

# Summary Operating and Financial Review

## Important note

This Summary Annual Report, including, the summary financial statements, is a summary of the information contained in the 2006 Annual Report and Accounts. It does not contain sufficient information to allow for a full understanding of the results of the Group and state of affairs of the Company or the Group. For further information, the full annual financial statements, the auditors' report on those financial statements and the report of the Directors should be consulted. All shareholders receive either the Summary Annual Report or the full Annual Report. A copy of the full 2006 Annual Report and Accounts may be obtained, free of charge from the Company's registrar at the address and telephone number shown on page 20. If you wish to receive the full Annual Report for all future financial years you should inform Lloyds TSB Registrars in writing, at the same address.

## Cautionary statement

The Summary Operating and Financial Review is a summary of the full Operating and Financial Review contained within the 2006 Annual Report and Accounts. The Operating and Financial Review has been prepared for the shareholders of the Company, as a body, and no other persons. Its purpose is to assist shareholders of the Company to assess the strategies adopted by the Company and the potential for those strategies to succeed and for no other purpose. This Operating and Financial Review contains forward looking statements that are subject to risk factors associated with, amongst other things, the economic and business circumstances occurring from time to time in the countries, sectors and markets in which the Group operates. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a wide range of variables which could cause actual results to differ materially from those currently anticipated. No assurances can be given that the forward looking statements in this Operating and Financial Review will be realised. The forward looking statements reflect the knowledge and information available at the date of preparation. A full copy of the 2006 Operating and Financial Review can be found on the Company's website at <http://www.stagecoachgroup.com/scg/ir/finanalysis/reports/>

## Group business objectives and long-term strategy

The key elements of Stagecoach Group's business strategy to deliver long-term shareholder value are:

- To deliver organic growth across all of the Group's operations;
- To acquire businesses that are complementary to the Group's existing operations, in areas where the Group's management has proven expertise and which offer prospective returns on capital in excess of the Group's weighted average cost of capital;
- In addition to organic and acquisition growth, to maintain and grow the Group's UK Rail division by bidding for selected rail franchises and to seek to secure new franchises where the risk/return trade-off is acceptable. This part of the strategy includes working with VRG to secure an acceptable renegotiated West Coast Trains franchise.

A fundamental objective underlying this strategy is the continued provision of safe and reliable services to passengers.

Stagecoach Group has demonstrated particular strength in managing bus and coach businesses that operate scheduled services in a relatively deregulated environment. The Group's focus is on operations with critical mass in their own local markets. In rail, Stagecoach's skill centres on organic revenue and passenger volume growth, the management of significant change projects, the delivery of improved operational performance, and driving up customer satisfaction.

## UK Bus

Revenue in our UK Bus division, excluding acquisitions during the year, has increased by 7.7% to £775.7m (2005: £720.3m) and operating profit\* is up to £88.6m, compared to £87.7m in the previous year. Operating margin was 11.4% compared to 12.2% in 2005. We are particularly pleased to report that excluding acquisitions, we have grown operating profit against a background of significant increases in fuel and other costs. In addition, the acquisitions in the year contributed £38.5m of revenue and a £1.9m operating loss.

## Investment, innovation and growth

Stagecoach has an excellent track record of operating high-quality bus and coach services. We have delivered further growth in passenger volumes at our UK Bus division during the year as a result of our emphasis on new product development, investment and tailored marketing initiatives. We are attracting more people out of their cars and on to our public transport services and total passenger volumes on a like for like basis, excluding London and megabus.com, were up 2.1%. More than £50m has been spent in the past 12 months modernising our fleet, delivering more low-floor accessible buses and a more comfortable travelling environment for passengers.

We have expanded the reach of our UK Bus operations with the acquisition of two significant independent bus businesses in the past year, Glenvale Transport Limited ("Glenvale") and Traction Group Limited ("Traction Group"). As we anticipated at the time we acquired it, Glenvale has incurred losses as we restructure the operations. Revenue from the date of acquisition to 30 April 2006 was £17.4m and the operating loss was £2.3m. Traction Group, which has operations in Yorkshire, Lincolnshire and Tayside, contributed £21.1m to revenue and made an operating profit of £0.4m in the period since acquisition to 30 April 2006.

megabus.com, our market-leading inter-city bus service now has a network of services covering more than 40 locations in the UK. More modern double-decker coaches and a comprehensive package of press, billboard, radio and web-based marketing have helped drive further passenger growth. Around two million passengers have travelled with megabus.com during the year and we have improved both the average load factor and the average fare.

