

FirstGroup plc
Half-yearly results
for six months to 30 September 2009

Wednesday 4 November 2009

Sir Moir Lockhead Chief Executive

Overview

Overview

- Robust results against tough economic backdrop and increased fuel costs – c.£100m in 2009/10 set to reverse in 2010/11
- North America – 75% revenues from resilient contract business, focus on margin development
- Greyhound revenue trends stabilising – managing flexible model to protect revenue per mile
- UK Bus like for like passenger revenue up 2.4% – cost actions to protect margins
- UK Rail like for like passenger revenue up 1.7% – revenue support for FCC and FGW
- Cost reduction plan implemented – at least £200m this year
- Further dividend growth – increased by 10% to 6.65p

Outlook unchanged – on course to achieve earnings targets for the year and cash generation of £100m to reduce net debt

Jeff Carr
Finance Director

Financial Review

Key highlights

- Performance in line with expectations – operating profit of £166.5m, impacted by:
 - Hedged fuel costs up by £74m – equivalent to 11p impact on EPS (average hedged cost \$113 per barrel)
- Cost reduction plan on track to deliver at least £200m this year
- Net debt at £2,374m and net debt:EBITDA at 3.0x in line with our expectations and on course to deliver £100m cash for debt reduction

Financial results

	Sep 09 £m	Sep 08 £m	Change
Revenue	2,902.6	2,768.5	4.8%
EBITDA	319.4	306.0	4.4%
EBITDA %	11.0%	11.1%	(0.1)pp
Operating Profit ¹	166.5	181.2	(8.1)%
Margin %	5.7%	6.5%	(0.8)pp
Profit before tax ¹	69.7	107.1	(34.9)%

Increased fuel costs of £74m in period largely mitigated by cost initiatives

Income statement

	Sep 09 £m	Sep 08 £m	Change
Profit before tax ¹	69.7	107.1	(34.9)%
Amortisation charges	(17.1)	(13.5)	
Non-recurring items ²	(22.3)	(39.2)	
Profit before tax	30.3	54.4	(44.3)%
Tax	(3.4)	(23.1)	
Profit after tax	26.9	31.3	(14.1)%
Interim dividend	6.65p	6.05p	10.0%
Basic EPS	3.9p	5.0p	(22.0)%
Adjusted EPS ¹	9.3p	15.6p	(40.4)%

Non-recurring items relate principally to £200m cost reduction plan and also to North American integration

1. Before amortisation charges, hedge ineffectiveness on financial derivatives, non-recurring bid costs, other non-recurring items and loss on disposal of properties 7
 2. Including losses on property disposals and hedge ineffectiveness on financial derivatives

Management actions

- Cost reduction plan progressing well – at least £200m annual savings:

	UK Bus	UK Rail	N Am	Grey	Total
Full year 2009/10 (£m)	55	70	42	33	200

- Headcount reductions to date:

	UK Bus	UK Rail	N Am	Grey	Total
Period to Mar 09	390	215	170	925	1,700
Six months to Sep 09	740	395	645	920	2,700
TOTAL	1,130	610	815	1,845	4,400

- Leveraging scale to drive further efficiencies e.g. in procurement and engineering
- Pay awards reflecting deflationary environment
- North America branch consolidation
- Improved driver efficiencies
- Reduced third party discretionary expenditure

Crude oil hedge position

	UK			North America “at risk”		
	2008/09	2009/10	2010/11	2008/09	2009/10	2010/11
Usage (barrels'm)	2.7	2.6	2.4	2.4	1.9	1.9
% Hedged	100%	100%	82%	100%	100%	82%
Hedge rate	\$75.73	\$110.64	\$75.85	\$83.76	\$115.92	\$89.40
North America “at risk” volumes comprise:						2009/10
Gross usage (barrels'm)*						3.8
Less: provided by customer, pass through cost or protected by contract escalator						(1.9)
“At risk” volume						1.9
*includes estimate of volumes provided by customer						

