

Interim results

for the six months to 30 Sept 2003



Wednesday 5 November 2003

Moir Lockhead Chief Executive

Delivering our Agenda

- **Results in line with expectations**
- **US expansion continues**
- **Acquisition of GB Rail**
- **TransPennine Express / Thames**
- **Growth in London bus and other urban areas**
- **Bearing down on costs**
- **Dividend + 5.6%**

Iain Lanaghan
Finance Director

Introduction

- **Strong underlying financial performance**
- **EBITDA £125m**
- **Substantial cost increases absorbed**
 - £7.0m NI and pensions contributions
 - £7.7m subsidy and franchise premium
- **Invested £94m in the business**

Financial Highlights

Six months to 30 September 2003

Sales	£1,127.7m	+6%
EBITDA¹	£125.0m	-6%
Operating profit² (After absorbing £14.7m of cost increases and subsidy reduction)	£78.1m	-7%
Profit before tax²	£56.8m	+2%
Net debt	£709.5m	+£17.8m
Adjusted basic EPS	9.6p	+3%
Dividend per share	3.75p	+6%
EBITDA: interest cover	5.9x	+26%

1. Operating profit as defined below plus depreciation

2. Before goodwill, exceptional items and profit on disposal of fixed assets

Divisional analysis

Six months to 30 September 2003

	Turnover £m	Op profit ¹ £m	Margin %
UK Bus	443.0	46.2	10.4
UK Rail	395.4	22.1	5.6
N America	286.1	18.0	6.3
Lease interest	-	(4.1)	-
Other ²	3.2	(4.1)	-
TOTAL	<u>1,127.7</u>	<u>78.1</u>	6.9

1. Before goodwill, exceptional items and profit on disposal of fixed assets

2. Tram operations, central management, Group information technology and other items

UK Bus - turnover analysis

Six months to 30 September 2003

	£m
Six months to 30/09/02	418.7
Volume growth	3.4
Fare increases	6.5
London new business	17.0
Other	(2.6)
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Six months to 30/09/03	443.0
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UK Rail - turnover analysis

Six months to 30 September 2003

	£m
Six months to 30/09/02	385.4
Passenger income	10.0
FGW subsidy	(4.7)
GB Railways	7.6
Other	<u>(2.9)</u>
Six months to 30/09/03	<u><u>395.4</u></u>

