

FirstGroup plc
Half yearly results

for six months to 30 September 2011

Wednesday 9 November 2011





Tim O'Toole

Chief Executive

2011 Overview



- Overall Group trading in line with our expectations; achieved our objectives for the period
- First Student – good momentum in recovery plan with positive early indicators
- Steady performance in First Transit, continued growth in core segments
- Actions taken in Greyhound delivering results – transforming the network and driving growth
- UK Bus – priority to manage immediate challenges of softening economy while positioning the business to deliver increased growth
- UK Rail – further strong growth, achieved 3 year extension on FTPE
- Focus on cash generation to support capital investment, net debt reduction and dividend growth of 7%
- Clear opportunities to drive greater operational performance and efficiencies across the Group



Jeff Carr

Finance Director

Financial Review

Key highlights



- Overall performance in line with expectations – operating profit of £163m
- Continued earnings growth – adjusted EPS +6.7%
- An exceptional credit of £58m in the period, principally as a result of the pension benefit in UK Bus scheme change from RPI to CPI
- Further progress to reduce leverage - net debt:EBITDA 2.7x (Sep 2010: 2.8x)
- Continue to target net cash inflow of £150m for 2011/12 including further selective asset & business disposals

Financial results

Continuing operations ¹	Sep 11 £m	Sep 10 £m	Change
Revenue	3,168.8	3,069.9	3.2%
EBITDA ²	323.4	331.3	(2.4)%
EBITDA %	10.2%	10.8%	(0.6)pp
Operating Profit ²	163.0	170.4	(4.3)%
Margin %	5.1%	5.6%	(0.5)pp
Interest	(78.5)	(92.9)	(15.5)%
Profit before tax ²	84.5	77.5	9.0%

- Revenue grew by 3.2% or 0.4% excluding the extra week of trading
- EBITDA margin maintained at over 10%
- Operating profit down due to expected reduction in First Student results
- Higher operating profits and margin improvement in all businesses apart from First Student
- Lower interest costs due to lower interest rates on US Dollar denominated debt

1. For all businesses excluding UK Rail this half year includes 27 weeks compared to 26 weeks for the corresponding period last year
2. Before amortisation charges, ineffectiveness on financial derivatives, exceptional items, loss on disposal of properties and discontinued operations

Income statement

Continuing operations	Sep 11 £m	Sep 10 £m	Change
Profit before tax ¹	84.5	77.5	9.0%
Amortisation charges	(15.1)	(17.7)	
Exceptional items	58.4	22.0	
Profit before tax	127.8	81.8	56.2%
Tax	(28.0)	(19.0)	
Profit after tax	99.8	62.8	58.9%
Proposed interim dividend	7.62p	7.12p	7.0%
Basic EPS	18.3p	11.4p	60.5%
Adjusted EPS	11.2p	10.5p	6.7%

- Favourable outcome on net exceptional items due to one-off benefit on UK Bus pensions

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

First Student



	Sep 11 \$m	Sep 10 \$m	Change
Revenue	1,107.6	1,074.6	3.1%
EBITDA	129.5	157.3	(17.7)%
EBITDA %	11.7%	14.6%	(2.9)pp
Operating Profit	9.0	40.0	(77.5)%
Margin %	0.8%	3.7%	(2.9)pp

- Adjusting for the extra week revenues were 2.4% lower than corresponding period last year
- As previously indicated, trading in H1 reflected the carry-over of last year's performance, expect H2 operating margin to be broadly in line with same period last year
- Recovery plan on track to achieve annualised savings of \$65m

First Transit



	Sep 11 \$m	Sep 10 \$m	Change
Revenue	627.3	596.5	5.2%
EBITDA	51.4	46.9	9.6%
EBITDA %	8.2%	7.9%	0.3pp
Operating Profit	44.1	39.6	11.4%
Margin %	7.0%	6.6%	0.4pp

- Adjusting for the extra week revenue increased by 1.2% compared to corresponding period last year
- Continued earnings growth and margin improvement
- Further progress in core business segments - good growth in shuttle market

