



**TRANSCRIPT OF FIRSTGROUP PLC HALF-YEARLY RESULTS FOR THE SIX
MONTHS TO 30 SEPTEMBER 2009**

SIR MOIR LOCKHEAD: Welcome everyone. Today I ask you two things: could you switch off your mobile telephones and just to tell you that the presentation is being recorded, so if you don't like the idea of that, well, now is the time to get off the bus.

Anyway, good morning, welcome to our presentation for the half year results, the six months to 30 September. It's been a good period for us, a good performance against pretty challenging conditions. I'm joined here today by Jeff Carr, our new Finance Director, who I think many of you know. Jeff was the Finance Director at easyJet and in a moment Jeff will take you through the numbers and the main components of our results. So if we just get on to the overview.

It's been a robust performance against - as I said - tough economic conditions, but the results are in line with expectations, so once again no surprises. As we've said many times, this year our hedged fuel cost is costing us an increase of £100 million in the year, which is set to recover next year. We've worked very hard to mitigate that cost and I'm pleased to tell you that progress has been good. We're well into achieving our £200 million cost

reduction target, but I'll come on to that in more detail. As you know, one of the unique strengths of our business is that we've got a great balance across the business portfolio; around half of our Group revenues are now contract backed and in North America 75% of our revenues are in Student and transit businesses, which have continued to progress well and with success in delivering margin growth, and again we'll talk in some detail about that.

Now in Greyhound, where the business has been impacted by recession, we've started to see the revenue stabilise and particularly towards the end of quarter 2 of this half and we've continued to see that in the few weeks we're now into in the second half. The team have really risen to the challenge of the revenue reduction in Greyhound, and it has proven to us that the model is sufficiently flexible for us to be able to match demand and supply and protect revenue per mile. And we've talked about this many times since we acquired Laidlaw and Greyhound, but the team out there have done a great job in reducing overhead costs; bringing mileage down to more closely match the demand, and as we see the recovery it's as easy for us to put capacity back in. So we will be able to encourage growth as we come out of recession.

In UK Bus revenues grew in the period by 2.4% in the first half. We've continued to reduce mileage to reflect the changing demand. We have seen some changes in demand and we'll talk about that in some detail. But we're protecting margins. We're

managing our revenue per mile, as you'd expect us to do. We've made fantastic progress on that. Our cost plans associated with the £200 million of total costs in the Group are on target in the bus division, and we'll continue to make sure profitability remains on course for the full year.

UK Rail delivered passenger revenue growth of 1.7% in the period, despite the impact of recession. Our rail business is different - we've said that many times - because we've now got the contractual revenue support mechanisms in place for both Great Western and for Capital Connect. That means that 80% of our revenue is supported and 80 pence in the pound we get back from the Government from any shortfall against our plan.

It's been a good result in this half, seeing our teams really get down to delivering a cost change - a significant change - in our cost base in this recession. And as we come out of recession, having got £200 million - and maybe a wee bit more - out of the business, we are ready to take on and do much better in the years ahead because we've got a much more efficient model.

And Jeff will take you through in detail that £200 million.

In line with our board's commitment our dividend growth -- we will increase the dividend by 10% to 6.65 pence per share. Despite the challenges the current economy presents our outlook remains unchanged and we are on course to achieve our earnings targets for the full year, and to generate £100 million of cash to reduce net debt. I'll now hand over to Jeff and he'll take you through the financials in more detail. Jeff.

JEFF CARR:

Okay. Well thank you, Moir, and good morning, ladies and gentlemen. I'm obviously delighted to be here and it's great to see some familiar faces in the audience.

Let me just start by reiterating Moir's opening comments.

Adjusted profit for the period of £166.5 million. Margins - as we've stated - have been impacted by the cost of fuel hedging.

That's pushed up our first half fuel costs by the equivalent of £74 million, versus last year, and that's equivalent to 11 pence on the earnings per share. The cost performance in the period has been impressive across all divisions, and as we've stated we're on track to deliver at least the £200 million of target.

The other key area of focus remains strengthening our financial position, and we've made good progress in the period. Net debt now stands just a little under £2.4 billion and the net debt to EBITDA ratio at 3.0 times.

Now looking at the results in a little bit more detail, Group revenues grew by 4.8% to just over £2.9 billion. Now this did benefit from a stronger US Dollar compared to last year and at constant currencies revenues were down 3.5%. Operating profit margins - as we've said - have been impacted by fuel and hence you can see margins on operating profit declining from 6.5% last year to 5.7% in the current period. Now, financing charges were also up in the period by around about £20 million and that is due to the strengthening again of the US Dollar and the impact of the new bond funding, and that has resulted in profit before tax being

down from £107.1 million last year to £69.7 million in the current period.

