



FIRSTGROUP PLC – PRE- CLOSE TRADING UPDATE CALL 11 MARCH 2011

OPERATOR: Welcome to today's FirstGroup call. Today I'm pleased to present Jeff Carr, Finance Director. Please begin your meeting.

JEFF CARR: Good morning, ladies and gentlemen, and welcome to the FirstGroup pre-close trading update. My name's Jeff Carr, Group Finance Director and here with me today is Rachael Borthwick, our Corporate Communications Director.

Overall the group remains on course to achieve our stated objectives for the year: moderate earnings growth, cash generation of £180 million excluding proceeds from business disposals and, importantly, reducing our leverage from 3 times net debt to EBITDA at the end of March 2010 to 2.5 times at end of March 2011. That said we have brought the update forward a little from the normal timing due to disappointing trading, particularly in February at our North American school bus division. We're getting to the trading issues later in the call however the continued pressure on our student margins mean we're now expecting full-year operating margins to be around 8%, with the shortfall in Student EBIT being offset at the group level by stronger than expected performance in our UK Rail division.

As we've emphasised before one of the key strengths of the group is the diversity of the portfolio and it's clear that our businesses are moving through the economic cycle at different speeds. Top line growth in Rail and positive recent trends at Greyhound are encouraging.

Passenger volumes at UK Bus remain stable but with little evidence of growth. However it's clear that US State finances and specifically school board budgets are lagging the cycle and we anticipate that the school transportation market will remain challenging in the coming year. Moving on to UK Bus it's been a continued steady performance for our bus division throughout the year with full year like-for-like passenger revenues expected to be up 1.4% and excellent operating margin improvement developing in line with our expectations. Giles Fearnley joined us last month as Bus Managing Director and I'm sure that the experience he brings will be of great benefit as we continue to develop the business through improved processes, increased efficiencies and enhancing the service offering to our customers and stakeholders.

We've talked previously about the comprehensive spending review and as we've previously stated we believe we'll be able to offset the impact of BSOG reductions from April 2012 through mitigating actions including increased efficiencies. We continue to progress in negotiations with local authorities in England on concessionary fare reimbursement and overall we do not expect a significant impact on our business in this area.

In April we will see the provisional findings of the Competition Commission review on the UK bus industry and while there will undoubtedly be a period of robust debate on remedies before the final report, which is due to be issued at the end of this year, we believe the industry has successfully demonstrated that it does not make excess profits nor act anti-competitively.

I'm pleased with the strong performance from our UK Rail division. Operating profits are now expected to be ahead of previous estimates and this has largely been driven by stronger top line growth. Quarter 4

like-for-like passenger revenue is expected to grow by 6.7% and we anticipate full-year growth at 5.1%. We now expect our UK Rail operating margin to be ahead of last year despite the increased premiums on First Great Western and Capital Connect.

We're encouraged by the government's continued investment in the rail industry which will deliver capacity and service improvements to passengers and as the largest rail upgrade in the UK we continue to take an active role in discussions on franchise reform and in bidding for new contracts as the new franchising process moves on.

As I've stated in the introduction our trading performance at First Student has been disappointing in the fourth quarter, particularly in February. Difficult weather conditions across the USA but particularly in the northeast have exacerbated the situation and, as a consequence, we now expect operating margins of around 8% for the full year. The root cause of the issues at Student remains the budgetary pressures school boards face. In recent statements from states such as New York, Texas, California and Illinois demonstrates that these pressures are likely to continue into the new financial year. In New York, for example, Governor Cuomo has just proposed a 7.3% cut to state education aid for the coming budget year and this is on top of the reductions that we saw this year.

In January, and more markedly in February, we saw an adverse impact on our labour efficiency which resulted in higher than expected labour costs principally being caused by network consolidations and route cuts put through in the preceding quarter. Across the state we continue to see evidence of customers taking action to bring their overall transportation costs down whether it be a significant reconfiguration of the network such as we've seen in Los Angeles or changes to other

services such as the trend to move kindergarten children to regular existing buses with the loss of the special midday routes. The resulting changes in route reductions have created labour inefficiencies which we are working to mitigate. We continue to work to address the challenges facing school bus market and believe that there's significant opportunity to improve efficiency and reduce costs in order to mitigate the pressures of the current environment.

While it's still early in the new bidding season our retention strategy is showing encouraging results for next year, however, with limited pricing opportunities we anticipate pressure on margins will continue into the new financial year.

