**Transcript of FirstGroup's half-yearly results**
**for the six months to 30 September 2016**
**Tuesday 15 November 2016**

**Tim O'Toole, Chief Executive:** Well, good morning. Thank you for joining us for the review of our first-half results for the period ending September 30th, 2016. As per usual, I'm joined by our CFO, Matthew Gregory, and after these introductory remarks, Matthew will take you through a detailed review of the numbers and then I'll get back up and provide some commentary on each of our divisions.

Let me start, however, by saying that we are deeply shocked and saddened by the Croydon tram accident last week. Our hearts go out to the families and friends of the seven who lost their lives, and to all those who were injured and affected by the incident. We are working with TfL and the authorities to respond to this terrible tragedy and to provide assistance in any way possible. It's essential that we fully understand what happened and that may take some time. Meanwhile, we are working at every level to support the investigation.

Now notwithstanding the fixed nature of the financial reporting cycle, you will appreciate the conflict I feel in discussing financial results in the aftermath of such a tragic incident. I shall aim to be succinct.

Results are in line with the guidance we provided at the start of the year. Our North American business has more than offset the challenging trading conditions we see in the UK. Moreover, while the real strength in our performance has been supplied by Student, each of our North American businesses is demonstrating encouraging results going forward.

So, even with the challenges of trading conditions in the UK, we expect to make the progress previously forecasted this year. We pointed to free cash generation as the best evidence of our delivery of the turnaround, and cash generation has been at the high end of our expectations in the first half, giving us greater confidence in delivering substantial free cash flow for the year.

Let me now turn you over to Matthew.

**Matthew Gregory, CFO:** Thanks Tim, and good morning everybody. So let me take you through the headline half-year numbers to give you some more colour.

Overall, the results have come in very much in line with our expectations for the first half and are consistent with the detail given at our full-year results back in June. Largely flat operating profit at

£89m reflects a significant improvement in the student performance tempered by more challenging UK performance and the rebasing of the rail contracts. The results have been affected by the impact of the weaker pound on both translation and also input costs and I'll go into more detail on this in a second.

Albeit off low numbers, it's encouraging to see EPS up 17% with tax and interest continuing to be kept under control. One of the more positive notes from the first half is the cash performance. Cash flow was £104m better than the same period last year, which, while impacted by some one-off items, demonstrates that the business is well on its way to its target of generating significant cash this year.

Capital expenditure is in line with our expectations and we continue to invest in the assets of the business. The improving cash performance since this time last year has driven the net debt to EBITDA down from 2.6x to 2.4x and we expect the leverage levels to continue to reduce for the full year. ROCE has also improved and is up 100 basis points on last year, and overall, this is an encouraging performance with the results in line with our expectations and cash performance moving forward significantly.

So let me take you through the impact of FX in a little bit more detail before we go into the financials. As a reminder, 58% of our revenues and 69% of our profits from last year were generated from our US-based divisions and as we translate these earnings back into pounds, these become more valuable with a stronger dollar. This has been balanced by the fact that in our UK businesses, the foreign denominated input costs for fuel are not hedged. In the past, we called this our natural hedge.

And as you can see if we retranslate the full-year 2015/16 results at the actual rates, plus an H2 rate of say, $1.25 to the pound, the profits from our US businesses would be worth £30m more, but this is offset by an additional £19m of additional input costs. So, for the full year, after taking into account the impact on interest and tax, you can see the net impact would have been higher by £5m, so overall a positive for us.

However, looking at the half year, due to the seasonality in the Student business and the fact that it loses money over some of the summer months, the translation benefits would have been outweighed by the transaction FX cost to the value of £5.8m, a headwind for us. If we exclude the impact of the transactional FX on the half-year results, then operating margins would have been 30 basis points up for the half year. Now, I'm not going to forecast what the rates will be for the full year, but having shown you the impact on our 2015/16 numbers and the half-year split, I think there's enough there for you to do your modelling.

So, coming back to the half-year numbers. Overall, revenue was slightly down at constant currency, as was operating profit, as a result of the stronger performance in North America having been offset by the challenging UK trading environment and rebasing of rail. Margins are flat on a translational constant-currency basis but, as noted above, have been dampened by 30 basis points due to the transaction FX for fuel in the UK.

