

# Summary operating review

## UK BUS

### Overview

Turnover in our UK Bus division has increased by 8.7% to £650.2m (2003: £598.4m), with turnover at our London bus business up 19.1% on the prior year. Operating profits were up 11.6% to £74.8m, compared to £67.0m in the previous year. Operating margins were 11.5% compared to 11.2% in 2003. The reported profits include the effects of a further increase in the use of operating leases to fund new vehicles. Excluding the impact of this change in financing, operating margins increased from 11.3% to 12.0%. This is a very encouraging performance given that the reported profits have been achieved after taking account of increased National Insurance and pension costs.

### Investment and innovation

This has been a year of innovation, investment and growth. Our firm commitment to modernising our fleet is continuing to help drive organic passenger growth across our business. Passenger volumes outwith London were up 1.4%. We have also introduced a number of products targeted at developing new markets to complement our traditional customer base.

Our award-winning megabus.com network, which offers low cost inter-city bus travel, combines the power of the Internet and our operational expertise to deliver an attractive and cleverly marketed service. A UK first, megabus.com now covers more than 20 routes in the UK. Significantly, the service is also attracting commuters out of their cars, which can only be of benefit in the battle against road congestion.

### Urban and provincial networks

Stagecoach views customer research as a key element in growing our provincial bus networks. We have pioneered the use of geo-demographic research and sophisticated marketing in the bus industry and we are particularly encouraged by the resulting shift from the use of car to bus which has helped to drive further passenger growth in the past year. Campaigns in Hartlepool and Grimsby have seen excellent growth in sales of our weekly Megarider tickets. A telemarketing campaign and relaunch of the Cambridge-Haverhill corridor has boosted passenger volumes on the route.

The Cambridge "citi" network continues to expand and we have recently introduced the "citi" brand and a new network to Peterborough. In Oxford, we have introduced dedicated route branding on our urban network and converted our city fleet to 100% low-floor buses. Improvements to our Bedford network have reversed a 4% passenger decline and are now delivering 9% growth compared to the prior year.

Stagecoach is taking part in the development of core corridors in Newcastle and Sunderland as part of the Tyne and Wear Superoute network with Nexus Passenger Transport Executive. In Manchester, we have achieved further passenger growth this year and expect additional benefits from new quality bus corridor measures, including real time information, later this year.

### London

Our London bus business, which has around a 16.0% share of the bus market in the capital, has had an excellent year. It continues to grow and win new business operated on behalf of Transport for London ("TfL") with reported turnover up 19.1% over the prior year. Virtually all existing contracts tendered to start in 2004-05 were retained, as well as new contracts won from competitors. Around 200 new double and single-decker vehicles have entered service in London, making the entire fleet low-floor. Work has also started on the construction of a depot to initially house a new articulated bus operation.

## Partnership

Stagecoach continues to work closely with a range of stakeholders at local and national level to improve the quality of bus provision. We firmly believe this partnership approach, endorsed by the Government, will deliver the best services and value for money to taxpayers. In Scotland and Wales, we are playing our part in the success of the free concessionary fares schemes where we have invested in new vehicles and increased frequencies. We are also closely involved in many smartcard and multi-operator ticketing schemes to make travel easier for passengers. In addition, we are also working with businesses and educational establishments to encourage travel by public transport.

## Kick Start

Both the Department for Transport and the Scottish Executive are taking forward our Kick Start proposal for targeted funding to support the introduction of new bus services. Following the success of the initial pilot project in Perth, Scotland, we are also planning some further projects which are to be funded entirely by Stagecoach.

## NORTH AMERICA

### Overview

Turnover of our North American business for the year of US\$576.4m (2003: US\$939.0m) comprised US\$382.6m (2003: US\$377.3m) from continuing operations and US\$193.8m (2003: US\$561.7m) from discontinued operations. Operating profit increased from US\$21.8m in 2003 to US\$25.4m. We have grown operating profit despite the significant reduction in turnover arising from a number of business disposals. This increased profit has been achieved by growth in our continuing businesses and a managed reduction in overheads. Converted to sterling, the turnover of our North American business for the year was £336.8m, compared to £603.0m in the previous year. Operating profit was £14.8m, compared to £14.0m in 2003. This represents an operating margin of 4.4% (2003: 2.3%).

