400.9m and year to 31 March 2005: 399.2m) in issue.

Diluted EPS is based on the same earnings and on the weighted average number of ordinary shares of 394.6m (six months to 30 September 2004: 403.7m and year to 31 March 2005: 402.0m). 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 amortisation of intangible assets, bid costs and profit on disposal of fixed assets. A reconciliation of the earnings used in the bases is set out below:

	6 months to 30 September 2005	
	£m	Earnings per share (p)
Profit for basic EPS calculation	35.5	9.0
Amortisation of intangible assets	2.0	0.5
Bid costs	10.0	2.6
Profit on disposal of fixed assets ¹	(11.3)	(2.9)
Taxation effect of adjustments	(0.2)	–
Profit for adjusted basic EPS calculation	36.0	9.2
Depreciation ²	53.8	13.6
Profit for adjusted cash EPS calculation	89.8	22.8

¹Profit on disposal of fixed assets of £11.8m per note 2 less £0.5m of profit on disposal attributable to equity minority interests before tax.

²Depreciation charge of £53.9m per note 9 less £0.1m of depreciation attributable to equity minority interests.

NOTES TO THE INTERIM FINANCIAL INFORMATION

	6 months to 30 September 2004	
	£m	Earnings per share (p)
6 Earnings per share (EPS) continued		
Profit for basic EPS calculation	44.0	11.0
Amortisation of intangible assets	0.4	0.1
Bid costs	2.7	0.7
Profit on disposal of fixed assets	(3.7)	(0.9)
Taxation effect of adjustments	0.2	–
Profit for adjusted basic EPS calculation	43.6	10.9
Depreciation ¹	47.3	11.8
Profit for adjusted cash EPS calculation	90.9	22.7

¹Depreciation charge of £47.4m less £0.1m of depreciation attributable to equity minority interests.

	Year to 31 March 2005	
	£m	Earnings per share (p)
Profit for basic EPS calculation	107.8	27.0
Amortisation of intangible assets	2.2	0.5
Bid costs	11.9	3.0
Profit on disposal of fixed assets	(3.3)	(0.8)
Taxation effect of adjustments	(3.2)	(0.8)
Profit for adjusted basic EPS calculation	115.4	28.9
Depreciation ¹	107.4	26.9
Profit for adjusted cash EPS calculation	222.8	55.8

¹Depreciation charge of £107.6m less £0.2m of depreciation attributable to equity minority interests.

7 Goodwill	£m
Cost	
At 1 April 2005	465.8
Additions	2.3
Exchange rate differences	17.7
At 30 September 2005	485.8

Accumulated impairment losses	
At 1 April 2005 and 30 September 2005	–

Carrying amount	
At 30 September 2005	485.8
At 31 March 2005	465.8
At 30 September 2004	469.9

8 Other intangible assets	Contracts acquired £m	Franchise agreements £m	Total £m
Cost			
At 1 April 2005	10.6	21.0	31.6
Exchange rate differences	0.6	–	0.6
At 30 September 2005	11.2	21.0	32.2
Amortisation			
At 1 April 2005	0.6	1.6	2.2
Charge for period	0.7	1.3	2.0
At 30 September 2005	1.3	2.9	4.2
Carrying amount			
At 30 September 2005	9.9	18.1	28.0
At 31 March 2005	10.0	19.4	29.4
At 30 September 2004	4.2	3.8	8.0

Contracts acquired through the purchases of businesses and subsidiary undertakings, are amortised on a straight-line basis over their useful lives, which is on average, eight years.

The rail franchise agreements intangible asset represents the part of the economic benefit derived from the rail franchise agreements that is realised as a result of recognising the Group's share of the rail pension deficit and is amortised on a straight-line basis over the term of the franchise.

NOTES TO THE INTERIM FINANCIAL INFORMATION

	Land and buildings £m	Passenger carrying vehicle fleet £m	Other plant and equipment £m	Total £m
9 Property, plant and equipment				
Cost				
At 1 April 2005	149.1	1,228.7	161.4	1,539.2
Businesses acquired	–	1.5	–	1.5
Additions	3.1	102.0	8.0	113.1
Disposals	(3.6)	(21.8)	(0.9)	(26.3)
Reclassifications	(5.1)	–	5.1	–
Classified as held for sale	–	(15.6)	–	(15.6)
Exchange rate differences	1.3	24.0	1.9	27.2
At 30 September 2005	144.8	1,318.8	175.5	1,639.1
Depreciation				
At 1 April 2005	23.7	581.2	99.3	704.2
Businesses acquired	–	–	–	–
Charge for period	1.6	42.0	10.3	53.9
Disposals	(0.4)	(20.8)	(0.3)	(21.5)
Reclassifications	(5.1)	–	5.1	–
Classified as held for sale	–	(13.7)	–	(13.7)
Exchange rate differences	0.4	9.9	1.0	11.3
At 30 September 2005	20.2	598.6	115.4	734.2
Carrying amount				
At 30 September 2005	124.6	720.2	60.1	904.9
At 31 March 2005	125.4	647.5	62.1	835.0
At 30 September 2004	119.9	616.8	53.1	789.8
		30 September 2005 £m	30 September 2004 £m	31 March 2005 £m
10 Trade and other receivables				
Amounts due within one year				
Trade debtors		260.1	262.6	258.2
Other debtors		71.2	52.3	61.1
Other prepayments and accrued income		65.1	60.2	49.4
		396.4	375.1	368.7

11 Non-current assets classified as held for sale

Non-current assets held for resale comprise of North American yellow school buses which are surplus to requirement and are being actively marketed on the Internet. Gains or losses arising on the disposal of such assets are included in arriving at operating profit in the income statement.

