FirstGroup plc
Preliminary results
for 12 months to 31 March 2010

Wednesday 12 May 2010

Sir Moir Lockhead
Chief Executive

Overview

Overview 2009/10

- Robust performance in a challenging economic environment
- Cost reduction programme successfully implemented – over £200m annual savings
- Protected revenue per mile through network management and targeted mileage reductions
- Net cash generation ahead of target
- Continued progress on net debt reduction
- Final dividend increased by 10%

Jeff Carr
Finance Director

Financial review

Key highlights

- Performance in line with expectations
- Operating profit of £453.9m impacted by:
  - Hedged fuel costs up by c.£90m – equivalent to 14.5p impact on EPS (average hedged cost $113 per barrel)
  - Weather impact in Q4 of £16m
- Cost reduction programme delivered £228m this year
- Net cash generation of £136m, significantly ahead of target of £100m
- Net debt at £2,281m – reduced by £222m from cash generation (£136m) and FX/other (£86m)
- Net debt:EBITDA at 2.96x – good progress

Financial results

	Mar 10 £m	Mar 09 £m	Change
Revenue	6,319.3	6,187.3	2.1%
EBITDA	769.6	772.2	(0.3)%
EBITDA %	12.2%	12.5%	(0.3)pp
Operating Profit[1]	453.9	497.5	(8.8)%
Margin %	7.2%	8.0%	(0.8)pp
Profit before tax[1]	264.0	326.4	(19.1)%

