First
transforming travel

Interim Report 2002

for the six months to 30 September 2002

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Financial calendar

Shares trade ex dividend	15 January 2003
Record date for interim dividend*	17 January 2003
Interim dividend paid	12 February 2003
Financial year end	31 March 2003
Full year results announced	May 2003
Annual General Meeting	July 2003
Final dividend paid	August 2003

*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.

First is the UK's largest surface passenger transport company. We operate buses, trains and trams in the UK. In North America we operate school buses, transit contracting and management and vehicle maintenance services. Our vision is quite simply to 'Transform Travel' – to provide the highest levels of safety and service to our customers and employees.

Financial highlights

For the six months to 30 September 2002

	2002	2001 (restated)[1]	%
Turnover (£m)	**1,068.9**	995.0	+7
Operating profit (£m)[2]	**84.4**	83.8	+1
Profit before tax (£m)[2]	**55.8**	55.5	+1
Adjusted basic earnings per share (pence)	**9.3**	9.1	+2
Net dividend per share (pence)	**3.55**	3.3	+8
Cash generation (£m)[3]	**133.5**	129.7	+3

[1]The 2001 figures have been restated following the adoption of UITF 34 – see note 2 to the interim financial information
[2]Before goodwill, exceptional items and profit on disposal of fixed assets
[3]Operating profit before goodwill, exceptional items and profit on disposal of fixed assets, plus depreciation

Chairman's statement

The Group has continued to perform very well despite the more uncertain economic environment on both sides of the Atlantic. Group turnover has increased by 7.4% to £1,069m. Group operating profit, before goodwill, exceptional items and profit on disposal of fixed assets was £84.4m (2001: £83.8m). Adjusted earnings per share (before goodwill amortisation, restructuring and exceptional costs, and property profits) were 9.3p (2001: 9.1p). As a sign of confidence in the business, the Board has recommended an increased interim dividend of 3.55p (2001: 3.3p), an increase of 7.6%. The dividend is covered 2.8 times and will be paid on 12 February 2003 to shareholders on the register on 17 January 2003.

Safety is at the forefront of everything that we do and we continue to promote a culture of safety throughout our business.

The Group has a focused strategy to develop strong businesses in major transport markets where it can deliver increased shareholder value through the application of its management expertise and operational efficiency. We now have strategic positions in both the UK bus and rail markets where we are the number one and number two operator respectively. In the US we are the second largest operator of school bus services and we have important positions in the transit and vehicle maintenance markets. Our businesses are in sectors which offer encouraging opportunities for long-term growth as public transport becomes a more important alternative to the private car in our increasingly congested urban areas. We work closely with local authorities and government agencies and we have developed partnerships with many of them to enable us to work together to develop improvements in the transport environment.

An important feature of our business is that a considerable amount of our revenue is received in cash in advance of travel. Much of the balance is represented by contractual revenue streams with local, state or national governments. A significant proportion of our business is in sectors of the market which are either not exposed to economic downturn (US school transportation), or significantly less exposed to short-term business fluctuations (UK Bus). These characteristics give a resilience to our operations which is encouraging for shareholders in more uncertain economic times.

Earlier in the year we restructured and strengthened the senior management team in the US with the appointment of a new President for FirstGroup America, and the creation of a new post of President for First Vehicle Services. Robbie Duncan, who had been acting president of our North America Division, will retire from the Group at the end of the year. Robbie joined Grampian Regional Transport as Finance Director in 1986 and has subsequently held a number of senior Board positions in FirstGroup plc. I would like to thank Robbie for his contribution to the development of the Group and wish him a long and happy retirement.

The Group's businesses are highly cash generative with £134m arising in the first half-year. This has enabled us to continue to invest in growing the business, as well as reducing debt and returning cash to shareholders, through share repurchases and an increased dividend.

I am optimistic that the Group has an important role to play in working with its public sector partners in the transport industry to deliver the Government's aspirations for increased public transport usage in the UK. In the US we have established an excellent base from which to continue to expand our business in a number of highly fragmented markets.

Martin Gilbert
Chairman
5 November 2002

Chief Executive's operating review

Overview

We have made a good start to the year with turnover exceeding £1 billion for the first time at the half-year stage at £1,069m (2001: £995m). Operating profit, before goodwill, exceptional costs and profits on disposal of fixed assets, increased to £84.4m (2001: £83.8m). The Group has continued to generate strong cash flows of £134m (2001: £130m) which have been used to invest £82m in the business through capital expenditure on new vehicles in the UK and US and the acquisition of new school bus operations in the US.

UK Bus

For the six months to 30 September 2002 turnover increased by 5.8% to £418.7m (2001: £395.7m). Operating profit before contract hire leasing costs was £45.9m (2001: £43.5m), an increase of 5.5%. Operating margins were maintained despite increased costs, primarily insurance, following September 11th.

We are encouraged that total passenger volumes have increased by 1.5% in the period, slightly ahead of the same period last year. We have benefited from new and enlarged contracts to operate buses in London on behalf of Transport for London partly in preparation for the introduction in February 2003 of congestion charging. The success of this scheme will benefit passengers in London and could provide a blueprint for similar programmes in other towns and cities. Elsewhere in the UK we have seen good growth in a number of urban areas where we have been able to improve bus services. This has been achieved through the introduction of the Overground, our simplified route and fares structure, or by other measures to improve reliability in co-operation with local authorities and Passenger Transport Executives (PTEs). Our marketing activity is focused on improving customer information about services and tickets and developing and promoting compelling fare deals to attract profitable growth in bus travel.

