

"I've looked after travelling passengers for 10 years now and know that, above all, our customers value good communication. If services don't run smoothly, they like to be kept informed. Keeping our passengers happy is crucial to our success."

Chris Pearce
Standards Controller
UK Bus



Operating review 2003

UK BUS

Stagecoach continues to be one of the leading UK bus operators, with a 16% share of a highly competitive market. Our UK Bus business, the traditional core of the Group, remains a strong source of cash flow. As one of the biggest bus operators in the UK, we are at the cutting edge in developing new and innovative products and we are committed to playing a key part in achieving the Government's objectives of increased use of public transport and greater integration.

Turnover in our UK Bus division has increased by 5.4% to £598.4m (2002 – £567.9m). Operating profit was £67.0m,* compared to £62.7m in the previous year, and this is after taking account of increases in insurance costs and labour costs, including an increase in pension costs. The operating profit figure is stated after the financing element of vehicle operating leases, which amounted to £0.5m. This represents an operating margin of 11.2% (2002 – 11.0%) and reflects the benefits from a wide range of local initiatives to grow revenue, despite a continuing fall in the cost of car ownership. Across the UK, we have invested in new buses with a total capital value of £40.7m during the year to develop our on-the-road product. Total passenger volumes across our UK Bus business have increased by 3.2%.

In London, where we have a 16% share of the market, we have increased our fleet size by 10% and recruited 200 more drivers in the past year. Some 88.5% of our London fleet is now low floor, with a significant proportion of vehicles having been replaced within the last five years. Passenger growth in London was 8.8% for the year and we have purchased new depot space at Stratford for future expansion.

In order to meet the extra demand generated by congestion charging, we have negotiated improved margins and enlarged contracts to operate buses on behalf of Transport for London ("TfL"), introducing 100 new vehicles. In partnership with TfL, we launched the UK's first 24-hour, round-the-clock articulated bus service in London in March 2003. A fleet of 35 state-of-the-art Mercedes "bendy buses", each capable of carrying up to 140 passengers, is now running through the West End of London. Passengers using the route buy tickets in advance from retail outlets and roadside ticket machines. This cashless operation not only helps improve journey times, but also provides added security.

**Operating profit of a particular business unit referred to in the operating review is operating profit before restructuring costs, goodwill amortisation and exceptional items.*

Outside London, total passenger volumes have increased by 0.4%. The trend in passenger volumes varies significantly by geographical area. We have initiatives in place to encourage further growth and we have been particularly successful in increasing volumes in areas where congestion is causing some commuters to switch to using public transport.

Our major operation at Ferrytoll Park and Ride in Fife, Scotland, which at peak times runs buses every five minutes into Edinburgh, has seen passenger volumes increase by 30% in the past year. The Scottish Executive has approved additional investment to double the size of the facility to 1,000 car parking spaces. Successful park and ride operations are also running in Cambridge, Canterbury and Exeter.

A new turn-up-and-go network and fleet of 40 easy-access low-floor buses was introduced in Cambridge city centre around 18 months ago and we are still achieving annual passenger growth of around 17%. This has flowed through to on-bus revenue and further development of the rebranded Citi network is planned later this year. We have seen strong levels of passenger growth in other areas, including Manchester and Kingston-upon-Hull.

In certain rural areas, where traditional bus services do not suit the needs of the community, we are working with local authorities to deliver transport solutions. Known as demand responsive transport, these taxi-bus style services run on a skeleton timetable, and also take pre-booked pick-ups arranged via call centres, helping to boost social inclusion. We are already helping run similar services in Strathclyde, Hampshire and Newcastle, with some systems using sophisticated on-board computers and the latest Global Positioning Systems technology.

Stagecoach is working in partnership with the devolved administrations in Scotland and Wales on the successful operation of the free concessionary fares schemes. We also worked in partnership with Manchester City Council and Greater Manchester Passenger Transport Executive to deliver an enhanced network for the Commonwealth Games last year. Over 500,000 passenger journeys were made on the successful free shuttle bus operation to and from the main stadium.

Our emphasis continues to be on strong local marketing, simplified fares and ticketing, and improved information, including the introduction of online access to timetables for all Stagecoach bus services. An increasing number of customers are



"My proudest moment was when we won the Bus Industry Marketing Project of the Year Award this year. Our team's priority is to provide existing passengers with up-to-date, useful information and to stimulate passenger growth through innovative promotions."

Karen Best
Marketing Manager
UK Bus

Operating review 2003

using the Internet to access information about our services and pay for specific tickets, particularly in the student market. The innovative Unirider campaign, targeted at the sizeable student market, has resulted in further growth in Manchester this year, with an encouraging shift towards annual ticket sales that generate increased loyalty among our customers. The campaign – which picked up the UK Bus Industry Award for Marketing at the end of 2002 – is also being rolled out in other student centres, such as Newcastle, Warwick, Lancaster and Aberdeen with further areas to be targeted at a later date. Around 15% of our total student revenue in Manchester is achieved via our stagecoachbus.com website. A new improved Internet sales system is being introduced in the autumn of 2003.

