FirstGroup plc
Preliminary results

for the 12 months to 31 March 2011

Wednesday 11 May 2011

Tim O'Toole

Chief Executive

2010/11 Overview

- Breadth and strength from diverse portfolio helping to mitigate risk
- 4 out of our 5 businesses performed in line or significantly better than expected, offset by First Student performing below our expectations
- Achieved what we set out to do in terms of increased cash generation supporting a 7% dividend increase, reduced leverage to 2.5x net debt:EBITDA and increased capital investment
- Clear and decisive action to address specific issues and strengthen the business – taking a net one-off charge of £105m in the year
- First Student – detailed plan to recover performance and strengthen the operating model to harness full potential of business
- Decision not to take up option to extend FGW for further 3 years - intend to bid for new Greater Western franchise reflecting changed environment including major Government investment in the region
- Active in new rail franchise bids – pre-qualified for InterCity West Coast and discussing proposal to extend First TransPennine Express
- Fundamentally strong business – focus on improving operations and growth

Jeff Carr

Finance Director

Financial Review

Key Highlights

- Overall performance in line with expectations – operating profit of £457.4m impacted by:
  - Strong UK Rail passenger revenues
  - Lower fuel costs across all businesses
  - First Student margin impact
- Total net one-off charges of £105m in the year
- Good progress on working capital – improved by £123.8m from prior year
- Cash generated by operations up 23% to £744.1m
- Net debt at £1,949m – reduced by £332m from net cash inflow of £210m and FX/other of £122m
- Net debt:EBITDA at 2.5x – good progress
- Moderate earnings growth – adjusted EPS +5.9%
- Dividend cover maintained at 1.9x (2010: 1.9x)

Financial results

Continuing operations	Mar 11 £m	Mar 10 £m	Change
Revenue	6,429.2	6,261.9	2.7%
EBITDA [1]	778.2	763.9	1.9%
EBITDA %	12.1%	12.2%	(0.1)pp
Operating Profit[1]	457.4	449.6	1.7%
Margin %	7.1%	7.2%	(0.1)pp
Interest	(182.4)	(189.9)	3.9%
Profit before tax[1]	275.0	259.7	5.9%

- EBITDA margin maintained at over 12%

1. Before amortisation charges, ineffectiveness on financial derivatives, non-recurring items, loss on disposal of properties and discontinued operations

Income statement

Continuing operations	Mar 11 £m	Mar 10 £m	Change
Profit before tax[1]	275.0	259.7	5.9%
Amortisation charges	(42.9)	(34.7)	
Non-recurring items	(104.9)	(49.7)	
Profit before tax	127.2	175.3	(27.4)%
Tax	(17.0)	(31.2)	
Profit after tax	110.2	144.1	(23.5)%
Proposed final dividend	15.0p	14.0p	7.1%
Basic EPS	21.4p	26.9p	(20.4)%
Adjusted EPS	41.2p	38.9p	5.9%

- Non-recurring items: principally FGW contract provision, First Student recovery plan and Diego Garcia goodwill impairment and contract provision

1. Before amortisation charges, ineffectiveness on financial derivatives, non-recurring items, loss on disposal of properties and discontinued operations

Principal one-off charges

	£m	Impact
UK Rail – settlement of Network Rail claim	22.5	H1 2010/11
FGW – contract provision	(59.9)	Principally accelerated depreciation
First Student – recovery plan	(39.5)	Annualised benefits in excess of $65.0m
FSS – goodwill impairment and contract provision	(16.6)	5 Year Contract life remaining
Other non-recurring items	(11.4)	Various
	(104.9)	

- FGW contract provision – commercial decision not to take up option to extend for 3 years, franchise to run to end of current term March 2013
- First Student recovery plan – recover performance and strengthen model to harness potential of business
- First Support Services (FSS) – goodwill impairment and contract provision for Diego Garcia military base maintenance contract

First Great Western – contract provision

	£m
Projected losses to 31/03/12	11.2
Projected losses to 31/03/13	48.7
	59.9

- Re-negotiation of extension period terms unlikely, therefore taking action to put ourselves in strong position to bid for successor franchise
- One-off charge to cover accelerated depreciation of heavy maintenance and MTU engine overhaul programme
- Cash flow over the next two years (2011/12 and 2012/13) will be broadly neutral

First Student – recovery plan

Area	One-off charge
Right size fleet / asset write-offs	$33.3m
Reduce overheads	$12.0m
Contract performance	$8.7m
Labour and engineering efficiencies	$7.0m
	$61.0m

- Improved efficiency and reduced operating costs expected to deliver annualised benefit in excess of $65m and mitigate ongoing pressures on margin
- Labour efficiency improvement, complete and optimise FOCUS, implement best practice network management, standardise standby and non-driving hours
- Reduce engineering cost per vehicle by developing best in class practices