## Provincial and city networks

We have achieved further organic passenger growth in our UK Bus division. Growth in our provincial and city networks has been driven by our focus on customer profiling research and targeted marketing. Our telemarketing unit at our headquarters in Perth has been expanded to launch new campaigns in the UK to encourage non-users to switch to bus travel. These campaigns, which include the offer of a week's free travel and focus in particular on parents and car users, have resulted in significant numbers of non-users switching to the bus.

Impressive passenger volume growth has been achieved in a number of our provincial networks, including Newcastle, Sheffield, Basingstoke, Devon, Thanet, Banbury, Barrow, and Merthyr. We have also achieved further passenger growth in our flagship operations in Cambridge on the "citi" branded network, supported by the introduction of real time information on some services. In Oxford, we have attracted more passengers on our Oxford Tube high-frequency express coach service to and from London and grown our market share on this competitive corridor. In Scotland, we have achieved passenger volume growth of 1.8% in our Western business, which was named 2005 UK Bus Operator of the Year.

The integration of Traction and Glenvale is progressing well. In Merseyside, we are focusing on developing strong core services as well as operating tendered routes on behalf of Merseytravel. We have completed a major

\*References to the operating profit/loss or operating margin of a particular business throughout the Summary Operating and Financial Review mean operating profit/loss (or operating margin) before amortisation of intangible assets, exceptional items and restructuring costs.

vehicle replacement programme, which has resulted in more than half of the Glenvale fleet being upgraded. Following the decision by the Office of Fair Trading not to refer the acquisition of Traction to the Competition Commission, we have made a number of improvements to integrate the business into our UK Bus operations. A new integrated bus and tram network has been launched in Sheffield, delivering cheaper fares and better services to people in the city.

## London

In June 2006, the Group agreed the conditional sale of its London bus operations to Macquarie Bank Limited. The business operates bus services in south and south-east London on behalf of Transport for London ("TfL"). The proceeds are expected to be around £264m and the sale will result in a consolidated net gain on disposal of approximately £120.0m.

## Partnership

Stagecoach continues to work closely with a range of stakeholders at local and national level to improve the quality of bus provision for our customers. Strong partnerships are the key to improving services and delivering value for money to taxpayers, a view that has been endorsed by the Government. We welcome the DfT's review of competition arrangements to make it easier to achieve sensible co-operation between operators on timetables and fares where this is in customers' interests. In Scotland and Wales, we continue to work with the devolved administrations to successfully deliver the concessionary fares schemes. We welcome the recent commitment by the Government to introduce a national free travel scheme for the elderly in England from 2008. Our bus companies are also looking forward to building relationships with Transport Scotland, the new National Transport Agency for Scotland, and the regional transport partnerships. Stagecoach is working with a number of local authorities on smartcard, multi-operator ticketing schemes and real time information, in places such as Manchester, Cambridge and south-west England, to make travel easier for passengers. Several of our companies also have close links with businesses and educational establishments to encourage travel by public transport.

## Park and ride

We believe there is significant potential to develop park and ride around the UK as a solution to the problem of increasing congestion. Stagecoach is a partner with local authorities in a number of major park and ride sites where there has been significant growth. In November 2005, as part of our dynamic bus strategy for Manchester, we unveiled proposals for a series of park and ride sites at key interchanges on the M60 motorway to help cut city centre congestion and promote bus use. Stagecoach is also investigating the potential of "commercial" park and ride operations around the UK, where the operator would also buy and manage the facility, drawing on experience in the United States.

## Kick Start

Stagecoach was the most successful large bus operator in the UK in the latest round of funding allocations from the DfT for Kickstart schemes to fund new bus services. More than 40% of the funding available was allocated to Stagecoach partnership schemes, which was a reflection of our success in using this model to generate organic passenger growth. We are also operating a number of Bus Route Development Grant schemes with support from the Scottish Executive and other initiatives backed by the devolved administration in Wales.