On finance costs, we continue to work hard to reduce the interest costs that are not fixed and have been able to do this during the first half of the year. The benefits generated were offset by the translational impact on our US-denominated interest as well as the interest driven by our US insurance provision.

On tax, again, as we previously said, because more of the profits come from the US, the tax rate will increase over time and this is why the half-year tax rate is 100 basis points up at 25.1%. For the full year, I expect the tax rate to be slightly higher than previous guidance, due to the stronger dollar, at around the 25% to 26% level. But it's worth a reminder that the Effective Tax Rate will increase over time, due to the higher proportion of profit generated from the US. But remember that our cash tax is very low, and due to the historic losses, is likely to remain low for some time. Encouragingly, EPS has grown by 16.7%, albeit off small numbers, driven by the improvement in the Student business.

So moving on to a more detailed view of divisional performance. Looking at revenue first, this slide shows reported performance. And moving past the positive currency improvement, you can see that we've grown in First Student and Transit.

So Student held its own in the period, as pricing increases, new customers and additional operating days, as previously flagged, outweighed the lost business from our pricing strategy. Transit saw growth of 3%, as we continue to win contracts in this area. And Greyhound continues to be affected by the low fuel price in North America and saw revenue decline by 4.6% in the half.

Moving on to First Bus, trading conditions continue to be challenging and revenue was down 2.9%, including certain closed businesses. On a like-for-like basis, passenger revenues declined by 1.3% in the first half. Now clearly, the performance is mixed across the country and each area has its specific issues, but we continue to be affected by the impact of increased congestion and reductions in retail footfall and overall, conditions do remain challenging.

On a reported basis, Rail saw revenue decline, which includes the remapping of routes between the TPE franchise and Northern, as well as the removal of the TPE subsidy. But on a like-for-like basis, revenue grew by 1%. This reflects the downturn in the industry performance. Great Western continues to be affected by the high volumes and the cumulative effect of engineering possessions. But on a positive note, TPE continues to see better-than-average industry revenue growth.

Now let me take you through the operating performance of the business. And as usual, we put individual bridges into the back of the pack, but I'll pull out the key points from each of the divisions.

So, first of all, **Student**. As you know, we make most of our money in the second half, but even off this low base, you can see that we've made significant progress in the first half. The business has performed in line with our expectations, with pricing, retention, operating days and cost savings all performing as expected. Tim will talk about the commercial side of the improvement. But from a cost perspective, the back-to-school period has been successfully navigated. The employment market continues to be tight, as expected, and we've been better prepared for this than in the past, so have managed costs more effectively.

Our cost management programme continues to deliver results. At the full-year results time, I told you that we were forecasting at least $17m of savings for the year. And halfway through the year, we've already delivered $13m, so a good performance in that respect.

All of this positive activity in the first half gives us confidence to reiterate our view that margins will be at least 9% for the full year.

In **Transit**, margins have been depressed by a change in revenue mix, driven by the lower level of high-margin oil sands business, as well as higher costs in certain contracts. As we've said in the past, Transit is not immune to the pressures of high employment in the US and costs are higher in this regard. But overall, this is not overly material and we expect margins to improve and to be closer to 7% for the second half.

Despite the fall in **Greyhound** revenue, management continues to take costs out of the business as best they can, minimising the effect of lost revenue. And we do expect margins to improve when revenue improves.

As we discussed at the year-end, the **UK bus** market continues to be a challenge, but the higher input costs add pressure here. So taking you through the bridge slowly, last year's half-year margin was 3.5%, but adding back the cost of depot closures, the true margin was 4.5%. Whilst we have seen fuel cost savings and the impact of further cost-saving measures, this was not sufficient to outweigh the impact of volume decline and inflation. That said, if the impact of FX on fuel was excluded from this half's performance, margins would have been 4.2%, only 30 basis points down on comparable numbers from last year.

