Transcript of FirstGroup's half year results presentation for the period ending 30 September 2017

Tuesday 14 November 2017

Tim O'Toole, Chief Executive: Good morning, everyone. Thank you for joining us for a review of our mid-year results through 30th September 2017. I'm here with Matthew Gregory, our CFO, and we'll follow the usual format. Following these opening remarks, Matthew will take us through a detailed review of our financial results, and then I'll supply some commentary on each of our divisions. Let me start with the headlines.

Overall trading for the Group in the first half is consistent with plans outlined at the start of the financial year. I think the notable result is the strength of our cash generation, even before we consider the substantial inflow from South Western Railway.

As always, reality intruded on our plans and we've had to deal with the unexpected, which in this period included the extraordinary hurricane season in the US. Harvey and Irma hit all three of our divisions and their operations in Texas, Louisiana and Florida, but we particularly felt and continue to feel the effects of Maria and the devastation it inflicted on Puerto Rico.

As we face the unexpected in any one of our divisions, which is inevitable, I am proud that the standard of operating discipline we have driven through the Group in recent years allowed us to deliver to expectations. In that regard, notwithstanding this year's challenges, as I've said, the Group still delivered strong cash generation in the first half, and that affirms our confidence in our performance through the second half and for the year.

I'll now ask Matthew to take us through the numbers.

Matthew Gregory, CFO: Thanks, Tim, and good morning, everybody. Let me take you through the headline half-year numbers just to give you some more colour. And as ever we have to bear in mind that the seasonal weighting of our business means that we can end up talking about relatively small numbers at the half-year stage.

Overall, the results were in line with our expectations for the first half and are consistent with the top-line performance that we discussed at our full-year results back in June. Largely flat operating profit at £89m reflects improvements in UK performance through growth in First Rail and First Bus, tempered by the impact of the hurricanes experienced in North America, particularly in our Transit Puerto Rico operation.

As ever, the Group portfolio has enabled the business to deliver despite challenges in the individual divisions. Cash was very strong, with £97m of cash being generated in the first half. Clearly, £75m of this relates to working capital inflow from the South West Rail franchise, which started on 20 August this year. After taking this into account, the business generated £22m of cash, £86m better than last year. I'll break this down on a later slide and explain the moving parts, but this performance demonstrates that the business continues to improve its cash delivery. Capital expenditure is in line with our expectations, with continuing investment in the assets of the business.

The improving cash performance since this time last year has driven net debt to EBITDA down from 2.4 times to 1.7 times, and we expect the leverage level to continue to reduce further for the full year. And overall, this is a solid performance, with results in line with our expectations and cash performance moving forward significantly.

Let me turn to the overall numbers. Overall revenue was up 8% on a total basis and up 3.5% on a constant currency basis. Excluding the impact of the South Western Railway franchise, revenue grew by 1%, with growth in four divisions balanced by the impact of the student 'up or out' strategy alongside fewer operating days. Operating profit was flat on a total basis and down 9% on a constant currency basis, with growth in First Bus and Rail offset by the impact of the hurricanes in the US, around £6m, and fewer operating days in First Student, again around £6m.

On financing costs, we continue to work hard to reduce the interest costs that are not fixed and have been able to continue to do this during the first half of the year. Overall, finance costs are down 12% in the first half. And, as flagged in June, the tax rate has increased from 25% in the prior year to 30%, and this is as a result of the increased weighting of US dollar profits for the full year. And guidance for the full year remains 30 to 32%. However, remember that our cash tax is low – £7m in the first half – and due to historic losses, it's likely to remain low for some time. And finally, EPS has grown by 36%, although that's off small numbers and it's flat on a constant currency basis.

Turning to a more detailed view of the divisional performance and looking at revenue first. If we move past the constant currency improvement, you can see that First Student fell by 2%. However, all of this reduction came from fewer operating days around the Easter period, and so should be considered flat. First Student held its own in the period as price increases of 5.3% and new customers netted off lost business from our 'up or out' pricing strategy. First Transit saw growth of 4% as a result of new contract wins and price increase pass-throughs. And Greyhound saw growth of 1.3% in the first half, with the impact of our new commercial tools and a strong short-haul market, which grew at 8%, being mitigated by continued challenge from the airlines in the long-haul market.

