Transcript of FirstGroup's Half-yearly results presentation to analysts
Wednesday, 9 November 2011

Tim O'Toole, Chief Executive of FirstGroup plc: Thank you very much for joining us for this review of our half yearly results ending 30 September. As is our practice, our Finance Director, Jeff Carr, will take you through the numbers in detail and then I'll return with some further commentary on each of the divisions and their prospects. But before I introduce Jeff just to hit the headlines I mean the main headline is that we're quite pleased that overall trading and results are in line with expectations. And that's been underpinned by some strong performances across the Group.

It starts with First Student, where we are involved in a recovery programme, and we are more than pleased with the early results. First Transit is continuing along with growth and healthy margins. Greyhound, actually, this story just keeps building. We have some very interesting and exciting stories to share with you and a good profile of Greyhound. UK Bus posted solid numbers. We did earlier go out with a cautionary statement about the future. Our concern there really is that we had some margin expansion in the first half and, given the headwinds we see in the economy, we wanted to warn people from extrapolating that into the second half where we think trading conditions could be a bit tougher. And in UK Rail, well UK Rail just continues to shoot the lights out; 9% revenue growth, really strong results. And we're quite pleased with the extension of our TPE franchise.

So all in all, we're quite pleased with the results. And I have to say, on reflection, I admit that the challenges we faced in this last year were a bit tougher, a bit subtler than I appreciated when I stood before you for my very first time, one year ago. But, if anything, I think what you're going to hear testifies to, is that this is a team that is very much focused on operational performance and making things better. And most importantly, it's the trend of how these businesses are being managed. Because if you think about it, if you consider what's happened to Greyhound, what is happening at First Student, what we're investing in for UK Bus, I think you'll see that's a team that is completely focused on confronting the issues, and improving things, as we go forward. And that's really going to improve our financial results over the long run.

So with that, I'll ask Jeff to come and take you through the numbers.

Jeff Carr, Finance Director: Thank you, Tim, and good morning, ladies and gentlemen. Let me just start with some of the key financial highlights for the period. Firstly, as Tim has stated, trading performance has been in line with expectations, with operating profit at £163 million in the period.

Lower financing costs meant earnings per share grew by 6.7% in the period. And this is a period which contains 27 trading weeks, compared to 26 weeks last year. So actually, adjusting out the extra week, EPS will be probably broadly in line with last year.

Additionally, you'll note an exceptional credit of £58 million in the period. This is principally generated as a result of the renegotiation of the terms of the UK pension scheme, which we'll talk about in a little bit more detail later.

Now in March, we reported a significant fall in leverage, with net debt to EBITDA falling from 3 times in March 2010, to 2.5 times at the end of last year. And I'm pleased that our half year results continue to show a reduction in leverage, dropping from 2.8 times in September 2010, to 2.7 times.

Net cash outflow in the period was £64 million, compared to an outflow of £16 million last year. It's in line with expectations, and we remain on track to deliver a net cash inflow for the full year of £150 million.

Moving onto the headline financial results. As you can see, total revenues grew in the period by 3.2%, to £3,169 million. However, the majority of that growth, 2.8% of that growth, was represented by the addition of the extra trading week.

EBITDA margins, at 10.2%, were slightly lower than last year, by about 60 basis points, on the operating profits of £163 million. And this reflected improving operating profit margins in UK Bus, UK Rail, Transit and Greyhound; offset by the expected decline in Student margins, which we flagged at the last year-end's results.

Interest costs are down from £93 million to £79 million, as continued to reduce debt levels, and reduce our effective interest rates. And this has resulted in improvement in PBT, profit before tax, of 9%, from £78 million to £85 million.

So moving on, you can see here that basic EPS grew by 61%; mainly due to the exceptional credit in the period I mentioned, the £58 million. This is mostly made up of a £73 million credit resulting from the changes to the UK pension scheme, which was negotiated in the period. And most notably, we've agreed to move the inflation index from RPI to CPI, which generated the majority of that gain.

Within the exceptional lines, and they're broken out in the appendices, the other main item offsetting this was a net £10 million charge taken, due to the movement in fair value on interest rate swaps that didn't qualify for hedge accounting.

Now I'm going to move on now and talk about each of the operating divisions in turn, obviously starting with Student. Here, you can see revenues grew 3.1%. And for all of these divisions, with the exception of Rail, I'll also talk about the adjusted number, excluding the extra week. Revenues were up 3.1% versus last year. However, after adjusting for the extra week, total revenues were down

2.4%, which is pretty much in line, I think, with the range we've been talking about, certainly at the end of last year.

EBITDA and operating profit margins were down in the half by 2.9 percentage points versus last year. And again, this is a fall which we expected in the current, as we've previously flagged, and is the carry over from the last year's performance, and related to the close out of the 2010/2011 school year.

Importantly, as Tim has mentioned, the new school year, 2011/12, which I guess kicked off in August, has started well, and the recovery plan, which we initiated earlier in the year, remains on track to deliver the annualised savings target of $65 million. And as we said, two thirds of this will be achieved in the current financial year. And as a consequence, we're flagging a halt to further margin erosion. And we expect our second half operating margins to be in line with the second half of last year, just over 11%.

And moving on to First Transit, we see a steady performance, with revenues up 5.2%, to £627 million. And adjusting out the extra week in the period, revenues were up a more modest 1.2%. Encouragingly, however, EBITDA margins continued to improve, up from 7.9% last year to 8.2%, as we continued to perform well in the core business sectors of fixed route, shuttle and paratransit. And you can see a very satisfactory operating profit performance; up 11.4%, to $44 million in the period.

As Tim mentioned, Greyhound has put in some pretty good numbers. We see steady revenue growth at Greyhound. Total revenues in the period were up 8.5%, but then after adjusting out the extra week and the currency movements, revenues on a like-for-like basis grew by 3.7% in the period; largely driven by the continued success of Greyhound Express, as we continue to roll that out.