At the full-year results, we told you we thought we could take margins forward, even with the volume declines. But what could be an £11m hit over the year from FX costs, will undermine our ability to do that. As you'd expect us to do, we are redoubling our efforts to mitigate the revenue and volume shortfalls, and are looking to accelerate action to take further costs out of the business.

Previously, we've spoken about the need to balance margin improvement with the desire not to lose the opportunity for operational gearing on the upside. However, we and the management team, are committed to further action as well as each operating company being challenged to provide detailed cost-reduction plans. Now, as you'd expect, any cost-reduction plan could come with one-off costs, which we'll assess on their own merits as we progress through these plans.

Moving on to rail. As noted before, the rail industry is witnessing a slowdown in growth and this, coupled with the rebasing of our rail contracts, has resulted in reduced margins for **First Rail**. But at 3.7% for the first half, margins are closer to the industry and in line with our expectations.

Moving on now to capital expenditure. We continue to invest in the business, with a total of £139m, excluding rail, invested in the period. As you can see, the vast majority of this spend is in bus fleet, with continued investment in Student buses and also in complying with DDA legislation in First Bus, a programme that completes this year. Investment in IT is driven mainly by the further investment in the Greyhound transformation project.

Now, at the full year, I told you we'd be targeting growth capex spend of £300m, excluding rail, which would be a £50m reduction on prior years. Most of this reduction was driven from the Student business, and we're pleased that the Student bus cascading process continues to get more efficient and better controlled. And given that a large part of our fleet orders have already been placed, we're confident that the capital discipline has been put in place, albeit that the stronger dollar drives our consolidated outlook up to around £320m, excluding rail.

Now with regards to Rail capex, I did tell you that we'd see expenditure for the year in excess of £100m due to some major projects. Year to date, we've spent £23m, but we continue to work on committed obligations and with some funding partners, and we expect that expenditure for the full year will land towards £80m. It's always subject to timing. However, remember that rail capex is largely funded and so will not overly affect our Group cash flow position either way.

Moving on to the cash flow. I'm pleased to be able to point to the fact that the business generated operating cash flow, so before pensions, interest and tax, of £43m, a conversion rate of 48%. You'll see that we've had some large property sales in the half, mainly relating to the sale of a Greyhound terminal in San Jose. But even after that, the business generated operating cash in the first half. In fact, if you exclude disposal proceeds, this is the first time that the business has generated operating cash in the first half for five years. Now this gives us confidence that the Group will generate significant cash for the full year, in line with our statement in June.

It's worth pointing out that the improvement versus last year's position has been largely driven by the improvement in working capital. Of the £100m improvement, a swing of about £40m comes from one-offs, so £20m has been driven by the Greyhound property sale this year and a £20m payment for a pre-Laidlaw legal case went out last year. So the more underlying improvement is around £60m and that's driven by better working capital management, particularly in our North American businesses.

I'll now talk to you about our financial position which continues to remain strong, with headroom under our committed facilities at around £825m. The net debt to EBITDA ratio has improved from 2.6x to 2.4x. The long-term bond programme remains in place and average debt maturity has logically fallen to 3.9 years.

Rating agencies, Standard & Poor's and Fitch, have confirmed that they currently have us at BBB- and stable. And you'll see that just after the half year, we repaid around $50m of private placement notes that fell due in October 2016, and we continue to apply disciplined cash and borrowing to minimise our interest charge. And guidance for interest continues to be that it will be largely flat with last year.

And just to confirm what I said back in June, we continue to monitor and assess the further opportunities to optimise our financing structure but it's unlikely that there'll be any significant movement until the bonds start to mature.

As a final point here, it's worth noting that our pension deficit has increased to £500m as a result of lower discount rates. This doesn't have an immediate impact on the P&L costs or cash flow, but this will be monitored and updated at the year-end. Clearly, there's more information on this in the appendices if you want to get into more of the detail.

So, in summary, the first half has traded very much in line with the way we outlined in June, with good performance in the US being offset by challenging performance in UK and rail rebasing. The cash flow has improved versus prior-year performance and we continue to be disciplined in our management of cash and capital. And overall, we continue to be confident that financially, the Group will progress this year and will generate significant cash flow for the full year.

And with that, I'll hand back to Tim.