## North America

North American trading continues to be encouraging, despite ongoing cost pressures in relation to fuel and insurance. Cost pressures have resulted in the closure of a number of smaller competitors and in some areas we have been able to absorb the additional customer base.

In March 2006, we launched our budget coach operation, megabus.com, in the United States. Passengers can travel on daily non-stop express coach services between Chicago and other Midwest cities from as low as US\$1.

Revenue from North America for the year ended 30 April 2006 was US\$439.5m (2005: US\$409.1m). On a like for like basis, revenue was up by 9.7%. Operating profit excluding megabus was US\$31.5m (2005: US\$28.7m), resulting in an operating margin of 7.2%, compared to 7.0% the

previous year. Converted to sterling, revenue for the year was £247.6m (2005: £220.8m). Operating profit excluding megabus for the year was £17.7m (2005: £15.5m), and the operating loss of megabus in North America was £0.8m (2005: £Nil), including marketing and other start-up costs.

We continue to experience strong revenue growth in our highly successful sightseeing businesses. The growth has been helped by the introduction of new double-decker buses and improved tours and marketing.

We have seen further revenue and passenger growth in our express, commuter and scheduled airport services.

We have achieved a 100% contract retention rate in the past year and have been awarded a number of new contracts in our Chicago, Wisconsin and Pittsburgh businesses, while our Chicago tour operations have expanded services.

Student transportation services in Wisconsin have continued to grow and we have expanded in the state through the acquisition of a 30-school bus contract.

Charter revenues are up year on year and forward bookings are ahead of the same period last year, assisted by improved online booking capabilities through our redesigned Coach USA website. We have made a small bolt-on acquisition of a charter business in southern Pennsylvania. During the year, we closed some small under-performing charter locations in western New York State and reduced our casino services.

In Canada, revenue has grown by more than 25% despite a very competitive environment. Significant new contracts have been secured with the Greater Toronto Airports Authority and strong growth has also been achieved in transit contracts.

## UK Rail

The Group's rail division has had another excellent year, with continued growth in revenue, including strong season ticket sales.

Revenue from our UK Rail subsidiaries for the year ended 30 April 2006 was up by 5.7% to £506.7m (2005: £479.4m). Operating profit increased to £58.9m (2005: £50.0m), with an operating margin of 11.6% (2005: 10.4%). Revenue was adversely affected by the terrorist attacks in London in July 2005, particularly revenue from off-peak travel. The impact on profit was less significant due to the revenue and profit share arrangements that South West Trains has with the DfT.

The reported operating profit is after deducting £66.7m (2005: £46.0m) of amounts payable to the DfT under the revenue and profit sharing arrangements at South West Trains.

Rail bid costs of £11.7m (2005: £3.0m) were expensed during the year ended 30 April 2006 in arriving at the UK Rail operating profit of £58.9m (2005: £50.0m). These were principally in relation to the ongoing work on the bid for the South Western franchise and the unsuccessful bids on the Greater Western, Great Northern/Thameslink and Integrated Kent franchises.

## South West Trains

South West Trains was named Passenger Operator of the Year and Rail Business of the Year within the past 12 months, reflecting our commitment to excellence. Recent operational performance at what is arguably the UK's biggest and most complex franchise is amongst the best achieved by train operating companies in London and the South East with 90% of trains arriving on time (punctuality measured on the basis of the DfT's Passenger Performance Measure).

Providing a clean, safe, punctual and reliable service has resulted in the highest ever overall passenger satisfaction ratings achieved to date at South West Trains, jumping from 78% last spring to 83% in Spring 2006 (measured as the percentage of passengers surveyed who were satisfied with their overall journey experience).

In the last year, together with third parties, we have invested more than £7m in station refurbishments and security enhancements across the South West Trains' network.

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megatrain.com, our budget rail service offering seats on off-peak services from just £1 plus booking fee, has attracted 50,000 passengers since we launched the first two trial routes in November 2005. The service has proved extremely successful in making the most efficient use of the capacity on the rail network. megatrain.com was extended to seven additional locations on the South West Trains network in April 2006, offering 5,000 cheap seats a week, and since June 2006, megatrain.com has started selling tickets on more than a fifth of all Virgin CrossCountry services. We are in discussions with the DfT about making the megatrain.com pilot project permanent.

