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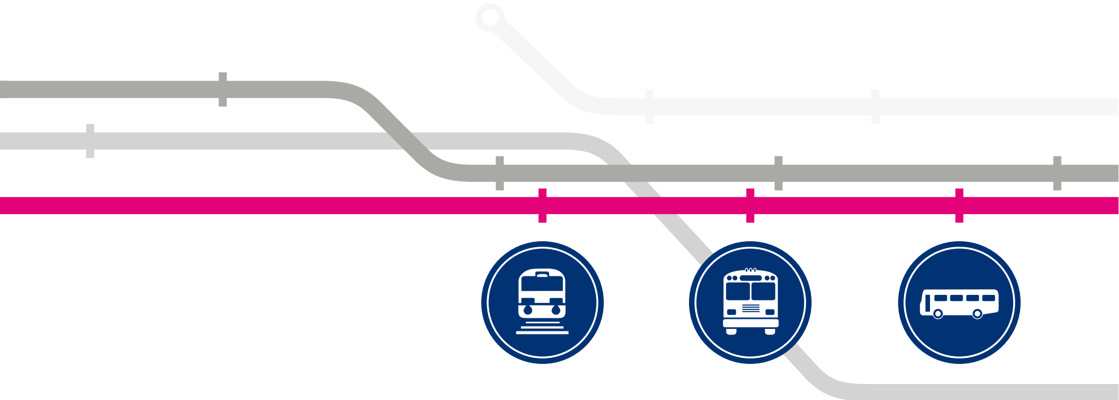

Interim Report 2006
For the six months ended 30 September 2006

Financial highlights

	2006	2005
Revenue (£m)	**1,715.7**	1,376.5
Adjusted operating profit[1] (£m)	**92.2**	81.4
Operating profit (£m)	**72.0**	81.2
Adjusted profit before taxation[1] (£m)	**59.9**	55.5
Profit before taxation[2] (£m)	**39.7**	55.3
Adjusted basic earnings per share (pence)	**10.1**	9.2
Basic earnings per share (pence)	**6.3**	9.0
Dividend per share (pence)	**5.00**	4.55
EBITDA[3] (£m)	**154.5**	135.3
EBITDA: interest cover[4]	**4.8x**	5.2x

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

[1] Before intangible asset amortisation, bid costs, non-recurring items and profit on disposal of fixed assets.
[2] Lower than the first half of 2005/06 mainly due to lower property profits (£10.4m) and non-recurring UK Rail mobilisation costs (£8.5m).
[3] Operating profit before intangible asset amortisation, bid costs, non-recurring items and profit on disposal of fixed assets before depreciation.
[4] Calculated as EBITDA divided by the net of finance cost and finance income.

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Chairman's statement

The safety and security of our passengers and employees is our highest priority and we continuously strive to achieve the highest possible standards throughout all of our operations.

I am pleased to report a good start to this financial year with a strong performance in the first half. Group revenue increased by 25% to £1,715.7m (2005: £1,376.5m) and adjusted profit before tax was £59.9m (2005: £55.5m). This is a creditable performance given the additional fuel cost increase which impacted the Group's results by £22.7m in this period. Strong cash generation is a feature of this business with EBITDA (adjusted operating profit before depreciation) for the period rising to £154.5m (2005: £135.3m). Adjusted basic earnings per share (before intangible asset amortisation, bid costs, non-recurring items and property profits) was 10.1p (2005: 9.2p). The Board has proposed an increase in the interim dividend of 10% to 5.00p (2005: 4.55p). The dividend will be paid on 7 February 2007 to shareholders on the register on 12 January 2007. The continued increase of the dividend reflects the Board's confidence in the Group's strong cash generation and prospects for growth.

During the period we commenced operation of two new rail franchises, First Great Western and First Capital Connect. We are delighted with the strong start of these franchises both of which are currently trading ahead of our initial expectations. Across all of our rail operations we continue to deliver profitable growth together with a strong focus on performance. We are delighted to be shortlisted for the New Cross Country and the East Midlands franchises and look forward to submitting innovative and compelling bids.

The Group's strong focus on revenue growth initiatives and operational performance has delivered good results in our UK Bus division. We have demonstrated that where we are able to work with local authorities to develop quality partnerships we can deliver a sustainable transport system to address the problems of traffic congestion in our towns and cities and improve the services offered to passengers.

Our North American division has made a good start to the year with contract retention remaining very high. Across all of our North American operations we continue to grow and win new business, consolidating our strong position in this large and fragmented marketplace. Our North American division has delivered consistent growth since we entered the market in 1999 and we are optimistic about the future prospects for further growth of this business providing strong, dependable contracted revenues.

Audrey Baxter was appointed to the Board as Non-Executive Director in August. As Chairman and Chief Executive Officer of Baxters Food Group she has successfully expanded the business into new markets and led the development of an established family business into a global brand. I am confident that she will make a significant contribution to the Group.

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

Our clear strategy to continue to grow in our core businesses and explore opportunities to develop in new markets is delivering strong and profitable growth. We continue to invest in our businesses and remain committed to increasing the dividend by 10% per annum and where appropriate, share repurchases, while maintaining a strong balance sheet. This successful strategy is delivering value for shareholders and is reflected in the Group's strong performance.

Martin Gilbert
Chairman
7 November 2006

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

I am pleased to report another strong performance from our businesses. Revenue increased by 25% to £1,715.7m (2005: £1,376.5m). Adjusted operating profit increased to £92.2m (2005: £81.4m) a particularly pleasing result given the impact of increased fuel costs which amounted to £22.7m during this first half. The Group generated EBITDA (adjusted operating profit as defined before depreciation) of £154.5m (2005: £135.3m) enabling us to invest £209.2m in the business.

UK Rail

The UK Rail division operates passenger and freight services in the UK. Passenger rail franchises consist of First Great Western, First Capital Connect, 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. We are the UK's largest rail operator carrying more than 250 million passengers per annum.

Results

I am pleased to report the continued success of our UK Rail division. Revenue increased by 55% to £817.6m (2005: £526.0m) reflecting the commencement of two new enlarged franchises, First Great Western and First Capital Connect. Adjusted operating profit increased by 28% to £43.9m (2005: £34.3m). This excellent performance reflects the strong revenue and passenger growth across all of our operations. Our two new franchises are performing ahead of our initial projections and the strength of our established rail franchises First TransPennine Express and First ScotRail is demonstrated by the continued growth of those businesses.

Current operations

We commenced operation of both First Great Western and First Capital Connect on 1 April this year. All of our franchises are now secured for the longer term, underpinning our rail revenues for the next ten years. We are very pleased with the performance of both new franchises with revenue growth ahead of our projections made at the time of the bids.

At First Great Western we have made substantial progress in integrating our existing Great Western network with Wessex Trains and are on course to realise significant synergies. During the period we commenced a substantial refurbishment of the high speed train fleet which will deliver a complete overhaul of more than 400 carriages providing a step change in quality and comfort for passengers, as well as increasing the number of seats on high capacity routes. In addition, we have started the programme to re-engine the high speed train fleet which will significantly increase reliability and provide a better, more environmentally friendly, train performance. Work has also commenced in Bristol to provide new improved, maintenance facilities for our train fleet. Customers are benefiting from improved ticketing facilities as we have replaced more than 200 ticketing machines with new systems that are faster and more efficient. We have also introduced a yield management system providing passengers with greater flexibility and a wider range of discounted tickets. A number of station improvements have been made to improve the travel environment and increase passenger and staff security. We have now achieved Secure Station status for 30 stations on the network. In addition to rolling out further CCTV and help point coverage we have extended the provision of 'lightsticks', which we pioneered in the industry, to provide emergency lighting on local and regional services in the Thames Valley, Cotswolds, North Downs, Berkshire and Oxfordshire. Improving performance is a key objective for First Great Western and we are working closely with Network Rail to tackle the deep-rooted performance issues on the network.