**Tim O'Toole:** Thank you, Matthew. Now, taking our divisions in turn and starting with **Student**, this year's bidding season ended up where we indicated at our last report. The bidding season helped boost performance with price increases for the portfolio averaging 7.3%, which is well above last year, and at the targeted retention rate of 80%. As Matthew pointed out, even though we've shed business as a consequence of our up-or-out pricing strategy, we were able to increase the top line because of the positive changes Matthew detailed, but that includes the cumulative impact of our strong pricing programme.

Driver shortages continue to be a problem and the environment of near full employment within the relevant labour market has not changed. What is different from last year in these results is: one, the structural changes we said we would make to offset the costs are coming through; two, management processes applied in this area continue to improve; and three, to be fair, the way in which the shortages are hitting us is less severe. By the latter, I mean that until the September start-up, it's simply impossible to know how and where the shortages will hit. Yes, we stay in touch with our employees through the summer and try to maintain communications to ensure their return, but one cannot know for certain who will return until the start-up. This year, the distribution of our drivers makes it marginally easier to cover shortages at lower cost, notwithstanding that the total number of vacancies is still significant. In addition to the impact of our pricing and efficiencies, we are also benefiting from fuel costs and additional operating days as we had forecast.

The real news in this half-year report is that we had a successful start-up in September. This is easily the smoothest start-up we've had in my time at FirstGroup and puts us very well positioned to deliver our margin target as well as returns that mean we have re-established a healthy business in Student.

Turning to **Transit**. Well, the first half hasn't been easy as we rebuild our book of business to replace the lost shuttle work serving the oil industry. Replacing that relatively high-margin business with some lower-margin business has caused the average to dip below target. Nonetheless, I would not overemphasise this point or suggest a trend because this has happened before in recent years where the mix causes the average to fall, only to have it regain target as we bring on more business and as we achieve greater efficiencies across the portfolio. And indeed, we're seeing just that in more recent period performance as the team drives efficiencies, especially in operations that have posed some cost challenges through the first half. And I'm comfortable at this point that the team will be at or very near target. We continue to make inroads to new lines of business, notably by landing our first US rail contract in Denton, Texas, and growing opportunities in Panama and India, which though not material now could evolve into important markets. We remain very confident in our First Transit team.

**Greyhound** is a bad news/good news story. The bad news is that in the first half, oil prices were 15% lower than in the first six months of last year, which means the market drag on the coach business only intensified. The good news is that passenger revenue was down just 3.9% overall and virtually flat for our point-to-point Greyhound Express business, which is significantly better than what you've heard from others. Certainly, one of the reasons for that performance is our new pricing tools and their growing impact across our traffic base. The most effective of those tools to date has proven to be our one-way pricing change. Our investment in new systems is paying off as the pricing algorithms continue to learn and the pricing continues to get cleverer in evermore discrete market segments. Our other reason for optimism is that Greyhound is now lapping much easier period comparisons as the oil price drop has bottomed out. And that, coupled with the commercial investment, should lead to growth and indeed, we saw just that; top-line growth in September and October. We're building a business with sufficient commercial strength that it should thrive at even low oil prices. We still have much to do and remain subject to oil market swings, but we are in a far better position from an internal capabilities standpoint than we've ever been.

Now, trading is less encouraging over here in the UK, so starting with **First Bus**, you've seen the reports of negative growth across the industry generally, which appears to be down to declines in high street footfall principally. Like-for-like passenger revenue decreased by 1.3% in the first half, albeit things were slightly better in the second quarter than the first. At the end of last year, we said we could hit our transformation plan targets if we had growth of at least 1%, but instead, the industry has had decline. And while we have slightly outperformed the industry as a whole in growth, we are stymied from making further margin progress in the face of current conditions. To further challenge our results, as Matthew explained, the currency impact of dollar-denominated fuel presents a bogey that is very difficult to overcome in the short term.