We have largely completed the restructuring of our operations in North America, which has resulted in a business with a clearly defined geography and more predictable revenue streams. Since 30 April 2003, we have completed the sale of our New England, West, South Central and South East regions, as well as the disposal of the Transit division and a number of our taxi businesses, including the major Texas taxi operations. Within the past few months we have completed the sale of taxi operations in West Palm Beach, Jacksonville and San Diego.

Our North American operations are now centred on three areas: our North East and North Central regions in the United States, and Canada.



## North East

In the North East, our highly successful New York Sightseeing operation continues to expand. We have added additional tours to our product offering and have ordered 20 new open-topped double decker buses and 6 trolleys to cater for expanding passenger volumes.

There has been further investment in around 50 new motorcoaches for the commuter, charter, and express services operated by our Suburban, Community Coach and Shortline businesses, as well as new low-floor buses for our parking lot shuttle contract at Newark Airport. We received the last 26 motor coaches out of a 3 year delivery of 226 coaches funded by the State of New Jersey for use on commuter services. Additionally, we received State funds to undertake a refurbishment programme which significantly upgraded the quality of our Staten Island commuter service.

We are targeting new business in the North East and our local teams continue to work in close partnership with local, county and state officials in the delivery of transport provision. Our Community Coach business, for example, has secured a five-year contract with the State of New Jersey to operate 10 local transit routes in Passaic County.

## North Central

Sales in the North Central region have been particularly encouraging in the second half of the year and bookings for the spring and summer periods have been stronger than for the past two years.

Our growing Wisconsin school bus business has secured a number of new contracts and contract renewals in the past year, worth over US\$8.0m in annual revenue.

The University of Pittsburgh has renewed a five-year shuttle contract, while a three-year transit contract has been awarded to our Wisconsin company. In addition, we have won new commuter contracts in Chicago.

More than 40 motor coaches and 10 trolley buses have recently been replaced within the region, upgrading the fleet and enhancing our reputation within local communities as a high quality transportation provider.

## Canada

The Coach Canada operations, located in the Provinces of Quebec and Ontario, are now recovering following the impact of the SARS outbreak in Toronto last year. Charter bookings for the first two months of the new financial year are up significantly over the prior year and there is evidence that tourists are returning to Toronto.

## NEW ZEALAND

### Overview

Our New Zealand operations continue to generate good returns for the Group. This year we have not benefited from the transport spin-off from the America's Cup yacht race as we did in 2002-03. However, on a like-for-like basis, and despite a challenging operating environment we have seen further passenger growth overall in New Zealand. Turnover from our New Zealand businesses increased from NZ\$158.3m to NZ\$160.9m. Operating profit fell from NZ\$34.8m to NZ\$29.5m. Whilst the operating margin for the year was lower, we remain pleased with the profits earned in New Zealand. Converted to sterling, turnover was £58.3m (2003: £51.0m) and operating profit was £10.7m (2003: £11.2m).

## RAIL

### Overview

Stagecoach Group has a significant involvement in the passenger rail market in the UK, including the country's biggest commuter franchise at South West Trains. Financial performance has benefited from continued cost control and a growth in passenger volumes at South West Trains of 3.2% year on year.

Turnover for our wholly-owned rail subsidiaries in the year was £438.9m (2003: £413.6m). Operating profit was up 15.4% to £44.1m (2003: £38.2m), representing an operating margin of 10.0% (2003: 9.2%). Profit exceeded original expectations due to a combination of higher revenue growth and continued cost control. The prior year profit includes liquidated damages of £8.5m in relation to the late delivery and reliability of Class 458 trains. Rail profits are stated after taking account of the costs of bidding for new franchises.