Cost increase in 2009/10 set to reverse in 2010/11

North America Contract Businesses



	Sep 09 \$m	Sep 08 \$m	Change
Revenue	1,649.9	1,730.1	(4.6)%
EBITDA	208.9	192.8	8.4%
EBITDA %	12.7%	11.1%	1.6pp
Operating Profit	89.1	83.9	6.2%
Margin %	5.4%	4.8%	0.6pp

- Good progress on cost reductions – margins up 0.6pp versus last year
- Total revenue down 4.6% – down 1.2% after adjusting for:
 - Weaker Canadian \$ v US \$
 - Lower Student operating days (Easter 09 & Labor Day)

**H2 revenue expected to be in line
with last year**

Greyhound

	Sep 09 \$m	Sep 08 \$m	Change
Revenue	493.5	632.9	(22.0)%
EBITDA	46.3	105.0	(55.9)%
EBITDA %	9.4%	16.6%	(7.2)pp
Operating Profit	23.5	81.1	(71.0)%
Margin %	4.8%	12.8%	(8.0)pp

- Less than 10% of Group EBIT
- Revenue reduction of 20.1% at constant FX rates – mileage reduced by 13%
- Revenue trends stabilised over H1 – began to improve towards the end of Q2 and improvement continues
- Excellent performance on costs with consolidation of back office functions, overhead reductions and headcount reduced by 1,845

Revenue trends improving in H2

UK Bus

	Sep 09 £m	Sep 08 £m	Change
Revenue	585.6	578.6	1.2%
EBITDA	88.5	96.1	(7.9)%
EBITDA %	15.1%	16.6%	(1.5)pp
Operating Profit	50.8	60.0	(15.3)%
Margin %	8.7%	10.4%	(1.7)pp

- Like for like passenger revenues increased by 2.4% – volume reduction c.1% – mileage reduced by c.4%
- Based on current trading expect FY 2009/10 like for like passenger revenue growth of c.1-2%
- Increased fuel costs partly mitigated by improved operating efficiencies and overhead cost reductions

Positive impact on H2 margin expected as cost initiatives are fully realised

UK Rail

	Sep 09 £m	Sep 08 £m	Change
Revenue	949.1	960.6	(1.2)%
EBITDA	74.5	66.3	12.4%
EBITDA %	7.8%	6.9%	0.9pp
Operating Profit	50.8	48.3	5.2%
Margin %	5.4%	5.0%	0.4pp

- Revenue impacted by change to CP4¹ (£81m) – no impact on operating profit
- Passenger revenue and revenue support increased
- Like for like passenger revenue growth of 1.7%
- Operating profit benefits from overhead reductions and bought-in cost savings

1. A change in the Control Period (CP4) arrangements with Network Rail meant an £81.5m reduction in grant revenue from the DfT and a £81.5m reduction in Network Rail charges with no impact on operating profit

Passenger revenue growth¹

Six months to:	Sep 09	Mar 09	Sep 08
FCC	2.7%	7.2%	10.4%
FGW	(0.1)%	3.9%	8.9%
FSR	3.7%	7.3%	8.6%
FTPE	5.4%	9.4%	15.8%
Hull Trains	(5.9)%	8.7%	12.1%
Total	1.7%	5.9%	9.8%

- Increased demand for advance and discounted tickets
- FCC, FSR and FTPE – continue to grow
- FGW more impacted by recession

H2 passenger revenues expected to be flat versus prior year – regulated fares reduction of 0.4% from Jan 2010