South West Trains continues to work hard to maximise capacity on the network. We have entered into a lease for a further 17 Desiro class 450 trains, which will provide an extra 4,500 seats during peak times, and all units are expected to be in passenger service by the end of the franchise. Agreement has also been reached to lease nine three-car Class 158 trains to replace existing two-car trains on the West of England line, with the first of these expected to enter service in October 2006.

The £67m refurbishment of the Class 455 fleet operating on suburban routes is progressing well. The partnership project with the DfT, TfL, Porterbrook and Bombardier is expected to be completed by Spring 2008, delivering improved reliability and better passenger circulation due to the revised internal layout of the units.

## Island Line

Island line became the first rail operation in the UK to be designated as a Community Rail route by the DfT in March 2006. Designation changes the approach to running the line, with greater emphasis on local management and meeting local needs. Various initiatives have been and are being implemented on this line, including additional car parking and a park and ride scheme. Separately, Island Line is being assisted by South West Trains on a project to modernise its ticketing machines.

## Supertram

Passenger volumes at Sheffield Supertram continue to grow and the tram operation is now carrying a record 13 million people a year. A major three-year project has been launched to refresh the livery and interiors of the 25-strong tram fleet and the first of the improved vehicles entered service in January 2006. The programme will improve comfort and accessibility for passengers, as well as help to maintain the fleet's high standard of reliability. Stagecoach launched a new integrated tram and bus network in Sheffield in May 2006, offering joint tram and bus ticketing. Further marketing activity has focused on students and an improved website.

## Rail franchising opportunities

Stagecoach is delighted to have been shortlisted for the new South Western franchise, which runs from February 2007 and is made up of the current South West Trains and Island Line networks. We believe our record of achievement at South West Trains will enhance the Group's bid for the new franchise. Passengers are benefiting from record investment in new trains, consistently high operational performance, as well as innovation with new ideas such as our budget train service, megatrain.com. We are delivering for passengers, taxpayers and our shareholders, and we will be submitting innovative and competitive proposals to the Government by 30 June. A final decision is expected from Government in Autumn 2006.

We were disappointed that our bids for the Thameslink/Great Northern and Greater Western franchises and our joint bid with DSB for the Integrated Kent franchise were unsuccessful. However, we will continue to bid for future rail franchises on what we believe to be an acceptable risk profile, offering good value for both the Government and our shareholders. We are excited by the opportunities to grow our rail portfolio, which include the new East Midlands and West Midlands franchises. Stagecoach also plans to bid jointly with Virgin for the new CrossCountry franchise when it is tendered later this year. All three of these new franchises are expected to commence in November 2007.

## New Zealand

The results of the discontinued New Zealand division are included within the profit for the year from discontinued operations line on the face of the income statement with the prior year comparative results also reclassified to

this line. The disposed New Zealand operations contributed profit after taxation of £4.3m (2005: £7.3m) to the overall Group profit. The disposal of New Zealand also resulted in a gain of £22.5m in the current year.

## Joint Ventures

### Virgin Rail Group

Our share of VRG's revenue for the 12-month period amounted to £357.4m (2005: £315.2m) and our share of profit after finance income and taxation was £5.5m (2005: £10.7m). Of this, operating profit was £5.3m (2005: £14.2m), net finance income was £1.7m (2005: £1.7m) and the net tax charge was £1.5m (2005: £5.2m).

Both of VRG's franchises currently operate on the basis of annual budgets set by the DfT whereby the franchises earn a specified profit before tax margin. VRG's negotiations with the Government over new commercial terms for the West Coast franchise that extends through to 2012 are progressing well and we look forward to an agreement being reached later this year. Our objective is to secure an arrangement which is sustainable and in the long-term interests of passengers, taxpayers and shareholders.

In our announcement of our interim results for the six months ended 31 October 2005, we explained that the results included the benefit of additional financial support that VRG expected to receive from the DfT. We are pleased to report that VRG and the DfT have now agreed the total financial support for VRG's financial year to 4 March 2006 and the DfT has now paid this in full to VRG.