Profit bridge by division

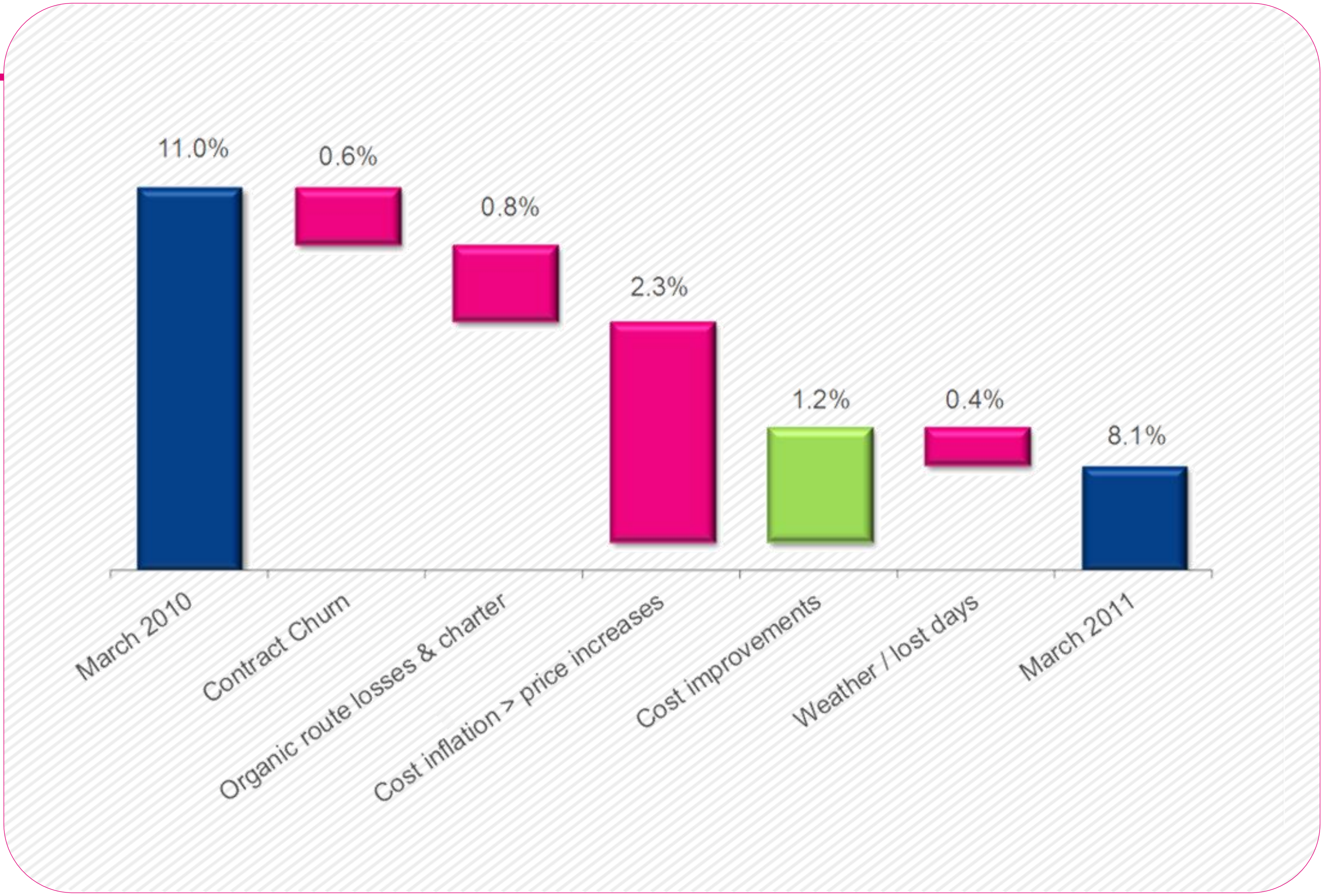
Breadth and strength from diverse portfolio helping to mitigate risk

First Student

	Mar 11 $m	Mar 10 $m	Change
Revenue	2,480.2	2,544.7	(2.5)%
EBITDA	432.9	509.9	(15.1)%
EBITDA %	17.5%	20.0%	(2.5)pp
Operating Profit	200.2	281.1	(28.8)%
Margin %	8.1%	11.0%	(2.9)pp

- School board budget pressures resulted in high contract churn and organic route losses – overall market contraction of c.2%
- Operating cost inflation greater than contract price increases and higher than normal snow related costs and lost days
- Bidding for next school year (Sept 2011) more stable with outlook for retention significantly improved