The operating profit of £44.1m includes £1.1m in respect of Sheffield Supertram compared to a small loss in the prior year which reflects the integration of the maintenance business and other management action to increase profitability.

### South West Trains

The new three-year franchise at South West Trains, which commenced in February 2004, has started well. We had already improved services in line with commitments made to the Strategic Rail Authority as part of the thirteen period extension to the original seven-year franchise. The new franchise runs until February 2007 and the agreement includes an opportunity to negotiate a five-year extension to 2012.

### New trains

As at 30 April 2004, 42 of our £1billion order for 177 new state-of-the-art Desiro trains had been delivered into passenger service. This will increase by two new trains a week throughout the summer. In January 2004, the first of the slam-door fleet was scrapped and Network Rail has been making good progress on the necessary work to upgrade the network power supply to facilitate further roll-out of the new trains.

### Infrastructure issues

We are delighted that South West Trains is the first TOC in the country to operate an integrated control centre in conjunction with Network Rail. The Wessex Integrated Control Centre, which opened at London Waterloo station in February 2004, is the first of eight centres that will cover the entire UK rail network. Equipped with the latest information technology, it will significantly improve our joint response to incidents and ensure delays and disruption to passengers are minimised.



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### Punctuality and customer improvements

The punctuality of all trains operated by South West Trains has improved during the year. The number of delay minutes attributed to South West Trains' performance has reduced by 11.1% in the year. The forthcoming introduction in Winter 2004 of the most significant timetable changes since 1967 will help considerably in reducing the effect of incidents and promoting better timekeeping.

A new customer information system has now been fully implemented across the South West Trains network. Operated in partnership with Network Rail, it provides audible and visual information to customers about train running at our stations.

### Commercial activity

Marketing continues to be focused on developing leisure off-peak travel to increase revenue and encourage the use of services among low frequency and non-users. Our Apex and SuperAdvance ticket promotions have been particularly successful, as well as the "£5 anywhere ticket" promotion, which gained approximately 25,000 extra journeys.

### Island Line

Island Line, the Isle of Wight's rail franchise, is now operating on a new three-year franchise that runs concurrently with the South West Trains contract until 2007. The franchise is for the continued operation of the existing level of service. Island Line remains Britain's best performing railway in terms of punctuality and reliability and we are working with the SRA and local stakeholders to find a suitable solution for the long-term future of public transport on the Island.

### Sheffield Supertram

Sheffield Supertram marked its 10th anniversary of operation earlier this year. Under Stagecoach ownership, performance has improved dramatically and passenger volumes have grown to reach a record 12.3 million this year as the business has moved into profit for the first time.

### Rail business development

Stagecoach Group continues to evaluate new opportunities in the heavy and light rail sectors. Our strategy is focused on high-volume commuter and long-distance inter-city services. We are also looking to strengthen our position in the UK light rail market subject to being able to achieve sensible commercial terms.



### Heavy rail

We have announced our intention to bid for the new inter-city franchises, including the East Coast franchise, with Virgin and Deutsche Bahn ("DB"). Stagecoach has a 33.3% interest in the bidding consortium. DB, which runs the largest vertically integrated railway in Western Europe, has unrivalled technical expertise in the area of high-speed operations, mixed traffic networks, infrastructure operations, and rolling stock specification and maintenance.

In addition, we are bringing our UK operating experience to the Danish State Railways' ("DSB") bid for the new Integrated Kent rail franchise. Stagecoach Group has taken a 29.9% stake in South Eastern Railways Ltd, the company established by DSB to bid for the franchise. DSB operates the majority of passenger rail services in Denmark, as well as franchise operations in other Scandinavian countries, and is one of the best performing operators in Europe.

### Light rail

We are partners in two separate consortia seeking to run light rail/rapid transit systems in Manchester and South Hampshire. Greater Manchester Passenger Transport Executive shortlisted our Manchester consortium (GMTL Ltd) as one of two preferred bidders. Full and final bids have been submitted and we are currently awaiting a final decision on the award of the contract. Our South Hampshire consortia (SHSL Ltd) was one of two consortia that submitted an initial proposal in relation to the South Hampshire Rapid Transit System and discussions with the client are ongoing.