At First Capital Connect we have already made significant improvements in operational performance. During the first six months of operating the new franchise we have completed a 'deep clean' of all of our stations and rolling stock, significantly enhancing the travel experience for customers. We have implemented a Service Quality Management System to monitor key standards across our operations and launched 'Text Direct' a service for passengers to report, directly to us, any issues with our services and facilities. Most of the engineering of our fleet has now been brought in-house enabling greater cost efficiency and service quality. We were pleased to open the new Joint Kings Cross signal box with Network Rail to enable greater efficiency in day-to-day operations across the First Capital Connect network. Revenue protection is a key priority for this franchise and we have recruited an additional 40 staff to manually gate six stations with plans to increase this further and to introduce automatic ticket gates at a number of key stations starting in December. As well as improving revenue protection, automatic ticket gates are proven to increase security on the network. The safety and security of our passengers and staff has also benefited from our investment of £1m to provide additional Police Community Support Officers and British Transport Police Officers, all of whom are now active and providing greater security across our network.

We have now been operating First ScotRail, providing 95% of Scotland's train services, for two years and continue to build on our excellent record of delivering benefits for customers through improved operating performance and enhanced service quality. We have reduced delays, for which we are responsible, by more than 30% since the franchise began compared with our franchise commitment of 2% per annum. During the summer we reached a record high for performance, the best since 1999 when 10% fewer trains were operating on the network. We are delighted to have achieved over 90% Public Performance Measure (PPM), the industry standard for monitoring punctuality and reliability, for eight consecutive months this year and to have once again achieved improved levels of customer satisfaction above the national average. Investment in fleet reliability, comfort and performance continues with upgrades and refurbishment of rolling stock across many parts of our network. Revenue protection is a key objective in this franchise and we have commenced a programme of installing automatic ticket gates in a number of stations across the network. Security has been enhanced with the provision of CCTV in almost all First ScotRail trains with further CCTV and help points being rolled out across stations in the franchise area. Our continued investment in training and development will see two new driver simulators introduced in December this year. We were delighted that our efforts were recognised when First ScotRail was awarded the top UK industry accolade of 'Public Transport Operator of the Year' at the National Transport Awards. In addition, the team are shortlisted as finalists for the Scottish Transport Awards, reflecting their dedication and commitment to providing the highest possible standard of service for passengers.

First TransPennine Express has delivered another period of excellent growth, driven by good operating performance and strong demand for rail services in the region, with passenger numbers increased by around 13.2%. The close monitoring and focus on performance together with the infrastructure provider, Network Rail, has led to levels of over 91% being achieved in PPM. A new integrated control centre is being opened in York, which will house First TransPennine Express control room staff together with counterparts from Network Rail and other train operators in the region to enable better management of day-to-day performance issues on the network. We have introduced a new fleet of 100mph Siemens trains, providing a step change in quality and many new features including air conditioning, improved seating, on-board CCTV and improved access for passengers. We are delighted to have delivered this important upgrade to the fleet on time and are encouraged by the good performance of the new rolling stock and the positive feedback from customers. The new trains are now operating on the majority of the network and we expect to roll out to the remainder of our services in the North West from early December. In June we took over the operation of the Manchester Airport to Blackpool services from Northern, having demonstrated our ability to manage the process smoothly and cost efficiently. We are delighted by the Department for Transport's recent announcement confirming that we will be extending our First TransPennine network to operate the Manchester Airport to Glasgow and Edinburgh services from December 2007.

Hull Trains, our non-franchised, open access intercity train operating company between London Kings Cross and Hull, delivered another good performance during the first half of this year with passenger volumes increased by 40%. Operational performance has increased during the period with Hull Trains once again ranked as the most reliable long distance operator on the East Coast Main Line with performance figures well above the industry average for long distance train operators. In addition to responding to customer requests for increased First Class seating capacity on our services we have provided additional space for luggage and enhanced the on-board catering provision. We are delighted that our achievements have been recognised with the announcement that Hull Trains is shortlisted for the Chartered Institute of Logistics and Transport's Award for Excellence.

GB Railfreight

GB Railfreight (GBRf) had another successful period with new contracts won to provide rail freight services around the UK. Our flexible business model and high level of service approach led to Royal Mail extending the contract to move mail by rail for a further year. In August we commenced operation of a significant ten-year contract to transport infrastructure materials for Metronet, as part of the renewal programme for the London Underground network. In September we signed a contract with Drax Power to move coal from the Port of Tyne to Drax Power Station in North Yorkshire. We are pleased with the continued growth of GBRf and are confident of the prospects to continue to grow this innovative and demand-responsive business.

Franchise bidding

We were delighted to pre-qualify for a further two new rail franchises; New Cross Country and East Midlands franchises both due to commence operation in November 2007. Our breadth of expertise across UK rail operations and track record in leveraging investment, integrating services and innovation will enable us to submit exciting and compelling bids for both of these franchises.

North America

In North America the Group is the second largest operator of student transportation with approximately 22,000 yellow school buses carrying some 2 million students every day across the US and Canada. We operate the largest transit contracting and management business in North America and we have a growing services division providing fleet maintenance and ancillary services to public and private sector clients.

Results

Our North American division performed well during the period with revenue increased to £372.0m or $689.3m (2005: £353.3m or $647.2m) an increase of 6% in US Dollar terms. Adjusted operating profit was £17.9m or $33.2m (2005: £19.0m or $35.9m). Operating profit was impacted by £3.5m or $6.5m of fuel cost increases as a result of global oil price rises. We are encouraged by the continued strong cash generation in our North American business with EBITDA of £39.4m or $73.2m (2005: £39.6m or $74.0m).

We believe the North American market provides excellent opportunities for future growth and our businesses, which continue to enjoy strong contract retention and profitable growth, remain self-financing for maintenance capital expenditure, organic growth and in-fill acquisitions.

First Student

We were pleased to continue the successful growth of our school bus business during the period with US Dollar revenue increased by 8%. First Student had a good bidding season winning new contracts and successfully retaining over 97% of our business that came up for renewal. We have grown our market share during the period through a combination of new business wins, organic growth and acquisitions. We were delighted to commence operations in new markets such as Savannah, Georgia and Sedona in Arizona and to continue our expansion in the Canadian market with a new contract in Saskatchewan.

Our focus is on margin enhancement through contract bidding and a close control of costs and productivity. We are taking steps to mitigate the impact of increasing fuel costs through the contract renewal cycle and are pleased to have won or retained business on terms which better reflect the costs pressures we face. First Student is leading the industry with the introduction of new technology such as Zonar and GPS equipment which will deliver important information enabling us to provide even closer management of our cost base, more efficient scheduling of services and labour and provide customers with crucial transportation information.

First Transit

I am pleased to report that US Dollar revenue increased by 3% and adjusted operating profit by 52% reflecting the improved margin as a result of the implementation of a significant cost control and efficiencies programme. During the period we were pleased to win new business to provide paratransit contracting services in California and two contracts in the state of Ohio. We also added new transit management contracts in Iowa, Ohio and Texas. Contract retention remained strong during the period and we were pleased to renew transit contracting business in New York, California and Virginia as well as transit management contracts in Arkansas, Tennessee, Massachusetts and Connecticut. We have developed a growing airport shuttle bus service and are now one of the largest providers of shuttle services in the US. We further increased our presence in this market with a new contract to provide shuttle bus operations in Las Vegas.