	30 September 2005 £m	30 September 2004 £m	31 March 2005 £m
12 Trade and other payables			
Amounts falling due within one year			
Trade creditors	141.1	128.2	122.4
Other creditors	46.7	37.8	43.2
Accruals and deferred income	301.6	291.7	324.6
Season ticket deferred income	13.7	11.2	13.3
	503.1	468.9	503.5

13 Financial assets and liabilities

The Group has elected to apply the exemption available in IFRS 1 'First-time Adoption of IFRS', from restatement of comparatives for IAS 32 'Financial instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement'. The adjustments required for differences between UK GAAP and IAS 32 and IAS 39 have been determined and recognised at 1 April 2005.

	30 September 2005 £m	30 September 2004 £m	31 March 2005 £m	1 April 2005 £m
Financial instruments held as current assets				
Interest and foreign exchange derivatives	21.1	–	–	20.2
Fuel derivatives	36.3	–	–	31.4
	57.4	–	–	51.6
Financial instruments held as current liabilities				
Bank and other loans and overdrafts	(6.1)	(20.0)	(51.4)	(51.4)
Obligations under finance leases	(5.2)	(14.3)	(9.0)	(9.0)
Loan notes	(2.8)	(0.3)	(0.5)	(0.5)
	(14.1)	(34.6)	(60.9)	(60.9)
Financial instruments held as non-current liabilities				
Bank and other loans and overdrafts	(294.9)	(171.3)	(192.8)	(192.8)
Obligations under finance leases	(11.5)	(11.3)	(15.1)	(15.1)
Loan notes	(17.8)	(20.7)	(20.5)	(20.5)
Interest and foreign exchange derivatives	(2.4)	–	–	(7.6)
£300m bond	(305.3)	(295.8)	(296.0)	(315.6)
£250m bond	(271.5)	(240.4)	(231.9)	(250.1)
	(903.4)	(739.5)	(756.3)	(801.7)

NOTES TO THE INTERIM FINANCIAL INFORMATION

13 Financial assets and liabilities continued

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. 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 four 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 £19.6m (30 September 2004: £20.2m and 31 March 2005: £20.0m) are supported by unsecured bank guarantees.

Bonds

The £300m bond is repayable in 2013 and is shown inclusive of accrued interest.

The £250m bond is repayable in 2019 and is shown both inclusive of accrued interest and of the movement in the market value of the Sterling LIBOR risk that is fully hedged by interest rate derivatives

	Insurance claims ¹ £m	Pensions £m	Total £m
At 1 April 2005	34.5	10.1	44.6
Provided in the period	25.3	–	25.3
Utilised in the period	(35.7)	(0.3)	(36.0)
Notional interest	2.8	–	2.8
Exchange rate differences	1.5	–	1.5
At 30 September 2005	28.4	9.8	38.2
At 30 September 2004	20.8	10.8	31.6

¹Insurance claims accruals due within one year at 30 September 2005 amounted to £45.4m (30 September 2004: £42.8m and 31 March 2005: £39.8m) and are included in 'accruals and deferred income' in note 12.

	30 September 2005 £m	30 September 2004 £m	31 March 2005 £m
15 Business combinations			
Provisional fair values of net assets acquired:			
Tangible assets	1.5	2.6	34.8
Intangible assets	–	4.3	10.6
Other current assets	–	10.2	17.1
Cash at bank and in hand	–	2.8	3.5
Loans and finance leases	–	–	(20.6)
Minority shareholders' interests	–	–	(4.2)
Other creditors	(0.3)	(5.6)	(19.2)
	1.2	14.3	22.0
Goodwill (note 7)	2.3	7.1	15.2
	3.5	21.4	37.2
Satisfied by cash paid and payable	3.5	21.4	37.2

There were no material differences between the book values and the provisional fair values of the net assets acquired and there were no adjustments required in respect of accounting policy alignments.

The businesses acquired during the period and dates of acquisition were:

Businesses acquired	Date acquired	% Voting equity instruments acquired
Thunderbird Transit, Inc.	30 June 2005	100
SBS Transit, Inc.	14 September 2005	100

	30 September 2005 £m	30 September 2004 £m	31 March 2005 £m
16 Share capital			
Authorised:			
Ordinary shares of 5p each	30.0	30.0	30.0
Allotted, called up and fully paid			
Ordinary shares of 5p each	19.9	19.9	19.9

The number of ordinary shares of 5p each in issue, excluding treasury shares, at the end of the period was 393.6m (30 September 2004: 398.4m and 31 March 2005: 393.6m). At the end of the period 5.2m shares (30 September 2004: 0.4m shares and 31 March 2005: 5.2m shares) were being held as treasury shares.

