

Financial background to FirstGroup plc and ScotRail Railways Limited

1. This appendix describes the financial background of FirstGroup and its relevant operating subsidiaries, namely the four companies that make up the First Bus Scottish business (First Glasgow 1, First Glasgow 2, First Edinburgh, First Aberdeen). There is also a brief discussion on the operating performance of ScotRail Railways Limited (ScotRail).

FirstGroup

2. FirstGroup is a UK-based transport company with bus and rail operations across the UK and in North America. About three-quarters of its turnover and operating profits are derived in the UK, where its rail and bus operations are of roughly equal size. Group turnover for the year ending March 2003 was £2.3 billion, group operating profit was £216.1 million¹ and profits before interest and tax were £189.7 million.
3. FirstGroup at April 2004 operated five passenger TOCs in the UK:
 - (a) First Great Western (Paddington to South Wales and south-west England);
 - (b) Thames Trains (now known as First Great Western Link, with services in the Thames Valley);
 - (c) First North Western (north-west England);
 - (d) TPE (a new Trans-Pennine franchise, consisting of inter-City routes across the North of England); and
 - (e) Hull Trains (services between Kings Cross and Hull, not a franchise but operating under a track access agreement).
4. FirstGroup's bus operations extend across all the major regions of UK, accounting for 22.1 per cent of the local bus services market in 2003 (up from 12.8 per cent in 1994). In London, it operates bus services on behalf of Transport for London. In Scotland it operates in the cities of Aberdeen, Edinburgh and Glasgow and also in the central and borders area.
5. Table 1 shows the breakdown in group turnover, operating profit and operating margin, between the bus, rail and North American activities for the two years ending March 2003.

¹Before goodwill amortization and exceptional items.

TABLE 1 FirstGroup: financial summary by division

£million

	Year ending 31 March					
	Turnover		Operating profit		Operating margin (%)	
	2003	2002	2003	2002	2003	2002
UK Bus	859.4	811.5	111.7	105.7	13.0	13.0
UK Rail	842.3	802.9	61.3	66.8	7.3	8.3
North America	582.4	542.9	61.3	60.8	10.5	11.2
Group items	<u>6.9</u>	<u>6.8</u>	<u>-18.2</u>	<u>-18.3</u>	<u>N/A</u>	<u>N/A</u>
Total	2291.0	2164.1	216.1	215.0	9.4	9.9

Source: FirstGroup annual report.

Note: N/A = not available.

- Table 1 shows that FirstGroup's bus operations have been the most profitable within the group, with operating margins of 13.0 per cent for the year ending March 2003, compared with 7.3 per cent for the rail operations. Bus operating margins were as high as 15 per cent in prior years before falling to current levels, mainly due to increases in drivers' wages. Falling driver retention, particularly in London, have had an adverse effect on staff related costs.
- Table 2 shows the breakdown in the bus operating profits into the various regions across the UK. The Scottish operations have been the least profitable among all the bus regions for the two years ended March 2003, with operating margins of under [X] per cent, which compares unfavourably to the margins achieved in other regions, [X].

TABLE 2 FirstGroup's bus operations: financial summary by area

£ million

	Year ending 31 March					
	Turnover		Operating profit		Operating margin (%)	
	2003	2002	2003	2002	2003	2002
UK Bus						
London						
South and Wales						
Midlands and East Anglia						
Yorkshire				X		
North-West						
Scotland						
Central costs						
Total	859.4	811.5	111.7	105.7	13.0	13.0

Source: FirstGroup management accounts.

Note: N/A = not available.

- Table 3 shows a further breakdown in operating profits by the four main areas in Scotland. [X]

TABLE 3 **First Bus Scotland: financial summary by area**

£ million

	<i>Year ending 31 March</i>					
	<i>Turnover</i>		<i>Operating profit</i>		<i>Operating margin (%)</i>	
	2003	2002	2003	2002	2003	2002
<i>Scottish Bus</i>						
<i>Glasgow</i>						
<i>Aberdeen</i>						
<i>Edinburgh</i>				✂		
<i>Central & Borders</i>						
<i>Total</i>						

Source: FirstGroup management accounts.

9. First Edinburgh is the only bus subsidiary of FirstGroup to make losses during this period.

ScotRail

10. The ScotRail franchise has been operated by the National Express Group plc (National Express) since March 1997. The franchise accounts for about 95 per cent of the rail services in Scotland. National Express is a worldwide operator of rail, bus and express coach operations, with turnover of about £2.6 billion and operating profits of about £60 million for the year ending 31 December 2002. Table 4 shows the turnover and operating profit results of National Express' ScotRail subsidiary for the four years to December 2002.

TABLE 4 **ScotRail: financial results**

£million

	<i>For the year ending 31 December</i>			
	1999	2000	2001	2002
Turnover	380.4	364.8	335.6	368.0
Operating profit/loss	0.7	3.5	-56.0	-8.1
Operating margin (%)	0.2	1.0	-16.7	-2.2

Source: ScotRail statutory accounts.

11. The National Express's ScotRail subsidiary incurred a loss of £56.0 million in the year to December 2001, resulting from the reduction in subsidies (National Express made a £36 million payment to the SRA for additional subsidy), which more than offset the operating cost savings. The franchise was adversely affected by staff disputes, delayed introduction of new trains and post-Hatfield disruption which combined to deliver a fall of over 3 million in passenger journeys. National Express negotiated an increase in revenue grants from the SRA, in the year ended December 2002, which helped reduce the operating loss to £8.1 million during that year. [✂]