

**FirstGroup plc**  
**Half yearly results**  
**for six months to 30 September 2010**

**Wednesday 3 November 2010**

**Tim O'Toole**  
**Chief Executive**

# Overview

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- Steady progress in challenging economic environment – delivering performance in line with expectations
- Return to earnings growth and strong cash performance
- Adjusted basic EPS up 16.7% to 10.5p
- Net cash generation target for full year increased from £150m to £180m (excluding business disposal proceeds)
- Good progress on net debt reduction – confident of achieving ratio of 2.5x net debt:EBITDA by March 2011
- Interim dividend increased by 7.1% to 7.12p
- Initial assessment of Comprehensive Spending Review – manageable with time to implement mitigating actions
- On track to deliver moderate earnings growth for the full year

**Jeff Carr**  
**Finance Director**

**Financial Review**

# Financial results

Continuing operations	Sep 10 £m	Sep 09 £m	Change
Revenue	3,075.8	2,958.2	4.0%
EBITDA	331.8	317.1	4.6%
EBITDA %	10.8%	10.7%	0.1pp
Operating Profit <sup>1</sup>	170.6	164.8	3.5%
Margin %	5.5%	5.6%	(0.1)pp
Interest	(92.9)	(96.8)	4.0%
Profit before tax <sup>1</sup>	77.7	68.0	14.3%

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

# Financial results

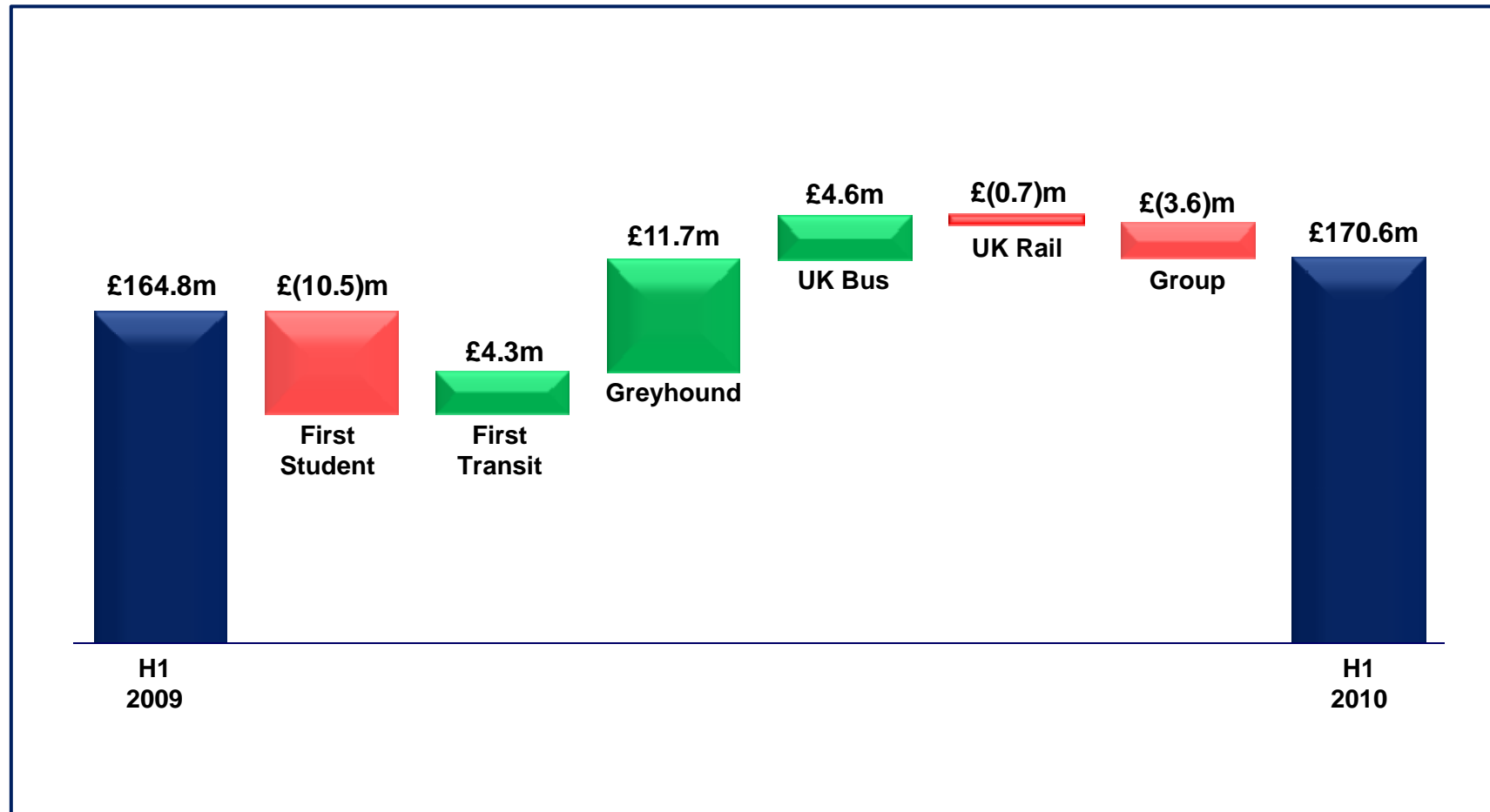
Continuing operations	Sep 10 £m	Sep 09 £m	Change
Profit before tax <sup>1</sup>	77.7	68.0	14.3%
Amortisation charges	(17.7)	(17.1)	
Non-recurring items	22.0	(22.3)	
Profit before tax	82.0	28.6	186.7%
Tax	(19.1)	(2.9)	
Profit after tax	62.9	25.7	144.7%