First Student – US Dollar margin impact



First Transit

	Mar 11 $m	Mar 10 $m	Change
Revenue	1,199.0	1,160.1	3.4%
EBITDA	103.5	98.8	4.8%
EBITDA %	8.6%	8.5%	0.1pp
Operating Profit	89.5	84.4	6.0%
Margin %	7.5%	7.3%	0.2pp

- Good revenue growth driven by new contract wins in core segments – revenue growth excluding FSS was 5.1%
- Strong EBITDA and operating profit growth
- Operating profit margin at 7.5% – good returns on low levels of capital investment

Greyhound

	Mar 11 $m	Mar 10 $m	Change
Revenue	985.0	963.4	2.2%
EBITDA	106.6	85.3	25.0%
EBITDA %	10.8%	8.9%	1.9pp
Operating Profit	62.3	39.6	57.3%
Margin %	6.3%	4.1%	2.2pp

- Revenue growth of 2.2%
- Encouraging revenue growth trend +1.6% in Q4 (following disappointing Q3 revenue reduced by 2.5%)
- Maximised flexible business model – mileage reduced by 2.5%
- Greyhound Canada – good progress delivering profit recovery plan

UK Bus

	Mar 11 £m	Mar 10 £m	Change
Revenue	1,137.5	1,170.6	(2.8)%
EBITDA	220.5	200.2	10.1%
EBITDA %	19.4%	17.1%	2.3pp
Operating Profit	148.8	124.6	19.4%
Margin %	13.1%	10.6%	2.5pp

- Like-for-like passenger revenues increased by 1.4%
- H2 operating profit reduced by £4.0m due to severe weather
- Margin improvement from fuel benefit and c.£40m of cost actions
- Continue to improve operating efficiency with renewed focus on growth

UK Rail

	Mar 11 £m	Mar 10 £m	Change
Revenue	2,269.8	2,131.0	6.5%
EBITDA	166.1	141.9	17.1%
EBITDA %	7.3%	6.7%	0.6pp
Operating Profit	108.7	88.3	23.1%
Margin %	4.8%	4.1%	0.7pp

- Good margin improvement despite premium increase of £120.6m
- Strong revenue growth and cost improvements of >£50m resulted in 23% increase in operating profit
- Further increase in premium of £127.1m in 2011/12

UK Rail

Passenger revenue growth

	Mar 11	Mar 10
FCC	4.6%	2.6%
FGW	4.9%	1.3%
FSR	5.9%	3.2%
FTPE	7.7%	5.6%
Hull Trains	3.7%	(4.4)%
Total	5.3%	2.3%

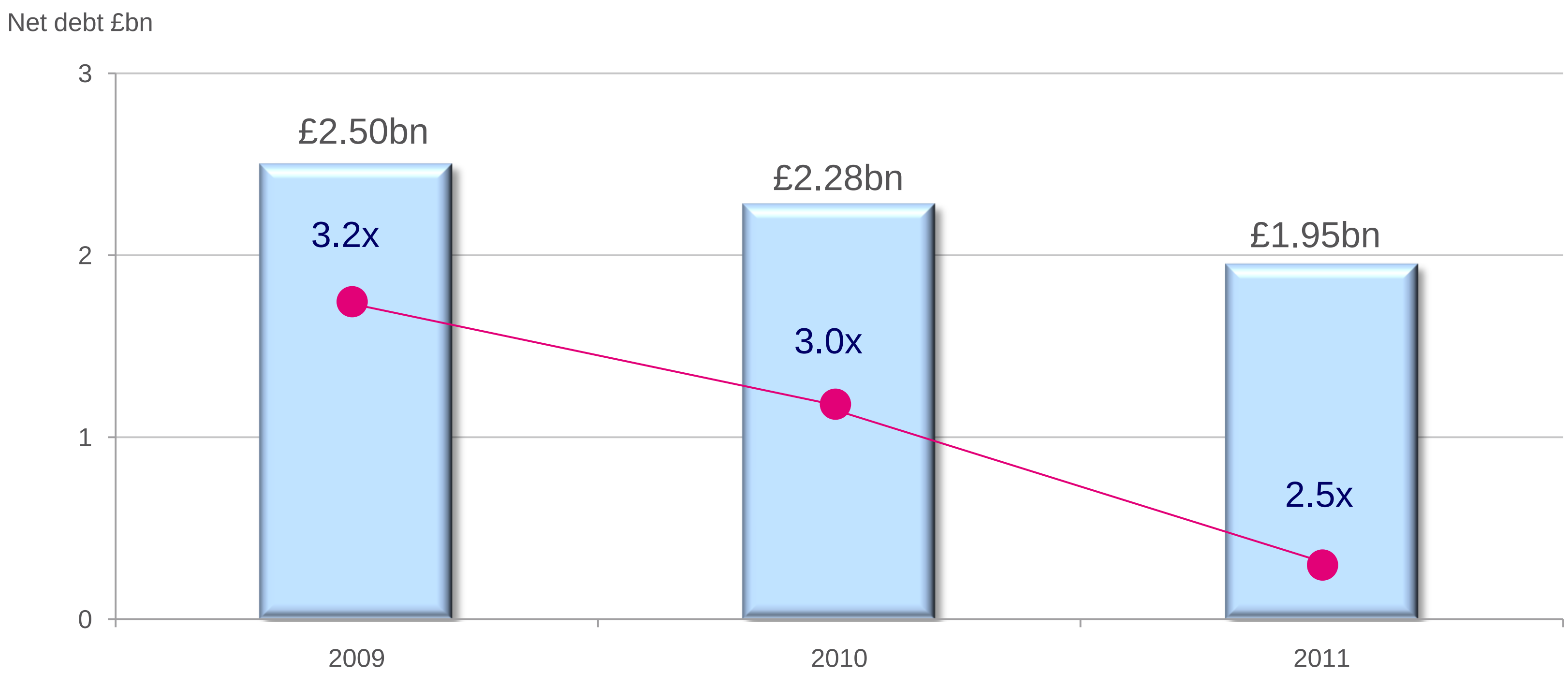
- Improving like-for-like revenue growth, increased by 5.3%
- Encouraging revenue trends continue across all of our TOCs
- Q4 revenues increased by 6.6%, partly due to impact of regulated fares increase from January 2011