Passenger numbers are continuing to grow on West Coast, with annual journeys now approaching 19 million – an increase of 20% on the previous year. Revenue has also increased significantly as the improved performance of the Pendolino trains continue to generate new traffic. VRG has been particularly successful in competing with the airlines on the key London-Manchester route. Over the last two years, rail's share of the combined rail/airline market has increased from one third to around two thirds on that route. Customer service has also improved and, in the latest National Passenger Survey (Spring 2006), 90% of passengers were satisfied with their overall journey experience.

The Virgin CrossCountry franchise has grown passenger journeys by 7% over the past year and now carries in excess of 20 million passengers a year. Customer satisfaction has been further improved and in the latest National Passenger Survey (Spring 2006), 84% of passengers were satisfied with their overall journey experience.

The Government announced in October 2005 that a new CrossCountry franchise would be created by incorporating the current Central Trains inter-regional routes into the existing CrossCountry network. As part of the re-mapping process, the DfT also announced its decision to re-let the CrossCountry franchise and the pre-qualification process is expected to begin in the summer of 2006. Stagecoach and Virgin plan to submit a joint bid for the franchise through VRG. Based on its strong track record of passenger growth and performance improvements, we believe VRG will be well placed to win any tender for the new CrossCountry franchise.

### Scottish Citylink Coaches Limited

We are excited by the prospects for our joint venture with ComfortDelGro to operate inter-city coach services in Scotland, which we believe can compete strongly with existing rail services and attract car users to public transport.

Our share of Scottish Citylink Coaches Limited's ("Citylink") revenue from the inception of the joint venture in September 2005 to 30 April 2006 amounted to £3.8m and our share of operating profit was £0.1m. The business is seasonally strongest over the Summer and therefore these results do not reflect the most profitable part of the year.

The Office of Fair Trading decided in March 2006 to refer the Citylink joint venture to the Competition Commission. While we were surprised and disappointed at this decision, we are assisting the Commission with its enquiries and have had positive discussions to date. We are confident that the Commission will realise the main competition to the coach is the car and inter-city rail services and that the joint venture can deliver the biggest improvement to inter-city coach services in Scotland in years.

## Current trading and outlook

The current financial year to 30 April 2007 has started well and trading is in line with our expectations. There are a number of exciting opportunities across the Group and we are confident of achieving our objectives for the year.

## Corporate social responsibility

Stagecoach Group takes its corporate responsibilities seriously and the responsible way we do business is firmly embedded in our Group's culture. From our approach to safety and the environment, to how we treat our people, our customers, our local communities and other key stakeholders, we have a very clear set of values.

As well as providing a range of economic and environmental benefits, our bus and rail services help promote social inclusion and bring people together. We are committed to encouraging more people to use public transport. This 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. We have the same long-term goal of sustainable development as our stakeholders and it is in our collective interest to have an ongoing dialogue on how that can best be achieved.

Our Code of Business Conduct, which can be found on our website at [www.stagecoachgroup.com/scg/media/publications/policydocs/codeofconduct.pdf](http://www.stagecoachgroup.com/scg/media/publications/policydocs/codeofconduct.pdf), confirms our core values and policies in a number of areas: how we deal with our employees, suppliers, customers, competitors, and the wider communities in which we work. These values apply to every director, manager and employee in all our companies across our global operations.

It is one thing to have a vision, but how that vision is implemented is equally important. Like any business in any sector, we can get better. We are continually striving to improve our policies, practices 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 progress and performance is part of that process.

Stagecoach has put in place a number of performance indicators that reflect our engagement with a range of stakeholders and these are tracked on a regular basis.

## Stakeholders

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

## Our People

Stagecoach is a people business and it is the quality of our employees 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 what our customers need.

We respect and value our staff, and we have a strong commitment to equal opportunities and partnership working with trade unions.

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 UK Bus operator, designed to raise standards among and recognise the key contribution of our drivers. To date, some 60.9% of our UK Bus drivers have either achieved or are working towards the S/NVQ qualification. Our close focus on recruitment and retention has resulted in achieving a full complement of drivers. This has been assisted by improved pay, better training and mentoring schemes.

South West Trains achieved Investors in People status in September 2005 as a result of its huge investment in its employees to ensure they have the right skills, knowledge, experience and behaviour to provide a first-class service to passengers. South West Trains' 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. South West Trains also has in place vocational training, support for managers, employee recognition programmes and round-the-clock open learning access for its staff.