Moving on to First Bus, trading conditions continued to be challenging, but the business generated a slight improvement in revenue, a marked change from last year's decline. In certain areas we have driven growth, but in others we continue to be affected by the impact of increased congestion and reductions in retail footfall, resulting in a decline of volumes of just under 1%. We were able to offset this impact by selective price increases and our ticket strategy.

On a reported basis, Rail saw revenue grow by 14% as a result of including four weeks of South Western Railway trading in the first half. On a like-for-like basis, passenger revenue grew by 3%. Great Western Railway's performance has improved from last year, growing at 1.6% on a like-for-like basis. However, GWR does continue to be affected by a high volume and cumulative effect of engineering possessions. TransPennine Express continues to see better-than-industry-average growth at 10%, with our open access operation, Hull Trains, growing at 8%.

I'll now take you through the operating performance of the business. As usual, we've put the individual bridges in the appendices, but I'll pull out the key points for each of the divisions.

So first of all, First Student. As you know, we make most of our money in the second half, and so judging the first-half performance is somewhat difficult. As noted before, the fewer operating days in this half have reduced operating profit by around £6m, causing the overall performance to fall back this year.

We continued to benefit from pricing discipline from our 'up or out' strategy and cost saving initiatives, but this has been offset by higher driver-related costs and a lower contribution from lost contracts. Now Tim will talk to the commercial side of the business, but from a cost perspective the back-to-school period has been well handled. The employment market continues to be tight, and we continue to work hard to manage the impact of this effectively. So overall, a solid performance from First Student.

In First Transit, margins have been significantly affected by the impact of the recent hurricanes in the US, and in particular Hurricane Maria which hit Puerto Rico, which cost us around $6m. As we've said in the past, the broader First Transit business is not immune to the pressure of high employment in the US, and the business has suffered higher costs in respect of driver shortages, as well as higher costs in certain poorly performing contracts. And whilst this result is disappointing, we do expect margins to revert back to 7% for the second half.

Greyhound returned to growth this half, but the level of growth was insufficient to offset the cost inflation as well as higher maintenance costs for repairing older buses. And as we described in June, we've recommenced the investment in buses in Greyhound, and we expect to continue to apply maintenance capex to this business over the coming years.

The UK bus market continues to be a challenge and, in this context, First Bus has performed well in halting the decline witnessed in recent years. And as outlined at the full-year results, we're accelerating our plan to take costs out of the business. Our management action has taken £9m of costs out of the business in the first half, and we expect further profitability improvements from cost savings, network refinement and fare increases to more than double these savings for the full year. As previously flagged, these additional cost saving measures will generate one-off costs and will depend on the specific measures that we're taking. Following the completion of the investment in DDA compliant buses, we've pared back our capital spend in this division and are focusing our investment on regions that are supportive of our bus offering. In addition, the division will deliver significant cash this year.

Moving on to First Rail, as noted earlier we saw the start-up of the South Western Railway franchise, and revenue grew even in the face of continued disruption on the Great Western franchise from engineering work. As a result the margin for the business has increased to 4.6%. But we do expect this improvement to be short term in nature, and that margins will continue to move towards industry average levels.

So overall, in summary, a solid first half, with better-performing UK businesses being balanced by the hurricanes and cost performance in the US.

I think it's worth a brief look at the income statement below the line. Net financing costs are 12% down, with interest costs on borrowing down. We continue to manage the cash balances as efficiently as possible to reduce the requirements for any short-term borrowing, and we're also benefiting from lower interest costs as a result of our lower leverage and the new RCF deal. As expected, tax rises to 30%, driven by the higher weighting of profits from the US this year.

And just as a brief reminder, the South Western Railway franchise has a 30% minority partner, which is accounted for under non-controlling interests. And overall, EPS is up 36%, albeit flat in constant currency.

Let's move on to cash flow. Looking at the cash flow, I'm pleased to be able to report strong cash generation in the first half. Operationally, the business generated net cash flow of £22m, which is £86m better than last year. And this is the first time that the business has generated cash in the first half for six years. In total, £97m of cash was generated, with £75m coming from the expected South Western Railway working capital inflow. Capex is in line with the expectations set at the full year, and the Road growth capex is £40m lower than last year. And that's £20m after you exclude last year's large Greyhound disposal.