Now just looking at the income statement in a bit more detail, restructuring costs you'll see - relating to the Laidlaw integration - are now largely complete. We had a little bit more going through in this half but they're pretty much complete now, and this has led to a decrease in non-recurring items from £39.2 million last year to £22.3 million in the current period. So in the first half of this year the majority of the non-recurring items actually related to the £200 million cost reduction programme that we kicked off.

Moving on to tax, the Group effective tax rate - and that's on adjusted profit before tax - was at 24.4%, and that's in line with last year and it's also in line with our full year guidance.

However, after taking into account a tax credit of £13 million, relating to non-recurring items, intangible asset amortisation, the reported tax charge in the period you can see has reduced to £3.4 million which is equivalent to 11%. There you can see also the adjusted EPS for the period at 9.3 pence.

Now looking at the management actions of the cost plans in a bit more detail, I'm happy to report each division remains on track and we've laid out there the targets that we've set for each division. Each division remains on track to hit those targets -and hopefully exceed in a few cases - and we will report in more detail where we got to at the end of the year in that.

The programme remains key to mitigating the impact of the economic challenges, and mitigating the temporary increase in

fuel costs that we've had this year relating to the fuel hedging. The costs savings are partly -- and a large part of it is the result of headcount reductions which now across the Group - you can see - are expected to exceed 4,400 in terms of heads taken out of the business, and that's a key part of the cost reduction programme. But additionally, savings are coming from procurement where we continue to leverage our global scale; improved operational efficiencies in areas such as driver efficiencies, and simply from reducing our discretionary spend in certain areas, like for example the consultancy costs.

Moving on to look at fuel hedging in a bit more detail: for the current year 2009/2010, you can see that we had 100% of our UK fuel requirements, and our US fuel requirements hedged in the current year, and the UK was hedged at \$111 and the US was hedged at \$116 per barrel. Now that's equivalent to a premium on last year's costs of around about \$30 a barrel, and that's where the £100 million comes from. If you just multiply that up that gets you to the £100 million.

Now for next year we have 82% of our requirements hedged. This position hasn't really changed an awful lot since May. And that's in the UK and the US, at the equivalent of \$76 and \$89 per barrel respectively. Again, if you multiply that up you'll see the £100 million will come out of those numbers for next year.

In North America we hedge around about 1.9 million barrels which is at risk, and that's about 50% of our total usage in North America. The remainder is covered by a variety of contracts,

really, which have pass(?) through clauses in them, so effectively we're not exposed to the price of fuel. They'll go through as fuel surcharges into the contract.

So now I'm moving on to look at the divisional analysis and we'll start with North America. Now this includes both the Transit and the Student businesses. Operating profit in the period was up by 6.2% to \$89.1 million. These are all in Dollars for North America. And it's very encouraging actually to see margins holding up, despite the tougher trading conditions and the increased fuel costs. So it's a good performance. Total revenues were down 4.6% in US Dollar terms, but when we take into account effectively the weaker Canadian Dollar - these are in actual US Dollars translated at actual rates - and the loss of operating days in the Student business due to the timing of Easter and Labour Day, we have an equivalent revenue number down 1.2%. Now additionally, revenue has been affected by the lower year-on-year market price for fuel, which I mentioned reduces the fuel surcharges on some of our contracts, and our programme of up or out in terms of fixing or losing certain low margin contracts that were inherited from Laidlaw.

So underlying revenues - after adjusting for these factors - are basically flat versus last year and the new school season obviously has now kicked in and well under way. Contracts are in place for the balance of the financial year and we're seeing that trend continue, with second half revenues being broadly in line with last year.

Greyhound: as we've mentioned, operating profit - shouldn't be a surprise to people - is down significantly; impacted by fuel and the reduction in revenues which are down 22% in total terms; 20.1% in constant exchange rates. Now the positive news is that we've made great strides to adjust the cost base of Greyhound over the last year or so, leaving Greyhound in great shape as we start to look to next year. As we've mentioned, overheads have been reduced as a result of consolidating back office functions and consolidating various regional offices, and importantly, revenue trends are starting to show signs of improvement. Those trends started towards the back end of quarter 2 and they're continuing into the current quarter.

UK Bus total revenues grew 1.2% to £585 million in the period. However, after adjusting for reduced mileage and other factors like-for-like revenues - passenger revenues - were up 2.4% in the half, and for the full year we expect passenger revenue to grow in the region of 1% to 2% compared to last year. Operating profit was £50.8 million which is down versus last year, but the full impact of cost reductions in UK Bus will come through in the second half, along with a smaller increase in the fuel price which means margins are expected to improve significantly in the second half of the year for UK Bus.