Increasing costs continued to put pressure on margins. We have experienced an increase in our insurance premiums following September 11th and increases in personnel costs are running ahead of inflation. As far as possible we are attempting to absorb these increases without putting up fares at a time when we are seeing passengers returning to buses. We are also looking at ways to further increase our operational efficiency. We have already made annual savings of £3m through improved procurement and we will be looking at ways of reducing driver turnover.

During the first half-year we have invested £30.5m in new buses in the UK. The fleets in York, Leicester, Glasgow, Sheffield and Northampton are being substantially upgraded. On behalf of Greater Manchester PTE we introduced new low-floor minibuses to operate the largest free bus service in the UK. In East Anglia we have invested £1.6m in new coaches for our highly successful Excel service which runs from Peterborough railway station to Norwich and Lowestoft. This is an excellent example of a commercial service which provides both a rail integration link and serves a number of rural centres. Such services play a key part in achieving the Government's ongoing objectives of providing integrated transport for both urban and rural areas.

The Group has established strong partnership relationships with many of the local authorities where we operate buses. Buses are often the most practical way of providing a socially inclusive service in urban areas which are most in need. We believe that we are able to offer competitive, efficient services for all our passengers. However, in our view the way to improve services is not through regulation and red tape but through a genuine sharing of best practice and operational experience between private operators and local authorities. We are encouraged that Central Government has made substantial amounts of money available for investment in road transport and we are actively working with many local authorities to speed up the application of this funding.

UK Rail

Rail turnover during the period was £385.4m (2001: £364.3m) an increase of 6%. Passenger volumes on First Great Western and First Great Eastern have increased by 4%. Operating profit was £29.5m (2001: £29.5m) a creditable performance given the reduction in subsidy, lower performance regime payments and increased costs.

In First Great Western we have benefited from a return of tourist traffic this summer after the foot and mouth outbreak in 2001. In First Great Eastern, our London commuter railway, we have seen a good recovery in passengers but we are monitoring the situation in relation to London employment closely. In First North Western, which we operate on behalf of the Strategic Rail Authority (SRA), passenger volumes were flat.

Across the board our railway companies have shown improved operating performance in the first six months with punctuality now running at 80% or more in all three companies. First Great Eastern was the most punctual operator in London and the South East in the SRA's first quarter 2002/03 Public Performance Measure. There has been a gradual improvement in the rail infrastructure as Railtrack (now Network Rail) overcomes the backlog of maintenance work. On First Great Western additional investment of £18m to upgrade the performance of the High Speed Train fleet has begun. During the period we introduced the first of the new class 180 fleet on First Great Western into the summer timetable and the majority of the remainder entered service in September.

The division continues to manage cost pressures tightly. However we are experiencing increases ahead of inflation with particular pressure on insurance premiums and payroll. In addition train leasing costs will rise as new rolling stock is brought into service.

The Group has a clear objective to renew its existing rail franchises and to bid for new franchises in areas where we already operate trains or buses. We are shortlisted for the new TransPennine Express franchise with our partner Keolis. We have pre-qualified for the new Greater Anglia franchise which will incorporate First Great Eastern, Anglia and the West Anglia lines of WAGN. We believe that we have a strong track record of service delivery on First Great Eastern, as well as an unrivalled position to offer transport integration in East Anglia through our bus operations in Essex and the Eastern Counties. We look forward to submitting competitive proposals to the SRA in due course. On First Great Western we have already submitted proposals to the SRA which would enable us to provide up to 40% more capacity on trains from Paddington station, through the integration of our services with those currently operated by Thames Trains whose franchise expires in 2004. This would give early and substantial passenger benefits without the need for any infrastructure investment.

During the last six months we have seen important developments in the UK transport sector including the establishment of Network Rail as the track infrastructure operator and a number of announcements from the SRA outlining the likely future direction of the industry. We think it is important that the focus remains on restoring the railway to normality and lifting some of the uncertainty surrounding the refranchising process. We look forward to working with the SRA on the development of the new railway map for the UK. We are

now more optimistic about the future of the railways and we believe that First has an important role to play.

North America

In North America the Group is the second largest operator of student transportation with almost 16,000 school buses across the US and Canada. We also operate transit contracting and management, and vehicle maintenance services. In the six months to 30 September 2002 turnover increased to £261.6m (2001: £231.9m) an increase of 13%. Operating profit was £16.5m (2001: £17.8m) reflecting primarily the increased insurance premiums post September 11th. We have continued to invest in the business with £56.5m in the first half-year.

First Student is on target to increase its school bus fleet by around 1,000 buses during the current year. The bidding market for new school bus contracts has been more competitive this year. However, we have been successful in retaining around 90% of our existing contracts which came up for renewal during the year. This result reflects the high level of service offered and strong relationships established between First Student and the school boards. Our strategy remains that we will not bid for new business at the expense of margins. As a result much of our expansion this year has been through the acquisition of small, privately owned operators where we have been able to acquire the businesses on attractive terms.

Turnover in our Transit division increased by 22% in the period reflecting the encouraging level of new business start-ups during the first half including important new contracts in Denver, San Francisco and Houston as well as in the new states of Arkansas and Wyoming. In a marketplace that is becoming more competitive, First Transit will focus on improving cost control and becoming the best value, low cost service provider in the sector.