Cash flow

	Mar 11 £m	Mar 10 £m	Change £m
EBITDA (including discontinued operations)	778.7	769.6	9.1
Non-recurring items	(100.8)	(49.6)	(51.2)
Impairment charges	19.5	-	19.5
Other non-cash P&L items	11.4	6.3	5.1
Operational cash flows	708.8	726.3	(17.5)
Working capital inflow/(outflow)	78.4	(45.4)	123.8
Pension payments/provisions	(43.1)	(76.2)	33.1
Cash generated by operations	744.1	604.7	139.4
Capex and acquisitions	(261.8)	(202.1)	(59.7)
Interest, tax and other	(183.6)	(154.5)	(29.1)
Dividends	(113.2)	(112.2)	(1.0)
Proceeds from sale of business	24.3	0.4	23.9
Net cash inflow	209.8	136.3	73.5

- Cash generated by operations of £744.1m, up 23% or £139.4m from prior year
- Working capital improvement of £123.8m partly due to focus on receivables and improved payment terms with suppliers
- Disciplined capital expenditure, net capex increased to £258.7m
- Higher UK tax due to higher profits in UK Bus and UK Rail, Network Rail settlement and higher interest due to first coupon payment on the September 2009 bond

Net debt:EBITDA



- Net debt £1,949m, reduced by £332m (£210m net cash and £122m FX/other)
- Net cash target of £150m for 2011/12
- Targeting continued leverage reduction

Strong financial platform

	Mar 11	Mar 10	Mar 09
Average debt maturity	6.1 years	6.3 years	4.6 years
Net debt:EBITDA	2.5x	3.0x	3.2x

- New $1.4bn 5-year committed bank facilities implemented in December 2010
- Committed facility headroom £527m at March 2011
- Continue to reduce leverage
- Committed to target credit rating of BBB flat (S&P) and BBB+ (Fitch)
- Dividend cover 1.9x (2010: 1.9x)

Tim O'Toole

Chief Executive

Key priorities

- Recovery plan to address First Student
  - Optimise cost base – ‘get low’ and increase efficiencies
  - Stabilise margin in 2011/12
  - Strengthen business model
  - Maximise growth opportunities from sustainable competitive advantage
- Maximise leadership position in UK Rail
  - Harness unrivalled experience
  - Retain our market position in new franchises with a balanced portfolio
- Drive growth opportunities in
  - UK Bus
  - First Transit
  - Greyhound
- Continue to increase cash generation to support dividend growth, net debt reduction and disciplined capital investment

