

# Preliminary results

## For the year to 31 March 2004



**Wednesday 12 May 2004**

# **Moir Lockhead Chief Executive**

# Agenda for today's presentation

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- **New team members**
- **Results**
  - North America
  - UK Bus and Rail
- **Plans for future growth**
- **Changing business model**
- **Outlook**

**Financial Results**  
**Dean Finch**  
**Commercial Director**

# Introduction

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- **Strong performance - £32m of costs absorbed**
- **Predictable cash flows £307m – strong cash conversion**
- **c£200m invested in the business**
- **Increasing shareholder value**
- **ROCE 12%**
- **Low cash tax charge**
- **Strong financial position**

# Financial Highlights

## Year to 31 March 2004

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<b>Sales</b>	<b>£2,479.0m</b>	<b>Up 8%</b>
<b>Operating cash flow</b>	<b>£312.3m</b>	<b>Up 42%</b>
<b>Operating profit<sup>1</sup></b> (After absorbing £32m of cost increases and subsidy reduction)	<b>£204.1m</b>	<b>Down 6%</b>
<b>Profit before tax<sup>1</sup></b>	<b>£161.3m</b>	<b>Up 1%</b>
<b>Net debt</b>	<b>£630.7m</b>	<b>Up 1%</b>
<b>Adjusted basic EPS</b>	<b>27.3p</b>	<b>Up 2%</b>
<b>Dividend per share</b>	<b>11.65p</b>	<b>Up 6%</b>
<b>EBITDA<sup>2</sup>: interest cover</b>	<b>7.2x</b>	<b>Up 29%</b>

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

2. Operating profit as defined plus depreciation

# Divisional analysis

## Year to 31 March 2004

	Turnover £m	Op profit <sup>1</sup> £m	Margin <sup>1</sup> %
UK Bus	906.2	111.2	12.3
UK Rail	945.0	49.8	5.3
N America	620.7	63.5	10.2
Lease interest <sup>2</sup>	-	(8.3)	-
Other <sup>3</sup>	7.1	(12.1)	-
<b>TOTAL</b>	<b><u>2,479.0</u></b>	<b><u>204.1</u></b>	<b>8.2</b>

1. Before goodwill amortisation and exceptional items

2. Financing elements of UK Passenger Carrying Vehicle operating lease costs

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

# Turnover analysis UK Bus

## Year to 31 March 2004

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	£m
Year to 31/03/03	859.4
Volume	8.3
Service enhancements	24.8
Fares	13.5
Other	<u>0.2</u>
Year to 31/03/04	<u><u>906.2</u></u>

# Turnover analysis UK Rail

## Year to 31 March 2004

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	£m
Year to 31 March 2003	842.3
GB Railways	64.4
TransPennine Express	27.0
Volume growth	15.4
Fare increases	13.5
Reduction in FGW grant	(10.1)
Reduction in GCC compensation	(6.6)
Other	(0.9)
Year to 31 March 2004	<u>945.0</u>

# Turnover analysis N America

## Year to 31 March 2004



	£m	\$m
Year to 31 March 2003	582.4	901.0
Increase in:		
First Student	32.5	58.3
First Transit	38.5	65.0
First Services	16.1	27.3
Foreign exchange movements	(48.8)	-
Year to 31 March 2004	<u>620.7</u>	<u>1,051.6</u>

# Cash flow

## Year to 31 March 2004

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	£m	£m
<b>EBITDA</b>		<b>307.1</b>
<b>Exceptional costs</b>		<b>(13.5)</b>
<b>Working capital inflow</b>		<b>17.4</b>
<b>Other</b>		<b>1.3</b>
<b>Operational cash flow</b>		<b><u>312.3</u></b>
<b>Investment in the business</b>		
<b>Capex</b>	<b>(147.3)</b>	
<b>Acquisitions</b>	<b>(49.7)</b>	
		<b><u>(197.0)</u></b>
<b>Interest and Tax</b>		
<b>Interest</b>	<b>(46.5)</b>	
<b>Tax</b>	<b>(23.7)</b>	
		<b><u>(70.2)</u></b>
		<b>45.1</b>
<b>Dividends</b>		<b><u>(45.9)</u></b>
		<b>(0.8)</b>
<b>One-off items</b>		
<b>Share buy-backs</b>	<b>(29.2)</b>	
<b>Interest rate swap cancellations</b>	<b>(18.7)</b>	
		<b><u>(47.9)</u></b>
<b>Net cash outflow</b>		<b><u><u>(48.7)</u></u></b>

# Movement in net debt

## Year to 31 March 2004

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	£m
Opening net debt	(624.4)
Net cash outflow	(48.7)
Foreign exchange movements	41.9
Fees on bond/amortisation of debt costs	0.5
Closing net debt	<u>(630.7)</u>

