Transcript of FirstGroup plc's call to analysts and investors on the pre-close trading update for the six months ending 30 September 2012.

Tuesday 2 October 2012

Operator: Ladies and Gentlemen, thank you for standing by and welcome to the FirstGroup pre-close update for the six months ending 30 September 2012. At this time all participants are in a listen only mode. There will be a presentation followed by a question and answer session, at which time if you wish to ask a question you will need to press *1 on your telephone. I must advise you that this conference is being recorded today, Tuesday, 2 October 2012.

I would now like to hand the conference over to your speaker today, Chris Surch, Group Finance Director; please go ahead, sir.

Chris Surch – *Group Finance Director:* Thanks, Adam. Good morning everybody. I'm just going to spend a few minutes pulling out the highlights from the statement that we put out this morning before opening it to questions. Overall, in the first six months we are on track; clearly this is a period of transition for the Group, but having spent now just about a month here, I'm very pleased to see that the actions are actually being implemented around the Group.

Just like many companies, overall we are confident in those actions, but cautious on the economic outlook, particularly in the US given the upcoming elections.

I'll now go through each of the divisions. As you will have seen from the trading statement, last year included an extra week, so all the numbers I quote are on a like for like basis. So, first of all, Student, as you know, we're in the process of implementing a new operating model; and ensuring that that is embedded within the business; and that process is going well. You will have also seen that the retention rate is a little bit above 90%, which is pleasing. What is also pleasing is that we've seen, albeit small, some organic growth within that business for the first time in about three years.

Overall, like for like sales are down 3.8%, which is exactly in line with our expectations; and for the full year we'd expect it to be down around 2% on a like for like basis. We've reiterated that we expect to achieve an overall margin ahead of that achieved in the year ending March 2011. In Transit, very much a steady business; and, again, with growth of 3%, good retention rates well above 90%, and a strong pipeline of new business.

In Greyhound, again, we're pushing ahead with the modernisation programme, but we have been impacted by the weaker economic environment and relatively low fuel costs, which has impacted the top line. Again, many of you will know that over the last couple of years a more flexible operating model has been implemented; and that has allowed us to adjust the cost base to reflect those more difficult economic conditions.

The way I would position Greyhound is that I think that there was a potential there to outperform; that potential has reduced a little bit given the economic conditions. I should also say that the Express model is performing well, and we've continued to see good growth in that part of the business.

In UK Bus, again, as you know, we're going through a major change programme. It's still early days, but, again, as I've been out and about I've seen the commitment and the strong feeling of change that's coming through in all levels of the business is pleasing, and we expect to deliver on that change programme. Overall growth rates of 2.5% in the period, and, again, we re-confirm that we expect to hit a margin of 8% for this year.

In Rail, clearly dominated by all the commentary on the West Coast. All I'll say on that is that we have every confidence in the DFT process, and we're mobilising and getting ready for the launch on 9 December; there's probably not a lot more I can actually say on that.

Away from that, the rest of the business is performing well, with again, good growth of 8%, and we continue to bid and go through the process on the other TOCs that we've been shortlisted for. So, overall, outlook is on track, but cautious about underlying economics; and for that reason we re-affirm the dividend policy that's been previously stated. I'll now open this to questions.

Operator: Thank you, as a reminder, if you wish to ask a question, please press *1 on your telephone and wait for your name to be announced. If you wish to cancel that request, it's the # key. Your first question comes from the line of Mark Manduca from Bank of America; please ask your question.

Mark Manduca – *Bank of America:* Morning, Chris. Thanks for taking the question, thanks for your time earlier this morning. Obviously the trading statement focussed on earnings; if I can just ask a couple of questions in regards to cash. So I guess, first question in regards to the free cash flow argument. Last time, I think it was the Q1 statement, obviously cash flow neutrality was reinstated, if I'm right; to what degree has that changed in the light of West Coast?

So, specifically, the stuff that we spoke about this morning, the 50 to 60 million working capital inflow and any operating profit that comes from West Coast; what does that mean for free cash flow post dividends? And then on the dividend policy, as a second question, where exactly are we with disposals, in your mind, from your initial assessment of the business? To what extent do you, on your initial assessment, think that it's a prudent strategy; in terms of the 100 million, do you think there's upside or downside risk to the targets? Are you seeing any potential interest from buyers at this stage? And then linking that into the dividend specifically, do you think that there's legs for this to be a multi-year asset programme, just on the dividend, or is it just a one year event?