Greyhound



	Sep 11 \$m	Sep 10 \$m	Change
Revenue	556.6	513.0	8.5%
EBITDA	73.5	61.5	19.5%
EBITDA %	13.2%	12.0%	1.2pp
Operating Profit	49.4	39.2	26.0%
Margin %	8.9%	7.6%	1.3pp

- Like-for-like passenger revenue growth of 3.7%
- Greyhound US like-for-like revenue growth in Q1 of 3.7% accelerated to 4.1% in Q2
- Earnings and margin improvement from increased operating leverage and actions to improve Greyhound Canada profitability

UK Bus



	Sep 11 £m	Sep 10 £m	Change
Revenue	586.9	570.5	2.9%
EBITDA	96.5	91.5	5.5%
EBITDA %	16.4%	16.0%	0.4pp
Operating Profit	59.4	55.4	7.2%
Margin %	10.1%	9.7%	0.4pp

- Adjusting for the extra week overall revenue was down by 1.2% compared to the corresponding period last year
- Like-for-like passenger revenue growth of 1.4%
- Further progress in programme of selected non core asset disposals – sale of King’s Lynn and German bus operations
- Expect trading conditions in H2 to remain challenging – impact of softening economy and reduced funding to bus industry

UK Rail



	Sep 11 £m	Sep 10 £m	Change
Revenue	1,162.6	1,053.1	10.4%
EBITDA	84.6	74.9	13.0%
EBITDA %	7.3%	7.1%	0.2pp
Operating Profit	55.7	48.4	15.1%
Margin %	4.8%	4.6%	0.2pp

- Strong earnings growth and margin enhancement
- Like-for-like passenger revenue growth of 9.0%
- FTPE franchise extended for 3 years to 2015 at operating margins closer to industry average

UK Rail

Passenger revenue growth



Six months to:	Sep 11	Mar 11	Sep 10	Mar 10
FCC	11.0%	6.2%	2.8%	2.6%
FGW	7.9%	4.5%	5.4%	2.5%
FSR	8.3%	8.1%	3.5%	2.8%
FTPE	10.7%	9.3%	5.7%	5.7%
Hull Trains	1.7%	0.4%	7.7%	(3.1)%
Total	9.0%	6.0%	4.4%	2.8%

- Improving like-for-like revenue growth
- Continued strong demand across all of our franchises

Cash flow

	Sep 11 £m	Sep 10 £m	Change £m
EBITDA (including discontinued operations)	323.3	332.2	(8.9)
Exceptional items (cash impact)	(4.2)	22.3	(26.5)
Other non-cash P&L items	2.4	4.1	(1.7)
Working capital	(26.5)	(16.4)	(10.1)
Provisions	(46.2)	(30.2)	(16.0)
Pension payments in excess of income statement charge	(44.5)	(14.8)	(29.7)
Cash generated by operations	204.3	297.2	(92.9)
Capex and acquisitions	(91.8)	(147.2)	55.4
Interest, tax and other	(102.5)	(117.9)	15.4
Dividends	(79.7)	(72.1)	(7.6)
Proceeds from sale of business	5.5	24.3	(18.8)
Net cash inflow	(64.2)	(15.7)	(48.5)

- Exceptional items adverse due to Network Rail settlement last half year
- Working capital adverse due to extra week of trading
- Pensions adverse partly due to higher cash payments into UK Bus and Greyhound schemes
- Capital expenditure shown net of disposals (e.g. Washington DC terminal sale)
- Interest reduced due to lower interest rates on US Dollar denominated debt
- Proceeds from sale of business adverse due to First GBRf disposal last half year

Strengthening financial platform



- New medium-term committed funding secured
 - US\$150m private placement notes at fixed rate of 4.26%
 - \$67m US finance leases at fixed rate of 2.35%
 - £15m UK Bus finance leases at fixed rate of 3.7%
- Committed facility headroom of £601m at Sep 2011
- Continue to reduce leverage
 - Net debt of £2,058.7m at Sep 2011 (Sep 2010: £2,190.8m)
- Pension deficit held relatively flat - lower assets were largely offset by negotiated changes to UK Bus Pension Scheme including change from RPI to CPI