First Services

We are pleased with the performance of our Services division, which provides a range of outsourced vehicle maintenance, operations and support services to public and private sector customers. Over the last three years we have delivered substantial revenue and profit growth in this business. During the period, US Dollar turnover increased by 7% and we retained all of our contracts that came up for renewal. Our fleet maintenance business continued to expand with new business won to provide vehicle maintenance services to the City of Wichita, Kansas and a number of private sector customers. We also won a contract to install specialist mobile communications equipment into 2,000 vehicles for the Florida Highway Patrol. Our support services business which operates in the large US federal market continued to grow through new business and the securing of additional contracted work from existing customers demonstrating the strong reputation of delivery and customer service that First Services has acquired. In July we were delighted to win the re-bid, with our joint venture partners, of a substantial contract with revenues of over $450m over the ten-year term to provide land based support services to the US Navy.

UK Bus

The Group is the largest bus operator in the UK with a fleet of some 9,000 buses and a market share of approximately 23%. We carry some 2.9 million passengers every day.

Results

I am pleased to report that our UK Bus division has delivered a good trading performance despite strong headwinds, principally the significant rise in fuel prices, faced during the period. Revenue rose to £521.9m (2005: £493.6m) as a result of increased passenger journeys, including concessions, and pricing. Adjusted operating profit, after the finance element of leasing costs, increased to £39.5m (2005: £36.2m). This is a particularly creditable performance given the additional cost of fuel which impacted these results by £16.7m. Cash generation, a key feature of this division, continued to be strong with EBITDA increased to £75.9m (2005: £69.6m). Our initiatives to grow revenue and closely manage controllable costs have delivered margin stability, despite increasing fuel costs. The Bus division has seen strong volume growth across the business including additional journeys from concessionary fares schemes.

Our investment in engineering and maintenance functions has improved operational performance and lost mileage is at the lowest level seen for some years. Our driver turnover is at a record low and, as a result of the success of initiatives such as the recruitment of European drivers and placements through JobCentre Plus, we continue to see a very encouraging increase in driver retention.

Outside London, which represents some 80% of UK Bus turnover, we have seen increased revenue and passenger journeys, through concessions, service delivery improvements, innovation and fares and ticketing initiatives. In urban areas, growth has been strongest where our efforts, in partnership with Local Authorities, to tackle traffic congestion have enabled us to provide punctual and reliable bus services. We continue to work with Local Authorities across the UK to deliver bus priority measures and focus on continuously improving bus services for our passengers and to encourage new customers to our services.

At the beginning of April the Government launched its new concessionary fares scheme for free local bus travel for the over 60s and disabled passengers. Overall we are pleased that the schemes started well and concessionary fares passengers are making additional journeys. We are currently in discussion with a number of Local Authorities regarding the reimbursement methodology for operators.

We continue to develop ‘Punctuality Improvement Partnerships’ (PIPs) working together with Local Authorities to identify traffic congestion hotspots and identify incremental improvements where we can reduce journey times, improve service reliability or both. Our work on PIPs with Greater Manchester Passenger Transport Executive (GMPTE) and the Metropolitan Borough Councils in the conurbation continue to lead the industry. GMPTE is now extending the Punctuality Improvement Partnership framework to other operators in Greater

Manchester. We are developing PIPs in every operating area and are working closely with Local Authorities throughout the UK to roll out these innovative partnerships for the benefit of our passengers.

Aircoach, our business operating express coaches between Dublin city centre and the airport and contracted services for airport car parks, continued to deliver good growth during the period. Our services, which are benefiting from significant growth in passenger numbers travelling to and from Dublin Airport, continue to deliver an attractive alternative for passengers. In January we commenced operation of the contract to provide park and ride services at Belfast International Airport we are encouraged by the successful start to this contract and are optimistic that we can develop further opportunities in this marketplace.

In London, we continue to win new business and are committed to improving our performance in the league tables issued by Transport for London (TfL) for punctuality and reliability through improved service quality and investment and additional focused supervision of specific routes. We are working with the London Development Agency and TfL on the relocation of our Hackney depot in readiness for the construction of the Olympic Park for the London 2012 Olympic Games and Paralympic Games.

Capital expenditure has been focused on areas where there is the potential for high passenger growth. During the period, £38.5m was spent on new, low floor, easy access buses for towns and cities including Bradford, Leeds, South Yorkshire and Bristol. This included the completion of two large deliveries that have seen our Glasgow operation receive a total of 220 new vehicles and our Manchester operation take delivery of 268 new buses.

We continue to invest in our people and are rolling out our network of lifelong learning centres. The centres are part of our wider learning strategy called 'Learning & Development Ladders' where employees are encouraged to undertake vocational and academic qualifications suitable to their job. We have linked up with the Open University and the Chartered Institute of Logistics and Transport to launch a new professional development programme for our graduates and selected senior managers. We believe that this is the first time that academic and transport specific learning has been combined in this way and is unprecedented within the transport and logistics sector. Twenty graduates already working within UK Bus have started the new programme. In the autumn a further ten managers who have been identified as having high potential will join the programme, along with four graduates starting their managerial career with First.

We were pleased that our bus operations in Aberdeen were shortlisted for 'Public Transport Operator of the Year' at the National Transport Awards in July, and have also been shortlisted in the 'Scottish Public Transport Operator of the Year' category at the Scottish Transport Awards later this month. Our ftr project won the award for 'Innovation of the Year' at the 'routeone' Operator Excellence Awards and Barbara Bedford, ftr project director, received the 'Special Award' for outstanding contribution to the industry as a whole. Our bus operations in Glasgow won the 'Volvo Bus Successful Partnership Award' at the UK Bus Awards 2006 for our work with Glasgow City Council to improve bus services.

Group outlook

We remain confident about our future prospects. Our UK Rail division continues to deliver strong passenger volume and income growth. We successfully commenced operation of our two new franchises during the period – First Great Western and First Capital Connect – and are pleased to report that both are trading ahead of our initial projections. Across all of our franchises we are seeing strong demand for rail services and profitable growth. We are delighted to have pre-qualified for the New Cross Country and East Midlands franchises and look forward to submitting innovative and compelling bids for these two new franchises.

Our UK Bus business has continued its strong trading during the first half of this year and I am pleased with the creditable performance from this division despite the strong headwinds caused by increased fuel costs. Increased passenger journeys together with our initiatives to grow revenue and closely manage controllable costs have delivered encouraging results. A focus on improved processes and productivity is delivering a significantly improved operating performance.

In North America our businesses have enjoyed strong contract retention and new business wins. We believe that the North American market offers a significant opportunity for further growth and the Board remains pleased with the consistent returns we have delivered from this division since we entered the market seven years ago.

The Group is well placed for the second half of the year. The Group's clear strategy is to increase shareholder value by profitably growing our core businesses and developing opportunities in new markets. The Board remains confident of the Group's future prospects and ability to generate strong cash flows and is committed to dividend growth of 10% per annum, for the foreseeable future at least until 2008, and where appropriate, share repurchase while maintaining a strong balance sheet. Trading in the second half of the year has started well and is in line with our expectations.