Our transit business continues to perform in line with expectations. Full revenues are expected to be up 3.4% albeit with a slower growth rate in the second half of the year principally due to our decision to exit a low margin services contract in Spain. Underlying growth in shuttle, paratransit and fixed route remains encouraging.

At Greyhound we've been encouraged by an improvement in revenue trends in the fourth quarter. For the full year like-for-like revenue is expected to be up around 0.6% but importantly quarter 4 is expected to be up but just under 1%. This is a significant improvement compared to the 2.5% decline we saw in quarter 3. Although it's early in the cycle some of the improvement seems to be related to the impact of higher fares from regional airlines and the effect of higher fuel costs for motorists. Additionally early results from Greyhound Express are encouraging and we continue to expand our Bolt network in the northeast.

Overall the change in mix with lower total US profits means our effective tax rate will be slightly lower than the 25% we previously guided to.

Looking ahead we're encouraged by improving trends in UK Rail and Greyhound and the steady performance in our UK Bus and Transit operations. However, as we've just explained we do expect to continue to see pressure on margins in our student business in the new financial year. Building on the strong cash performance this year we continue to focus and prioritise cash generation to support our policy of reducing debt and dividend growth.

Thank you. Now I'll hand back to the operator and we'll take questions.
Thank you.

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. Our first question comes from Geoff Van Rachael from Deutsche Bank. Please go ahead.

GEOFF VAN KLAVEREN: Hi, Jeff, it's Geoff. Just something with Student then: if you strip out the weather issues in Q4 what would the margin have been for the full year in Student just to try and understand what is one-off and what isn't? Secondly, have you added fuel hedging since the H1 updates in November? And, thirdly, can you give us an idea of what increase in rail premium you're expecting to pay in 2011/12?

JEFF CARR: I think weather has certainly contributed to the disappointing results and it's not necessarily always that easy to identify specifically the cost of weather. Certainly we incur higher labour costs, higher engineering costs and fuel costs when weather is more difficult. But just stripping out the lost days of revenue due to school closures and identifying that

on its own above and beyond what we consider to be the normal trend, that accounts for about 50 basis points or half a percentage point of margin decline. So that's for Student; that's specifically the weather impact and that was in mostly January and February.

In terms of fuel hedging we have added a little bit to next year. I'm trying to look to see what the exact percentages are but I think it's gone up about 3 or 4% in terms of the level of cover that we're currently at. I'll come back to you with the exact percentages but it's certainly up a little bit and we've certainly been adding to the year 2012/13 as well.

In terms of the rail premium, it continues to go up and as you've seen this year we've done a very good job of offsetting that premium and will be able to assure the net of premium net of subsidy went up as we discussed before around 100 million this year; it goes up a little bit more than that next year around about 140 million. Now, obviously some of that will be offset by revenue support but, as I've said, we've been able to offset the 100 million this year in Rail and we've been able to show margin improvement. I don't think we'll show margin improvement next year but I think we've been able to demonstrate that that's a strong business and it will continue to do well off the back of a good year this year.

GEOFF VAN KLAVEREN: Okay, thanks, Jeff.

OPERATOR: Our next question comes from Edward Stanford of Oriel Securities. Please go ahead.

EDWARD STANFORD: Good morning, Jeff and Rachael. Just two questions please: (1) focusing on Rail clearly you've done very well this year. I'm trying to

understand the mechanics of this and how success if due, given the fact you've got two of your largest franchises in revenue support. Where has the operational gearing come from and where have the benefits come from? And (2) on UK Bus have you seen any evidence as you perhaps begin to see in Greyhound of people shifting towards bus travel and indeed perhaps rail travel because of the petrol prices?

JEFF CARR:

In terms of Rail the leverage really is coming from principally the top line and, yes, although First Great Western, First Capital Connect are in revenue support, we do see a little bit feeding through to the bottom line in both of those franchises. And obviously in the other two franchises it's a more direct correlation, and the growth in rail has really not been specifically focused in any one particular operating company; it's been spread across the TOCs so it hasn't been something we've identified with as a London trend. We've seen strong growth in TransPennine Express and also Scotrail so it's been principally driven by top line improvements although we continue to do, I believe, a very good job in terms of cost management in our Rail division and that's really been what's driving. But the key out performance has been on the top line.

