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To Stagecoach Holdings PLC  
attn. M. Griffiths

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Subject Registrations HSL-Zuid

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Contact person

Jeroen Kok

Extension

0031 30 2728751

Dear Sir,

We are pleased to announce to you that the government has decided to proceed with the public tender of the international high-speed train services using the Dutch High Speed Line (HSL).

The Dutch Railways (NS) were invited to bid for the domestic services, but decided to put forward an integrated plan for all services using HSL, plus the other major routes in The Netherlands. This proposal has not been accepted by the Government.

The Government has given NS a last chance to sign a contract for the domestic services on the condition that they will not participate in the public tender for the international services, other than as a junior partner in a consortium. If NS does not accept this before the end of this week, the domestic HSL-services will be publicly tendered as well.

We would like to discuss with you the decision of the Dutch government and the tender procedure as soon as possible. May we call you this week to agree on a suitable time and venue?

Kindest regards,

JK

A large, stylized handwritten signature in black ink, appearing to read 'JK' followed by a flourish.

Jeroen Kok

Project Manager HSL-South Transport

Projectorganisatie

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Our ref 923\MG\SB

27 July 1999

Mr W Wiedenhof  
Ministry of Transport, Public Works and Water Management  
Project Organisation HSL  
PO Box 43  
3500 AA Utrecht  
The Netherlands

**By fax and post**

Dear Mr Wiedenhof

Further to our receipt of the registration document for the HSL-Zuid project, please find enclosed the Interest Registration from Stagecoach Holdings plc and our response to the consultation questions.

I look forward to hearing from you regarding the next step of the process.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian Mitchell', written over a thin, curved line.

Ian Mitchell  
**Project Development Manager**

enc

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## Interest registration – HS services contract(s)

### **I. Details of Company**

Name	Stagecoach Holdings plc
Current Trading Name	Stagecoach
Previous Trading Name	-
Principal Address	20 Charlotte Street Perth, PH1 5LL Scotland United Kingdom
Name of contact person	Martin Griffiths Group Business Development Manager
Telephone	+44.1738.442111
Facsimile	+44.1738.643648
E-mail	mgriffiths@stagecoachholdings.com
Type of organisation	Public limited company (plc)
Country of registration	Scotland
Registration number	100764
Year of registration	1986
Nature of the business	Operators of transport worldwide including buses, railways, ferries, airports and toll roads and providers of rolling stock leasing.
Is the company a subsidiary of another organisation?	No

### **II. Type of contract(s)**

Assuming the objectives and conditions laid out in this document and assuming both international and domestic contracts will be publicly offered, we intend to register for:

International transport contract	Yes
Domestic transport contract	Yes
The combination of the two	Yes

### III. Expertise

Note: in the text €1.50 = £1

#### 1. Specific expertise and experience

Stagecoach has four areas of specific expertise and experience, which are relevant to the HSL-Zuid project.

- a) The HSL-Zuid project will require a company, which has extensive operational experience, particularly at a time of growth, to provide the services. Stagecoach is one of the largest and most experienced providers of private sector, public transport service by road and rail. It had a turnover of €2.25bn in 1998/9. Its rail operations in the UK have experienced rapid passenger growth during the period of Stagecoach operation.
- b) The project involves rolling stock ownership. Through its ownership of Porterbrook, the leasing company, Stagecoach uniquely offers vertical integration of train operations and rolling stock ownership.
- c) Inter-modal integration will be a feature of the project. Stagecoach is a leader in inter-modal integration in the UK. Some projects are described in section 2. In addition it is a member of Journey Solutions, a group established to promote the development of seamless travel.
- d) Major rail projects require significant financial strength. Stagecoach has a market capitalisation of €4bn and a BBB credit rating from Standard and Poors.

A copy of the Stagecoach Annual Review and Accounts for 1999 is enclosed.

#### 2. Relevant activities and projects

Stagecoach has three activities and, within them, projects that are particularly relevant to the HSL-Zuid project.

##### a) **South West Trains**

*Mode:* rail

*Passenger trips:* 1998/9 130m

*Involvement:* Train operating company (TOC). A TOC is a franchise holder with responsibility for all aspects of train operation and customer sales with the exception of infrastructure provision and maintenance.

*Annual turnover:* 1998/9 €525m

*Relevance:* SWT has given Stagecoach experience of direct operation of a major passenger railway during a period of rapid growth in the number of passenger trips. Two features of the franchise have been the closer integration of rail and urban bus services and the development of improved rail/air links to Heathrow and Southampton airports.

b) **Virgin Rail**

*Mode:* rail

*Passenger trips:* 30m

*Involvement:* 49% shareholding in the operator of West Coast and Cross Country TOCs.