Interim dividend	7.12p	6.65p	7.1%
Adjusted basic EPS <sup>1</sup>	10.5p	9.0p	16.7%
Basic EPS	11.4p	3.6p	216.7%

- Settlement of claim with Network Rail on previous Great Western Trains franchise resulted in a non-recurring benefit of £22.5m

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

# Operating profit by division



# First Student



	Sep 10 \$m	Sep 09 \$m	Change
Revenue	1,074.6	1,084.4	(0.9)%
EBITDA	157.3	168.2	(6.5)%
EBITDA %	14.6%	15.5%	(0.9)pp
Operating Profit	40.0	55.5	(27.9)%
Margin %	3.7%	5.1%	(1.4)pp

- Revenue slightly reduced due to:
  - Budget pressures resulting in some route consolidations
  - Charter revenues continue to be under pressure
- Margin pressure continues – partially offset by further cost savings and efficiencies

# First Transit



	Sep 10 \$m	Sep 09 \$m	Change
Revenue	596.5	565.5	5.5%
EBITDA	46.9	40.7	15.2%
EBITDA %	7.9%	7.2%	0.7pp
Operating Profit	39.6	33.6	17.9%
Margin %	6.6%	5.9%	0.7pp

- Revenue growth of 5.5% driven by:
  - Shuttle up 24.6%
  - Paratransit up 6.0%
  - Fixed route up 1.5%
- Good margin development from improved cost efficiencies

# Greyhound



	Sep 10 \$m	Sep 09 \$m	Change
Revenue	513.0	493.5	4.0%
EBITDA	61.5	46.3	32.8%
EBITDA %	12.0%	9.4%	2.6pp
Operating Profit	39.2	23.5	66.8%
Margin %	7.6%	4.8%	2.8pp

- Like-for-like passenger revenue growth of 1.9%
- US – improved margins supported by lower fuel costs and reduced fixed cost structure
- Canada – good progress on profit recovery plan

# UK Bus



	Sep 10 £m	Sep 09 £m	Change
Revenue	570.5	585.6	(2.6)%
EBITDA	91.5	88.5	3.4%
EBITDA %	16.0%	15.1%	0.9pp
Operating Profit	55.4	50.8	9.1%
Margin %	9.7%	8.7%	1.0pp

- Overall mileage reduced by c. 6% versus prior year
- Stable performance with like-for-like passenger revenues up by 1.3%
- Targeted mileage reduction and lower fuel costs support margin improvement

# UK Rail



	Sep 10 £m	Sep 09 <sup>1</sup> £m	Change
Revenue	1,053.1	1,004.7	4.8%
EBITDA	74.9	72.2	3.7%
EBITDA %	7.1%	7.2%	(0.1)pp
Operating Profit	48.4	49.1	(1.4)%
Margin %	4.6%	4.9%	(0.3)pp