Sophisticated research and marketing techniques pioneered by the retail industry are being used by Stagecoach to attract more people to public transport. Lifestyle information from sources such as the census and economic trends data is being used to help understand more about our customers and how they make decisions. Customers can now be profiled, segmented and targeted on a geographical basis and the information used to tailor direct marketing campaigns, including telemarketing. In trial areas in Perth and Grimsby, between 7% and 9% of customers targeted have switched to the bus, well above the normal 2% conversion rate for these campaigns.

Stagecoach is a frontrunner within the UK bus industry in supporting and developing new approaches to bus provision to draw increasing numbers of passengers to public transport.

At national level, Stagecoach has taken an industry lead by presenting plans to the Government to help reinvigorate the UK Bus network. We believe our "Kick Start" proposal for targeted funding to support the growth of existing services can benefit communities across the country, delivering more comprehensive bus services, reduced congestion and better value for the taxpayer, with important environmental and social inclusion benefits. Our pilot project in Perth, Scotland, has seen substantial passenger growth in the first three years. We estimate that £140m of Government funding could deliver 2% passenger growth per annum across the whole UK bus network over a three-year period. The "Kick Start" proposal has received widespread support from politicians and from across the UK Bus industry. Both the Department for Transport and The Scottish Executive are now working on the details of a "Kick Start" initiative and funding could be earmarked for pilot projects later

this year. We have more Stagecoach-funded schemes planned for the coming year.

Stagecoach is supporting Government moves to improve integration between rail and bus travel. We have a growing network of bus links across our South West Trains operation, allowing passengers to buy a combined bus and rail ticket, and we fully support the Government's PlusBus through-ticketing initiative. We are also working with the Government and local authorities to introduce the benefits of smartcard technology to buses in areas such as Aberdeen, Nottinghamshire, South Wales and Manchester.

We firmly believe the future of the bus industry – and, ultimately, the long-term interests of passengers – is best served by operators, government, local authorities and customers working together to improve our public transport system. Passenger growth, improved reliability and reduced congestion in our towns and cities can all be achieved without the need for increased regulation. We believe that improved partnerships with local authorities and quicker progress on bus priority measures are key in unlocking passenger growth and achieving the government objective of modal shift.

COACH USA

Coach USA is clearly focused on delivering the 12 to 18-month strategy to restructure the business. This strategy will produce a stronger business base, ensuring greater management and geographic focus.

The trading environment, however, continues to be challenging as the uncertain global economic climate continues. Coach USA's turnover for the year was £603.0m, compared to £682.3m in the previous year. Operating profit was £14.0m, compared to £38.4m in 2002, representing a reduction in operating margin from 5.6% to 2.3%. The reduction in operating margin reflects a fall of 0.4% in like for like revenues in our coach and bus operations, increased insurance costs and a significant fall in taxicab utilisation and sales. Action is continuing to maintain strict controls on our cost base and improve operating efficiency.

In December 2002, we announced the way forward for Coach USA, following a detailed six-month business review. As a result of the review, in our interim results for the six months ended 31 October 2002, we wrote down the carrying value of Coach USA by £575.0m, to £376.9m excluding net debt and tax. After

"We really value our customers in Chicago and I like to give them a friendly and reliable service."

Clint Malcome
Driver
Coach USA



Operating review 2003

taking account of goodwill amortisation and exchange rate movements, the equivalent carrying value of Coach USA as of 30 April 2003 was £330.5m.

Key actions being taken at Coach USA are to:

- Concentrate on the North East and North Central regions of the USA;
- Focus on large business units and predictable revenue streams including commuter (line runs/scheduled services) and contract services;
- Focus on businesses which perform well and where Stagecoach has proven management experience;
- Reduce exposure to charter and leisure-related businesses;
- Reduce corporate and regional overhead base in line with the downsizing of the business; and
- Retain and focus key management.

We remain on target to complete the restructuring as planned and are proceeding with discussions for the sale of various parts of Coach USA. We have already announced the sale of two-thirds of the businesses we planned to dispose of for a combined consideration of over US\$220m.

Work to restructure the taxi division, where financial performance in the first six months of the year was particularly disappointing, is well underway with a number of businesses already sold. The management team has been strengthened and specific action plans for improvement are being implemented in the two largest and poorest performing taxi companies. We will consider opportunities to exit the taxi market in the next 12 months.

As a result of these measures, we are confident we will significantly reduce the level of our leisure-dependent operations. Despite the continuing uncertain US economy, we believe that these changes will result in a smaller but more predictable business in North America with a sustainable earnings profile.