Chris Surch: Thank you very much. I'm not sure that was two questions, probably a few more. Let me see, if I forget any of those I'm sure you will remind me. Yes, on free cash flow to start off with, yes, what we've guided previously is that it will be broadly neutral, including around 100 million for disposals. So the way I would look at that is, broadly neutral could be slightly positive, slightly negative, including those disposals; and then with West Coast that would bring in about 50 million, as you say, for working capital. And, again, I think we've guided about 10 million with the operating profit that comes from that business. So, overall, I would say, assuming the disposal programme happens, then we will be in positive territory, again probably in the range of 40 odd million, or so, depending on what way we go. Hopefully that covers that one.

In terms of dividends and disposals, I would look at those at two separate issues. First of all, on dividends, and your question as to whether that's a prudent policy, to me, the key is having clarity on a dividend policy. And, I think, where the Board has set out clearly before my time is absolutely clear with the policy for this year.

Then, as you know, we have a plan to win more franchises, and, also, improve the two bus businesses. I think, by the time we get to the next stage, in May, of thinking about dividend policy for the future, we'll have a better position on those, and then we can guide on that in the future. I think the key to me though is: dividend policy in part reflects views of the future. It also reflects what is the current cash position and balance sheet of the business at the moment.

And I think, the overall business, yes, leverage is relatively high, but we're in a good position; we have lots of liquidity. We have plenty of funds to actually do what we want to do in terms of turning the business around, and we're taking actions to strengthen the cash flow in the future through the franchises and turning the business round; and, from what I've said this morning, both of those are on track.

Then, in terms of the disposal programme, we're in a number of discussions with a number of people; so, yes, there is interest, to answer your question on the various disposals. In my previous lives I've been very much involved in M&A, and the one thing that I've learned is to be cautious on exact timing; and, clearly, you also understand, we don't want to be backed into a corner with giving specific dates on specific deals.

So the way I would categorise the disposal programme is; confident that we will get to achieving our programme, but in terms of exact timing, we won't be pulled on that. It will be when it will be, and if that goes into a future, it goes into a future year; the key is that we're confident that we will achieve it.

Mark Manduca: Understood Chris. Just a follow up question with regard to your comments on free cash flow generation; specifically you were saying that the guidance range is around 30 to 40 million of free cash flow generation if you assume... does that actually assume 100 million of disposals, just for my maths, and what number does that assume?

Chris Surch: Yes, if you assume 100 million of disposals, it all happens, and all the cash comes in this year, that's gets you to around 30 to 40 million, assuming that we start off with slightly negative on the balance view. If we start off with slightly positive, then it gets to a number that's a little bit higher than that.

Mark Manduca: Understood, and then if you strip out West Coast you get to roughly minus 20 is basically the maths of it.

Chris Surch: Yes, when we say broadly neutral that could mean, you said minus 20, which is what we talked about this morning. It could be minus 20, it could be plus ten, that's what, in my mind, broadly neutral means.

Mark Manduca: Very clear, thank you very much, Chris.

Operator: Your next question comes from the line of Edward Stanford from Oriel Securities, please go ahead?

Edward Stanford - *Oriel Securities***:** Good morning. Two questions, please, if I could? One, could you, perhaps, provide a little bit more colour on what's happening in the UK Bus business in the North of England and Scotland, which seems to be doing quite well now after some difficult times. And, secondly, just trying my luck a little bit, on Virgin, in there anything in the mobilisation process that you are unable to do that you're expected to do; and are there any mobilisation costs that we need to think about in our thoughts on Rail? Thank you.

Chris Surch: Thanks, Edward. First of all, overall we said that growth will be 2.5% across the UK Bus business, and that splits into 2.7% in the North, and 2.1% in the South. And you're absolutely right, the North is a little bit stronger and we're seeing the South is a little bit weaker.

The South, let me just cover that one, is basically due to lower volumes on concessionary fares, which, again, I think is what the various players in the market have seen. In the North it is stronger; I would love to say that's due to the turnaround programme, I think it's a bit early to say that; I think it's just underlying volumes are stronger. Obviously, as we continue to turn the business around that will build further strength in volumes in the future; but, at this stage, I think it's just underlying market metrics.