We have now established a separate management structure for First Vehicle Services to focus on developing this part of the business more rapidly. We have had a very good six months with major new business wins from authorities in Washington DC and Puerto Rico. The division has also renewed several other important contracts. We are now focused on growing the business and improving margins through the use of new purchasing systems, improved operational efficiency and delivering superior service to our clients.

Across our North American division costs have increased, particularly insurance premiums which have risen in the aftermath of September 11th. We are currently examining ways in which we may be able to minimise insurance premiums in the future. Other costs including fuel and labour are tightly controlled and although margins are lower in the first half we expect to see some recovery in the second half.

We remain optimistic about the opportunities in North America and we believe that we have a strong management team in place to deliver further improvements in performance and growth going forward.

Outlook

This is a strong set of results against a difficult economic background in the UK and North America and the performance of all of the Group's businesses has been encouraging. The Group's strong cash flow puts us in an excellent position to continue to invest for growth, reduce debt and buy back equity. We are on target to achieve our trading objectives for the remainder of the year.

Moir Lockhead
Chief Executive
5 November 2002

Overall

Turnover increased by £73.9m (7.4%) to £1,068.9m and operating profit, before goodwill, exceptional items and profit on disposal of fixed assets, was up £0.6m (0.7%) at £84.4m.

	6 months to 30 September 2002			6 months to 30 September 2001			Year to 31 March 2002		
Divisional results	**Turnover £m**	**Operating profit[1] £m**	**Operating margin[1] %**	Turnover £m	Operating profit[1] £m	Operating margin[1] %	Turnover £m	Operating profit[1] £m	Operating margin[1] %
UK Bus	**418.7**	**45.9**	**11.0**	395.7	43.5	11.0	811.5	105.7	13.0
UK Rail	**385.4**	**29.5**	**7.7**	364.3	29.5	8.1	802.9	66.8	8.3
North America	**261.6**	**16.5**	**6.3**	231.9	17.8	7.7	542.9	60.8	11.2
Financing element of leases[2]	**–**	**(2.9)**	**–**	–	(1.2)	–	–	(3.4)	–
Other[3]	**3.2**	**(4.6)**	**–**	3.1	(5.8)	–	6.8	(14.9)	–
Total Group	**1,068.9**	**84.4**	**7.9**	995.0	83.8	8.4	2,164.1	215.0	9.9

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

Turnover in the UK Bus division increased by £23.0m (5.8%). Passenger volumes rose 1.5% and new contracts in London accounted for £13.3m of the uplift in turnover. Operating profit for the period, before the financing element of operating leases, increased by £2.4m (5.5%). The margin achieved of 11.0% was the same as the first half of last year.

UK Rail division turnover increased by £21.1m (5.8%) with passenger volume growth of 4%, compared to an industry average of only 2%. Operating profit was in line with last year principally reflecting higher passenger revenue, offset by subsidy reductions and lower levels of compensation as the performance of Railtrack (now Network Rail) improved. During the period we have recognised £5.6m of the £17.3m additional compensation for gauge corner cracking which represents the current view of revenue losses. It is anticipated that the remaining compensation will be utilised to match revenue losses in the second half of the year.

North American turnover increased by £29.7m (12.8%) including exchange rate movements, with the majority of this new business attributable to First Student which is on target to achieve 1,000 new buses. Operating profit was £16.5m (2001: £17.8m) including exchange rate movements. This reflects an increase in First Student profit offset by reductions in the profits of First Transit and First Vehicle Services. There has been margin pressure in all three businesses, principally due to cost increases following September 11th, particularly in insurance and fuel.

Property gains on disposal

Gains on disposal of £11.2m were realised in the six months to 30 September 2002 compared with none for the first half of last year. These disposals are part of a five year property disposal plan which will release cash from prime city centre sites, much of which will be reinvested in modern bus depots, which will further enhance our UK Bus operations.

Restructuring and other exceptional costs

Restructuring and exceptional costs of £1.0m were incurred during the six months to 30 September 2002 compared to £5.9m for the first half of last year. These comprised £1.7m of UK Bus restructuring costs and £1.8m of bid costs, partly offset by a £2.5m gain on the disposal of our interest in Tramtrack Croydon Limited.

Joint ventures and associates

There was no exposure to losses from joint ventures or associates during the period (2001: £1.3m) as we provided for all unamortised costs in the year ended 31 March 2002.

Goodwill amortisation

The goodwill charge for the half-year was £13.1m which is £1.6m lower than the first half of last year. This represents the elimination of goodwill on joint ventures and associates of £1.0m with the balance being attributable to foreign exchange movements.

Interest

The net interest charge for the half-year was £28.6m compared to £27.0m for the same period last year. The charge includes £1.6m (2001: £0.8m) of notional interest on provisions (mainly insurance and pensions). The interest charge is covered 4.7 times by cash generation.

Taxation

The taxation charge for the half-year was £12.2m (2001: £11.3m) in line with increased profits. No tax has been provided on property gains as these are rolled over into new property purchases. The taxation charge for the half year has been based on the estimated likely effective rate for the full year of 30% (2001: 31%) on profit before goodwill and exceptional items. The actual cash cost of taxation to the Group is estimated to be 20% for the full year (2001: 23%).

Earnings per share

The adjusted basic earnings per share (EPS) figure was 9.3p (2001: 9.1p), an increase of 2.2%. Basic earnings per share was 9.7p (2001: 5.6p), significantly higher than the restated figure for the first half of last year due to property gains and lower exceptional costs.