- Strong operating margin performance despite franchise premium increases (principally at FGW) supported by management actions to reduce costs
- Disposal of GB Railfreight during the period for a gross consideration of £31m

1. September 2009 revenue increased for FGW franchise payments (£66.3m) and FCC revenue support receipts (£14.8m); corresponding increases made to costs with no impact on operating profit; also adjusted for the results of GB Railfreight (Revenue £25.5m, EBITDA £2.2m, Op. Profit £1.7m) now classified within discontinued operations

## Passenger revenue growth<sup>1</sup>

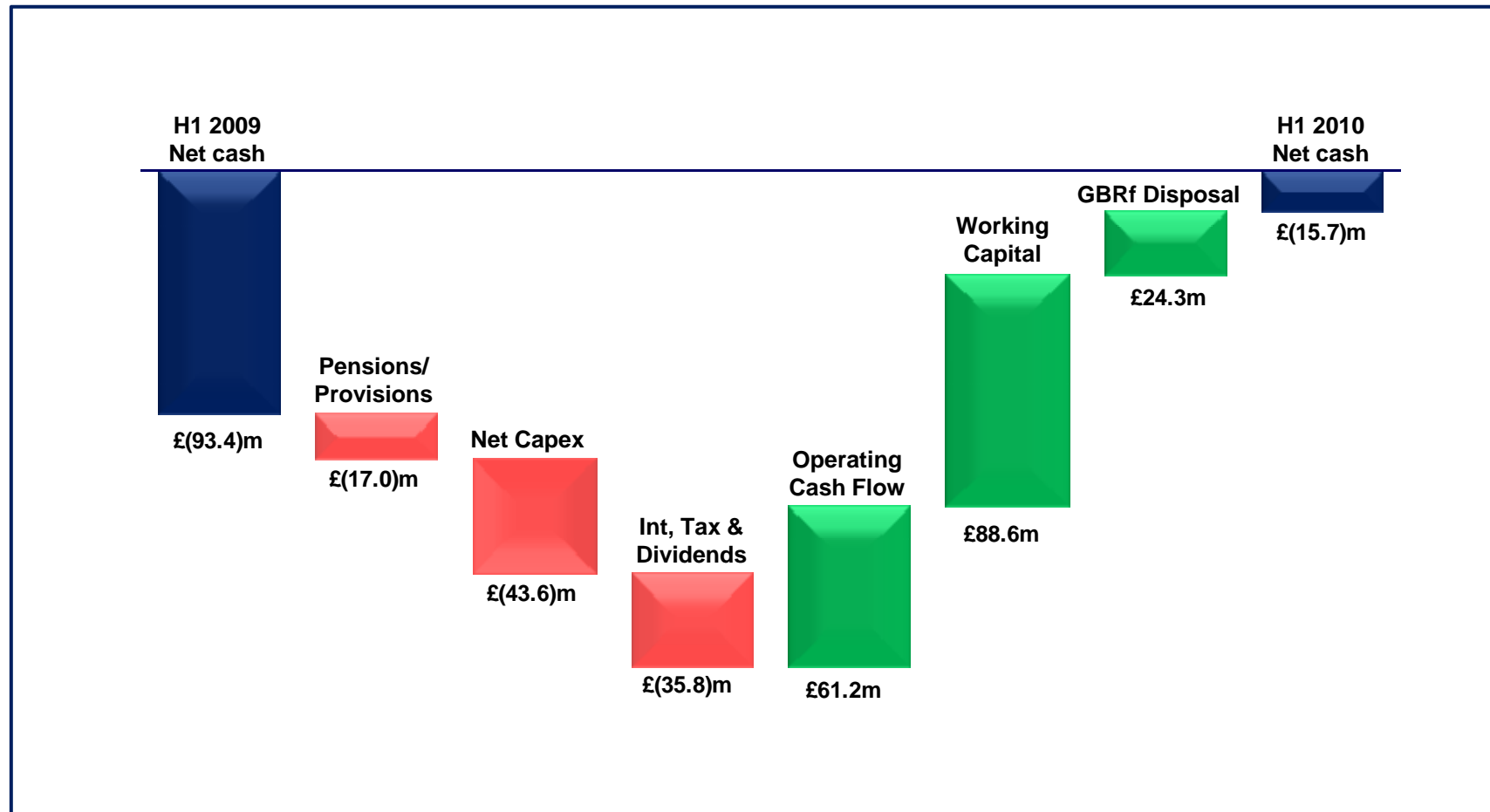
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Six months to:	Sep 10	Mar 10	Sep 09	Mar 09
FCC	2.8%	2.6%	2.7%	7.2%
FGW	5.4%	2.5%	(0.1)%	3.9%
FSR	3.5%	2.8%	3.7%	7.3%
FTPE	5.7%	5.7%	5.4%	9.4%
Hull Trains	7.7%	(3.1)%	(5.9)%	8.7%
Total	4.4%	2.8%	1.7%	5.9%