In terms of mobilisation of West Coast, no, there is nothing that we're being prevented from doing at the moment, working, obviously, closely with the DfT. In terms of mobilisation costs, again, because we're doing what we expected, those will be in line with what we expected, and they're just covered under the normal, no compensation, under the normal models; so it's just business as usual as far as we're concerned.

Edward Stanford: Thank you.

Operator: Your next question comes from the line of Alex Brignall, of UBS, please go ahead?

Alex Brignall – *UBS:* Yes, morning; thank you very much for taking the questions. Just two, please; if I could start with regards to your Greyhound comments, if you could maybe just qualify, give some more granularity with regards to what you're talking about in terms of outperformance, now, maybe, more in line performance? And, then, just with regards to the bus disposals, I'm afraid; when we previously spoke at the last results, there was guidance into the year following, 2014, we'll see the margin recovery, assuming those disposals. Could you just talk through the impact on the margin the following year; should those disposals not be done, I think we talked about 10% in 2014, if I remember correctly. Thanks very much.

Chris Surch: First of all, thanks, Alex. On Greyhound, we saw a very good first quarter, and that was leading us to believe that with an overall growth of 2.8%; our belief was if that continued then we could outperform general expectations. But we were cautious that the time... clearly I wasn't here, so I'm speaking for the rest of the guys, because obviously concerns of what could happen on the US economy; and, therefore, that has proved right - what has happened in the second quarter is lower growth, and, again, I've been asked, well, what does that mean in terms of legacy business and in terms of the Express business. The Express business continues to do well, overall revenue growth of around 6%; and the legacy business in the second quarter is still growing, but only by a relatively small amount.

But the key issue, as I said when I was talking to start off with, is because we now have this flexible approach we've been able to alter the cost base, and therefore mitigate those revenue impacts. In terms of the Bus business, yes, you're absolutely right that as a function of selling the businesses that are not performing so well, and therefore lower margin, that the bus margin will naturally increase; and over time, yes, we will expect that to get up to double digit over time.

Alex Brignall: Thank you very much.

Operator: Your next question comes from the line of Damian Brewer of RBC, please go ahead.

Damian Brewer – *RBC:* Yes, good morning, and thanks for taking the question. Three short ones on UK Bus, then a couple of other, hopefully, short ones. UK Bus, can you give us an idea of what you did with mileage outside London in the first half of the year? And then on the back of that, how much of your non-London Bus business is now concessionary fare? And on the non-concessionary commercial fare basis, how much did the commercial revenue base grow by, and what was that in terms of revenue and/or volume?

Then the other quick two questions, Greyhound, it looks like you did 0.6% revenue growth in Q2; how much of that was volume versus price; was it a volume problem, or is there a pricing challenge within the market? And then, very finally, a more general question, obviously after the last two years the key concern is what happens in terms of the March trading update. In your first month at FirstGroup is there anything about the way the budgeting process rolls forward that you can think could be done better to give us, maybe, better early warning signals of changes in the development of the business, rather than risking repeating a third year of that in March?

Chris Surch: Okay, let's start with UK Bus, overall mileage in the North was, I think, fairly flat. I think your second question was on commercial versus concession?

Nick Chevis – *Director of Finance***:** Yes, commercial revenue. Overall for the Group, commercial revenue is growing slightly above concessionary revenue. At 2.5 it's slightly skewed towards commercial revenue.

Damian Brewer: Okay, so the concession revenue is still growing?

Nick Chevis: Yes, still growing, still about 2%, yes, so there's not a lot of difference, but slightly skewed towards commercial.

Chris Surch: And then your Greyhound question, I got a little bit higher than 0.6% but still below one; and, I think, I'm being told, that we don't normally give out the split between price and volume.

Nick Chevis: No, because there are so many different journeys it's quite hard to actually determine between the different journey lengths; so it can be a bit misleading.

Damian Brewer: Okay. It makes a big difference in terms of your marginal return if you get one extra seat or...

Nick Chevis: Well, predominantly, volumes are up generally, volumes are up certainly in the Express markets where we're doing the classic yield margin activities, where we're driving up volumes to subsequently build up the yields later; so, overall, it's more volume than price.