First Student – the issues

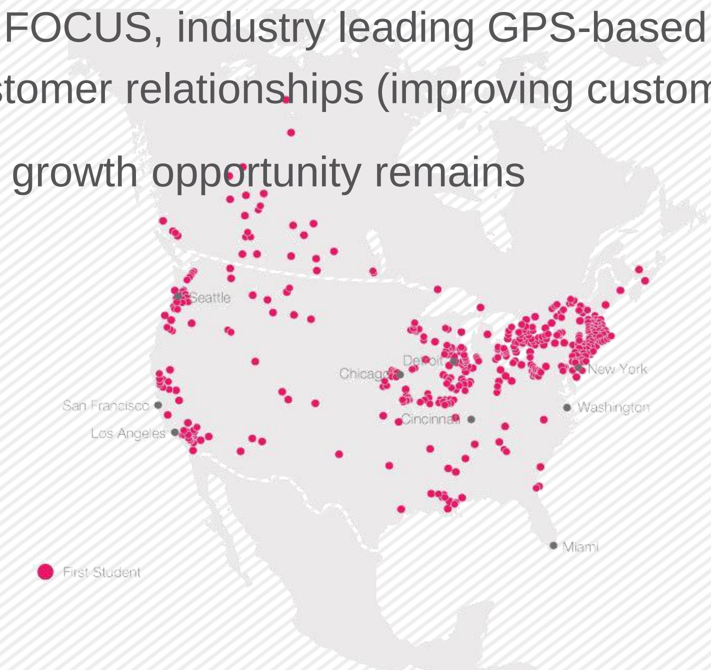
- Difficult trading conditions with significant pressure on school board budgets and structural issues
- Last school year – particularly high percentage of contract churn and greater than expected organic route reduction meant we lost a higher than usual number of buses
- Further route consolidations during the year created operating inefficiencies e.g. labour costs
- Inadequate systems and processes meant we were not able to flex our costs quickly enough and achieve sufficient efficiencies to offset margin pressure
- Potential of the business not fully exploited
- Challenging economic conditions likely to continue in 2011/12

First Student – the solution

- Taking one-off charge to recover performance and create a stronger business
- Recovery programme underway will create more flexible business model
- New bid team and structure in place for current year
  - Focused retention strategy
  - Normalised level of buses 'at risk'
- Restructuring to right size the fleet and overhead and improve operational leverage
- Realise full benefits of integration through actions to address:
  - Structure – improved decision making by right sizing organisation
  - Culture – high performance and sharing of best practice
  - Standardisation – processes and systems
- Enable the business to realise its full potential as clear market leader

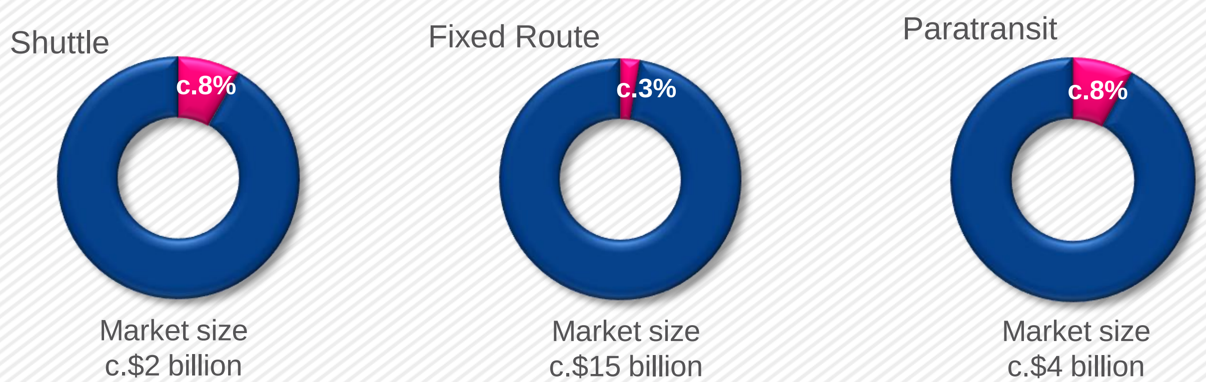
First Student – the opportunity

- Clear market leader but not currently exploiting its leading position
  - Operating in approx 40 states in the US and 8 Provinces in Canada
  - Total fleet of 57,000, average age of 6.9 years
  - >1,500 contracts – low concentration risk
  - Approx 600 locations, 60,000 employees
  - Roll out of FOCUS, industry leading GPS-based technology
  - Strong customer relationships (improving customer survey trends)
- Medium-term growth opportunity remains



First Transit

- Market leader with growth opportunities in highly fragmented marketplace



- c.350 contracts – well diversified
- Good operating margin from low capital investment
- First class reputation – able to win new contracts across segments from existing relationships
- Continuing to win market share
- Focused on key segments delivering good growth
- Reducing exposure to less attractive markets within Transit

Greyhound

- Transforming the business – significantly improved operational gearing
- Optimising the network
  - Network Transformation Plan – 20% of properties now right sized or right located
  - Sale of Washington DC terminal under contract – due diligence underway
  - Canada network management – broken the logjam, progress with Provinces
- Modernising operations
  - Greyhound Express introduced – uniquely positioned to feed from the network
  - BoltBus further expansion and improved average loadings
  - Web sales increased to 25%
- Measured and disciplined approach to capital investment
  - Fleet refurbishment programme has delivered >100 buses to service, >200 by end of 2011/12
  - Invested in 200 new coaches in the US over the last 2 years
  - By the end of 2011/12 over 50% of fleet will be new or like new
- Continued strong cash performance through challenging trading conditions
- Higher fuel prices encouraging modal shift