### Virgin Rail Group

Our share of Virgin Rail Group's turnover for the year amounted to £288.4m (2003: £276.1m) and our share of operating profits was £13.5m (2003: £7.2m). Passenger volumes for the year were 2.5% above the prior year. The profit for the year was a result of both revenues and costs being better than the budget set by the SRA.

### Franchise negotiations

Both the West Coast and CrossCountry franchises continue to operate on the basis of annual budgets set by the SRA as discussions progress on renegotiating the franchises on a long-term commercial basis through to 2012. This is a key strategic objective for the Group and we are pleased at the continuing progress that Virgin Rail Group is making.

### New trains

In the meantime, Virgin Rail Group is also making excellent progress with the introduction of the new Voyager and Pendolino trains to the CrossCountry and West Coast franchises respectively. The Voyager programme has now been completed and the new trains are having a positive impact on customer perception and operational performance.

The fleet used by CrossCountry has become one of the most reliable currently used by any UK long distance inter-city operator and is significantly more reliable than the old rolling stock.

Virgin Rail Group has now taken delivery of well over 90% of its new trains and has a few more Pendolino deliveries to accept to enable renewal of the entire fleet. Network Rail is upgrading the West Coast Main Line to enable Pendolinos to travel at 125mph and to tilt around curves, which will enable journey times to be reduced. A new timetable – based on 125mph running – will be introduced from 27 September 2004.

### Performance

During 2003/04, punctuality at Virgin Rail Group has improved despite the disruption on the network. CrossCountry has been working with the SRA

to introduce timetable amendments to create a more robust service. As a result, CrossCountry's punctuality improved steadily through its financial year ended 28 February 2004, rising to second in the league table of Inter-City operators. West Coast's punctuality has also improved over the same period.

### Management restructuring

Virgin Rail Group has finalised the re-structuring of its senior management team, which is giving greater operational focus across the business. Charles Belcher and Chris Gibb were put in charge of the West Coast and CrossCountry franchises respectively last year. Following detailed succession planning, Virgin Rail Group announced earlier this year that Tony Collins, currently Deputy Chief Executive, will step up to become Chief Executive in September. From the same date, Chris Green, currently Chief Executive, will become part-time Chairman. Stephen Murphy and Graham Eccles, currently co-Chairmen of Virgin Rail Group, will become senior non-executive directors.

## DISPOSED OPERATIONS

### Hong Kong

The Group completed the sale of its Hong Kong Citybus operations on 23 June 2003. The business was purchased by 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 disposal reduced consolidated net debt by £171.8m

### Road King

During the year, Stagecoach sold its entire 30.6% shareholding in Road King Infrastructure Limited, a leading Hong Kong listed company with its core business in the investment, development, operation and management of toll roads and other infrastructure projects in China for a total consideration of £62.9m.

### Trainline

In February 2004, Stagecoach Group announced it had sold its 49.0% shareholding in Trainline Holdings Limited to Virgin Investments Limited for £4 million in cash, which included the repayment of outstanding loans.

## GROUP STRATEGY

The Group strategy is to focus on local transport operations with critical mass and good organic growth potential. We will also pursue complementary acquisition opportunities, which offer the prospect of additional profitable growth. Through a combination of getting the basics right and applying our entrepreneurial skills in our core geographic markets, we believe we can maximise shareholder value.

We have a strong position in UK Bus and we are confident we can achieve further organic growth from our networks by continuing to apply entrepreneurial vision and innovation.

In Rail, where we already have a significant interest in the passenger rail market, we believe there are a number of exciting opportunities. As well as maximising value from our existing franchises, we will be working hard with our partners to win the new Integrated Kent and East Coast franchises. In addition, we will consider other opportunities in the inter-city and London commuter networks. We are also committed to agreeing new long-term commercial arrangements for the two rail franchises at Virgin Rail Group and we hope to conclude discussions in the near future.

