OPERATOR: Good morning and welcome to the FirstGroup pre-close conference call. Throughout the call, all participants will be in listen-only mode and afterwards, there will be a question and answer session. Just to remind you, this conference call is being recorded.

Today, I'm pleased to present Mr Jeff Carr. Sir, please go ahead.

JEFF CARR: Good morning everyone and welcome to FirstGroup's pre-close trading update for the six months to 30 September 2011. My name's Jeff Carr, Group Finance Director and with me this morning is Rachael Borthwick, Corporate Communications Director.

Before we go through each of the operating companies in turn, let me just state that overall, trading in the period has developed in line with expectations. I expect EPS for the first half to be slightly ahead of prior year, largely due to low interest charges reflecting improved average effective rates and lower debt levels. We continue to target a net cash inflow of £150 million for the full year and we continue to identify small non-core business and asset disposals to support that target.

Moving on to UK Bus, like for like passenger revenue growth continued at similar rates to last year of 1.2% for the period. Overall total revenues will be down slightly due to continued reduction in mileage reflecting lower levels of tendered business, a run through of last year's route reductions overall offset by an increase in our regulated London business with a number of new routes starting during the period including the start-up of Route 25 in June.

Though we anticipate a moderate margin improvement in the period versus the same period last year for UK Bus, we're cautious about the short to medium term outlook for UK Bus. The macroeconomic environment continues to soften and we do not anticipate, in the near term, an improvement in unemployment or retail footfall through the major regional economies where we are strongly represented.

For example, retail footfall is down by over 6% year on year in the north of England and by over 8% in Scotland. Additionally, the industry remains vulnerable to pressures on public financing which impacts concessionary travel, tendered routes outside of London and fuel duty rebates.

However, our confidence in the strength of the bus business is reflected in our investment for the future which includes the order of over 950 buses over the next two years and an investment of £27 million in new ticketing technology which was announced in the period. The new ticket machines, which are designed to read contactless debt or credit cards or mobile phones in addition to the ITSO Smart Cards, will be introduced to buses from the autumn. The contactless bank card functionality will be rolled out later in the middle to late 2012. We believe this type of investment is key as we look to retain and attract new customers.

Our Rail division continues to perform well with strong revenue growth across all the main train operating companies and overall, like for like passenger revenue is expected to grow for the period by 9%. During the period, we are pleased to have concluded the negotiations on TransPennine Express on the franchise extension. As a result, the franchise will be extended beyond the current termination date of February 2012 to April 2015 albeit at margins more in line with the industry average. Additionally, on 4 August, we were informed by the Department for Transport that the Capital Connect franchise will be terminated in September 2013. This will allow a new franchise to begin covering the next crucial phase of the Thameslink Programme which includes the introduction of new rolling stock which is being procured by the Department.

As discussed in May, our Student division experienced very difficult trading conditions last year and, as a result, our overall margins declined from 11% to 8.1% in the period. In response, we launched a Student recovery plan which targeted driving out cost but, more importantly, improving business efficiency throughout the operation. I'm pleased to report that the plan is proceeding very well. However, as we have previously stated, we do expect to see a continued drop in margin in the first half of this financial year relative to the prior year as that performance is somewhat hardwired in from the last school year.

Looking to the second half of the financial year, best practice processes have now been established in many areas such as charter revenue, management of driver labour and engineering and these have been rolled out across all of our 600 locations in time for the start-up of the new school year. It's still early days but signs are encouraging and feedback from location managers is very positive.

Additionally, the bidding season ended as we anticipated with retention rates improved on last year at around 90% and while we're seeing signs of improvement in the areas such as charter revenue, the overall trading environment however does remain challenging. For example, with the start of the new school year, we've seen organic reductions continuing to run at about last year's rate of about 1% as school boards continue to manage their budgets.

In summary, and as a consequence of the recovery plan, we expect the operating margin for the second half of the financial year to be broadly in line with the same period last year indicating a stabilisation of margins in the business and we'll take you obviously through more detail update of the plans and the work that we'll be doing at the results presentation in November.