The £86m improvement in the cash performance versus last year is largely split evenly between the Road and the Rail divisions. Rail delivered £40m additional cash versus last year, of which £20m relates to funding from minority partners and the remainder largely relates to working capital timing. The Road business net capex after disposals was £20m better than last year, with the remaining £20m driven from working capital performance, particularly in Student. And both of these Road division improvements were largely as a result of timing. But overall, we reiterate that we expect to generate a strong cash flow from the business over and above the South Western Railway working capital inflows, which could reach £90m by the end of the year.

Our financial position remains strong, with headroom under our committed facilities being well in excess of £800m. The net debt to EBITDA ratio has improved from 2.4 times, which is 2.1 times on a constant currency basis, to 1.7 times. The long-term bond program remains in place, and average debt maturity has logically fallen to 3.2 years. And our rating agencies, Standard & Poor's and Fitch, have confirmed that they currently have us at BBB- and stable. Just after the half-year end, we repaid $50m of private placement notes that fell due on 17 October, extinguishing our private placement debt, and we continue to apply discipline in cash and borrowing to minimise our interest charge. And just to confirm what I said back in June, we do continue to monitor and assess the opportunity to further optimise our financing structure, but it's unlikely there'll be any significant movement until the bonds start to mature in 2018.

And finally, it's worth noting here that our pension deficit has decreased to £300m, down from £360m at the year-end. This is as a result of our slightly higher discount rates in foreign exchange. And we continue to work hard to reduce our risk in this area and are pleased to note that we've been successful in merging our English local government pension schemes, enabling us to reduce the level of irrecoverable surplus in one of those schemes.

So in summary, the first half has traded very much in line with the way we outlined in June, and the good performance in the UK being offset by the impact of hurricanes and cost performance in the US. Cash flow has significantly improved versus the prior half-year performance, and we continue to be disciplined in our management of cash and capital. And overall we continue to be confident that 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, let me start with First Student. This was the fourth year of our ‘up or out’ pricing strategy, and the results through the bidding season reflect a reduction from last year in the overall price increase to 5.3%, balanced by an increase in the retention rate for the contracts at risk to 83%. And as we note for comparison purposes when quoting that statistic, our retention rate for the entire portfolio is 94%, which is the statistic that some others use.

We had a good operational start-up for the school year despite the continuing challenge of driver shortages. You can see in the public statements of companies, such as UPS and Wal-Mart, and others who compete for labour in the pool of part-time employees, that the challenge has not become any easier, and we are continuing to offset the associated driver wage inflation in our contract bids.

We had fewer operating days in the first half, as Matthew pointed out, compared with last year, which explains the year-over-year comparison. But of course this business’s performance is almost wholly geared to the second half. I believe when you take the pluses and minuses and changes in operating days all into account, what we see is that last year’s strong performance was no one-off. This business has been returned to health, capable of reliable cash generation, and we can look forward to extending our leadership position as we expand our footprint through organic growth and acquisitions such as our recently announced acquisition of Falcon Transportation in Chicago, and as we continue grinding out more efficiencies.

First Transit’s results are not unlike those I reviewed with you at this time last year, in the sense that we had a tough first half, but with confidence that we’ll restore a 7% margin for the second half. The performance, however, reflects very different challenges from last year. The biggest is the interruption of service from the various hurricanes, particularly in Puerto Rico. Our First Transit division stands out from others because we have a substantial presence in Puerto Rico; we have two First Vehicle Services contracts and a fixed route operation. Now, the team down there performed magnificently, restoring some semblance of operations before any other transport provider. Indeed, we were asked to deliver services in place of others for a time. And we believe this was the right thing to do, notwithstanding the challenging financial situation of the authorities in Puerto Rico, and we’ll just have to continue to work through that situation, which is in a state of uncertainty.

We did have a good season in landing new business, with 14 new contracts and a 94% retention rate. On the other hand, the driver challenge is as real for First Transit as it is for First Student, and we had the closedown of a few poor-performing contracts that ran into this period, which, taken together, obscured the early-period profits of the new business. But these are the items that a good business simply overcomes and, as you know, this is and has been a good business for us, and we expect a trajectory not unlike what we saw last year in the second half.