The Group's substantial residual operations in North America are well-placed to benefit from the recovery in the US economy. We have a solid core of companies, which have already delivered on our prediction that they would out-perform the returns produced by the division prior to its restructuring. Coupled with our first-class operations in New Zealand, we have a strong overseas portfolio.

## CURRENT TRADING AND OUTLOOK

While still early in the new financial year, we have made a promising start and trading in all four major divisions is in line with our expectations.

We believe we are entering an exciting phase for the Group. Our renewed focus, combined with strong cash-generative qualities and a substantially de-risked portfolio, means there is real potential to drive the Group forward in the year ahead.

## CORPORATE SOCIAL RESPONSIBILITY

### Overview

Our business is central to the lives of the communities we serve. Our bus and rail services deliver a range of critical economic and environmental benefits, while boosting social inclusion and bringing people together. Encouraging more people to use public transport is central to the future success of our Group, and also to the future of every one of us. That is why we believe that, together with our numerous stakeholders, we have a common interest. How we make that happen is equally important. That is why Stagecoach has always taken its wider corporate responsibilities seriously and the responsible way we do business is firmly embedded in our company's culture.

### Our stakeholders

Stagecoach Group works in partnership with a range of bodies in each of the markets where we provide public transport services. Our stakeholders include:

**Investors and the financial community** – our shareholders, bondholders and lenders are critical to our business success. We have a regular programme of meetings with investors and provide frequent updates to the markets and financial community on our performance. We are a constituent of the FTSE4Good index, which sets standards and tracks performance of the leading socially-responsible companies around the globe.

**Customers** – millions of people use our services every day, including commuters, schoolchildren, concessionary fares passengers and leisure travellers. We conduct extensive customer research to monitor our performance and determine how we can improve the delivery and accessibility of our services.

**Customer Interest Groups** – our businesses have a regular and on-going dialogue with bus and rail user groups. This includes presentations from senior managers on detailed aspects of our service as well as consultation and information sharing on particular issues.

**Government** – senior executives have an ongoing dialogue with national and local government in all our countries of operation to ensure the effective delivery of government transport policy and to assist in meeting wider objectives. In the UK, we work closely with the Department for Transport, the Strategic Rail Authority, the Scottish Executive and the Welsh Assembly, and Transport for London.

**Transport Authorities** – we also work closely with local authorities, including Passenger Transport Executives, Regional Transport Committees and Transit Authorities, in the delivery and planning of bus and rail services.

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**Government Advisory Bodies and Lobbying Groups** – we also have constructive dialogue with organisations such as the Commission for Integrated Transport, which provides advice to the UK Government, and lobbying groups such as Transport 2000.

**Transport and Industry Representation Groups** – we are active members of industry groups, such as the Confederation of Passenger Transport UK (which covers buses and light rail) and the Association of Train Operating Companies.

**Our People** – we have established strong working relationships with trade unions and work in partnership with them on a range of issues, including training and development, occupational health matters, pensions and other employee benefits. We also communicate with our people face to face and through a number of internal publications.

**Suppliers** – we rely on a range of suppliers to provide services linked to our bus and rail operations. These include vehicle and rolling stock manufacturers, fuel suppliers, IT companies and clothing manufacturers.

### People moving people

The people who really make Stagecoach tick are our employees, from drivers and engineers to customer service and support staff. They are crucial to improving the public perception of public transport. Significant investment in time and resources ensures that we have the right people on board to deliver what our customers need.

As you would expect from a responsible company, we respect and value our staff. We have a strong commitment to equal opportunities and partnership working with trade unions.

We also recognise the need for on-going training and development, not just so our people can do their job, but so they can develop individually. In our UK Bus division, we have developed a new driver training programme, backed up by a comprehensive DVD with practical help and advice on handling common issues faced on a daily basis. We also have one of the biggest commitments to vocational qualifications of any bus operator, and more than 30% of our current drivers have either completed or are working towards a S/NVQ.

