

Corporate social responsibility

As well as providing a range of economic and environmental benefits, our bus and rail services help cement social inclusion and bring people together. We are committed to encouraging more people to use public transport. It is central to our growth strategy, to the future success of our Group, and also important to the future of the communities in which we operate around the world. In short, we have the same long-term goal of sustainable development as our numerous stakeholders and it is in our collective interest to have an ongoing dialogue on how that can be achieved.

It is easy to have a vision, but how that is delivered in practice is equally important. For the past 25 years since it was founded, Stagecoach has taken its wider corporate responsibilities seriously. The responsible way we do business has always been firmly embedded in our Group's culture, from our approach to safety and the environment, to how we treat our people, our customers and our local communities.

Like any business in any sector, we can get better. We are continually striving to improve our processes and service delivery to make an increasingly positive impact on society and the environment. Building trust with our stakeholders in the wider community is vital and providing clear information on our performance is part of that process.

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 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 UK Index, which is designed to measure the performance of companies that meet globally recognised corporate responsibility standards.

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 ongoing 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, the Welsh Assembly and Transport for London.

Transport Authorities – we 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.

Government Advisory Bodies and Lobbying Groups – we 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.

A people business

Stagecoach is a people business and it is the quality of our employees, from drivers and engineers to customer service and support staff that ensure we can deliver a first-class quality of service day in, day out. They are crucial to our objective of attracting more people to public transport. None of this happens by chance. We invest significant time and resources to ensure we have the right people on board to deliver the best possible service to customers.

We respect and value our staff, and we have a strong commitment to equal opportunities and partnership working with trade unions. Stagecoach also offers its UK employees the opportunity to join a pension scheme as well as providing attractive pay and conditions packages.

As a major employer, we also recognise the need for ongoing 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 one of the best vocational training programmes of any operator, designed to raise standards among and recognise the key contribution of our people. To date, some 50.7% of our current UK Bus drivers and 72.6% of our UK Bus engineers have either achieved or are working towards the S/NVQ qualification. During the year, we have focused closely on recruitment and retention of drivers and have made significant progress as a result of a number of measures, including improved pay, better training and mentoring schemes. We have also established links overseas, as part of the expansion of the EU, to recruit drivers to complement our employment campaigns in the UK. We have worked with Aberdeen City Council as part of an initiative focused on recruitment from Malta and have set up a recruitment project in Poland, with the first of the drivers from these schemes having started work in the UK.

At South West Trains, our centralised Recruitment Centre and the state of the art Operations Training Centre are continuing to deliver benefits to our employees and better service to our customers. We also have in place vocational training, support for managers, employee recognition programmes and round-the-clock open learning access for our staff. Our people-centred approach has again been recognised externally with our work at South West Trains shortlisted at both the Personnel Today and Rail Innovation Awards.

In North America, we have set up a new centralised driver training school in our North East division, which has improved the quality and consistency of provision. Our Canada division has focused closely on harnessing the power of the Internet to attract new employees and has been working in partnership with Workopolis, Canada's leading internet recruitment service.

Stagecoach has been working with the Department of Labour in New Zealand on a project to source employees outwith the country under established quota arrangements. A recruitment team from Stagecoach and the New Zealand Immigration Department visited Samoa to interview prospective employees and nearly 30 drivers have taken up positions with the company in Auckland.

We are also looking to develop the managers of the future through our graduate recruitment initiative. Our engineering apprenticeship programme in the UK promotes careers through local schools and career development agencies. We have also worked closely with government-funded enterprise agencies to get the long-term unemployed back into work, because many have vital skills that are being overlooked.

Stagecoach wants to support its 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 are one of six employers across the UK involved in a pilot scheme that aims to research and test various ways to improve financial capability in the workplace. The multi-agency project – co-ordinated by the Financial Services Authority ("FSA"), the independent financial watchdog – involves offering our staff one to one surgeries and hard copy material. The workplace is seen as an ideal way to get information and education on finance to adults and active participation by employers is vital. The pilot is part of a national strategy to improve access to information, advice and personal finance education, so that consumers are better equipped to make sound choices when looking after their money and their future financial security.

Operating and Financial Review

Improving accessibility

Every customer we serve is unique, each with their own specific individual needs. We recognise that accessibility is crucial in providing attractive public transport services and, as far as possible within the resources we have available, we are making it easier to use our bus and rail services.

