

FirstGroup plc
Preliminary results
for the year to 31 March 2007

Wednesday 16 May 2007

Moir Lockhead Chief Executive

Successful year of growth

- **Excellent Group performance**
 - Revenue up by 22.4%
 - Adjusted operating profit up 12.8%
 - Record EBITDA of £398.9m up 13.4%
 - Adjusted basic EPS up 9.1%
- **Dividend up 10% - Board commitment for a further 3 yrs**
- **UK Rail - excellent revenue and volume growth**
- **UK Bus - profit growth and improved margins**
- **North America - margin growth and contract retention**
- **Laidlaw - transformational deal and significant value opportunity**

Dean Finch
Finance Director

Highlights

Year to 31 March 2007

- Acquisition of Laidlaw International, Inc.
- Record operating profit, EBITDA & Adjusted EPS despite £37.1m impact of fuel costs
- UK Rail – record earnings; excellent growth
- North America – contract retention and margin growth
- UK Bus – strong revenue growth and passenger growth returning
- Pension deficit transformed into surplus

Financial Highlights

Year to 31 March 2007

Sales	£3,708.8m	Up 22%
Adjusted EBITDA²	£398.9m	Up 13%
Operating profit¹	£259.2m	Up 13%
Profit before tax¹	£195.8m	Up 11%
Net debt	£516.2m	Down 27%
Adjusted basic EPS	33.7p	Up 9%
Dividend per share	15.5p	Up 10%
Adjusted EBITDA²: interest cover	6.3x	Down 5%

1. Before intangible asset amortisation, non-recurring bid costs, other non-recurring items and (loss)/profit on disposal of fixed assets

2. Operating profit as defined plus depreciation

UK Bus

- **Strong trading – profit and margin growth after £28.2m fuel cost increase**
- **Revenue growth, increased journeys inc. concessions and passenger growth initiatives**
- **Focus on operating performance and standards delivering results – record lows in staff turnover, lost mileage**

UK Bus EBIT bridge

	£m	£m
2005/06 EBIT		98.4
Growth/fares	21.3	
Service revisions	6.3	
	<hr/>	27.6
Extra week		(1.8)
Fuel costs		(28.2)
Operating lease interest		7.9
Other		(0.9)
2006/07 EBIT		103.0

Margin growth drivers

- **Margin enhancement through continued focus on revenue growth and cost control**
 - Reliability and punctuality measures – new vehicles, better headway mgt, QPs
 - ‘Turnaround’ strategy for under-performers is delivering
 - Fuel cost stability
 - Engineering and driver productivity initiatives
 - Better asset utilisation and management

Turnover analysis UK Rail

Year to 31 March 2007

**Excellent results – revenue up 56.6% and
operating profit up 36.7%**

	£m
2005/06 Turnover	1,164.9
Franchise additions - FCC	333.0
Franchise enlargement - FGW	118.8
Other subsidy growth	86.0
Terrorist bombings	8.7
Passenger revenue growth	107.0
Other	5.7
	<hr/>
2006/07 Turnover	<u>1,824.1</u>

Rail Passenger Income Growth

Year to 31 March 2007

**Continued strong volume growth across
all our TOCs**

	%
FGW	11.2
FCC	10.5
FTPE	18.2
FSR	8.7
Hull	32.7

* Adjusted for London bombings FGW growth is 9.5%
and FCC growth is 9.1%; adjusted for Blackpool and
Manchester Airport services TPE growth is 10.8%

Revenue growth drivers

- **Investing for future revenue growth**
 - Increased capacity
 - Improved performance - HSTs and infrastructure investment eg: line speed upgrade
 - Improved revenue collection – ticket gates at key stations
 - Positive economic and demographic trends
 - Station improvements, increased security, car park capacity
 - Yield management e.g. ‘Firstminutefares’
 - Strong focus on marketing –off peak and shoulder peak
 - Delivering a premium product – pricing opportunity
 - New Anglo/Scots routes on TPE
 - New franchises

North America

- **Strong underlying performance - profit and margin growth**
- **Continued focus on lower margin contracts**
- **First Student**
 - increased profit by 14.7% despite fuel cost increase
 - margin improvement and contract retention over 95%
 - focus on contract bidding to reflect cost pressures, tight management of controllable costs and productivity initiatives

North America (cont)

- **First Transit**

- Implemented significant cost control and efficiencies programme and delivered margin growth
- Further contract growth and infill acquisition in shuttle bus market

- **First Services**

- Renewed important contract in federal market - c.\$450m of revenues over 10yr term
- Focus on organic growth within contract to offset anticipated lower margins