Our Transit division continues to deliver growth from its core business segments with dollar revenues expected to increase by around 2% for the first half. During the period, we saw a particularly strong performance from our shuttle bus business with new contracts being won to provide bus services on college campuses such as Yale University and also volume added to existing contracts in areas such as Fort McMurray in Alberta, Canada. We have a good pipeline of opportunities and continue to utilise the excellent reputation, track record of our Transit team to retain contracts and win new business.

The Greyhound transformation project continues to deliver results. Revenues are expected to be up in the period by around 4% and margins continue to show some improvement. As we continue to transform Greyhound, we're working through a programme to dispose of our more expensive city centre terminals. So, for example, in the period, we completed the sale of the Washington DC terminal which was flagged in May.

In Canada, our plans to reduce uneconomic routes and modernise the network are progressing well and we expect to return to profitability in the current year. If you recall, we lost about CD$20 million two years ago in Canada. With a disciplined investment in new and refurbished coaches, we continue to roll out Greyhound Express which now represents around 14% of the fleet and where we've introduced the new services, we're very encouraged by the customer response to the new product. We continue to invest in technology and as Greyhound moves online, with now over 30% of US sales web-based, we're very encouraged also by the success of our 7/11 pilot operation to generate ticket sales.

In conclusion, the Group has a diverse set of operations which are fundamentally strong and while we continue to address the immediate challenges presented by weak economic conditions in certain markets that we operate, the board is confident that the Group has good prospects to continue to deliver long term value for shareholders.

Thank you. Now I'm happy to take any questions. I'll hand back to the operator.

OPERATOR: Thank you. Ladies and gentlemen, if you do wish to ask a question, please press 01 on your telephone keypad. If you wish to withdraw your question, you may do so by pressing 02 to cancel.

We have a question from Mr Mark Manduca from Merrill Lynch. Sir, please go ahead.

MARK MANDUCA: Hi, morning, guys. Mark Manduca from Merrill Lynch. A really simple question, Jeff. On your commentary around school bus, I'm trying to get the joke I guess for the second half in terms of what I should be expecting both for the second half year on year, that's clear in the statement, but more extrapolating for the full year margin and is there implicitly a downgrade there to the 7.5% rough margin that people have in sort of consensus forecasts?

JEFF CARR: No, I don't think so. I think we're not looking to downgrade the school bus number at all. What I believe is, looking at some of the models, the split in margin, half on half, might not be quite right in all of the models.

MARK MANDUCA: So a downside to H1; upside to H2.

JEFF CARR: Yes. I think for H1, what we said in May and what remains true, is we expect the margin trend for last year to continue into the first half of this year and obviously, the school year was set, the budgets were set, the contracts were in place. Last year, we lost around about 3 percentage points of margin. I think we'll continue to lose something of that order of magnitude in the first half of this year.

MARK MANDUCA: So broadly break even.

JEFF CARR: A little bit positive, yes. When we get into the second half of the financial year, what we've said, just to be very clear and just to restate it, is we think margins will be stabilised year on year, so as a consequence of the business efficiency programme, the cost reductions, a smoother start-up to the new school year with less churn of contracts and just generally a more ordered environment albeit the pressures remain in terms of budgets from school boards. We expect margins to be, as I said, flat year on year and I think that's an important stabilisation that we've been talking about for a while. It's the first time we've felt confident to put that in writing and, as I said, we feel reasonably confident about that. Overall, the picture hasn't changed really from when we talked in May.

MARK MANDUCA: Just a last question; in terms of momentum on the cost savings, obviously you seem to be saying that it's moving in your favour. How easy has it been versus those original expectations though and particularly around the unionisation of the workforce which is obviously very different from your peers? Have the levers been there to pull and have you been surprised or disappointed by anything in particular across the cost base?

JEFF CARR: The levers are certainly there to pull. The key areas of focus remain the areas we talked about which is basically looking at driver labour efficiency, engineering costs, charter revenue; those sorts of areas. I'm not surprised about the opportunities we've found. We think there are significant opportunities. We are cautious in the size of the price that we talked about. I think the one thing that has surprised us is the enthusiasm from the team, the response at the location manager level, the response within the engineering teams to the guidance, to the best practice, to the way that we've conducted this programme and overall, the improvement within the school bus division I think is very encouraging.

MARK MANDUCA: I appreciate that. Thank you very much.