In North America, we have set up a centralised driver training school, which has improved our recruitment and training processes. Our Canadian business has focused closely on improved screening of job applicants prior to training and this has resulted in improvements in the quality of employees recruited.

We are also looking to develop the managers of the future through our graduate recruitment initiative at Stagecoach UK Bus and South West Trains. 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 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 are one of a number of employers across the UK involved in a pilot scheme 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.

## Accessibility

We recognise that every customer we serve has their own specific individual needs and accessibility is a key factor in providing attractive public transport services. As far as possible within the resources we have available, we are continuing to make it easier for people to use our bus and rail services. This includes tailoring our network and frequency of services to meet demand.

We have made further progress during the year on our long-term programme to ensure all our buses in the UK are fully low-floor. We have announced a further investment in new accessible vehicles in the UK for the year ending 30 April 2007. We are also helping provide demand responsive transport services in the UK, which are meeting the needs of those with mobility problems who require a service from their front door.

Significant investment is also taking place in our North American business, where we continue to lead the industry in terms of accessibility. As well as introducing new coaches that meet the Americans with Disabilities Act legislation, we have an ongoing programme to retro-fit coaches with lifts each year.

On the South West Trains network, we provide station-based ramps to enable wheelchair users to board and alight 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, the first of our trams have been refreshed with 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.

Many people now access transport information online and our award-winning Stagecoach Group website, [www.stagecoachgroup.com](http://www.stagecoachgroup.com), has been developed in line with accessibility guidelines drawn up by the Royal National Institute for the Blind.

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## Health and Safety

As a major international public transport operator, a commitment to the highest standards of safety is at the heart of our business. We strictly adhere to legislative regulations in all our areas of operation. Breach of these regulations could result in criminal and/or civil legal proceedings, fines and potential loss of contracts and licences to operate. Stagecoach has an excellent safety record and we have a proactive culture across the Group that ensures the health and safety of our customers and our employees is our top priority. Health and safety is monitored and reported on across Stagecoach Group and immediate action is taken to address issues in our business processes. We have a Health, Safety and Environmental Committee that considers health, safety and environmental issues across the Group and reports to the Board on these matters. The Committee is chaired by a non-executive director. Safety matters are also considered at the Board and management meetings of each of our businesses. Our employees are provided with appropriate health and safety training and encouraged to report any concerns. We expect our suppliers and contractors to have a similar commitment to complying with appropriate regulations in this area.

Safety and security issues around public transport were highlighted by the terrorist attacks in London in July 2005. Stagecoach operated both of the buses that were targeted in the attacks and our employees have been commended for their response to these tragic incidents. We will continue to stress the need for vigilance by our staff and customers, while at the same time ensuring accessibility to our public transport services.

In our UK Bus division, we are working in partnership with government and other agencies to improve bus safety and security. While crime and vandalism rates are relatively low, we are aware they can discourage people from travelling on buses. Stagecoach signed the UK's largest single order for CCTV in buses in the UK in April 2006. The £1.2m deal will ensure all new buses ordered by Stagecoach for delivery during the year ending 30 April 2007 will be fitted with state-of-the-art digital CCTV systems from LOOK CCTV. As well as assisting in our drive to increase on-board security for our passengers and employees, the systems can check the movement of traffic and pedestrians as part of an accident prevention campaign.

Stagecoach has 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. We are 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 ongoing 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.

South West Trains ("SWT") is involved in the ground-breaking TravelSafe Officer security and anti-crime partnership with British Transport Police. The initiative continues to help reduce crime across the network and SWT has also received 47 Secure Station awards, more than any other train operating company. The successful withdrawal of Mark 1 rolling stock and the full introduction of the Desiro fleet has helped deliver a safer and more secure railway. Passengers are also benefiting from CCTV improvements and better lighting at 53 South West Trains stations within the London area. Work has also been undertaken to further enhance SWT's Safety Management System, supported by training and briefing programmes for employees. Implementation of our Engineering Competency Management System is also continuing. As well as improved contractor management, SWT has developed a new safety training programme for trade union health and safety representatives. This total commitment to safety led to SWT winning the Sir Robert Horton Safety Award at the National Rail Awards in 2005.

