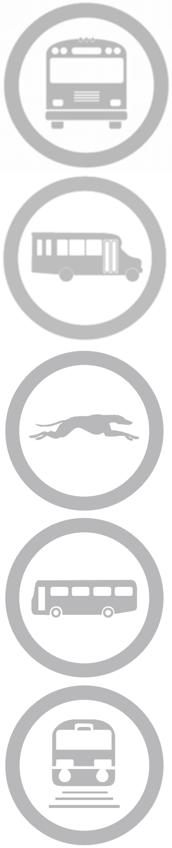
FirstGroup plc
Intercity West Coast rail franchise award

Wednesday 15 August 2012

A good deal for everyone

- Delighted to be selected by Government to operate this unique and prestigious railway, won with a compelling and deliverable bid
- An appropriate economic return for shareholders
  - value enhancing from day one based on sustainable growth
- Meeting the aspirations of customers
  - real and tangible benefits with greater innovation and choice, improving the journey experience and expected to attract increasing numbers of passengers
- Delivering value for taxpayers
  - returning premiums to Government, underpinned by sustainable revenue growth from a network that has received substantial taxpayer investment in the UK's biggest rail infrastructure programme
- Building lasting relationships with employees
  - Experienced operators with an extensive history in rail, with a track record of creating long term opportunities for employees

Scope of business



- New franchise starts on 9 December 2012, for 13 years and 4 months
- Serving key cities including London, Birmingham, Liverpool, Manchester, Edinburgh and Glasgow as well as North Wales to Holyhead
- Passenger revenue of £824m (2011/12), representing 11% of the UK's rail passenger receipts.
- 330 train services per day
- 30m passenger journeys and 3.7 billion passenger miles per annum
- 2,900 employees
- Fleet includes 56 Pendolino sets; 21 class 221 Super Voyager sets and a single Mark 3 set
- Station facility owner of 17 stations; calling at a further 25 stations on the route

Financial overview

- Total revenue of £900m per annum (FY2012)
- Passenger revenue CAGR of 10.4% expected (franchise achieved 10.2% over last 10 years)

	Historic 10 years	New franchise
RPI	3.1%	3.1%
Yield management / revenue protection / enhanced products	0.8%	1.5%
Volume	6.3%	5.8%
Passenger revenue CAGR	10.2%	10.4%

- Passenger and revenue focused operating investment of c.£350m during first five years, supported by significant capacity increases
- Total premium to Government of £5.5 billion (NPV)
  - Premium profile reflects revenue generating investments in early years
- Operating margin over life of franchise c.5%
  - Part year contribution to operating profit for FY2012/13 of £10m
- Working capital inflow of £50-60m

Selected financial features of the new franchise

- Franchise support and guarantees
  - Minimal cash requirement - £10m share capital
  - Contingent capital includes £190m subordinated loan facility
  - See page 13 for further details
- GDP mechanism
  - Adjustment operates on cumulative basis over life of franchise
  - Nil band rate for cumulative GDP divergence of up to 4% on average
  - Net impact shared outside the nil-band rate (80% DfT, 20% FGP) symmetrically.
  - See page 15 for further details
- Profit share mechanism
  - Calculated on profit before tax on bid revenue
  - Profit share starts above 7.5% of bid revenue
  - See page 17 for further details

Significant growth potential from a unique railway

- Significant opportunity to drive further growth through more rolling stock, new services, marketing and improved yield management
- A unique and strong position – fully rebuilt mainline with substantial capacity
  - Has received £9bn of Government investment to increase capacity and network reliability
  - Introduction of complete train fleet replacement in 2004 with 570 new vehicles
  - 106 new Pendolino carriages in 2012 creating 28,000 extra seats
  - Seat occupancy only 35% following this capacity increase.
- Franchise achieved revenue CAGR of 10.2% over last 10 years – despite limited incentive from revenue share/support in the 5 years to March 2012
- Marketing spend to increase tenfold >£20m per annum (versus recent spend)