We're still doing all we can to take self-help in the face of tougher conditions and improve the commercial appeal of our offer in our local markets. We are about to introduce an integrated travel app that we believe is far beyond anything in the rail or bus marketplace. We have had success with the new Vantage service in Manchester, have secured new Park & Ride in Bristol and shuttle service for Hinkley Point. Nonetheless, those efforts have to build over time, and will not make a material impact on current results. This means we have to continue to revisit the trade-off we discussed when we were last together and which can be seen in the changes to our business in recent years. Namely, this is weighing this preserving the gearing of the turnaround from a bigger portfolio, versus changing the portfolio to achieve a healthier overall business sooner. Because we do not expect conditions to change in the medium term, we are looking to accelerate cost savings through further changes in our network, to ensure the best parts of our portfolio have the resources to grow over the long term. In other words, we have to trim further some of our less promising operations in order to provide better returns. And those changes have already begun with recently announced timetable changes in some of our local markets.

**UK Rail** also reflects the industry's slowdown in growth, with TransPennine trading slightly above the industry average, but Great Western performing worse. Passenger revenue was up only 0.7%, with Great Western revenue approximately flat. Now, Great Western results reflect the significant engineering work that has been undertaken on its system, the cumulative impact of which is hitting our trading. Obviously, our revenues are supported by compensation from Network Rail, so the immediate financial impact is not as negative as those numbers might suggest, but this is no way to build a business or satisfy one's customers. Nonetheless, the work is essential for the long term, so we are working in healthy partnership with Network Rail and the Department to do everything we can to deliver new trains or other benefits for our customers, to balance any delays in the electrification programme.

On the positive side, we are very pleased that our open access operator, Hull Trains, was named rail operator of the year for, among other reasons, posting some of the highest NPS scores ever achieved by an InterCity operator.

In addition, although we never like to see delays in the franchise calendar unless there's a good reason, we are excited by the prospect of competing for the West Coast franchise. With the added dimension of being the designated operator of HS2, we believe that element of the competition will play to our strengths. We don't have any news on the South West Train franchise to share.

So, in conclusion, our overall results are as previously forecasted. Obviously, it's November and the tough weather months are still to be dealt with. But based on first-half numbers, we're even more confident that we shall deliver the returns we set out at the beginning of the year, even in the face of that uncertainty.

And with that, Matthew and I would be pleased to take any of your questions.

**Damian Brewer, Royal Bank of Canada:** Two questions please. First of all, coming to the UK Bus side. I guess it's probably more than two, because in UK Bus, first of all, could you give us some vision of how diverse the margins in that business are? Where's the top and bottom quartile? And therefore, if you're more in the focus of cutting your way to a bigger margin, what could this business look like? And with respect to the cutting, and your comments Tim, I'm just sort of curious, are you simply taking out mileage, and therefore, are we still in this sort of less frequency business, shrinks more? Or would it be something more radical in terms of portfolio changes we've seen before?

And then secondly, on school bus, again I guess a similar question, but really, the at least 9% margin you're seeing, given again the range of margins and performance you see across your business, is that the most you think you can do on average? Or do you think there's room for margin lift within the business, as well? Thank you.

**Tim O'Toole:** On UK Bus, there is a spectrum. I mean it's a good point. UK Bus is not a monolith except as we report it financially; it's a collection of businesses, some of which have margins well above levels that are quoted with regard to some of our competitors and some margins that are simply unsustainable, and it's about making changes.

We don't favour simply taking out mileage and reducing frequency, in a big way. That just doesn't work. The trick is to refocus and re-dedicate the mileage in those corridors where you've got the volumes that will sustain it over time, and you can have a high-frequency successful network. So the changes are going to be a complete variety of things, Damian, and that's why Matthew said, could involve costs. Because usually, if you accelerate changes, there may be costs, one-off costs that are associated with it, and we're looking at a complete spectrum.

But one of the reasons I concluded by saying this has already started, is I wanted to point out to -- that many of our local markets, we've already been making the changes. So, for example, we've had to change the routing and the timetable in Aberdeen recently. And we've also made similar changes in Glasgow, to tighten up the operations. And we're doing this business by business. There isn't a simple formula that we're passing out across the business. And also, this is a dynamic situation, because we have to see how everyone responds to the Buses Bill and how everyone responds to this call to arms on congestion. And part of the solution is also changing the way we, with our partners, our stakeholders, approach the operation of these urban networks. So this is a major focus in Bristol right now. So it is a complete menu of things we have to do.

