

FirstGroup plc
Half-year results
for the six months to 30 September 2008

Wednesday 5 November 2008

Sir Moir Lockhead Chief Executive

Overview

- Excellent first half demonstrates strong, balanced business portfolio
- North America:
 - synergy target of \$150m per annum reached ahead of plan
 - transforming Greyhound: 5% revenue growth and 10% improvement to On Time Performance
- UK Bus and Rail strong growth underpinned by investment in customer service and operational performance
- Refinancing almost complete

Balanced portfolio of businesses

- Robust, diverse portfolio
- Over 50% of Group revenues contract backed
- North America:
 - contract backed revenues with Government agencies and other large organisations
 - Greyhound: highly flexible business model, ability to respond immediately to change in demand
- UK Bus:
 - highly flexible
 - strong revenue growth supported by improved product quality
- UK Rail:
 - diverse mix of franchises
 - cap and collar regimes significantly de-risk franchises

Nick Chevis
Finance Director

Highlights

Six months to 30 September 2008

- **Record Group results**
 - Revenue £2.8bn up by 57%
 - Adjusted operating profit £181m up 76%
 - Adjusted basic EPS 15.6p up 41%
 - EBITDA £306m up 79%
- **UK Bus passenger revenues up 7.7%**
- **Continued strong passenger revenue growth of 9.8% in Rail**
- **Greyhound like-for-like revenue growth of c. 5%**
- **North America synergy reached \$150m run rate**
- **Refinancing of Laidlaw acquisition debt now largely complete**

Financial Results

Six months to 30 September 2008

| | | |
|---|------------------|-------------|
| Revenue | £2,768.5m | +57% |
| EBITDA¹ | £306.0m | +79% |
| Profit before tax² | £107.1m | +44% |
| Adjusted basic EPS² | 15.6p | +41% |
| Dividend per share | 6.05p | +10% |
| EBITDA: interest cover³ (times) | 4.4x | |
| Net debt | £2,195.1m | |

1. Operating profit as defined below before depreciation
2. Before amortisation charges, non-recurring bid costs, other non-recurring items and (loss)/profit on disposal of properties
3. Calculated on an annualised basis

Divisional analysis

Six months to 30 September 2008

| | Revenue £m | Op profit ¹ £m | Margin H1 08/09 % | Margin H1 07/08 % |
|--------------------|----------------|------------------------------|-------------------------|-------------------------|
| UK Bus | 578.6 | 60.0 | 10.4 | 8.8 |
| UK Rail | 960.6 | 48.3 | 5.0 | 5.6 |
| N America | 1,221.9 | 86.0 | 7.0 | 4.8 |
| Other ² | 7.4 | (13.1) | | |
| TOTAL | 2,768.5 | 181.2 | 6.5 | 5.8 |

1. Before amortisation charges, non-recurring bid costs, other non-recurring items and (loss)/profit on disposal of properties

2. Tram operations, German Bus operation, central management and other items

UK Bus

-
- **Strong trading performance**
 - **Operating margin up 1.6% – supported by cost initiatives**
 - **Like-for-like passenger revenues increased by 7.7%; volume growth c.2%**
 - **London revenue up 5.9% on a like-for-like basis**
 - **Modal shift – fuel, cost of living increases and greater environmental awareness**
 - **Focus on service quality and operational performance**

UK Rail

- **Strong passenger revenue growth of 9.8% and volume growth across all our TOCs**
- **Focus on performance and quality delivering results**
- **Latest Period 7 all our TOCs >90% PPM**

UK Rail – Passenger revenue growth¹ six months to 30 September 2008

| | Sept 08 | Sept 07 |
|-----------------------------------|----------------|----------------|
| First Great Western | 8.9% | 8.9% |
| First Capital Connect | 10.4% | 9.9% |
| First TransPennine Express | 15.8% | 12.0% |
| First ScotRail | 8.6% | 7.6% |
| Hull Trains | 12.1% | 15.5% |
| Total | 9.8% | 9.3% |

1. Adjusted for Scottish services at FTPE, weather at FGW and timing of Easter

North America

Student and Transit

- **Successful integration of Laidlaw**
- **Synergies achieved \$150m per annum**
- **Proforma operating profit growth 45%**
- **First Student:**
 - Margin improvement 1.3% despite higher fuel costs
 - Strong contract retention >93%
 - Record level of outsourcing enquiries – 360 new buses in H1
- **First Transit & Services**
 - Transit – continued profitable expansion and margin improvement
 - New contract wins in Transit Contracting and Transit Management
 - Services – impacted by legal claim and exiting poorly performing contracts
 - Services now merged with Transit business