Moir Lockhead
Chief Executive
7 November 2006

Divisional results	Revenue £m (6 months to 30 September 2006)	Operating profit[1] £m (6 months to 30 September 2006)	Operating margin[1] % (6 months to 30 September 2006)	Revenue £m (6 months to 30 September 2005)	Operating profit[1] £m (6 months to 30 September 2005)	Operating margin[1] % (6 months to 30 September 2005)	Revenue £m (Year to 31 March 2006)	Operating profit[1] £m (Year to 31 March 2006)	Operating margin[1] % (Year to 31 March 2006)
UK Bus	**521.9**	**40.8**		493.6	40.7		1,031.2	108.6	
Financing element of leases[2]	**–**	**(1.3)**		–	(4.5)		–	(10.2)	
UK Bus after lease financing	**521.9**	**39.5**	**7.6**	493.6	36.2	7.3	1,031.2	98.4	9.5
UK Rail	**817.6**	**43.9**	**5.4**	526.0	34.3	6.5	1,164.9	79.6	6.8
North America	**372.0**	**17.9**	**4.8**	353.3	19.0	5.4	826.3	67.1	8.1
Other[3]	**4.2**	**(9.1)**	**–**	3.6	(8.1)	–	8.5	(15.4)	–
Total Group	**1,715.7**	**92.2**	**5.4**	1,376.5	81.4	5.9	3,030.9	229.7	7.6

[1] Before intangible asset amortisation, bid costs, non-recurring items and profit on disposal of fixed assets.
[2] Financing element of UK Bus PCV operating lease costs.
[3] Tram operations, central management and other items.

Overview

Over the course of the first half of 2006/07 we have continued to grow our portfolio of businesses that generate strong and predictable cash flows and have successfully commenced the operation of two key rail franchises in First Great Western and First Capital Connect. We have continued to increase shareholder value by investing for growth and increasing dividends.

Results

I am pleased to report revenue growth of 25% for the Group as a whole and overall adjusted operating profit growth of 13%. Adjusted basic earnings per share (EPS) was 10% higher than last half year and earnings before interest, taxation, depreciation and amortisation (EBITDA) for the six months to 30 September 2006 was £154.5m, an increase of 14%.

Profit before taxation of £39.7m (six months to 30 September 2005: £55.3m) was lower than the first half of last year mainly due to lower property disposal profits (£10.4m), non-recurring UK Rail mobilisation costs (£8.5m) and a higher net finance cost (£6.4m) partly offset by a higher adjusted operating profit (£10.8m).

Throughout the rest of this review we refer to adjusted operating profit as this is the measure that we use to assess the performance of our businesses. Adjusted operating profit is stated before intangible asset amortisation, bid costs, non-recurring items and profit on disposal of fixed assets.

UK Bus revenue was £521.9m (six months to 30 September 2005: £493.6m), an increase of 5.7%. Operating profit after lease financing was £39.5m (six months to 30 September 2005: £36.2m), an increase of 9.1%. Fuel costs were £16.7m higher than the first half of last year, however this cost increase was mitigated by a strong take up of the new concessionary fare arrangements introduced at the start of the financial year, other pricing and yield initiatives and a reduction in lost mileage. During the period a number of bus operating leases were restructured as finance leases. This has resulted in a decrease in the charge for the financing element of leases and an increase in the depreciation charge, both of which go through the 'operating cost' line and an increase in the charge for finance lease interest which goes through the 'finance cost' line.

UK Bus margin after the financing element of leases improved from 7.3% last half year to 7.6% this half year.

UK Rail revenue was £817.6m (six months to 30 September 2005: £526.0m), an increase of 55.4%. Operating profit was £43.9m (six months to 30 September 2005: £34.3m), an increase of 28.0%. The two new franchises have commenced strongly and are trading ahead of the bid models. We have experienced strong passenger revenue growth across all the franchises that we operate and have achieved these results despite increased fuel costs and higher electricity charges for our electric trains.

North America revenue was £372.0m (six months to 30 September 2005: £353.3m), an increase of 6.5% in US Dollar terms. Operating profit was £17.9m (six months to 30 September 2005: £19.0m). The period saw a high level of contract retentions and organic growth across all the businesses together with a limited number of acquisitions of yellow school bus businesses. This growth was mitigated however by higher fuel costs and insurance reserves.

Property

Property gains on disposal of £1.4m (six months to 30 September 2005: £11.8m) were realised during the period. In the first six months there was only one disposal in Leeds whereas last year there were several property disposals with the most significant being the disposals of depots in Leicester and Motherwell.

Bid costs and non-recurring items

Bid costs of £7.3m (six months to 30 September 2005: £10.0m) were incurred during the period principally on our bid for the South West Trains franchise and the ongoing activities of our European bid team.

Restructuring costs of £8.5m (six months to 30 September 2005: £nil) were incurred during the period reflecting the one-off transition costs of taking on the First Great Western and First Capital Connect franchises. Non-recurring costs of £1.1m (six months to 30 September 2005: £nil) were charged in North America to provide for onerous contracts which have either already been exited or are in the process of being exited.

Intangible asset amortisation

The intangible asset amortisation charge for the period was £4.7m (six months to 30 September 2005: £2.0m) with the increase due to amortisation on the First Great Western and First Capital Connect pension intangibles.

Net finance cost

The net finance cost was £32.3m (six months to 30 September 2005: £25.9m) with the increase due to a higher average level of net debt compared to the first half of last year and additional finance lease interest following the UK Bus lease restructuring. The net finance charge is covered 4.8 times (six months to 30 September 2005: 5.2 times) by EBITDA.

Taxation

The taxation charge for the period, on profit before tax after intangible asset amortisation, bid costs, non-recurring items and profit on disposal of fixed assets, was £9.9m (six months to 30 September 2005: £15.2m). The taxation charge for the half-year has been based on the estimated effective rate for the full year of 25.5% (six months to September 2005: 27.5%) on profit before intangible asset amortisation and bid costs. The reduction in the effective rate is due to efficient Group funding. The actual cash cost of taxation to the Group is estimated to be 3% of profit before tax after intangible asset amortisation, bid costs, non-recurring items and profit on disposal of fixed assets for the full year (year to 31 March 2006: 5%).

Dividends

The interim dividend of 5.00 pence (six months to 30 September 2005: 4.55 pence) per ordinary share represents an increase of 10%. The interim dividend will be paid on 7 February 2007 to shareholders on the register of members at the close of business on 12 January 2007. In accordance with generally accepted accounting practice this interim dividend has not been provided in the accounts as at 30 September 2006.

EPS

Adjusted basic EPS, before intangible asset amortisation, bid costs, non-recurring items and profit on disposal of fixed assets, was 10.1 pence (six months to 30 September 2005: 9.2 pence), an increase of 9.8%. Basic EPS was 6.3 pence (six months to 30 September 2005: 9.0 pence).

EBITDA by division	6 months to 30 September 2006 Revenue £m	EBITDA £m	EBITDA %	6 months to 30 September 2005 Revenue £m	EBITDA £m	EBITDA %	Year to 31 March 2006 Revenue £m	EBITDA £m	EBITDA %
UK Bus	**521.9**	**75.9**		493.6	69.6		1,031.2	167.5	
Financing element of leases	**–**	**(1.3)**		–	(4.5)		–	(10.2)	
UK Bus after lease financing	**521.9**	**74.6**	**14.3**	493.6	65.1	13.2	1,031.2	157.3	15.3
UK Rail	**817.6**	**47.2**	**5.8**	526.0	37.3	7.1	1,164.9	84.9	7.3
North America	**372.0**	**39.4**	**10.6**	353.3	39.6	11.2	826.3	122.0	14.8
Other	**4.2**	**(6.7)**	**–**	3.6	(6.7)	–	8.5	(12.5)	–
Total Group	**1,715.7**	**154.5**	**9.0**	1,376.5	135.3	9.8	3,030.9	351.7	11.6

Cash flow

The Group's businesses continue to generate strong operating profits which are converted into cash. EBITDA for the period was £154.5m (six months to 30 September 2005: £135.3m and year to 31 March 2005: £351.7m), an increase of 14.2%. EBITDA by division is set out above.