- EBITDA margin maintained at over 12%

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

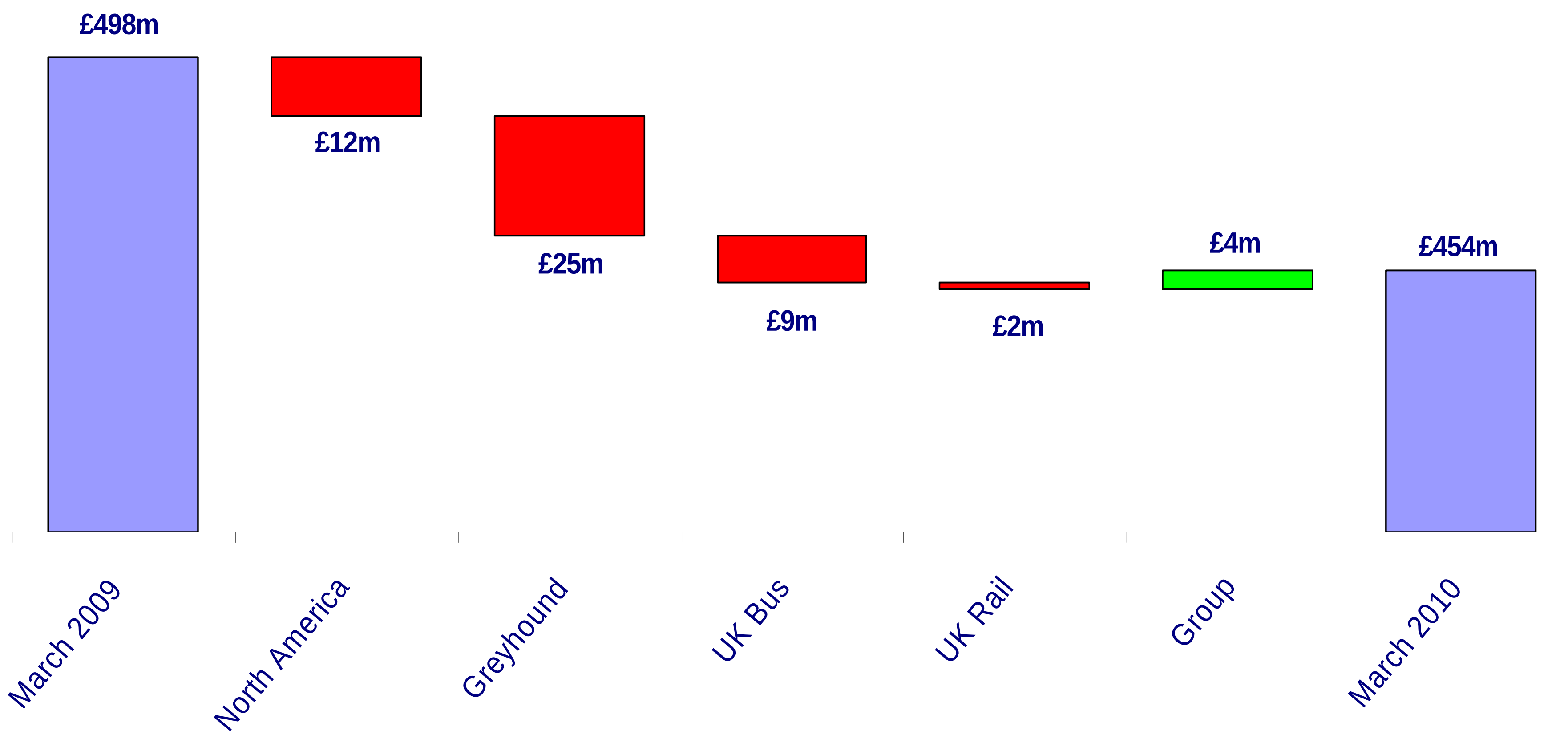
Income statement

	Mar 10 £m	Mar 09 £m	Change
Profit before tax[1]	264.0	326.4	(19.1)%
Amortisation charges	(34.7)	(33.1)	
Non-recurring items[2]	(49.7)	(93.3)	
Profit before tax	179.6	200.0	(10.2)%
Tax	(32.5)	(43.0)	
Profit after tax	147.1	157.0	(6.3)%
Proposed final dividend	14.0p	12.7p	10.0%
Basic EPS	27.5p	30.2p	(8.9)%
Adjusted basic EPS[1]	39.5p	48.6p	(18.7)%

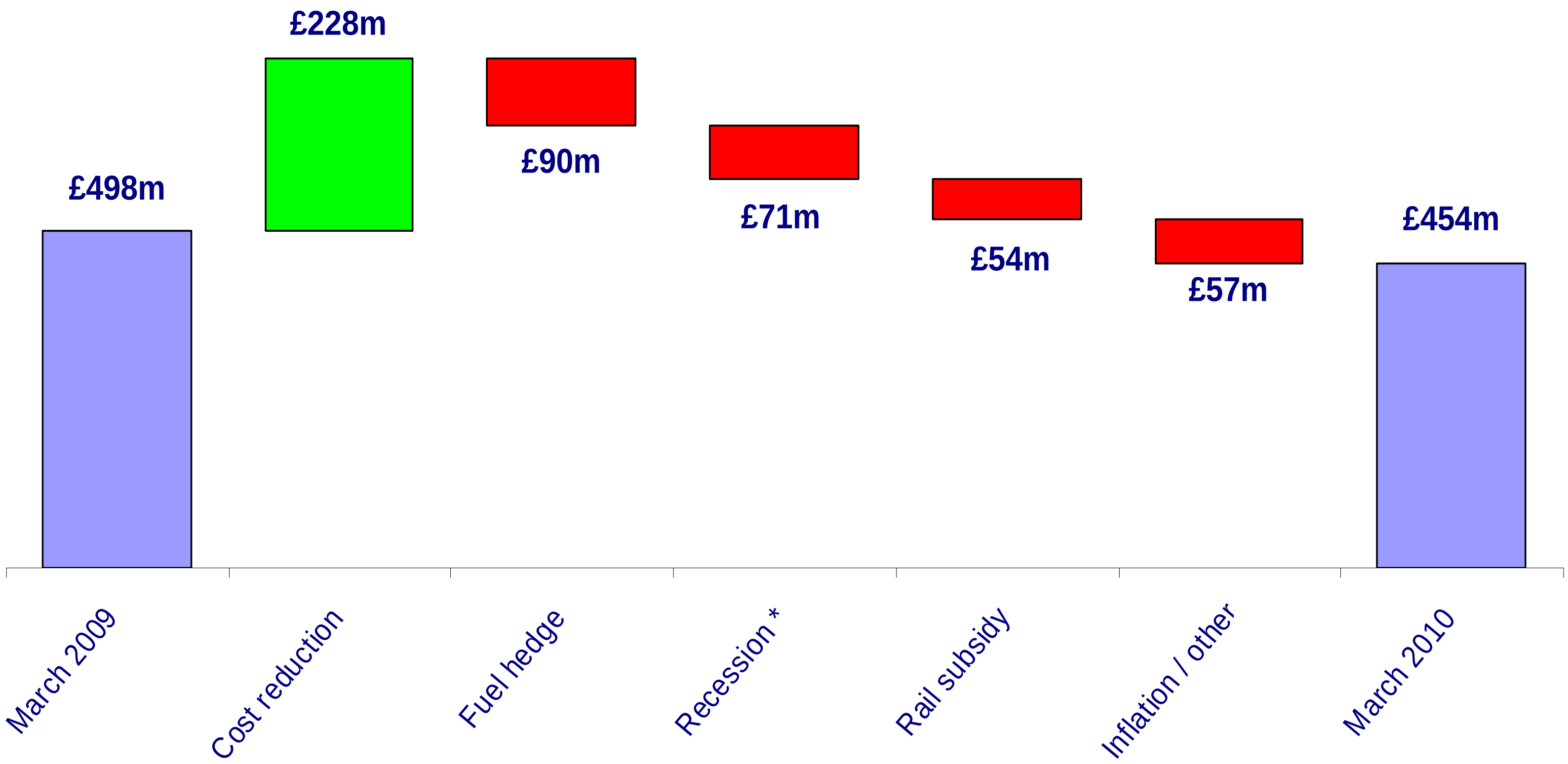
- Non-recurring items expected to reduce significantly in 2010/11