Greyhound

- Revenue growth of c.5%
- Improved operating performance – up 10%
- Further revenue and cost initiatives
- Strong cash generation
- 140 new vehicles over next 12 months to improve the quality and performance of the fleet
- BoltBus exceeding expectations
- Highly flexible business
- Opportunity to integrate Greyhound further with rest of North American operations

Cash flow

Six months to 30 September 2008

| | £m | £m |
|--|----------------|------------------|
| EBITDA | | 306.0 |
| Integration costs/non-recurring items | | (36.4) |
| Pension payments > income statement charge | | (27.1) |
| Working capital outflow (rail timing differences) | | (75.2) |
| Other | | 8.4 |
| Operational cash flow | | 175.7 |
| Investment in the business | | |
| Capex and acquisitions | (177.1) | |
| New finance leases | (12.7) | |
| | | (189.8) |
| Interest, Tax and other | | (77.4) |
| | | (91.5) |
| Dividends (including paid to minorities) | | (58.1) |
| Net cash outflow | | (149.6) |
| Other non-cash movements | | (4.9) |
| Proceeds from share placing | | 230.8 |
| Cash inflow before forex | | 76.3 |
| Foreign exchange movements | | (110.4) |
| Opening net debt | | (2,161.0) |
| Closing net debt | | (2,195.1) |

Refinancing Laidlaw acquisition debt

- **Refinancing almost complete – balance to be refinanced now \$300m**
- **At 30 Sept 2008 \$1.45bn of the \$2.25bn short term facility refinanced**
 - New medium term facilities \$450m completed May 2008
 - Equity placing of 43.8m shares (9.9%) raised gross proceeds of £236m completed May 2008
 - New £300m bond swapped into US Dollars at fixed rate of 6.9% completed Sept 2008
- **Further progress made since 30 Sept 2008**
- **UK & US finance leasing at attractive rates**
- **New medium term facilities have been secured**

Debt facilities

- **£505m revolver facility extended from March 2010 to Feb 2012**
- **Average debt maturity increased:**
 - **March 2008 3.5 years**
 - **Sept 2008 4.9 years**
- **The Group will seek to refinance the remaining \$300m of acquisition debt by a combination of lease finance, bank term loans and cash generation**
- **Including the \$300m term loan the balance of the Group's debt refinancing requirement prior to Sept 2011 is only £329m**

Funding and Tax

Debt

- Committed facility headroom £474m at 30 Sept 2008
- Net debt:EBITDA 3.1 times

Tax

- Low cash tax rate set to continue
- Effective tax rate 24.3% for half year (full year 2008: 23.4%)

Pensions

- IAS 19 surplus of £89m at start of year now a deficit of £25m at 30 Sept 2008
- Timing of Actuarial valuations

Fuel

- 2009/10: 100% hedged on crude oil for UK at \$111 per barrel and North America at \$116 per barrel

Foreign exchange

- EPS broadly neutral to FX fluctuations
- US EBIT “hedged” by UK fuel costs and interest costs in USD
- US Dollar strengthening increases Sterling debt and EBITDA

| | 30 September 2008 | 30 September 2007 | 31 March 2008 |
|-------------------------------------|----------------------|----------------------|------------------|
| Average rate for income statement: | \$1.94 | \$2.00 | \$2.01 |
| Closing rate for the balance sheet: | \$1.84 | \$2.03 | \$2.00 |

Financial Summary

Six months to 30 September 2008

- **Strong passenger revenue growth in UK Rail and UK Bus**
- **North America synergies ahead of plan**
- **Successful Student bid season**
- **Greyhound revenue growth and further opportunities**
- **Refinancing now largely complete**

Sir Moir Lockhead Chief Executive

Summary

- Delivering strategy to create shareholder value through profitable growth in core markets
- Robust and diverse business portfolio >50% of revenues secured under contracts
- Good prospects for growth in all of our markets
- Strong operating cash flows supporting further growth and debt reduction
- H2 trading started well and in line with our expectations

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Appendices
Half-year results
for the six months to
30 September 2008

Income statement (1)

Six months to 30 September 2008

| | 2008 £m | 2007 £m |
|--|--------------------|--------------------|
| Group revenue | <u>2,768.5</u> | <u>1,768.9</u> |
| Group operating profit ¹ | 181.2 | 103.1 |
| Net finance costs | <u>(74.1)</u> | <u>(28.6)</u> |
| Pre-tax profit ¹ | 107.1 | 74.5 |
| Intangible asset amortisation | (13.5) | (4.9) |
| Non-recurring bid costs/other non-recurring items ² | <u>(39.2)</u> | <u>1.7</u> |
| Profit before tax | <u><u>54.4</u></u> | <u><u>71.3</u></u> |