During the period there was a working capital inflow of £17.5m due to favourable working capital movements on the commencement of the new rail franchises partly offset by higher payments (over and above the income statement charge) into the UK Bus pension schemes.

Capital expenditure and acquisitions

Capital expenditure, as set out in note 9 to the interim financial information, was £199.0m (six months to 30 September 2005: £113.1m and year to 31 March 2006: £209.1m). Capital expenditure was predominantly in North American operations of £35.7m, UK Bus operations (including £84.0m of lease restructuring) of £124.4m and UK Rail operations of £38.2m.

The North American division acquired US School Bus businesses for a total consideration of £6.9m. Provisional goodwill arising amounted to £6.4m.

Net cash invested in capital expenditure, inception of new finance leases and acquisitions was £209.2m (six months to 30 September 2005: £107.8m), with the increase mainly down to the restructuring of certain UK Bus operating leases into finance leases and the increase in UK Rail capital expenditure as a result of securing the two new franchises.

Net debt

The Group's net debt at 30 September 2006 was £816.6m and was comprised as set out on page 11.

Balance sheet and net assets

Net assets decreased by £51.4m over the period mainly due to an adverse movement of £51.4m in the translation reserve as a result of the balance sheet exchange rate moving from $1.74 to $1.87.

Shares in issue

As at 30 September 2006 there were 392.9m (30 September 2005: 393.6m and 31 March 2006: 392.2m) shares in issue, excluding treasury shares and shares held in trust for employees. The weighted average number of shares in issue for the purpose of EPS calculations (excluding own shares held in trust for employees and treasury shares) was 392.5m (six months to 30 September 2005: 393.3m and year to 31 March 2006: 392.6m).

Foreign exchange

The results of the North American businesses have been translated at an average rate of £1:$1.85 (six months to 30 September 2005: £1:$1.83 and year to 31 March 2006: £1:$1.79).

The period end rate was £1:$1.87 (30 September 2005: £1:$1.78 and 31 March 2006: £1:$1.74).

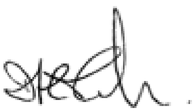
Analysis of net debt

	Fixed £m	Variable £m	Total £m
Cash	–	27.8	27.8
Rail ring-fenced cash and deposits	–	153.5	153.5
Sterling bond (2013)[1]	(296.3)	–	(296.3)
Sterling bond (2019)[2]	(231.9)	–	(231.9)
Sterling bank loans and overdrafts	–	(311.7)	(311.7)
US Dollar bank loans and overdrafts	(0.4)	(1.4)	(1.8)
Canadian Dollar bank loans and overdrafts	(1.9)	(37.4)	(39.3)
Euro bank loans and overdrafts	–	(9.5)	(9.5)
HP and finance leases	(4.3)	(87.3)	(91.6)
Loan notes	(8.7)	(7.1)	(15.8)
Interest rate swaps	(57.0)	57.0	–
Total	**(600.5)**	**(216.1)**	**(816.6)**

[1] Excludes accrued interest.
[2] Stated excluding accrued interest, swapped to US Dollars less gains on associated derivatives.

Fuel hedging

In the UK 2006/07 requirements of 2.6m barrels are fully hedged at $67 per barrel and 2007/08 requirements of 2.7m barrels are 75% hedged at current forward rates. Our 2006/07 requirement for fuel in North America is 100% hedged at $60 per barrel.



Dean Finch
Finance Director
7 November 2006

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, bid costs and non-recurring items
Amortisation and impairment charges
Bid costs
Non-recurring items
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 interest
Basic earnings per share
Diluted earnings per share

Dividends of £37.5m were paid during the six months to 30 September 2006 (30 September 2005: £34.2m). Dividends of £19.6m were proposed for approval during the period (30 September 2005: £17.9m and 31 March 2006: £37.5m).

Notes	Unaudited Before amortisation, impairment charges, bid costs and non-recurring items 6 months to 30 September 2006 £m	Unaudited Amortisation, impairment charges, bid costs and non-recurring items 6 months to 30 September 2006 £m	Unaudited Total 6 months to 30 September 2006 £m	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	Audited Total year to 31 March 2006 £m
2	**1,715.7**	**–**	**1,715.7**	1,376.5	–	1,376.5	3,030.9
	(1,623.5)	**(21.6)**	**(1,645.1)**	(1,295.1)	(12.0)	(1,307.1)	(2,834.2)
	92.2	**(21.6)**	**70.6**	81.4	(12.0)	69.4	196.7
	92.2	**–**	**92.2**	81.4	–	81.4	229.7
	–	**(4.7)**	**(4.7)**	–	(2.0)	(2.0)	(4.5)
	–	**(7.3)**	**(7.3)**	–	(10.0)	(10.0)	(28.5)
	–	**(9.6)**	**(9.6)**	–	–	–	–
	92.2	**(21.6)**	**70.6**	81.4	(12.0)	69.4	196.7
	–	**1.4**	**1.4**	–	11.8	11.8	14.0
	92.2	**(20.2)**	**72.0**	81.4	(0.2)	81.2	210.7
3	**4.0**	**–**	**4.0**	5.2	–	5.2	8.5
3	**(36.3)**	**–**	**(36.3)**	(31.1)	–	(31.1)	(61.8)
	59.9	**(20.2)**	**39.7**	55.5	(0.2)	55.3	157.4
4	**(15.3)**	**5.4**	**(9.9)**	(15.3)	0.1	(15.2)	(40.0)
	44.6	**(14.8)**	**29.8**	40.2	(0.1)	40.1	117.4
	39.6	**(14.7)**	**24.9**	35.9	(0.4)	35.5	107.5
	5.0	**(0.1)**	**4.9**	4.3	0.3	4.6	9.9
	44.6	**(14.8)**	**29.8**	40.2	(0.1)	40.1	117.4
6			**6.3p**			9.0p	27.4p
6			**6.3p**			9.0p	27.1p

