

Embargoed until 7:00am on Thursday 14 January 2010

FIRSTGROUP PLC  
INTERIM MANAGEMENT STATEMENT

FirstGroup plc ("The Group") provides the following update on trading during the third quarter ("the period") from 1 October 2009 to 31 December 2009.

**Summary**

- Overall trading in line with management expectations
- The Group remains on course to achieve earnings and cash targets for the year
- £100m per annum cash generation in 2009/10 to be used to reduce net debt
- £200m per annum cost reduction programme across the Group is mitigating impact of increased fuel costs this year and effects of recession on trading
- Group well positioned to continue to trade robustly through economic cycle

**Overall trading**

The Group provided an update on trading as part of its half-yearly financial results announcement on 4 November 2009. Since then overall performance remains in line with management expectations with the Group on course to achieve its earnings and cash targets for the year.

The continued good performance is underpinned by a diverse portfolio of operations which is well balanced between contract-backed and passenger revenues providing greater stability particularly against a challenging trading environment. In our businesses which depend on passenger volumes we have acted quickly to mitigate changes in demand and maximised the flexibility that exists within the operating models. These actions, together with our cost reduction programme to achieve £200m of annual savings, have mitigated the increase in hedged fuel costs this year and the impact of the recession on trading. The Group remains on course to generate at least £100m of cash for this financial year and for 2010/11, which will be used to reduce net debt.

**UK Bus**

Like-for-like passenger revenue grew by 0.7% during the period. Despite the challenging trading environment we are encouraged by improving revenue trends and as previously reported expect like-for-like passenger revenue growth of between 1 - 2% for the full year. The action we've taken to match supply to demand, by reducing mileage and tailoring our service provision to changing travel patterns, has enabled us to reduce our cost base and ensure that we continue to protect revenue per mile. We expect that there will be a positive impact on our UK Bus margins during the second half of this year as the benefits of the cost reduction programme are fully realised.

**UK Rail**

Like-for-like passenger revenue growth was 1.7% during the period. We are encouraged by the performance of our Rail division which continued to deliver growth despite the clear effects of the recession on the UK's rail industry. The contractual arrangements within our franchises, which are providing 80% revenue support at First Capital Connect and First Great Western, continue to ensure substantial insulation from reduced passenger demand. From 2 January 2010 regulated fares, the majority of UK rail journeys including season tickets and many day singles and returns and long distance off peak fares, were reduced by 0.4% as part of the Government's policy to link the price of regulated rail tickets to RPI. However, as previously stated, we expect that like-for-like passenger revenues in the second half of this year will remain broadly in line with the prior year.

## **North America Contract Businesses**

During the period US Dollar revenue for our North American contract businesses increased by 0.7% at constant US:Canadian Dollar exchange rates. First Transit continues to perform well and were recently awarded new contracts to provide transit management services in California and Oregon.

In First Student while the core provision of contracted services remains resilient we have, as previously reported, seen a reduction in growth of discretionary and new services that would usually be added to an existing contract in a normal year. Our experience of this market, based on past periods of economic downturn, is that this growth should recover as the economy strengthens however we do not expect to see this growth return during 2010.

Notwithstanding the current economic backdrop, the North American school bus market provides a significant opportunity for future growth. The scale and synergy benefits of our market leading position, together with the further actions we have taken to reduce our cost base, will provide a significantly enhanced platform for future growth.

The good progress of our cost reduction plan is partially offsetting the lower discretionary revenues within existing student contracts and the increased cost pressures we are absorbing this year including the additional hedged fuel costs. Despite the challenging trading environment, we expect that full year US Dollar margins for our North American contract businesses will be maintained in line with the prior year.

## **Greyhound**

Revenues at Greyhound which, as previously reported, have been affected by the weak economy and increased unemployment in North America, continue to track our expectations. During the period we saw the continuation of improving trends we reported at our half-year results with like-for-like US Dollar revenue reduced by 11.4%. As a result of this trend, coupled with the positive impact of our actions to reduce operating costs and rapidly match supply to demand, we believe that the full year margin performance of Greyhound should exceed our expectations. The measures we have taken have transformed Greyhound's operating model and placed the business on a firmer footing to benefit from the future economic upturn.

## **Outlook**

Looking ahead the Group remains on course to achieve its earnings and cash targets for the year. The inherent strength and resilience of our business portfolio, together with the actions we have taken to maximise the flexible operating models and to reduce our cost base, will ensure that the Group remains well placed to continue to trade robustly through the economic cycle. While trading conditions remain challenging the Board is confident in the underlying strength of the Group and its ability to continue to deliver long-term shareholder value.

**A conference call for analysts and investors will be held at 9am today. Please call +44 207 291 0507 / 0512 in advance of the call to register and receive dial-in details.**

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