Tim O'Toole

Chief Executive

First Student



- Execution of plan to reform operating model is well underway
- Strong school start up – improved operating performance
- Improved performance in recent bid season:
 - Focused retention strategy and new commercial team
 - Retained all of our 10 largest contracts up for renewal
 - Returned to c.90% retention
- High levels of activity but pace of outsourcing still slow across industry
 - Won 11 conversion contracts for 2011/12 school year
- Significant opportunity to increase our non-school charter activity
 - Rolling out best practices, delivering encouraging results
 - Non-school charter revenue increased by >5%

First Student – recovery plan



- Addressing performance and strengthening the operating model, focusing on six key areas:

Improve driver labour productivity

Improve maintenance efficiency and costs

Eliminate bureaucracy and non-value add activity

Maximise contract portfolio value

Drive step change in leveraging scale

Transform organisation and create high performance culture

- Significant change programme underway, good momentum and strong support across the operations
- New regional structure completed in July – de-layered management and improving performance management
- Systematically rolling out best practices across all areas including labour and engineering

First Student recovery plan – labour productivity



- Significant opportunity to improve productivity through standard processes applied across 600 locations
- Best practices in standard hours being applied across all route components to ensure greater efficiency, accuracy and fairness
- Significant opportunity, 1 minute per day improvement = approx \$2m
- Targeting >10 minute saving per day across entire business

Example of labour productivity initiatives: pre-trip inspections

- Pre-trip inspections performed by each driver every day
 - Best practice tools and processes applied
 - Reduced time and saved on average 5 minutes per driver, per location, per day
 - Rolled out across all of our locations before school start up



First Student recovery plan – engineering efficiencies



- Significant opportunity to deliver productivity and efficiency improvements in engineering, maintenance and improved procurement practices
- Identified opportunity to increase productivity by >10% through lean practices

Example of engineering efficiency initiatives: PMIs

- First Student performs over 200,000 Preventative Maintenance Inspections (PMIs) per annum
- Pilot location in Illinois to develop lean practices
 - Best practice instead of ‘historic’ practice
 - Worked with Technicians to reorganise workshop layout
 - Designated bays for PMIs located for efficient parts, tools and oil retrieval
 - Reduced Tech walking distance saving 12 minutes per PMI



First Transit



- Continued to deliver growth
- Focusing on core business segments
- Good growth in shuttle bus market
 - Key provider of university campus bus services in US, won further contracts including Kennesaw State university during period
 - Further contract wins to provide services in Fort McMurray area of Canada
- New business including call centre in Colorado and fixed route services in Fort Bend, Texas
- Leveraging reputation for delivering excellent service and improved efficiency for customers
- Strong pipeline offering encouraging opportunities for growth from low capital investment

Greyhound



- Tough decisions taken in the past now delivering results – revenue growth and operating margin improvement
- 7-Eleven partnership - unlocking new markets through additional sales channels
 - Rolled out nationwide partnership with 7-Eleven and PayNearMe on 1 Nov following successful 3 month trial in Dallas area
 - Bringing internet fares and offering to non-credit card customers (approx 50% of Greyhounds customers pay by cash)
- Right-sizing and relocating properties – sale of Washington terminal completed
- Targeted capital investment – delivering step change in quality and performance
 - 42 new coaches added to fleet and a further 100 coaches refurbished during H1, approx 230 refurbished vehicles now in service
- Canada – right-sized network, reduced uneconomic routes - profit recovery plan on track

Greyhound Express – driving growth



- Launched December 2010 on high density city pair routes
- Significantly enhanced customer proposition - 50 seat new and refurbished coaches with WiFi, power plugs, leather seats and more leg room
- Within 11 months expanded to 65 markets from six hubs in three main markets in the Midwest, Northeast and Southeast
- Inherent advantage of national network – leveraging existing footprint enabling greater frequency on any market we enter (sustainable in periods of lower demand by feed and flow from network)
- Greyhound Express markets have grown on average by 20% since launch
- Significant opportunity - 200 large city pairs still to be converted to Express

