

# **Preliminary Results**

## **For the year ended 31 December 2006**

**1 March 2007**

# Richard Bowker Chief Executive

# TODAY'S AGENDA

- Financial Results
- Business Review
- Key Priorities
- The Future

# Adam Walker

# Finance Director

# THE FINANCIAL STORY

- Ahead of expectations
- Conversion of profits into cash
- Quality of earnings
- Margin improvement
- Significant flexibility
- Tax
- Dividend growth

# FINANCIAL HIGHLIGHTS

- Revenue up 14% to £2.5bn (2005: £2.2bn)
- Normalised operating profit up 19% to £184.8m (2005: £155.5m)
- Normalised profit before tax up 15% to £156.1m (2005: £135.3m)
- Tax rate 25.1% (2005: 21.9%)
- Normalised diluted EPS from continuing operations 76.5p (2005: 76.3p)
- Total dividend of 34.75p up 7.8% (2005: 32.25p)
- Operating cash flow of £209.7m (2005: £79.9m)
- Net debt of £438.4m (2005: £563.4m)

# GROUP INCOME STATEMENT

	2006 £m	2005 £m
<b>Revenue</b>	2,525.5	2,216.0
Normalised operating profit	184.8	155.5
Loss from associates	(3.8)	(8.8)
Finance costs	(24.9)	(11.4)
<b>Normalised profit before tax</b>	156.1	135.3
Exceptional items	(20.9)	(7.8)
Goodwill and intangible asset amortisation	(48.0)	(38.2)
Profit on disposal	16.9	-
<b>Profit before tax</b>	104.1	89.3
Tax expense	(23.6)	(27.5)
<b>Profit after tax</b>	80.5	61.8
Loss from discontinued operations	(3.2)	(64.5)
	<b>77.3</b>	<b>(2.7)</b>

# DIVISIONAL OPERATING PROFIT AND MARGIN

	Operating profit		Operating margin	
	2006 £m	2005 £m	2006 %	2005 %
Coaches	23.7	21.5	11.4	10.7
Buses	40.7	41.5	13.5	15.5
Trains	49.1	64.2	3.3	4.3
North America	39.1	35.0	13.8	14.5
Alsa	44.3	2.6	17.8	14.3
Central Functions	(12.1)	(9.3)	-	-
	<b>184.8</b>	<b>155.5</b>	<b>7.3</b>	<b>7.0</b>

# ALSA

- Long distance passenger growth of 2%
  - Promotional fares
  - Product differentiation
  - New routes
- Reduction in cost of sales
  - Internet sales 14%
- Investment in fleet - €30m
- Acquisition opportunities
- Ahead of our acquisition case

# ALSA



- Top line growth 6-7%
- Margin 16-18%
- Cash conversion 91%
- Contract length 8–10yrs
  
- Valuation

# UK COACH

- Passenger growth of 4%
  - Yield
  - New routes / products
- Reduction in cost of sales
  - Internet sales 28%
- Investment in technology
  - Fares engine
  - Ticket machines
  - Stations
- Key partners
- Clear alternative to car

# UK COACH



- Pax growth (5 years) 4.3%
- ROIC (5 years) >20%
- Double digit margin
- Cash conversion 109%

# TRAINS



- Passenger growth of 6%
  - Yield management
  - PPM
  - Customer focus
- Cash conversion – 181%
- Rail bids

# TRAINS FINANCIAL PERFORMANCE

- Midland Mainline - Passenger growth of 6%
- Central Trains - Significant performance improvement
- Gatwick - Return to profitability
- Silverlink - Solid financial performance
- c2c - More customer focused
- 'one' - Significant improvement over 2005

## Fuel costs

- Diesel £31.5m (2005: £24.1m)
- Electricity £32.7m (2005: £27.0m)

# BUSES

- Concessionary fares scheme
- Partnership approach in West Midlands
- Travel Coventry – Primeline
- Investment in fleet
- London depot development
- Fuel costs of £9m absorbed

# BUSES



## West Midlands

- Pax per day 822,000
- Total fleet 1,840
- Number of depots 10
- Number of bus priorities
- Local / central government/TWM
- Opportunity for change

# NORTH AMERICA

- Record bid season and renewal rates
- Expansion into new States
- Acquisitions completed
- Competitive landscape radically changing
- Transformation
  - School Board
  - Parents
  - Children
- Fuel costs

# NORTH AMERICA



- Top line growth 19%
- ROIC 11.5%
- Opportunities

# DIVISIONAL CASH FLOW

	UK Trains £m	UK Bus £m	UK Coach £m	North America £m	Alsa £m	Central Functions £m	Total £m
Normalised operating profit	49.1	40.7	23.7	39.1	44.3	(12.1)	184.8
Depreciation/ amortisation of FA grants/ profit on disposal/ share based payments	17.8	16.4	5.7	25.4	12.4	1.5	79.2
<b>EBITDA</b>	<b>66.9</b>	<b>57.1</b>	<b>29.4</b>	<b>64.5</b>	<b>56.7</b>	<b>(10.6)</b>	<b>264.0</b>
Working capital movement	34.3	(15.7)	0.2	(12.2)	0.3	26.2	33.1
Ongoing net cash inflow from ops	101.2	41.4	29.6	52.3	57.0	15.6	297.1
Net capital expenditure	(12.3)	(16.1)	(3.8)	(38.0)	(16.9)	(0.3)	(87.4)
<b>Ongoing operating cash flow</b>	<b>88.9</b>	<b>25.3</b>	<b>25.8</b>	<b>14.3</b>	<b>40.1</b>	<b>15.3</b>	<b>209.7</b>
Franchise Exits							(27.7)
Operating cash flow							182.0

# MOVEMENT IN NET DEBT

	2006 £m	2005 £m
<b>Net debt at 1 January</b>	<b>(563.4)</b>	<b>(136.6)</b>
Operating cash flow	182.0	70.5
Exceptional items and payments to associations	2.6	(9.4)
Interest	(20.6)	(22.0)
Tax	(9.0)	(26.7)
Share buy back	(11.6)	(29.3)
Acquisitions and disposals	(16.8)	(359.1)
Financial investments and shares	15.8	8.4
Dividend	(49.7)	(41.6)
Currency translation	32.3	(27.0)
<b>Net debt at 31 December</b>	<b>(438.4)</b>	<b>(563.4)</b>

# BUSINESS REVIEW

- Diversified portfolio of businesses
- Quality management teams
- Exceptional operational performance
- Acquisitions with entrepreneurial outlook
- Costs well managed
- Healthy balance sheet
- UK and overseas opportunities

# BUSINESS REVIEW (2)

- Rail Bids
  - New team
  - Growth assumptions
  - Customer focus
  - Innovation
  - Mobilisation

# BUSINESS REVIEW (3)

- Opportunities in UK
- Opportunities in core overseas markets
- Acquisitions
- Synergies / growth
- Bids
- Balance Sheet
  - Flexibility
  - Additional leverage
  - Shareholder return

# THE FUTURE

- Customer focus
- Stakeholder relationships
- Environmental leadership
- Top line growth

# SUMMARY

- Delivered another set of strong financial results
- 2007 has started well
- Focus on quality of earnings and cash flow
- Significant future prospects
- Shareholder returns

# **Preliminary Results**

## **For the year ended 31 December 2006**