Now moving on to UK Rail; UK Rail delivered very good operating profit margins at 5.4% or coincidentally £50.8 million, the same as UK Bus. Again, the rail initiatives are kicking in, in

terms of cost savings, and we've seen some very good results there which have helped to offset the fuel price increase.

Like-for-like passenger revenues were up 1.7%, but you can see there that total revenues are down 1.2% and the difference being driven by the change to the CP4 regime, which results in a reduction of revenue but has also resulted in an equal reduction in our cost base, so it's neutral on the bottom line.

Now looking at the individual operating companies' performance, we see there is clearly a significant trend there in terms of reduction in growth. However, for First Capital Connect, First ScottRail, First TransPennine Express we expect we will continue to see growth in the second half of the year. So it will only be First Great Western and Hull Trains, which is a very small base, where we'll see growth in the negative territory.

So in summary, in total, for the second half of the year we expect passenger revenues to be broadly in line with last year or pretty much flat in terms of last year. And this, along with the reduction in the regulated fare of 0.4% from January, does mean that margins will be low in the second half of the year compared to the first half of the year.

Moving on to look at the cash flow which is obviously very critical, very important to the Group, we continue to be cash generative.

So if you look at the operational cash flow line, you'll see that we generated in the first half of the year £164.4 million operational cash inflow. Within that number working capital did see an outflow of £116 million. Now there are some technical reasons in

UK Rail, related to that, and a big seasonality effect from North American students. However, this is one part of the business where we think we can do more and we will be pushing hard in this area. Now the total net cash outflow in the period, after dividends, interest and capital expenditure, was £93.4 million, but that's an improvement of £56 million on last year and that reflects our seasonality where we do usually see a cash outflow in the first half of the year and a large cash inflow in the second half of the year. In summary, we do remain very much on target to achieve the net cash inflow of £100 million for the full year.

And just walking across that movement in net debt, starting in March 2009 where we had net debt of just over £2.5 billion we see there the £93 million of cash outflow in the period in total, and then also we benefited from a foreign exchange movement on the Dollar of £223 million, and that left net debt at the end of the period at £2,374 million.

Now our strategy on debt I think has been clearly communicated and it remains that we look to extend the maturity profile of the Group debt and to reduce the reliance on bank borrowings. Now as you can see in the chart, we have extended the average debt maturity from 4.6 years to over 6 years, 6.4 years. That's principally due to the two bond issuances that took place during the half, in April and in September, and that also means that our next significant refinancing now is not due until February 2012. Our committed facility headroom has increased quite significantly to £826 million. And, as I previously mentioned, you can see

there the net debt to EBITDA ratios in line with expectations at 3 times at the end of the period.

So in summary, let me just emphasise the cost management and debt reduction will continue to be the key area of focus for the Group. We have made good progress in the period, but there's always room for improvement and hopefully we'll be able to show that as we go through to the full year. So thank you, and now I'll hand back to Moir.

SIR MOIR LOCKHEAD: What I want to do now is just spend a bit of time taking you through each business division, and we'll start off with Student. I've said many times, this is a business that is as immune as you're likely to get to recession. And what we're seeing in the business during this recession is what we saw last time; we're seeing tightening at school board level, and so on, but overall the business remains in good shape. I suppose the key indicators are: retention of contracts that have gone out for re-bid, over 90%, and a real focus on margins. You've heard Jeff say we're looking to make sure that our cost base is much more efficient as we come out of recession than it was as we went in. And we said in the trading statement - in September - that we've made good progress in that and we've used the time to clear out some of the contracts where we were not getting the margins that we thought we should, and a lot of those contracts we'd inherited from Laidlaw. So we're just about through that programme now, and the result has been that we've taken decisions in some areas

to exit contracts where we weren't able to get the margins that we need.

I've also spoken in the past about trends in the marketplace. We know that this business is secure because it's part of the fundamental right of the US children and parents getting their kids to school by bus, regardless of what the economy is doing, and we've seen over the last few years how that has continued to protect both the business and the schools themselves. But there's no doubt that in this recession we're seeing a tightening at school board level; schools are looking to improve, to cut their costs, as we all are. And in a typical year we would have seen quite a sizeable increase in organic growth during the start up period, and that hasn't materialised. They're cutting back in their casual use and, although the contracts are secure, they're not using the vehicles for this extra work that we would have seen in a normal period. Nevertheless, the contract remains very strong and it means the extra business that we would have seen come through hasn't and we've had to cut out costs accordingly.