We have made further progress during the year on our programme that will ultimately result in all our buses in the UK being fully low-floor. Each year, hundreds of new, more easily accessible vehicles are added to our fleet and already all buses operated in London are entirely low floor with wheelchair access. We are also helping provide new demand responsive transport services, which are meeting the needs of those with mobility problems who require a service from their front door. In Hastings, for example, we are working with East Sussex County Council to transport the less mobile direct from their homes to main line bus services.

Significant investment is also taking place in our North American business in partnership with federal agencies. This year, our New York Sightseeing business introduced a fleet of 20 new open-top double-decker vehicles with improved wheelchair access ramps for disabled customers.

On the South West Trains network, we provide station-based ramps to enable wheelchair users to board and alight our new accessible Desiro trains with maximum convenience. To support the access of wheelchair users to our network, we are now committed to providing wheelchair users with accessible taxis to and from stations with step-free access at no extra charge.

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. At Sheffield Supertram, for example, we are currently refreshing the interiors of our vehicles, which will feature textured grab rails and improved seating layouts to help passengers with visual impairment. We are also currently undertaking trials of new higher visibility destination blinds and investigating the potential for automated public address announcements.

Stagecoach is also working with key stakeholders to improve accessibility across the transport industry. In New Zealand, we have assisted the Human Rights Commission inquiry into the provision of accessible transport. We are introducing new LED screens on our new buses, which provide improved visibility for people with visual impairment.

Many people now access transport information online and our recently relaunched Stagecoach Group website, www.stagecoachgroup.com, has been developed in line with accessibility guidelines drawn up by the Royal National Institute for the Blind.

Health and safety

Stagecoach has a proactive culture across the Group that puts health and safety at the very top of our agenda. Bus, coach and rail travel is significantly safer than similar journeys by car, and the safety and security of both our customers and our people are at the core of how we operate our business.

Health and safety is monitored and reported on in every company across Stagecoach Group 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 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 to the Board on these matters. They have access to internal safety executives and external consultants.

In our UK Bus division, we are working in partnership with the Government and other agencies to improve bus safety and security. While crime and vandalism are relatively low, we are aware they can discourage people from travelling on buses. We continue to invest in CCTV

technology, driver safety screens and other measures to protect our passengers and our people. We have a number of joint programmes in place with schools and the police to deter anti-social behaviour and educate the next generation of public transport users. Stagecoach is also working with a number of local authorities in areas such as Oxford, Mansfield, Cheltenham and Gloucester to develop late night bus networks to help reduce town centre crime. At an operational level, we have in place a process of route risk assessments to identify potential safety issues. As well as our own investment in on-going driver training, we are supporting the work of the Road Operators' Safety Council to drive up standards in the industry. Stagecoach has also helped fund safety campaigns focused on other road users, including cyclists and drivers of agricultural vehicles.

Rail travellers on the South West Trains network are benefiting from a safer environment on our new, state-of-the-art Desiro trains and on our refurbished Class 455 trains, which are being fitted with CCTV technology. All South West Trains rolling stock is fitted with the Train Protection Warning System, which stops a train automatically at red signals. Our award-winning TravelSafe Officers partnership with British Transport Police, which helps ensure passenger safety, has been extended further in the past year to cover more routes and stations on the South West Trains network. Investment in both TravelSafe Officers and CCTV has helped cut crime on the network by 8.6% in the first half of 2004 and 20% in the second half of the year. Work is continuing 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.

In North America, we carry out regular safety audits of our facilities to ensure high standards of health and safety are maintained. Along with other major operators, we have assisted national bodies to put in place processes to address the impact of potential terrorist attacks on public transportation. In the United States, for example, we are working with the Federal Government to take part in anti-terrorism workshops for our employees and are beginning to put in place anti-theft and GPS tracking, monitoring and communication systems. In Canada, we have a dedicated Occupational Health and Safety Policy Committee whose members are drawn equally from management and workforce representatives.

Our business in New Zealand has a programme in place to reduce the incidence of workplace injury and sickness and we conduct regular workplace inspections. An annual review of health and safety issues is carried out jointly by management and union representatives. We also have a special project team in place to address the issue of driver assaults.

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.

Part of the community

For nearly 25 years, Stagecoach has been a key part of communities. As well as providing lifeline transport services and significant job opportunities, we take an active role in the communities where we operate.

We want local people to share in our success and that is why every year we help fund the vital work of local, national and international charities. During the year ended 30 April 2005, £0.3m (2004: £0.3m) was donated by the Group to help many worthwhile causes, including many health charities and local community projects in areas where Stagecoach provides lifeline bus services.