Operating margins improved in both Canada and the US. And I'm very pleased with the Canada profit improvement plan, which remains on track to generate a small operating profit in 2011/12. And if you recall, that's from a position where we lost around Canadian $20 million in 2009/10. So that's quite a good turnaround. And I'm sure there's further improvement still to come in the Canadian market.

In the US, I'm pleased the operating profit margin has continued to progress, and they're now well into double-digits for this period.

Our UK Bus business continues to deliver solid numbers. Total revenues were up 2.9%. And then adjusting out the extra week, total revenues were down 1.2%; the decline mainly being driven by the mileage reductions that we put through during the course of last year, which are now being fully annualised.

Like-for-like passenger revenue growth has remained stable, at 1.4% in the half. And it's been a level they've been operating at certainly through last year as well.

It's pleasing to see improving profit margins, up from 9.7% last year to 10.1%.

During the first half, two bus operations were sold; a very small operation in King’s Lynn, as well as our German bus business.

And looking to the short to medium term, we remain cautious about the outlook for UK Bus, due to the continuing tough economic conditions, especially in the northern cities, such as Glasgow and Manchester; and the pressures to reduce the overall funding the UK bus industry receives from the public purse.

As Tim has mentioned, our UK Rail business continues to perform strongly, with 10% growth in total revenues; and on a like-for-like basis, revenues up 9%.

Profit margins increased to 4.8%, with profit up 15%, versus last year, to £56 million.

As we previously reported, we're pleased to have secured the extension to the First TransPennine Express franchise, from February 2012, for a further three years. However, let me just remind you that this will be at operating margins much closer to industry average, over the extension period, as opposed to their current margins.

And here, you can see the like-for-like passenger revenue growth, broken out by the four TOCs plus Hull Trains. As you can see the growth trend has been improving significantly; up from 4.4% in September 2010, to 9% in the current period. And that's spread across all of the operating companies, which show strong revenue growth, the largest improvement coming from Capital Connect, which is up from 2.8% in September 2010, to 11% in the current period, which is very encouraging.

I hope you can see this chart but I'm sure most of you have the numbers in front of you. Our net cash outflow in the period was £64 million. That's the bottom number there, £64 million, versus an outflow of £16 million in the same period last year. This is in line with our expectations, and we remain on track to deliver the £150 million net cash inflow for the full year.

Cash generated by operations remains strong, at over £200 million, albeit below last year. And let me just run through some of the key variances from last year.

The cash impact of the exceptional items is £27 million adverse to last year. And that's mainly due to the fact the exceptional items last year had a positive cash inflow, specifically from the Network Rail settlement. Working capital is £10 million adverse; partly due to the impact of the extra trading week. And pension payments in excess of income statement charges, are higher by £30 million; partly due to the increased cash payments to the UK Bus and Greyhound pension schemes, but also, partly due to a reduction in the current year's service charge.

This is broken out in more detail in the appendices, but overall, I'm pleased that we have taken actions to restrict future liabilities. And I think it's important to note that the total cash contributions in all the Group's schemes only increased by £15 million in the period.

And moving on through the cash flow, capital expenditure was lower than last year by £55 million. However, this is mainly explained by the fact that this number is a net cash, after disposals, and included in the period is the significant disposal of the Greyhound terminal in Washington DC.

Our gross additions, which are shown in the detail of the financial accounts, were £146 million in the period; slightly up on last year. And I'd expect the gross capital expenditure for the full year to be around £300 million, as we've previously indicated.

Finally, proceeds from the sale of businesses are lower than last year. You can see there, the proceeds from the sale mostly from the German bus business. They're lower, mostly due to the higher cash receipts from the disposal of GB Railfreight last year, which came through in the first half of last year.

So summarising, let me just say, we continue to operate from a very strong financial platform. We continue to take advantage of low interest rates and seek to diversify our debt portfolio. In the first half, we secured almost $250 million of new committed funding, leaving over £600 million of committed headroom facility at the end of September 2011.

At the same time, net debt continues to decline; reducing by over £130 million, versus September 2010, to just over £2 billion.

Additionally, we continued to take actions to reduce risk, by renegotiating the Group pension plans. And it's pleasing that, despite reducing asset values, we were able to keep the overall pension deficit relatively flat, at £261 million in the period, compared to £243 million at March 2011.

So that sums up. So thank you, and I'll hand back to Tim.

Tim O'Toole: Thank you, Jeff. You know, in many ways, this earnings release is all about Student. And I'm very pleased with what I get to report because the recovery plan is fully engaged and we're quite encouraged by it. You know, the team has worked very, very hard to take this business apart, and really identify the things that will allow us to leverage scale and efficiency to not only meet our prediction of being able to stabilise margins, but really put on a platform for growth in the future. And this has really been a huge effort. I mean - and if you consider it's been executed under a relatively short period of time, and it's really going to take probably another year, a year and a half, for us to embed this across the business.

But this isn't, you know, a jam for tomorrow story. What I'm seeing, we're seeing results right now in the new school year. And I'm convinced that only the weather and the economy can slow us down, but even they won't stop us from getting where we're headed. I'm convinced we have the management, we have the way forward- the plan - and we do have the early results that give us reason to be confident.

And in that regard, some of the indicators that I look to are, number one, we had a very strong start up in September. And why that's so significant to me is that, you'll recall last year, when we talked about the disastrous start up we had last September. But when we went and interrogated local management about what was behind that, what caused it, the most common response we got was well, we have a terrible September every year, we're always out of balance, it's only we pull things back in the later months. Well, it may happen every year but it didn't happen this year.

Similarly, our commercial team, it successfully executed the strategy we put out for retention. They kept their top ten contracts from ever getting to market, and we returned to the levels we posted historically, in terms of retention.

They've also, you know, been able to be active in the conversion market. We've landed some 11 conversion contracts. And while this is just a trickle from what we would hope to see eventually, the fact of the matter, it's showing we're active in that space, and able to show our presence.

And even charter business, stabilised, and even began to pick up. Our third party charter business is up over 5%. So it's really an exciting story, and I think it's one that I'd like to give you a little more detail on.

