

TRANSCRIPTION OF FIRSTGROUP PLC PRELIMINARY RESULTS FOR THE YEAR TO 31 MARCH 2009

SIR MOIR LOCKHEAD: I am delighted to be presenting an excellent set of results to you despite the more challenging economic backdrop. I am joined by Nick Chevis who will take you through a more detailed review of the results and financials and we will highlight the unique features of our business that we believe will see us through these uncertain times. Overall this is a strong performance with results in line with expectations and, once again, no surprises.

So the overview. One of our unique strengths is the diversity of our portfolio which provides resilience and will ensure a continued profitable growth. In addition there is 50% of the Group revenues are contract backed, very stable, very predictable and visible revenues over the medium term, and a growing order book of now over \$11.5 in North America. First Student our school bus business is as close as you can get to being immune from recession, and after ten years it has got a strong track record, we've got a strong track record in this market which remains stable no matter what happens to the American economy.

Our contract business represents over 80% of our earnings in North America and generates EBITDA of \$610 million and is, on its own, capable of servicing our US dollar debt.

UK rail division has unique strengths which set it apart from our competitors. The contractual revenue support arrangements in our franchises provide significant downside risk protection from the effects of a weaker economy. As you know already First Great Western receives 80% revenue support from the department and

First Capital Connect became eligible for support from 1 April this year, effectively giving us 80 pence in the pound of any revenue shortfall.

You will recall from our trading update in March, we have already implemented a significant programme of cost reduction that will deliver in this year £200 million across our Group. In both UK Bus and Rail we have delivered continued good review and passenger volume growth. And Nick will take you through the detail of that as part of his presentation.

In North America we have delivered strong margin growth in our contract businesses of student and transit, synergies of \$150 million have been achieved earlier than we expected and we focused on improved margin in addition to growing our share of that market.

I will come back about North America in a little while and take you through the operating performance of the whole division.

Now to my favourite company, Greyhound. Don't forget Greyhound is less than 10% of our earnings. It has improved its profitability year on year in these results; cash generation has been strong and later in the presentation I will take you through the actions we have taken in Greyhound as we flex the business model to respond to changes in demand. As we said in March, there have been changes in demand and we have been able to reduce mileage and, most importantly, maintain revenue per mile.

Finally, as you would expect, cash is king and never more so than now. We are on course to achieve our free cash target for this year of £100 million per annum between 2009 and 2010-11, which

will be used to reduce debt in addition to the £50 million that are in these results.

I'll now hand over to Nick and he will take you through the financials. Nick.

NICK CHEVIS: Thank you, Moir, and good morning everyone. I am pleased to announce another record set of results and I am encouraged by the Group's continued strong trading performance despite the challenging economic conditions. During the year the Group implemented its funding strategy to reduce refinancing risk. Through the results of the equity placing, long term bond and new bilateral facilities, the average debt maturity increased to 4.6 years. Subsequent to the issue of the £350 million bond in April 2009, the Group's average debt maturity further increased to six years. The next main facilities fall due in February 2012. We have implemented a significant programme of cost reduction that will deliver £200 million of savings and includes a head count reduction of 3,500 jobs across the Group. We achieved \$150 million of Laidlaw cost synergies considerably above the \$70 million contained within our original acquisition model. These synergies, together with our margin improvement plans, saw the First Student margins increase to 12.6%. UK Rail revenues continue to grow delivering like-for-like passenger income growth of 7.7% during the year. Our reliable UK Bus business delivered like-for-like passenger revenue growth of 7.4% at the same time as increasing margins to 11.3%.

Our financial performance has remained strong. Revenues grew by 31%, 23% at constant exchange rates including

consolidation of the second six months of the Laidlaw businesses. The cash generative nature of the business is reflected in EBITDA reaching £772 million. Our net debt number of £2.5 billion reflects an adverse dollar exchange movement of £615 million which is offset by a positive movement on our dollar net assets. Our dollar debt is supported by strong dollar cash flows from the North American businesses and because of our structure the dollar rates has very little effect on EPS. Excluding the effects of the equity placing and exchange, we continue to reduce underlying net debt by £51 million over the period.

As you can see, adjusted EPS is up again; this time by 19% to 48.6 pence. Last year dividend cover benefited from interest income on the equity proceeds raised prior to the completion of the Laidlaw acquisition.

Turning to the divisional performance. Over 50% of revenues are contracted. The majority of our earnings come from the very stable and predictable divisions, in particular our school bus business with its strong track record of stability no matter what is happening in the economy now accounting for almost 42% of Group earnings. This contrasts well with Greyhound which represents below 10% of earnings and is more sensitive to economic trends. Overall Group operating margins rose 0.4% to 8%.