1. Before amortisation charges and non-recurring items
2. Non-recurring items are hedge ineffectiveness on financial derivatives, non-recurring bid costs, other non-recurring items and (loss)/profit on disposal of properties

Profit bridge by division



Profit bridge by category



- Excellent cost management to mitigate impact of fuel increases and recession
- 86% of fuel requirement for 2010/11 hedged at $82 per barrel

* Estimated impact of recession

Management actions

- Cost reduction plan delivered £228m – ahead of the £200m target savings:

Year to March 2010 (£m)	UK Bus	UK Rail	N Am	Grey	Total
Staff related savings	21	37	16	12	86
Operating efficiencies	21	5	11	4	41
Procurement and other	13	54	21	13	101
Total achieved *	55	96	48	29	228
Target	55	70	42	33	200

- Headcount reductions:

	UK Bus	UK Rail	N Am	Grey	Total
Achieved to March 2010	1,767	705	841	1,870	5,183
Mileage related	(600)	-	-	(430)	(1,030)
Total ongoing	1,167	705	841	1,440	4,153

* Excludes mileage related cost reductions

North America
First Student

	Mar 10 $m	Mar 09 $m	Change
Revenue	2,544.7	2,629.5	(3.2)%
EBITDA	509.9	535.1	(4.7)%
EBITDA %	20.0%	20.3%	(0.3)pp
Operating Profit	281.1	331.7	(15.3)%
Margin %	11.0%	12.6%	(1.6)pp

- Core revenues broadly flat after adjusting for FX and lower operating days
- Ancillary revenues from higher margin charter and contract ‘add-ons’ reduced by $40m due to school board budgetary pressures
- Q4 operating profit reduced by c.$14m due to unusually severe weather conditions
- Continue to focus on cost management and efficiencies

North America
First Transit

	Mar 10 $m	Mar 09 $m	Change
Revenue	1,160.1	1,109.5	4.6%
EBITDA	98.8	74.1	33.3%
EBITDA %	8.5%	6.7%	1.8pp
Operating Profit	84.4	60.1	40.4%
Margin %	7.3%	5.4%	1.9pp

- Good revenue growth driven by new contract wins
- Strong EBITDA improvement to $98.8m (8.5% margin)
- Operating profit margin at 7.3% – good returns on low levels of capital investment