This slide lists the kind of six major areas around which we have organised this recovery programme. And they're really dictated by the areas of greatest opportunity in terms of efficiency and cost savings, but also the structural things we have to do if these are going to be programmes that continue to drive the business and continue to increase its savings over time.

It starts really with the fact that we wiped out a layer of management and 170 positions and that gave us a quick win. But it's moved on to kind of the structural changes, as I say, the savings from which will continue to grow over time. And I thought what I would do is just run through one or two examples of what we're doing in the two top major categories, driver labour and engineering savings, so you could see how very real, very specific, very concrete this programme is.

So driver labour. This is obviously a huge cost category for us in the business. And what we did is, we took each component of this cost category and analysed it for what is the most efficient, the best way to do this, and then applied this across the piece and trying to drive it through the business. And the fact of the matter is, we are so big that, if we can just save what seemed to be relatively small amounts of time, when multiplied across the business produces quite an impressive number. You can see the metric we've put here that we've saved just a minute, that translates into $2 million for us. And that's subject to pre-trip inspections, which every driver has to do, tens of thousands of buses every single day, we expect to save five minutes. I mean this was an area where there weren't even standards in many places. And the fact that we've now regimented this and we've put it out across the business, gives us the opportunity to capture a lot of savings.

And what I find most encouraging about this is, it isn't just hitting its numbers right now, and yet I know, and you can surely guess that there is no way we've driven this through the whole business. I mean some of these drivers just started in August. And actually, across all these 600 locations, getting everyone to perform this way every day, we don't even - we haven't even captured all of that savings yet. There's still so much more to be grabbed here, and it's right in front of us in a category already identified.

And, you know, actually I ran into another example of this just the other day when I was out with the team, in this same area. We were talking about the subject of where a location manager either approves or disapproves a driver submission of an exception to his driving time. That is, you set a driving time, so the driver can come and file for an exception that something forced him to take longer. And it's a big part of this job to make sure that a location manager, you know, either approves or disapproves this, and guarantees that the place is being run efficiently. The team made the point to me that, while in the recovery programme, we've given these location managers new tools and more importantly, coached them in techniques for how to handle this, still about a third of our managers are very uncomfortable with this. And we see real patchy performance, because, you know, this is something they used to just ride with, let go on.

Now our change programme's still out there, we're going to work with these location managers, we'll bring them along. But the point I'm trying to make is, that savings still out there to grab, and it's in these programmes. So that's why the numbers that we see now, I think, are just going to build.

Similarly in engineering, you know, we run all of these engineering shops, hundreds of them across the network. And so we've applied, you know, the best techniques across industry, lean engineering practices, to drive the most efficient ways to deliver the service we handle there.

And one of the things we did is create kind of a showroom in Illinois, which has a laboratory that is the best of the practices that we've been able to determine. And we've done this through kind of classic time and motion studies. But more importantly, we've done it by turning to the technicians themselves, and have them work with us to redesign their work, redesign the space. And you can see the impact it's had.

This is just one example. We have to do these Periodic Maintenance Inspections all the time on buses. We do 200,000 of them. And, as a result of this work, we've been able to save 9%, shave 9% off the time it takes to deliver this kind of work. And it's just - it's the sort of thing, when applied across the whole business, when applied across everything we do, it's a way we're bringing this business back and restoring margins.

Now, I don't want to oversell where we are right now. All we have really done is exactly what we said we would do. We've put ourselves in a position to stabilise margins this year. But it's sufficiently encouraging that I think where we really are is in a position to continue to drive beyond that, and get back to the 10-11% range, so that we are in a position to grow this business profitably over the long-term.

Linda Burtwistle runs this business for us. She and her team have done a fantastic job. And the thing that, I guess, drives my enthusiasm more than anything else is they exude a confidence that is remarkable compared to where they were a year ago. They're absolutely certain of where they're headed. They know what to do tomorrow, they know where they want to take this business and it's really quite encouraging.

First Transit, it's much more of a steady as you go. You'll recall, last time I was with you, I took you through this business in a lot more detail, explaining its different parts. But it continues to grow. You know, this slide shows you, we have - we keep selecting new contracts, expanded contracts, some renewed contracts. And it's really just quite a steady contributor. Truth be told, I actually thought I was going to have more of a kind of a turbo boost to the top line in our results here, because First Transit was selected as preferred provider for a very large fixed route contract in Las Vegas, Nevada. Unfortunately, the incumbent kind of - after we won it - kind of went through all the lawyers and all the legal machinations and political tricks, and it's turned into a bit of a mess. It's received quite a lot of press coverage, so if you want to Google it, you'll see that my explanation's not self-serving. But the point is, there's lots of Las Vegas's in our pipeline. There'll be other stories coming forward. And this is, as I said to you and emphasised last time, an area where we're quite pleased with.

Greyhound. This story just keeps building. You'll recall, the last two times I've been with you, I took you through their recovery programme and its comprehensive nature and the fact that it really addresses the major elements of this business, the terminals, the buses themselves, the network. And you'll see, through this most recent period, progress in all those areas. You know about the Washington terminal, we've talked about the new buses, the refurbished buses, and these programmes are continuing. And you know about our regulatory breakthrough in Canada, that's allowed us to eliminate the losses in that business.

What's becoming much more prominent, however, are really the enablers to growth in this business. And that's been very exciting. One of those is, we've just achieved kind of this breakthrough agreement with 7-Eleven, which is the world's largest convenience store chain. And this agreement has given us a way to allow people who have to deal in cash, either they don't have a credit card or for other reasons, a way to buy tickets from us over the Internet.

You see, 50% of the people who buy tickets on Greyhound use cash. And that means, in order to get a ticket, you have to queue at a terminal, which is not always an ideal assignment. This deal with 7-Eleven gives us a way to allow those people to have the convenience of the Internet. Because what they can do is, they can go on the website, they can order the ticket and they're issued a code. They then go to a 7-Eleven franchise with the code and with their cash, and the cashier prints out a ticket for them right there.