# Returns on US investment

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## Cash return on Invested capital (CROIC)

	2003/04
<b>EBITDA</b>	<b>\$183.7m</b>
<b>Average investment*</b>	<b>\$1,543m</b>
<b>CROIC</b>	<b>12%</b>
<b>CROIC (excl. Goodwill)</b>	<b>c.25%</b>
<b>Target IRR for new investments</b>	<b>15%</b>

\*Investment defined as Acquisitions + Net fixed asset additions

# Funding and risk management

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- **Debt**
  - Maturity profile and headroom improved
- **Taxation**
  - Low Cash tax rate will continue
  - \$200m tax allowances carried forward
- **Pensions**
  - Rationalised and cost base reduced
- **Fuel hedging**
  - Aim to extend, monitoring forward pricing
- **Insurance**
- **Foreign exchange**
- **IAS**
- **Establishing dedicated commercial team**

# **Business Reviews**

**UK Rail**

**Dean Finch**

# UK Rail

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- **Business growth**
  - FGW – 5% passenger growth
  - TPE – performing ahead of bid model
  - FGW Link – positioning for Greater Western bid
  - GBRf – opportunities to double size of business in short term
- **Franchise update**
  - bidding for 4 franchises worth £1.6bn per annum
- **Network Rail**
  - improving performance and delivery

**Now well positioned in current refranchising round**

**Business Reviews**  
**North America**  
**Bruce Ballard**

# North America

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- **Student**
  - Revenue +10%, EBIT +10%, EBITDA +12%
  - Margin maintained
- **Transit**
  - Revenue +24%, EBIT +32%, EBITDA +33%
  - Margin increased 0.3%
- **Services**
  - Revenue +35%, EBIT +38%, EBITDA +22%
  - Margin improved 0.2%

# Student

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- **Successes in 2003/04**
  - 20 new contracts (c.1,700 new buses)
  - Boston
  - Los Angeles
  - 18 smaller contracts in 8 other states
  - Acquisitions (564 buses)
- **Strategy**
  - Sustainable for foreseeable future
  - Continue our existing approach
  - Balance of new business wins / acquisitions
  - Seek business wins where support and economies of scale make sense
  - Marketplace allows for growth

# Transit

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- **Successes in 2003/04**
  - Two acquisitions integrated successfully
  - Six new management only accounts
  - Growth primarily from acquisitions
- **Strategy**
  - Continue to grow traditional transit margins
  - New sales in traditional markets
  - Acquisitions in niche transport markets
  - Expand the call centre / non emergency response transit business

# Services

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- **Successes in 2003/04**
  - 11 new accounts (9 municipal, 2 corporate)
  - L&E new sales – Mass Police Dept, American Water Inc.
- **Strategy**
  - Continuing organic growth in Vehicle
  - Expand services to federal and corporate marketplaces
  - Cross sell services to Vehicle and L&E clients
  - Utilise acquisitions to expand market share

# **Business Reviews**

## **UK Bus**

### **David Leeder**

# UK Bus characteristics

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- **Strong cash generation - EBITDA = £163m**
- **Flexible business model:**
  - **Able to change ‘commercial’ prices and services**
  - **Mix of commercial and contracted business**
  - **Growing contracted revenues – London and elsewhere**
- **Established business strategy, blending:**
  - **Profitable revenue growth with**
  - **‘Forensic’ approach to cost management**

# 2003/04 milestones

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- **Successful Aircoach-Dublin acquisition**
- **Reduced driver shortage by 10%**
- **Improved driver efficiency ratios**
- **Absorbed £12m pensions and NI increase**
- **New UK Bus pensions scheme**
- **Piloted successful formats for passenger growth**
- **Continuing growth on QP routes**
- **Further successful growth in London**
- **Focusing capex on partnership routes and contract growth**
- **Yorkshire Future Bus pilot – March 05**

# 2004 action plan

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## New management structure

### Revenue growth

- Focus on growth opportunities
- Contracted and deregulated markets
- Fleet upgrades in partnership with LAs
- Marketing

### Cost control

- Process review
- Standard operating procedures
- Driver efficiency
- Engineering systems
- Pensions

# **Moir Lockhead Chief Executive**

# Outlook

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- **Continued growth in all markets**
- **Changing business model will provide stronger and more dependable revenues**
- **Balance sheet £250m average headroom with strong and growing cash flows**
- **Current trading in line with expectations**