Cash flow and investment in the business

Cash generation (operating profit before goodwill and one-off costs plus depreciation) rose from £129.7m to £133.5m. Capital expenditure during the period amounted to £67.9m of which £56.5m was spent on North American buses. There is a significant first half bias to North American capital expenditure in the run up to the start of the school year. In addition acquisitions of £14.0m were made in North America.

Net debt

Net debt at 30 September 2002 was £691.7m (2001: £772.6m), a reduction year on year of £80.9m. This reduction principally reflects stronger cash generation, reduced capital expenditure and lower interest payments.

Since 1 April 2002 the sterling value of the Group's dollar borrowings decreased by £24.0m as a result of the period end exchange rate movement from £1:$1.43 to £1:$1.56.

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

Analysis of net debt	Fixed £m	Variable £m	Total £m
Cash	–	11.8	11.8
Rail ring-fenced cash	–	78.6	78.6
Bond (2013: 6.875%)	(294.8)	–	(294.8)
Sterling bank loans and overdrafts	–	(102.6)	(102.6)
US dollar bank loans and overdrafts	–	(261.7)	(261.7)
Canadian dollar bank loans	–	(10.7)	(10.7)
HP and finance leases	(73.6)	(15.3)	(88.9)
Loan notes	(9.0)	(14.4)	(23.4)
Interest rate swaps	(160.2)	160.2	–
Total	**(537.6)**	**(154.1)**	**(691.7)**

Financial review

Balance sheet and net assets

The restatement of pre-contract costs, in accordance with UITF 34, decreased opening net assets by £2.3m. Net assets decreased over the period by £28.5m reflecting a retained profit of £25.9m offset by an adverse foreign exchange movement of £49.0m and share repurchases of £5.4m. As US dollar borrowings broadly match US dollar net assets excluding goodwill, the foreign exchange movement principally arises from the impact on US goodwill of the 9% strengthening of Sterling against the US dollar since the start of the period.

Shares in issue

During the half-year to 30 September 2002, 2.1m shares (0.5% of share capital) were repurchased and cancelled at a total cost of £5.4m, which leaves 417.7m shares in issue. The average number of shares in issue for the purpose of earnings per share calculation (excluding own shares held) during the first half was 418.1m.

Dividend

The interim dividend is 3.55p per ordinary share compared to 3.3p for the same period last year. This represents an increase of 7.6% and the dividend is covered 2.8 times.

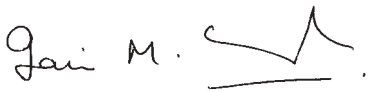
Foreign exchange

The profits from North America have been translated at an average rate of £1:$1.49, while the period end exchange rate was £1:$1.56, which compares with £1:$1.43 at 31 March 2002 and £1:$1.47 at 30 September 2001.

Accounting standards

As noted above the Group has adopted UITF 34 pre-contract costs. As a result all general bid costs are expensed as incurred. Prior year figures have been restated to reflect this change in accounting policy and more details are given in note 2 to the interim financial information.

The Group has continued to account for pension costs under SSAP 24. The application of SSAP 24 is likely to continue in light of the extended implementation period for FRS 17 and the review of IAS 19 Employee Benefits.



Iain M Lanaghan
Group Finance Director
5 November 2002

Consolidated profit and loss account

	Notes	**Unaudited 6 months to 30 September 2002 £m**	Unaudited 6 months to 30 September 2001 (restated) £m	Audited Year to 31 March 2002 (restated) £m
Turnover				
Continuing operations		**1,068.9**	995.0	2,164.1
Share of turnover of joint ventures		**–**	1.4	0.1
Total turnover		**1,068.9**	996.4	2,164.2
Operating profit				
Continuing operations		**70.3**	64.2	167.2
Group operating profit before goodwill and exceptional costs		**84.4**	83.8	215.0
Goodwill amortisation		**(13.1)**	(13.7)	(27.3)
Other exceptional costs		**(1.0)**	(5.9)	(20.5)
Group operating profit		**70.3**	64.2	167.2
Share of operating losses of joint ventures		**–**	(1.1)	(1.6)
Share of operating losses of associate		**–**	(0.2)	(0.4)
Amortisation of goodwill on joint ventures		**–**	(0.3)	(0.6)
Amortisation of goodwill on associate		**–**	(0.7)	(1.4)
Total operating profit		**70.3**	61.9	163.2
Profit on disposal of fixed assets		**11.2**	–	1.0
Profit on ordinary activities before interest		**81.5**	61.9	164.2
Net interest payable and similar charges		**(28.6)**	(27.0)	(56.3)
Profit on ordinary activities before taxation		**52.9**	34.9	107.9
Tax on profit on ordinary activities	3	**(12.2)**	(11.3)	(33.9)
Profit on ordinary activities after taxation		**40.7**	23.6	74.0
Equity minority interests		**–**	(0.1)	(0.1)
Profit for the financial period		**40.7**	23.5	73.9
Equity dividends paid and proposed	4	**(14.8)**	(13.8)	(43.1)
Retained profit for the financial period	13	**25.9**	9.7	30.8
Adjusted basic earnings per share	5	**9.3p**	9.1p	25.8p
Adjusted cash earnings per share	5	**21.1p**	20.0p	48.5p
Basic earnings per share	5	**9.7p**	5.6p	17.6p
Diluted earnings per share	5	**9.7p**	5.6p	17.5p