Like many companies, Stagecoach and its employees were touched by the Asian tsunami disaster and its impact on people living in the area. The Group pledged £100,000 to help the relief effort and building work, and also matched pound for pound the £40,000 raised by our employees in the UK, North America and New Zealand. The £180,000 raised was channelled through four charities – Save the Children, British Red Cross, Tearfund and World Vision – which are part of the Disasters Emergency Committee.

Stagecoach's support for the community is not just about money. Hundreds of our employees devote their own time every day to local projects that make a real difference in their area. Our businesses provide much-needed in-kind support, while our people also give charities the benefit of their expertise during secondments. Earlier this year, for example, we provided transport for a group of children from Beslan in Russia who were on a month-long stay in Scotland following the terrorist siege at a school in their homeland. We have provided similar assistance to groups of children affected by the Chernobyl disaster and its aftermath.

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 bus company in Warwickshire, for example, is a partner in an innovative "text2talk" anti-bullying initiative with the police and other agencies. We are also a key partner in Kent People's Trust, a police and business initiative in the county targeted at reducing youth crime. In Strathclyde, we have two information and training vehicles, which are used by the police to work with youngsters in housing estates in Glasgow and Ayrshire to cut crime and vandalism. At South West Trains, there is a focus on projects designed to give young people alternatives to anti-social behaviour, particularly highlighting the dangers of trespassing on railway lines.

Stagecoach is also helping promote social inclusion with our communities and help those who are the most vulnerable. We have a national agreement with Guide Dogs for the Blind that allows the dog trainers free travel on our buses.

We have 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. We have also supported a number of arts initiatives and this year marked the 10th anniversary of our sponsorship of the Mari Markus Gomori children's concerts, which have been attended by more than 40,000 schoolchildren.

Overseas, our businesses support the work of chambers of commerce, arts foundations, tourism associations, educational groups and other key services. We have again provided transport facilities to assist the annual Tartan Day celebrations in New York, while similar support has been provided to a group of British police officers that make an annual visit to the city to honour the Britons killed in the September 11 terrorist attacks.

In New Zealand, Stagecoach 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. Money raised has purchased a ventilator for the paediatric intensive care unit, a new incubator and has also helped fund the training of senior transport nurses. In Wellington, Stagecoach has been a supporter of the New Zealand Festival, converting a bus into a mobile performing stage and providing transport for participants.

Supporting the community. Working with the community. Part of the community. That is the cornerstone of our business philosophy and the key to building positive relationships with our stakeholders.

Building a sustainable environment

Stagecoach has made good progress this year in improving the environmental management and sustainability of its operations. Public transport has a key role to play in reducing pollution levels, alleviating road congestion and improving the quality of life in our towns and cities. However, we are also working hard to ensure our own day-to-day transport operations are carried out in a responsible manner.

Stagecoach worked with consultants, Arthur D. Little, to update and improve our Group Environmental Policy two years ago. That policy sets out our commitment to good environmental stewardship and we have put in place stretching targets to reduce emissions, cut water and energy consumption, minimise waste and identify opportunities for recycling.

The Group has put in place a number of internal measures to minimise the impact of our operations on the environment. We have also improved

the processes designed to track environmental data, which has produced more accurate information from which to analyse performance. Details of our performance, compiled by Arthur D. Little, can be found on the Stagecoach Website at <http://www.stagecoachgroup.com>

We have achieved a significant improvement in the direct emissions per passenger journey from our bus and train fleets. There has been a reduction across all measures, with some decreasing by more than 25%. This has been achieved through the introduction of newer vehicles and rolling stock, which meet the latest stringent environmental standards. We are also looking at new fuels and cleaner technologies to improve our performance, as well as providing further training for our drivers.

Following a 12-month trial, we are now rolling out the use of the Envirox fuel additive across our UK Bus division. In tests on 1,000 vehicles, the product has delivered a 5% fuel efficiency saving and associated reductions in emissions. In Sunderland, we have fitted exhaust gas recirculation systems to a number of our vehicles with Euro II engines to bring them up to Euro IV standard as part of a Local Transport Plan/Energy Savings Trust project. We have also launched a biodiesel trial in a number of our buses in New Zealand.

Stagecoach has showcased a futuristic hybrid electric bus across the UK to encourage local authorities to introduce the environmentally-friendly vehicle in their areas. The state-of-the-art vehicle, which has been successfully operated by Stagecoach in Auckland, New Zealand, has the advantage of being able to run emission-free in densely populated areas and the battery-powered technology means it is extremely quiet on the road. Special regenerative braking technology means the batteries on the bus are charged when the brakes are applied, while a diesel turbine can also charge the batteries. Stagecoach has already won a local authority contract to run the vehicles on a new route on the Quayside in Newcastle and the service is now in operation.