OPERATOR: We have a next question from Mr Joe Spooner from RBS. Sir, please go ahead.

JOE SPOONER: Morning, guys. Just a follow-on question on Mark's question. In terms of the $65 million of savings you're targeting out of that school bus business, can you just give us a sense of how much of that you're expecting to deliver into the current year and

I'm guess that's going to be second half weighted? How much of that $65 million is underpinning the margin outlook that you're talking about?

Secondly, in terms of what you're saying around UK Bus, how are you expecting to respond to that weaker outlook? Is it more about fare price increases going forward? What is it you're going to change in terms of that business?

JEFF CARR: I think just in terms of the Student recovery plan, what we previously said is we expect about two-thirds of $65 million savings to come through this year. The most immediate savings come through from basically just reductions in head office staff levels, for example, and right sizing the fleet and the asset write-offs.

The savings will take a little longer to come through but we are seeing encouraging signs in the improvements in efficiency in terms of labour, engineering and charter revenue but two-thirds was the number I think we talked about in May and that remains in line with our expectations; not a lot has changed there.

In terms of UK Bus, we're doing an awful lot currently in terms of both cost and commercial side of the business to develop the revenues, to manage our costs, our cost basis throughout the bus organisation and continue to execute those plans. As I mentioned in the presentation, we're also investing a lot of capital into the bus business in terms of new buses and in terms of the ticketing technology that we'll be introducing relatively shortly. We'll continue to push in those areas. What we're flagging in the statement is just the fairly sort of obvious statement that the environment in the UK, especially in the areas where we are heavily represented such as cities such as Glasgow, is very challenging at the moment and we're purely stating that so people understand that there are headwinds in that business. I'm not looking necessarily for people to create any sort of panic, but clearly as we look to the second half of the year, we do face some challenging conditions and people need to take that into account as they look forward. So I would be cautious about projecting growth into that business.

JOE SPOONER: Thanks very much.

OPERATOR: We have a question from Mr Geoff van Klaveren from Deutsche Bank. Sir, please go ahead.

GEOFF VAN KLAVEREN: Good morning, Jeff and Rachael. First question; can you say what really was the key reason why contract retention, First Student was better this year than last year and secondly, I just want to understand or I suppose reassure myself what internal controls you've put in place to avoid the situation we had last year with the guidance on First Student deteriorating through the year?

JEFF CARR: Yes; reasonable questions, Geoff. The contract retention I think just comes down to better planning. If you go back to again the fall of 2009, we had a different management structure in place that went through an awful lot of changes in the lead-up to the bidding season for 2010/11. We've had a stable team in place and we've overseen that team to make sure that the contract retention plans have been rigorous and have been executed well, so that effectively customers are being talked to well in advance to ensure that we understand the customers' needs and their contracts don't come out of the bid where possible and that's been successful. In terms of the guidance, yes, I recognise that last year was a pretty awful year for the Student business and several factors happened which meant we brought the number down in dribs and drabs as opposed to foreseeing it earlier. We have a new management structure in place in terms of the finance community. We have a new finance director in place. We have worked very hard to make sure that communication between the field i.e. the locations and the head office is much clearer. We have I think better processes in place on how we manage our performance management processes in terms of the monthly result discussions and all in all, we feel more comfortable, although we've just started the new school year, that we won't have the type of challenges that came across last year. One of the big causes of last year's problems was the number of contracts that came up for renewal, the number of start-ups that we had and the number of contracts that we lost and it's just a fact in this industry that the forecasting of the contracts' start-up in the environment that we were in last year proved to be very difficult largely because the school boards changed their requirements as they looked to save costs in winning the contracts and implementing the contracts. We don't have that level of churn this year. We're comfortable that the forecast is robust. Obviously there are factors we have to weather; they are outside of our control but we feel confident enough to put it in writing that the margins this year should be in line with last year. We haven't done that before and I think putting it in writing, we don't normally give that level of guidance but we have worked through that in some detail and we feel very confident in being able to do that.

GEOFF VAN KLAVEREN: Okay, thanks, Jeff. That's great.

OPERATOR: We have a next question from Mr Edward Stanford from Oriel Securities. Sir, please go ahead.