Greyhound generated modest growth, which is positive in comparison with its competitors, but not relative to our expectations for the business. Greyhound continues to struggle in the traditional long-haul markets, making little headway against the discount airlines. I don't expect that mismatch to ease any time soon, giving airline pricing in North America. In addition, we continue to see the effect I noted at last year's year-end review, of a reduction in travel in the southwest, compared with other sectors of the country. The southwest is traditionally a good long-haul coach market. We are very excited, however, that Greyhound has delivered substantial growth of just under 8% in the point-to-point shorter-haul market. This is the kind of change in results we've been waiting for and for which we made the substantial investment in mobile and yield pricing tools. Our major competitors are not reporting similar growth numbers. We are encouraged by this separation in performance and are now spreading active yield management to more short-haul point-to-point markets across the network – markets that have, up to now, largely been subject to system table pricing. We have proven we can generate growth in dense corridors, but must now see the effects of dynamic pricing in less populated areas. We can't simply extrapolate the impact of the growth we've seen to date, because demand and customer awareness will vary. Nonetheless, this is exciting because we've always been seen as the legacy carrier waiting to be picked apart by the new entrants, and now we have the tools to be the one to deliver change. And the numbers in our short-haul market seem to validate our efforts.

In a related development, we have ended our old pooling arrangements in the northeast corridor that had been conducted under traditional coach commercial arrangements, because the market has moved to our mobile offerings and we needed to shed past practices. And finally, we are continuing our cost reduction programme in Canada by, most recently, filing to eliminate numerous routes in British Columbia, where we still face regulation.

Turning to the UK, we have actually seen a bit of a reversal in the relative performance of our divisions' contributions to overall results, with better performance by First Bus and First Rail helping us to overcome the hurricane impact to North America. We have seen modest like-for-like growth in revenue for First Bus, notwithstanding the uncertain industry environment. This is, I think, the first revenue increase for this period in a very, very long time for this division. We're continuing our programme of requiring each of our individual companies to adjust operations as required locally to make demonstrable progress in achieving higher margins. That approach accounts for the cost savings Matthew reported, and the even greater savings that will be seen in the second half. The reductions in the network to date have, as we reported previously, given us individual companies that all make a contribution to the Group. We're moving forward by confining our future investment to those that can generate the necessary returns, and that requires local authorities to help to provide the environment in which a reliable bus service can be delivered. In places like Leeds, we see officials who have announced investments intended to enable the doubling of bus patronage over the coming years; quite a change from current situation. We see similar ambitions in west of England and with other authorities to address congestion and other barriers to a good bus service; the things that have produced the challenges seen across the industry. That willingness is particularly crucial to us in restoring margins, and we shall tailor investment accordingly.

Turning to rail, we see strong relative performance, with improved revenue growth and cost efficiencies. This performance and contribution to our results is at odds with conventional wisdom, which questions valuation and risk to the Group from participation in the rail market. Those questions are understandable based on recent developments in the industry, but we are confident in the continuing value to be derived from our overall rail portfolio, and we believe there are reasons for our positive view over the medium and longer term. We are generating good results under current conditions and we are delivering the capacity that has always in the past, and will in the future, provide a step-up in revenue growth. Each of our franchises faces different opportunities and risks but, taken together, we are confident in the health of our rail business.

Great Western Railway has been a good partner to stakeholders in delivering the transformation of it. That has required the delivery of huge infrastructure projects with Network Rail over many years, and more is still to be delivered, but we're finally seeing the first delivery of new train fleets that will provide capacity for future growth. TPE will, next year, see the initial delivery of the £500m in new trains that will help respond to the above-industry growth it is seeing currently. Now, that franchise lacks the downside protection we enjoy on South Western Railway and it's, in some respects, our most ambitious bid, but it is also the market where we're seeing the strongest growth, even without the new trains. And SWR, as we reported at year-end, should represent the new model of franchise, with more efficient risk allocation and sensible bonding requirements.

Now, we wish the infrastructure had performed a bit better coming out of what was an otherwise successful expansion of capacity at Waterloo, but the real story is we will be delivering a material increase in capacity across that network and into the busiest railway station complex in Europe. Our portfolio is not without risk, and new risks, such as the impact of Brexit, remain difficult to assess. But the diversity of our portfolio, the terms governing our franchises as a result of our disciplined bidding, and the main catalysts for growth that we have put in place combine to give us continuing optimism in rail.

So, in summary, solid trading has led to a strong cash performance, substantially better than last year. We're a second-half business and we still have to deliver against numerous challenges, but we're confident the Group will continue to progress and will deliver substantial cash generation for the entire year. Now, Matthew and I will be happy to take any questions. Thank you.