*Annual turnover:* €200m (Stagecoach share)

*Relevance:* Virgin Rail is investing £1bn in new rolling stock and is driving the largest rail infrastructure investment in the UK. The passenger profile is similar in nature to that of the HSL-Zuid. Passenger numbers are increasing rapidly. The implementation of new integrated bus services has been a feature of 1998.

c) **Porterbrook.**

*Mode:* rail

*Passenger trips:* nil

*Involvement:* leasing company

*Annual turnover:* €360m

*Relevance:* Porterbrook has successfully tendered for new business, and received orders from 7 customers - more than any other UK leasing company. These orders comprise 573 diesel and electric multiple unit vehicles on a variety of lease structures and with maintenance arrangements varying from dry lease (where all maintenance risk other than warranty is with the customer), through to contract hire (where all maintenance risk and considerable performance risk is with Porterbrook). The value of this new build portfolio is some €700 million.

In addition to this new build activity, Porterbrook has also funded refurbishment and facelifts of equipment already on lease, and has provide additional finance to customers for the supply of ticket barriers and new ticket issuing machines. Porterbrook's aspiration is to become a "one stop shop" for customers' equipment needs.

Porterbrook has now set up an international department to seek new opportunities to translate the experience learned in the UK to the international arena. Porterbrook has so far bid for work in Germany, Australia, Argentina and Eastern Europe.

### 3. Nature of any consortium

Stagecoach has not taken a decision on the nature of the vehicle for its bid for HSL-Zuid. There are, inter-alia, five issues that it will take into consideration when doing so.

- In-house strengths. Stagecoach has strong in-house capability in commercial, operations, maintenance, administration, finance and rolling stock leasing
- The differing needs of the domestic and international contract. Stagecoach has most of the expertise needed for the domestic contract in house. Operating partners would be needed for the international contract such as SNCB, SNCF or Eurostar. The nature of the business may suggest the involvement of a partner with specific marketing and yield management expertise, such as Virgin.

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- Financial backers. The need to involve funders in any consortium will depend upon the nature of the proposed contract.
- Potential suppliers. Stagecoach would expect the manufacturers of rolling stock and other equipment, such as the ticket system to be suppliers rather than partners.
- Advisers. Stagecoach would expect to appoint financial advisers and demand and technical consultants. It is not expected that they would be partners.

#### **IV. Consultation questions**

##### Tender process

1. Enhancement of the tender process
  - a) It will be essential to have clarification of the relationships with NS, NS Stations and Railned, particularly where track, station access and on-station sales will be shared.
  - b) We need to understand the degree to which NS and Railned will be separated effectively by 2005.
2. Rolling stock procurement
  - a) Funders are likely to require a guarantee from Government that the rolling stock will continue to be used after the end of the concession, especially if the length of concession does not coincide with financial/operating life of rolling stock.
  - b) A similar guarantee will be needed in the case of default.

##### Objectives

3. Encouraging mode switch.
  - a) It may be helpful to add an incentive payment related to the number of passengers carried to the contract. In Melbourne the Victorian Government provides an incentive of 50% in the new contracts for rail services. Payments are restricted to passenger levels between a threshold and a cap.

##### Contracts on offer

4. Contract length
  - a) The contract length of the concession should be related to the effective life of the investment in the rolling stock unless the guarantees proposed in 2a are in place.
5. International transport services contract
  - a) The monopoly position of SNCB and SNCF in their respective countries and Eurostar in Channel Tunnel and UK needs clarification.
  - b) The position of NS within the Thalys consortium needs to be clarified.

6. Domestic transport services contract

- a) We need assurances about the transparency of the process in relation to the NS position.
- b) We have doubts about the legality of the inside track for NS under EU legislation

7. Combined bids

- a) We need a minimum turnover or critical mass to justify the expense and management time required to establish a business in a new country. We would expect this to be in the order of €25m per year. If the contract were smaller than this we would be less likely to bid.
- b) The domestic contract does not have the complexity of the international contract. Depending upon the answers to our concerns in 5 we might be reluctant to enter into agreements with SNCB and SNCF. If this were the case we would prefer separate bids and bid only for the domestic contract.
- c) There are attractive synergies between the contracts in management, administration, maintenance, purchasing and commercial activities. We would expect to pass them on to Government.

8. Domestic passengers on international trains

- a) We have an instinctive preference for the freedom of passengers to board any train for three reasons.
  - The distinction seems artificial in market terms. There seems no inherent market difference between, say, a Brussels – Amsterdam train and a London – Manchester train.
  - Refusal to allow domestic passengers on to international trains will be wasteful to the degree that capacity on international trains will be empty between Amsterdam and Rotterdam and separate domestic trains provided.
  - The main competitors of both domestic and international services are the car and, to a lesser degree, air. The best solution is that which best achieves the Government objective of maximising mode switch from car. Waiting time is a deterrent to the use of public transport and should be minimised, which would be achieved by allowing free access.

9. Competition between international and domestic services

- a) In general, we would prefer to see such matters dealt with through competition and fair trade legislation.