EDWARD STANFORD: Just for clarification. The Greyhound Express, as a percentage of the fleet, is that 14%? I wasn't quite sure I heard that correctly.

JEFF CARR: Yes, it's 14%.

EDWARD STANFORD: Secondly on Student; at the risk of jumping the gun, are you in a position to start talking about the restoration of or the growth of margins now that you seem to have stabilised them and, if so, what's the recipe for doing that and thirdly, perhaps just changing the conversation to rail, can you give some idea of the mix between volume and yield and how that's playing out?

JEFF CARR: In terms of Student, I think it is a bit too early to be honest, Edward, to talk about growth and obviously we've talked about our goal to get the margins back and into that sort of low double digit tendency, that range. We certainly think there's the potential to get there but I think it's too early to be factoring that in. I guess, an inflection point for the margin decline, the trick to get back to a double digit margin is quite clear. First of all, we need to continue to execute our retention strategy and bidding strategy to the same level that we did this year and that is to contain good levels of retention. Contracts that come out on to the open market for bidding tend to get bid down and retention is an important tool is that process.

Second, we need to look to grow in areas such as charter and we're seeing some encouraging signs of like for like charter revenue. Charter revenue for bus is starting to improve and we need to continue to drive that back to the levels that were there two or three years ago. If you recall, we've had double digit decline over the last couple of years, so we need to get that back but, more importantly, we need to get that cost base to where we want it by continuing to drive the efficiency programmes. I do believe there's considerable scope to continue to push labour efficiency, labour costs, engineering costs to get them best in class, looking after opportunities to continue to reduce costs. We need to do all of those because I don't see overall pricing, the overall pricing environment significantly changing in the next year or two. If we do all of those, then I do believe we can get back to those sorts of levels in the long term.

Finally, I don't have any numbers in front of me in terms of the splits. Yes; I think pricing last year was in the average of about 5%, so I think clearly you can see the volume must be up in the region of 4% to 5%. I'll get back to you, Edward, on this one. We'll supply a fuller breakdown of that in November with the results.

EDWARD STANFORD: Thanks very much.

OPERATOR: We have a question from Alexia Dogani from Liberum Capital. Please go ahead.

ALEXIA DOGANI: Hello, good morning. I just have a couple of questions on the North American businesses. Just firstly on Student; you've mentioned that two-thirds of the cost savings will be delivered by the end of this year. When should we expect to see the full year impact of this? Just following on from that, given the school season has started now, what is your expectations for H1 2013? Then in terms of Transit, I was just wondering if you could give some commentary about why and how you plan to grow this and fixed routes as you've mentioned previously and just a short clarification on Greyhound. What exactly is the 7/11 programme you mentioned? Thank you.

JEFF CARR: Just to confirm, we said about two-thirds of the savings would come through in this current financial year; that's two-thirds of the $65 million saving programme would be included in this financial year and we needed that to get the margins stabilised in the second half and that's certainly coming through.

The full year; pretty much next year should have a full year impact of that $65 million there or we'll have a full year impact in our next financial year. We haven't really given guidance for the first half of 2013 but I think the read across is that you should not see margins further decline year on year as we get into 2013. There's a minimum I'd expect them to be stable.

Coming back to the question from Edward, are we projecting growth in margin, yes. I think it's just too early. We have to see the programme roll on a few more months before we see that.

In terms of the Transit growth strategy, we believe that Transit operates in some fairly significant sized markets. The growth strategy is through a bidding process for new contracts. We have strengthened the commercial team to execute the bidding work and we believe that will generate results as we look to the future. This current year, the growth is probably a bit lower than we would have liked, partly because one of the main contracts we were bidding for, which we won, has gone into a legal dispute, which is unfortunate, but that would've added significant growth to the business. So we continue to bid. We have a strong pipeline of opportunities and we have confidence that our bidding team is as strong as any in the industry and that will generate growth going forward.

In terms of the 7/11 programme --

RACHAEL BORTHWICK: The 7/11 programme, Alexia, is basically a trial that we've been running with 7/11. It just opens up web fares and tickets to a wider audience, so that market that perhaps doesn't have access to credit cards etc, so they can literally buy a ticket online, print off a voucher, take it to the 7/11 store and pay for it there, so it's just a cash option for web sales. It's opened up a new market. It's been trialled in the Dallas area in the last couple of months. It's been very successful and they'll be looking to roll it out in the second half.

