



31 MARCH 2010 – FIRSTGROUP PLC PRE CLOSE TRADING UPDATE CALL

OPERATOR: Good morning and welcome to today's First Group Plc pre-close trading update call. For this call, all participants will be in listen-only mode and afterwards there will be a question and answer session. Today I'm pleased to present Sir Moir Lockhead and also Jeff Carr. I'll now hand you over to Sir Moir.

SIR MOIR LOCKHEAD: Thanks for that. Good morning, everyone, and welcome.

Thank you for joining us today at our pre-close trading update for the year ending 31 March. I'm joined, as you heard, by Jeff Carr, our finance director, and by Rachael Borthwick, corporate communications director. Before I start with the presentation, just to remind you that the presentation we're giving today to accompany this call is available on our website. It's a short presentation. We're going to take you through a summary of our performance in the period and then I'll hand over to Jeff to cover the trading division details. We'll spend a bit of time on that and then we'll get straight on to questions.

On slide 1, we've sort of outlined there the overall position of our company. Just to set it into context, our strategy has always been to lead in the markets in which we operate and we've achieved that both in our UK businesses - that is to say rail and

bus - along with student and transit and Greyhound in North America. It gives us a unique position of strength across all of these markets and provides visibility of trends and opportunities. You all know it's about managing a portfolio of businesses and ensuring that the mix continues to provide flexible strength through its diversity.

It's been a tough year, and you'd all expect me to say that, marked by this continued global economic uncertainty. However, the defensive nature and the resilience of our business has allowed us to manage through the uncertainty, to take action to reduce costs and to manage our networks in terms of supply to ensure that we continue to deliver a robust performance. Across all of our markets there have been good opportunities for long-term growth. The work we have done this year I'm confident will ensure that when the economic recovery eventually arrives we will be well placed to benefit.

Notwithstanding the actions that we've already taken, we continue to believe that there are good opportunities for further efficiencies and improved cash generation. Jeff in a few minutes will come in to talk about this in more detail.

The next slide is the overview. Overall performance is in line with expectation, despite the tough economic conditions and the adverse impact of the quarter 4 severe weather. We have during the year successfully implemented our cost reduction plans across the group which have delivered more than £200 million of savings and we've taken out over 5,000 jobs. This has helped

mitigate the recessionary impact and the cost of our higher fuel hedge, which was about £100 million in the year.

In North America, our contract businesses are maintaining market share with revenues broadly in line with prior year. Our focus going forward is to tightly control costs and protect margin during this environment of pressure on public spending.

Greyhound has delivered a robust performance in what has undoubtedly been its toughest year ever. Despite the pressure on revenues, the business will deliver a credible operating profit margin and will generate cash. We are encouraged by revenue growth trends which continue to improve, particularly in this last quarter. Our UK Bus division remains strong; the performance is steady and resilient and is in line with our expectations. Despite the additional fuel cost pressure and the impact of recession on trading, the margin performance is underpinned by strong control of cost together with mileage adjustment to match changing demand.

Railways has delivered a strong performance during the year and outperformed our expectations with profit maintained in line with the prior year. A great result, really, and we are encouraged by the passenger revenue growth trends which have accelerated in the last quarter despite the reduction in regulated fares and the unprecedented weather.

This robust performance from our businesses has ensured that we are on course to deliver our cash and earnings targets for this

year. I'll now hand over to Jeff to take you through each of the divisions.

JEFF CARR:

Thank you, Moir. Let me just start by looking at UK Bus. The underlying performance, as Moir has mentioned, remains stable, albeit quarter 4 was disrupted by the difficult weather conditions we saw here in the UK. Like-for-like passenger revenues continue to grow. They were up 1.8% in the fourth quarter, which is a good recovery from the 0.7% growth that we saw in quarter 3. For the full year passenger revenues were in line with expectations, growing 1.8% versus last year.

However, it's a little too early to talk about volumes returning to the sort of growth rates we've seen in prior periods but it does appear that volumes are steady across the network. Our key focus during the year has been to offset declining demand and the increased fuel hedge costs by managing our own cost base and adjusting the network where appropriate by reducing mileage.

In terms of cost, we've made good performance reducing overheads and we've made significant improvements in driver and fuel efficiencies. These have helped to mitigate the effects of the fuel cost increases. Within the network we've reduced total mileage by around 5% versus last year. This has largely been achieved by reducing frequencies on the poorer performing routes. However, while managing the network we've also been able to maintain and improve our operational performance with

punctuality improving to over 90% and customer satisfaction measures remaining high at around 90%.