N America - turnover analysis

Six months to 30 September 2003

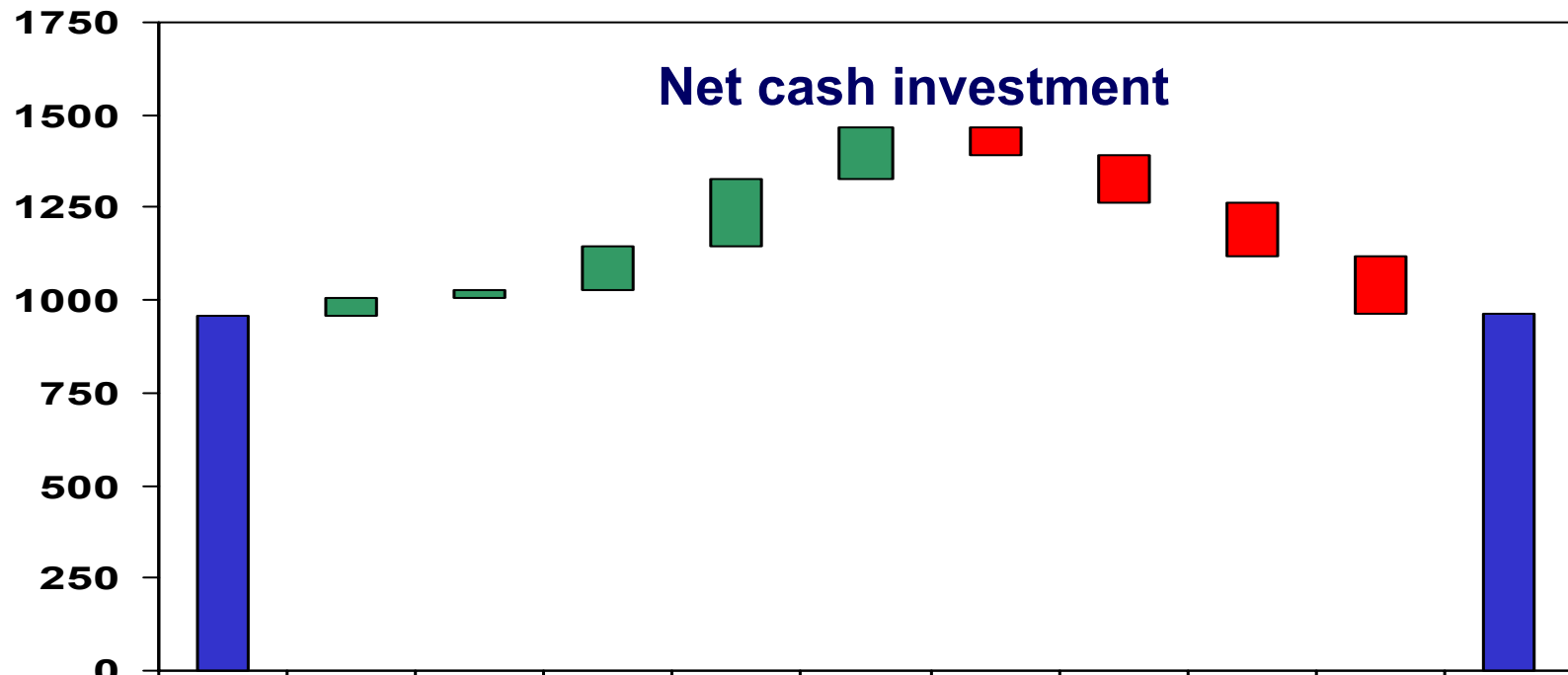


	\$m
Six months to 30/09/02	391.8
Acquisitions	47.6
New business	19.8
Terminated locations	(13.3)
Contract rate increases	8.6
Other	6.4
Six months to 30/09/03	<u>460.9</u>

FirstGroup America



Strong cash flows from US investment



	Ryder	Bruce	Capex 99/00	Capex / Acq 00/01	Capex / Acq 01/02	Capex / Acq 02/03	EBITDA 99/00	EBITDA 00/01	EBITDA 01/02	EBITDA 02/03	At 3/03
\$m	958	47	23	117	183	140	79	125	143	160	961
Vehicles	10,200										15,500
Fixed assets	25%										52%

Returns on US investment

Cash return on Invested capital (CROIC)

	2002/03
EBITDA	\$159.5m
Average investment*	\$1,400m
CROIC	11.4%
CROIC (excl. Goodwill)	c.25%
CROIC 2003/04	c.12% (consensus)
Target IRR for new investments	15%

*Investment defined as Acquisitions + Net fixed asset additions

Cash flow

Six months to 30 September 2003

		£m	
EBITDA		125.0	
Invested in the business			
Capex	(64.6)		
Acquisitions/disposals	<u>(28.9)</u>		
		(93.5)	
Working capital		<u>(25.1)</u>	
Net cash generated from operations		6.4	
Return to shareholders			
Dividends paid		(30.6)	
Interest and Tax			
Interest payable and similar charges	(33.9)		
Tax	<u>(15.0)</u>		
		(48.9)	
Exceptionals			
Interest rate swap cancellation	(18.7)		
Other	<u>(8.1)</u>		
		(26.8)	
Foreign exchange		<u>14.8</u>	
Net cash flow		<u>(85.1)</u>	13

Net debt

	£m
Net debt at 30 Sept 2003	(709.5)
Net debt at 30 Sept 2002	<u>(691.7)</u>
Increase in net debt	<u>(17.8)</u>
Net debt at 31 March 2003	<u>(624.4)</u>

Managing costs and business processes

- **Cost increases absorbed:**
 - National Insurance**
 - Pensions**
 - Change in rail subsidy/franchise premium**
- **Purchasing savings >£1m so far**
- **Fuel hedge extended**
- **Engineering process review will save £1.5m-£3m per annum**
- **National Shared Service Centre operational - £0.5m savings per annum**

Financial Summary

- **Strong cash flow**
- **Investing for growth**
- **Controlling costs**
- **Sound financial management**
- **Delivering expectations**

Dr Mike Mitchell
Chief Operating Officer UK
UK Business Reviews

UK Bus

- **London growth +23%**
 - New contract wins for 2004
- **Urban areas +1.5%**
 - Continued development of bus priority initiatives
 - Smart marketing
- **Rural**
 - Network re-assessment
- **Cost and process management**

UK Rail

- **Operational**
 - Passenger volumes steady increase
 - New trains successfully introduced on FGE
- **GB Railways acquisition completed**
 - Investigating potential of rail freight market
- **Refranchising**
 - Northern and ScotRail bids submitted
 - Process improved - clearer bid specifications
 - Risk reduction through revenue sharing
- **TransPennine Express**
- **Thames**

Moir Lockhead
Chief Executive
Business Reviews

North America

- **Continued strong performance in all 3 divisions**
- **Student**
 - 1,468 new buses
 - Successful start ups (incl. Boston 683 buses)
- **Transit**
 - Successful integration of Coach Transit business
- **Services**
 - Accelerated growth plans