UK Bus delivered another strong trading performance, with operating margins increasing for the third year in succession to 11.3%.

Revenue continues to grow with like-for-like passenger revenues growing by 7.4% and passenger volumes by approximately 2%. The growth has benefited from our support for partnership schemes with

local authorities, particularly in city areas, as well as the national concessionary fares scheme. We continue to focus on service quality and operational performance. Across UK Bus lost mileage has remained below 0.8% and driver turnover has fallen below 20%. In addition we have improved our punctuality across UK Bus. Trips on time has improved by almost 3% reaching 93% by the end of the year. This resulting quality fosters customer retention. We are very pleased with the performance, it demonstrates the strength of this flexible business and prospects remain good.

It is worth reminding ourselves what the resilience attributes of our bus business are. The contracted TfL business in London and the national concessionary fares scheme account for nearly 50% of revenues. The London business contains no passenger revenue risk, the fleet has been well invested and is at half life, we have a broad geographical footprint across the UK and a large part of the cost base is labour. During the economic downturns typically labour market pressures ease. This is a flexible operating model outside of London where we can quickly match supply to demand. This allows us to protect revenue per mile.

Now turning to rail. Rail profits were down in the period but our rail business continues to deliver revenue growth and remains profitable. Profits were affected by the weakening economy, subsidy profile and fuel cost increases. As anticipated, revenue growth has slowed however we still achieved like-for-like passenger revenue growth of 7.7%, a good result with passenger volumes also up over 4% year on year.

What differentiates from the other train operating owning groups is revenue support. We are receiving 80% revenue support from the DfT at First Great Western and will receive support for First Capital Connect at the 80% level in 2009-10. Looking forward at the sensitivity to revenue decline, taking into account the revenue support and profit share mechanisms, we estimate that a further 1% movement would impact EBIT by approximately £5 million. So two-thirds of any decline washes through the various regimes. This significantly insulates our rail franchises from the economic impact on their revenues. Despite the high fixed cost nature of rail, we are implementing actions that will save £70 million. That is about 15% of the addressable cost base.

I am pleased to report that the operational measures that we implemented at First Great Western have had a dramatic effect. First Great Western's moving annual average public performance measure is now above 90% and we remain well ahead of the remedial action plan. All our train companies now have over 90% PPM.

So, in summary, we are still achieving revenue and passenger growth, we are driving out costs and we are benefiting from substantial revenue support.

I will just pick out a couple of points on this slide. Revenue growth has continued, like-for-like passenger revenue growth up 4.8% in the fourth quarter contributed to the overall achievement of 7.7% for the year with volumes of 4.2%. Since then the growth rate has remained relatively stable. It is no surprise that there is evidence of downtrading at First Great Western as customers switch out of first

class to cheaper ticket alternatives. AT FCC season tickets have continued to grow, up 5.2% in value terms in the fourth quarter.

As I said, the contractual revenue support and profit share mechanisms are key resilient attributes. In addition, outgoing franchises don't retain pensions or rolling stock lease obligations. The current environment continues to see significant current and planned investment in major infrastructure projects and both First Capital Connect and First Great Western will be subject to major change, which should create further opportunity.

This slide shows the scale of our North American operations. Almost \$5 billion of predominantly contract backed revenues, with the full year consolidation of the Laidlaw business, synergy extraction, cost initiatives and growth, the overall North American margin has risen from 8.4% to 10%.

As reported at the half year, First Services was impacted by the settlement of a large legal claim and operational issues on a small number of contracts nearing the end of their respective terms. As a result Services reported a small loss of \$4.5 million. We have now brought First Services under the same management structure as First Transit.

I would now like to hand back to Moir to take you through the operating performance for North America.

SIR MOIR LOCKHEAD: Thanks, Nick, for that. This is what our North American business looks like. It is heavily contracted which is good news, very stable. It is not dependent on passenger demand and gives us a very visible and very predictable revenue stream. So,

as I said at the beginning, after ten years I think we understand the business more and more. 80% of our earnings are contracted with Student and Transit and generates EBITDA of about \$610 million in these results. \$150 million of synergies done, that's in the bag, we're now looking to increase savings and we are targeting another \$110 million during the year of further savings, £75 million. So the integration is substantially complete but there is still more opportunity and given the economic climate there, now is the time to do it. As I have said to many people, we are doing things that we probably would have taken longer to do because we have now got the motivation and the reason for getting on with it and now people understand that we have to do that.