In terms of UK Bus, no, I think we haven't really seen any evidence yet of -- although I do believe that we will see some evidence of movement as people leave their cars at home. We definitely see it and it's quite a sharp and fast movement in Greyhound but it's not something that we observed yet in the UK. I'd say volumes and revenue -- top revenues are pretty stable in UK Bus. But we'll watch that closely and I would expect over time that the high fuel prices would create some movement as more people leave their cars at home and use public transport.

OPERATOR: Our next question comes from Alexia Dogani of Liberum Capital.
Please go ahead.

PETER HYDE: Hi, Jeff, Rachael, it's Peter Hyde actually rather than Alexia.

JEFF CARR: I thought the voice sounded a bit deeper.

PETER HYDE: Yeah, deepened somewhat. A couple of questions: just going back to Student you couldn't give us a feel for half one, half two margins, could you, and how the labour costs have changed? I think one of the questions we're getting is how southern was the impact of route changes and labour cost increases and that to me suggests they just don't quite understand how these contracts are struck because I must admit I kind of felt that the contracts were struck at the start of the year, you then ran the mileage and basically everything was bolted down so therefore there wasn't as much variability around margins as you are now sort of suggesting.

And then, secondly, on Greyhound could you talk about regional and whether I think the northeast was the problem before because of low fare competition, whether that's eased a lot and whether the northeast has bounced materially back into profit or whether it's actually across all the different geographies where you're seeing the benefits coming through and whether the northeast is still a problem for instance.

JEFF CARR: I'll come back to Greyhound but just to say we've never said the northeast wasn't profitable. We just said its growth rates were weaker than the rest of the territories but I'll come back to Greyhound.

In Student we reported 3.7% operating margins in the first half which was down from 5.1% a year ago. In the second half obviously we started the new school year pretty much in September and once we see how that new school year develops you're quite right to say we should expect fairly stable costs and fairly stable margins. As we start the new school year there is a lot of negotiation discussion, potential changes, as networks are established for individual towns and school boards so each year as we start the operations there is a discussion and then agreement as to the actual network mix that will be run. That can create variability in margin. That ought to settle down pretty quickly as we start the year. What we've seen this year is it's taken longer for that process to settle down and it's not been one specific example but there's been many examples across different school boards but as they've looked to reduce their transportation costs as well as their overall education costs, and I'm sure you've read about teacher redundancies and the sort of pressures they're facing, in fact the article in the FT yesterday on Texas I think is an article that kind of sums up the pressures that various education authorities are under. It's taken, therefore, much longer this year for the actual final network to settle down and the route mix to be finalised. Sometimes parents get involved when routes are cut and they have to be added back or there's certainly a lot of lobbying that goes on.

We've therefore seen more variability this year and really a lot of that has built up in terms of pressure on costs which has started coming through in the quarter after the changes were put through. So we've really only started understanding the actual level of impact on our labour efficiency later than we probably should have. Now, there are more actions that we can take to mitigate that and labour isn't the only

factor involved in terms of pushing our margins down. Despite our hedging we have seen some increase in fuel costs and I think primarily due to the extreme cold that we've had in North America this year we've seen increases in our engineering costs as well but labour is probably the biggest factor.

What we need to do is be more proactive going back and negotiating the final mix of routes and the type of routes we run in school boards and making sure we do a better job in the summer of next year to ensure that the efficiency of the network works to our advantage in that we can minimise our labour costs. And that means having driver hours basically driving to the highest percentage of hours and being paid at the full rate so the range of issue goes from anything from, as I mentioned before, midday routes being cut which tend to be high margin which was special kindergarten runs, to just general reductions in routes. In Seattle for example has just announced more route reductions as a consequence. In fact, the way they painted it is by cutting 80 school routes they'd be able to save X number of teacher jobs. So we need to be a little bit more proactive to make sure that we understand the consequences of the route changes and that we better manage our labour costs to fit with the structure that we're asked to run. And it's a very important fact that we need to be able to flex our costs as we see these pressures coming to bear and we just in this fourth quarter have not done a good enough job quite frankly flexing those costs.

In terms of Greyhound you asked about the northeast. The northeast is still lagging in terms of growth rate but we've seen the general move up in terms of growth. In fact the last few weeks have been very encouraging but the fourth quarter was back to just under 1% growth

from 2.5% down. The northeast is still lagging but it's certainly shown an improvement versus where it was in the third quarter so we've seen across the US an improvement in growth in Greyhound and it's quite encouraging and it's the same phenomenon we saw in the summer of 2008 that as fuel triggers certain levels more people decide to leave their cars at home and take Greyhound. More people find regional airlines ticketing too expensive and move back down to what is the most cost effective form of travel which is Greyhound.

