

New Zealand

Turnover and operating profit from our New Zealand businesses were in line with our expectations. Turnover was similar to last year at NZ\$160.6m (2004: NZ\$160.9m). Operating profit was NZ\$23.7m (2004: NZ\$29.5m). The operating margin of 14.7% (2004: 18.4%) remains satisfactory but does reflect ongoing cost pressures and increased competition from railways in the Auckland market. Converted to sterling, turnover was £59.0m (2004: £58.3m) and operating profit was £8.7m (2004: £10.7m).

Trading in the Auckland region continued to be challenging due to a combination of fewer foreign language students, competition from the upgraded local rail system and a tougher tendering environment for service contracts. However, contracts for services in the North Shore sector of the Auckland region were re-tendered during the year and we successfully retained a similar volume of work to that covered by previous contracts. We have launched a trial of a Unirider pass at Auckland University to encourage the 30,000 students and staff to purchase discounted travel for a year or a semester in advance.

In Wellington, turnover was 9.0% more than the previous year and there has been particularly good passenger volume growth in the Hutt Valley sector. A number of contracts for services in the region were also retained at re-tender. The companies are also adopting the telemarketing programmes that were successful in the UK, and the New Zealand roll-out of the initiative has started successfully in the Lyall Bay area of Wellington.

The New Zealand businesses operate with three-year labour agreements with the trade unions. The labour contracts for Auckland and Wellington are both due to be re-negotiated in the year to 30 April 2006 and in Auckland the process is already underway. The parties have not yet reached agreement and the Auckland business was disrupted by a six-day strike in May 2005. We are continuing negotiations to try and reach agreement but further industrial action cannot be ruled out. This action is likely to impact overall financial performance in New Zealand in the year to 30 April 2006.

Rail Overview

Our UK Rail division has had an excellent year. We are extremely pleased with the strong growth in turnover and passenger volumes at South West Trains, which has been stimulated by improvements for customers centred on punctuality and the quality of the travelling environment.

Turnover for our wholly-owned rail subsidiaries in the year was £479.4m (2004: £438.9m), with passenger volumes at South West Trains up 4.8% on the prior year. Operating profit was up 10.2% to £48.6m (2004: £44.1m), representing an operating margin of 10.1% (2004: 10.0%). This includes liquidated damages of £2.6m in relation to late delivery of new Desiro trains and reliability of class 458 trains.

Our strong performance at South West Trains has also benefited the taxpayer, with £46.0m (2004: £27.9m) in revenue and profit sharing payments being payable to the SRA in respect of the financial year ended 30 April 2005.

Stagecoach Group has taken a leading role in helping to shape the future direction of the railways during the Government's recent review. A number of Stagecoach proposals on better integration on the network have been put in place and the results are assisting our own measures to improve services for passengers.

South West Trains

The new three-year franchise at South West Trains, which commenced in February 2004, is running extremely well and management has achieved significant improvements in train service delivery and passenger satisfaction. Therefore, we are well placed to continue to operate services beyond the end of the existing South West Trains franchise in February 2007.

New trains and technology improvements

Our programme to introduce 155 new Desiro trains is almost complete. This has been achieved with very few delays affecting passengers. We are the first London operator to have phased out the last of the old Mark I slam door trains and have completed the fleet replacement programme more quickly than any other train company.

We are also working with the SRA, Transport for London, rolling stock leasing company Porterbrook, and the train manufacturer, Bombardier, on a £67m project to refurbish our 91 unit Class 455 fleet. Launched in November 2004, the project will deliver improved reliability and a better train layout for passengers on suburban routes.

A major initiative to update ticketing systems and infrastructure technology is to be implemented at South West Trains in the summer and autumn of 2005. Passengers will benefit from new touch screen ticket machines, faster ticket printing, more ticket machines and acceptance of credit cards at most self service outlets.

Punctuality and customer improvements

South West Trains has achieved a major improvement in train punctuality during the year. Since the introduction of the new timetable in December 2004, punctuality has progressively improved, with over 90% of trains now arriving on time (measured using the SRA's Public Performance Measure). This is one of the best performances of any operator on the London and South East network. We are confident the new improved timetable and its inherent reliability will stimulate further passenger volume growth.

This dramatic improvement for passengers has followed the most radical timetable change for nearly 40 years. The new timetable provides consistency for customers, additional peak time services and capacity into London Waterloo and a series of measures to reduce the effect of incidents and promote better timekeeping.

We are also pleased that the Wessex Integrated Control Centre at London Waterloo, a concept pioneered by Stagecoach and operated in conjunction with Network Rail, is continuing to improve our joint response to incidents and ensure delays and disruption to passengers are minimised.

South West Trains has placed excellent operational management and customer service at the heart of its business during the year and has been rewarded with a number of awards. Our customer service team at London Waterloo was named the top Frontline Customer Service Team at the National Customer Service Awards, which cover a wide range of sectors including transport. South West Trains also achieved its highest customer satisfaction score in the National Passenger Survey, out-ranking most other commuter operators. E-motion, our innovative customer magazine and website, also received a Best in Business award from the National Association of Publishing Agencies.

At the National Rail Awards, South West Trains won Maintenance Team of the Year, London Operational Team of the Year, Major Station of the Year for London Waterloo, and Project of the Year for the introduction of the new Desiro trains with Siemens, while a number of our frontline employees were shortlisted for their own personal contribution.

Further measures have been undertaken to improve passenger and employee safety and security at South West Trains, which already has one of the best records in the UK rail industry. The TravelSafe Officers initiative, our ground-breaking security and anti-crime partnership with British Transport Police, has played a major part in cutting crime on the network by 20% in the last six months of 2004, compared with the same period in 2003. We are also pleased to report that seven more South West Trains stations have received the Secure Station award. This brings the total number of stations on our network with this status to 43 – the highest of any of the UK's train operating companies.

Commercial activity

Marketing activity at South West Trains has been focused on two key areas: developing leisure off-peak travel to increase revenue and a wider campaign to improve customer perception of our services. We have achieved further success with our Apex and SuperAdvance ticket promotions, and our leisure and reduced fare income is increasing at a faster rate than other train operators in London and the South East.

Around 400,000 passengers use South West Trains' services every day and a major newspaper, TV and cinema advertising campaign was undertaken in autumn 2004 to promote our improvements for customers. New Mori research suggests that the campaign to reinforce the benefits of the new Desiro trains, refurbishments to other rolling stock and personal security initiatives has delivered a marked improvement in passenger attitudes.