1. Before amortisation charges, non-recurring bid costs, other non-recurring items and (loss)/profit on disposal of properties
2. Including property disposal (losses)/profits

Income statement (2)

Six months to 30 September 2008

| | 2008 | 2007 |
|---------------------------|---------------|--------------|
| | £m | £m |
| Profit before tax | 54.4 | 71.3 |
| Tax on operating profit | <u>(23.1)</u> | <u>(9.4)</u> |
| Profit after tax | <u>31.3</u> | <u>61.9</u> |
| | | |
| Adjusted EPS ¹ | 15.6p | 11.1p |
| Adjusted cash EPS | 42.1p | 26.6p |
| EBITDA ² | £306.0m | £170.9m |

1. EPS adjusted for amortisation charges, non-recurring bid costs, other non-recurring items and (loss)/profit on disposal of properties
2. Operating profit before amortisation charges, non-recurring bid costs, other non-recurring items and (loss)/profit on disposal of properties plus depreciation

FirstGroup America



Six months to 30 September 2008

| \$m | Student | Transit | Services | Greyhound | Total |
|----------------------|----------------|----------------|-----------------|------------------|----------------|
| Revenue | 1,176.9 | 416.2 | 137.0 | 632.9 | 2,363.0 |
| EBITDA | 168.2 | 32.6 | (8.0) | 105.0 | 297.8 |
| EBITDA (%) | 14.3% | 7.8% | (5.8)% | 16.6% | 12.6% |
| Depreciation | 102.1 | 6.1 | 0.7 | 23.9 | 132.8 |
| Op Profit | 66.1 | 26.5 | (8.7) | 81.1 | 165.0 |
| Op Profit (%) | 5.6% | 6.4% | (6.4)% | 12.8% | 7.0% |

North America

Six months to 30 September 2008

| | Revenue \$m | Op profit \$m | Op margin % |
|--|----------------|---------------------|-------------------|
| Six months to 30/09/07 | 717.2 | 34.1 | 4.8 |
| Impact of Laidlaw | 1,530.0 | 79.6 | |
| Six months to 30/09/07 on a proforma basis | <u>2,247.2</u> | <u>113.7</u> | |
| Growth/other | 69.8 | 18.2 | |
| Operating days | 36.1 | 17.9 | |
| Synergies | - | 62.9 | |
| Fuel | 9.9 | (37.2) | |
| First Services legal claim and contract exits | <u>-</u> | <u>(10.5)</u> | |
| Six months to 30/09/08 | <u>2,363.0</u> | <u>165.0</u> | 7.0 |
| Increase on last year on a like-for-like basis | <u>5%</u> | <u>45%</u> | |

North America Synergies

| | Annual run rate 30 September 2008 \$m |
|------------------------------|--|
| Corporate head office | 30 |
| Student overheads | 30 |
| Transit overheads | 15 |
| Procurement | 35 |
| Insurance | 12 |
| Branch consolidation | 11 |
| Other | 17 |
| | <hr/> 150 <hr/> |

First Student marketplace

- **US and Canada – federal mandate for schools to provide transportation**
- **Yellow school buses “ingrained” in the culture**
- **School bus market worth c. \$18bn**
- **Approx 530,000 school buses operated in North America with 190,000 in “outsourced” market of which 60,000 owned and operated by FirstGroup**
- **>5,000 independent operators**
- **Low credit risk – public sector customers c. 1,500**
- **Neutral to economic cycle**
- **Favourable demographic outlook**

UK Bus - revenue analysis

Six months to 30 September 2008

| | Passenger revenue £m | Other £m | Total £m |
|-----------|-------------------------------------|---------------------|---------------------|
| Q1 | 196.1 | 87.6 | 283.7 |
| Q2 | 204.1 | 90.8 | 294.9 |
| | <u>400.2</u> | <u>178.4</u> | <u>578.6</u> |

Non-recurring items

Non-recurring items and amortisation charges

| | Six months to 30 September 2008 £m | Six months to 30 September 2007 £m | Year to 31 March 2008 £m |
|--|---|---|-----------------------------------|
| North American integration | 34.5 | - | 55.5 |
| UK Rail | - | - | 16.8 |
| Europe bid costs | 1.5 | 1.7 | 3.7 |
| UK Rail bid costs | - | 3.5 | 3.5 |
| Other non-recurring costs | 0.4 | - | - |
| Loss/(profit) on disposal of properties | 2.8 | (6.9) | (5.8) |
| Non-recurring bank facility costs | - | - | 4.5 |
| Total non-recurring | 39.2 | (1.7) | 78.2 |
| Amortisation of intangible assets | 13.5 | 4.9 | 18.9 |
| Total | 52.7 | 3.2 | 97.1 |