Serving key markets that are set to grow

- ICWC links many of the major cities in the UK
- Serving a number of the UK's largest conurbations – London, the West Midlands, Liverpool, Greater Manchester and Glasgow
- Rapid population growth concentrated amongst major cities on the route - populations of Birmingham and Manchester increased by 9% and 19% respectively over past 10 years
- No major road building programme currently planned around the route
- ICWC currently has a low modal share of 23% compared with other intercity franchises
  - London – Manchester 40% by rail, versus London to Newcastle 52%
  - London – Birmingham 20% by rail, versus London to Bristol 37%
- Extensive and detailed research through bid demonstrates high propensity to switch from other modes
  - High proportion of market would consider rail for their journey

Delivering real and tangible benefits for customers

- Timetable and trains
  - – Transforming the on-board environment with a major refurbishment of Pendolino and Voyager interiors with new seats throughout and improved luggage space
  - – Introducing 11 new 125mph six-car electric trains for Birmingham – Scotland services, creating 12,000 additional seats per day
    - This is in addition to the 106 new units being delivered this year – bringing a total of 40,000 extra seats by 2016 compared to 2011
  - – Improved journey time of 15 minutes for trains between London and Glasgow
  - – Introducing new direct services from London to Blackpool, Telford, Shrewsbury and Bolton providing a new direct link for >500,000 people
  - – Doubling frequency of London to Preston services and more capacity to Chester and North Wales
  - – Improving connectivity with more stops at Nuneaton and Milton Keynes
  - – Targeting significant improvement to current PPM of 85.9% to >90% in 2017/18

Delivering real and tangible benefits for customers

- Fares and ticketing
  - Reducing Standard Anytime fares by 15% on average
  - Automatic ticket gates installation at 21 stations, incl. the major terminals of London Euston, Manchester Piccadilly, Liverpool Lime Street and Glasgow Central (currently only 8% of ICWC passengers pass through automatic gates)
  - Investment in greater yield management capability to help grow demand at off-peak times, increased marketing and introduction of new customer loyalty programme
- Enhanced innovation and customer offering
  - Smart ticketing system introduced across the network
  - Free upgraded high speed Wi-Fi and enhanced mobile phone coverage following train refurbishment
  - Enhanced catering service with increased at seat catering for customers
  - Improved information systems including new customer mobile apps
  - Station investment includes improvements to accessibility, security and passenger information
  - Commitment to high quality service including greater emphasis customer facing staff on trains and at stations

Highly experienced rail management team

- Highly experienced rail team led by Vernon Barker, MD of our UK Rail Division
  – a proven track record in railway management with a strong focus on customer service. Under his leadership of FTPE from 2004 to 2011, the franchise delivered significant improvements in performance, punctuality and customer satisfaction and was successfully extended for three years to 2015.

- New franchise Managing Director will be Richard Parry
  – Headed ICWC bid, previously Acting MD and Deputy MD for London Underground. Extensive experience of operational delivery, customer service improvements and stakeholder engagement

- Supported by a strong and proficient team including commercial and revenue development expertise from our UK rail division.

Conclusion

- Our new franchise will generate an economic return for shareholders, meet the needs of customers and taxpayers and provide lasting opportunities for employees
- New ICWC franchise will utilise the significant and newly invested capacity to deliver profitable growth
- We have a track record of managing investment led growth in rail through marketing, customer services and yield management including operations across the network and also within more complex franchises
- Already have first hand, detailed knowledge of significant part of market
  - FTPE has grown passenger journeys from 13m to 24m since 2004 and driven by service and timetable innovation, improved yield management, customer service excellence and marketing
- Underpinned by our leading position in rail, highly experienced team and reputation for service, operational expertise and financial discipline
- Key milestone in renewing and developing our long-term UK Rail portfolio