Consolidated balance sheet

	Notes	**Unaudited 30 September 2002 £m**	Unaudited 30 September 2001 (restated) £m	Audited 31 March 2002 (restated) £m
Assets employed:				
Fixed assets				
Goodwill	6	**501.9**	544.4	547.0
Tangible fixed assets	7	**790.3**	803.9	797.5
Investments				
– Investment in joint ventures				
– Goodwill		**–**	2.4	–
– Share of gross assets		**–**	3.1	–
– Share of gross liabilities		**–**	(0.4)	–
		–	5.1	–
– Other investments		**1.1**	6.6	1.5
		1.1	11.7	1.5
		1,293.3	1,360.0	1,346.0
Current assets				
Stocks		**27.0**	27.3	25.0
Debtors	8	**347.1**	303.9	284.0
Investments	9	**50.9**	30.1	60.4
Cash at bank and in hand		**39.5**	50.3	41.0
		464.5	411.6	410.4
Creditors: amounts falling due within one year	10	**(611.2)**	(599.8)	(537.8)
Net current (liabilities)/assets				
Amounts due within one year		**(183.3)**	(216.6)	(157.4)
Amounts due after more than one year	8	**36.6**	28.4	30.0
Net current liabilities		**(146.7)**	(188.2)	(127.4)
Total assets less current liabilities		**1,146.6**	1,171.8	1,218.6
Creditors: amounts falling due after more than one year	10	**(635.4)**	(685.9)	(687.9)
Provisions for liabilities and charges	11	**(119.7)**	(101.3)	(110.7)
		391.5	384.6	420.0
Financed by:				
Capital and reserves				
Called up share capital	12	**20.9**	21.0	21.0
Share premium account	13	**236.7**	236.7	236.7
Revaluation reserve	13	**3.6**	3.5	3.6
Other reserves	13	**3.6**	3.5	3.5
Profit and loss account	13	**125.7**	118.9	154.2
Equity shareholders' funds		**390.5**	383.6	419.0
Equity minority interests		**1.0**	1.0	1.0
		391.5	384.6	420.0

Consolidated cash flow statement

	Notes	**Unaudited 6 months to 30 September 2002 £m**	Unaudited 6 months to 30 September 2001 (restated) £m	Audited Year to 31 March 2002 (restated) £m
Net cash inflow from operating activities	14(a)	**79.6**	85.1	310.3
Returns on investments and servicing of finance	14(b)	**(15.1)**	(29.6)	(65.8)
Taxation				
Corporation tax paid		**(11.3)**	(16.0)	(37.6)
Capital expenditure and financial investment	14(c)	**(71.9)**	(120.5)	(140.3)
Acquisitions and disposals	14(d)	**(9.7)**	(9.8)	(14.0)
Equity dividends paid		**(29.4)**	(26.8)	(40.7)
Cash (outflow)/inflow before use of liquid resources and financing		**(57.8)**	(117.6)	11.9
Management of liquid resources				
Decrease/(increase) in liquid bank deposits		**9.5**	(18.3)	(48.6)
Financing	14(e)	**44.6**	109.3	13.8
Decrease in cash in period		**(3.7)**	(26.6)	(22.9)

Reconciliation of net cash flows to movements in net debt

	Notes	**Unaudited 6 months to 30 September 2002 £m**	Unaudited 6 months to 30 September 2001 £m	Audited Year to 31 March 2002 £m
Decrease in cash in period		**(3.7)**	(26.6)	(22.9)
Cash outflow from decrease in debt and hire purchase contract and finance lease financing		**(50.0)**	(113.4)	(21.5)
Movement in current asset investments		**(9.5)**	18.3	48.6
Fees on issue of Bond		**0.2**	–	5.2
Amortisation of debt issuance fees		**(0.2)**	(0.2)	(1.1)
Foreign exchange differences		**24.0**	10.0	(0.1)
Movement in net debt in period		**(39.2)**	(111.9)	8.2
Net debt at beginning of period	15	**(652.5)**	(660.7)	(660.7)
Net debt at end of period	15	**(691.7)**	(772.6)	(652.5)

Consolidated statement of total recognised gains and losses

	Unaudited 6 months to 30 September 2002 £m	Unaudited 6 months to 30 September 2001 (restated) £m	Audited Year to 31 March 2002 (restated) £m
Profit for the period attributable to shareholders	**40.7**	23.5	73.9
Foreign exchange differences	**(49.0)**	(21.1)	(3.2)
Total recognised (losses)/gains for the period	**(8.3)**	2.4	70.7
Prior year adjustment	**(2.3)**		
Total recognised losses since last annual report	**(10.6)**		

Reconciliation of movements in shareholders' funds

	Unaudited 6 months to 30 September 2002 £m	Unaudited 6 months to 30 September 2001 (restated) £m	Audited Year to 31 March 2002 (restated) £m
Profit for the financial period	**40.7**	23.5	73.9
Dividends	**(14.8)**	(13.8)	(43.1)
	25.9	9.7	30.8
Foreign exchange differences	**(49.0)**	(21.1)	(3.2)
Own shares purchased/cancelled	**(5.4)**	(4.1)	(7.7)
Net (reduction)/addition to shareholders' funds	**(28.5)**	(15.5)	19.9
Shareholders' funds at beginning of period	**419.0**	399.1	399.1
Shareholders' funds at end of period	**390.5**	383.6	419.0

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

Notes to the interim financial information

1 Basis of preparation

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

The figures for the six months to 30 September 2002 include the results of the rail businesses for the 24 weeks ended 14 September 2002 and the results of the other businesses for the 26 weeks ended 28 September 2002.