We ran a trial of this in the Dallas/Fort Worth area of Texas, over the last couple of months. And there's like 270 7-Eleven franchises there. Every single one of them sold a ticket. While it is a small part of our overall ticket sales, the ease with which this was accepted and could work is very encouraging. We're now rolling this out nationwide.

The more exciting enabler, however, is the Greyhound Express story. When I stood before you my first time, one year ago, you might remember that I, at that point, said we were going to - we hoped to roll out Greyhound Express, which is the BoltBus product in the Greyhound livery, by the end of the year. Six months ago, I said to you, well, we've had early success and here's my thesis of why I think this business, Greyhound Express, will ultimately prevail in this market segment.

I had no idea how quickly the evidence was going to validate that thesis. Because as we've rolled out Greyhound Express, we have, you know, continued to see this very strong growth. And it's now obvious to me that Greyhound Express is not just some promising initiative, this is a big part of the future of the business. And I say that for this reason.

You know, there are literally hundreds of coach companies in North America. There are scores of them that provide point to point scheduled service between cities. There's only one, which is Greyhound, that has a nationwide network. The exam question for me has always been, is that a good thing or is that a bad thing? I mean is a national network a competitive advantage or is it a millstone around this company's neck that's preventing us from being quicker and faster?

Well, Greyhound Express answers that question, and it answers it in favour of the network. Because as we've overlaid Greyhound Express on this network, it's obvious that it's the network that's giving it so many advantages. And I see this in at least three reasons.

One is the identity. You know, Greyhound is an iconic brand in America, and though tarnished, it's one easily heard. And when there's a suggestion it's been rejuvenated, Greyhound Express, the message is easily received by the public.

The second is the dynamic I talked to you about six months ago, where I said, you know, the network feeds a small but meaningful number of people steadily into Greyhound Express.

But it's turning out the more profound thing that the network gives it, which we've seen through this period, is walked up traffic. You know, BoltBus and other companies that follow this business model, they can be successful in selected lanes, but that business model doesn't admit walk up traffic in any kind of meaningful amount. But it's been the steady flow of walk up traffic that the network brings to Greyhound Express that's allowed us not only to have growth but have consistent balanced growth, so we can sustain these lanes, rather than just put them up there for two weeks and then quietly take them down later.

And I really think that is the distinguishing feature of this business. And when you think how fast this story is showing itself and how large the opportunity is, and the fact that the opportunity's growing, you know, you can't help but be driven to the conclusion that Greyhound is a much more compelling story than maybe was understood.

It takes me to UK Bus. As we reported, it's solid results, but we have - we are cautious about the outlook as, you know, we are quite prominent in a lot of urban areas to the north and in Scotland, and there's been a drop in footfall traffic there. And so we do have to temper any enthusiasm we might have for the future in light of that, and in light of the headwinds we see with Government reducing its support for the UK bus industry.

So we are somewhat cautious. But notwithstanding that caution, our approach is unchanged from what I've reviewed with you before. We still believe we need to do what's required to refocus this business. We need to invest. We're, you know, bringing in a whole lot of new buses to support our commitment to the 2012

Games. And those buses will then make their way across the UK to support our services. And we're investing in the new smart ticketing initiative, which I'm convinced will change the way people understand the transport choices are across the UK.

I think the London experience proves that, if you make it easier to use buses, it's just much more likely everyone will. And we've got to take that time to have smart ticketing initiative, which we're doing in partnership with TfL, which gives me the confidence we're actually going to pull this off. We've got to move this across the country.

I wish - you know, I dearly wish - we weren't going through this transition, through this economic environment, but it doesn't change my determination to do it. Because we have got to turn this company toward volume growth and take advantages of the opportunities that are there, so that we retain what is really, I believe, the pre-eminent bus franchise in the UK, and one that needs to exhibit a profile that's closer to that description.

And finally, that takes me to UK Rail. Very impressive results, as we said. And we are quite pleased with the extension of TPE, albeit at margins closer to what the industry has been experiencing.

Not coincidentally, the Managing Director of TPE, Vernon Barker, has been promoted to take over our whole Rail Division. Vernon has really distinguished himself by the success of TPE. It's a story I think we've reviewed with you before. This growth of the passengers from 13 million to 24 million; the fact that 70% of that is leisure travellers, not captive commuters. It's really been a breakout success story, and Vernon's done very well.

I know Vernon will do a great job. He obviously has the experience, he's got the skills. Probably more important for our company, Vernon was a popular choice of all his peers, and I think that makes this the right move to ensure we have a unified team going through the great challenges we're going to see over the next couple of years, through the new refranchising period.

And in that regard, if you look at us, look at our company, we have the most extensive operations, the most different types of railways. We operate under probably the greatest variety of contractual structures of any company. And we are convinced that, no matter what structures emerge from the Government's deliberations on refranchising, we'll be able to deliver value. And we're quite keen to get on with that and get this new refranchising period started.

So with that, in summary, it takes us to a report that says, you know, we're quite pleased that our results are in line with expectations. The Student recovery's underway. Both Transit and Greyhound are showing more and more promise every day for us. UK Bus: solid results and notwithstanding our cautious outlook, we're still going to drive the kind of changes and investment we think are required to build up that business over the long-term. UK Rail remains an impressive performer for us.

You know, again, I return to where I started my comments. I think where this takes you is evidence of a company that has a management team that is very focused on operational performance. We know how to run these businesses, and we know what we have to do, to make them better. And I think, if you look at the record, what you see is a willingness to confront the hard issues and bring these companies back.

So, you know, Greyhound was tarnished and neglected when FirstGroup got it, and we're now moving it to a position of bringing it back. First Student took its leadership, I think, for granted, was flat footed going into the economic crisis in the US. But we faced up to that, we've engaged in a very short period of time, in a big piece of work, and we're bringing that business back. Transit, we've allowed to emerge from under the shadow of Student, so that people can understand the value in this business, these margins in this business, which has very little capital. And the advantage we have in the market is the professionalism and experience by management teams who can run that.