**Preliminary results  
for the year to  
31 March 2004  
Wednesday 12 May 2004**

**Preliminary results  
for the year to  
31 March 2004**

**Appendices**

# Profit and Loss Account (1)

## Year to 31 March 2004



	2004 £m	2003 £m
Group turnover	<u>2,479.0</u>	<u>2,291.0</u>
Group operating profit <sup>1</sup>	204.1	216.1
Interest	<u>(42.8)</u>	<u>(56.3)</u>
Pre-exceptional pre-tax profit <sup>1</sup>	161.3	159.8
Goodwill	(25.9)	(25.8)
Exceptional items <sup>2</sup>	<u>(12.6)</u>	<u>(0.6)</u>
Profit before tax	<u><u>122.8</u></u>	<u><u>133.4</u></u>

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

2. Including property disposal profits

# Profit and Loss Account (2)

## Year to 31 March 2004

	2004	2003
	£m	£m
Profit before tax	122.8	133.4
Tax on operating profit	<u>(30.6)</u>	<u>(35.8)</u>
Profit after tax	92.2	97.6
Minority interests	(0.9)	(0.1)
Dividends	<u>(47.3)</u>	<u>(45.5)</u>
Profit for the period	<u><u>44.0</u></u>	<u><u>52.0</u></u>
Adjusted EPS <sup>1</sup>	27.3p	26.8p
Adjusted cash EPS	52.4p	50.6p
Operational cash flow	£312.3m	£219.7m

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

# FirstGroup America

## Year to 31 March 2004



<b>\$m</b>	<b>Student</b>	<b>Transit</b>	<b>Services</b>	<b>Total</b>
<b>Sales</b>	<b><u>616.7</u></b>	<b><u>330.4</u></b>	<b><u>104.5</u></b>	<b><u>1,051.6</u></b>
<b>EBITDA</b>	<b>147.8</b>	<b>28.0</b>	<b>7.9</b>	<b>183.7</b>
<b>EBITDA %</b>	<b>24.0%</b>	<b>8.5%</b>	<b>7.6%</b>	<b>17.5%</b>
<b>Depreciation</b>	<b><u>62.6</u></b>	<b><u>11.6</u></b>	<b><u>0.3</u></b>	<b><u>74.5</u></b>
<b>EBIT</b>	<b><u>85.2</u></b>	<b><u>16.4</u></b>	<b><u>7.6</u></b>	<b><u>109.2</u></b>
<b>EBIT %</b>	<b>13.8%</b>	<b>5.0%</b>	<b>7.3%</b>	<b>10.4%</b>

# FirstGroup America

## Year to 31 March 2003



\$m	Student*	Transit*	Services	Total
Sales	<u>558.4</u>	<u>265.4</u>	<u>77.2</u>	<u>901.0</u>
EBITDA	132.0	21.0	6.5	159.5
EBITDA %	23.6%	7.9%	8.4%	17.7%
Depreciation	<u>54.8</u>	<u>8.6</u>	<u>1.0</u>	<u>64.4</u>
EBIT	<u>77.2</u>	<u>12.4</u>	<u>5.5</u>	<u>95.1</u>
EBIT %	13.8%	4.7%	7.1%	10.5%

\* Canadian Transit business re-allocated from Student to Transit

# Interest charge

## Year to 31 March 2004

	2004	2003
	£m	£m
Bonds, Bank Loans and overdrafts	39.0	49.5
Leases and HP	3.3	6.5
	<u>42.3</u>	<u>56.0</u>
Income from short term deposits	(2.4)	(2.6)
Notional interest	2.9	2.9
	<u>42.8</u>	<u>56.3</u>
EBITDA : interest cover	<u>7.2x</u>	<u>5.6x</u>

# Exceptionals and property gains

## Year to 31 March 2004

	2004 £m	2003 £m
Interest rate swap cancellations	18.7	-
UK Bus restructuring	5.9	6.0
UK Rail bid costs	5.9	3.4
North America	0.9	3.7
Other bid costs	0.8	-
Tramtrack Croydon Limited	-	(2.5)
Property gains	(19.6)	(10.0)
	<u>12.6</u>	<u>0.6</u>

# Taxation

## Year to 31 March 2004

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	<b>2004</b>	<b>2003</b>
	<b>£m</b>	<b>£m</b>
<b>Current tax</b>	<b>21.3</b>	<b>27.2</b>
<b>Deferred tax</b>	<b><u>9.3</u></b>	<b><u>8.6</u></b>
<b>Tax charge</b>	<b><u>30.6</u></b>	<b><u>35.8</u></b>
<b>Tax rate on profit before goodwill and exceptional items</b>	<b>30%</b>	<b>30%</b>
<b>Effective tax rate</b>	<b>17%</b>	<b>20%</b>