We have had a successful year in Student delivering improved margins, 1.3% up at 12.6, contract retention was good, 90% and we are on target to achieve our 1,000 bus growth. So we are seeing new business coming through as well as tightening on our costs.

First Transit delivered a strong result continuing margin progression, operating margins up by 1.7% to 7.6%. Don't forget, this is a business that requires very little CapEx, so the return on investment is fantastic.

We have said before that it is our intention to grow in the higher margin business of Paratransit, which is disabled travel, and shuttle bus markets around airports and universities. We have won some new contracts in Philadelphia, New Jersey and also the shuttle bus service in Princeton University. So all good signs that the qualities of our company are being seen and are being used to exploit further growth.

We have tried to set out in this slide the resilient attributes of Student. I have said already no exposure to passenger volumes. That is its inherent strength. We win the contract, we have got a contract for 3-5 years, we know how many journeys we've got to do, we have just got to keep a very tight hold of the costs and that is what we're doing. Parents in the US and Canada send their children to school regardless of the economy and it's an ingrained part of their way of life. So, again, you heard me say that before, the government mandate to provide is mandated to provide school travel, school transportation for children and that is what it does on a massive scale. I will come to give you a reminder of how large and what the opportunities are in that market.

We have got over 1,500 contracts so we are not reliant on one major contract. It is a good spread, typically 3-5 years and it gives us the opportunity to look at each contract to try and do the consolidation that you have heard about before, so that we can get better, more efficient use of our assets and then offer that back to the customer so as to recover and retain the contracts.

You will see from these results the scale of the business since the Laidlaw acquisition isn't impeding our growth, if anything it is helping us with that, particularly in these tight times for cash at state level. So it is done. The authorities, the competition authorities very much look at how competition works at the local level and leave that very much to the individual school boards.

A reminder of the market. It is in the pack but just to give you a ... we used this slide a couple of years ago during a visit of analysts to the US so I just wanted to bring it back to say this is what the

market looks like: \$22 billion of annual revenues, it's massive; 530,000 school buses operate every day in the USA and Canada. So, again, a market that we can continue to grow. We operate 60,000 within that and we are the largest provider. There is a mass of mom and pop companies, small businesses, small fleets, that, as you know, in the past we have been acquiring as well as winning market share and will continue to do that.

So, again, in the pack you will see there is real opportunity for us to grow, even in these times of economic recession. This again shows you how the market has changed. The overall market has grown to 530,000 from 492,000 in the last 5 years and now the contract market has moved from 31.9%, nearly 32%, to just over 36% of the proportion of the market that's there. The bid season, as I have said, has started well. We have a net gain of about 600 contracts and that will get to the 1,000 by the end of the bid season to start for next year. So that is the good news. We are winning bids but we are winning them at good margins and retention is strong. As I said, it is above 90%, that is a really good result for us.

Conversions. You have heard us talk about conversions from the public sector to the private sector. Inquiries are growing. We've seen an uplift in that. There is not avalanche yet. We're not seeing them send us 4% or 5% but of the 600 vehicles that we have secured so far half of that, roughly half of that, has come from the school boards running their buses themselves. That is unique, we have never seen anything of that scale before. Relatively small in terms of the 60,000 buses in the whole market but the signs are good and we think they are driven both by the economy and by people seeing how

we can bring economies of scale, vehicle purchase and all the things we talked about when we took you through the synergy slide last time we met.

So what else, well here it is, my favourite company, Greyhound. I said that the beginning it is less than 10% of EBIT in the Group so having made that I can tell you now what was previously going on. In March, in our trading update, we said we'd seen the US economy deteriorate very quickly and as a result Greyhound's revenues went down and weakened. That has continued. So we are seeing in this last few months it is not going down more steeply it is simply settled at about where we expect it to be. During that period, if you remember, we took some pretty decisive action, we implemented a number of cost reduction programmes and we were able to maintain our revenue per mile. So the good news is that this business is not resilient in itself but what it does allow us to do is very quickly flex the supply side to match demand and protect profits. And as you will see in these results, profits in the year were up 5.6%, \$92 million, EBITDA at \$140 million. A brilliant result. If it hadn't been for the recession we'd have been growing to grow. You know we had some great ambitions to get this business well towards \$200 million EBITDA. I think that is going to take a good bit longer because we have got to see how the economy comes out of recession. In addition to the economy, now, of course we have the flu pandemic. We have seen a slight decline in the Hispanic market, particularly in Mexico. Over a few weeks we saw that and then it's recovered. So it's come back. The panic that I witnessed out there a couple of weeks ago seems to have relaxed. They had forgotten about the economic problems, they

had got a new president and now a pandemic. And that's the way it goes.