Damian Brewer: Okay, and was that true across the country or were there regional differences in there?

Nick Chevis: That's fairly true across the patch.

Damian Brewer: Okay, and then, just finally, is there anything you think you can do in terms of refining the budgeting process, so you've got more a clearer confidence in the numbers as they develop through the year?

Chris Surch: Yes is the short answer. It has only been a month, so it is fairly early days. I think, overall, I would say, no surprises there. I think I had eight different interviews actually in the lead up to me starting, and I was very well briefed. So the underlying businesses I still see as fundamentally strong; clearly, an awful lot to do in terms of transition, which opens you up, obviously, to changing models and so on that I've talked about. And, therefore, you're absolutely right, trying to get the information as you call it, the budgeting processes right to make sure that we don't get surprises is absolutely key.

So on that... what I've found is there's certainly an awful lot of information that comes out, and the processes that are there are all the ones I would expect to be there, and the people who are actually working on it are extremely committed; so the base is good. I think my initial feelings are that because... and this is probably natural, because the business is going through, and has been through a significant period of change, what's happened is layers have built up. So as finance directors have changed, or we've gone through change processes, more and more is being layered onto what is done on a daily basis.

And, therefore, the question that's in my mind is actually, and this may sound a little weird, but I've certainly used it in the past and it's worked well, is to actually work out, well, what do we stop doing? Because some of the things that have been asked in the past are no longer necessary, and if we can actually stop doing some of these things then it allows us to focus more on what's going to happen in the future and get those forecasting processes right; so that would be one of the underlying themes.

The next one is, and, again I think, this is probably not new news, but because of the change processes, the IT systems have built up over time and not consistent across the various parts of the business; and, certainly, in areas they lack sophistication. Again, we need to improve the IT systems but I've done major IT programmes before and we have to do this over the right period and in an orderly fashion. So, certainly, that's another area that we'll be looking at.

The third area is what I call KMIs, KPIs and KRIs. People talk about KPIs, which are Key Performance Indicators, and more often than not, what we're actually talking about is results indicators, i.e. after the event. What I'm more interested in is Key Market Indicators, i.e. what's coming along the track, if you'll excuse the pun in this business. And so we can then react, we can make sure our forecasts are right, and, more importantly, we can make sure that we're taking actions to offset it.

So that process has actually started and I was talking to Tim and the rest of the Board before I joined, but I think there's more areas that we can move on that. And then, I think, the final area, and I don't want to talk about technical jargon, but it's implementing a full potential process rather than a budgeting process. And I won't go into the technical detail of that, other than to say, for those who know Smiths Group where I've worked previously and the turnaround in the John Crain business, that was all done by the implementation of a full potential process and that's what we'll be implementing here at First over a period of time. So I start from the fact that it's not broken, but I think there are areas where we can make significant improvements.

Damian Brewer: Okay, thank you, Chris; it sounds like you've got a busy time ahead. Thanks.

Chris Surch: Yes, but an exciting one.

Operator: Your next question comes from Joseph Thomas of HSBC, please go ahead?

Joe Thomas – *HSBC:* Morning, Joe Thomas here, HSBC. A couple of questions on school buses, if I may; and then just one on the UK Bus business. Your comments on school buses were quite positive, Chris, when you talked about some organic growth. Can you just give me a little bit more colour on that, perhaps quantify it and indicate where it is coming from; is that charter business? And, also, can you then give us some indication about underlying cost inflation; I see that the Teamsters have been quite noisy again recently?

And then just turning my attention to UK Bus, West Yorkshire seem to be quite well advanced in terms of Quality Contracts now. What is your... is there any update you can give us there, and how are you intending to stave off the potential consequences?

Chris Surch: Okay, Student first, I did say when I was talking I wouldn't get too carried away with it, but it was just that the trend had changed. It's come not from the charter business, it's come from the fact on individual districts and so on; in previous years we've lost a number of routes, whereas, this year we've picked up around 200 buses there. So in terms of percentage numbers, it's not a big change; but, as I say, the trend being different is positive; and, certainly, the guys in the business see that as, hopefully, early signs of the economy recovering. Again, I do emphasise, let's not get carried away at the moment.

Joe Thomas: Sorry, can I just clarify what you mean by this picking up individual routes within existing contracts?