PETER HYDE: Okay, sorry, could I just ask a final question on tax? You talked about 25% or less than 25% this year. Should we think about that as sustainable for a year or two given the margin pressure of First Student or do you think it's less than 25% this year and then 25% thereafter?

JEFF CARR: No, I think we will see under 25% for the next -- for the medium term, yeah.

PETER HYDE: Thanks.

OPERATOR: Our next question comes from the line of Menno Sanderse of Morgan Stanley. Please go ahead.

MENNO SANDERSE: Good morning, everybody. Two questions: (1) on the pricing you talk about limited pricing opportunities which seems fair given the environment. Is it also reflected in the wage inflation and the wage demands by the unions?

JEFF CARR: Well, no, they're not volunteering to have limited pricing in their wage demands. I mean, that's a continual battle that we have. We negotiate wages on a school board by school board level so it's done at a contract level so there's no overall sort of trend but overall wage inflation has been running at 2-3% in the US and we have not -- it's fair to say we've not been recovering that in pricing through our customers. We mentioned pricing because we were saying our retention rates are improving this year relative to last year. I think we have a good programme in place to ensure that we have a successful bidding season but I think -- and many of the contract negotiations are open books so you can go and look at the outputs from them. I think it's fair to say that where we've gained retention we're having to give a little bit on pricing and that's the key factor along with the potential of further organic route losses which lead us to conclude it's going to be a difficult environment for margins next year. However I think we are in a better place than we were this time last year.

MENNO SANDERSE: That makes more sense. And then on the quote in the press release that the company anticipates margin pressure to continue in the next financial year. With that do you mean no improvement or do you mean there's a risk it will slip a bit further before you've got control over the labour efficiency and the pricing abates a little bit?

JEFF CARR: I think it's still early in the bidding season. If you look at the percentage of contracts that have been completed for the next year it's still early in the cycle and I think we have to see a little bit more evidence of that. The pressures that we're facing are pressures the whole industry is facing. I can see the same pressures on contracts that have been

retained by our peers where we have been in and we've tried to bid and people across the industry are seeing these same pressures. But basically I think it's just too early to flag any specific guidance on student margins. What we I think have tried to do as early as possible is to indicate that margin improvement will be extremely difficult.

MENNO SANDERSE: Okay and then finally on the contract retention are there any very profitable contracts from, say, five years ago that are coming up for renewal or is the mix not any different than in any other year?

JEFF CARR: No, last year was a more difficult year. We had a fair percentage of contracts coming up. This year we're back down to our normal levels which is about I think ... just in the 25-30% of contract renewals and that's all types of different contracts. It includes the percentage of that that actually comes out to bid is relatively small and it's no different and no particular large ones which we should flag as a concern, no.

MENNO SANDERSE: Okay, perfect. Thank you very much.

OPERATOR: Our next question comes from the line of Damian Brewer of Royal Bank of Canada. Please go ahead.

DAMIAN BREWER: Thanks for taking the question. Two questions: (1) could you explain a bit more about the mechanics of why something that would happen one presumes in the first few weeks of the school year, i.e. sort of September and into October takes so long to turn up in terms of pricing and costs pressures in terms of the quarter lag you're talking about. And (2) in the current situation obviously we've got these pressures on

the business. As the fuel hedge begins to run out and term out how do you think or what will your strategy be for recovering increased fuel costs in contracts where you don't have pass through in the business particularly given the backdrop of still continued budgetary pressure on school boards?

JEFF CARR:

I mean, just in terms of the first question it's a big business with a lot of moving parts. As I've said earlier we probably should have been able to identify that earlier but the reality is it's a significant scale of business and the full impact of the labour costs weren't really identified until the results came through in January and then February. For example, as we reduced the number of drivers we've ended up with a more expensive mix with some of the older and more senior drivers who tend to be paid a little bit more. There's a whole range of events and it tends to vary contract-by-contract. As I said before there isn't a single example that you can point to with a common theme. The only common theme is school boards wishing to reduce their transportation costs.