Greyhound

	Mar 10 $m	Mar 09 $m	Change
Revenue	963.4	1,114.0	(13.5)%
EBITDA	85.3	139.5	(38.9)%
EBITDA %	8.9%	12.5%	(3.6)pp
Operating Profit	39.6	91.7	(56.8)%
Margin %	4.1%	8.2%	(4.1)pp

- Maximised flexible business model – mileage reduced by 11.3%
- Average loads reduced slightly to 28.6 (2009: 29.3) – improving during H2
- Q4 revenues up 0.9% on prior year – trends remain encouraging
- Good performance on costs with reductions in overheads and prompt actions taken on variable costs
- Greyhound Canada – agreements reached with Provinces

UK Bus

	Mar 10 £m	Mar 09 £m	Change
Revenue	1,170.6	1,182.0	(1.0)%
EBITDA	200.2	205.4	(2.5)%
EBITDA %	17.1%	17.4%	(0.3)pp
Operating Profit	124.6	134.0	(7.0)%
Margin %	10.6%	11.3%	(0.7)pp

- Flexed supply to meet demand – mileage reduced by over 5%
- Like-for-like passenger revenues increased by 1.9%
- H2 operating profit reduced by £6m due to adverse weather conditions
- Improved operating efficiencies and overhead cost reductions to mitigate increased hedged fuel costs
- Margin improvement from fuel benefit expected in 2010/11 and further cost actions

UK Rail

	Mar 10 £m	Mar 09 £m	Change
Revenue	2,188.4	2,121.5	3.2%
EBITDA	147.6	137.2	7.6%
EBITDA %	6.7%	6.5%	0.2pp
Operating Profit	92.6	94.2	(1.7)%
Margin %	4.2%	4.4%	(0.2)pp

- Revenue impacted[1] by change to CP4 £(59)m – no impact on operating profit
- Good progress on cost actions achieved during year – ahead of target
- Premium increases in 2010/11
- Continued insulation from reduced demand – 80% revenue support at FCC and FGW

1. A change in the Control Period (CP4) charging arrangements with Network Rail meant a reduction in grant revenue from Transport Scotland and a corresponding reduction in Network Rail charges with no impact on operating profit

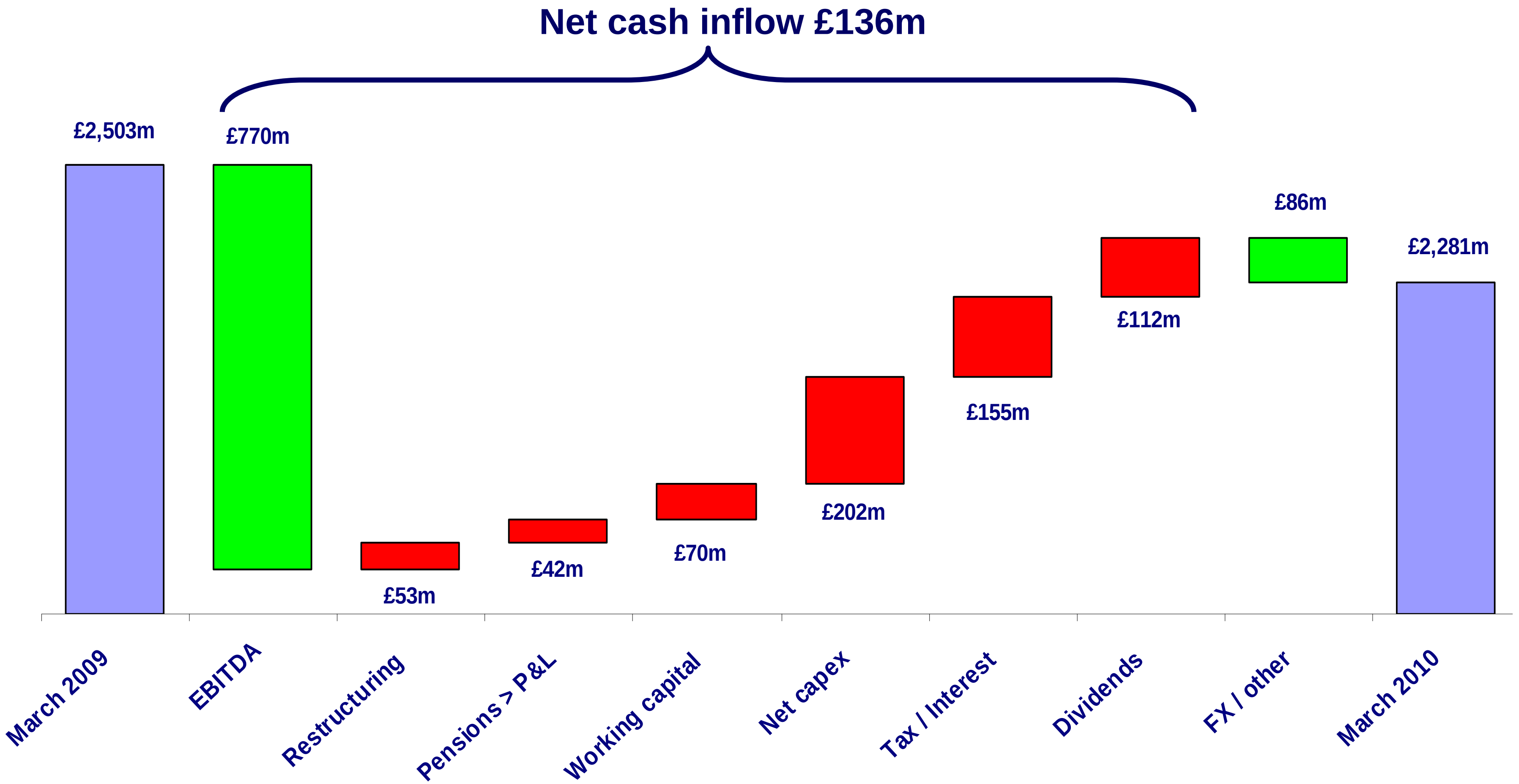
UK Rail
Passenger revenue growth[1]