In North America, we continue to meet or exceed all Federal and State regulations in the area of safety. Regular safety audits are carried out at our facilities to ensure high standards of health and safety are maintained. We have enhanced our driver recruitment and training policies, as well as reducing the maximum permitted continuous hours of service for drivers, as

part of our commitment to a safe, well-rested team. Management performance incentives include targets related to the reduction of preventable accidents. The management team in the United States has continued to support the work of the Federal Government and other agencies in implementing anti-terrorism measures. We have now installed GPS tracking in more than 1,000 coaches for security and monitoring purposes. In Canada, we have a dedicated Occupational Health and Safety Policy Committee whose members are drawn equally from management and workforce representatives.

Public transport – whether by bus, coach, train or tram – remains the safest way to travel. Stagecoach Group itself has a good safety record, but we are not complacent and we constantly keep our safety arrangements under review.

## Environment

The Group is committed to making continuing progress in improving the environmental management of its operations and helping to build a sustainable environment. 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. Our Environmental 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.

Stagecoach has made further progress this year in improving the environmental management of our operations and helping to build a sustainable environment. We believe public transport can play a significant part in reducing pollution, cutting congestion and contributing to a higher quality of life in our communities. Stagecoach is also taking steps to ensure its operations are carried out in a responsible manner.

We have worked closely with consultants Arthur D Little to measure the environmental impact of our transport operations in the past 12 months. Arthur D Little have also assisted in setting new stretching targets as part of our commitment to good environmental stewardship. These key performance indicators cover reductions in emissions, lower water and energy consumption, minimising waste and identifying opportunities for recycling.

Our internal processes designed to track environmental data have been further strengthened this year and have extended the measurement of our performance to cover our operations in Canada. New Zealand operations, which were divested in December 2005, are not included in the data for the year ended 30 April 2006.

Full details of our performance, compiled in conjunction with Arthur D Little, can be found on the Stagecoach Group website at <http://www.stagecoachgroup.com/scg/csr/environment/performance/>.

We have delivered further improvement in the direct emissions per passenger journey from our bus and train fleets. This has been achieved through our investment in new vehicles and rolling stock, as well as through the use of new fuels and cleaner technologies. Stagecoach has ordered a number of new Euro 4 engined vehicles for our bus operations in the UK, which have the potential to deliver improved fuel consumption and engine reliability. The use of biodiesel has been increased to around 1,800 buses in the UK and we are continuing to use the Envirox fuel additive across our UK Bus fleet. Stagecoach is also involved in a number of projects to fit exhaust gas recirculation systems to some of our vehicles in the UK. More than 1500 of our buses in the UK are now fitted with CRTs, a 24% increase from 30 April 2005. In our North American operations, we are the first company in New York to fit our buses for use with low sulphur fuel, which significantly reduces emissions. The Group has also introduced more accurate calculation methods to assess our performance in the area of direct emissions, particularly in our UK Rail division.

Indirect emissions from our bus operations on a per passenger journey basis have dropped significantly over the past 12 months. As well as being influenced by the growth in passenger volumes, this has been assisted in

particular by ongoing efforts to reduce energy consumption at our UK Bus sites. We are working with Manchester-based Vickers Electronic Limited to introduce a specialist Energy Management System, which is in use at more than 50 sites. As well as cost savings, the system is benefiting the environment. Consumption savings at 29 gas-fired Stagecoach sites are running at more than 11,000,000 kWh per annum, which represents an emissions reduction of more than 4,000 tonnes of carbon dioxide per year. While indirect emissions per passenger journey and in total have increased in our rail operations, this reflects the continued introduction of Desiro trains. As well as offering a greatly improved travelling experience for passengers, these state-of-the-art trains use higher levels of electricity than earlier rolling stock. Since 2003, the Group's indirect emissions from energy consumption at offices and depots have reduced by 14.4%.

Water consumption in our bus operations has reduced per passenger journey by more than 50%, assisted by the introduction of upgraded wash facilities, better wash management and initiatives to identify and repair water system leaks. The water consumption at our rail operations on a per passenger journey basis has remained at similar levels to the previous year.