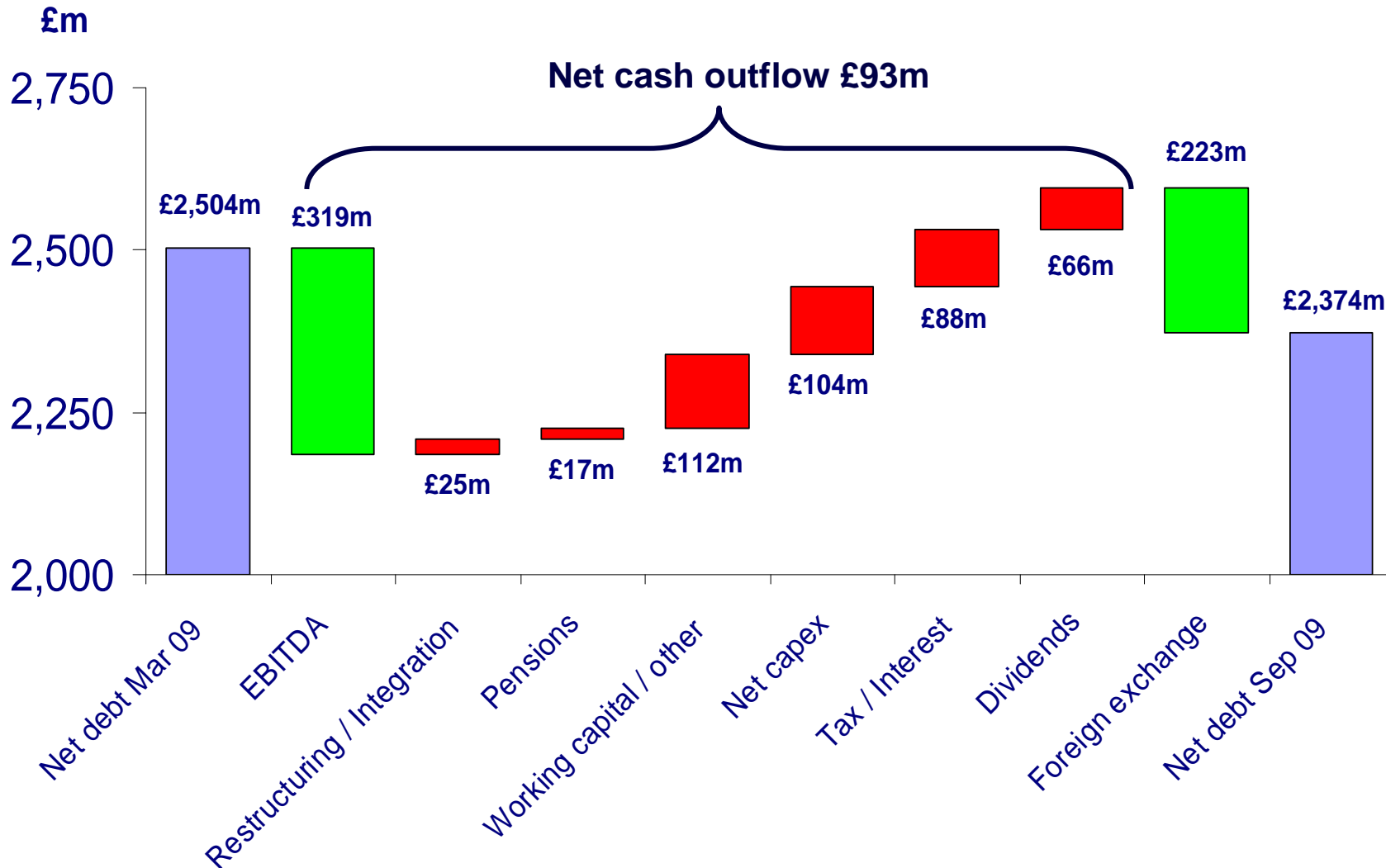
Cash flow

	Sep 09 £m	Sep 08 £m	Change £m
EBITDA	319.4	306.0	13.4
Integration costs/non-recurring items	(25.1)	(36.4)	11.3
Pension payments > income statement charge	(17.3)	(27.1)	9.8
Working capital outflow	(115.7)	(75.2)	(40.5)
Other non-cash P&L items	3.1	8.4	(5.3)
Operational cash flow	164.4	175.7	(11.3)
Capex and acquisitions	(103.6)	(189.8)	86.2
Interest, tax and other	(88.5)	(77.4)	(11.1)
Dividends	(65.7)	(58.1)	(7.6)
Net cash outflow	(93.4)	(149.6)	56.2

- Net cash outflow £56m lower than prior half year
- Working capital impacted by revenue support increase and CP4 charging mechanism changes in UK Rail
- Improved efficiency of capital expenditure
- Interest impacted by US\$ exchange rates and increased rates on Sep 08 and Apr 09 bonds