Our UK Bus, quite frankly, although this is a great franchise, I think it had made the mistake of thinking while low cost is good, that doesn't necessarily mean you should cut every cost category. And as a result of this obsession with cost cutting, they've choked off a lot of growth that was available to it. And you can see that in the performance of some of our competitors. We're bringing balance back to that business. And over the long-term, I'm convinced it's the thing that will allow us to grow.

In UK Rail, well, look at us. If you look at the size of us, we have the greatest complement of management in that area, and we can't wait to deploy them in the next round of franchising, to show the value we can bring.

So I think this is a team that will continue to drive for value, and improvement, even in the worst of times, and whatever the challenges might be that we could face.

And with that, I'd like to turn it over to Q&A, but I have to make one last point. And that is to acknowledge and thank Jeff Carr. As you know, he's announced he's leaving FirstGroup, and going to Royal Ahold. On behalf of the Board of Directors and everyone at First, we want to thank Jeff for his many, many contributions. We're very lucky that we had him here. We're very lucky he's built up a very strong finance team. And we're lucky he's worked very closely with Nick Chevis here, who many of you know, who will be carrying on with Jeff's duties, while we run a proper process to determine Jeff's successor. But in any event, Jeff, thank you very much.

And we'll be happy to take any questions.

Alexia Dogani: Hi, it's Alexia Dogani from Liberum Capital. I just have three questions, please. Just on Greyhound Express and the transition from Greyhound. Do you see any cost associated to that shift? And how much do you think it can represent in, let's say, three year's time?

Then a small question on that. In terms of sort of terminals, right sizing, how much more can we see from there?

And then on Transit, could you just discuss a bit more of the pipelines of opportunities you have? And also, in terms of that Las Vegas contract, when should we be expecting a resolution of the current dispute? Thanks.

Tim O'Toole: Okay. Well, Greyhound Express, there will be expense but I don't think anything that would rise to the level that you would notice in the results, in the IT we have to continue to do, to support our ability to bring that product to market, in the ticketing area particularly. The major cost saving that drives the speed with which we will roll that out, is new buses and refurbished buses. Because it's really those new blue buses that are the mark of it, and it's as we're able to move those around the system, we'll start to expand it more and more. We're even going to move into Western Canada in this period, and that'll be the first time we've kind of moved out of the East.

So that's the main expense item, and the thing that will slow down its introduction, our ability to refurbish and afford new buses.

With regard to the terminals, we said this was an ongoing programme and that we thought it would continue to generate cash. And it does on a regular basis. I mean we are - these results include some terminal sales, and they will continue. We flagged that we didn't think there were a whole lot of opportunities on the size of Washington, you know, we just don't have that many giant legacy terminals still in the centre of major metropolitan areas, at least not ones that are going to be sold. But I don't know if we've given a run rate, Jeff?

Jeff Carr: No, I don't think we - we gave a number a few years ago, in terms of in relation to the overall expectations, but it's - Greyhound was around over $40 million, the Washington terminals, but there won't be many of that order of magnitude. I think it's more in the $10 million area on an annual run rate that we should see, in terms of terminal sales. There is a potential for one or two bigger ones, but they'll be fairly sporadic.

Tim O'Toole: I mean we had a steady - we see a steady stream of them, but they do tend to be in, you know, a couple of hundred thousand or one or two million, at the kinds of facilities that are being disposed of.

As far as Transit, we talked about this last time. I mean there are opportunities in fixed routes. Paratransit has always been the heart of the business. But it's also call centres, it's vehicle maintenance, and in shuttle service. You'll start to see some capital going into Transit. It's largely in the shuttle end. Shuttle does require capital, it's more like some of our other bus businesses, whereas the others don't require capital, because the contracting party supplies the buses or whatever required. And on the slide, you'll notice we reported landing a call centre contract, a shuttle contract, et cetera. And unlike school bus, as I said before in an earlier meeting, this is an area where municipalities seem to turn more readily to outsource than they do in school bus. So we're working actually with our major competitors, Veolia and MV, we've come together to lobby for the expansion of more conversions of business. Because we know, as the pie gets bigger, it's better for us.

As far as when Vegas will be resolved, that situation is really in flux, in terms - I'm not even sure it's right for us. We're working with them and we want to do the smart thing for our business over the long-term. And that whole opportunity may change.

Edward Stanford: Good morning. Edward Stanford from Oriel. Just if I might come back on the Greyhound Express question first. How big do you see it as being as a proportion of the network, when you've finished rolling it out? Secondly, Tim, perhaps, I was wondering whether you could share with us any colour on your experience in Rail Delivery Group in terms of how that sees the industry going forward, and how the opportunities for FirstGroup might arise. And then a quick question on the pension issue. Does the change to CPI have any effect on the pension payments going forward?

Tim O'Toole: Well - with Greyhound Express. Well, it would be a little bold of me to give a number given I've been as overtaken as anyone else by the quickness and the speed with which this is unfolding. But I would put it this way. It's very exciting what's happened at BoltBus, but BoltBus is, you know, a relatively small business. Greyhound's a billion dollar business, and if we can create a growth engine there, that's where the leverage is, that's where the scale is. And that's where the intercity bus story in America really gets exciting. And if Greyhound proper has a vehicle to tap into this growth, anywhere near like these numbers, you know, it brings back the whole Greyhound story. And so I think it's really about how much that Greyhound total can build, and how - so that at some point, Greyhound almost morphs into Greyhound Express, as it expands.

As far as the Rail Delivery Group, I try to keep these roles quite separate. And we, as a Group, are - have been fairly close mouthed. Some of the commentariat has been trying to draw us out, and wants to know why we don't talk more. But we, as a Group, are just really very focused on delivering some real savings and options for the Government. And so we're in a process right now where we are kind of driving forward with a number of priorities we agreed with. If you think about it, it's a no cost option for the Government and the economy, because nobody's paying us to work these late nights to see if we can come up with advances, and make the Government's choices a bit more palatable. But as we outline those and as they're brought to fruition, I think at that point, we'll emerge with more public commentary. But the one thing I didn't want to do with the Group is turn it into this place with grand pronouncements about strategy and all the rest of it. You've seen that before in the rail sector, you've seen it, whether it was the SRA or the British Rail Board, or even Stephen Byers' original Rail Delivery Group. And I didn't want to go there. I wanted to actually - we all want to actually deliver change that would respond to the challenges in the McNulty Report.