So, moving on to rail, as we've said there are positive signs of improving passenger volumes across all of the train operating companies. For the full year adjusted passenger revenues were up 2.1%, which is ahead of expectations, and importantly in the fourth quarter they were up 3.2% with particularly strong growth in First TransPennine, which was over 7% in the fourth quarter, and First Great Western, which grew by over 3% in the fourth quarter.

As we've said, in January regulated fares were reduced by 0.4%; therefore, almost all of this revenue growth has come as a result of increased passenger volumes. Despite the fixed cost nature of the rail business, we've been able to manage significant reductions in the controllable cost base, which has helped to ensure a good financial performance as we stay ahead of expectations and pretty much in line with last year.

Operational performance was impacted in quarter 4 as a result of the weather, especially at First Capital Connect. However, PPMs - public performance measures - are now back to more normal levels with the moving annual average at First Capital Connect now standing just under 90% with the latest period being over 90%. First Great Western, First TransPennine Express and ScotRail have been consistently over 90% during the whole of the year.

In North America, looking at North America, in dollar terms our revenues for the contract business, as we've previously stated, will be broadly in line with last year. In student we continue to focus on cost reductions and operating efficiencies while maintaining our overall market share, with total school bus numbers at around 60,000. As previously reported, ancillary revenues, which include charter revenues, are significantly down year on year as school boards respond to budget pressures and continue to look to reduce their costs. In addition, in the fourth quarter we've experienced severe weather conditions with snow in 49 out of the 50 states in the US. This has resulted in higher than normal lost school days and operating profit margins are, therefore, for contract business down slightly versus last year, and that's by around 50 to 60 basis points.

Looking forward, the bidding season for September 2010 school year is now well under way and we're pleased that we continue to win new business with significant contract wins in Wichita, Kansas, and the new public sector conversion contract in Detroit, Michigan. That said, the school boards remain under severe pressure and over the next year we don't expect to see any significant improvement in the ancillary revenues and we don't expect any easing of the current pricing pressures.

Now, moving on to Greyhound, Greyhound has had a difficult year, as Moir has mentioned, with passenger revenues down by 14%, which is pretty much in line with our expectations. To offset this, we've continued to manage to reduce our operating costs

and significantly adjusted the network, proactively managing its capacity on a route by route basis. Consequently, margins are better than we might otherwise have expected and Greyhound continues to generate positive cash flows and has shown probably more resilience than we felt it may have done at the beginning of the year.

Revenue trends have improved since last summer and quarter 4 saw passenger revenue growth just over 1% versus the prior year. That's a trend that continues to improve and we're encouraged by the revenue outlook at Greyhound as we look towards the next financial year.

Additionally, we've made good progress in addressing what is a relatively weak business in Canada with some important breakthroughs in what is a much more heavily regulated market. This has allowed either mileage reductions on loss-making routes or direct subsidies from the Canadian provinces.

Now, to support the revenue upturn we're making sensible capital decisions at Greyhound which will be self-funding at an EBITDA level. So, for example, we're undergoing a refurbishment programme to extend the life and improve the customer experience on over 300 coaches over the next 12 months.

Before I hand back to Moir, let me just say a few words about the balance sheet. As we discussed, reducing debt is a key priority and that means getting the right balance between growth capital, debt reduction, and ensure we maximise opportunities in areas such as working capital where significant improvement can be

made as we move to best in class. Additionally, we look at opportunities to address underperforming assets, whether that's in properties or smaller non-core business units, to help strengthen the balance sheet. By focusing on these areas, I believe we can significantly exceed the £100 million debt target that we've set ourselves for next year and we'll be a bit more specific about targets with the full year results in May.

Now let me just hand back to Moir.

SIR MOIR LOCKHEAD: Thanks, Jeff. So the final slide, in summary a good performance in line with expectations, with earnings and cash targets for the year on track. Looking ahead to the next year, we're encouraged by the growth trends in both UK Rail and Greyhound and continued stability in our UK Bus division. However, as we've said, we expect to see continued pressure on public spending budgets in the US for the student business. Our priorities are very clear. Firstly, we'll continue to pay down debt. Jeff has told you that we're confident that there are opportunities within the group to accelerate our de-leveraging plans. We remain firmly focused on margins throughout the group. We see scope for further cost reductions and operating efficiencies, and we'll continue to drive these through in the coming year. Despite the challenges of the current economy, our business remains inherently strong and we are confident in the prospects for the group to continue to deliver long-term value for our shareholders.

That is the end of the presentation.