Gerald Khoo (Liberum): Morning. Gerald Khoo from Liberum. Couple of questions, firstly on Transit. You make reference to poorly performing contracts. I was wondering whether you could elaborate on that. What went wrong with them? Why were they poorly performing? Is that a case of getting the bids wrong, or did circumstances change? And how were you – perhaps could you clarify whether you were able to extract yourselves early or whether those contracts just reached their natural end? And, secondly, on UK Bus, I think you hinted that there was a divergent performance between different parts of the business in terms of, presumably, revenue. Perhaps could you give a bit more colour as to what was – which regions were best and which were worst, perhaps?

Tim O'Toole: Well, on the first one, we don't mean to introduce some kind of new foggy category on the poor-performing contracts; these are the exact same contracts we talked about last year – two very large contracts in southern California – and it's just that those results and the close-out costs went into this period. This is a fairly limited and fenced-off area, but it did have an impact, which, only because of the numbers from the hurricane, suddenly, changes – even a million or so – made a big difference in the percentage changes year-over-year with regard to our Transit business. We were just flagging that, because otherwise you have to be able to bid to get from the one year to the other, so we wanted to add that detail in.

As for First Bus, there is a wide range of performance across the business. You know, we have many local businesses right now that produce the margins that people are expecting to see over time across the whole business. I suppose what's different for us is we have been patient. We've always tried to preserve the size of the turnaround – really, the gearing that the turnaround will produce when we hit our margin targets, and we're now saying, in the current environment, we can't be as patient. We have got to move forward where there are returns, and while we don't have any open sores – they are all contributing companies – we are going to have to allocate capital based on returns in environments where people are willing to work with us. Because the great problem that has hit the business is that, as congestion has grown, you've had to keep injecting more capital in order to keep up your timetable. And it's just more and more capital, and we've got to stop this. FirstGroup has put so much capital in its First Bus business, it can't continue down this route unless we have partners who are going to work with us to make sure they can deliver a return for our shareholders and, by the way, reliable bus service for our customers.

Alex Paterson (Investec): Morning, it is Alex Paterson from Investec. I think you said on First Student that there were slightly fewer working days in the first half. Could you say how many there were, and also if it had any impact on your cost base? If it didn't have an impact on the cost base, what would a sort of normalised margin have been in the period, please?

Matthew Gregory: What I would say on that is it's only a matter of one, or one and a half, days. It's not a huge number, and the only reason we are talking about this is because First Student's first half performance is always so small. So any change, you know – we made, what, $18m of profit – any change has to be explained. You saw how much we earned last year – well in excess of $200m. So in that context, we probably wouldn't be explaining it. It's a relatively small number. It's kind of almost not right to say what a normalised margin for the first half would be, because we are always affected by Easter, because our year-end is that March period. So it's not really a particularly relevant margin to us at this very specific first-half piece, because it just covers Easter, then it gets hit by holidays at the back end in September. So we are looking at it for the full year, really.

Sam Bland (JPMC): Morning there, it's Sam Bland from JP Morgan. A couple, please. First, on the US – you bought the business in Chicago, I think it was a small Student acquisition. Over time – is that something we might see more of? More acquisitions to come? Maybe relative preference for those, accelerating de-levering. And then second one on rail. I guess some of the official data has looked not particularly great on rail and passenger volume trends. But then we look at your revenue growth, and actually it seems to be doing considerably better. Is there anything that you'd like to highlight on why some of that official data isn't feeding through and actually your performance is stronger? Thanks.

Matthew Gregory: Just to talk very briefly on that official data point. I think the official data that's come out, we don't necessarily feel it's particularly helpful, because it doesn't get normalised in any way. We don't see any adjustments for holiday patterns or, even, I believe, the remapping of TPE hasn't been taken out of the TPE numbers. We're reporting, and we're happy with, like-for-like passenger revenue growth of 9.7% for this half in TPE. We are not seeing that in these older statistics. So for our particular franchises, it doesn't seem to be particularly helpful. On that particular point, I'd caution extrapolating those numbers necessarily.

Tim O'Toole: I mean, we're not immune to the concern about the changes in the rail market, and it is a concern to us. We have a special problem, and have had a special problem, with Great Western because the intensity of the engineering works has been such that it really seems to have a dramatic impact on the ridership. But we also believe that the phenomenon we have seen in the past, time and time again, when you deliver this increase of capacity, the marketplace responds. And you've got about £1.5 billion in new trains going into Great Western, you've got £1.2 billion going into South Western Railway, and you have £500m going into TPE. And that is what will drive our future.