So I'll just leave that there, but stay tuned, we are working very hard. And it doesn't drive the FirstGroup's options or possibilities in rail refranchising. I just think that we have a great team here. You can only judge us so far by the fact that we've prequalified for the West Coast bid. And the thing you can know for sure is that we are going to be very active in all this bidding that occurs over the next two and a half to three years. And it will be a steady blizzard of bidding.

Jeff, do you want to answer the pension question?

Jeff Carr: Well, the short answer is yes, it will have an impact in future years, reducing the service cost. But we've been working on a lot of our active open pension plans, put a lot of changes through. The change from RPI to CPI on the UK Bus scheme happens to be one of the most significant impacts this period. We've also, on the UK Bus plan effectively, closed it off to new starters joining, going on to a DC scheme, as opposed to the DB scheme. So there's a whole range of changes, a whole raft of changes which are basically designed to make sure that our P&L charge is competitive, and that we - the cash payments into the plan are minimised to, again, a competitive level. And also, that we manage the risk on the balance sheet. And against that, obviously there's a lot of factors in terms of asset returns and such forth. But I think the changes on the UK Bus scheme, and there's also a Group Corporate scheme that we've put through this year are really good steps in the right direction.

Tim O'Toole: One thing I should have thought to say, though, in answer to your question about the RDG, and I suppose in this respect, it does come together with FirstGroup, is that one of the things that the workstreams that the RDG is working on, is something that becomes obvious, one of the enablers, the solutions to deliver the savings for the future are alliances or structures like alliances with Network Rail. It's bringing the operator together with the asset owner, to deliver service, deliver maintenance work in a very efficient way. And we have been very busy with working with Network Rail, thrashing out how to make that real, up in Scotland. And we think we've made a lot of progress in being able to show the Government how we can deliver greater value for them. And we're hoping, as we move into this next period, that the Government and the ORR are accepting of those kinds of structures. Because it's so obvious that workstream after workstream after workstream that, that's a critical structure you need, in order to deliver the savings.

Jaime Rowbotham: Morning, it's Jaime Rowbotham from Morgan Stanley. Four questions, please. The first, Tim, is on school bus. You mentioned the top contracts being retained during the bid season. I wondered, you know, what sort of duration have you retained those for? Is it a one-year period because the school boards want flexibility, or is three to five years as normal? And why shouldn't we be nervous, given the pressure on those school boards in terms of budgets, and given competitive pressures, why shouldn't we be nervous about perhaps the prices FirstGroup's had to offer, or returns FirstGroup's had to lock itself into on those contracts?

Second question is on capex. I think you mentioned that gross capex was up year on year. I couldn't quite see that from slide 34, but regardless in UK Bus, it looks as though growth of capex was down a bit year on year. I just wondered, Tim, to what extent you think additional capex in that business, investing, say, multiples of depreciation, could unlock the sort of extra volume growth that you're looking for? You mentioned, you know, improving the offering, making it easier for people to get on the buses. Just how much of a correlation do you think there is between investing more to drive growth?

Thirdly, Greyhound. From what you've said, it sounds as though if Greyhound can get the Express offering right in the US, then it may be almost as difficult to compete with as National Express in the UK. But I think we're all aware that some of your peers in the US have spotted the same gap in the market. So again, it's a bit of a question on capital allocation. I think there's a first mover advantage in this point to point, low cost coach market. In an ideal world, would you want to allocate more capital to that business to not miss out on the first mover advantage?

And finally, a very quick one for Jeff. You've given us the growth rates, adjusted for the extra week. Is it fair to assume operating profit, or profitability, for the Group would have been 3% or 4% lower without the extra week? Thanks.

Tim O'Toole: Okay, school bus. The retention of those follow - I mean they're different for each contract, but they aren't all just for a year. Some of them for a whole new term, it really varies. I'd have to go through them one by one. But I think what's important is that by dealing with them in direct negotiations, you don't have to give up a lot of margin, not what you'd have to give up if they had gone to competitive bidding, as it existed, especially in the kind of frantic pace it was a year and a year and a half ago. One of the things, and I'll think you get this commentary from our largest competitors as well, is we've been encouraged that the bidding for those contracts that have gone to bid in more recent periods, and in this school year, it's been a much more rational process, and we have seen much less of what you might otherwise call strategic bidding. And we have our hurdle rates. We don't intend to bid contracts that put us even further behind getting to a margin that allows to be in a position where we could start to grow again.

You should be nervous about the economy, I'm nervous about the economy. But the only thing we have to report is, we aren't seeing the kinds of behaviours with school boards this year that we saw the last two years. Is it a temporary respite, or is it that, you know, people are starting to look elsewhere, and because they've gone as far they can go? I don't know. It went farther than we expected, so it's a little tough to make a prediction in that regard. But all I can tell you is, we are finding ways to cut costs, and we aren't finding as much pressure on the revenue line as we saw in prior years.

With regard to capital expenditures, the primary capital expenditure I was talking about in making it easier for people is smartcard technology because - and we've already announced, we're spending £26 million on that programme - I just believe it's just so obvious, so many people don't use buses because the thing that stops them is they think I'm not quite sure how I pay for this, am I going to get yelled at when I don't have the correct change, and what happens here. And the whole interaction is this major barrier for people. And if you think of people who use buses in this city, who never would have dreamed of using a bus ten years ago, I think it's largely because of the Oyster Card. And that is the major change we have to make. But we also have to continue to rejuvenate our fleet. And again, we already announced this major capital expenditure bringing in almost 1,000 buses. And we will continue to rejuvenate our fleet, going forward.