We have many strong performing businesses in the residual Coach USA portfolio and we are continuing to redeploy existing assets to maximise asset utilisation and to eliminate unnecessary capital expenditure. Work is also ongoing to target opportunities arising out of consolidation in the fragmented US transport market or where there are potential complementary acquisitions. While trading conditions continue to be challenging, we are

seeing passenger growth as a result of new commercial initiatives and partnerships with other stakeholders.

Our Shortline business is working in partnership with Rockland County, the New York State Department of Transportation and the New York Thruway Association to run minibuses on a special route that bypasses the toll barriers at the Tappansee Bridge. The initiative, which provides faster journeys for passengers and less congestion at toll barriers, has achieved passenger growth of more than 24% since May 2002. The contract has recently been extended, along with many others with Rockland County.

Further growth is being achieved with our popular New York Sightseeing product, which runs high-quality double decker vehicles on Manhattan. In February 2003, we launched the Showbiz Insiders Tour, which takes in the major entertainment locations in New York City. In April, we added Philadelphia to the list of day-trip locations running from New York City, working in partnership with Amtrak, the Philadelphia Convention and Visitors Bureau and other organisations.

During the last six months, we have re-branded our Olympia Trails fleet, which is the primary bus operator from Newark International Airport to New York City. As well as presenting a new, fresher image to customers, round trip fares were reduced and a "kids ride free" programme was implemented to entice additional ridership. In addition, in March 2003, Olympia re-instated its bus service to downtown New York for the first time since September 11, 2001. The return of this service ensures essential airport connections for the communities of lower Manhattan and contributes to the continuing regeneration of the area.

In the North Central region, the Chicago sightseeing market has returned to pre-September 11 levels following the introduction of 75-seat double-deckers to complement our already strong Trolley Tour service. In addition, our Chicago-Airport Express scheduled service operation saw continued ridership growth of 14% above pre-acquisition results, due to an enhanced schedule, improved equipment and a focused marketing strategy. In the Wisconsin market, we will have further revenue growth from August 2003 as a result of the renewal of an important contract with the Milwaukee Public School District.

In March 2003, Coach USA acquired Lafayette and Greenville Bus Company, a line run company located in Jersey City, New Jersey.



"A customer's first impression of Stagecoach is down to the driver. I try to give them the best and longest lasting impression possible, getting them to their destination on time."

Casey Meyer
Driver
Stagecoach New Zealand

Operating review 2003

There are many synergies between the two operations and the £1.4m acquisition provides Coach USA with a strong foothold in the Jersey City and Bayonne markets.

OVERSEAS BUS

Our Overseas Bus division continues to perform satisfactorily. We remain the largest provider of scheduled bus services in New Zealand. Strong public and government support for passenger transport continues to underpin our New Zealand bus business.

Turnover for the year in Overseas Bus was £183.7m, compared to £194.7m in the previous year. Operating profit was £30.3m, compared to £33.4m in the previous year. This represents an operating margin of 16.5% (2002 – 17.2%). The reduction in operating profit reflects the disposals of operations in Australia and Portugal, movements in foreign exchange rates applied in translating overseas profits to sterling and the impact of SARS and a sluggish economy on our Hong Kong operations.

The results for Overseas Bus include turnover in respect of Citybus of £132.3m (2002 – £148.6m) and operating profit of £19.1m (2002 – £25.2m).

Our bus operations in New Zealand are centred on the country's two largest metropolitan areas, Auckland and Wellington. We are closely involved with national and local government in assessing how best to organise and develop bus services.

Stagecoach New Zealand continues to work closely with regional and city councils to improve services and introduce new bus priority measures. The successful Quality Partnership Agreement with Wellington Regional Council and Wellington City Council was renewed during the year for a further four years. A similar agreement exists with Auckland City Council and informal working parties operate in other areas.

In Auckland, Stagecoach has continued to enhance bus service frequencies, using "Kick Start" pump-priming funding provided by the Government and Auckland Regional Council. Individual service improvements this year have been concentrated on peak period commuter services, including further enhancements to the key bus corridors that have seen passenger growth generated by previous "Kick Start" funding.

Stagecoach New Zealand also runs Fullers Ferries based in Auckland, which operates ferry services. Ferry passenger volumes grew by 6% over the year and a successful programme of special

trips for spectators attending the America's Cup yachting regatta generated additional revenues. Fullers is also working closely with a special purpose company owned by the city councils in Auckland to plan a major upgrade programme for ferry wharves and terminals.

On 9 June 2003, we announced the sale of Citybus to Delta Pearl Limited, a 100% indirect subsidiary of Chow Tai Fook Enterprises Limited, the privately owned company of the Cheng Yu Tung family and the major shareholder in New World Development Company Limited which in turn has an interest in New World First Bus Services Limited, one of Hong Kong's major bus operators. The sale was completed on 23 June 2003.

The gross consideration for the disposal was HK\$2,200m (approximately £176m). The net cash amount received by Stagecoach was HK\$1,646m (approximately £132m) which represented the gross consideration less the amount of net third party debt as at 30 April 2003, being HK\$554m (approximately £44m). The purchaser assumed all of the net third party debt of Citybus.