Consolidated balance sheet

	Notes	Unaudited 30 September 2006 £m	Unaudited 30 September 2005 (restated) £m	Audited 31 March 2006 £m
Non-current assets				
Goodwill	7	**482.6**	485.8	503.1
Other intangible assets	8	**59.4**	28.0	30.0
Property, plant and equipment	9	**1,036.6**	904.9	926.5
Financial assets – derivative financial instruments	13	**28.7**	19.8	8.5
		1,607.3	1,438.5	1,468.1
Current assets				
Inventories		**62.4**	54.4	54.2
Trade and other receivables	10	**368.1**	396.4	373.1
Financial assets – cash and cash equivalents		**181.3**	119.8	174.4
– derivative financial instruments	13	**7.5**	37.6	14.1
		619.3	608.2	615.8
Non-current assets classified as held for sale	11	**6.2**	5.7	6.6
Total assets		**2,232.8**	2,052.4	2,090.5
Current liabilities				
Trade and other payables	12	**586.3**	507.1	545.1
Tax liabilities		**51.7**	59.1	47.8
Financial liabilities – obligations under finance leases		**14.9**	5.2	2.3
– bank overdrafts and loans		**27.8**	6.1	30.9
– loan notes		**0.2**	2.8	2.8
– derivative financial instruments	13	**9.0**	0.8	1.8
– accrued bond interest		**20.1**	20.1	23.1
		710.0	601.2	653.8
Net current (liabilities)/assets		***(90.7)***	*7.0*	*(38.0)*
Non-current liabilities				
Financial liabilities – obligations under finance leases		**76.7**	11.5	10.1
– bank loans		**334.5**	294.9	268.8
– loan notes		**15.6**	17.8	17.7
– derivative financial instruments	13	**0.2**	1.6	0.8
– bonds		**549.2**	556.7	553.2
Retirement benefit obligation		**140.8**	205.4	132.0
Deferred tax liabilities		**86.2**	54.4	84.6
Long-term provisions	14	**39.1**	38.2	37.6
		1,242.3	1,180.5	1,104.8
Total liabilities		**1,952.3**	1,781.7	1,758.6
Net assets		**280.5**	270.7	331.9
Equity				
Share capital	16	**19.9**	19.9	19.9
Share premium account	17	**238.8**	238.8	238.8
Hedging reserves	17	**12.0**	23.2	1.9
Other reserves	17	**4.6**	4.6	4.6
Own shares	17	**(23.0)**	(18.8)	(26.6)
Translation reserves	18	**(23.7)**	13.3	27.7
Retained earnings	17	**40.2**	(23.3)	52.9
Equity attributable to equity holders of the parent		**268.8**	257.7	319.2
Minority interests		**11.7**	13.0	12.7
Total equity		**280.5**	270.7	331.9

Consolidated cash flow statement

	Note	**Unaudited 6 months to 30 September 2006 £m**	Unaudited 6 months to 30 September 2005 £m	Audited Year to 31 March 2006 £m
Net cash from operating activities	19	**113.5**	62.9	235.0
Investing activities				
Interest received		**4.1**	2.7	5.9
Proceeds of disposal of property, plant and equipment		**7.4**	2.0	27.3
Purchases of property, plant and equipment		**(125.7)**	(106.3)	(196.2)
Acquisition of businesses		**(6.9)**	(3.5)	(12.4)
Net cash used in investing activities		**(121.1)**	(105.1)	(175.4)
Financing activities				
Repurchase of ordinary share capital		**–**	–	(23.0)
Shares purchased by Employee Benefit Trust		**–**	(0.7)	(1.4)
Monies received on exercise of options		**0.4**	–	8.4
Dividends paid		**(37.5)**	(34.0)	(52.0)
Dividends paid to minority shareholders		**(5.7)**	(2.5)	(7.2)
Repayment of bank borrowings		**–**	(222.8)	–
Repayment of obligations under finance leases		**(4.8)**	(7.4)	(11.8)
Repayment of loan notes		**(4.7)**	(0.4)	(0.5)
Payment of new bank facility issue costs		**–**	(1.0)	(1.0)
New bank loans raised		**67.3**	286.8	55.7
Net cash from financing activities		**15.0**	18.0	(32.8)
Net increase/(decrease) in cash and cash equivalents		**7.4**	(24.2)	26.8
Cash and cash equivalents at beginning of period		**169.9**	145.9	145.9
Effect of foreign exchange rate changes		**2.3**	(1.9)	(2.8)
Cash and cash equivalents at end of period		**179.6**	119.8	169.9

Cash and cash equivalents for cash flow statement purposes comprise:

	30 September 2006 £m	30 September 2005 £m	31 March 2006 £m
Cash and cash equivalents per balance sheet	**181.3**	119.8	174.4
Overdrafts	**(1.7)**	–	(4.5)
	179.6	119.8	169.9

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.

Consolidated statement of recognised income and expense

	Unaudited 6 months to 30 September 2006 £m	Unaudited 6 months to 30 September 2005 £m	Audited Year to 31 March 2006 £m
Derivative hedging instrument movements	**10.1**	(13.8)	(35.1)
Exchange differences on translation of foreign operations	**(51.4)**	35.2	49.6
Actuarial gains on defined benefit pension schemes	**–**	–	36.7
Deferred tax on actuarial gains	**–**	–	(11.0)
Net income recognised directly in equity	**(41.3)**	21.4	40.2
Profit for the period	**29.8**	40.1	117.4
Total recognised income and expense for the period	**(11.5)**	61.5	157.6
Attributable to:			
Equity holders of the parent	**(16.4)**	56.9	147.7
Minority interests	**4.9**	4.6	9.9
	(11.5)	61.5	157.6
Balances recognised on 1 April 2005 on adoption of IAS 39, net of tax		20.3	20.3

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 statutory accounts for the year ended 31 March 2006 have been 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 figures for the six months to 30 September 2006 include the results of the rail businesses for the period ended 23 September 2006 and the results for the other businesses for the 26 weeks ended 30 September 2006.

The accounting policies used in the interim financial statements are consistent with International Financial Reporting Standards and those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2006.

The balance sheet at 30 September 2005 has been restated due to a change in our interpretation of IAS 12. This restatement is consistent with the restatement at 31 March 2005 as explained on page 67 of the 2006 Annual Report. The IFRS transition document published on the Group's website on 28 September 2005 identified a GAAP difference relating to the recognition of deferred tax and the application of rollover relief. Current accounting practice does not recognise this GAAP difference. The balance sheets at 31 March 2006 and 30 September 2006 reflect the revised accounting treatment. As a consequence the deferred tax liability at 30 September 2005 has been reduced by £8.2m and retained earnings at 30 September 2005 is £8.2m higher than previously stated.

These results are unaudited but have been reviewed by the auditors, whose review report is given on page 28. The comparative figures for the six months to 30 September 2005 are unaudited and are derived from the interim report for the six months ended 30 September 2005, which was also reviewed by the auditors.

This interim report will be sent to all shareholders in November 2006 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 7 November 2006.

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 2006 are as follows:

	UK Bus £m	UK Rail £m	North America £m	Group items £m	Total £m
Revenue	**521.9**	**817.6**	**372.0**	**4.2**	**1,715.7**
Segment results[1]	**40.8**	**43.9**	**17.9**	**(9.1)**	**93.5**
Amortisation of intangible assets	**–**	**(3.8)**	**(0.9)**	**–**	**(4.7)**
Financing element of operating leases	**(1.3)**	**–**	**–**	**–**	**(1.3)**
Bid costs	**–**	**(5.0)**	**–**	**(2.3)**	**(7.3)**
Non-recurring items	**–**	**(8.5)**	**(1.1)**	**–**	**(9.6)**
Profit on disposal of fixed assets	**1.4**	**–**	**–**	**–**	**1.4**
Operating profit	**40.9**	**26.6**	**15.9**	**(11.4)**	**72.0**
Finance income					**4.0**
Finance costs					**(36.3)**
Profit before tax					**39.7**
Tax					**(9.9)**
Profit for the period					**29.8**

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 results[1]	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
Finance income					5.2
Finance costs					(31.1)
Profit before tax					55.3
Tax					(15.2)
Profit for the period					40.1

[1]Operating profit before amortisation of intangible assets, financing element of leases, bid costs, non-recurring items and profit on disposal of fixed assets.