As far as Greyhound goes, I don't think there's any evidence that there's a first mover advantage. I would challenge you to look at the growth rate in the Mid West, where another company actually started before we did, and yet Greyhound Express has had tremendous success. We were first into Atlanta, so I'll let you know whether there's a first mover advantage. But so far, it's been fine. I think the real issue is yes, other people have spotted this. As I've pointed out, there are scores of companies that provide this kind of service. You just stand on 95, you can see all the different liveries that go up and down that highway. But none of them has the competitive advantage of having this national network behind it. And what we're finding, all I'm saying is, I'm not commenting on anyone else's business, but what we're finding is that, when we put in Greyhound Express with the backing - the fact it has the backing of this national network, we just keep seeming to have growth after growth after growth, in a way we hadn't seen in this business before.

Jeff Carr: There was a couple of other questions, Jaime. In terms of the presentation, the capex number is net of disposals, it's the cash impact. If you actually read the notes to the accounts, you'll see the additions in note 11. The £146 million additions is in line with the £300 million investment we're putting in this year. And I think that's the real number to look at, in terms of how much investment we're putting into the business. And that's slightly ahead of last year.

In terms of growth rates, excluding the extra week, as I said in the presentation, if you backed out the extra week, EPS would be relatively in line with last year.

Joel Copp-Barton: Hi. Yes, it's Joel Copp-Barton here from Nomura. A few things. Just on US school bus, if I'm kind of reading that right, if the economy doesn't get any worse and there's no weather related problems in the second half, underlying revenue growth I think you said was down 2.5% in the first half. It's kind of about flat year on year, you know, a reasonable place to start. Also, just on that, is there any problems with workforce or labour stuff out in school bus? Because obviously, there's quite a lot of change going on, from what you're saying.

And just on a slightly separate thing on regional bus. How much do you think your tender revenues are going to be down this year, year on year? And also, on concessions, if that's possible to break that out. Cheers.

Jeff Carr: In terms of Student, revenues will be - in the second half, will be down slightly. There's still a little bit of organic contraction going on in the market. It's a bit less than two years ago, it's a little bit less than last year, but there is still some organic contraction. And I think revenues will be down slightly, 1- 2% perhaps, in that order of magnitude for the second half.

I mean on the workforce, no, there's no impact. In fact, quite the opposite, I think we're encouraged by the reaction at the grassroots that they're seeing actions which will lead to a stronger and an improved company, which will benefit everyone.

I don't have a percentage in the reduction of tender revenues. What I would say, for the UK Bus business, outside of London, tender revenues tend to be a fairly small part of our business. I think last year, they amounted to about £60 million. They are being impacted quite significantly by the actions in local authorities o they will be down. I don't have the percentage for that. I don't know if - okay.

Was there anything else?

Joel Copp-Barton: It was just concessions. **Jeff Carr:** Well, no, we haven't given a percentage, but concessions are being continually under pressure, in terms of each time they come up for negotiation, obviously, you know, we've been through a process last year where concessions, we lost a few million pounds basically, in terms of the concessionary fare reimbursement rate reductions. I think there'll continue to be a bit of pressure next year, as we go through any renewals in terms of reimbursement rates. That'll just be a continuous process, as people to look to make cost savings. We're down between 7% and 8% really we've lost in terms of tender revenues.

Joe Thomas: Hi there. It's Joe Thomas here from HSBC. A couple of questions on school bus, and then on the pensions as well, please. First of all, you're saying a return to double-digit margins, 10-11%, Tim. Could you clarify when you expect to be there by, firstly? Secondly, if you require any improvement in the top line? And thirdly, if you don't, and I think that was your previous guidance that you didn't, whether you need to introduce additional cost saving schemes, over and above the ones that you have highlighted in today's statement?

And then just turning to the pensions issue. Jeff, I slightly - maybe - misunderstood something, but the pension expense in the cash flow is, I think, £117.8 million; bigger than in the income statement. Can you just clarify what exactly is going on there, whether that's recurring or not? And then also, on this issue of CPI adjustment. What is the impact going to be in a full year on your operating profit line?

Tim O'Toole: School bus, the restoration margins - and you're right, we said we have to be able to do this by driving efficiencies and restoring margins the hard way. Although it will get a boost from pushing charter as well. So that is the one kind of top line side to this equation and our plan. And the plan calls for getting back to that level in more like the three to four year range. But I think the challenge for us is, given that we put that in our plan back when we were - you know, we're not sure how this is going to be received or how fast it would even take to get started. Given this very encouraging start, it's our push now to see how much we can accelerate that timetable. And, you know, it's a little - two months, it's a little early for me to be declaring victory. This is a huge programme and it's going to require a lot of work. But I have no reason not to be much more optimistic than I had reason to be six months ago.

Jeff Carr: And just in terms of pensions, on the cash flow on page 28, the way that, that's structured is £73 million one-off non-cash exceptional item, goes through the operating cash flow line, and it's backed out on the pension line. So those two net off. If you net that £73 million off, the delta on the cash flow will be £43 million to £14 million year on year. That £43 million - that change in about £30 million in terms of cash number, is broken out in an appendix in the back of the presentation. But effectively, about £15 million of that is extra cash contributions into the plans, and about £15 million of it is reduced service costs, because of the change from RPI to CPI last year. So you have to back out that exceptional gain that we got this year, in terms of the change on the £117 million number, and out of the operating cash flow, it just nets off.

Damien Brewer: Damien Brewer, RBC. Three questions. First on UK Bus, where you have put in extra frequency and have cut fares, could you give us an idea of what kind of sort of response inertia there is, how long it takes for the investment in opex and capex to turn into extra revenue growth? To give us an idea of the kind of inertia and momentum we should expect to see behind some of the changes Giles is putting in there.

On Greyhound, two questions. First of all, could you give us a better feeling for sort of how the incremental margin or economics of Greyhound Express works, how much upfront cost there is and how much start-up costs, and how that translates into profit further down the line?