North America

EBIT bridge

	\$m
2005/06 EBIT	120.2
Fuel	(11.3)
53rd week	(4.0)
Growth and acquisitions	11.0
Margin improvements/other	20.2
First Services	(4.5)
Operating days	(1.1)
2006/07 EBIT	<u>130.5</u>

North America

Margin growth drivers

- **Margin enhancement through continued focus on revenue growth cost control**
 - Contract renewal cycle – continue to re-base to better reflect cost pressures
 - Tight management of controllable costs
 - Better asset utilisation and scheduling efficiencies
 - Driver productivity

Laidlaw update

- **Market reaction very positive**
- **FGP and LI shareholder approval achieved**
- **Now await antitrust approvals in US and Canada**
- **Work with DoJ to comply with second request process**
- **Integration planning underway – good access within parameters of antitrust rules**

Non-recurring bid costs and other non-recurring items

Year to 31 March 2007



	2007	2006
	£m	£m
UK Rail bid costs	14.5	26.1
European bid costs	4.8	2.4
FGW franchise commencement costs	13.0	-
FCC franchise commencement costs	8.3	-
US exceptionals	1.0	-
Property losses/(gains)	3.7	(14.0)
	<u>45.3</u>	<u>14.5</u>

Cash flow

Year to 31 March 2007

	£m	£m
EBITDA		398.9
Bid costs/non-recurring items		(41.6)
Working capital (including grants received)		34.6
Other		7.9
Operational cash flow		<u>399.8</u>
Investment in the business		
Capex and acquisitions	(250.8)	
UK Bus lease restructuring	(84.0)	
		<u>(334.8)</u>
Interest and Tax		<u>(63.0)</u>
		2.0
Shareholders		
Dividends (incl Minorities)	(68.4)	
Share placing	216.9	
		<u>148.5</u>
Net cash inflow		<u>150.5</u>
Foreign exchange movements		38.5
Other non-cash movements		(0.8)
Opening net debt		<u>(704.4)</u>
Closing net debt		<u><u>(516.2)</u></u>

Funding and risk management

- **Debt**
 - Excluding share placement deposit, the unadjusted net debt/EBITDA ratio was 1.8x – the lowest since 1998
 - New coverage with Fitch Rating Agency : BBB+/F2/stable
 - Investment grade maintained following Laidlaw announcement (S&P: BBB-/negative outlook; Fitch BBB+/F2/creditwatch)
 - \$3.75 billion acquisition bank facilities successfully syndicated
- **Taxation**
 - Low cash tax rate set to continue
 - Low profit and loss tax charge due to favourable settlements with HMRC
 - Over \$275m tax losses carried forward in North America
- **Pensions**
 - IAS 19 deficit of £132m at start of year transformed into a net £24m surplus

Crude oil hedge position

- **100% of 2007/08 UK requirements (2.7m barrels p.a.) hedged at c. \$67 per barrel (2006/07 average rate of \$67 per barrel)**
- **27% of 2007/08 US requirements (0.7m barrels p.a.) hedged at c. \$55 per barrel (2006/07 average rate of \$53 per barrel)**

Moir Lockhead Chief Executive

Summary

- **Excellent progress this year with good prospects for future growth**
- **Laidlaw - transformational deal and major value opportunity**
- **North America – large fragmented market with further growth opportunities, focus on margin enhancement and cost efficiencies**
- **UK Rail – continued volume and income growth, investing for future**
- **UK Bus – focus on revenue growth, cost control and service quality delivering results**
- **Current trading in line with our expectations**

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Appendices
Preliminary results
for the year to
31 March 2007

Profit and Loss Account (1)

Year to 31 March 2007



	2007 £m	2006 £m
Group turnover	<u>3,708.8</u>	<u>3,030.9</u>
Group operating profit ¹	259.2	229.7
Interest	<u>(63.4)</u>	<u>(53.3)</u>
Pre-exceptional pre-tax profit ¹	195.8	176.4
Intangible asset amortisation	(10.3)	(4.5)
Bid costs/other non-recurring items ²	<u>(45.3)</u>	<u>(14.5)</u>
Profit before tax	<u><u>140.2</u></u>	<u><u>157.4</u></u>

1. Before intangible asset amortisation, non-recurring bid costs, other non-recurring items and (loss)/profit on disposal of fixed assets

2. Including property disposal profits

Profit and Loss Account (2)

Year to 31 March 2007

	2007	2006
	£m	£m
Profit before tax	140.2	157.4
Corporation tax	<u>(38.1)</u>	<u>(40.0)</u>
Profit after tax	102.1	117.4
Minority interests	(10.4)	(9.9)
Profit for the period	<u><u>91.7</u></u>	<u><u>107.5</u></u>
Adjusted EPS ¹	33.7p	30.9p
Adjusted cash EPS	68.6p	61.9p
EBITDA	£398.9m	£351.7m