	Passenger Growth	In Service Months
Midwest Express	25%	11 months
Northeast Express	16%	6 months
Northeast Expansion	24%	1 month
Atlanta Expansion	26%	1 month
Total Express	20%	



UK Bus



- Market leading position with our regional bus operations focused mainly in high density, urban areas
- Good progress in London with new contract wins and improved operating performance
- Expect trading conditions to remain challenging
 - Impact of softening macroeconomic trends, including reduced retail footfall, in areas where we operate
 - Reduced Government funding available to the bus industry
- Taking the necessary forward-looking decisions to equip business to deliver growth in existing and new markets, including investment of:
 - £27m in new ticketing technology
 - £160m in 955 new buses – creating step change in fleet profile
- Balancing priorities of immediate environment while investing to deliver increased growth

UK Rail



- Strong growth trends across all of our franchises and secured FTPE extension for further 3 years to 2015
- Vernon Barker (formerly MD of FTPE) appointed MD of UK Rail division – strong focus on customer service and proven track record
- Significant opportunities in rail refranchising when DfT's programme starts next year
- Unique experience of different types of rail franchise and working in partnership to deliver major infrastructure improvements
- Pioneering Alliance with Network Rail in Scotland to better align overall objectives, increase value for money with greater focus on passenger requirements including:
 - Simplification of station and depot repair and management
 - Establishment of joint Scotland control and performance teams

Summary



- Addressing First Student – implementation of plan well underway, encouraging progress
- First Transit – excellent reputation and strong pipeline of opportunities for continued growth from low capital investment
- Greyhound – actions taken are delivering good results, leveraging advantage of national network to deliver growth
- UK Bus – doing the right things for the longer term, equipping the business to deliver sustainable growth
- UK Rail – strong track record and unrivalled expertise, well placed to develop rail interests once DfT's new franchising programme commences next year
- Continued focus on cash generation to support capital investment, net debt reduction and dividend growth
- Good prospects in a sector which is a key enabler of economic growth