The purchaser will also assume capital commitments of approximately HK\$239m (approximately £19m) relating mainly to the completion of a new depot for Citybus at Chaiwan in Hong Kong.

The acquisition of Citybus has been successful for Stagecoach and has delivered good financial returns. Under our ownership since 1999, the business has produced strong organic growth in passenger volumes and a significant reduction in operating costs.

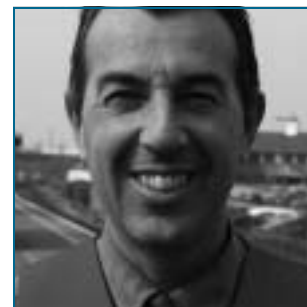
On receiving an initial approach about the possibility of disposal the Board reviewed the strategic options for Stagecoach Group in the region in view of the limited opportunities to develop significantly elsewhere in other Pacific Rim countries and the long-term prospects for the business in Hong Kong.

The Board believes that a combination of the uncertainties about the economic climate in Hong Kong, the growing levels of regulation to which the business is becoming subject and the inability to grow profit without very significant investment or critical mass synergies required it to take very seriously the approach and to negotiate terms which were in the best interests of Stagecoach shareholders.

The outbreak of Severe Acute Respiratory Syndrome ("SARS") earlier this year continues to impact the profitability of the Hong

"I passionately believe that our customers should always get the best service they have ever had – not only when the service is running well but also in times of disruption."

John Downes
Customer Care
South West Trains



Operating review 2003

Kong business but the Board's assessment of the disposal has been based on a long-term view of the profitability and capital requirements of the business and not the immediate trading conditions.

Citybus has two franchise operations, one on Hong Kong Island and the other operating to and from the international airport. These franchises expire in June 2006 and May 2013 respectively. The business will require significant new investment in property and vehicles to ensure that the franchises are retained and renewed. The purchaser already has a relationship with a significant franchised bus operation in Hong Kong and the proposed combination can benefit from synergies and economies of scale which will give a solid platform for any further investment that is required in the Hong Kong franchised bus market.

The Board therefore believes that the sales price represents fair value for Citybus and that the disposal is in the best interests of Stagecoach shareholders.

The transaction will reduce Group consolidated net debt by HK\$2,200m (approximately £176m) in the year ending 30 April 2004. It will also reduce Group consolidated capital commitments by HK\$239m (approximately £19m).

The consideration is broadly in line with the anticipated book value of the net assets at completion and accordingly, the transaction will not result in a material gain or loss on disposal in the consolidated accounts of Stagecoach Group plc. Sales proceeds will initially be used to reduce the Group's outstanding debt. The disposal will result in a small reduction in annual earnings per share.

RAIL

Stagecoach Group continues to hold a significant share of the UK rail market, including South West Trains, which is one of the largest UK rail franchises, Island Line and Sheffield Supertram. In addition, our rail business includes our joint venture, Virgin Rail Group, which operates the West Coast Main Line and CrossCountry franchises.

Turnover for our wholly-owned rail subsidiaries in the year was up 2.7% at £413.6m (2002 – £402.8m). Operating profit was £38.2m

(2002 – £31.0m), representing an operating margin of 9.2% (2002 – 7.7%). This includes liquidated damages of £8.5m in relation to late delivery and reliability of new Class 458 trains. Rail profits are stated after the costs of bidding for new franchises.

Passenger volumes at South West Trains increased by 2.1%, or 0.9% after excluding the periods affected by industrial action in the prior year.

Financial performance has benefited from significant operational improvements at South West Trains. However, infrastructure performance in the UK remains a major concern as the backlog of maintenance work continues, costs continue to rise and Network Rail has indicated that it is likely to be 2008-09 before punctuality returns to the levels achieved before the incident at Hatfield two years ago.

A reliable, right-first-time railway is a top priority for us as a major train operator and a key requirement for our customers. Despite the difficulties we face with network infrastructure, we are working very hard to mitigate the effects on our operation. We have reviewed the resourcing and control of our services to improve their resilience. An integrated control centre is planned at Waterloo where South West Trains and Network Rail personnel will work together to ensure that real-time management of the network is properly co-ordinated and disruption to passengers is minimised. We believe this will demonstrate the benefits of vertical integration on the railways. South West Trains is also working in partnership with Network Rail and infrastructure contractors Balfour Beatty to address infrastructure maintenance issues.

We are working closely with the SRA on the new strategic direction for our railways. Recent SRA announcements outlining the future direction of the industry, the focus on performance and the steps already taken to reduce congestion on the rail network, have been welcome. The introduction of new timetable changes from September 2003 will help considerably in further reducing the effect of disruption on the network.