Together with that, and our margin improvement, we expect bus numbers this year to be the same as last year and we've had a really good start to the new contract year, a good start up; less driver shortage than we've seen before, as you'd expect when unemployment in America is higher than it was, so we're able to recruit people more easily.

We've had some good examples of start ups of big contracts.

Big contracts in our terms are in places like Ohio where we used

to run 100 buses. They gave us the whole contract for 350 and in the start up we had to find another 250 buses, extra drivers and so on. I'm delighted to tell you that - having won that tender - the start up has gone fantastic, and that's the case across America and Canada, that we've seen the start up more smoothly and we've retained the very high level of operating performance that our customers expect of us.

We've worked hard across the contract business in Student and Transit to reduce costs. You've heard Jeff say that our focus has been on efficiency, making sure that we get our overheads down and we've taken out more than 800 jobs in this part of our business, which has meant that the operating cost base is now much more efficient and much leaner than it was before. Some people say we should have done that sooner, but you know what happens recession drives you to do things more quickly than you probably would otherwise have done. So I'm happy to tell you that the original synergy values have been achieved and, on top of that, we've got additional savings that you've heard from Jeff we will secure this year. So a good result and a good strong business despite the economy we're trading in.

Transit - a similar story: strong contract retention, over 90% with further margin improvement. So you'll see at the yearend these businesses will come out stronger, with stronger margins than when they went in. We continue to grow our share of the outsourced transit market by contract wins in places like Fort McMurray in Alberta, Canada, and we've got some really good

shuttle bus contracts in the Universities of Alabama, Chicago, Louisiana and Savannah.

You'll remember we were moving towards these higher margin businesses as part of our strategy a few years ago, to move away from the more heavy transit businesses in cities, and that strategy is now working very well and these contracts have got typically higher margins and are faster growing, in the sense that they're in a new market. So again, good performance in Transit - a good result in terms of them keeping their costs down.

So Greyhound: you've heard from Jeff good signs in these last few weeks that the revenue is starting to recover, but what a result in getting the cost base down. Don't forget this contributes less than 10% of our Group earnings but nevertheless it's taken a lot of effort by our staff, our management team in Greyhound, to keep this business very close to the demand shift; so revenue per mile was the key driver that we've talked about and that has been matched very, very carefully in the period. They have protected revenue per mile; they've protected that in a way that's meant that we've had to take 13% of mileage out of the USA network for Greyhound and 10% in Canada. The reduction in overhead costs, the back office changes that they've introduced have been done much more quickly than they would have been done, had it not been for the drive that they've had to do to protect their business. So they've done a great job. I'm really impressed with the attitude; with the way in which they've gone about their business, and there's more to come. And as you

heard from Jeff, overhead reduction and looking at consolidation continues - headcount down 17% in Greyhound in the period. And they've continued that process but they haven't taken their eye off the operating position. In other words, we haven't just focused on that and left the buses to run at any time. The bus performance, on time performance is now over 80% which is better than it has been for a long, long time.

I'll mention quickly Bus(?). It's the new product that we introduced in the East Coast of America just over a year ago. It's going very well. It's very small but continues to outperform our expectations. Sales and loadings remain consistently high; good response from customers and demonstrates that this new model can be applied, particularly where we've got city pairs within the Greyhound network as a whole. So the action taken has transformed the operating model for Greyhound, proven to us that it's flexible and provides a fantastic foundation for when the recovery eventually arrives.

UK Bus resilient? Yes it is. A flexible working model? Yes it is. We are able to match revenue per mile in a very similar way to that of Greyhound. And that mitigates any change in the revenue base. As you know, London has contracted no revenue risk. Our focus there is to manage costs and improve margins. Across the UK there are lower levels of economic activity with increased unemployment. I don't have to tell you that. It's a fact. And in the cities that we operate in we can see changing trends, so we have to match our networks to those changes. But

because we've been able to do that, we've been able to match revenue per mile. And another key indicator of that is that the cost basis continued to come down and within the £200 million a significant amount of that is coming from UK Bus. UK Bus mileage has been reduced in the period by 4% and that has meant that in some areas, where we've taken off routes that are not viable of course we've lost some volume.

Pricing last year you recall was aimed at recovering the - I think it was about \$130 oil for this year. Well, in fact we've had to recover most of that through pricing and cost reduction but, as you'd expect, we're not able to put our prices up quite as much this year and our price increases this year have meant that, for the end of the year, we expect passenger revenue growth to be for the full year around 1% to 2%.