Rachael Borthwick – *Group Corporate Communications Director*: It's additional routes added to existing contracts.

Joe Thomas: So this reflects the population growth, reflects changes to maximum walking distances?

Rachael Borthwick: It can reflect a number of things, but, typically, it might be if a route has become too long, for example, if it's taking too long to get round, they might split it into two. But, I think, the point that Chris is making is over the last three years we've seen a trend of that reducing as they've looked to get more out of one run. And now we're seeing a little bit being added back in, which is something that was always a feature of the industry over the last ten or so years that we've been there.

Chris Surch: Okay, I think, your next question was on cost inflation, which is around 2%, and then linking in with the Teamsters. Our relationship with the Teamsters, which is the biggest union for us is very very good; and, I think, what they've seen is the implementation of the new... what we call the new Student way of working and the fact that it makes a difference to them, and that they like the way that we're actually now communicating with everybody, and so on. It's actually having very positive results; so the relationship, touch wood, is good with the Teamsters; and, hopefully, it will continue for a long time; so I certainly don't see an issue there.

In terms of UK Bus and West Yorkshire and the Quality Contracts, yes, they've raised that. Our view is a better way of working is, obviously, on a partnership basis; and, certainly, when you look at other areas like Sheffield and so on, and they've seen that working well, we believe that over time we can persuade the various authorities that that's the best way to go, but, clearly, it's obviously early stages.

And, I have to say that what they're talking about is several years out anyway, so this is something that needs to be dealt with over time, because they're talking 2015 at the earliest.

Joseph Thomas: Okay, thank you.

Operator: Your next question comes from Peter Hyde of Liberum Capital. Please go ahead.

Peter Hyde – *Liberum Capital:* Hi, morning. Can I just ask two or three questions? Firstly, in terms of Greyhound, could you just spit how much is Express at the moment and how much is Legacy, and I don't know how precise you're willing to be, but try and give us a bit of kind of feeling of margin differences between the two businesses? That's question number one; question number two is that I'm interested... I think you've got to refinance a £300 million bond and I'm wondering what the timing is of that. And then, finally, I just wondered if you could talk a bit more about this bus disposal programme and the process you're going through, because I've sort of heard that you're doing the disposals in blocks and I'm sort of under the impression that block one hasn't finished. Is that the right way to think about it or are you doing it in a slightly different way? Thanks.

Chris Surch: Thanks Peter. So Greyhound first and the split of the business. As always, it does depend how you measure it and over what period because it does vary in the summer months to the winter months, and so on. But the broad estimation I would use is around 20% of the business is Greyhound Express.

In terms of margin, that is extremely difficult because we are in a growth phase, so basically you go into the individual regions, you build market share and then you obviously build the profitability over time. So it's not that I don't want to give information; it's more that, if I did, I think I'd tie up this call for the next two hours because it varies by individual contracts.

In terms of the refinancing, yes, you're absolutely right: 300 million bond due in the first part of 2013. We're in the process, as you would expect, of preparing for that. Very much like the UK bus disposal programme I'm not going to be called or backed into a corner on specific timing but my view on these has always been to do them at a relatively early stage and to make sure everything runs smoothly. We will do that in due course. The one thing I should point out is that we have very, very significant headroom on our liquidity. We can do that at the right time and in due course. Then in terms of …

Peter Hyde: But just... sorry, because that's a bit of a kind of on the one hand, on the other hand. All I was really interested in really, was whether you, as a Group, are focusing on it heavily at the moment.

Chris Surch: We're preparing for it, yes, as we prepare for all of our refinancing.

Peter Hyde: Okay, yes.

Chris Surch: In terms of the disposals, yes, you're right; we are doing it in tranches, and that's when I talked about at each... we're at various stages in various blocks – as you called them – in various blocks. The way we look at this is that one of the reasons we're selling these businesses or potentially selling them, is that we think that there is a better value to a different owner, and therefore as we put together the various blocks, it's with that in mind, and that's the process we're going through.

Rachael Borthwick: Okay?

Peter Hyde: Okay, thanks.

Rachael Borthwick: Thank you.

Operator: Your next question comes from Jaime Rowbotham of Morgan Stanley. Please go ahead.