- Strong volume growth across all TOCs
- Good like-for-like passenger revenue growth, up 4.4% despite regulated fare decrease in January 2010
- Encouraging trends continue

1. Adjusted for the timing of Easter, Thameslink Phase Zero engineering works in FCC, increased Scottish services at FTPE, UK airspace closures and engineering works at FGW

# Cash flow improvements



**Full year cash target increased from £150m to £180m (excl. business disposal proceeds)**

# Cash flow

	Sep 10 £m	Sep 09 £m	Change £m
EBITDA (including discontinued operations)	332.2	319.4	12.8
Non-recurring items	22.3	(25.1)	47.4
Other non-cash income statement items	4.1	3.1	1.0
<b>Operating cash flows</b>	<b>358.6</b>	<b>297.4</b>	<b>61.2</b>
Working capital outflow	(16.4)	(105.0)	88.6
Pension payments > income statement charge	(14.8)	(17.3)	2.5
Movement in provisions	(30.2)	(10.7)	(19.5)
<b>Cash generated by operations</b>	<b>297.2</b>	<b>164.4</b>	<b>132.8</b>
Capex and acquisitions	(147.2)	(103.6)	(43.6)
Interest and tax	(117.9)	(88.5)	(29.4)
Dividends	(72.1)	(65.7)	(6.4)
Proceeds from sale of business	24.3	-	24.3
<b>Net cash outflow</b>	<b>(15.7)</b>	<b>(93.4)</b>	<b>77.7</b>

- Cash generated by operations of £297.2m, up £132.8m versus prior year
- Working capital improvement of £88.6m due to focus on receivables and improved payment terms with suppliers
- Capital expenditure £43.6m higher than prior year; FY10/11 capex expected to be c.£300m
- Interest and tax £29.4m higher principally due to timing of bond interest payments

# Leverage

	Sep 10	Mar 10	Sep 09	Mar 09
Average debt maturity (years)	5.6	6.3	6.4	4.6
Net debt:EBITDA	2.8x	3.0x	3.0x	3.2x

- Committed facility headroom £934m at 30 Sep 2010
- Expect to complete refinancing of bank revolver facilities by March 2011
- On track to achieve 2.5x net debt:EBITDA ratio by March 2011
- Target net debt:EBITDA ratio of approximately 2.0x
- Committed to target credit rating of BBB flat (S&P) and BBB+ (Fitch)

**Tim O'Toole**  
**Chief Executive**

**Business Review**

# First Student

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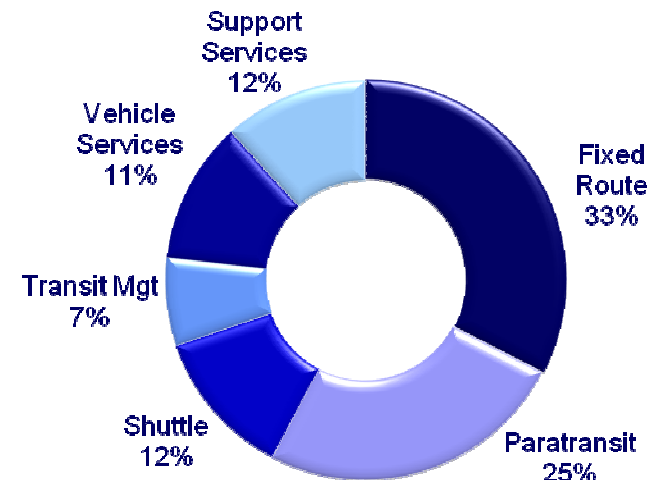
- Some route consolidations and reduced level of charter activity as school boards continue to manage budgetary constraints
- Prioritising actions to reduce cost base and leverage our scale to deliver efficiencies including FOCUS – on track for roll out for start of 2011/12 school year
- Working with customers on range of efficiency initiatives that deliver cost savings
- Good operating performance in school start up during August / September
- The market leader with further opportunity to create a stronger platform for future growth