1. EPS adjusted for intangible asset amortisation, non-recurring bid costs, other non-recurring items and (loss)/profit on disposal of fixed assets

H1/H2 split

	2006/07						2005/06						Variance					
	H1		H2		Total		H1		H2		Total		H1		H2		Total	
	£m		£m		£m		£m		£m		£m		£m		£m		£m	
Revenue																		
UK Bus	521.9		551.8		1,073.7		493.6		537.6		1,031.2		28.3		14.2		42.5	
UK Rail	817.6		1,006.5		1,824.1		526.0		638.9		1,164.9		291.6		367.6		659.2	
North America	372.0		430.9		802.9		353.3		473.0		826.3		18.7		(42.1)		(23.4)	
Other	4.2		3.9		8.1		3.3		5.2		8.5		0.9		(1.3)		(0.4)	
	<u>1,715.7</u>		<u>1,993.1</u>		<u>3,708.8</u>		<u>1,376.2</u>		<u>1,654.7</u>		<u>3,030.9</u>		<u>339.5</u>		<u>338.4</u>		<u>677.9</u>	
Operating profit		%		%		%		%		%		%		%		%		%
UK Bus	39.5	7.6	63.5	11.5	103.0	9.6	36.2	7.3	62.2	11.6	98.4	9.5	3.3	0.2	1.3	(0.1)	4.6	0.1
UK Rail	43.9	5.4	64.9	6.4	108.8	6.0	34.3	6.5	45.3	7.1	79.6	6.8	9.6	(1.2)	19.6	(0.6)	29.2	(0.9)
North America	17.9	4.8	50.3	11.7	68.2	8.5	19.0	5.4	48.1	10.2	67.1	8.1	(1.1)	(0.6)	2.2	1.5	1.1	0.4
Other	(9.1)		(11.7)		(20.8)		(8.1)		(7.3)		(15.4)		(1.0)		(4.4)		(5.4)	
	<u>92.2</u>	<u>5.4</u>	<u>167.0</u>	<u>8.4</u>	<u>259.2</u>	<u>7.0</u>	<u>81.4</u>	<u>5.9</u>	<u>148.3</u>	<u>9.0</u>	<u>229.7</u>	<u>7.6</u>	<u>10.8</u>	<u>(0.5)</u>	<u>18.7</u>	<u>(0.6)</u>	<u>29.5</u>	<u>(0.6)</u>
Interest	(32.3)		(31.1)		(63.4)		(25.9)		(27.4)		(53.3)		(6.4)		(3.7)		(10.1)	
Profit before one-offs	59.9		135.9		195.8		55.5		120.9		176.4		4.4		15.0		19.4	
Intangible asset amortisation	(4.7)		(5.6)		(10.3)		(2.0)		(2.5)		(4.5)		(2.7)		(3.1)		(5.8)	
Property gains	1.4		(5.1)		(3.7)		11.8		2.2		14.0		(10.4)		(7.3)		(17.7)	
Bid costs	(7.3)		(12.0)		(19.3)		(10.0)		(18.5)		(28.5)		2.7		6.5		9.2	
Other exceptional costs	(9.6)		(12.7)		(22.3)		0.0		0.0		0.0		(9.6)		(12.7)		(22.3)	
Profit before taxation	39.7		100.5		140.2		55.3		102.1		157.4		(15.6)		(1.6)		(17.2)	
Corporation tax	(9.9)		(28.2)		(38.1)		(15.2)		(24.8)		(40.0)		5.3		(3.4)		1.9	
Profit after tax	29.8		72.3		102.1		40.1		77.3		117.4		(10.3)		(5.0)		(15.3)	
Minority interests	(4.9)		(5.5)		(10.4)		(4.6)		(5.3)		(9.9)		(0.3)		(0.2)		(0.5)	
Profit for the financial period	<u>24.9</u>		<u>66.8</u>		<u>91.7</u>		<u>35.5</u>		<u>72.0</u>		<u>107.5</u>		<u>(10.6)</u>		<u>(5.2)</u>		<u>(15.8)</u>	

Divisional analysis

Year to 31 March 2007

	2006/07			2005/06		
	Turnover	Operating profit	Operating profit	Turnover	Operating profit	Operating profit
	£m	£m	%	£m	£m	%
UK Bus	1,073.7	103.0	9.6	1,031.2	98.4	9.5
UK Rail	1,824.1	108.8	6.0	1,164.9	79.6	6.8
North America	802.9	68.2	8.5	826.3	67.1	8.1
Other	8.1	(20.8)		8.5	(15.4)	
	3,708.8	259.2	7.0	3,030.9	229.7	7.6