At South West Trains our centralised Recruitment Centre and the state of the art Operations Training Centre are at the heart of our “Recruit for Attitude, Train for Skill” strategy. It is complemented by vocational training, support for managers and employee recognition programmes.

Stagecoach works hard to improve skills and raise standards of customer service across our companies through open learning. In Auckland, New Zealand, for example, we have introduced a specially-equipped bus that has a rolling programme of visits to depots in the metropolitan area to make open learning available to all our local staff.

We are also looking to develop the managers of the future through our graduate development programme. Our engineering apprenticeship programme in the UK promotes careers through local schools.

We want to be there to help our people when they need it most. For example, at South West Trains we have a partnership with Care First, which offers an employee assistance programme that includes a 24-hour confidential counselling service and legal helpline. We also have a support programme for employees at our UK Bus division. Our business is simple: people moving people. And we want to build a workforce of people that feel proud to work for us.

### Access for All

No two customers are the same and we recognise that we all have our individual needs. Accessibility is important and, as far as possible within the resources we have available, we are making it easier to use public transport.

We are continuing our programme that will ultimately result in all our buses in the UK being fully low-floor. Each year, hundreds of new accessible vehicles are added to our fleet and already all buses operated in London are entirely low floor with wheelchair access. Significant investment is also taking place in our North American business in partnership with federal agencies.

As well as introducing new accessible Desiro trains, South West Trains provides station-based ramps to enable wheelchair users to board and alight with maximum convenience. To support the access of wheelchair users to our network, we are now committed to providing wheelchair users with accessible taxis, at no extra charge, to transport them to their nearest accessible station.

Access for all is also about staff training and we continue to maintain links with disability groups to ensure both the needs of our passengers and employees are considered. Our new bus interiors, for example, were designed in consultation with groups representing people with various levels of ability, both in terms of visual impairment and mobility.

Stagecoach is also working with key stakeholders to improve accessibility across the transport industry. In New Zealand, for example, we assisted the Human Rights Commission to draw up the terms of reference for an enquiry into the provision of accessible transport.

### Safety first

Safety and security for both our customers and our people are at the heart of our business. We have a proactive culture across the Group that puts safety at the top of our agenda.

Across Stagecoach Group, health and safety is monitored and reported on in every company. 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 specific responsibility for safety issues across the Group and the board is updated on safety matters at each of its meetings. Safety matters are also considered at the board and management meetings of each of our businesses.

Our Group Health, Safety and Environmental Committee, chaired by our non-executive director Janet Morgan and also comprising Graham Eccles and Iain Duffin, reports regularly to the Board on these matters. They have access to internal safety executives and external consultants.

In the current climate, Stagecoach and other major operators are in contact with national bodies putting in place processes and measures to prevent or mitigate the impact of potential terrorist attacks on public transportation.



Stagecoach and other transport operators are working in partnership with national governments and other agencies to improve bus and rail safety and security. While crime and vandalism are relatively low, we are aware they can discourage people from travelling on buses and trains. We continue to invest in CCTV technology and other measures to deter anti-social behaviour and have many programmes up and down the country to educate the next generation of public transport users.

All South West Trains rolling stock is fitted with the Train Protection Warning System and the new, modern Desiro units provide a safer travelling environment. We are also working with Network Rail and British Transport Police to identify hot-spots and ensure effective measures are taken on both trains and at stations to reduce incidents of assault, trespass and vandalism. Our award-winning TravelSafe Officers partnership with British Transport Police which helps ensure passenger safety – has been extended in the past year to cover more routes and stations on the South West Trains network.

Public transport by bus, coach and train is the safest way to travel. Stagecoach Group itself has a good safety record, but there is no room for complacency. We constantly keep our safety arrangements under review and are committed to putting in place any improvements required to our safety governance arrangements.

## Caring for our community

Stagecoach has always done far more than provide lifeline services and significant job opportunities in local communities around the world. We feel part of the very communities we serve and regularly share our success with local people.

