

Transcript of FirstGroup plc pre close update for the six months ended 30 September 2009.

OPERATOR: Good morning, and welcome to the FirstGroup Pre-Close Trading Update Call. Today I'm pleased to present Sir Moir Lockhead, Nick Chevis and Rachael Borthwick. For this call, all participants will be in listen-only mode, and afterwards, there will be a question and answer session. I will now hand you over to Rachael.

RACHAEL BORTHWICK: Hello, everybody. Good morning, and welcome to our Trading Update Call for the first six months of this year, to 30 September. I'm joined here by Moir Lockhead, Nick Chevis, and also Jeff Carr, who started with us yesterday. So I'll hand over to Moir first of all to give you a brief run through.

SIR MOIR LOCKHEAD: Thanks, Rachael. Good morning, everyone. We would like just to spend a few minutes taking you through the overall trading position for each of our divisions, and then at the end, sort of a round up and then get straight on to questions. So if I could start by saying that trading is in line

with our expectations. There are no surprises in the half year. Our priority remains cash generation and debt reduction, net debt reductions - no distractions from that, so that's a fairly familiar story for you. We're making full use of our flexible business models to make sure that we match supply and demand, so revenue per mile remains a clear indicator for us, and we're on track year on year to make sure that across particularly our bus networks, we're monitoring that on a weekly basis. The fuel cost hit for this year will reverse next year, and I think the numbers out there are over £100 million bounce back in 2010/2011. We've made excellent progress with our cost reduction programme. You'll remember that we set a target of £200 million in this year, that's 2009/2010. We've already achieved that, and I think we'll do a little bit better on that. We set ourselves a target of taking out 3,500 jobs, and we're ahead of 4,000 just now, so we're doing better overall and getting the changes in more quickly than we'd expected. So that's the overall picture for the business. If now I take North America, the contracted business continues to provide very, very good solid growth. Contract retention is over 90%. However, as expected, we've not seen the usual organic growth for existing contracts this

year, as a result of some budgetary pressures at the state level. We've exited, as I think we mentioned last time, some low margin contracts, but conversions are up. The good news is that conversion from public to private sector is over 400, which is probably the best I've seen, certainly in the last ten years, and as I said earlier, contract retention remains high at over 90%. The key take-out of this is that profitability is on course, and margins are expected to be higher at the full year, and that's despite absorbing the higher fuel cost.

So overall, the contract business performs as well as you would expect it to do, and the focus is on margin improvement. A good example of this contract renewal strategy has been the Jacksonville, and again, I think we mentioned this last time we presented. It was not a particularly good margin contract. We have not won that back. We went in at a higher margin, and it's been won by someone else who is prepared to take a lower margin than us, and that's the sort of mix and the focus we've taken. So we're on course in our contract business to deliver the guidance. We continue to improve margins and that's despite the high fuel cost.

Greyhound: during the period, continued pressures on revenues as a result of the weak US economy. You remember that we said that we were around 20% off in the first quarter of this half as compared with the same period last year, and that continued. That was compared with the period last year, where we had a significant boost in patronage as a result of the much higher fuel prices in the US, and revenue in fact stabilised in the second quarter of the first half, and now revenues are up just in the upper teens, 17%, 18% in that period. So there's a relentless pursuit of cost reduction in Greyhound. Revenue per mile is almost as good as it was last year in the USA, and in Canada in fact is better than it was last year. So the team there have done a fantastic job in rising to the challenge, doing things that we probably would have taken much longer to do under normal circumstances, and delivering a very, very low cost base. As we come out of this recession, we'll take advantage of that. Overheads reductions are on target, the cost reduction plan for Greyhound is where we expect it to be. Greyhound remains profitable and the consensus for profitability EBIT and EBITDA we're happy with, and just more of the same, I think.

So if I can now hand over to Nick, he'll take you through UK bus/rail and deal with the financials, and then we'll get back to questioning.

NICK CHEVIS: Thank you, Moir. Thank you. On UK bus over the period, we've continued to see revenue growth up 2.3%. As we said in quarter 1, we expected to see it moderate in quarter 2, but profitability has been protected through the cost actions that we've taken. In addition to overhead and efficiency savings, cost actions across the business have included a mileage reduction of approximately 5%, and this has protected our revenue per mile. This very much demonstrates the flexible nature of the business that we have in UK bus, but in addition to that, service quality has remained a key focus, and we're now experiencing driver turnover at a record low level of around about 17%, and lost mileage is now below 0.5%.

It's not surprising that in this environment, customers are seeking value, and we've responded with a number of initiatives and promotions, for example, links with attractions and value campaign over the period, all designed to drive the topline.

In rail, despite the clear impact of the economy, we have achieved revenue growth of 1.7% in the period. The rail division is performing very much as we anticipated. The trends have been relatively stable over the period, and particularly in quarter 2.

Revenue protection remains the clear differentiator between FirstGroup train operating companies and the peer group. We're now receiving revenue support at 80% within First Great Western and First Capital Connect, and the other two train operating companies continue to benefit from high stable subsidies, and are delivering good growth. The combined effect of the various regimes that apply to our rail division translate to a net 1% revenue movement to guidance, equating to only a £5.3 million movement. We've seen a continuation of the yield movement that we talked about recently and strong demand for discounted tickets, with advance purchase tickets up 22% at the expense of other ticket types, typically things like full fare first class tickets.

In terms of the balance sheet and finance link, our clear focus remains on cash generation, and we're on course to achieve £100 million per annum for both 2009/2010 and 2011, which will be applied to net debt reduction. We've

made good consistent progress with a strategy to reduce reliance on bank debt and extend debt maturity. In September, you will have seen we issued a £200 million 15-year bond at a coupon of 6.875% and we used the proceeds to pay down existing bank debt. This has extended our debt duration to 6.2 years, which I think is a great position at this stage of the cycle. Again, this issue was well over-subscribed, and we're pleased with the consistent support from high-quality fixed-income investors, demonstrating their confidence in our business. Headroom under our committed bank facilities is now over £800 million and we have no material refinancing requirement until February 2012.

SIR MOIR LOCKHEAD: Thanks, Nick. Finally, just the outlook. We're, as I said at the beginning, in line with expectations, no surprises. We've demonstrated the ability to respond swiftly to changing economic conditions and driving revenue per mile as a measure of matching supply with demand. The action we have taken will ensure our cash and earnings targets are achieved; just to remind you, the £100 million of debt reduction and the cash generation associated with that, we're aligned to achieve that. We're in good shape.

Despite the continued economic difficulties, we're in good shape, the mix of our operations providing resilience and underlying strength to our business, and our group's management, I have to say, is focused on a clear remit to deliver these cost plans and free cash to the end of the year, and there's no distractions.

So that finishes the presentation.