These results are unaudited but have been reviewed by the auditors, whose review report is given on page 21. The comparative figures for the six months to 30 September 2001 are unaudited and are derived from the interim report for the six months ended 30 September 2001, which was also reviewed by the auditors.

The comparative figures for the year to 31 March 2002 are not the Company's statutory accounts for that financial year but have been derived from them. Those accounts have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors was unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

The comparative figures have been restated for the adoption of UITF 34 as explained in note 2 and comparative figures have also been amended, where appropriate, for minor changes in presentation.

This interim report will be sent to all shareholders in November 2002 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 of Directors on 5 November 2002.

2 Principal accounting policies

The results for the six months to 30 September 2002 have been prepared using the same accounting policies as were used in the preparation of the annual report for the year ended 31 March 2002 except as set out below.

UITF 34 pre-contract costs has now been adopted. Pre-contract costs are now expensed as incurred. The impact of this change in accounting policy for the six months to 30 September 2001 is an increase in exceptional costs of £1.7m, and for the year to 31 March 2002 an increase in exceptional costs of £1.6m. The impact on exceptional costs for the six months to 30 September 2002 is an increase of £1.3m. The restatement of bid costs at 31 March 2002 has resulted in a reduction of £1.9m in other debtors and prepayments, an increase of £0.4m in accruals and deferred income, and a reduction in equity shareholders' funds of £2.3m to £419.0m.

3 Tax on profit on ordinary activities	**6 months to 30 September 2002 £m**	6 months to 30 September 2001 £m	Year to 31 March 2002 £m
Corporation tax	**9.6**	7.9	25.6
Deferred tax	**2.6**	3.4	8.3
	12.2	11.3	33.9

Notes to the interim financial information

4 Dividends	**6 months to 30 September 2002 £m**	6 months to 30 September 2001 £m	Year to 31 March 2002 £m
Ordinary shares of 5p each			
– Interim proposed	**14.8**	13.9	13.9
– Final paid	**–**	–	29.3
– Adjustment to prior year final dividend in respect of shares cancelled	**–**	(0.1)	(0.1)
	14.8	13.8	43.1

The interim dividend of 3.55p per ordinary share will be paid on 12 February 2003 to shareholders on the register of members at the close of business on 17 January 2003.

5 Earnings per share

Basic earnings per share is based on earnings of £40.7m (six months to 30 September 2001: £23.5m and year to 31 March 2002: £73.9m) and on the weighted average number of ordinary shares of 418.1m (six months to 30 September 2001: 420.4m and year to 31 March 2002: 419.8m) in issue.

Diluted earnings per share is based on the same earnings for each of the periods and on the weighted average number of ordinary shares of 419.1m (six months to 30 September 2001: 422.0m and year to 31 March 2002: 421.4m). The difference in the number of shares between the basic calculation and the diluted calculation represents the weighted average number of dilutive potential ordinary shares.

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

	£m	**6 months to 30 September 2002 Earnings per share p**
Profit for basic earnings per share calculation	**40.7**	**9.7**
Goodwill amortisation	**13.1**	**3.1**
Group restructuring and other exceptional costs	**1.0**	**0.3**
Profit on disposal of fixed assets	**(11.2)**	**(2.7)**
Taxation effect of adjustments	**(4.5)**	**(1.1)**
Profit for adjusted basic earnings per share calculation	**39.1**	**9.3**
Depreciation	**49.1**	**11.8**
Profit for adjusted cash earnings per share calculation	**88.2**	**21.1**

5 Earnings per share continued	£m	6 months to 30 September 2001 (restated) Earnings per share p
Profit for basic earnings per share calculation	23.5	5.6
Goodwill amortisation	14.7	3.5
Restructuring and other exceptional costs	5.9	1.4
Joint venture marketing costs	0.3	0.1
Taxation effect of adjustments	(6.2)	(1.5)
Profit for adjusted basic earnings per share calculation	38.2	9.1
Depreciation	45.9	10.9
Profit for adjusted cash earnings per share calculation	84.1	20.0

	£m	Year to 31 March 2002 (restated) Earnings per share p
Profit for basic earnings per share calculation	73.9	17.6
Goodwill amortisation	29.3	7.0
Restructuring and other exceptional costs	20.5	4.9
Profit on disposal of fixed assets	(1.0)	(0.3)
Taxation effect of adjustments	(14.2)	(3.4)
Profit for adjusted basic earnings per share calculation	108.5	25.8
Depreciation	95.1	22.7
Profit for adjusted cash earnings per share calculation	203.6	48.5

6 Goodwill	**£m**
Cost	
At 1 April 2002	616.0
Additions	8.0
Exchange rate differences	(46.3)
At 30 September 2002	**577.7**
Amortisation	
At 1 April 2002	69.0
Charge for the period	13.1
Exchange rate differences	(6.3)
At 30 September 2002	**75.8**
Net book value	
At 30 September 2002	**501.9**
At 31 March 2002	547.0
At 30 September 2001	544.4