As for the question, Sam, you had on Student, we do see more acquisitions in the future. I mean, if you think about what we've done – so we've tightened our portfolio, which meant it was inevitably going to result in fewer buses, because people are either going to have to give us a rate in which we could deliver a good result, or we weren't going to be putting in capital. But now we are in a healthy state. You saw our margin at the end of last year, you saw how favourably it compared to the other companies. And we expect that given we now have a margin that generates a return in excess of our costs of capital, we will engage in acquisitions where they present themselves – where they make sense. And that allows you to increase your portfolio with a real strategic eye to what markets you want to be in, where you can get greatest synergies. Someone who has a good relationship with their customers, so you have longer-running contracts and the like. And it is in many ways a much more – and we've said this in the past – efficient way to grow than to simply be bidding down to the margin against your competitors. Obviously we intend to continue the direction of continuing to make a healthier and healthier balance sheet, but we don't see the level of acquisitions we would be making in Student to really compromise the progress we expect to make on the balance sheet, given the cash generation the company has delivered.

Charles Chalkly-Maber (Redburn): Good morning, Charles Chalkly-Maber from Redburn. One question on Greyhound, please. You mentioned these negotiations with the Canadian Government. Might you talk a little bit more about what the effect that might be? I guess the second part of that – is that a reflection of your strategy for Greyhound Canada, which I think I'm right in thinking has a lower margin and a lower return?

Tim O'Toole: Yes, Greyhound Canada has a much, much lower margin, a negative one, than the US. And we have been fairly open about our ability to be definitive with our moves there, compromised – limited – by our pension obligations, and having to work through that whole subject. So, as a result, we are trying to reduce costs in every opportunity we have. And the difficulty with Canada of course, generally speaking, is everyone lives within 200 miles of the border, yet we have routes that extend to far-off places. And we, you know, are an important artery or connection from some of these more remote spots to the more populated parts of Canada. Nonetheless, we aren't a public service, and so we've had to say to the government, we have to file to cut these routes. Now, they may want to do something about that. There are lots of opportunities that the government could respond. It's really their question of what they want to do. But in the meantime, we have to reduce our costs as much as we can, while also looking to ways we can produce growth in the denser parts of Canada. So there are parts near Vancouver where we are looking at putting in some of the point-to-point, hopefully more successful services. We are certainly having more success in eastern Canada. But we have to draw the line here on the amount of service we are providing for which we aren't being compensated adequately.

Damian Brewer (RBC): Damian Brewer, RBC. I am just going to ask three. First of all, can we just come back to Greyhound and can you talk a little bit more about the mileage you have taken out in the first half? And then, given that on the sort of – the trailing 12 months basis, across US and Canada, how much of the network, by mileage or revenue or whatever way suits, actually generates breakeven and above? Can you give us a feeling of the dispersion of return across the business, and maybe the scope to change things up there?

Secondly, coming to rail, could you tell us on particularly TPE and Great Western whether there have been any equity contributions to the operating companies or whether you've managed to avoid that? And in particular, with GWR, where you are in terms of the contract, given its end and when Crossrail etc. looks like it's going to land.

And then very finally, on the financials, on the pension, the difference between the income statement charge and the cash cost has expanded yet again. Could you tell us a little bit more what's behind that and when you think that will reach an inflection point where hopefully that differential will start to close up? Thank you.

Matthew Gregory: Well, let me hit the pension piece. And I think we're not necessarily expecting that differential to close up. I mean, we are – we have been working very hard to minimise the additional deficit reduction payments that we are having to make, particularly into the UK, the bus scheme. We are working through the valuation now, and I think we've done extremely well, actually, to minimise any impact from the higher deficit that we've seen in that pension scheme. And a few years ago we agreed a process whereby we would continue to increase the deficit reduction payments by 5% or so a year. So this is a long-term issue, particularly the UK bus scheme, where we have the biggest part of our payments. We're seeing extensions to the life of those deficit reduction payments. We are paying this over a period that's well in excess of industry averages. So that, to me, what we're doing here is minimising any negative impact from the recent financial position, but I'm not sitting here forecasting that that position is going to close. I think, coming back to the question on the contributions, we have made a small contribution into TPE, as again, we're in a start-up position in that franchise. And as we said, the success of this all comes from the new rolling stock and the new timetables there. Definitely not [a contribution] in Great Western. In fact, Tim, do you want to talk about the contract?