	Mar 10	Mar 09
FCC	2.6%	8.6%
FGW	1.3%	6.1%
FSR	3.2%	7.9%
FTPE	5.6%	12.2%
Hull Trains	(4.4)%	10.2%
Total	2.3%	7.7%

- Improving like-for-like revenue growth – accelerating to 3.7% in Q4 despite reduction in regulated fares of 0.4%.
- Encouraging revenue trends continue
- Customers continue to seek best value ticket options

1. Adjusted for the timing of Easter, Thameslink Phase Zero engineering works in FCC, new Scottish services at FTPE and engineering works at FGW

Change in net debt



- Cash target for 2010/11 increased to £150m (post capital expenditure increase to c.£300-350m)

Leverage, financing and liquidity

	Mar 08[1]	Mar 09	**Mar 10**
Average debt maturity	3.5 years	4.6 years	**6.3 years**
Net debt:EBITDA (constant FX rate $2)[2]	3.2x	2.7x	**2.5x**
Net debt:EBITDA (actual FX basis)	3.2x	3.2x	**3.0x**

[1] Proforma Laidlaw acquisition
[2] Rate at Mar 08

- Plan to improve leverage further
- Target net debt:EBITDA 2.5x at March 2011
- Diversified debt structure – 75% of net debt at March 2010 in bonds and finance leases
- Strong liquidity headroom – over £1bn of committed facility headroom at 31 March 2010
- No major refinancing due until February 2012

Summary

- Focused on priorities of cost control and net debt reduction
- Cost: all areas being reviewed
  - Organisation
  - Overheads
  - Procurement
  - Operating efficiencies
- Debt reduction: increase cash generation target for 2010/11 to £150m
  - £136m in 2009/10
  - Strong capital discipline
  - Focus on working capital
  - Potential for disposals of small non-core assets including surplus properties

Sir Moir Lockhead
Chief Executive

Business Review

North America
First Student

- Core provision remains resilient – strong contract retention >90%
- School budgets impacted by unprecedented pressure on public spending as result of lower tax receipts at state and local level
- Margin protection through rigorous cost management – significantly leaner and more efficient cost base
- New business awards including sizeable share shift and conversion contracts
- Sector leading returns – maintaining double digit margins