But what we have seen is a further reduction. It will impact a little bit on our profits but it will remain a very profitable business to the end of the year. I think the guidance we have given you is not far off and we can talk outside the meeting as to how that will impact. But the recovery of this business is just fantastic because it's got a very flexible model, we can either change the timetable or we can simply change the number of what they call extra sections that we put in to meet extra demand.

So in the year to date we've reduced mileage in both the US and Canada, US by 7.6% and in Canada by about 4%. Again, protecting this revenue, making sure that our costs continually come down, revenue is held as a measure of the timetable mileage and those cost reductions have reduced headcount by about 1,100 jobs and that will be completed by next month. It is already -- most of it is already been done. We have integrated the back office from Dallas into Cincinnati so we have made some real savings there and we continue to do that.

You have heard me talk before here about the cost of selling tickets in Greyhound, well we have been able to reduce the commission on those ticket sales by 16% in this last year, and that's real money too. So that's 16% in dollar terms. And we will continue to do that. BoltBus, if you remember, doesn't have that cost because you can book online, you don't have any of that. That is the direction we are going in but in the meantime getting these commission charges down has been pretty important to us.

Operating performance has been better, on time performance has improved by 9% to around 80% in the year and has continued to improve as we have reduced timetabling. What is key to both this business and UK Bus is as we spread the timetable, to take out mileage we have got to make sure we deliver every journey and we deliver it on time. That's what we're doing and as you heard from Nick that's real progress in UK Bus and even more progress in Greyhound.

We bought 140 buses and the delivery of those buses is just about complete. So it should match very nicely to our summer uplift in revenue. Some of those have gone to BoltBus to increase the journeys there. We have put in some additional journeys, a new route went in in May between New York and Baltimore and it is a great model and we will continue to expand that throughout the network.

Size of fleet is reduced so what that means is we can delay CapEx and not undermine the age profile of the fleet. As we see the recovery come through we will simply buy new buses to create more capacity and bring some of the other vehicles out of storage. So we have got a real plan there to preserve capacity as we come out of recession to make sure we take advantage of that on a very much lower cost base. So you can imagine what that is going to do to cash generation and profitability.

Resilience. Well, as I said, it isn't resilient but what it is is it is good at being able to reflect any change in demand and that is its strongest attribute. It has got a very stable customer base and it is allowed us, as I keep repeating, to protect revenue per mile by these

extra sections, by taking out duplication so we have got a real focus on costs.

Twenty five million passengers a year over a very broad band of use and we will continue to develop the BoltBus model because in the longer term we see that being the way of getting rid of some of the assets that we provide at the facilities, at the bus stations and so on and, over time, we will be able to take some of that overhead cost out even further.

We have implemented the cost actions that I talked about so that when we come out of this recession, both in our contracted businesses and this Greyhound business, we will be in better shape and be much more profitable.

So, with that, I will hand back to Nick to take you through the financials and I will come back at the end with a summary.

NICK CHEVIS: Thank you, Moir. We announced during the course of the fourth trading update, following a comprehensive review, we are implementing a cost reduction plan across all divisions. This will deliver cost savings of £200 million and includes a headcount reduction of 3,500. The headcount reduction programme has continued to gather pace and is now well advanced. Today, through a combination of recruitment freeze, natural wastage and severance, we have already achieved a reduction in headcount of almost 2,300. The other costs savings include a broad spectrum of costs, from discretionary bought in costs, operating efficiencies and procurement to further consolidation opportunities in North America. As we have said before, we expect to benefit from further savings in 2010-11

where fuel costs should reduce by almost £150 million when we come off the existing fuel hedge.

The principal items within the non-recurring costs included North American synergy and integration costs of \$136 million, principally incurred in the generation of the costs synergies. Looking to next year there remains a small amount of further integration costs principally relating to information technology systems. As part of the £200 million cost reduction programme, we have incurred costs of £22 million and we anticipate a further charge of £30 million in 2009-10.

We are implementing mileage reductions across the business, particularly in Greyhound and to a lesser extent in UK Bus. As a result an element of the hedged fuel volume will not qualify for hedge accounting. Accordingly, a one-off charge of £23 million has been made. We anticipate substantially lower non-recurring costs in 2009-10.