Now, the flipside of that coin is we continue to see more and more inquiries about people looking to contract out to the private sector but as we said before that's a process which we'll talk about as we see more conversions and we won't talk about that on the hope of more conversions. We'll actually talk about it as we win conversions. So it's a big complex business but I think we tracked across very closely and this was exacerbated by what was particularly bad weather in February, specifically in the northeast but across the US.

In terms of fuel hedging we have about 18 months of fuel hedging in place. We're at -- actually coming back to the question we had before, I

think in the third quarter update our overall position was around 65% hedged. We're now sitting at around just under 70% so we've increased by about 5%. And that's across both the UK and North America. For Student particularly we have -- it's a higher level of hedging of our at risk quantities.

So I think over the next 18 months we will have a relatively stable situation and we will look at -- we price that into our bids as all of our competition will have to price that into their bids as we go forward.

DAMIAN BREWER: Okay. Can I just come back? I'm just confused about why something that should impact the first few weeks of the school year doesn't turn up in terms of visibility of numbers in the business until the start of the quarter of this calendar year. Can you give us in terms of some sort of idea of the timing or the build-up of these network or route changes or just the scheduling changes that have happened and obviously caused you disruption in the way you plan and schedule your labour and those overlaying costs with that? Can you give us a better feel of how that has built up, which month this has been at its peak and whether you're beginning to see that settle down or whether that's still on ongoing process?

JEFF CARR: The key issue arose in -- we started to see the issue in January. The key issue arose in February and we decided to bring this update forward as soon as we closed off the February period end so I think that's fairly clear. In terms of the mechanics of it, it's something that develops over several periods so I think we've been fairly clear on that.

DAMIAN BREWER: Okay but I mean, how can I put the question the other way? In terms of the momentum of the changes you're seeing in your networks or rather your groups that you're operating is that still building or is it beginning to settle down?

JEFF CARR: No, I think it's settled down now. I think the next major period of change will be as we start up the new school year in September. As I said before each year that we start up we have a negotiation; we have a discussion about the optimum network. This year it took a particularly long time for those networks to settle down and I think they are pretty stable now. The key issue will become as school boards agree and sign off their new budgets for the next year whether or not we see overall organic reductions in routes. As I mentioned before somewhere like Seattle has already announced they will be making a significant reduction in their routes. We've had Illinois make an announcement that they intend to reduce their student transportation costs quite significantly next year so we do anticipate that there'll be more route consolidations next year but I think the next round will be starting in the new school year.

DAMIAN BREWER: Sorry, just one follow on if I can grab another minute of your time: with the industry seeming to move with these changes to slightly higher risk profile will you seek to price that higher risk into your new bids going forward or do you think competitive dynamics mean that's not possible?

JEFF CARR: At the moment I don't think it is possible. I think we've said that pricing is very keen at the moment in the current bid cycle. We need to focus on making sure that our bidding is optimised and our cost base is

efficient as we can get it and I think we've said there are still significant opportunities for us to improve our efficiency and that's something we need to talk about more as we look to the full year results in May in terms of what sort of targets that we can achieve to mitigate the top line pressures. But I don't -- I'm not projecting that we will be able to gain much pricing improvement in our contracts overall on average next year.

DAMIAN BREWER: Okay, thank you very much.

OPERATOR: Our next question comes from the line of Mark Manduca of Bank of America Merrill Lynch. Please go ahead.

MARK MANDUCA: Hi, Jeff; hi, Rachael. In terms of a new school bidding season if we just look at volumes who or which competitors are taking market share on the volume side and can we assume that that's at significantly lower rates of return given that you're holding back? A second point on the charter business: what was the run rate in February in terms of top line? And then if we exclude labour issues - or the ones that you discussed - what's the rough average margin that you're getting on the new school bid contracts that are coming out? Or a comparator maybe year-on-year?

JEFF CARR: Yeah, in terms of volumes, what I can tell you is that I'm more optimistic that we'll maintain. We lost a little market share last year. I believe we'll be maintaining market share this year. I think our retention rates will improve. We've just had a more -- a better programme in terms of how we've approached the year. I think it's fair to say that new business won through share shift, i.e. in the competitive bidding

environment is generally going at relatively low margins so I think the school boards are looking to optimise their savings. And I think that has forced some stability in the market in terms of the bidding from the bigger players; that we're not seeing quite the -- some of the bidding that we saw last year but some of the smaller players who are prepared to upgrade for cash in the short term are still bidding at margins which I would consider below our cost of capital and we're resisting that but, as I say, with a focus on retention to make sure that we maintain our market share. I don't think you're going to see any huge volume swings. I know one or two players were talking about volume gains last year. I think you'll see less. I think, you know, people will understand that it doesn't make any sense to bid at the type of margins needed to see big volume swings this year and market share gains and, therefore, more sense will prevail in the market.