Notes to the interim financial information

7 Tangible fixed assets	Land and buildings £m	Passenger carrying vehicle fleet £m	Other plant and equipment £m	Total £m
Cost or valuation				
At 1 April 2002	124.8	1,126.0	136.6	1,387.4
Businesses acquired	–	6.4	0.2	6.6
Additions	5.3	56.3	6.3	67.9
Disposals	(3.7)	(21.3)	(2.9)	(27.9)
Exchange rate differences	(1.5)	(38.0)	(2.8)	(42.3)
At 30 September 2002	**124.9**	**1,129.4**	**137.4**	**1,391.7**
Depreciation				
At 1 April 2002	18.6	491.1	80.2	589.9
Businesses acquired	–	–	–	–
Charge for period	1.7	40.8	6.6	49.1
Disposals	(0.6)	(18.0)	(2.6)	(21.2)
Exchange rate differences	(0.4)	(14.6)	(1.4)	(16.4)
At 30 September 2002	**19.3**	**499.3**	**82.8**	**601.4**
Net book value				
At 30 September 2002	**105.6**	**630.1**	**54.6**	**790.3**
At 31 March 2002	106.2	634.9	56.4	797.5
At 30 September 2001	103.9	650.8	49.2	803.9

8 Debtors	30 September 2002 £m	30 September 2001 (restated) £m	31 March 2002 (restated) £m
Amounts due within one year			
Trade debtors	**187.6**	178.2	177.9
Other debtors	**40.8**	30.0	19.1
Deposit paid for rolling stock	**16.7**	21.4	16.7
Pension funds' prepayments	**6.6**	3.5	5.7
Other prepayments and accrued income	**58.8**	42.4	34.6
	310.5	275.5	254.0
Amounts due after more than one year			
Pension funds' prepayments	**35.1**	26.8	28.3
Other prepayments and accrued income	**1.5**	1.6	1.7
	36.6	28.4	30.0
	347.1	303.9	284.0

9 Current asset investments	30 September 2002 £m	30 September 2001 £m	31 March 2002 £m
Bank deposits	**50.9**	30.1	60.4

10 Creditors	**30 September 2002 £m**	30 September 2001 £m	31 March 2002 (restated) £m
Amounts falling due within one year			
Bank loans and overdrafts	**98.2**	100.6	7.5
Obligations under hire purchase contracts and finance leases	**47.2**	60.6	57.3
Loan notes	**1.3**	5.9	1.2
Trade creditors	**125.7**	114.3	122.8
Corporation tax	**22.1**	27.9	23.8
Other tax and social security	**19.1**	18.2	16.4
Other creditors	**23.3**	17.9	21.9
Pension funds' creditors	**10.3**	8.4	8.5
Accruals and deferred income	**214.6**	196.7	210.6
Season ticket deferred income	**34.6**	35.3	38.4
Proposed dividends	**14.8**	13.9	29.4
Dividend payable	**–**	0.1	–
	611.2	599.8	537.8
Amounts falling due after more than one year			
Bank loans			
Due in more than one year but not more than two years	**267.2**	211.2	24.2
Due in more than two years but not more than five years	**9.6**	360.1	283.4
Obligations under hire purchase contracts and finance leases			
Due in more than one year but not more than two years	**27.3**	47.5	34.3
Due in more than two years but not more than five years	**14.2**	42.6	27.6
Due in more than five years	**0.2**	0.6	0.4
Loan notes			
Due in more than one year but not more than two years	**22.1**	23.7	23.2
Due in more than two years but not more than five years	**–**	0.2	–
£300.0m Bond – 6.875% 2013	**294.8**	–	294.8
	635.4	685.9	687.9

Bank loans and overdrafts

Whilst the majority of bank loans and overdrafts are repayable within three 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 ten 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. £21.3m (30 September 2001: £27.2m and 31 March 2002: £21.7m) of the loan notes are backed up by guarantees provided under the banking facilities.

10 Creditors continued

Bond

The Bond is repayable in March 2013 and is shown net of £5.2m of issue-related costs which are being amortised over the term of the Bond. Certain subsidiary companies have issued guarantees to the Company's Bondholders and these guarantees rank pari passu with guarantees provided by those subsidiaries to the Group's other major lenders.

11 Provisions for liabilities and charges	**Deferred tax £m**	**Insurance claims £m**	**Pensions £m**	**Total £m**
At 1 April 2002	79.6	24.9	6.2	110.7
Provided in the period	2.6	10.3	–	12.9
Utilised in the period	–	(3.8)	(0.2)	(4.0)
Notional interest	–	1.4	0.2	1.6
Exchange rate difference	–	(1.5)	–	(1.5)
At 30 September 2002	**82.2**	**31.3**	**6.2**	**119.7**

12 Called up share capital	**30 September 2002 £m**	30 September 2001 £m	31 March 2002 £m
Authorised:			
Ordinary shares of 5p each	**30.0**	30.0	30.0
Allotted, called up and fully paid:			
Ordinary shares of 5p each	**20.9**	21.0	21.0

The number of ordinary shares of 5p each in issue at the end of the period was 417.7m (30 September 2001: 421.1m and 31 March 2002: 419.8m).

The changes in the number and amount of issued share capital during the period (of which further details are given in the Financial review) are set out below:

	Number (m)	**£m**
At 1 April 2002	419.8	21.0
Shares cancelled	(2.1)	(0.1)
At 30 September 2002	**417.7**	**20.9**

Between 3 June 2002 and 12 September 2002 2,140,000 ordinary shares were repurchased at a total cost of £5.4m (an average price of 251p per share) and cancelled.