UK Bus

- Market leading position – focused in high density, urban areas
- Established, well diversified networks – opportunity for growth
- New management with strong focus on delivering:
  - developing best in class operating standards
  - revenue growth through network developments, simplified fares and marketing
  - effective long-term partnerships
  - cost efficiencies and disciplines
  - active assessment and management of portfolio (Kings Lynn divestment)
  - the headroom to absorb funding pressures (BSOG, concessionary fares)
- Renewed focus on growth
  - Fleet investment – £160m over 2 years in 955 buses
  - Innovative new ticketing proposition
- Competition Commission's provisional findings rule out price controls and selective divestment – no major policy or regulatory changes proposed

UK Rail – leveraging our expertise

- Building on our strong track record
- Market leader – leveraging our unrivalled expertise
  - Management team with skills and experience – commuter, regional, intercity long-distance, open access operations
  - Innovation with operational competence – implementation of major fleet renewals and upgrade
  - Managing impact of major infrastructure projects – Thameslink, Reading, Crossrail
  - Driving efficiencies through our operations

- First TransPennine Express
  - Commenced Feb 2004 for 8 year term
  - Delivered £260m new fleet, £12m station improvements
  - Introduced new Anglo-Scottish services mid franchise
  - Increased passenger journeys from 13m to 24m
  - PPM increased from 74% to 91%
  - Increased NPS score from 74% in 2003/4 to 87% in 2010/11

First Great Western

- Strategic decision to maximise our opportunity to win new Greater Western franchise
- Reflects changed environment including significant investment in region
- Major infrastructure upgrade taking place over the next few years
  - Reading upgrade
  - Crossrail & Paddington remodelling
  - Resignalling
  - Electrification
  - Intercity Express Programme
- We are best placed to manage these projects and capture the benefits through a longer-term franchise

UK Rail – the future

- Significant opportunity in UK rail industry
- Long-term key player – track record of strong operational and financial performance
- Selected partner for key industry initiatives – First ScotRail working with Network Rail to deliver objectives of new devolved structure
- Franchise reform developing in line with our expectations
- Experienced, disciplined bid team – pre-qualified for InterCity West Coast
- In discussions with DfT on proposal to extend FTPE
- Well positioned to create further value through new longer franchises

Summary

- Economic outlook remains uncertain
- Recovery plan in place to address First Student and harness potential of business
- Encouraged by improving trends in UK Rail and Greyhound and continued steady performance in UK Bus and First Transit
- Clear focus to improve operations and drive efficiencies
- Building on strong cash performance to support:
  - Dividend growth of at least 7% per annum
  - Net debt reduction
  - Disciplined capital investment
- Market leading positions with diverse portfolio
- Good prospects in all of its key markets to continue to deliver long-term value for shareholders.