# First Transit



- Continued strong revenue growth including:
  - New conversion contract in San Diego, California
  - Expansion of contract in Fort McMurray, Canada
- Leveraging existing business relationships to win a number of new contracts across different market segments including:
  - New paratransit contract in Reno, Nevada
  - New fixed route contract in Durham, North Carolina
- Good progress with strategy to grow in higher margin paratransit and shuttle markets

Annual revenues  
>\$1.1bn



# Greyhound

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- Delivering growth and margin improvement in a tough trading environment
- Highly cash generative
- Progress in modernising Greyhound – improving performance and reducing cost of sale including:
  - Network transformation project – properties right-sized and moved to more appropriate locations
  - Refurbishment programme to extend the life and improve performance and onboard facilities of mid-life fleet
  - Further growth of internet sales through greyhound.com – now accounts for 25% of all ticket sales in the US up from 14% in 2007
- Continue to develop new markets
  - Good growth in BoltBus and expanding into new markets: Maryland, Massachusetts, New Jersey and Pennsylvania
  - Launch of Greyhound Express

# UK Bus

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- Steady performance
- Targeted mileage reductions protect revenue per mile in current environment – capacity to increase networks as UK economy recovers
- Focus on initiatives to stimulate revenue growth and promote modal shift – strong emphasis on partnerships
- London – improved operating performance and new business wins for 2011/12
- BSOG 20% reduction from April 2012 – offset by further efficiencies, network management and pricing

# UK Rail

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- Strong revenue performance from increased volumes across all our TOCs
- Encouraging growth of First Class ticket sales particularly Advance purchase and increase in fully flexible Standard ticket sales
- Continued focus on operational performance – PPM MAA over 91% at FGW, FSR and FTPE; FCC consistently over 90% in H1
- Largest operator and long term key player in the industry – working with McNulty Review on value for money and DfT on ‘Future of franchising’

# Outlook

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- On track to deliver moderate earnings growth for the full year
- Encouraging growth trends in some markets – particularly UK Rail and First Transit
- Continue to focus on improving net cash generation – increased target from £150m to £180m (excluding business disposal proceeds)
- Driving further cost reductions and efficiencies to protect and develop margins
- Strong performance, particularly in challenging economic environment, demonstrates highly cash generative nature of Group and supports:
  - Increase in capital expenditure
  - Annual dividend growth of at least 7%
  - Net debt reduction