Jaime Rowbotham – *Morgan Stanley*: Morning all – three questions; the first couple are a bit following on from Damian's line of questions. I was interested in some of the answers there, Chris, in particular, you mentioned the IT systems and when you're giving some of your background on your first look at the Group. Again, I'm conscious that it's early days but is there a sense at, do you think, in which some cost perhaps has to go back in at FirstGroup on things like IT systems and in terms of... you know, in order to execute a bit of a business turnaround? And in terms of... if the answer is yes, and in terms of funding, putting some cost back in, if cash takes a while to come through from bus disposals, then, you know, earlier you mentioned having comfortable liquidity to fund turnaround investments, presumably that might need to involve drawing down on the undrawn credit facility that you just referred to. Perhaps you could explain whether that's a fair assessment.

Secondly, again, coming back to this point around guidance and visibility, I just wondered specifically in school bus, how easy is it to have visibility on the operating profit margin in school bus for the 2012/13 school year, especially after, you know, just a month of that school year, what are the upside and downside risks to that margin, do you think?

And finally, completely separately, just going to UK Rail – assuming West Coast starts on time, are there any concerns within the Group that the UK GDP outlook is already quite a bit weaker now than would have been the case at the time of bidding? Thanks.

Chris Surch: Okay, Jaime thanks very much. I'm just scribbling away there. Yes, on the IT systems, then the Group has known for some time that we need to improve the IT systems. So there are in budgets and longer term plans numbers already put aside. So in terms of guidance previously, in terms of capex costs and the required funding of that, it is early days for me. But I'm not sitting here saying that it's going to be just a massive increase in IT costs that's not already envisaged in some form. The key is to execute it, to pick the right priorities, to execute it, but execute it in an orderly way and to make sure it's joined up. And it's a mixture of making sure that the, what I would call the base systems – the back office systems is probably a better phrase – are in place, but also making sure that the technology investments are there. And again, on some of those on ticketing, and so on, that we're pushing ahead with anyway; it's making sure that we get that right balance on a joined up basis.

I think if things have happened perhaps in a slightly different way in the past, it's that lack of joined up nature. So I think it's more that we have a good IT Director and he and I are working with the individual divisions to come up with that plan to make sure it works. But I do emphasise fortunately for me I've been involved in three big IT projects and they've all actually gone well, but I have seen ones that have gone badly wrong so order and planning are absolutely key to me. I'm not indicating that you should be changing your cash flow forecast, etc, etc. for IT.

In terms of school bus, in terms of the key things, the key period for us is the retention period and making sure that we've got the contracts. And we planned on getting around 90% retention, which I think we've told the market previously, and we got that, slightly above. That's one of the key risks which is now behind us.

The second area is then the start up process and that has gone well this year; still relatively early days but normally by this stage, in early October, you've got a good indication. So that's gone well.

Then there is the potential to win or lose individual routes, as we talked about before, but the early indications are we've won some; maybe we pick up some more. I would see that on the upside but, again, probably not significant. But as I mentioned in my words to start off with, we're also in the middle of the change programme. We are confident that that will deliver, but clearly, it's... with the numbers in the second half compared with the first half, it's obviously a relatively big number, but confident we'll get there. Clearly, if something goes wrong on that, then that's a risk, but at the moment we don't expect it to be.

Rachael Borthwick: West Coast GDP I think we... I think we said, Jaime, that we used the March 2012 OBR numbers as a base in the bid, but actually, I think we said at the time we take in account the number of different scenarios in our sensitivity analysis; so no change there.

Jaime Rowbotham: Okay, thanks guys.

Chris Surch: Thank you.

Operator: Your next question comes from John Lawson of Investec. Please go ahead.

John Lawson – *Investec:* Good morning, Chris, and welcome, and Rachael and everyone else who is listening, Nick, etc. Just... I've got three questions really; one, coming back to Student, can you just remind us exactly where we are on the gross and net, buses added? I know obviously at the last update we had the numbers there but there can be some changes. And related to that, within the like for like of minus 3.8, when you talked about organic growth just now, I just wondered whether you could say, just give a little bit more detail around what's in that 3.8 decline and the relevant percentages? That's point one.

Point two, just on the... can you give us any idea on the net debt position at the closing of the period just ended?

And point three, just on Rail, can you give us an update on the bid costs year to date and remind us what your forecast is for the full year and perhaps relate it to that? Can you give us any idea of timing, when this judicial review is – I know it's outside your control – but what is your view on that?