Performance initiatives at South West Trains have helped deliver a notable increase in train punctuality on suburban services over the last year and the picture has also improved for the mainline services. Fleet reliability measures have also assisted in reducing the number of delays.



"The safety of our trains is always my top priority. It's my job to ensure that our drivers have everything they need to run a safe, reliable train service for our passengers."

Sharon Smith
Head of Drivers
South West Trains

We expect further improvements in quality and performance as more new trains are delivered at South West Trains and Virgin Rail Group.

South West Trains

We have achieved a major step forward at South West Trains with the completion of negotiations with the SRA and the agreement of financial and commercial terms for a new franchise.

The new three-year franchise, which is awaiting Government approval, places responsibility for funding and delivering infrastructure projects with the SRA, leaving South West Trains to focus on delivering a better train service to passengers. We believe it is a pragmatic agreement that reflects the organisational and operational reality of the rail industry. It will bring certainty and stability to our rail portfolio and we believe it is an excellent deal for government, our passengers, our shareholders and our people.

We are now working hard to deliver on our promises to improve the quality of service to our customers with the introduction of a £1 billion fleet of new Desiro trains and a comprehensive refurbishment of our suburban Class 455 trains. The new Desiro trains are on schedule to be delivered into passenger service later in 2003 and driver training programmes are well advanced.

Safety remains South West Trains' highest priority and our safety performance during the year was among the best in the rail industry. However, we are not complacent and we continue to monitor and improve our internal systems, as well as investing in the safety of our rolling stock. We have now almost completed the fitting of the Train Protection Warning System ("TPWS") to all our trains, and we believe it offers enormous benefit and reassurance to passengers.

We remain committed to giving our customers the best service they have ever had and have invested in a new Customer Communications and Security Centre at Wimbledon. A new customer information system, fully implemented across the network in partnership with Network Rail, provides audible and visual information to customers about trains at our 176 stations. The 24-hour control centre is the hub of our information and security links, monitoring the new customer information system, CCTV cameras and Help Point calls.

Marketing activity has focused on developing our off-peak leisure market where we see a number of opportunities for increased revenue. We have worked with the Mayor of London in promoting train travel to London and its nearby attractions. Strong promotion of our most popular products has had a significant impact and trials are also underway of new products, including a First Class "off-peak" saver ticket aimed at longer-distance travellers. We also have a substantial new leisure database following our summer 2002 Million Ticket Giveaway. This has allowed us to promote our products more directly and effectively, as well bringing thousands of new and lapsed users back to train travel. The number of revenue protection staff has been increased, particularly at Waterloo Station, as part of a successful campaign to target ticketless travel and this is having a positive impact on revenue.

Island Line

Stagecoach Group's contract to operate the Island Line franchise on the Isle of Wight runs until September 2003. We are currently participating in single party negotiations with the SRA regarding a new franchise that would run concurrently with the new South West Trains franchise until February 2007.

Sheffield Supertram

Our Supertram operation in Sheffield – which includes three routes covering 29 kilometres across the city – continues to generate increased patronage. Total passenger numbers for the year ended 30 April 2003 were 11.5 million.

Since Stagecoach took over the operation over five years ago, performance has improved and passenger volumes have grown by around 25%. In April 2003, the Group took over responsibility for maintenance of both the Sheffield Supertram system and the trams, making the light rail network a vertically integrated operation.

Virgin Rail Group

Our share of Virgin Rail Group's turnover for the year amounted to £276.1m (2002 – £261.2m) and our share of operating profits before exceptional items was £7.2m (2002 – £10.8m). Passenger volumes for the year are 4.7% above the prior year.

Virgin Rail Group is continuing to work with the SRA with a view to negotiating new long-term commercial arrangements for both



Operating review 2003

the West Coast and CrossCountry franchises. Both franchises are presently receiving SRA funding on the basis of a one-year budget set by the SRA for the period to February 2004. We remain confident that new franchise terms can be agreed that will secure shareholder value for Stagecoach.

Eighteen of the new tilting Pendolino trains, built by Alstom, have now been delivered and the first has gone into passenger service on the West Coast Main Line. When the programme is completed, a fleet of 53 state-of-the-art Pendolinos will be regularly linking London Euston to Manchester, Liverpool, the West Midlands and Glasgow.

Virgin CrossCountry, which links 110 towns and cities and carries 16 million people a year, introduced a brand new clock-face timetable in September 2002 with a substantial increase in services featuring new Voyager trains. Reliability of the Voyager and Super Voyager train fleets is far superior to the average high-speed train rolling stock and, despite a 40% year on year increase in passenger numbers, overcrowding has been significantly reduced.

The impact of the new investment and service improvements across the company was recognised earlier this year when Virgin Trains won first prize for its Voyager and Pendolino trains in the Rail Network category of the prestigious national Business Travel World Awards 2003. Among the areas highlighted were train safety improvements, such as high visibility exterior doors and safety instructions in Braille.