And then, very finally on Canada, you mentioned it was sort of nudging towards just being an operating profit. Is that a business which should also be performing at US levels of margin, or do you think that's as good as it gets in Canada?

Tim O'Toole: UK Bus, it's still early days. I think one of - I mean not one of - the big advantage our major competitor has over us is he has been experimenting for the last seven to eight years in finding the best balance. And that is the determination that varies locale to locale. It's not that you just go in and say if I reduce my fares by X and I increase frequency by Y, this will happen. It's going to vary by the franchise of the company. And that's, I guess, the frustrating part of this. And you're right, Giles is just in the beginning of rolling that out. And Jeff and I keep wanting it sooner, and he keeps asking for understanding. But you know, it'll have to wait to what we see at the local level and we're still at the very early days.

Jeff Carr: I think on Express, Greyhound Express, the cost element or the cost dynamics of that business are not a lot different from the main Greyhound product. We still use the terminals in a lot of cases. The bus running cost is no different. The key differential in the product is actually that it's yield managed, in terms of the pricing mechanism. And getting that yield management right and matching that against the demand, should deliver margins comparable, or superior to the basic Greyhound product. So that depends on our ability to drive demand. And the fact that it's yield managed gives us much more flexibility to flex our capacity and match our requirements in terms of returns. So that's a positive. But the cost base, once you put the capital in, because obviously we are talking about relatively new buses or refurbished buses, with extra leg room, 'pleather' seats, Wi-Fi, a very comfortable ride. And once you have that, that - the operating cost base is not a lot different.

I think Canada, we do expect it to continue, as I said in the presentation, continue to improve margins. What we've seen is the first steps, through our own actions but also through the deregulation of the market in - the relative deregulation of the market in Canada, that's allowed us to take some of the mileage out, where - I mean you'd be amused if you saw some of the loads we had on some of the rural miles in Canada, which we've been able to address now. Down in single-digit load factors. I mean it was really quite something when you look at those numbers. And we've been able to address a lot of that mileage. So I'd expect

Canada margins to recover, and I think we expect the same returns on capital in Canada in the longer term as we would in the US. I don't see why we'd look at it in a different light.

Tim O'Toole: The other thing about Greyhound Express, of course, is it's a different operating plan. And that's also why it's attractive to people, in that it's a point to point, it isn't a milk run where you're having to go through many, many stops and people are getting on and off. And that's what this higher end bus market that's been expanding in the United States is all about. Putting in a product - if you think about it really, in the corridor where you see it, it's the thing that - it's competition is Amtrak and people who didn't used to think about bus are now looking at these options, and here's this very comfortable ride, and the travel time's about the same, and yet the cost is a fraction of what the railway is. And that's the thing that really is attractive to people.

Joe Spooner: Joe Spooner from RBS. Tim, when you were talking about the cost opportunities in the US school bus business, you were talking very enthusiastically about the opportunities there. Does that - I mean reading between the lines, are you thinking that, that $65 million target that you've given today is kind of at the lower end of where you think you might be able to drive it? And when do you think you'll be at a point where the opportunities are kind of laid out that you can maybe revise, or take another look at that target?

Tim O'Toole: Well, $65 million is the target we've put out, and I don't want my still Finance Director hit me on the back of the head by changing that target right now. But you're right in reading between the lines. I believe that is the lower end. I don't think you'd go to all this trouble unless you think it's a bigger number. But you don't dare go to that bigger number publicly 'til you can back it up. And as I said, we're two months into this. We've had one snow storm in the east already, so we have, you know, this an outdoor sport and we're going to have a couple of months to get through. But the reason I'm so enthused is, you know, I've been out there with these people. It's a business that, before, they were dreading the numbers. They didn't know what to do tomorrow. It was kind of like 'oh crap, we don't know what's going on'. And now, they can't wait for their numbers because they're sure they're going to kill it, they want to show you what they've done. You know, I know these anecdotes sound Pollyanna but Linda was at a national meeting, it's the national safety meeting, with all these bus companies. And in the past, we've been always kind of viewed as, you know, the big gorilla that came in and everyone's always critical about us, and all the rest of it. And one of the competitors said to her, I don't know what you're doing, but for the first time ever, you people have their heads up. And, you know, you hear stuff like that and you think hey, this is real, this is really sinking in across the network.

And we're just in the beginning. This is the real thing, this is a comprehensive change programme that's going to go over - going to go on for the next year or two. We're spending money on it. You know, this isn't money that actually we need to spend long-term, but it's worth it because it's really changing the business because we're giving these people a game plan, so they know what - you know, they know where they're headed and they have confidence in a way they never had before.

Gerald Khoo: Thanks. Gerald Khoo from Espirito Santo. A few questions. Firstly, you talked about the net debt reduction target being including disposals. I was just wondering whether you'd be willing to sell more in UK Bus? Secondly, on the dividend policy, can you remind us how long the 7% growth target will be valid for? And finally, on Greyhound Express and the 7-Eleven deal, how long do you think it will take to roll that out nationally? And what sort of savings has that given you, in terms of distribution costs, compared with distributing via the terminals at bus stations?

Tim O'Toole: We don't want to announce where we're looking for disposals, I mean there's employees involved. So we have to be somewhat reticent about going into that area.

As far as the dividend commitment, we're in the first half of the second year of a three-year commitment. So the Board has spoken for those three years, and we intend to honour that commitment. And when the Board wants to say more about that subject, they will.

As far as the cost of sale on Greyhound Express, it's about half of what it would be in the terminals.

Gerald Khoo: How long will the rollout take?

Tim O'Toole: Nationwide, I think -

Jeff Carr: 7-Eleven programme.

Tim O'Toole: Yeah, I think it'll be - it just started a few days ago but I mean it'll be out this year, I mean that's our expectation. How fast we can do the necessary work to get penetration everywhere, I don't have a prediction there. I mean Dave Leach, the head of Greyhound, no doubt could say, but I don't know, we'll find out.

Jeff Carr: Any final questions? Well, if there's no more questions, I think we'll -

Tim O'Toole: Thank you all for coming.