Chris Surch: Okay, thanks, John. So, overall, in terms of buses, the net net position is around 700 less buses than before the bidding season. On a like for like basis, the 3.8% … I'm not sure whether this is answering your question, John, but the key driver behind that is the pre-recession contracts that have impacted the business, as you all know, over the last couple of years; because they're on a three to five year basis, those are effectively rolling off. This is the last year where we've got that direct impact. That's really what's driving the overall changes.

And the other thing that is probably worthwhile mentioning is... as again many of you will know in this business, we also acquire buses through acquisition. What we've been focused on, and I talked around when I was answering Jaime's question, about the focus on the bus and the turnaround programme, we're focused on that and less focused on acquisitions at the moment. We want to basically turn the business round first, then push harder on acquisitions as we take it forward. Those are the key drivers behind that.

In terms of net debt, you'd expect in... I think you've seen this previously, the cash is generally weaker in the first half than the second half, principally because the business is biased. There've also been a number of working capital movements specifically this year; so a number of particular rail payments that have gone out and also, we've been investing in the Olympics; we've bought the buses, obviously, for that. So that... you'll have a first half loading on UK bus capex. Overall net debt will be around the 2 billion, 2.1 billion at the end of the period, which is broadly an EBITDA ratio of about 2.9. But again, you'd expect that actually to improve in the second half.

In terms of bid costs, year to date is around 12 million and we would expect the full year to be around the 20 million, probably slightly above the 20 million mark. I think guidance has been a little bit less than that previously; I think it was around 18 million. The reason it's higher is basically levels of activity – as you know, we pre-qualified on the four contracts and we're now well into that bidding process.

In terms of the judicial review, I think it's public knowledge that that's up in the middle of October, is when that's coming before the courts.

John Lawson: Okay, fine. Just one point of clarity, coming back to the minus 3.8; you referred a little bit of organic growth, does that move the dial at all? In other words, is it minus 3.9 net or a gross rather? I'm just trying to get a flavour.

Chris Surch: No, it doesn't. I don't think it would even take it from 3.8 to 3.9.

John Lawson: Okay, fine. Right, thank you very much.

Chris Surch: Thanks, John.

Operator: Your next question comes from Anand Date from Deutsche Bank. Please ask your question.

Anand Date – *Deutsche Bank:* Hi, morning everyone. Just three questions; just from Peter's point on the bond refinancing; do you think there's any risk that you see a harder stance from your bankers or a potential change to your covenants? Just any thoughts on that will be interesting.

And then on rail; is there... do you see a ceiling to the level of risk appetite you'd be willing to take on? By that I mean if you won or if you retained Great Western, does that almost preclude you from an East Coast or something like that?

And then just a bit further on rail, is there any scope for almost a ring fencing of rail? Is part of your bidding that it's backed by the FirstGroup entirety or is there a way that you can kind of seclude UK Rail as a division from the rest of FirstGroup? Thanks.

Chris Surch: Anand, thanks. In terms of refinancing, simple answer is, no, we do not see any hardening of stance; certainly all the people I've spoken to are very supportive. What we are very, very clear on is our commitment to maintaining investment grade status and we are very strong on that. I think you specifically asked about covenants, no, I wouldn't expect those to change at all. Yes, the leverage is relatively high but it has been coming down over the last few years. Yes, it's stabilised a little bit at the moment but that's because we're in an investment phase of turning round the businesses in transition. And then over time, as we win the rail franchises and turn around the businesses again, the cash flow will strengthen. So, no, I don't detect any of that at all. And all of our core banks have been very, very supportive over many years. That's our position on that.

In terms of rail, I think the answer is yes, clearly we have to be minded to the overall risk appetite and we wouldn't expect to go out and win every one of the new franchises that are coming up over the next three or four years. What we look at is the overall risk profile of the individual franchises and we are building a portfolio that will be a mixture of the different types of rail travel and so on. That's the main driver in choosing how we bid, together with obviously the overall appetite, but it's in that order. In terms of ring fencing …

Rachael Borthwick: They are bid are SPVs; they're special purpose vehicles.

Chris Surch: Yes, they're special purpose vehicles. So they are effectively ring fenced anyway.