Water consumption in our bus and train operations has reduced per passenger journey by over 10%, assisted by the introduction of upgraded wash facilities, better bus wash management and initiatives to identify and repair water system leaks. In North America, for example, we have introduced new water recycling units at two of our main facilities in New York and New Jersey, which have the potential to reduce water usage by 70%.

The Group has continued to make progress in controlling the production of vehicle maintenance and other waste in its UK and overseas operations, while there has been a significant increase in recycling of waste from our bus operations in particular, rising from 20.4% in the 12 months to 30 April 2004 to 31.9% the following year.

While we have achieved a further improvement in some measures of indirect emissions from our bus and train operations, we note that there has been an increase in CO₂ produced by our bus and train depots and offices, as well as our train operations. The main reason for the increase has been the step-change we have delivered in the working environment for our people and the rail travelling environment for our customers. While we have installed new energy efficient heating systems and low energy lighting at several bus depots in the UK, many depot refurbishments have included extra internal and external lighting for a better and more secure working environment. There has also been an increase in the use of electronic communication. Overseas, two additional depots have been included in the collection of data in New Zealand. Moving forward, a number of our UK Bus sites are to be fitted with a smart energy metering system to help identify savings opportunities and benchmark performance as part of a major Carbon Trust pilot project.

At South West Trains, the new Desiro trains have provided a major uplift in travel comfort with improved air-conditioning, on-board information systems and better safety features. These improvements are helping to generate modal shift from car to public transport, which has a positive impact on the environment. However, the rolling stock is heavier and, combined with the improved acceleration, this means there is a greater draw on the electricity supply. Controlled Emission Toilet-emptying facilities and upgraded tanking facilities at a number of locations have resulted in increased water and electricity usage. Station improvement projects have involved additional air conditioning systems, better exterior and platform lighting and new customer information systems. While these have been designed using energy efficient systems and have significantly improved passenger satisfaction, there has been an impact on electricity, gas and water consumption.

Operating and Financial Review

In line with the targets set out in our Environmental Policy document, we have taken further steps to improve our environmental management across our global operations. We have improved the quality and accuracy of the data, as well as the calculation methodology. Emissions in our UK Bus division have been calculated based on the proportions of different types of bus in service pre-Euro, Euro I, Euro II and Euro III providing significantly more accurate calculations. In New Zealand, we have developed and implemented a new method of monitoring water use, which has identified bus washes for future water usage reduction programmes. Waste monitoring has improved at our Supertram operations, which is also now tracking general waste data. There has also been improved waste calculations at South West Trains and Island Line as a result of using more specific factors from the Department for the Environment, Food and Rural Affairs ("DEFRA") and SITA to estimate weight to volume ratios of general waste.

We have continued to provide support and training for our employees to ensure compliance with legislation, effective waste management, improved energy consumption and better environmental performance. Our UK Bus division, for example, has run a comprehensive environmental training programme for around 200 managers over the past two years. The division is also working with the road safety charity BRAKE and other companies to benchmark and share good practice in safe driving and driving methods which increase fuel efficiency. During 2005-06, following the evaluation of measures undertaken in our Manchester depots, we are running an electrical energy reduction campaign across the UK Bus

division. We have appointed specialist company Inenco to manage our gas and electricity purchasing in the UK Bus division. Inenco will be making recommendations on a utility purchasing policy, expected to include alternative energy sources, and measures to reduce energy consumption. South West Trains has undertaken a review of its environmental management system to ensure it continues to comply with legislation. All train services are no smoking, improving the travelling environment for our passengers and the working environment for our people. South West Trains is also working hard to accommodate cyclists and its Surbiton Station was named best cycle facility at the London Cycling Campaign awards.

Major employers are working with us to develop travel plans that reduce dependence on the car to get to work. Stagecoach's work to promote bus use among businesses in Exeter – including the Met Office and the Royal Devon & Exeter Hospital – has been identified as an example of best practice within the industry. TransportEnergy, a non-profit organisation which encourages businesses to help reduce greenhouse gas emissions and improve air quality in cities and towns, has highlighted Stagecoach's use of staff travel surveys with city businesses, the offer of discounts and vouchers, and the provision of information about bus services.

Despite the improvements and investment we have made in the area of environmental sustainability over the past year, we recognise more work has still to be done. But we remain committed to building on the progress we have made and exceeding the stretching targets we have set our business.