# Capital Expenditure

## Year to 31 March 2004

	2004	2003
	£m	£m
UK Bus <sup>1</sup>	64.9	32.4
North America	65.8	60.6
UK Bus Property <sup>2</sup>	24.8	5.2
Rail/Other	9.2	8.2
	<u>164.7</u>	<u>106.4</u>

1. 2003 PCV additions with an approx capital value of £20m were financed through operating leases

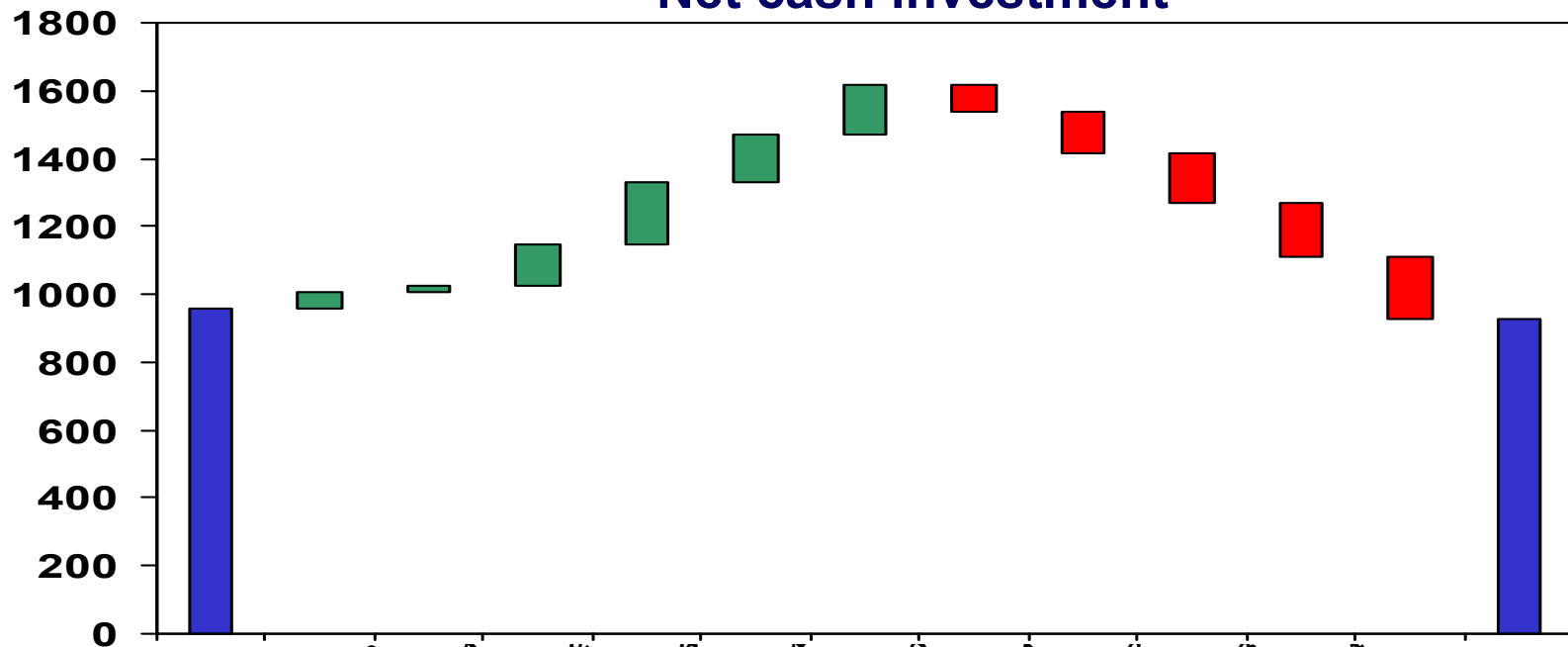
2. 2004 property additions were funded from the planned property disposal programme

# FirstGroup America



## Strong cash flows from US investment

Net cash investment



\$m 958 47 23 117 183 140 150 79 125 143 160 184 927

Vehicles 10,200

Fixed assets 25%

17,400

Fixed assets 58%

# New franchising timetable

<b>Franchise</b>	<b>Type</b>	<b>Start</b>	<b>Turnover £m (estimated)</b>	<b>Bid Status</b>	<b>Expected award dates</b>
<b>Northern</b>	Regional	2004	410	Shortlisted (1 of 2)	Due Spring 2004
<b>Scotrail</b>	Regional	2004	375	Shorlisted (1 of 3)	Due mid 2004
<b>Integrated Kent</b>	Commuter/ high speed	2005	500	Pre- qualified	2004/05
<b>East Coast Mainline</b>	Intercity	2005	400	Pre- qualified	2005
<b>Greater Western</b>	InterCity	2006	530	2005	2005/06