INVESTMENTS

thetrainline.com

thetrainline.com is firmly established as the largest UK rail internet and call centre booking service. A joint venture between the Stagecoach and Virgin Groups, it helps rail travellers plan their journeys and buy train tickets to anywhere in the UK.

Now with over 7 million registered users, thetrainline.com has scope for considerable growth going forward. thetrainline.com is part of Stagecoach's commitment to devising transport solutions and continues to benefit from technical support by Cap Gemini Ernst and Young, which has made significant investment to support the business. Stagecoach's share of the business is 49%.

Our share of trainline's operating losses has reduced from £4.4m to £4.3m.

Road King Infrastructure

Road King Infrastructure is one of the leading highway investors and developers in China. Based in Hong Kong, it operates around 1,000 km of road tolls throughout China on over 20 toll roads and bridges in partnership with the Chinese Provincial Authorities. Following the mandatory conversion of our preference shares on 12 June 2003, Stagecoach now has a 31.2% holding in Road King.

The Group results for the year ended 30 April 2003 include our share of Road King's results for the year ended 31 December 2002. Our share of operating profits for the year was £10.5m (2002 – £12.9m). The fall in profitability reflects a reduction in certain minimum income undertakings from joint ventures and movements in foreign exchange rates applied in translating overseas profits to sterling.

Road King is benefiting from China's positive economic outlook and the continuing improvement in living standards, both of which have resulted in a surge in car ownership. Total traffic and toll revenue on Road King's highway projects in the year ended 31 December 2002 increased by 9.7% and 14% respectively compared to 2001.

Work on Anhui Bengbu Chaoyanglu Bridge, Road King's only outstanding construction project, was completed in December 2002 and toll collection has commenced. In line with the business development strategy, Road King has signed an agreement to dispose of its interest in Shanxi Provincial Highway Huanggu Route Xiaodian Fenhe Bridge project to its People's Republic of China ("PRC") partner.

Road King expects to secure additional cash revenue and profit from its investment in and operation of the Baoding-Tianjin Expressway project in Hebei Province. The Hebei Provincial Government has agreed the investment and, subject to the fulfilment of conditions, Road King will sign an unconditional contract.

Performance of highway projects in the early months of 2003 continued to be encouraging with double-digit revenue and traffic volume growth. Road King has not experienced any notable adverse effects from the spread of SARS in the region.



CORPORATE SOCIAL RESPONSIBILITY

Stagecoach Group is committed to taking our wider corporate responsibilities seriously and building positive relationships with our stakeholders. This contribution to the wider community has been part of the company's ethos since it was formed more than two decades ago. We have a consistent track-record in supporting and working with customers, investors, employees, suppliers and local communities. As a public transport operator, we have a key role to play in delivering essential services to our customers and helping to deliver social inclusion within our communities.

Our commitment to responsible business practice means we continually strive to improve our impact on society and the environment through our mainstream business practices. This is not just about our operations, products and services. We seek to combine building our business, through efficiency and competitiveness, with building the people who work for our business and building trust with the broader community.

Stagecoach's commitment to being a socially responsible business has been recognised by a number of external interested parties. We are a constituent of the FTSE4Good index, which aims to set a global standard for socially-responsible investment. In the UK, we were among the first companies – and the only major public transport operator – to take part in Business in the Community's first Corporate Responsibility Index.

Our people

Respect and value for our people lies at the core of Stagecoach Group and its businesses around the globe. The people who deliver our frontline services – from drivers to engineers and support staff – are the backbone of our operation and we want all our people to share in the success of the business.

We are an equal opportunities employer and consistently aim to work in partnership with trade unions to improve the pay and conditions of our people.

Our commitment to our people starts with the recruitment process and flows through in our approach to their induction to the company and on-going training and development.

In our UK Bus division, we are working hard to improve skills and raise standards of customer service through the roll-out of a programme of vocational qualifications in our bus companies. More than 2,100 Stagecoach drivers now have an S/NVQ, with a further 1,000 in the process of achieving this qualification.

Both our UK Bus and South West Trains businesses are working together to develop the managers of the future through our UK Graduate Recruitment Programme. The two year management training programme combines practical experience with off the job training courses. Within UK Bus, we also have a staff development programme for internal management training.

Stagecoach is working with government-funded enterprise agencies in the UK to get the long-term unemployed back into work through successful projects in Glasgow and Dumfries and Galloway in Scotland. Our Engineering Apprenticeship Programme promotes careers in local schools and we are now looking forward to our second intake following a successful first year.

We also want to help build a healthy workforce that feels proud to work for our business. At South West Trains, for example, the in-house occupational health organisation has held a number of health fairs and our employee well-being initiative offered influenza injections to all staff.

Access for all

Stagecoach continues to work hard to meet the needs of all our customers. We are very aware of the special needs of particular people that rely on our services and a number of our businesses have received special commendations for their work.