2 Segment information continued

The segment results for the year to 31 March 2006 are as follows:

	UK Bus £m	UK Rail £m	North America £m	Group items £m	Total £m
Revenue	1,031.2	1,164.9	826.3	8.5	3,030.9
Segment results[1]	108.6	79.6	67.1	(15.4)	239.9
Amortisation of intangible assets	–	(2.9)	(1.6)	–	(4.5)
Financing element of operating leases	(10.2)	–	–	–	(10.2)
Bid costs	–	(26.1)	–	(2.4)	(28.5)
Profit on disposal of fixed assets	14.0	–	–	–	14.0
Operating profit	112.4	50.6	65.5	(17.8)	210.7
Finance income					8.5
Finance costs					(61.8)
Profit before tax					157.4
Tax					(40.0)
Profit for the period					117.4

[1]Operating profit before amortisation of intangible assets, financing element of leases, bid costs, non-recurring items and profit on disposal of fixed assets.

3 Net finance costs	**6 months to 30 September 2006 £m**	6 months to 30 September 2005 £m	Year to 31 March 2006 £m
Interest income on bank deposits	**4.0**	5.2	8.5
Bond and bank facilities	**(29.6)**	(26.9)	(53.1)
Loan notes	**(0.7)**	(0.9)	(1.8)
Finance charges payable in respect of hire purchase contracts and finance leases	**(2.5)**	(0.5)	(0.8)
Notional interest on long-term provisions	**(3.5)**	(2.8)	(6.1)
Finance costs	**(36.3)**	(31.1)	(61.8)
Net finance costs	**(32.3)**	(25.9)	(53.3)

4 Tax	**6 months to 30 September 2006 £m**	6 months to 30 September 2005 £m	Year to 31 March 2006 £m
Corporation tax	**0.4**	2.6	(3.3)
Deferred tax	**9.5**	12.6	43.3
Tax charge	**9.9**	15.2	40.0

5 Dividends paid and proposed	6 months to 30 September 2006 £m	6 months to 30 September 2005 £m	Year to 31 March 2006 £m
Final dividend paid for the year ended 31 March 2006 of 9.55p (2005: 8.69p) per share	**37.5**	34.2	34.2
Interim dividend paid for the year ended 31 March 2006 of 4.55p (2005: 4.125p) per share	**–**	–	17.9
Amounts recognised as distributions to equity holders in the period	**37.5**	34.2	52.1
Proposed interim dividend for the year ended 31 March 2007 of 5.0p (2006: 4.55p) per share	**19.6**	17.9	–

The proposed interim dividend will be paid on 7 February 2007 to shareholders on the register of members at the close of business on 12 January 2007. The proposed interim dividend has not been included as a liability as at 30 September 2006.

6 Earnings per share (EPS)

Basic EPS is based on earnings of £24.9m (six months to 30 September 2005: £35.5m and year to 31 March 2006: £107.5m) and on a weighted average number of ordinary shares (excluding own shares held in trust for employees and treasury shares) of 392.5m (six months to 30 September 2005: 393.3m and year to 31 March 2006: 392.6m) in issue.

Diluted EPS is based on the same earnings and on the weighted average number of ordinary shares of 396.0m (six months to 30 September 2005: 394.6m and year to 31 March 2006: 396.5m). 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 amortisation of intangible assets, bid costs, non-recurring items 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 2006 £m	6 months to 30 September 2006 Earnings per share (p)
Profit for basic EPS calculation	**24.9**	**6.3**
Amortisation of intangible assets[1]	**4.6**	**1.2**
Bid costs and non-recurring items	**16.9**	**4.3**
Profit on disposal of fixed assets	**(1.4)**	**(0.3)**
Taxation effect of adjustments	**(5.4)**	**(1.4)**
Profit for adjusted basic EPS calculation	**39.6**	**10.1**
Depreciation[2]	**61.9**	**15.8**
Profit for adjusted cash EPS calculation	**101.5**	**25.9**

[1]Amortisation of £4.7m per note 8 less £0.1m attributable to equity minority interests.
[2]Depreciation charge of £62.3m per note 9 less £0.4m of depreciation attributable to equity minority interests.

6 Earnings per share (EPS) continued

	6 months to 30 September 2005 £m	6 months to 30 September 2005 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

[1]Profit 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.
[2]Depreciation charge of £53.9m less £0.1m of depreciation attributable to equity minority interests.

	Year to 31 March 2006 £m	Year to 31 March 2006 Earnings per share (p)
Profit for basic EPS calculation	107.5	27.4
Amortisation of intangible assets[1]	4.3	1.1
Bid costs	28.5	7.2
Profit on disposal of fixed assets[2]	(13.5)	(3.4)
Taxation effect of adjustments	(5.3)	(1.4)
Profit for adjusted basic EPS calculation	121.5	30.9
Depreciation[3]	121.6	31.0
Profit for adjusted cash EPS calculation	243.1	61.9

[1]Amortisation charge of £4.5m less £0.2m attributable to equity minority interests.
[2]Profit on disposal of fixed assets of £14.0m per note 2 less £0.5m attributable to equity minority interests before tax.
[3]Depreciation charge of £122.0m less £0.4m of depreciation attributable to equity minority interests.

7 Goodwill

	£m
Cost	
At 1 April 2006	503.1
Additions	6.4
Exchange rate differences	(26.9)
At 30 September 2006	**482.6**
Accumulated impairment losses	
At 1 April 2006 and 30 September 2006	**–**
Carrying amount	
At 30 September 2006	**482.6**
At 31 March 2006	503.1
At 30 September 2005	485.8

8 Other intangible assets	Contracts acquired £m	Franchise agreements £m	Total £m
Cost			
At 1 April 2006	15.7	21.0	36.7
Additions	–	35.0	35.0
Exchange rate differences	(1.1)	–	(1.1)
At 30 September 2006	**14.6**	**56.0**	**70.6**
Amortisation			
At 1 April 2006	2.2	4.5	6.7
Charge for period	0.9	3.8	4.7
Exchange rate differences	(0.2)	–	(0.2)
At 30 September 2006	**2.9**	**8.3**	**11.2**
Carrying amount			
At 30 September 2006	**11.7**	**47.7**	**59.4**
At 31 March 2006	13.5	16.5	30.0
At 30 September 2005	9.9	18.1	28.0

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 our share of the rail pension deficit and is amortised on a straight-line basis over the term of the franchise.

9 Property, plant and equipment

	Land and buildings £m	Passenger carrying vehicle fleet £m	Other plant and equipment £m	Total £m
Cost				
At 1 April 2006	157.0	1,331.9	203.7	1,692.6
Subsidiary undertakings and businesses acquired	2.0	0.6	–	2.6
Additions	1.0	156.3	41.7	199.0
Disposals	(1.9)	(22.7)	(18.9)	(43.5)
Reclassified as held for sale	–	(13.8)	–	(13.8)
Exchange rate differences	(1.4)	(34.0)	(3.1)	(38.5)
At 30 September 2006	**156.7**	**1,418.3**	**223.4**	**1,798.4**
Depreciation				
At 1 April 2006	22.1	621.1	122.9	766.1
Subsidiary undertakings and businesses acquired	–	–	–	–
Charge for period	2.3	49.5	10.5	62.3
Disposals	(0.1)	(21.4)	(17.2)	(38.7)
Reclassified as held for sale	–	(10.8)	–	(10.8)
Exchange rate differences	(0.5)	(14.7)	(1.9)	(17.1)
At 30 September 2006	**23.8**	**623.7**	**114.3**	**761.8**
Carrying amount				
At 30 September 2006	**132.9**	**794.6**	**109.1**	**1,036.6**
At 31 March 2006	134.9	710.8	80.8	926.5
At 30 September 2005	124.6	720.2	60.1	904.9

10 Trade and other receivables

	30 September 2006 £m	30 September 2005 £m	31 March 2006 £m
Amounts due within one year			
Trade debtors	**265.2**	260.1	279.3
Other debtors	**38.2**	71.2	38.8
Other prepayments and accrued income	**64.7**	65.1	55.0
	368.1	396.4	373.1

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 statutory operating profit in the income statement.