JEFF CARR: Okay, thank you.

PETER HYDE: Can I just ask one question, Jeff? Sorry, it's Peter here. Just on cash flow and asset disposals; could you just confirm how much you sold Washington DC for and kind of, when you talk about other asset disposals or kind of can I call them one-off costs through the cash flow? Are there are any kind of exceptional cash cost charges and what kind of level would you expect asset disposals to be including Washington?

JEFF CARR: We haven't given guidance on specific disposals because it's always difficult to do and assume things are going to complete. The Washington property was sold for about $48 million of which approximately $38 million has been received this year. The reason I put it in is that we've always talked about -- it's really a clarification. We've always talked about the ability to sell Greyhound properties, for example, the ability to sell small businesses and we've got a small bus service which might be getting sold in the near future and I just wanted to be clear that those are inclusive within the target. Obviously if we sold anything much more substantial, we'd make some other comments about that but basically, it's just a point of clarification. We haven't really split it out in terms of how much of the cash flow is coming from that, how much of the cash flow is coming from other areas.

PETER: Okay. You wouldn't expect anything abnormally exceptional other than obviously some of the exceptional cash costs that you've already announced.

JEFF CARR: Yes; exactly. We're spending a significant amount of cash costs in terms of the recovery plan, for example, which will be shown through the cash flow this year.

PETER: Sure, okay. Yes, thanks.

OPERATOR: We have a question from Mr Damian Brewer from RBC. Sir, please go ahead.

DAMIAN BREWER: Yes, good morning, everybody. Two questions I guess, UK Bus focused. First of all, on the UK Bus side, the like for like up. Can you give us some idea of what the London, non-London actual revenue in mileage looks like rather than just on a like for like basis? Secondly, again relating to bus on the cost side; could you give us some idea of what's happened with the labour settlements? Obviously a weak employment market doesn't just affect top line; it affects labour cost pressures as well and whether there's been any flow through there and what still seems to be the largest part of your cost base; then attached to that also, the other big cost elements. Where are you on fuel? Have you been into the market and put any more hedging in place as fuel commodity prices have eased a bit?

JEFF CARR: You said mileage but I assume you meant what's the split of London, non-London revenue growth on a total basis. I think you mentioned mileage in the question but I think you meant revenue, so I don't have the numbers in front of me but effectively, non-London will be down because we continue to take mileage out. I'm going to estimate and I'll get back to you with the details; I assume it's going to be down around about 5%, 4% to 5% [mileage]. London is going to be there; up a little bit because of the new route win. Our total mileage will be down a little bit.

In terms of labour costs, we continue to settle below RPI, below CPI where I think there's a realisation in the industry that things are tight. We are quite reasonably settled on this; we've been achieving and they're running, as I said, below inflation at the moment.

Fuel; we've been in the market on a regular basis as we stated in the policy. Each month we go in and we buy forward to extend our cover over the coming 18 months. We remain about 90% hedged for this current financial year at the levels we showed in May; not much has changed and we have been taking out cover for the next financial year but we tend to do that more in terms of a small percentage each month rather than any big particular action, but yes, we did buy some recently at below $100; I think from Brent, below $100 a barrel for the first time in a little while.

DAMIAN BREWER: Okay, thank you. Can I ask for two clarifications if I can? First of all, just on that non-London bus, if the revenue is down 4% to 5% effectively with a little bit of growth underlying, effectively there's still some very significant mileage that's been taken out there.

JEFF CARR: I think what we said is that it's the run-through of the mileage that was taken out last year, just annualising now. We haven't been taking additional mileage out. The only exception to that is where we have seen a reduction in the tendered volumes outside of London and that happened as a consequence of local authority budgets being eased and tendered routes I think are not the only operation that we've seen that … in those volumes. So we haven't been taking [much] more mileage out of our bus operations but we have seen the roll forward from last year, continued roll forward from last year.