North America
First Transit

- Now generates over $1bn revenues
- Strong margin development 7.3% despite impact of recession on Transit Authority budgets
- Reduced costs and improved operating efficiencies
- Contract retention >90% and new business awards including in New Jersey and Oregon and sizeable conversion in California
- Excellent prospects for further growth with minimal capex requirement

Greyhound

- Robust performance in toughest year
- Creditable margin performance delivered by management actions on cost and mileage
- Revenue per mile trends ahead of prior year
- Stronger base with lower fixed costs and significantly improved operating leverage
- Focus on service quality
  - On Time Performance improvement
  - Refurbishment of 250 vehicles to enhance operating performance and customer service
- Well placed to realise benefits of economic recovery

UK Bus

- Steady and resilient performance
- Management actions offset impact of recession on trading and higher fuel costs
- Strong margin performance maintained through cost control and targeted mileage reduction
- Protecting revenue per mile – route by route review
- Delivering improved efficiencies e.g. DriveGreen and continue to develop revenue initiatives
- Focus on operational performance delivering improved punctuality >90%
- Customer satisfaction levels remain high at 90%

UK Rail

- Strong performance ahead of expectations
- Passenger revenue growth accelerating in Q4 – encouraging trends continue
- Operating margin broadly in line with prior year supported by excellent progress on cost reductions
- Strong operating performance – PPM over 90% at FGW, FTPE and FSR
- FCC operating performance restored – PPM on Thameslink route at 92% in March and April 2010
- Long term player in rail industry – well placed for exciting opportunities in new franchise round

Outlook

- Continued strength from diverse portfolio with market leading positions
- Encouraging growth trends in Greyhound and UK Rail; continued stability in UK Bus
- Pressure on US public spending expected to remain during 2010/11
- Expect moderate earnings growth
- Focused on delivering our key priorities
  - Net debt reduction
  - Margin protection and improvement
- Cash generation target increased to £150m for 2010/11
- Confidence reflected in commitment to dividend growth of at least 7% per annum over next three years

Appendices

Preliminary results

for 12 months to

31 March 2010

Crude oil hedge position

	UK			North America "at risk"		
	2009/10	**2010/11**	**2011/12**	**2009/10**	**2010/11**	**2011/12**
Usage (barrels'm)	2.6	2.5	2.5	1.9	1.7	1.7
% Hedged	100%	84%	36%	100%	88%	38%
Hedge rate	$110.64	$76.24	$86.38	$115.92	$89.40	$100.92