Q&A





Appendices

Half yearly results for the six months to
30 September 2011

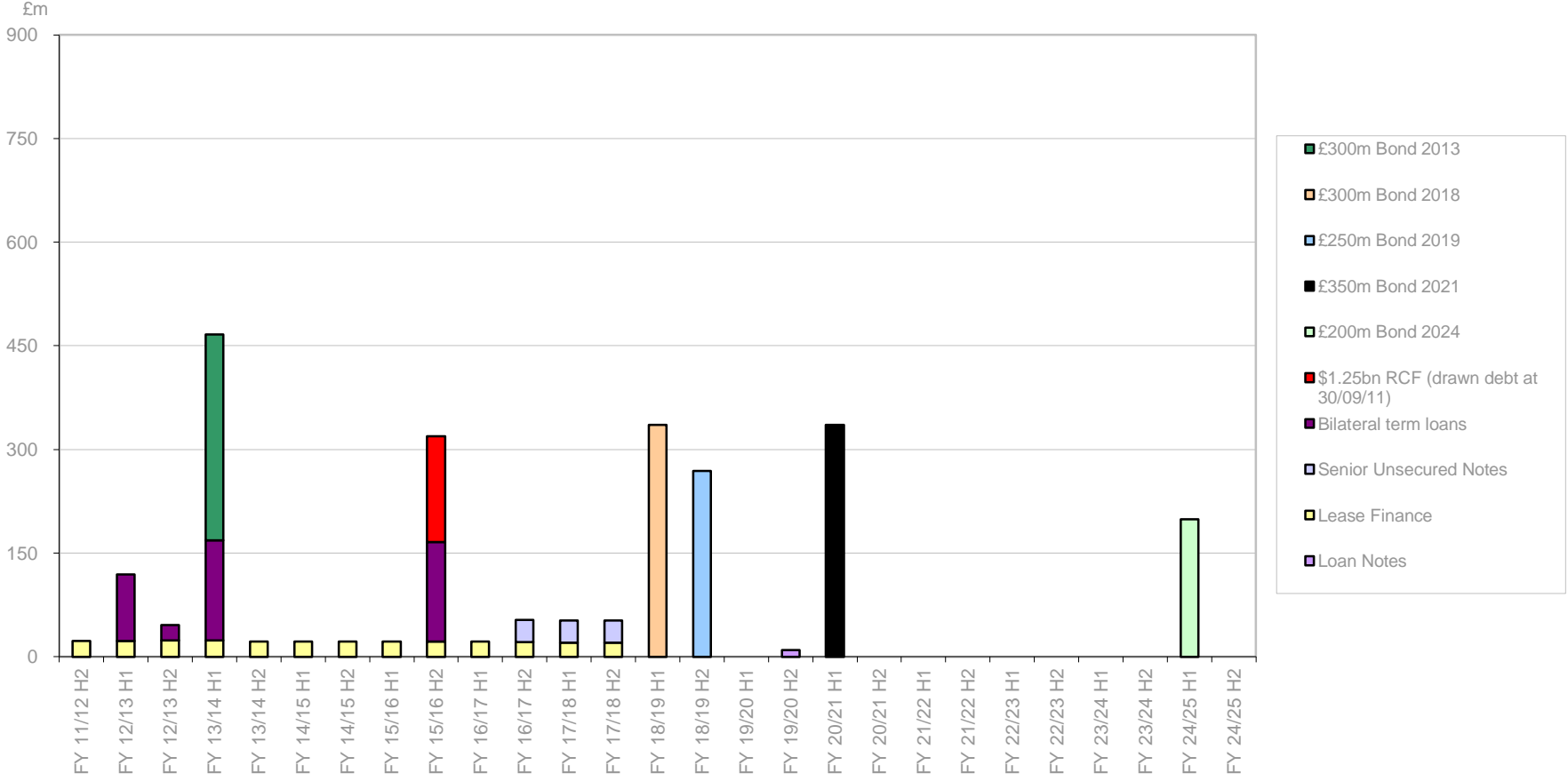
Diesel Hedge Position

	UK			North America		
	2011/12	2012/13	2013/14	2011/12	2012/13	2013/14
Annual volume (barrels'm)	2.6	2.6	2.0	1.7	1.7	1.7
% Hedged	84%	65%	27%	59%	48%	21%
Crude rate (\$/barrel)	\$88.07	\$100.76	\$103.24	\$94.69	\$92.71	\$93.70
Diesel rate (\$/barrel)	\$105.58	\$122.20	\$126.21	\$112.87	\$119.80	\$123.29
Diesel cost per litre	41.5p	48.0p	49.6p	US 71.0c	US 75.3c	US 77.5c

	UK Bus	UK Rail	Student	Transit	Greyhound	Total
Annual volume (barrels'm)	1.5	1.1	0.8	0.1	0.8	4.3

- 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
- The decrease in expected annual volume consumption in 2013/14 reflects the end of the FGW franchise period

Gross Debt Distribution



Net Finance Costs

	Sep 11 £m	Sep 10 £m
Bonds	47.0	46.2
Bank borrowings	17.0	33.8
Loan notes	0.5	0.5
Senior unsecured loan notes	1.7	-
Finance lease interest	3.8	3.3
Notional interest	9.3	9.8
Investment income	(0.8)	(0.7)
Hedge ineffectiveness on financial derivatives ¹	10.0	(1.2)
Net finance costs	88.5	91.7

- Reduction in net finance costs principally driven by lower interest rates

1. Included within exceptional items

Foreign Exchange

- Stronger US\$ increased translated Sterling debt compared to March

	Sep 11	Mar 11	Sep 10
Closing rate for the balance sheet US\$	\$1.56	\$1.60	\$1.58
Closing rate for the balance sheet CAN\$	\$1.64	\$1.57	\$1.62

- Weaker US\$ compared to last half year reduced reported US earnings in period to Sep 2011

	Sep 11	Mar 11	Sep 10
Effective rate on US\$ earnings	\$1.62	\$1.56	\$1.50
Effective rate on CAN\$ earnings	\$1.59	\$1.56	\$1.44