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Additional information

Franchise capital requirements and guarantees

- New franchise - minimal cash requirement:
  - £10m ordinary share capital in cash required by the TOC from day one
- Contingent capital:
  - £190m subordinated revolving loan facility between the PLC and TOC covering the franchise term, supported by 3 year bank guarantees to be renewed every 3 years. No indexation.
  - £45m performance bond (increasing at RPI per annum no requirement to be cash backed in the TOC)
  - £5m limited liability season ticket bond (increasing by RPI). Matches advance cash for season ticket travel received on day 1 of the new franchise
  - £15m station repair unsecured guarantee increasing at RPI per annum relates solely to contractual requirement to maintain a defined standard

Revenue characteristics

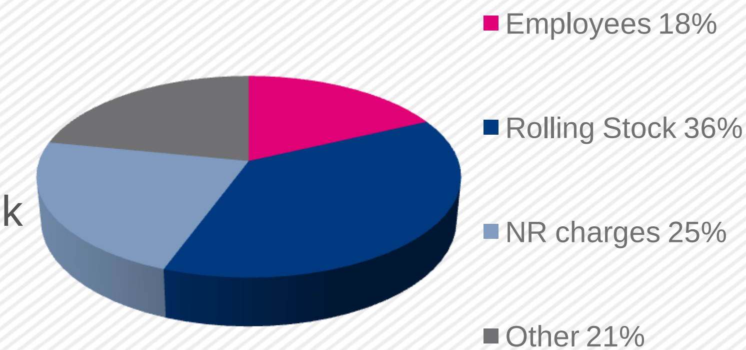
- Passenger journeys by type:
  - 60% leisure
  - 31% business trips
  - 9% commuters (and only 4% of revenue)
- 60% of journeys start or end in London representing almost 80% of revenues
- Fares:
  - 63% unregulated: 37% regulated (season and standard off peak tickets)
  - Regulated fares assumed to increase in line with DfT's fares strategy

GDP mechanism

- GDP adjustment mechanism specified by the DfT
  - Compares out-turn GDP with Office of Budget Responsibilities Spring 2012 forecast
  - Adjustment operates on cumulative basis over life of franchise
  - There is a nil band rate where there is no adjustment for cumulative GDP divergence of up to 4% (on average)
  - Impact on passenger revenue calculated using an elasticity of 1.25
  - Percentage revenue divergence applies to our bid passenger revenue
  - Net impact shared outside the nil-rate band (80% DfT, 20% FGP) symmetrically

ICWC cost base

- Costs going forward are built into bid model including:
  - contracted Network Rail cost increases of £27m
  - £75m for 106 new rolling stock vehicles in 2012
- Cost containment – remaining costs stay reasonably consistent
- Headcount remains broadly flat during first five years, with focus on frontline to deliver enhanced service quality



Representative base cost position

Other includes: traction fuel, commissions, catering, IT, telecoms and marketing

Profit share mechanism

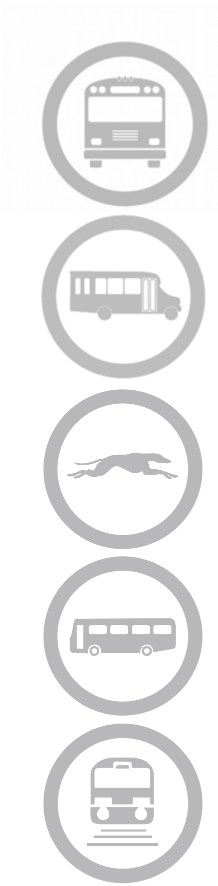
- Profit share is calculated on profit before tax
- Reference point is the percentage margin of profit before tax on bid revenue
- Profit share thresholds:
  - No sharing below 7.5% of bid revenue
  - 33.33% DfT share between 7.5% and 10%
  - 40% DfT share between 10% and 12.5%
  - 50% DfT share between 12.5% and 15%
  - 75% DfT share above 15%