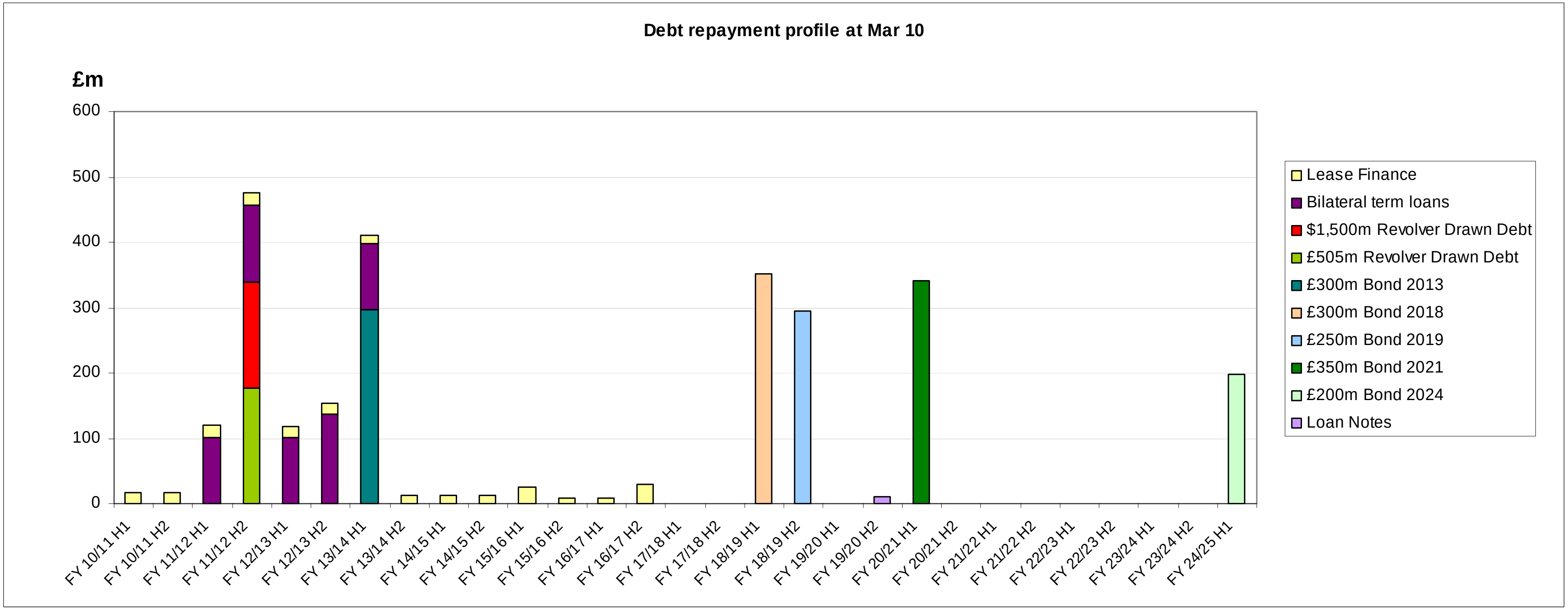
North America "at risk" volumes comprise:	**2010/11**
Gross usage (barrels'm)*	**3.9**
Less: provided by customer, pass through cost or protected by contract escalator	**(2.2)**
"At risk" volume	**1.7**

*includes estimate of volumes provided by customer

Gross debt distribution

- Main debt instruments:

- $1,500m unsecured acquisition revolver facility	February 2012
- £505m unsecured revolver facility	February 2012
- $813m unsecured bilateral term loans	May 2011-2013
- Unsecured bond £300m 6.875%	April 2013
- Unsecured bond £300m 8.125%	September 2018
- Unsecured bond £250m 6.125%	January 2019
- Unsecured bond £350m 8.75%	April 2021
- Unsecured bond £200m 6.875%	September 2024



Next main refinancing requirement in Feb 2012

Net finance costs

First transforming travel

	Mar 10 £m	Mar 09 £m
Bonds	85.2	44.9
Bank borrowings	80.3	106.6
Loan notes	1.1	1.2
Finance lease interest	7.6	7.5
Notional interest	17.5	18.8
Investment income	(1.8)	(7.9)
Hedge ineffectiveness on financial derivatives[1]	(1.0)	-
Net finance costs	188.9	171.1

USD FX movements increased current full year costs by £10.0m

1. Included within non-recurring items

Foreign exchange

- USD weakening reduced translated Sterling debt from 12 months ago

	Mar 10	Mar 09
Closing rate for the balance sheet	$1.49	$1.43

- The effective average rates for translating North America operating profits were:

	Mar 10	Mar 09
Effective rate on USD earnings	$1.57	$1.63
Effective rate on CAD earnings	$1.60	$1.95

Non-recurring items & amortisation

	Mar 10 £m	Mar 09 £m
North America & Greyhound integration costs	15.5	70.1
North America & Greyhound restructuring costs	15.9	9.9
UK Bus & UK Rail restructuring costs	9.3	12.4
Fuel hedge ineffectiveness	4.8	23.1
Competition Commission costs	3.8	-
European bid costs	0.3	3.5
Total non-recurring items	49.6	119.0
Amortisation charges	34.7	33.1
Loss/(profit) on disposal of properties	1.1	(25.7)
Hedge ineffectiveness on financial derivatives	(1.0)	-
Total	84.4	126.4