In terms of charter I think it's fair to say charter's stabilised. We're not seeing year-on-year declines that we had been seeing. Our challenge now is to get growth into the charter market. I believe we've talked about that before, that there is opportunity to grow our charter business by being more proactive; by being better sales and marketing managers; by incentivising our contract managers in a better way to ensure that they care about charter and they're pushing the charter business to compensate for the difficulties in their principal school businesses. At the moment we're not really seeing that growth. What we're seeing is a stability in the charter market which is a step in the right direction. What we've now got to do is turn that around and show some growth.

MARK MANDUCA: And in terms of the organic top line growth opportunity and charter is it being coupled at all with any margin pressure at all? So if we assume the existing contracts are running at maybe 22, 23%.

JEFF CARR: On charter you mean?

MARK MANDUCA: Yeah.

JEFF CARR: Yeah, I think school charter, for example, and charter is split into two sections: school charter and third-party charter. Certainly I can point to examples, for example, in New Jersey, of school charter where margins have come under the same pressure as the regular student business. So it is being competitive. Margins are being squeezed on school charter and we are -- but overall our charter business is stable now and our challenge is now to take the stability we've achieved into a growth mode.

MARK MANDUCA: Thank you.

OPERATOR: Our next question comes from the line of Gerald Khoo of Arbutnot Securities. Please go ahead.

GERALD KHOO: Morning, all. Another question on Student: who has the authority to authorise changes to routes or contracts after they were signed initially? Clearly this is going to be a little bit of local give and take but given the fact that there appears to be in aggregate a fairly substantial financial impact, can you outline the operational and financial controls that you have in place?

JEFF CARR: I don't think it works like that, Gerald. I don't think we -- when we sign a contract or when we agree a contract we are not getting guarantees of specific route structures. They are something which are constantly negotiated mostly at the start-up time in September or August for September. They're reviewed annually. School boards have the opportunity to review them mid-year and they will design the network to meet their needs so we don't have a point where the specific routes are approved or signed off. It just doesn't work like that. It's -- the contracts are structured in a way that we are providing a service based on the needs of the school board.

GERALD KHOO: But surely your bid basis includes certain assumptions as to what you're -- some understandings as to what service in terms of number of buses for example you're going to be supplying?

JEFF CARR: Absolutely. I mean, we have to make -- based on -- we will make assumptions based on what we have historically -- what has historically been ran in a specific school board region. So we'll bid based on what we believe the route structure will look like. But there are no guarantees that that will be the route structure going forward. We can take into account any statements in terms of what the school board has said in terms of their intention to run in the bidding process but we don't basically receive guarantees that that route structure will be in place for the rest of the contract. I think the key think, Gerald, is we need to make sure that we can flex our cost base to effectively deliver a service on the route structure that we are given and I think we can do that better which means being more -- being nimbler to achieve that. As the

route structure changes we need to react to that to ensure that our cost base is flexed proportionately. But we don't generally have guarantees. There may be collars and caps in terms of if it goes under certain levels then we have the right to at least go back into a discussion/renegotiation but there are no overall guarantees to specific routes or specific structures.

GERALD KHOO: Right, so therefore this is something which has happened very year; it's just more severe this year?

JEFF CARR: That's correct.

GERALD KHOO: And, therefore, it's something that in all likelihood is likely to recur going into next year if the customers remain under pressure?

JEFF CARR: That's correct. I think -- what we've talked about in the past during better economic times with the school boards is that as we start up new networks that we've been used to seeing something like a 1-2% organic growth as school boards and groups to take into account growing population, new developments and the expansion of the school district. What we've seen is contraction of routes this year; again not necessarily in any specific general trend but it may be a combination of kindergarten routes with the main ... student routes, it may be the cancellation of special routes that were there for after school activities or it may be the consolidation of normal routes but we've seen a combination of all of those which has been severe this year. And from what we're listening to the school boards will be a trend that continues into next year. The example I mentioned earlier in Seattle is an

announcement of around about a -- I believe it was about a 5% cut in the total number of routes which they've been forced into despite parent pressure and they've used that as an example of how they're going to save money to not lay off teachers. That's the choices that these school boards are facing; that's where they're at.