Non-recurring items (continued)

North American integration costs

| | Six months to 30 September 2008 £m | Six months to 30 September 2007 £m | Year to 31 March 2008 £m |
|------------------------------------|---|---|-----------------------------------|
| Legal and professional costs | 0.5 | - | 16.5 |
| Redundancy and staff related costs | 7.2 | - | 11.5 |
| Provision for excess buses | - | - | 5.4 |
| IT costs | 10.3 | - | 5.6 |
| Location closure costs | 5.8 | - | 5.0 |
| Safety expenses | 4.0 | - | 3.0 |
| Rebranding costs | 1.9 | - | 2.2 |
| Greyhound restructuring | 1.2 | - | 1.9 |
| Other integration costs | 3.6 | - | 4.4 |
| | 34.5 | - | 55.5 |

Net finance costs

Six months to 30 September 2008

| | 2008 | 2007 |
|--|-------------|-------------|
| | £m | £m |
| Bonds, Bank Loans and overdrafts | 65.8 | 31.5 |
| Leases and HP | 3.2 | 2.4 |
| | <u>69.0</u> | <u>33.9</u> |
| Finance income | (3.8) | (8.8) |
| Notional interest | 8.9 | 3.5 |
| | <u>74.1</u> | <u>28.6</u> |
| EBITDA : interest cover ¹ (times) | <u>4.4x</u> | <u>7.0x</u> |

1. Calculated on an annualised basis

Taxation

Six months to 30 September 2008



| | 2008 | 2007 |
|--|-------------|------------|
| | £m | £m |
| Current tax | 6.1 | 6.2 |
| Deferred tax | 1.8 | 12.1 |
| Exceptional DT charge/(credit) | 15.2 | (8.9) |
| Tax charge | <u>23.1</u> | <u>9.4</u> |
| Tax rate on adjusted profit before tax | 24.3% | 27.2% |
| Cash tax rate (based on full year PBT estimates) | 4% | 3% |

Capital Expenditure

Six months to 30 September 2008

| | 2008 | 2007 |
|---------------|--------------|--------------|
| | £m | £m |
| UK Bus | 70.6 | 29.0 |
| North America | 77.8 | 60.5 |
| Rail | 39.7 | 70.6 |
| Group | - | 0.1 |
| Total | <u>188.1</u> | <u>160.2</u> |

Crude oil hedge position

| | UK | | | North America “at risk” | | |
|---|---------|---------|----------|----------------------------|---------|----------------|
| | 2007/08 | 2008/09 | 2009/10 | 2007/08* | 2008/09 | 2009/10 |
| Usage (barrels'm) | 2.7 | 2.7 | 2.7 | 2.4 | 2.4 | 2.3 |
| % Hedged | 100% | 100% | 100% | - | 100% | 100% |
| Hedge rate | \$66.69 | \$75.73 | \$110.64 | \$77.04 | \$83.76 | \$115.92 |
| Fuel as a percentage of revenues is less than 10% of UK Bus, less than 8% of US school bus, less than 10% of Greyhound and less than 5% of rail | | | | | | |
| North America “at risk” volumes comprise: | | | | | | 2009/10 |
| Gross usage (barrels'm)** | | | | | | 4.3 |
| Less: provided by customer, pass through cost or protected by contract escalator | | | | | | (2.0) |
| “At risk” volume | | | | | | 2.3 |
| <p>*Annualised figure (including Laidlaw for full year) based on hedged and unhedged volumes</p> <p>**includes estimate of volumes provided by customer</p> | | | | | | |

Appendix 1 : Rail franchise contracts

| | First Great Western | First Capital Connect | First TransPennine Express | First ScotRail |
|---|---------------------|-----------------------|----------------------------|----------------|
| Years | 7+3 | 4+2+3 | 8+5 | 10 |
| Start date | April 2006 | April 2006 | Feb 2004 | Oct 2004 |
| Expiry date | Mar 2013 | Mar 2010 | Jan 2012 | Nov 2014 |
| Performance related extension period | Mar 2016 | Mar 2012 | | |
| Authority extension period (at the discretion of the DfT) | | Mar 2015 | Jan 2017 | |