On school bus, similarly, there is a fairly wide margin in -- of the margins we earn, although much less so than the old days, before we started the pricing programme and pulling everything up. And we have said at least 9% for a reason.

**Joe Thomas, HSBC:** Sorry, just to follow up on that question that Damian asked about bus mileage. I'm not entirely clear, are you intending to close down certain parts of -- or certain business within the Group? Or is it a case of just a gradual trimming and just slightly lower frequencies? If you could just clarify that, it would be good.

In the US, can you just clarify what sort of rates wages are growing at, at the moment?

And within UK Rail, what sort of rates of growth are you seeing on TransPennine at the moment and how confident are you that you'll be able to deliver the quite aggressive growth targets that you have?

**Matthew Gregory:** Shall I cover off the piece about the bus side of things? So we're looking at a whole range of options. As Tim said, it isn't a one-size-fits-all solution. And one of the things that we've done is we're going very much into every individual operating company because you have to balance off all of the stakeholder requirements and the specifics about those areas.

So it wouldn't be right for us to say precisely how we're going to do it, but let's put it this way, all options are open to us and we're going to be pushing hard on those. And we're going to have to tailor all of our approaches to the specific marketplaces. So we're not ruling anything out, frankly, but it wouldn't be right to comment specifically how we're going to do that.

And I think on the wage rates in the -- sorry, go on, Tim.

**Tim O'Toole:** No, I was just going to say, the wage rate's 2.5%.

**Matthew Gregory:** 2.5%? We're both aligned on 2.5% there. And on the UK Rail piece, you saw -- and we've got a little bit in the back; you've got TransPennine saw growth of 2% for the half. That whole franchise was predicated around huge investment and huge passenger growth coming in, in the 2018/19 period. That's the timeframe that you need to think about. So certainly, whilst clearly it's important we continue to stimulate growth in this period, it's really about the massive £0.5bn worth of investment coming in the 2018/19 period.

**Joe Thomas, HSBC:** Sorry, I've got another question on labour in the US, if I could. You obviously started up the school year well. Is there any risk that drivers disappear mid-year through the school year?

**Tim O'Toole:** We certainly have to -- can't take your eye off it and you have to keep recruiting right through because there is some turnover. But the real vulnerable point, the place where there's a step change is always September. And one of the problems with this business we've seen in the past is you get an unpleasant surprise in September. You say you're dealing with it over the next month and this is a problem with having a business that really only works for six months of the year, you're almost halfway through the year and you're still telling yourself stories about how you're going to recover. And we just don't face that this year.

The other -- if I could just add to what Matthew said about UK Bus, one of the reasons I referred to our past is you've seen all of those solutions as we've worked with this portfolio in recent years and we're signalling we have to keep going. Part of that is a signal to our stakeholders because we have to deal with this congestion issue. We cannot just keep throwing more buses into the timetable in order to maintain the timetable because the congestion keeps getting worse and worse and worse. So people have to understand that we have to come together on the solution of the delivery of service or else we are going to have to cut back because we just can't keep throwing money at this and not carrying more people.

**Alexia Dogani, Goldman Sachs:** I had three questions please as well. Just firstly on Student, can you talk a little bit about the state of the school board funding and whether -- clearly, we are in the third year of the significant price increases you've put through. Do you expect that to continue going forward? And I guess ancillary to that, can you give a comment on how charter revenues have developed or are developing?

Just secondly on Greyhound, could you give us an update on the Canada performance there and are you introducing the one-way pricing in that market too?

And then, just finally on UK Bus, is there any opportunity to start chasing more contract revenues to offset some of the underlying weakness you're experiencing? Thanks.

**Tim O'Toole:** In Student, well, the funding overall, as you know, school district kind of righted itself about a year ago, although there are still critical areas like in Michigan where there are big problems with local funding. As far as our pricing programme, it will continue. Whether it will keep going at 7.3% is not something I would broadcast. But we have learned a lesson that we're not going to unlearn, and that is that you have to make sure that the price going in can protect you against inadequate inflation indicators in the later years of these contracts. It's a point we've made in prior years. The pathology on Student contract is the margin tends to decline over the period, and on Transit that it tends to get better over the course of a contract. So you've got to protect yourself against that and we will continue to do that. And we think that you're seeing similar pricing from others because I think the whole marketplace has learned that lesson.