- North America & Greyhound integration costs of £15.5m reflect ongoing long-term IT projects and the conclusion of the Greyhound back-office consolidation which commenced last year
- Restructuring costs relate to the cost reduction programmes
- Fuel hedge provision of £4.8m represents further ineffectiveness due to a reduction in 2009/10 fuel requirements
- Competition Commission costs are in relation to the ongoing investigation into the UK Bus market
- Amortisation charges increase primarily as a result of FX movements
- Hedge ineffectiveness on financial derivatives credit of £1.0m due to ineffective element of the fair value movements

Cash flow

	Mar 10 £m	Mar 09 £m	Change £m
EBITDA	769.6	772.2	(2.6)
Integration costs/non-recurring items	(53.1)	(67.6)	14.5
Pension payments > income statement charge	(42.1)	(50.7)	8.6
Working capital outflow	(76.0)	(23.7)	(52.3)
Other non-cash P&L items	6.3	9.5	(3.2)
Operational cash flow	604.7	639.7	(35.0)
Capex	(201.7)	(358.9)	157.2
Interest, tax and other	(154.5)	(135.8)	(18.7)
Dividends	(112.2)	(93.9)	(18.3)
Net cash inflow	136.3	51.1	85.2

- Net cash inflow £136m – significantly ahead of management target of £100m as result of working capital improvement
- Increase in revenue support and regulatory changes to CP4 charging regime in UK Rail impacted working capital by £40m
- Improved efficiency of capital expenditure and lower exceptionals spend
- Interest payments increased as a result of bonds issued and USD exchange rates
- Net cash generation target for 2010/11 increased to £150m

Taxation

	Mar 10 £m	Mar 09 £m
Current tax	5.4	7.3
Deferred tax	27.1	20.5
Exceptional deferred tax charge	-	15.2
Tax charge	32.5	43.0

Tax rate on adjusted profit before tax	22.4%	25.0%
Cash tax rate (based on full year PBT)	0.7%	4.4%

Pensions

- IAS 19 deficit of £169m at start of year now a deficit of £331m at 31 March 2010
- Increased deficit caused by lower discount rate (from 6.75% to 5.60%)
- Staggered actuarial valuations help to smooth any cash flow impacts
- Actuarial valuations at end of March 2010 for UK Bus scheme and certain LGPS schemes
- Railways Pension Scheme accounts for about 1/3rd of assets:
  - Substantially de-risked – assets and liabilities co-terminous with franchise expiry dates, cost sharing with employees
  - Next valuation due at 31 December 2010
  - Next cash contribution adjustment from July 2012

UK Rail

Subsidy / (premium) profile

£m	FCC	FGW	FSR	FTPE	GBRf	**Total**
2008/09	(71.0)	9.7	306.9	119.1	1.5	**366.2**
2009/10	(90.6)	(24.6)	308.1	115.8	2.8	**311.5**
2010/11	(118.7)	(128.0)	314.1	119.4	2.1	**188.9**

Revenue Support / (profit) share

£m	FCC	FGW	FSR	FTPE	GBRf	**Total**
2008/09	-	46.9	-	(10.6)	-	**36.3**
2009/10	39.7	133.1	-	(16.3)	-	**156.5**

Revenue Support at 80% in FCC and FGW, Profit Share at 52% in FTPE

UK Rail bonds

	Mar 10 £m	Mar 09 £m
FTPE Performance bond	8.8	8.5
GBRf MetroNet bond	0.8	0.8
FSR Performance bond	25.0	25.0
FSR Season ticket bond	4.0	4.0
FSR Maintenance bond	28.6	29.9
FCC Performance bond	21.2	21.2
FCC Season ticket bond	44.0	43.7
FGW Performance bond	46.2	45.2
FGW Season ticket bond	19.5	18.2
Total	198.1	196.5

UK Rail
Ring-fenced cash

	Mar 10 £m	Mar 09 £m
FCC	77.2	61.8
FGW	69.0	29.6
FSR	30.5	33.2
FTPE	57.5	60.2
Total	234.2	184.8

UK Rail franchise contracts

First transforming travel

	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
Performance related extension period		Mar 2016		
Authority extension period (at discretion of the DfT)	Up to Mar 2015			Jan 2017

FirstGroup plc
Preliminary results
for 12 months to 31 March 2010

Wednesday 12 May 2010