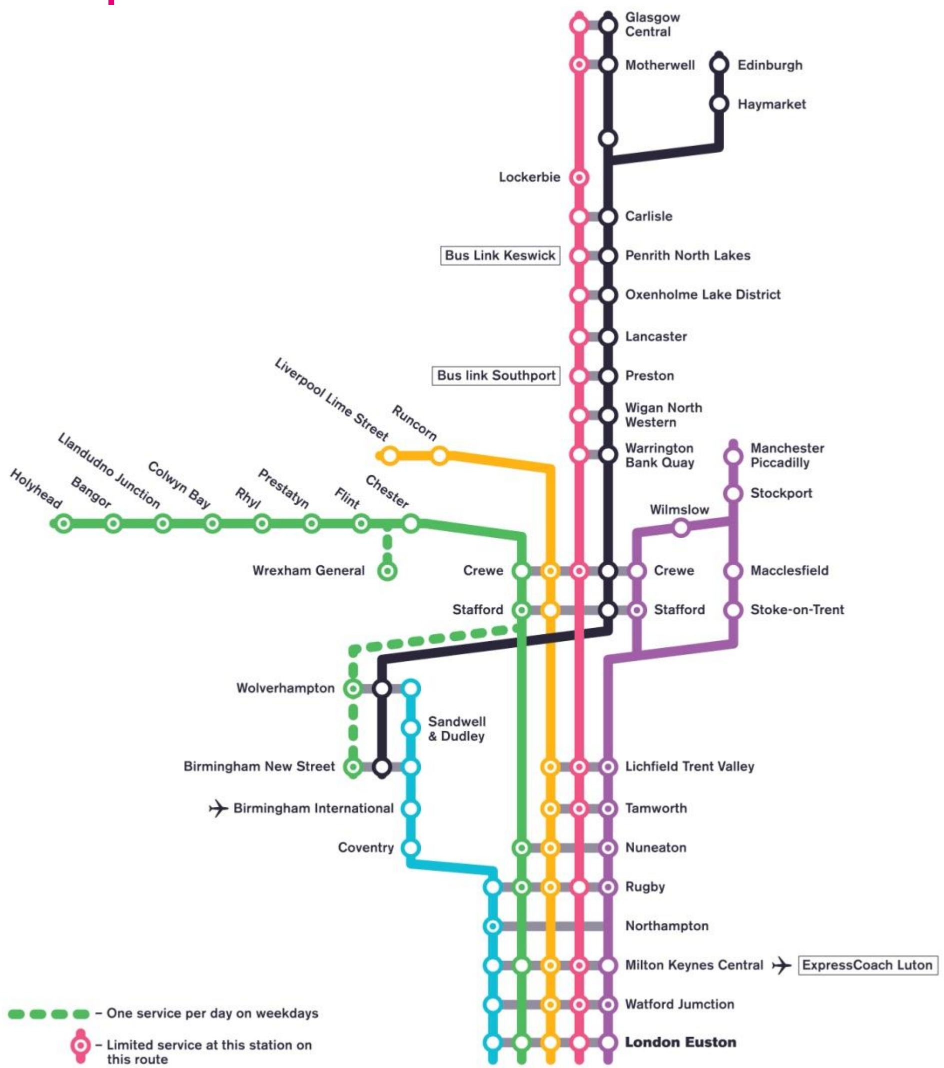
Premium profile

- Total premium to Government of £5.5 billion (NPV)
  - Premium profile reflects revenue generating investments in early years:

Year ending	£m
Mar 2013 *reflecting 4 months of new franchise term*	(11)
Mar 2014	26
Mar 2015	106
Mar 2016	178
Mar 2017	265
Mar 2018	325
Mar 2019	390
Mar 2020	443
Mar 2021	498
Mar 2022	552
Mar 2023	602
Mar 2024	644
Mar 2025	697
Mar 2026	739

ICWC current operations





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