Cash generation and debt reduction remain the key focus of the Group and we have delivered in line with our expectations. Within the year we incurred a cash outflow in relation to the one time costs, including the management action plan and US integration cost of almost £70 million. Net capital expenditure was reduced by £37 million from proceeds of property disposals, being the Southampton Bus Depot relocation and a property disposal in Seattle. We remain on course to deliver next year's £100 million cash generation target and we will continue to use cash generation to pay down debt.

We are very pleased with the results of our funding strategy successfully implemented despite such difficult credit market

conditions. In the last 12 months we have achieved over \$2.5 billion of new funding, highlights include the equity placing that we announced in May was successful and oversubscribed. We raised 43.8million shares raising gross proceeds of £236 million. In early September we issued a £300 million ten year bond which we swapped into fixed rate US dollars at 6.9%. We were pleased to be awarded the Bond Deal of the Year by the Association of Corporate Treasurers.

These items were combined with competitively priced medium term bank facilities. Subsequent to year end, in early April, we issued a £350 million 12 year bond which was 50% oversubscribed. We have used the proceeds from these successful actions to pre-pay all of the \$2.25 billion Laidlaw acquisition term loan and to reduce drawings on our revolving bank facilities. In addition, we extended £500 million of unsecured bank revolver facilities to February 2012 and obtained a technical amendment to our bank facilities, which will ensure consistency for all currency translation for covenant testing purposes.

I have included on slide 44 a graph showing the debt maturity profile. But the result is that we have funding in place out to February 2012.

You won't be surprised to hear that we are well within our bank covenants and that at the end of March we had 583 million of committed headroom. The next main facilities fall due with our core banks in February 2012. The actions that we have taken have significantly improved debt maturity to 4.6 years at March 2009 and after the April bond to 6 years. A great result.

As I said earlier, foreign exchange has affected net debt and consequently net debt to EBITDA. However, at constant exchange rates you can see that we have continued to de-lever post the Laidlaw acquisition. We remain committed to an investment grade rating and are progressing our plans to return to our pre-acquisition rating.

With the tax losses that we have in North America combined with our tax efficient structure our low cash tax position is set to continue. The accounting pension surplus of £89 million at the beginning of the period has moved to a net deficit of £169 million. This is principally due to falls in equity markets and the strengthening of the US dollar. Two further points of note. Rail accounts for about a third of assets and liabilities and is substantially derisked as assets and liabilities are passed on at the end of the franchise period. The profile of actuarial valuations is staggered with any potential cash impacts being in 2010-11 for the US, 2011 for bus and 2012 for rail.

Fuel remains a manageable part of the cost base. Within North America and UK Bus fuel represents approximately 10% of revenues and approximately 5% within UK Rail. The increase in the fuel hedge cost in 2009-10 is on course to reverse in 2010-11. This slide shows the exchange rates used in preparation of our financial statements. Changes in the US dollar exchange rate have a minimal affect on adjusted EPS. This is due to US dollar earnings being broadly offset by dollar denominated fuel purchases for our UK businesses and interest on our US dollar denominated debt. The exchange rate does obviously affect the absolute net debt but this debt continues to be supported by strong dollar cash flows.

So, in summary, another record set of results. We have implemented a comprehensive cost reduction programme and within the divisions North America delivered \$150 million of synergies, increased margin within the contract business and is backed by a strong order book. Greyhound's flexible business model is mitigating lower volumes and strong UK Bus growth remains. UK Rail will continue to benefit from substantial revenue support.

The strength of our operations, together with the securing of our finance to 2012, means that the Group is well placed to deal with the difficult economic outlook.

With that, I will hand back to Moir.

SIR MOIR LOCKHEAD: Can I just switch this one on because the batteries have fallen out, is that okay? Anyway, in summary, to bring the presentation to a close, another set - as you heard from Nick - of excellent results in line with expectations despite the weaker economy. The strength of our business lies in its diverse revenue streams giving us good balance between contract backed and passenger revenues. Particularly in the US, which is a very large, as you have seen, and fragmented market. Management actions we have taken so far will continue and we will continue to implement during the year and will ensure that we are in a very strong position to continue to deliver profitable growth and we will be in an even stronger position when we emerge from this recession.

I said earlier cash is king and we remain focused on cash generation and remain on course to achieve our targets to reduce net

debt by £100 million in this next year and a further £100 million in the year after.

Our board has continued its dividend policy to increase annual dividends by 10% for a fifth consecutive year and this represents an increased cost of around £9 million per year and is supported by our strong cash flows.

Overall, the Group continues to trade well. Although it is very early in this new financial year trading is broadly in line with our expectations.