The reduced footfall in some cities I mentioned has meant that we have had to in those cities manage the cost per mile and in some cases where we've increased frequency - maybe from 10 to 12 minutes - there has been some volume impact. But demand as it recovers we will be able to put those frequencies back very quickly and I think very effectively from this much more efficient cost base. So I'm delighted with how the business is running at local level and how they're very quickly able to match supply and demand. I think it has proven that the model works in these times when revenues do change. The other thing I wanted to mention was that the management actions will produce a £55 million cost reduction in the UK Bus division in this year, and that

will help mitigate the high cost of fuel which will recover next year. As you've heard Jeff say, the hedge comes down. Driver turnover in UK Bus is the lowest I've ever seen - it's 17%. So it means that quality of service has improved; punctuality has improved. So at the time when we're having to address frequencies, it is vital that we maintain the timetable that we've reintroduced so that people can depend on the services, even though there is a slight two or three minute extra wait. This has contributed very much to our delivery of punctuality; over 99% of our timetable mileage has been run in this half.

UK Rail: passenger revenue, despite the impact of the economy continues to grow, and in TransPennine Express, Capital Connect commuter railway here in London, as well as ScotRail, we've got real revenue growth, year-on-year. We've talked many times about our unique position, in that we've got substantial insulation from the revenue support, in both Great Western and Capital Connect. And you'll remember that Capital Connect came into that scheme from 1 April. So we're having to recover 20 pence in the pound for any revenue shortfall, and the target they've set themselves is to take £70 million of the addressable cost base out of rail and they're well on to doing it. I keep saying to you that had it not been for recession we'd have had serious push backs as to whether they could do it and they're just getting on with it, which is great, great news. So they're focused on doing that. They've got other examples of improved fuel consumption on the rail network, working with companies like

Siemens, and all of that together will combine to giving us a much more efficient base.

Finally on rail, I'm pleased to tell you that TOCs delivered really good operating performance in the period, over 90% PPM achieved for all of our franchises which is a fantastic result.

So the outlook: in bringing this presentation to a close I just wanted to say that good performance in line with expectation, despite tough trading. I'd like to take a moment just to look beyond the immediate future and say to you why I feel confident in the continued strength and resilience of our company. It does lie of course in the diverse revenue streams that we have. It gives us a balance between contracted revenue and passenger revenue. I think we've demonstrated in this period our ability to take prompt and very effective action in the models that we have, particularly for Greyhound and UK Bus, and I think we've always said in these presentations that's the one thing that's good about these businesses, is they produce massive amounts of cash but also they're very flexible. We can manage them through thick and thin. In North America excellent potential to use the leverage of our school advantage for future growth; over coming years, having got the cost base where we want it, we will be able to now press ahead and gain market share and win business in that massive 530,000 school buses that operate there every day; a great market to be in. It's resilient, resilient in a downturn but not completely immune as I've tried to describe. The synergies we've achieved - you've heard that from Jeff - we now combine

that with further cost reduction, and you've seen that as to how much we expect there. A steady increase in market share is what we would expect going forward.

In Greyhound, having achieved the cost plans that we set ourselves, as we take advantage of future growth coming from the emergence of this recession, it's going to be a business that's going to generate a massive amount of cash, some of that will need to be reinvested in fleets but - as we've said many times - at least half of that cash will come into the Group to either reduce debt or to continue growing elsewhere.

UK Bus, operation remains resilient; reduction in cost; mileage, to make changes where we need to do that; a highly flexible model, but the important thing for us is that the management team in each of our bus companies has proven that they can do it. They can get on with it, they can recognise when revenues have changed and match that with supply.

You know, it's interesting that the bus remains the only real cost effective, viable solution that the Government has to solve many of the issues - that we've spoken about in these presentations many times - that arise from traffic congestion linked to the growing agenda of environmental issues and of course climate change. So the bus is a focus for us to make sure that as we come out of this recession and we see it return, the volume growth, that our cost base will ensure that we can drive cash out of our business.

In rail we continue to see the positive effects of revenue support. I've said that. A second generation of franchises gave us that, and with the right mechanism to manage risk, rail continues to be an attractive long-term market for us, so we're very keen to stay in that market and take advantage of the new opportunities that arise. As I've said throughout this presentation, the actions we have taken across the business will ensure that the Group has a robust and efficient base from which to continue to deliver long-term shareholder value. The outlook remains unchanged: we're on course to achieve our earnings target for the year and to generate £100 million of cash from which to reduce debt for this year and the next year. So we'll take debt down by £200 million over the next two years.

Thanks for being here.