12 Trade and other payables

	30 September 2006 £m	30 September 2005 £m	31 March 2006 £m
Amounts falling due within one year			
Trade creditors	**180.2**	141.1	129.7
Other creditors	**35.1**	50.7	106.5
Accruals and deferred income	**326.0**	301.6	294.9
Season ticket deferred income	**45.0**	13.7	14.0
	586.3	507.1	545.1

13 Derivative financial instruments

	30 September 2006 £m	30 September 2005 £m	31 March 2006 £m
Non-current assets			
Interest rate and foreign exchange derivatives	**28.6**	15.1	8.5
Fuel derivatives	**0.1**	4.7	–
	28.7	19.8	8.5
Current assets			
Interest rate and foreign exchange derivatives	**3.8**	6.0	3.3
Fuel derivatives	**3.7**	31.6	10.8
	7.5	37.6	14.1
Total assets	**36.2**	57.4	22.6
Current liabilities			
Interest rate and foreign exchange derivatives	**0.7**	0.8	1.8
Fuel derivatives	**8.3**	–	–
	9.0	0.8	1.8
Non-current liabilities			
Interest rate and foreign exchange derivatives	**–**	1.6	0.8
Fuel derivatives	**0.2**	–	–
	0.2	1.6	0.8
Total liabilities	**9.2**	2.4	2.6

14 Provisions for liabilities and charges

	Insurance claims[1] £m	Pensions £m	Total £m
At 1 April 2006	30.7	6.9	37.6
Provided in the period	29.5	–	29.5
Utilised in the period	(28.8)	(0.3)	(29.1)
Notional interest on long-term provisions	3.5	–	3.5
Exchange rate differences	(2.4)	–	(2.4)
At 30 September 2006	**32.5**	**6.6**	**39.1**
At 30 September 2005	28.4	9.8	38.2

[1]Insurance claims accruals due within one year at 30 September 2006 amounted to £42.7m (30 September 2005: £45.4m and 31 March 2006: £50.0m) and are included in 'accruals and deferred income' in note 12.

15 Business combinations

	30 September 2006 £m	30 September 2005 £m	31 March 2006 £m
Provisional fair values of net assets acquired:			
Tangible assets	**2.6**	1.5	4.0
Intangible assets	**–**	–	4.3
Other creditors	**(2.1)**	(0.3)	(6.2)
	0.5	1.2	2.1
Goodwill (note 7)	**6.4**	2.3	10.3
	6.9	3.5	12.4
Satisfied by cash paid and payable	**6.9**	3.5	12.4

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

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

Businesses acquired	Date acquired	% Voting equity instruments acquired
Ladd Bus, Inc	30 June 2006	100
T-NT Bus Service, Inc	27 July 2006	100
Earl D Stires Bus Company, Inc	28 July 2006	100

16 Share capital

	30 September 2006 £m	30 September 2005 £m	31 March 2006 £m
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 and shares held in trust for employees, at the end of the period was 392.9m (30 September 2005: 393.6m and 31 March 2006: 392.2m). At the end of the period 5.6m shares (30 September 2005: 5.2m shares and 31 March 2006: 6.6m shares) were being held as treasury shares.

17 Reserves	Hedging reserve £m	Share premium account £m	Own shares £m	Retained earnings £m
At 1 April 2006	1.9	238.8	(26.6)	52.9
Retained profit for the financial period	–	–	–	24.9
Dividends paid	–	–	–	(37.5)
Movement in EBT, QUEST and treasury shares during the period	–	–	3.6	(3.1)
Derivative hedging instrument movements[1]	10.1	–	–	–
Share based payments	–	–	–	1.6
Deferred tax on share based payments	–	–	–	1.4
At 30 September 2006	**12.0**	**238.8**	**(23.0)**	**40.2**
At 30 September 2005	23.2	238.8	(18.8)	(23.3)

[1]Net of deferred tax.

	Capital redemption reserve £m	Capital reserve £m	Total other reserves £m
At 1 April 2006 and 30 September 2006	**1.9**	**2.7**	**4.6**
At 30 September 2005	1.9	2.7	4.6

18 Translation reserves	£m
At 1 April 2006	27.7
Movement for the financial period	(51.4)
At 30 September 2006	**(23.7)**
At 30 September 2005	13.3

The movement for the financial period reflects the fact that the US Dollar exchange rate moved from \$1.74:£1 at 1 April 2006 to \$1.87:£1 at 30 September 2006.

19 Notes to the consolidated cash flow statement	**6 months to 30 September 2006 £m**	6 months to 30 September 2005 £m	Year to 31 March 2006 £m
Operating profit	**70.6**	69.4	196.7
Adjustments for:			
Depreciation charges	**62.3**	53.9	122.0
Amortisation of intangible assets	**4.7**	2.0	4.5
Share based payments	**1.6**	1.6	3.2
Loss on disposal of property, plant and equipment	**0.7**	0.3	1.4
Operating cash flows before working capital	**139.9**	127.2	327.8
Increase in inventories	**(4.5)**	(5.7)	(9.6)
(Increase)/decrease in receivables	**(6.0)**	(3.9)	3.9
Increase/(decrease) in payables	**28.0**	(17.6)	(21.4)
Cash generated by operations	**157.4**	100.0	300.7
Corporation tax (paid)/repaid	**(3.1)**	0.7	(3.5)
Interest paid	**(39.7)**	(37.3)	(61.3)
Interest element of hire purchase contracts and finance lease payments	**(1.1)**	(0.5)	(0.9)
Net cash from operating activities	**113.5**	62.9	235.0

20 Reconciliation of net cash flows to movement in net debt	**6 months to 30 September 2006 £m**	6 months to 30 September 2005 £m	Year to 31 March 2006 £m
Increase/(decrease) in cash and cash equivalents in period	**7.4**	(24.2)	26.8
Increase in debt and HP contract and finance lease financing	**(57.8)**	(56.2)	(43.4)
Inception of new finance leases	**(84.0)**	–	–
Lease and hire purchase contracts acquired with new franchise	**–**	–	(0.7)
Fees on issue of Bond and loan facility	**–**	1.0	1.0
Foreign exchange differences	**22.5**	(15.9)	(23.1)
Other non-cash movements in relation to financial instruments	**(0.3)**	(1.5)	(1.9)
Movement in net debt in period	**(112.2)**	(96.8)	(41.3)
Net debt at beginning of period	**(704.4)**	(663.1)	(663.1)
Net debt at end of period	**(816.6)**	(759.9)	(704.4)

Net debt includes the value of derivatives in connection to the £250m bond and excludes all accrued interest. The £250m bond is included in non-current liabilities in the consolidated balance sheet.

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 2006, 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 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.

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 principally 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 International Standards on Auditing (UK and Ireland) 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 2006.

Deloitte & Touche LLP
Chartered Accountants
London, 7 November 2006

Financial calendar

Shares trade ex dividend	10 January 2007
Record date for interim dividend[1]	12 January 2007
Interim dividend paid	7 February 2007
Financial year end	31 March 2007
Full year results announced	May 2007
Annual General Meeting	July 2007
Final dividend paid	August 2007

[1]Shareholders recorded on the register at this date will receive the interim dividend.

Shareholder enquiries

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

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