**FirstGroup plc**  
**Half yearly results**  
**for six months to 30 September 2010**

**Wednesday 3 November 2010**

# Appendices

**Half yearly results  
for the six months to  
30 September 2010**

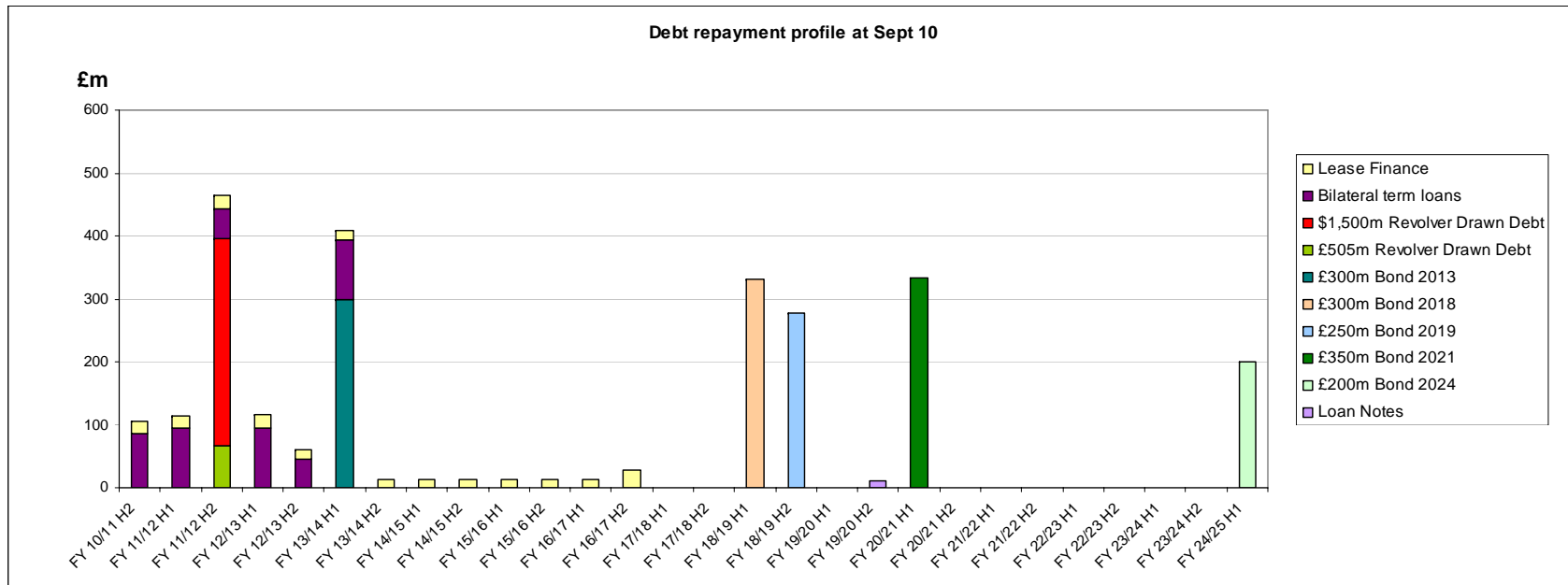
# Crude oil hedge position

	UK			North America*		
	2009/10	2010/11	2011/12	2009/10	2010/11	2011/12
Usage (barrels'm)	2.6	2.5	2.6	1.9	1.7	1.7
% Hedged	100%	90%	64%	100%	90%	55%
Hedge rate	\$110.64	\$76.23	\$84.49	\$115.92	\$89.40	\$95.16
<b>* North America comprises "at risk" volumes:</b>						<b>2010/11</b>
Gross usage (barrels'm)**						<b>3.9</b>
Less: provided by customer, pass through cost or protected by contract escalator						<b>(2.2)</b>
"At risk" volume						<b>1.7</b>
**includes estimate of volumes provided by customer						

# Gross debt distribution

Main debt instruments:

- \$1,500m unsecured acquisition revolver facility February 2012
- £505m unsecured revolver facility February 2012
- \$733m unsecured bilateral term loans October 2010- May 2013
- Unsecured bond £300m 6.875% April 2013
- Unsecured bond £300m 8.125% September 2018
- Unsecured bond £250m 6.125% January 2019
- Unsecured bond £350m 8.75% April 2021
- Unsecured bond £200m 6.875% September 2024



# Foreign exchange

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

	Sep 10	Mar 10	Sep 09
Closing rate for the balance sheet US\$	\$1.58	\$1.49	\$1.60
Closing rate for the balance sheet CAN\$	\$1.62	\$1.53	\$1.77

- The movement in the effective rate results in an increased operating profit

	Sep 10	Mar 10	Sep 09
Effective rate on US\$ earnings	\$1.50	\$1.57	\$1.53
Effective rate on CAN\$ earnings	\$1.44	\$1.60	\$1.88

# Non-recurring items & amortisation



Credit/(charge)	Sep 10 £m	Sep 09 £m
North American & Greyhound integration costs	-	(7.0)
Fuel hedge provision	-	(4.8)
North American & Greyhound restructuring cost	-	(5.8)
UK Bus & UK Rail restructuring costs	-	(3.7)
UK Rail claim	22.5	-
Other non-recurring items	(0.2)	(3.8)
<b>Total non-recurring items</b>	<b>22.3</b>	<b>(25.1)</b>
Amortisation charges	(17.7)	(17.1)
Loss on disposal of properties	(1.5)	(1.2)
Hedge ineffectiveness on financial derivatives	1.2	4.0
<b>Total</b>	<b>4.3</b>	<b>(39.4)</b>