NOTES TO THE INTERIM FINANCIAL INFORMATION

	Hedging reserve £m	Share premium account £m	Own shares £m	Retained earnings £m
17 Reserves				
At 1 April 2005	–	238.8	(18.9)	(24.5)
Financial instrument recognition ¹	37.0	–	–	(9.0)
Retained profit for the financial period	–	–	–	35.5
Dividends paid	–	–	–	(34.2)
Movement in EBT, QUEST and treasury shares during the period	–	–	0.1	(0.7)
Derivative hedging instrument movements ¹	(13.8)	–	–	–
Share-based payments	–	–	–	1.6
Deferred tax on share-based payments	–	–	–	(0.2)
At 30 September 2005	23.2	238.8	(18.8)	(31.5)
At 30 September 2004	–	238.8	(1.3)	(88.4)

¹Net of deferred tax.

The adjustments required for differences between UK GAAP and IAS 32 and IAS 39 are determined and recognised at 1 April 2005. The impact of recognising the interest rate swaps, currency swaps, fuel derivatives and the related deferred tax, is included in the statement of recognised income and expense at 1 April 2005.

	Capital redemption reserve £m	Capital reserve £m	Total other reserves £m
At 1 April 2005 and 30 September 2005	1.9	2.7	4.6

18 Translation reserves

	£m
At 1 April 2005	(14.2)
Transfer to hedging reserve on financial instrument recognition	(7.7)
Movement for the financial period	35.2
At 30 September 2005	13.3
At 30 September 2004	1.3

	At 1 April 2005 £m	Cash flow £m	Other non-cash changes £m	At 30 September 2005 £m
19 Analysis of net debt				
Cash and cash equivalents	146.6	(24.9)	(1.9)	119.8
Bank overdrafts	(8.2)	8.2	–	–
Cash	138.4	(16.7)	(1.9)	119.8
Short-term bank deposits	7.5	(7.5)	–	–
Bank loans due within one year	(43.2)	37.1	–	(6.1)
Bank loans due after one year	(192.8)	(100.1)	(2.0)	(294.9)
Loans and loan notes	(21.0)	0.4	–	(20.6)
Obligations under hire purchase contracts and finance leases	(24.1)	7.4	–	(16.7)
£300m bond	(296.0)	–	(0.2)	(296.2)
£250m bond (swapped to US Dollars)	(231.9)	–	(13.3)	(245.2)
Financing	(809.0)	(55.2)	(15.5)	(879.7)
Net debt	(663.1)	(79.4)	(17.4)	(759.9)

Net debt includes the value of foreign exchange derivatives in connection with the £250m bond and excludes all accrued interest.

	6 months to 30 September 2005 £m	6 months to 30 September 2004 £m	Year to 31 March 2005 £m
20 Notes to the consolidated cash flow statement			
Operating profit	69.4	82.5	200.7
Adjustments for:			
Depreciation charges	53.9	47.4	107.6
Amortisation of intangible assets	2.0	0.4	2.2
Share-based payments	1.6	1.4	2.9
Loss on disposal of property, plant and equipment	0.3	–	1.9
Operating cash flows before working capital	127.2	131.7	315.3
Increase in inventories	(5.7)	(0.7)	(2.6)
Increase in receivables	(3.9)	(43.0)	(41.0)
Decrease in payables	(17.6)	(50.7)	(24.5)
Cash generated by operations	100.0	37.3	247.2
Corporation tax repaid/(paid)	0.7	3.0	(16.1)
Interest paid	(37.3)	(25.1)	(35.1)
Interest element of hire purchase contracts and finance lease payments	(0.5)	(1.3)	(2.3)
Net cash from operating activities	62.9	13.9	193.7

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 2005, which comprises the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of recognised income and expense and related notes 1 to 20. 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 are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

International Financial Reporting Standards

As disclosed in note 1, the next annual financial statements of the Group will be prepared in accordance with those IFRS adopted for use by the European Union. Accordingly, the interim report has been prepared in accordance with the recognition and measurement criteria of IFRS and the disclosure requirements of the Listing Rules.

The accounting policies are consistent with those that the Directors intend to use in the next financial statements. There is however a possibility that the Directors may determine that some changes to these policies are necessary when preparing the full annual financial statements for the first time in accordance with those IFRSs adopted for use by the European Union. This is because, as disclosed in note 1, the Directors have anticipated that the revised IAS 19, which has yet to be formally adopted for use in the EU will be so adopted in time to be applicable to the next annual financial statements.

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 2005.

Deloitte & Touche LLP
Chartered Accountants
London, 8 November 2005

Financial calendar

Shares trade ex dividend	11 January 2006
Record date for interim dividend ¹	13 January 2006
Interim dividend paid	8 February 2006
Financial year end	31 March 2006
Full year results announced	May 2006
Annual General Meeting	July 2006
Final dividend paid	August 2006

¹Shareholders 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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