Charter has been relatively -- has not been a bright story in Student. It's been much stronger in prior years. It’s one of the areas we're focused on right now as an opportunity going forward, because it hasn't been a big contributor to the improvement in margin.

Greyhound; these tools we're now seeing are having an impact. Most of the impact gets swamped by what has happened to the overall trading, with the oil markets. So we aren't talking really big dollars here, but it's significant. I mean in a period; I think one-way pricing is more in the $500,000 in a period impact. The fact that it's had any, though, is showing us OK, we can now work with this, and vary it as we go forward. So it's not moving the dial in a big way, but it's proving, I think, we've chosen the right direction with these tools as we go forward.

**Matthew Gregory:** I think on Canada it's worth to say -- safe to say, it's still difficult trading in Canada. We're doing what we can to take the cost out there; but yes, it's still a difficult market for us.

And on the UK Bus side, yes, of course, absolutely, we do chase tenders, and the businesses are looking at that. I think we're looking at every opportunity that comes up, and we talked about a few specific contracts that we've won. I think that forms part of the overall strategy and also forms part of our individual assessment for specific regions and OpCos as to where we see some real opportunity. It is an important part, but it's not the biggest thrust of our efforts as we go into the second half of the year.

**Sam Bland, JP Morgan:** On UK Bus, obviously, it sounds as if the footprint's going to be revisited. Do you think there are any pockets within that business and particular regions where actually, you may be able to take some of the buses from weaker-performing areas and transition them to areas which are showing more strength so that the overall size of the division doesn't shrink by too much?

Greyhound looks as if the like-for-like numbers have shown a reasonably sharp improvement in the last couple of months. Are there reasons to think that margin won't show that immediate kind of step-up? Is there any reason to think the margin might lag that step-up in like for likes?

And then I guess just a question on whether you're -- any views around the relative attractiveness on capital structure versus dividend have changed in the last few months? I mean changed or significant there.

**Matthew Gregory:** Sure. I'll probably take all those. Absolutely, there are opportunities with the buses as we look at the overall business. And I think it's fair to say, we look at -- we talk about margin in this piece, but clearly, we're focused on returns as well, so the capital side of it comes into play. We've got through all of this DDA investment so we have more flexibility around capex in UK Bus. So yes, we do a lot of cascading as we call it in Student; we move a lot of buses around, there's no reason why we wouldn't and haven't done that already in UK Bus. So that will form part of the overall assessment of each individual operating company.

Yes, I think on Greyhound, we have seen some improvement in the like-for-like business. We saw that in September and we'd expect the margins to move forward. And I think it's fair to say that those guys in the Greyhound business have taken a lot of cost out, and probably been harder than a lot of people would have been on taking the cost out. So there may be some cost coming back in as the revenue grows, but we are expecting margin to improve as the revenue improves.

Coming back to the capital structure, look, we continue to look at this in terms of generating cash this year. We see a number of options for us. We talk about the bonds that are coming up in 2018, and we'll keep assessing that as the cash comes in at the end of the year.

**Rishika Savjani, Barclays:** Just one question from me. I wanted to pick up on your comment around West Coast and the rolling off part of HS2. You sounded quite excited by that opportunity, so maybe you could just flesh out some of your initial thinking on that? Thank you.

**Tim O'Toole:** Well, one of the things about putting bids together, is you never tell people what's going to be in them. But we have already done a lot of work on this subject. So let me just say we'd be very excited about that bid. Sorry.

One of the advantages FirstGroup's always had, because we've had traditionally a large rail portfolio, is I think we have more engineering expertise than a typical group in rail. And that will be applied in full here.

**Matthew Gregory:** Great.

**Tim O'Toole:** Great. Thank you very much. I know everyone's got a busy day, so we appreciate your coming here early to join us.

END