Nick Chevis: But the Group's liability is capped out of the performance bond and the guarantee. So it's not an open ended backing.

Chris Surch: So maybe I've misunderstood your question but...

Anand Date: No, that seems relatively fine. So I guess it's just for my clarity it would be the case that, you know, if there was a default it's the contingent capital and you wouldn't (overtalking).

Chris Surch: Absolutely, yes; we are capped out, as Nick put it, at the contingent capital. Yes, there's no further calls then upon the Group, so we are effectively ring fenced. Okay, if that's what you're getting at, Anand, that yes, that's absolutely right.

Anand Date: And then I guess... sorry, if I can just ask one more; and just, I guess the debate is on the potential for cross default, and I'm not saying you're going to default, but the potential. If that were to happen, do you think there's, within the contracts, the DfT would have the right to take the contingent capital on all of the franchises, if that were enforced, which is a big if?

Chris Surch: No, they can't.

Anand Date: Okay, thank you.

Operator: Once again, if you wish to ask a question, please press * and 1 on your telephone. Your next question comes from Gerald Khoo of Espirito Santo. Please go ahead.

Gerald Khoo: Morning, a couple of quick questions on UK Bus; firstly, in terms of the revenue growth, could you give an indication of where you are in terms of the split between volume and fares? And secondly, on disposal programme, you talked about tranches of disposals; can you clarify whether that's just you are doing a batch at a time or whether you're selling multiple businesses as packages?

Chris Surch: Okay, let me take the second one first. It is batches; we're just doing them in batches.

Nick Chevis: Yes, volumes are slight... they're still slightly negative at the moment, so probably - one and zero on volumes at the moment on bus passenger revenue.

Gerald Khoo: Okay, thanks.

Rachael Borthwick: Any further questions?

Operator: Your next question comes from Ankit Gupta of Amba. Please go ahead.

Ankit Gupta – *Amba:* Yes, hi. I need some clarity on the... how much amount are you going to raise from your asset disposal programme?

Chris Surch: We've previously said that it will be around... this is UK Bus, around £100 million.

Ankit Gupta: Thanks for that. And another thing is that if you can just give me some numbers with regard to how much payment are you making for the West Coast franchise?

Rachael Borthwick: I think we've already covered quite a lot of detail on West Coast in previous calls. What exactly do you mean how much we're paying?

Ankit Gupta: Yes, how much capex investment or like a...?

Nick Chevis: The absolute level of capex is very low on the West Coast franchise because most items are included through the bid line and therefore included in the premium payment. So I think we've guided about 30 million of capex over the first five years, I think. So it's very low.

Ankit Gupta: Okay, thanks for that.

Operator: You have a further question from Anand Date of Deutsche Bank. Please go ahead.

Anand Date: Yes, hi guys, sorry, just one more. On UK Bus, we've been hearing that there's almost a change to the structure of management in the business and that it's becoming more, or slightly more focused on regional management. Is that something that you're pushing through and what progress has been made? Thanks.

Chris Surch: Anand, yes, absolutely; I think if you go to the heart of the UK Bus turnaround, it's turning what should be local business into exactly that because it's been over time more centrally managed, which is extremely difficult to do because you really need to understand what's happening on particular routes, on particular customer requirements, and so on, in the local regions.

When Giles Fearnley was brought on board he then built out his management team and we have a new Operations Director who's come on board over the last six months or so. And then he has put in place a new regional management team, new in a sense of structure; he's been taking some of the existing management, and they're building out the local management teams and developing that. And that's why I say this is obviously at an early stage because that process clearly takes time.

And then those local management teams are putting in place new procedures – I think the Americans call it playbooks – as to how we run the business. So they've got a base structure on how we improve efficiency, and so on, and also how we improve the customer facing aspects of our business. Then together with their knowledge of the local market which will lead to a turnaround in the business, and that's what we're starting to see, as we mentioned in the statement, some signs of that in some of our markets, which gives us confidence that, over time, that we will get to where we want to be

Anand Date: Okay, lovely; thanks.

Operator: Once again, if you wish to ask a question, please press * and 1. You have no further questions. Please continue.

Chris Surch: Okay, thank you, everybody, very much, and for those of you who I've not met, I look forward to meeting you in due course. Thank you very much.

Operator: That does conclude our conference for today. Thank you all for participating. You may disconnect.