Forward objectives

- **Continue growth in North America**
 - Expansion of Student
 - Rebalance and expand Transit operations
 - Significantly accelerate development of Services business
- **Maintain significant presence in UK rail operations**
 - Win passenger franchises
 - Expand freight operations
- **Grow revenue in UK bus and maintain margins**
- **Explore opportunities in related fields in UK, North America and Europe**

Outlook

- **Clear, focused strategy delivering results**
- **Good growth opportunities in all divisions**
- **Continue to bear down on costs**
- **H2 started in line with expectations**

**Interim results
for the six months to
30 September 2003**

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Interim results for the six months to 30 September 2003

Appendices

Profit and Loss Account (1)

Six months to 30 September 2003



	2003 £m	2002 £m
Group turnover	<u>1,127.7</u>	<u>1,068.9</u>
Group operating profit ¹	78.1	84.4
Interest	<u>(21.3)</u>	<u>(28.6)</u>
Pre-exceptional pre-tax profit ¹	56.8	55.8
Goodwill	(13.0)	(13.1)
Exceptional items ²	<u>(20.1)</u>	<u>10.2</u>
Profit before tax	<u><u>23.7</u></u>	<u><u>52.9</u></u>

1. Before goodwill, exceptional items and profit on disposal of fixed assets

2. Including property disposal profits

Profit and Loss Account (2)

Six months to 30 September 2003

	2003	2002
	£m	£m
Profit before tax	23.7	52.9
Tax on operating profit	<u>(4.6)</u>	<u>(12.2)</u>
Profit after tax	19.1	40.7
Dividends	<u>(15.5)</u>	<u>(14.8)</u>
Profit for the period	<u><u>3.6</u></u>	<u><u>25.9</u></u>
Adjusted EPS ¹	9.6p	9.3p
Adjusted cash EPS	21.0p	21.1p
EBITDA ²	£125.0m	£133.5m

1. EPS adjusted for goodwill amortisation, exceptional items and profit on disposal of fixed assets

2. Operating profit before goodwill, exceptional items and profit on disposal of fixed assets plus depreciation

FirstGroup America

Six months to 30 September 2003



\$m	Student	Transit	Vehicle	Total
Sales	<u>257.9</u>	<u>154.4</u>	<u>48.6</u>	<u>460.9</u>
EBITDA	43.3	10.8	3.2	57.3
EBITDA %	16.8%	7.0%	6.6%	12.4%
Depreciation	<u>23.7</u>	<u>4.6</u>	<u>0.2</u>	<u>28.5</u>
EBIT	<u>19.6</u>	<u>6.2</u>	<u>3.0</u>	<u>28.8</u>
EBIT %	7.6%	4.0%	6.2%	6.3%

Interest charge

Six months to 30 September 2003

	2003 £m	2002 £m
Bond, Bank Loans and overdrafts	19.1	24.4
Leases and HP	1.8	3.7
	<u>20.9</u>	<u>28.1</u>
Income from short term deposits	(1.0)	(1.1)
Notional interest	1.4	1.6
	<u>21.3</u>	<u>28.6</u>
EBITDA : interest cover	<u>5.9</u>	<u>4.7</u>

Exceptionals and property gains

Six months to 30 September 2003

	2003 £m	2002 £m
Interest rate swap cancellations	18.7	-
UK Bus restructuring	3.6	1.7
UK Rail bid costs	3.1	1.8
North America	0.8	-
Tramtrack Croydon Limited	-	(2.5)
Property gains	(6.1)	(11.2)
	<u>20.1</u>	<u>(10.2)</u>

Taxation

Six months to 30 September 2003



	2003	2002
	£m	£m
Current tax	1.9	9.6
Deferred tax	2.7	2.6
Tax charge	<u>4.6</u>	<u>12.2</u>
Tax rate on profit before goodwill and exceptional items	30%	30%
Cash tax rate	17%	20%

Capital Expenditure

Six months to 30 September 2003

	2003	2002
	£m	£m
UK Bus	25.9	6.0
North America	50.0	56.5
Rail/Other	5.9	5.4
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	81.8	67.9
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New franchising timetable

Franchise	Type	Start	Turnover £m (estimated)	Bid Status	Expected award dates
TransPennine 8 + 5 years	InterCity/ Regional	2004	150	Awarded	Franchise starts Feb 2004
Thames Trains 2 years	Commuter	2004	100	Preferred bidder Nov 03	Franchise starts April 2004
Greater Anglia	InterCity/ Regional	2004	400	Submitted Aug 2003	Due end Nov 2003
Northern	Regional	2004	410	Submitted Sept 2003	Due Spring 2004
Scotrail	Regional	2004	375	Submitted Oct 2003	Due mid 2004
Integrated Kent	Commuter/ high speed	2005	500	2004	2004/05
Greater Western	InterCity	2006	530	2005	2005/06