Q&A

Appendices

Preliminary results
for the 12 months to
31 March 2011

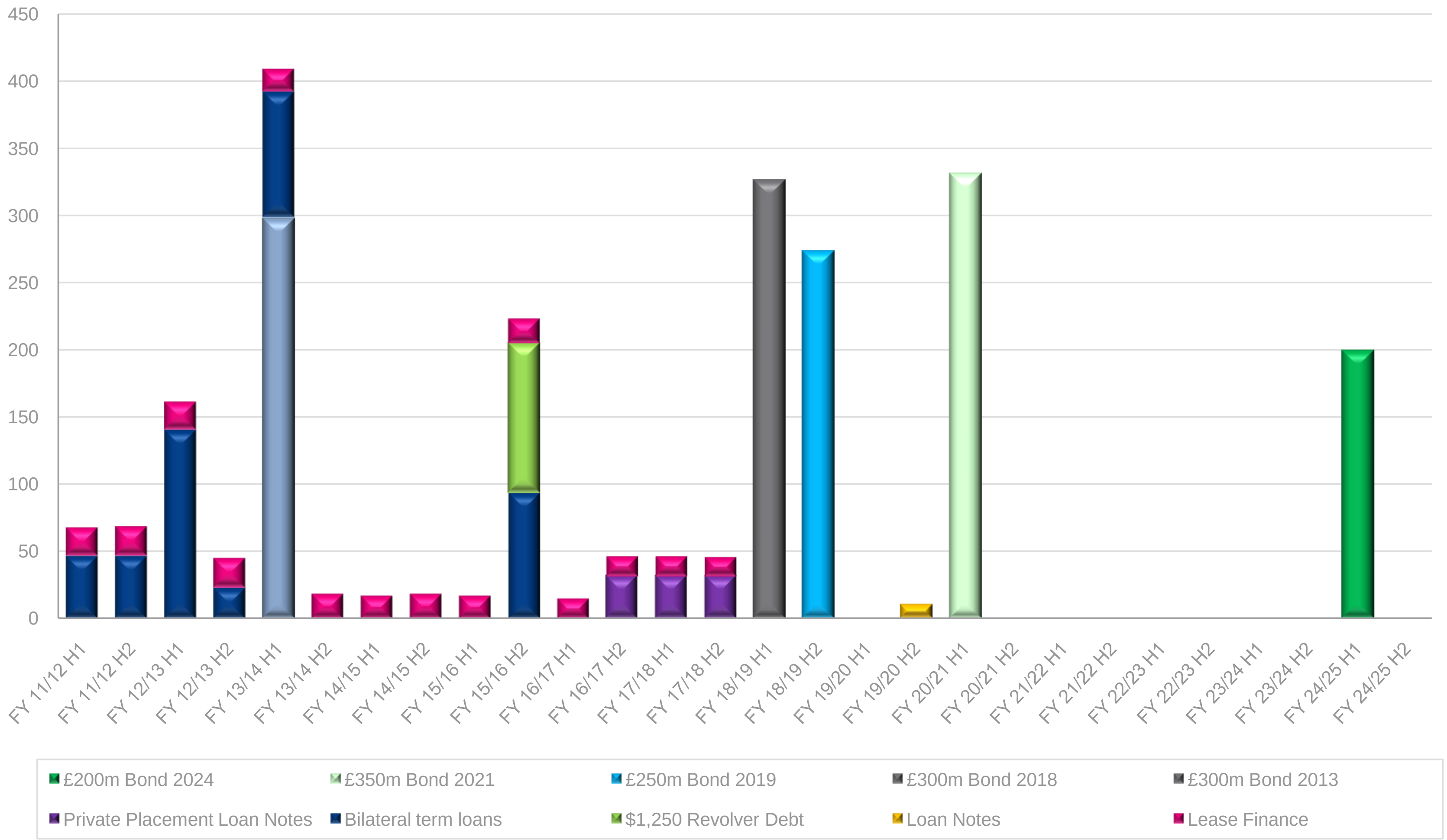
Diesel Hedge Position

	UK			North America		
	2010/11	2011/12	2012/13	2010/11	2011/12	2012/13
Annual volume (barrels'm)	2.5	2.6	2.5	1.7	1.7	1.7
% Hedged	90%	82%	34%	90%	59%	22%
Crude rate ($/barrel)	$76.23	$87.58	$94.06	$89.40	$94.69	$91.76
Diesel rate ($/barrel)	$96.49	$105.16	$115.59	$107.40	$112.87	$113.07
Equivalent cost per litre	37.9p	41.3p	45.4p	US 67.5c	US 71.0c	US 71.1c

	UK Bus	UK Rail	Student	Transit	Greyhound	**Total**
Annual volume (barrels'm)	1.4	1.1	0.8	0.1	0.8	**4.2**

- Prices include crude and refining cost but exclude delivery margins, duty, taxes and BSOG
- Equivalent cost per litre assumes a constant FX rate of $1.60 : £1:00
- North America annual volume excludes c.2.2m barrels provided by customer or protected by contract escalator

Gross Debt Distribution



Net Finance Costs

	Mar 11 £m	Mar 10 £m
Bonds	91.6	85.2
Bank borrowings	64.2	80.3
Loan notes	1.0	1.1
Finance lease interest	7.8	7.6
Notional interest	19.7	17.5
Investment income	(1.9)	(1.8)
Hedge ineffectiveness on financial derivatives [1]	(0.3)	(1.0)
Net finance costs	182.1	188.9

Lower interest rates partly offset by higher bond interest and forex

1. Included within non-recurring items

Foreign Exchange

- Weaker US$ reduced translated Sterling debt compared to March 10

	Mar 11	Mar 10
Closing rate for the balance sheet US$	$1.60	$1.49
Closing rate for the balance sheet CAN$	$1.57	$1.53

- The movement in the effective rate resulted in a marginal increase in operating profit

	Mar 11	Mar 10
Effective rate on US$ earnings	$1.56	$1.57
Effective rate on CAN$ earnings	$1.56	$1.60