FirstGroup America

Year to 31 March 2007



\$m	Student	Transit	Services	Total
Sales	<u>850.5</u>	<u>439.6</u>	<u>232.3</u>	<u>1,522.4</u>
EBITDA	179.3	29.8	18.1	227.2
EBITDA %	21.1%	6.8%	7.8%	14.9%
Depreciation	<u>86.6</u>	<u>8.3</u>	<u>1.8</u>	<u>96.7</u>
EBIT	<u>92.7</u>	<u>21.5</u>	<u>16.3</u>	<u>130.5</u>
EBIT %	10.9%	4.9%	7.0%	8.6%

Turnover analysis N America

Year to 31 March 2007



	£m	\$m
2005/06 Turnover	826.3	1,476.0
Increase in:		
First Student	20.8	43.6
First Transit	3.9	7.4
First Services	(2.3)	(4.6)
Foreign exchange movements	<u>(45.8)</u>	<u>-</u>
2006/07 Turnover	<u>802.9</u>	<u>1,522.4</u>

Interest charge

Year to 31 March 2007

	2007	2006
	£m	£m
Bonds, Bank Loans and overdrafts	61.2	54.9
Leases and HP	4.7	0.8
	<u>65.9</u>	<u>55.7</u>
Income from short term deposits	(9.4)	(8.5)
Notional interest	6.9	6.1
	<u>63.4</u>	<u>53.3</u>
EBITDA : interest cover	<u>6.3x</u>	<u>6.6x</u>

Interest charge

Prior Year 05/06 Interest	53.3
Higher Average GBP Bank Debt	3.3
FX Impact of Weaker USD	(0.7)
Higher US Interest Rates	3.2
UK Bus Lease Buy-outs	3.9
Other	0.3
Actual 06/07 Interest	63.4

Taxation

Year to 31 March 2007

	2007 £m	2006 £m
Current tax	5.5	(3.3)
Deferred tax	<u>32.6</u>	<u>43.3</u>
Tax charge	<u><u>38.1</u></u>	<u><u>40.0</u></u>
Tax rate on profit before goodwill and exceptional items	26%	26%
Cash tax rate	3.9%	(2.0%)

Capital Expenditure

Year to 31 March 2007

	2007	2006
	£m	£m
UK Bus *	141.9	102.4
North America	48.1	65.6
UK Bus Property	19.8	15.4
Rail/Other	111.8	25.7
	<u>321.6</u>	<u>209.1</u>

* including £84.0m of lease restructuring in 2007

Share placing

- **Gross proceeds £221m**
- **39.5m shares issued @ £5.59**
- **Issue price 1 p discount on prevailing market rate**
- **Placing >3.5 times oversubscribed**

Share capital (excluding treasury shares)

	Million
Opening	392.0
Average	397.9
Closing	434.0

Working capital

	£m
Increase in stock	(8.8)
Increase in debtors	(25.8)
Increase in creditors	40.1
Net working capital inflow	<u>5.5</u>

UK Rail bonds

	Mar-07	Mar-06
	£m	£m
GWT Performance Bond	0.0	16.5
GWT Season Ticket Bond	0.0	6.0
TPE Performance Bond	5.7	5.7
GBR Performance Bond	0.5	0.5
GBR Metronet Bond	0.8	0.0
Thames Season Ticket Bond	0.0	5.0
Greater Western Performance Bond	10.2	0.0
Greater Western Season ticket Bond	11.8	0.0
Capital Connect Performance Bond	4.8	0.0
Capital Connect Season Ticket Bond	30.8	0.0
Scotrail Performance Bond	25.0	11.2
Scotrail Season Ticket Bond	2.5	2.3
Scotrail Maintenance Bond	40.0	43.0
	132.1	90.2

UK Rail subsidy profile

	FGW	TPE	FSR	GBRf	FCC	TOTAL
	£m	£m	£m	£m	£m	£m
2006/7	97.4	112.2	270.8	2.0	(14.5)	467.9
2007/8	48.7	108.4	279.6	1.5	(48.3)	389.9

UK Rail Ring-Fenced Cash

	Mar-07	Mar-06
	£m	£m
TPE	29.5	37.4
GWT	0.0	15.0
GW Link	0.0	2.8
Scotrail	38.9	27.9
Greater Western	24.5	14.9
Capital Connect	46.2	21.0
GBR	0.5	0.5
	139.6	119.5