Stagecoach was one of the first operators to start a programme of significant investment in low-floor accessible vehicles and our progress towards making all Stagecoach bus services in the UK low-floor is well on track. We recognise these vehicles, which have dedicated wheelchair ramps and some of which have special "kneeling" mechanisms, are extremely important to our elderly customers, people with disabilities or families with young children.

The interiors of our new low-floor buses in the UK were specially designed with input from individuals representing various disability groups. The vehicles have helpful features such as special walkway surfacing, brightly coloured grab handles, clearly defined seating areas and space for wheelchairs. Our new Desiro fleet at South West Trains will also offer significant accessibility benefit.

"I've been driving for 30 years and make sure that the children get to school safely and return home safely."

Cleveland Brady
School bus driver
UK Bus



Operating review 2003

We also liaise with local authorities and disability support groups to get the benefit of the latest training advice. A pilot scheme for assisting deaf people using public transport is underway in South Tyneside and is being rolled out throughout our bus company in North East England. At South West Trains, we have appointed a Disability Services Manager to ensure we follow best practice in the design of station improvements and train refurbishments. We have also issued all our frontline staff with a booklet that gives thorough guidance on how best to meet the needs of disabled travellers. In Hong Kong, the Citybus business last year completed a Braille bus guide.

Safety

Safety and security is our top priority – both for our passengers and our people. A proactive culture of safety runs through all our businesses and we firmly believe good safety is part of good commercial practice.

Buses, coaches and trains are the safest forms of transport – far safer than cars. We have a clear and simple policy – no service runs unless we are 100% convinced it is safe. We are committed to ensuring the highest standards of safety for our passengers and improving health and safety standards for our employees. This area is monitored and reported on across all our companies and immediate action is taken to address issues in our business processes.

Safety is part of a well-defined risk management process across our business. A main board executive director, Graham Eccles, has executive responsibility for safety issues across the Group and safety matters are considered at management meetings of each of our businesses.

The Group has established a Health, Safety and Environmental Committee chaired by one of the non-executive directors Janet Morgan, and also comprising Graham Eccles. It has access to internal safety executives and external consultants such as Arthur D Little, and reports regularly to the Board on safety matters.

In the UK, Stagecoach and the bus industry as a whole is working with the Government to address issues around bus safety and security on a regular basis. Crime on buses is low, but we are very aware that even the fear of crime affects the working environment for our people and can act as a deterrent in terms of people choosing to travel by bus or any other form of public transport.

Our security programme involves on-bus measures, infrastructure issues, staff training and support as well as working in the community. The CCTV management unit in Manchester, for example, continues the tactical deployment of resources to deter vandalism and crime in the city and high-quality video evidence has helped secure a number of convictions in the courts. In London, three of our buses have been converted into mobile police stations for use by the Metropolitan Police in problem areas. Extra police and dedicated traffic wardens in London are also helping address the most crime- and congestion-hit bus routes.

Across our businesses, we work in close partnership with the police and schools as part of citizenship programmes to tackle the root problems of anti-social behaviour and encourage transport safety.

Safety remains a key management priority at our rail businesses. Health and safety planning and monitoring as well as staff training are firmly embedded in the culture of the organisations. We have reaffirmed our commitment to retain guards on all our passenger trains – which some other operators have withdrawn – because we believe railway safety should also extend to the security of passengers.

South West Trains has continued to invest in improving the safety of our rolling stock. The fitting of the Train Protection Warning System to all our trains is nearly complete, well ahead of the statutory deadline. Our South West Trains business also has more Secure Station awards than any other train operating company. Virgin Rail Group, our joint venture, is involved in similar initiatives and its Annual Safety Plan is recognised within the UK rail industry as an example of best practice.

Our New Zealand bus and ferry operations have robust procedures in place, involving formal employee participation, to ensure the health and safety of our staff and customers. The Accident Compensation Corporation, which is the country's statutory provider of accident insurance for employers, has audited our procedures and safety record and placed our operations in the top 1% of New Zealand companies. Coach USA has a comprehensive safety programme in operation in all of its locations and continues to monitor its effectiveness on a regular basis.

Stagecoach Group has a good safety record, but we are never complacent and we constantly keep our safety arrangements



"Everybody likes a clean environment – it has a huge impact on customers' perceptions of public transport. Our cleaners take a real pride in their job and none of our buses leave the depot unless I'm sure they will give a first-class, clean travelling environment."

Siu Chong
Cleaning Inspector
Citybus

Operating review 2003

under review. We are working with external consultants to review our current safety governance arrangements and we are committed to putting in place any improvements required.

Community

Stagecoach services play a vital role in connecting communities around the globe in both urban and rural areas, ensuring social inclusion through convenient and affordable public transport.

However, we see our role as a socially responsible company as far more than a service provider and major employer. As well as modernising public transport systems across the country, we share our success with the local communities we serve. During the year, £0.7m was donated to a wide range of local, national and international charities, helping them to continue their vital work.