Every year, we help fund the vital work of local, national and international charities through in-kind support and financial assistance. During 2003-04 £268,000 was donated by the Group to help these worthwhile causes. Financial support has assisted the work of children's and cancer charities as well as organisations helping people with sight impairment and genetic disorders.

Our community support goes well beyond just money with hundreds of our people devoting many hours of their own time every day to local projects. Our businesses also provide a huge amount of in-kind support, while our people also give charities the benefit of their expertise during secondments.

Much of the backing we provide is focused on education and young people. We work closely with schools and police on local crime prevention initiatives and education of youngsters about the dangers and consequences of anti-social behaviour. Our support also assists many local initiatives that help provide opportunities for young people.

Our work is also helping promote social inclusion within our communities. For example, in west Scotland we have sponsored the Quads initiative in conjunction with North Ayr Social Inclusion Partnership, Starchlyde Police, Learn Direct Scotland and South Ayrshire Council to help adults with learning difficulties and young people with social problems.

Stagecoach has continued to support the UK educational charity businessdynamics, which provides courses designed to build the skills and confidence of young people as they prepare to enter the worlds of work and further education.

Our businesses in North America and New Zealand are also active members of the community, helping support the work of chambers of commerce, arts foundations, tourism associations, educational groups and other key services.

Stagecoach New Zealand is a long-standing supporter of the Starship Foundation, which helps the country's leading specialist paediatric hospital. All fares collected on a specially-liveried Stagecoach bus in Auckland go to the Starship Foundation and the money is used to provide a range of additional equipment and staff training for the medical facility.

These are only a few examples of our work, but in everything we do, we hope people see us as we see them – good neighbours that care for our community.

## A sustainable environment

Travelling by bus or train is one way we can all help to reduce pollution, cut road congestion and improve the quality of life for us all in our towns and cities. Major employers are working with us to develop travel plans that reduce dependence on the car to get to work.

However, even public transport has an inevitable impact on our environment. That is why Stagecoach is committed to playing its part in building a sustainable environment and improving the environmental management of our operations.

We were delighted to publish our updated Environmental Policy statement towards the end of 2003. This document outlines our commitment to good environmental stewardship and we have set ourselves some stretching targets to reduce emissions, cut water and energy consumption, minimise waste and identify opportunities for recycling. We have pledged to measure and report on a range of key performance indicators each year. A copy of the full environmental policy document is available on our website at [www.stagecoachgroup.com](http://www.stagecoachgroup.com).

Every day we work hard to make sure our transport operations are as environmentally sustainable as possible. Across our global operations, we provide support and training for our employees to ensure compliance with legislation, as well as effective waste management, and improved energy consumption and environmental performance.

New buses and trains meet the latest stringent standards and we continue to investigate new fuels and cleaner technologies. Stagecoach has signed an agreement with Cerulean International Ltd, the Oxford-based subsidiary of the nanomaterials company Oxonica Ltd, to trial a next generation fuel additive product in up to 1,000 buses across the UK. Initial trials are progressing well, delivering reduced fuel consumption, cuts in vehicle emissions and cost savings that could be of significant benefit to the bus industry.

Stagecoach is using environmentally friendly hybrid electric buses in New Zealand on an inner city circuit in Auckland. We have plans to showcase a specially-adapted vehicle to local authorities across the UK this summer.

South West Trains has undertaken a review of its environmental management system to ensure it continues to comply with legislation. Comprehensive asbestos surveys are currently being carried out at all stations and depots. South West Trains has also introduced a complete smoking ban on its train services, which has improved the travelling environment for passengers and has been welcomed by customers.

Stagecoach is working directly with government to address environmental issues. In New Zealand, we have instituted a sustainable transport management plan in association with Auckland Regional Council and the Sustainable Businesses Network. The objective is to reduce water and energy consumption and cut emissions and wastes. It is intended to be a pilot for measures that may eventually become compulsory for all bus operators in the Auckland region.

Despite the huge progress and investment we have made in the area of environmental sustainability, we realise we are not perfect. This is only a start and we have a long way to go, but we are moving in the right direction.