13 Reserves	**Share premium account £m**	**Revaluation reserve £m**	**Profit and loss account £m**
At beginning of period as previously reported	236.7	3.6	156.5
Prior year adjustment	–	–	(2.3)
At beginning of period as restated	236.7	3.6	154.2
Cancellation of shares	–	–	(5.4)
Retained profit for the period	–	–	25.9
Foreign exchange differences	–	–	(49.0)
At 30 September 2002	**236.7**	**3.6**	**125.7**

13 Reserves continued	**Capital redemption reserve £m**	**Capital reserves £m**	**Total other reserves £m**
At 1 April 2002	0.8	2.7	3.5
Cancellation of shares	0.1	–	0.1
At 30 September 2002	**0.9**	**2.7**	**3.6**

14 Notes to the consolidated cash flow statement	**6 months to 30 September 2002 £m**	6 months to 30 September 2001 (restated) £m	Year to 31 March 2002 (restated) £m
(a) Reconciliation of operating profit to net cash inflow from operating activities			
Group operating profit	**70.3**	64.2	167.2
Depreciation charges	**49.1**	45.9	95.1
Goodwill amortisation	**13.1**	13.7	27.3
Write down of investment in joint venture and associate	**–**	–	8.0
Profit on sale of non-property fixed assets	**–**	(0.2)	(0.7)
Profit on sale of investment in associate	**(2.5)**	–	–
Decrease/(increase) in stocks	**0.2**	(2.8)	(2.1)
Increase in debtors	**(47.6)**	(29.8)	(11.6)
(Decrease)/increase in creditors and provisions	**(3.0)**	31.1	64.1
FNW franchise amendment payment	**–**	(37.0)	(37.0)
Net cash inflow from operating activities	**79.6**	85.1	310.3
(b) Returns on investments and servicing of finance			
Interest received	**1.0**	1.2	2.8
Interest paid	**(12.1)**	(24.4)	(52.0)
Interest element of hire purchase contract and finance lease payments	**(4.0)**	(6.4)	(11.5)
Dividends paid to minority shareholders	**–**	–	(5.1)
Net cash outflow from returns on investments and servicing of finance	**(15.1)**	(29.6)	(65.8)
(c) Capital expenditure and financial investment			
Purchase of tangible fixed assets	**(74.7)**	(123.8)	(154.7)
Sale of fixed asset properties	**2.0**	0.9	2.1
Sale of other tangible fixed assets	**0.8**	0.4	5.7
Deposits for rolling stock	**–**	2.0	6.6
Net cash outflow from capital expenditure and financial investment	**(71.9)**	(120.5)	(140.3)

Notes to the interim financial information

14 Notes to the consolidated cash flow statement continued	**6 months to 30 September 2002 £m**	6 months to 30 September 2001 (restated) £m	Year to 31 March 2002 (restated) £m
(d) Acquisitions and disposals			
Purchase of subsidiary undertakings	**–**	(0.8)	(1.0)
Purchase of businesses	**(14.0)**	(4.1)	(6.1)
Net cash acquired with purchase of businesses	**1.8**	–	–
Purchase of investment in joint venture	**–**	(4.9)	(4.9)
Purchase of investment in associate	**–**	–	(2.0)
Sale of investment in joint venture	**2.5**	–	–
Net cash outflow from acquisitions and disposals	**(9.7)**	(9.8)	(14.0)
(e) Financing			
Own shares repurchased	**(5.4)**	(4.1)	(7.7)
Bond	**–**	–	300.0
New bank loans	**125.9**	194.7	77.5
Repayment of amounts borrowed – bank loans	**(44.6)**	(40.3)	(277.7)
– loan notes	**(0.9)**	(6.1)	(11.5)
Capital element of hire purchase contract and finance lease payments	**(30.4)**	(34.9)	(66.8)
Net cash inflow from financing	**44.6**	109.3	13.8

15 Analysis of net debt	**At 31 March 2002 £m**	**Cash flow £m**	**Other non-cash changes £m**	**At 30 September 2002 £m**
Current asset investments	60.4	(9.5)	–	**50.9**
Cash at bank and in hand	41.0	(1.5)	–	**39.5**
Bank overdrafts	–	(2.2)	–	**(2.2)**
Cash	41.0	(3.7)	–	**37.3**
Bank loans due within one year	(7.5)	(93.6)	5.1	**(96.0)**
Bank loans due after one year	(307.6)	12.3	18.5	**(276.8)**
Bond	(294.8)	0.2	(0.2)	**(294.8)**
Obligations under hire purchase contracts and finance leases	(119.6)	30.4	0.3	**(88.9)**
Loan notes	(24.4)	0.9	0.1	**(23.4)**
Financing	(753.9)	(49.8)	23.8	**(779.9)**
Net debt	(652.5)	(63.0)	23.8	**(691.7)**

16 Major non-cash transactions

During the period the Group entered into hire purchase contracts in respect of assets with a capital value of £nil (six months to 30 September 2001: £nil and year to 31 March 2002: £nil). Other non-cash changes include £24.0m (six months to 30 September 2001: £10.0m and year to 31 March 2002: £0.1m) of foreign exchange movements.

Independent review report to FirstGroup plc

Introduction

We have been instructed by the Company to review the financial information for the six months ended 30 September 2002, which comprises the consolidated profit and loss account, the consolidated balance sheet, the consolidated cash flow statement, the reconciliation of net cash flows to movements in net debt, the consolidated statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds and related notes 1 to 16. 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.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority, which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the 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 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 2002.

Deloitte & Touche
Chartered Accountants
London
5 November 2002

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