DAMIAN BREWER; Okay and then just coming back on the answer to another question; the H1 on H1 school bus margin progression. You were suggesting -- I'm not sure you were suggesting or as sort of the questioner interpreted it as a sort of 3 percentage point reduction in margin year on year. Now, you made 3.7% in H1 2010/11, so you're suggesting you're broadly at the sort of 1% margin level for H1 this year in school bus?

JEFF CARR: Yes, that's correct. The roll forward from last year's margin decline, I think we said in May and we reiterated, will continue into the first half of this year which was a reduction of around about 3 percentage points.

DAMIAN BREWER: Okay, thank you.

OPERATOR: We have a question from Mr Gerald Khoo from Espirito Santo. Sir, please go ahead.

GERALD KHOO: Morning; Gerald Khoo here. One quick question on exceptional items. What should we be expecting this year in first half and also, should we be factoring anything in for rail bid costs or any other bid costs?

JEFF CARR: Yes, Gerald. I think the only significant, let's call it, exceptional items will be the rail bid costs. We have treated it as exceptional and will continue to treat it as exceptional and there'll be some in the first half of this year and the second half of this year. Obviously the next two or three years is a kind of peak period for bidding. I've discussed whether or not we're going to reclassify that but we've always classified that as exceptional and will continue to do that.

The only other item to expect is a little bit more competition costs, Competition Commission costs that we treated as exceptional last year and will continue to treat it as exceptional but that's a relatively small amount.

GERALD KHOO: Right; so all in, in this year, we're talking sort of let's say mid single digit; something in that region rather than doing double digits?

JEFF CARR: I'm not sure what -- you mean in --

GERALD KHOO: In terms of size, yes.

JEFF CARR: I don't know what the rail bid costs could be but they could reach in the region of £10 million I guess by the end of this year, depending on how much activity there is.

GERALD KHOO: Okay, thanks very much.

OPERATOR: We have a question from Mr Jaime Rowbotham from Morgan Stanley. Sir, please go ahead.

JAIME ROWBOTHAM: Hi, there. Yes, just a quick question on UK Bus following on a bit from Damien's question I think. He's focused on regional bus. You mentioned potentially reported revenue declines of 4% to 5% in H1. From the outlook, I dare say that maybe gets even a bit worse in the second half unless I'm mistaken. So the question is what's your view on the operational leverage within the UK Bus business? When you're taking mileage out and let's say mileage coming out is causing the bulk of those revenue declines, can we assume that the cost base is going down by a similar percent or is it a bit tougher than that in terms of some costs not being that easy to strip out? I just wanted a view on operational leverage to try and get a view on whether revenue declines means decline in profitability as well. Thanks.

JEFF CARR: No. I think when we've taken mileage out and the mileage we've taken out, let me just reiterate, was mileage that we took out pretty much last year which is annualising itself in the first half of this year. We're not going to be taking mileage out and those numbers will be more stable in the second half of the year but when we've taken mileage out, we take it out with a view to reducing usually underperforming routes. We are able to manage down the costs and maintain the operating margin, so what you'll see this first half is actually a slight increase in operating margins for the UK Bus business albeit of a slightly lower revenue number. We don't expect to see the bottom line impacted by mileage reductions. Let me just reiterate that the mileage reduction programme was something we went through last year. What I think we said in May and what we've continued to execute is that we felt that had come to an end and as we look forward, we're looking at opportunities to generate growth albeit against an economic backdrop which is very challenging. I think, as we go forward, we won't be looking at mileage coming out of the non-London business with the exception of tendered operations, tendered routes which are being cut back as a result of local authority squeeze. Our overall tendered business is relatively small, certainly much smaller than a lot of our peers, and so I don't think that's going to significantly impact the overall margin.

JAIME ROWBOTHAM: That's helpful, thanks.

JEFF CARR: Sorry, Jaime, just to repeat; overall, the bus business will report some slight reduction in mileage, a slight reduction in revenues for the half but improved margins and overall profitability will be relatively healthy.

JAIME ROWBOTHAM: Understood; thanks.

JEFF CARR: If there are no more questions, I'd just like to thank you all and obviously we're available if there are any follow-ups. Please don't hesitate to give Rachael or myself a call. Thank you very much.

OPERATOR: This now concludes our conference call. Thank you all for attending. You may now disconnect your lines.