Stagecoach was at the heart of a major TV fund-raising drive last summer to help some of the UK's lesser-known charities. The company kick-started the annual GMTV Get Up and Give appeal with a £25,000 donation and provided an open-top bus to help the fund-raising effort around the country in aid of charities helping children, disabled and disadvantaged people.

We have continued to support a number of children's and cancer charities throughout the year, as well as matching the fundraising efforts of our staff in national UK campaigns such as the BBC Children in Need Appeal.

Education and young people – the future of our world – are at the heart of much of the support we provide. In our home base of Perth, Scotland, for example, we have been working with the local authority and police to fund the supply of high-visibility waistcoats for local primary school children to improve their safety.

Community support goes well beyond just money, with hundreds of our people, from managers to frontline staff, devoting many hours of their own time every day to local projects. Our businesses also provide a huge amount of in-kind support, providing vehicles to help community projects with transport. Some of our staff have also given charities the benefit of their expertise during secondments, such as helping disability agencies improve the use of their transport fleet.

Stagecoach is helping create the entrepreneurs of tomorrow through its long-standing support for the UK educational charity "businessdynamics". Youngsters take part in courses designed to

build their personal skills and confidence. They also get the chance to learn how some of the country's top entrepreneurs have developed their business acumen and achieved success.

In New Zealand, we are helping children from all over the country who require specialist care through our three-year sponsorship of the Starship Children's Hospital in Auckland. Stagecoach's funding will initially provide extra specialist equipment for the hospital's intensive care unit.

Community arts projects are also flourishing, whether it's through free travel to visit galleries or significant sponsorship funding for organisations. In Wellington, we are helping fund the refurbishment of the Embassy Theatre, a landmark community-owned art deco style theatre.

Our involvement with good causes goes beyond areas where we have our operations. One of our buses, for example, is now stationed permanently in Romania where it has been fitted out as a mobile dental unit through our work with the charity CX999 Aid. We have also helped support the provision of medical care to people in Africa and supplied badly needed computer equipment.

Environment

Stagecoach is committed to playing its part in building a sustainable environment and improving the environmental management of our operations.

Transport has an inevitable impact on our environment and we are continuing to work hard to develop policies that will minimise that impact. We believe that integrated public transport systems will form the central core of future efforts to reduce pollution levels, alleviate road congestion and improve the quality of life in our towns and cities.

Not only do we work hard to ensure that our day-to-day transport operations interact with the environment in a responsible manner, environmental considerations are also included in all capital investment decisions taken by our business.

In the UK, we have invested millions of pounds – £120 million over the last three years alone – in new state-of-the-art bus fleets with improved energy consumption and reduced emissions. All new Stagecoach vehicles meet tough Euro III emissions standards and in the UK all our buses have changed to use low sulphur fuel.

Operating review 2003

Continuously Regenerating Particulate Traps, which are a proven method of reducing particulate emissions by up to 90%, have been fitted to 50 of our vehicles in Manchester as part of a partnership with Greater Manchester Passenger Transport Executive.

Stagecoach is also working with major banks, local authorities, hospitals and education providers to develop green travel plans that reduce the dependence on the car to get to work. Our partnership with pharmaceutical giant Pfizer delivers one of the most comprehensive travel plans in the UK and has helped cut car commuting among its staff at its European research HQ in Sandwich, Kent, by 9%. In Cambridge, a partnership with the local authorities and Addenbrookes Hospital has seen an on-site bus station replace 100 car parking spaces, with Stagecoach offering discounted tickets to hospital staff.

South West Trains' £1 billion order for new Desiro coaches will mean faster trains providing an incentive for people to cut the number of journeys they make by car. The high-tech trains will also create less noise pollution than the existing slam door units.

Overseas, Stagecoach businesses are conducting trials of new vehicles designed to cut the impact of operations on the local environment.

In New Zealand, a prototype trolley bus – featuring a stylish new body with electrical components and axles recycled from an older vehicle – is on trial in Wellington and it is hoped this will be the first of 60 rebuilt trolley buses for the area. Three ultra-low emission hybrid-electric buses have also been purchased for trial operation in Auckland. We are also planning to bring one of these new low emission dual power electric-diesel buses from New Zealand for extensive demonstration trials in the UK.

Across its global operations, Stagecoach continues to provide support and training to its employees to ensure compliance with legislation, as well as effective waste management, and improved energy consumption and environmental performance.

Despite the huge progress and investment we have made in the area of environmental sustainability, we realise that this is only a start and we have a long way to go. Stagecoach Group has been working with external consultants to review our environmental arrangements and work is continuing to raise awareness of these issues across our management team. A series of key performance indicators are being put in place to measure our performance year on year. This will cover areas such as reducing emissions, water and energy consumption, minimising waste and identifying opportunities for recycling.

We are currently updating our Environmental Policy, first issued in 2000, and a fuller separate report will be published later in 2003.