GERALD KHOO: On the other side what flexibility, if any, do you have to withdraw from contracts where the contractual changes -- where the route changes are too great. You said there are some sort of renegotiation figures. Is that universal or are there going to be situations where you, say, have a three-year contract and then a year or two years in circumstances changes and the customer decides to pull 10%, 15% off what you were expecting?

JEFF CARR: I think it's probably unusual for us to walk away from contracts. I mean, we do have -- each contract is different; there is no standard sort of contract with the school boards. But there are certain clauses in the contract that give certain criteria for renegotiation. I'm not sure how many of them give you the right to walk away. But clearly it's our job to make sure that we can operate efficiently under those contracts and I think we need to focus on that really.

GERALD KHOO: Okay, thanks very much.

OPERATOR: Our next question comes from the line of Douglas McNeill of Charles Stanley Securities. Please go ahead.

DOUGLAS MCNEILL: Hi, good morning. Just to turn away from the US for a moment could I ask about UK Rail and what lies ahead there? I think the DfT has said that it's talking to you about extending the TransPennine franchise and since we're so close to the date on which it would otherwise expire is it safe to assume that an extension is in the pipeline there? And, secondly, can you say whether you have put in pre-qualification bids for west coast or East Anglia?

JEFF CARR: Yeah, I think the department has said that on TransPennine and I think it's difficult for me to talk in any more detail than just leave it at that. You know, you'd have to draw your own conclusions in the terms of the timing but the TransPennine specifically I think it due for renegotiation in February 2012 so clearly we are up against other -- the department would be up against time but they have come out and stated that they're talking to us and I think you've seen they have various options and I think you've seen that in other franchises recently.

In terms of the rest of the business we are involved in the west coast process. I think there's due to be an announcement on pre-qualification for that relatively shortly and I think the only other -- we decided to pass on the Anglia process at this stage and focus on west coast and I think the only other key areas, as we said before, is we have our option on First Great Western which we'd have to make a decision on relatively shortly.

DOUGLAS MCNEILL: Okay, thanks very much.

OPERATOR: Our next question comes from the line of Joe Spooner of RBS. Please go ahead.

JOE SPOONER: Hi there, morning guys. Does the outlet that your now talking about for Student kind of temper your view on the ability to make further progress in terms of the net debt position of the group or the pace of progress that you kind of previously alluded to there? And, secondly, I think earlier in the call you spoke about a half percentage point margin impact from the weather. Was that in the second half alone or over the full year because I think you've been talking about full year margins elsewhere?

JEFF CARR: No, that's the impact on full-year margin so obviously it's a bit higher on the second half. Sorry what was the ...?

RACHAEL BORTHWICK: (overspeaking) to maintain debt reduction.

JEFF CARR: Yeah, no, I mean, I think the issue is the pace of change. We will certainly continue to reduce debt and we will certainly continue to reduce leverage. I think the question is what is the pace of that reduction and obviously in terms of the leverage it's obviously linked to the strength of the EBITDA but we will certainly continue to reduce leverage in 2011/12. I think it's a reasonable assumption to say that the reduction may be a little lower than it might previously have been.

JOE SPOONER: And in terms of the way you're thinking about the dividend obviously you have -- spoke in the statement of 7 percentage points as before but is that the medium term target is maintained in that way as well?

JEFF CARR: Yeah, I think, you know, the group has a lot of strength in terms of cash generation and I think we can maintain those balances between investing in capital, investing in growth, debt reduction and growing the dividend. I mean, clearly Student's an important factor in that but it has continued to show strong cash generation. We're making very good progress on working capital and Student. We continue to be very precise about our capital expenditure ensuring that we utilise our school buses to the maximum and Student continues to generate strong cash flows for the group. But I think you're right to identify that the pace of that de-leveraging may be affected.

JOE SPOONER: Thank you very much.

OPERATOR: Our next question comes from the line of Damian Brewer of Royal Bank of Canada. Please go ahead.

DAMIAN BREWER: Oh, yeah, good morning again. Just one follow-on question. I just want to step away from the short term focus on margin, etc, and just obviously there's another side to the business which is the capital employed in the student bus business in America. Can you give us any flavour of whether you're able to do anything more proactively by taking capital out of the business? By that I mean either operating fleets for a longer period, aging vehicles, using second hand vehicles which would still give you a very decent return on capital whilst able to accommodate lower cost in the school boards. And if you are doing that can you give us an idea of how much headroom or how much of the fleet you think you could be proactive on this with?