The Group is continuing to focus on improving the collection of data around the production of vehicle maintenance and other waste in its UK and North American operations. South West Trains, for example, has introduced a complete waste management system called Garbology where pressure crushers are used to compress waste and maximise the space available for waste disposal. We are also reviewing what measures can be taken to increase the proportion of waste recycled from our bus and rail operations. While waste recycled from our rail operations has increased from 6.2% in the 12 months to 30 April 2005 to 40.0% in the 12 months to 30 April 2006, waste recycled from our bus operations has dropped from 31.9% in the 12 months to 30 April 2005 to 29% in the 12 months to 30 April 2006.

Across our 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. The environmental training programme at our UK Bus division has been fully revised. Around 200 depot managers, safety representatives and supervisors have been trained in the last two years, with all key personnel to be trained every three years on a rolling programme. In Manchester, a campaign is currently underway on all new double deck vehicles to reduce engine idling time to a maximum of 15 minutes, after which the engine will shut down. We have also continued our support for the road safety charity Brake and other organisations to benchmark and share good practice in safe driving and driving methods designed to improve fuel efficiency. At South West Trains, Wimbledon Traincare depot has achieved ISO14001 accreditation and other units are currently being assessed by the British Standards Institute as part of our commitment to continuous improvement in environmental management.

In many areas, Stagecoach is working in partnership with major employers to help develop travel plans that reduce the dependence of employees on the car to get to work.

Stagecoach has made further improvements and investment in the area of environmental sustainability over the past year, however we recognise that we can do more. We want to build on the progress we have made and, as part of our commitment, we have set new stretching environmental targets across our business.

### Community investment and charitable activities

For more than 25 years, Stagecoach has been a key part of local communities around the world. As well as providing lifeline transport services and significant job opportunities, the Group is committed to investing in each of the communities we serve. 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 2006, Stagecoach Group donated £0.6m (2005: £0.3m) to help many worthwhile causes, including many health charities and local community projects in areas where we provide lifeline public transport services.

In July 2005, many people lost their lives as a result of the terrorist attack in London and these shocking events touched our Group directly. The Group donated £100,000 to the London Bombings Relief Fund, which was set up by the Mayor of London in association with the British Red Cross to help provide practical assistance to the victims' families. Stagecoach also matched the fund-raising of its employees around the country who wanted to play their part in responding positively to these tragic events.

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. We also believe in recognising the contribution local people make in their own communities every year, which is why we have co-sponsored Scotland's annual Our Heroes Awards.

Much of the backing we provide is focused on education and young people, assisting organisations such as the National Society for the Prevention of Cruelty to Children, NCH, the children's charity, and PiggybankKids, which supports a wide range of children's projects.

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. Stagecoach is backing an innovative education, prevention and intervention programme designed to educate parents, and other carers, about drugs. The initiative, developed by the national charity Care for the Family, gives parents the information and skills they need to help their children understand the harmful use of drugs, alcohol and tobacco. With the support of Stagecoach, more than 1,000 parents in South Manchester will be able to benefit from tailored How to Drug Proof Your Kids courses. Our support also assists many local initiatives that help provide opportunities for young people. Stagecoach recently pioneered the Park & Read concept in Cambridge as part of World Book Day, offering quick read books on all park & ride services. In Scotland, we are involved in innovative street football and twilight league initiatives in conjunction with local clubs and the police.

Stagecoach is also helping promote social inclusion with our communities to help those who are the most vulnerable. A national agreement with Guide Dogs for the Blind, for example, 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.

Our South West Trains rail franchise operates services in 13 different English counties, where we are involved in many projects to boost social inclusion across our extensive network. The Lymington Heritage Line was launched last year with the purchase and refurbishment of two trains, now in their original British Rail livery. The initiative, which is helping to make the line more cost effective and safeguard its future, has won a National Community Rail Award. The DfT is now concluding consultation regarding proposed designation of the route as a Community Rail Line.

Overseas, a convoy of coaches from our United States operations helped assist the Hurricane Katrina relief effort in New Orleans. The support team helped evacuate some of the thousands of people made homeless by the disaster. Coach USA employees also donated bottled water, food items and toiletries, which were delivered to the American Red Cross to be distributed to those in need.

These are only a small number of examples of our work in supporting and working with our local communities. This approach has been a cornerstone of our business philosophy for more than a quarter of a century and we will continue to work hard to be a responsible part of these communities in the future.