Non-recurring items & amortisation

	Mar 11 £m	Mar 10 £m
UK Rail FGW contract provision	59.9	-
First Student recovery plan	39.5	-
UK Rail settlement of NR claim	(22.5)	-
FSS goodwill impairment and contract provision	16.6	-
UK Rail bid costs	2.7	-
UK Rail joint venture provision	1.8	-
North American & Greyhound integration costs	-	15.5
North American restructuring costs	-	15.9
UK Bus & UK Rail restructuring costs	1.0	9.3
Fuel hedge provision	-	4.8
Competition Commission costs	1.4	3.8
Other non-recurring items	0.4	0.3
Loss on disposal of properties	4.4	1.1
Ineffectiveness on financial derivatives	(0.3)	(1.0)
Total non-recurring items	104.9	49.7
Amortisation charges	42.9	34.7
Total	147.8	84.4

Cash capital expenditure

	Mar 11 £m	Mar 10 £m
First Student	107.7	89.1
First Transit	6.8	10.7
Greyhound	33.8	30.0
UK Bus	64.6	32.5
UK Rail	45.1	36.3
Group items	0.7	3.1
Total	258.7	201.7

Cash purchases	210.3	205.6
Disposal proceeds	(21.8)	(35.6)
New finance leases	70.2	32.0
	258.7	202.0

Taxation

	Mar 11 £m	Mar 10 £m
Current tax	37.0	4.1
Deferred tax	(20.0)	27.1
Tax charge on continuing operations	17.0	31.2

Tax rate on adjusted profit before tax	21.8%	22.4%
Cash tax rates (based on full year PBT)	19.7%	0.7%

Pensions

	(Deficit)/Surplus			Cash Contribution			P&L Charge		
£m	2011	2010	2009	2011	2010	2009	2011	2010	2009
North America	(158.4)	(157.3)	(163.5)	11.3	13.7	14.4	7.4	9.1	(2.0)
UK Bus	(30.1)	(129.0)	39.0	34.7	31.0	27.7	(1.9)	1.7	(4.0)
UK Rail	(54.7)	(44.5)	(44.2)	38.6	40.1	38.9	35.6	31.9	36.3
Total	(243.2)	(330.8)	(168.7)	84.6	84.8	81.0	41.1	42.7	30.3

- Basis for future LGPS/RPS pension increases now expected to be CPI (from RPI) reduced deficit by £85m
- Staggered actuarial valuations help to smooth any cash flow adjustments
- Rail accounts for about 1/3rd (assets and liabilities)
  - Substantially de-risked – assets and liabilities coterminous with franchise expiry dates, cost sharing with employees
  - Next cash contribution adjustment from July 2012

UK Rail subsidy/(premium) profile

£m	FCC	FGW	FSR	FTPE	GBRf	Total
FY 2009/10	(145.3)	(140.7)	249.2	115.8	2.8	81.8
FY 2010/11	(156.7)	(249.9)	270.0	120.8	0.4	(15.4)
FY 2011/12	(194.9)	(338.8)	300.5	104.7	-	(128.5)

UK Rail subsidy/(premium) profile excluding changes principally relating to CP4

£m	FCC	FGW	FSR	FTPE	GBRf	Total
FY 2009/10	(95.1)	(18.1)	308.1	115.8	2.8	313.5
FY 2010/11	(119.4)	(127.5)	328.6	120.8	0.4	202.9
FY 2011/12	(153.7)	(210.1)	352.8	104.7	-	93.7

Revenue support/profit share

		Estimate 10/11	Mar 11 £m	Mar 10 £m
FCC	Revenue Support	80%	26.9	39.7
FGW	Revenue Support	80%	141.3	133.1
FTPE	Profit Share	52%	(10.9)	(16.3)
Total			157.3	156.5

FSR eligible for revenue support but currently trading above target revenue

UK Rail Bonds

	Mar 11 £m	Mar 10 £m
FTPE Performance bond	8.8	8.8
GBRf MetroNet bond	-	0.8
FSR Performance bond	25.0	25.0
FSR Season ticket bond	4.5	4.0
FSR Maintenance bond	24.0	28.6
FCC Performance bond	18.6	21.2
FCC Season ticket bond	50.0	44.0
FGW Performance bond	46.2	46.2
FGW Season ticket bond	22.3	19.5
Total	199.4	198.1

UK Rail
Ring-fenced Cash

	Mar 11 £m	Mar 10 £m
FCC	86.3	77.2
FGW	75.8	69.0
FSR	55.1	30.5
FTPE	66.6	57.5
Total	283.8	234.2

UK Rail franchise contracts

	FCC	FGW	FSR	FTPE
Years	4+2+3	7+3	10	8+5
Start date	Apr 2006	Apr 2006	Oct 2004	Feb 2004
Expiry date	Mar 2012	Mar 2013	Nov 2014	Jan 2012
Extension period (performance related)		Mar 2016*		
Authority extension period (at discretion of the DfT)	Up to Mar 2015			Jan 2017

- *FirstGroup will not take up its option to extend FGW for a further three years beyond original franchise term which expires in March 2013

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