JEFF CARR: No, I think it's obviously something we look at and it's something we put into the negotiations and ... but I wouldn't say there was -- we have over the last couple of years seen very good results in terms -- and we've talked about very good results in terms of how we are becoming better at cascading our vehicles and using our vehicles more efficiently so if we lose a contract making sure that those vehicles are cascaded to other contracts. That's been the biggest area that we've been able to allocate vehicles to to make sure that we maintain a lower cost of capital to make sure that we reduce our capital expenditure commitments proportionately to the generation of earnings from the Student business. And that's a key area that I think will be -- we need to focus on for the next year.

There are negotiations with school boards. It's not just age of fleet and we can all share in that type of reduction in terms of rates. I wouldn't say we've had no success there but I don't think it's been significant.

DAMIAN BREWER: Okay, that's almost surprising given the pressures on the school boards in other parts of the US.

JEFF CARR: Well, I think the US economy is relatively surprising. I think, you know, at the end of the day, it's -- we are -- it's our job to educate the school boards the commercial realities but we still get a lot of requests for new buses. Last year we had a lot of competition bidding with new buses even when they weren't requested in the bids and using capital as a way of sort of winning market share. Now, we're trying to educate the school boards that, you know, a bus fleet that the school board might ask that is replaced after 10 years could be extended to 14 years so we are going through that process. What I'm saying is we haven't had a

significant gain in that at this stage. I think this year the commercial reality of the budget positions is a lot harsher than it probably was in the last couple of years where there was Federal funding available to offset some of the budget deficits. The Federal funding isn't there this year and school boards are having to react to that and we may see more movement in that particular area. We'll certainly continue to push for it to ensure that we do everything to minimise the capital investment into that business or to make sure it's appropriate for the returns that we get from the business.

DAMIAN BREWER: Okay, fascinating; thank you.

OPERATOR: Our next question comes from the line of John Lawson of Investec. Please go ahead.

JOHN LAWSON: Good morning, Jeff; good morning, Rachael. Just a couple of questions: one a bit follows on in the debt reduction profile. I wonder whether you're going to give us a new update of a target of net debt to EBITDA at the prelim stage, obviously 2.5 for this year. But perhaps linked to that could you be thinking of selling some of your activities and I don't mean whole divisions but parts of the business perhaps to accelerate that progress? And the second question relates to Student: do you see any trends for school boards starting to think more and more about charging more for their service. I know one or two do but I wonder whether that might become an increasing trend.

JEFF CARR: I think it might become an increasing trend. I wouldn't say that it's something which has got any significant momentum at the moment but I

think it's something that we need to be thinking about for the future. It's certainly a question for the longer term. As I said, I don't think there's any real significant momentum in it at the moment.

I think in terms of debt reduction we'll give targets in May. I think that's the time I feel comfortable giving specific guidance probably for the next financial year both in terms of earnings and in terms of debt reduction but I will say that I think the direction of the leveraging will continue. We'll continue to make positive movements. The question is obviously the pace and I think we have to be flexible on that. We've talked about getting down to around two times net debt to EBITDA. This year we've made good progress and I think we can continue to make some progress. The question is the pace of that and we'll talk about that in more detail then.

In terms of selling assets that's something we discussed and something we've been open to and obviously the GB Railfreight was a step in that direction. I wouldn't obviously want to talk about specific targets but we have talked about smaller non-core assets and there are several of those in the group. Obviously we'll do it at the right price; this is not -- we don't have to push that process at any cost. Still we'll look for good prices but it's certainly an option and we've also talked about property disposals in North America. We have a strong property portfolio especially from the Greyhound brand. As we go through our Greyhound transformation project some of the bigger terminals, which were designed for the 1960s, don't necessarily fit with the current network structure and we can look to continue to dispose of property, or opportunities to dispose of property as the property market bounces back which we are seeing some evidence that it is in North America.

So we will look at all of those options and continue the progress that we've making - the good progress that we've been making - on getting the debt down to levels which we're more comfortable with.

Are there any more questions?

OPERATOR: We have no further questions at this time.

JEFF CARR: Okay, well, thank you very much. I appreciate you all joining the call and we will update you in more detail on the results obviously in May. Thank you very much.

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