On target to generate £100m net cash inflow

Change in net debt



Debt and leverage

- Strategy to extend the maturity profile of the Group's debt and reduce reliance on bank borrowings
 - Apr 2009 - £350m 12 year bonds issued at a coupon of 8.75% – proceeds used to repay bank debt
 - Sep 2009 - £200m 15 year bonds issued at a coupon of 6.88% – proceeds used to repay bank debt
 - Committed facility headroom £826m at 30 Sep 2009
 - Next main refinancing: revolver facilities with core banks due Feb 2012
- Key measures:

	Mar 08*	Sep 08	Mar 09	Sep 09
Average debt maturity	3.5 years	4.9 years	4.6 years	6.4 years
Net debt:EBITDA (constant FX rate \$2)	3.2x	3.0x	2.7x	2.9x
Net debt:EBITDA (actual basis)	3.2x	3.1x	3.2x	3.0x

* Proforma Laidlaw acquisition

Summary

- Good performance in first half despite tough trading conditions
- As expected increased cost of hedged fuel impacting margins – set to reverse next year:
 - £74m in the period (£100m in FY 2009/10)
- Good progress on cost reductions:
 - On target to deliver at least £200m in this year
- Strengthened financial position:
 - Two bonds issued during the first half to repay bank debt
 - Average debt duration extended to 6.4 years
 - Net debt:EBITDA at 3.0x

**Continued focus on cost management and
debt reduction**

**Sir Moir Lockhead
Chief Executive**

Business Review

North America

First Student

- Resilient - no exposure to passenger volumes
- Strong contract retention >90%
- Margin development – exited poor performing contracts
- Organic growth (add-ons to existing contracts) affected by school district budgetary pressure
- Expect number of buses operated to be similar to last year
- Excellent school ‘start up’ – strong operating performance and driver availability
- Good progress with cost actions and efficiency improvements
- Creating lean, stronger base for future growth

North America

First Transit

- Strong contract retention >90%
- Good margin development
- New contract wins incl. shuttle buses for Universities of Alabama, Chicago and Louisiana
- Successful period with continued growth in higher margin, light transit market – e.g. paratransit and shuttle buses

Greyhound

- Clear impact of recession but management actions to control costs and match supply to demand
- Revenue trends stabilising in H1 - improvement in Q2 and trend continuing
- Utilising flexible model to protect RPM
- Cut mileage by 13% in US and 10% in Canada
- Significant overhead reduction – incl. back office consolidation and headcount down by 17% (1,845 posts)
- On Time Performance improved
- Actions have transformed operating model – strong foundation for future growth

UK Bus

- Resilient business with flexible operating model
- Matching supply to demand to protect revenue per mile
- Good progress on cost reduction actions mitigating impact of fuel increase – costs reduced by at least £55m by March 2010
- Strong operating performance
 - Low driver turnover 17%
 - Improved punctuality and reduced cancellations
- Successful partnerships with local authorities
 - Joint initiatives to increase reliability and promote bus use

UK Rail

- Continued like for like passenger revenue growth at FCC, FSR and FTPE despite clear impact of economy
- Revenue support provides substantial insulation – 80% support at FCC and FGW
- Good progress to reduce addressable cost base – at least £70m by March 2010
 - Overheads
 - Bought-in costs
- Focus on efficiencies
- Excellent operating performance – all TOCs over 90% PPM

Outlook

- Confidence in continued strength and resilience of Group
 - Diverse portfolio - balanced between passenger and contract revenues
 - Flexible operating models - demonstrating ability to respond to changing demand and protect margins
 - North America - excellent potential to leverage scale and continue to increase share of large, fragmented market
 - UK Bus - resilient and highly flexible, the cost effective solution to traffic congestion
 - UK Rail - remains attractive longer-term market, significant de-risking through revenue support
- Group well placed to realise benefits of economic recovery

Outlook unchanged – on course to achieve earnings targets for the year and cash generation of £100m to reduce net debt