Tim O'Toole: So we have the direct award, and we expect the government to extend its option for an additional year. We just have to see how that plays out, what makes the most sense for the government in light of the expected delivery of the big works there. And the works, of course, are beyond just Great Western's own but what's happening with Crossrail and some other assets out in that area. So we continue to work with the government. We have a very positive working relationship with both the government and Network Rail, and we think that they appreciate all that we are doing right out there with them. Because you see, we have a lot of our team that's embedded in these project delivery teams, and that work is difficult to kind of break apart right now.

And as far as Greyhound's mileage, first of all, Greyhound US has always generated cash for us and is a healthy business. One thing the Greyhound team has always been able to do, and I think that they've excelled at really, is their ability to clamp down on costs as they've faced the challenges of, for example, the huge change in oil prices that had such a devastating impact on their plans, and yet they were always still able to produce good profits in cash for us. This is quite different from Greyhound 15 years ago, which, when it faced challenges like this, would have been in a very, very different place. When we talk about reductions in mileage, we haven't cut back on the network. It really has to do with frequency along segments of the network, extra sections, the timetable with regard to, for example, between Philadelphia and New York, whether you're running ten services or you're running eight within a particular time. And so they continue to make those adjustments. But what they are seeing is the fact that they are getting increasing load as a result of their pricing in the shorter haul markets. And so whether or not we reallocate assets over time or change the volume of service and frequencies in a dramatic way is something that we are going to be learning and deciding as we expand the Greyhound Express services to more places. I mean, really it's kind of startling that they could get nearly 8% growth in these markets, when no one else was doing anything like that.

Anand Date (Deutsche Bank): Hi, it's Anand Date from Deutsche Bank. Just a couple of questions, please. On South West Trains – South Western Railway now, actually – could you just outline again for us, please, the key risks and how you're thinking about them on volumes, industrial action, any commitments you've made to government?

On UK Bus, I understand the point that you need to allocate capital where you have perhaps supportive local authorities, where you see returns. But could you walk us through the debate you've had, presumably at a quite senior level, about, you know, these are areas at risk where, in effect, we're not going to put capital, they're going to get worse services. You get in a very negative cycle around that. Thank you.

Tim O'Toole: There's not a lot of mystery about South Western Railway. It is all about volume growth over the longer term, and that is what all those new trains and that more intensive timetable will deliver. And that'll be the challenge for us. But we see the demand there, and the volume we have to generate is not off of what it traditionally has generated. So we are not talking about any heroic, super high numbers. As far as the industrial action as one of the risk factors, yes, it's a risk factor if we get caught up in that longer term dispute. But number one, we don't have obligations to the government like some other franchises, so this is different for us. And number two, we continue to push the fact, in the communication to all of our employees, that we're going to be bringing more jobs. We have no ambitions about having fewer than the two safety-trained employees on the trains where they are now. And our only position is we want to be clear we are not going to take a pledge against modernisation and not to use the latest in technology to bring efficiency. Who would do that? But you saw in the first two days of strikes that were announced against us, that we delivered two thirds of the service, and that's fairly high right out of the blocks. And, as you know, it tends to get better. So we think that our employees will get that it's a positive story for them on South Western Railway, and there's really no logic or point to some kind of long dispute that's going to result in them having to lose pay in their pay packets and their commuters suffering for no point. We're still very confident in the delivery of South Western Railway. And given that it has the downside protection against endogenous risk, both GDP and central London employment, we think, as I said, that it really should be the template for new franchises going forward.

Matthew Gregory: To the bus question, clearly we are just putting this in context. We spent the last three years or so bringing the fleet up to DDA compliance, so the capital was almost mandated. What we are saying is we now have much, much more choice in where we invest in the business. We haven't seen the revenue growth that we thought we might do, and so we're having to adapt our plans. So the conversations are very much driven around, you know, that there is no unlimited supply of capital. We have to supply a return on that capital. That division has to generate cash, and the management are well aware that they've got to make choices. So if there are – as Tim said, if there are places where the environment is conducive to our business, then great. And if it's not, then we may have to make more difficult choices. No more questions?

Tim O'Toole: All right. Thank you all very much for joining us this morning, I know it is a busy day.

Matthew Gregory: Thank you.