- Long running claim agreed with Network Rail relating to previous Great Western Trains franchise
- Other non-recurring items relate to minor bidding activity in Europe
- Amortisation charges increase as a result of foreign exchange movements
- No significant property disposals during the period
- Hedge ineffectiveness on financial derivatives credit due to the ineffective element of fair value movements on cross currency swaps

# Cash capital expenditure



	Sep 10 £m	Sep 09 £m
First Student	55.7	31.2
First Transit	3.4	4.2
Greyhound	16.3	27.3
UK Bus	54.8	20.0
UK Rail	16.7	18.8
Group items	0.3	2.1
<b>Total</b>	<b>147.2</b>	<b>103.6</b>

Cash purchases	142.1	93.1
Disposal proceeds	(13.4)	(21.5)
New finance leases	18.5	32.0
	<b>147.2</b>	<b>103.6</b>

# Tax



	Sep 10 £m	Sep 09 £m
Current tax	14.8	1.7
Deferred tax	4.3	1.2
Tax charge on continuing operations	19.1	2.9
Tax rate on adjusted profit before tax	25.0%	24.4%
Expected cash tax rate	9.0%	1.0%

**Estimated FY 2010/11 tax rate of 25.0%**

# Pensions

	£m
Deficit at 31 March 2010	(331)
Discount rate reduction (5.6% to 5.05%)	(191)
Inflation rate reduction (3.4% to 3.0%)	94
RPI to CPI change	70
Other	8
Deficit at 30 September 2010	(350)

- Basis for future LGPS/RPS pension increases now expected to be CPI (from RPI) reduced deficit by £70m
- 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 co-terminous with franchise expiry dates, cost sharing with employees
  - Next cash contribution adjustment from July 2012

# UK Rail

## Subsidy/(premium) profile



Full year:

£m	FCC	FGW	FSR	FTPE	GBRf	Total
2008/09	(53.4)	9.7	306.9	119.1	1.5	383.8
2009/10	(145.3)	(140.7)	249.2	115.8	2.8	81.8
2010/11	(157.4)	(246.2)	268.6	120.7	0.4	(13.9)

- 2008/09 FCC premium payment reduced due to agreed Thameslink timetable changes (£17.6m)
- 2009/10 premium payment increased due to CP4 changes in FCC (£54.7m) and FGW (£116.1m)
- 2009/10 FSR subsidy receivable reduced due to CP4 changes (£58.9m)
- 2010/11 premium payment increased due to CP4 changes in FCC (£38.7m) and FGW (£118.2m)
- 2010/11 FSR subsidy receivable reduced due to CP4 changes (£45.5m)
- None of the above revisions impacted operating profit as offset by equivalent change in Network Rail charges

# UK Rail



## Revenue support/(profit) share

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		Estimate 10/11	Sep 10 £m	FY Mar 10 £m	Sep 09 £m
FCC	Revenue Support	80%	20.1	39.7	14.8
FGW	Revenue Support	80%	73.3	133.1	61.6
FTPE	Profit Share	52%	(5.4)	(16.3)	(5.4)
Total			88.0	156.5	71.0

- Revenue support available in FSR – currently trading above target revenue

# UK Rail bonds

	Sep 10 £m	Sep 09 £m
FTPE Performance bond	8.8	8.5
GBRf MetroNet bond	-	0.8
FSR Performance bond	25.0	25.0
FSR Season ticket bond	4.0	3.9
FSR Maintenance bond	23.9	28.6
FCC Performance bond	22.5	21.2
FCC Season ticket bond	44.0	43.7
FGW Performance bond	46.2	45.2
FGW Season ticket bond	19.5	18.2
<b>Total</b>	<b>193.9</b>	<b>195.1</b>

# UK Rail

## Ring-fenced cash

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	Sep 10 £m	Sep 09 £m
FCC	61.5	45.8
FGW	65.9	46.8
FSR	27.9	24.5
FTPE	64.0	58.7
Total	219.3	175.8

# UK Rail franchise contracts



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	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
Performance related extension period		Mar 2016		
Authority extension period (at discretion of the DfT)	Up to Mar 2015			Jan 2017

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