Exceptional items & amortisation

	Sep 11 £m	Sep 10 £m
UK Bus Pension Scheme changes	(73.3)	-
UK Rail bid costs	2.1	-
Competition Commission costs	1.0	-
UK Rail settlement of NR claim	-	(22.5)
Other exceptional items	1.1	0.2
Loss on disposal of properties	0.7	1.5
Ineffectiveness on financial derivatives	10.0	(1.2)
Total exceptional items	(58.4)	(22.0)
Amortisation charges	15.1	17.7
Total	(43.3)	(4.3)

- Negotiated changes to UK Bus Pension Scheme, most notably RPI to CPI

Cash capital expenditure

	Sep 11 £m	Sep 10 £m
First Student	37.0	55.7
First Transit	16.3	3.4
Greyhound	5.6	16.3
UK Bus	21.8	54.8
UK Rail	11.0	16.7
Group items	0.1	0.3
Total	91.8	147.2

Cash purchases	65.8	142.1
Disposal proceeds	(29.9)	(13.4)
New finance leases	55.9	18.5
	91.8	147.2

Taxation

	Sep 11 £m	Sep 10 £m
Current tax	8.2	14.7
Deferred tax	19.8	4.3
Tax charge on continuing operations	28.0	19.0
Tax rate on adjusted profit before tax	22.3%	25.0%
Cash tax rates (based on full year PBT)	7.0%	9.0%

Pensions

£m	(Deficit)/Surplus			Cash Contribution			P&L Charge		
	Sep 2011	Mar 2011	Sep 2010	Sep 2011	Mar 2011	Sep 2010	Sep 2011	Mar 2011	Sep 2010
North America	(237.8)	(158.4)	(182.6)	18.0	11.3	6.3	3.4	7.4	4.3
UK Bus	4.5	(30.1)	(122.2)	20.5	34.7	17.6	(6.6)	(1.9)	4.8
UK Rail	(27.9)	(54.7)	(44.8)	18.8	38.6	18.9	16.0	35.6	19.6
Total	(261.2)	(243.2)	(349.6)	57.3	84.6	42.8	12.8	41.1	28.7

- Changes to UK Bus Pension Scheme resulted in a one-off exceptional gain of £73.3m
- pension increases based on CPI rather than RPI
- Reduction in the current year service costs due to prior year scheme changes (RPI to CPI on LGPS and UK Rail)
- North America deficit increase largely due to reduction in discount rate

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	(192.7)	(337.3)	297.2	113.6	-	(119.2)

Revenue support/profit share

		Estimate 10/11	Sep 11 £m	Mar 11 £m	Sep 10 £m
FCC	Revenue Support	80%	21.7	26.9	19.9
FGW	Revenue Support	80%	100.3	141.3	73.5
FTPE	Profit Share	52%	(1.5)	(10.9)	(5.4)
Total			120.5	157.3	88.0

- FSR eligible for revenue support but currently trading above target revenue

UK Rail Bonds

	Sep 11 £m	Sep 10 £m
FTPE Performance bond	8.8	8.8
FSR Performance bond	25.0	25.0
FSR Season ticket bond	4.5	4.0
FSR Maintenance bond	20.7	23.9
FCC Performance bond	19.0	22.5
FCC Season ticket bond	50.0	44.0
FGW Performance bond	46.2	46.2
FGW Season ticket bond	22.4	19.5
Total	196.6	193.9

UK Rail Ring-fenced Cash

	Sep 11 ¹ £m	Sep 10 £m
FCC	59.3	61.5
FGW	47.6	65.9
FSR	55.7	27.9
FTPE	71.0	64.0
Total	233.6	219.3

1. Slide amended on 27 February 2012 as previously published version had transposed the figures in the 'Sep 11' column. The total is unchanged from the slide published in November 2011.

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*		Apr 2015
Authority extension period (at discretion of the DfT)	Up to Mar 2015			Jan 2017

- *As previously stated, FirstGroup will not take up its option to extend FGW for a further three years beyond current franchise term which expires in March 2013
- The FTPE franchise has been extended by over three years to April 2015
- The DfT have decided to end the FCC contract in Sep 2013 to facilitate the ongoing delivery of the Thameslink programme and the introduction of new rolling stock which will be completed after the end date of the current franchise

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