Appendices

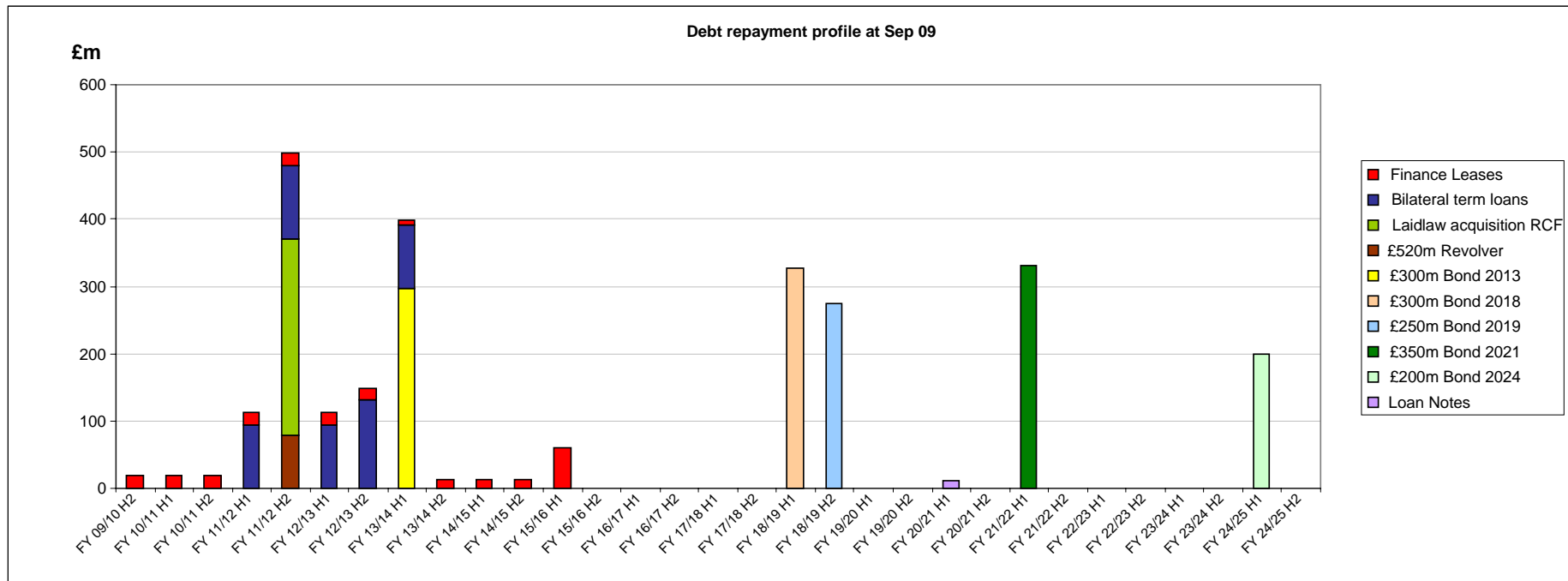
**Half yearly results
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Gross debt distribution

- Main debt instruments:

- \$1,500m unsecured acquisition revolver facility
- £505m unsecured revolver facility
- \$813m unsecured bilateral term loans
- Unsecured bond £300m 6.875%
- Unsecured bond £300m 8.125%
- Unsecured bond £250m 6.125%
- Unsecured bond £350m 8.75%
- Unsecured bond £200m 6.875%

- February 2012
- February 2012
- May 2011-2013
- April 2013 (eligible for the BOE secondary market scheme)
- September 2018 (eligible for the BOE secondary market scheme)
- January 2019 (eligible for the BOE secondary market scheme)
- April 2021 (eligible for the BOE secondary market scheme)
- September 2024



Next main refinancing requirement in Feb 2012

Net finance costs

	Sep 09 £m	Sep 08 £m
Bonds	39.6	14.9
Bank borrowings	44.7	50.3
Loan notes	0.5	0.6
Finance lease interest	4.2	3.2
Notional interest	8.8	8.9
Investment income	(1.0)	(3.8)
Hedge ineffectiveness on financial derivatives ¹	(4.0)	-
Net finance costs	92.8	74.1

US\$ FX movements increased current half year costs by £11.5m

1. Included within non-recurring items

Foreign exchange

- US\$ weakening reduces translated Sterling debt (closing rate)

	Sep 09	Mar 09	Sep 08
Closing rate for the balance sheet	\$1.60	\$1.43	\$1.84

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

	Sep 09	Mar 09	Sep 08
Effective rate on US\$ earnings	\$1.53	\$1.63	\$1.91
Effective rate on CAN\$ earnings	\$1.88	\$1.95	\$1.97

Non-recurring items & amortisation

	Sep 09 £m	Sep 08 £m
North American & Greyhound integration costs	7.0	34.5
Fuel hedge provision	4.8	-
North American & Greyhound restructuring cost	5.8	-
UK Bus & UK Rail restructuring costs	3.7	-
European bid costs	-	1.5
Other non-recurring items	3.8	0.4
Total non-recurring items	25.1	36.4
Amortisation charges	17.1	13.5
Loss on disposal of properties	1.2	2.8
Hedge ineffectiveness on financial derivatives	(4.0)	-
Total	39.4	52.7

- North America & Greyhound integration costs of £7.0m reflect ongoing long-term IT projects and the conclusion of the Greyhound back-office consolidation which commenced last year
- Fuel hedge provision of £4.8m represents ineffectiveness due to a reduction in 2009/10 fuel requirements
- Restructuring costs relate to the cost reduction programme to deliver £200m savings in 2009/10
- Amortisation charges increase primarily as a result of foreign exchange movements
- Hedge ineffectiveness on financial derivatives credit of £4.0m due to ineffective element of the fair value movements on cross currency swaps

Cash capital expenditure

	Sep 09 £m	Sep 08 £m
UK Bus	20.0	67.9
UK Rail	18.8	38.9
North America	35.4	68.5
Greyhound	27.3	8.5
Group items	2.1	6.0
Total	103.6	189.8

Taxation

	Sep 09 £m	Sep 08 £m
Current tax	2.2	6.1
Deferred tax	1.2	1.8
Exceptional deferred tax charge	-	15.2
Tax charge	3.4	23.1

Tax rate on adjusted profit before tax	24.4%	24.3%
Cash tax rate (based on full year PBT estimates)	1%	4%

Estimated FY 2009/10 tax rate of 24.4%

Pensions

- IAS 19 deficit of £169m at start of year now a deficit of £345m at 30 Sep 2009
- Increased deficit caused by lower discount rate (from 6.75% to 5.45%)
- 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

FirstGroup America

Six months to Sep 09



	Student \$m	Transit \$m	Grey \$m	Total \$m	Total £m
Revenue	1,084.4	565.5	493.5	2,143.4	1,356.5
EBITDA	168.2	40.7	46.3	255.2	163.7
EBITDA %	15.5%	7.2%	9.4%	11.9%	12.1%
Operating Profit	55.5	33.6	23.5	112.6	74.1
Margin %	5.1%	5.9%	4.8%	5.3%	5.5%

UK Rail Subsidy / (premium) profile



Full Year:

£m	FCC	FGW	FSR	FTPE	GBRf	Total
2008/09	(71.0)	9.7	306.9	119.1	1.5	366.2
2009/10	(94.8)	(27.0)	307.9	115.8	2.4	304.3

		Estimate 09/10	Sep 09 £m	Sep 08 £m	Mar 09 £m
FCC	Revenue Support	80%	14.8	-	-
FGW	Revenue Support	80%	61.6	25.0	46.9
FSR ¹	-	-	-	-	-
FTPE	Profit Share	52%	(5.4)	(5.7)	(10.6)

UK Rail bonds

	Sep 09 £m	Sep 08 £m
FTPE Performance bond	8.5	8.5
GBRf MetroNet bond	0.8	0.8
FSR Performance bond	25.0	25.0
FSR Season ticket bond	3.9	4.0
FSR Maintenance bond	28.6	29.9
FCC Performance bond	21.2	21.2
FCC Season ticket bond	43.7	43.7
FGW Performance bond	45.2	45.2
FGW Season ticket bond	18.2	18.2
Total	195.1	196.5

UK Rail

Ring-fenced cash

	Sep 09 £m	Sep 08 £m
FCC	45.8	61.8
FGW	46.8	29.6
FSR	24.5	33.2
FTPE	58.7	60.2
Total	175.8	184.8

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

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