

Corporate Social
Responsibility
2003/04

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INDEPENDENT ASSURANCE STATEMENT

SCOPE AND OBJECTIVES

FirstGroup plc (First) commissioned **csrnetwork** to provide independent assurance over the information and data within the First 2004 Corporate Social Responsibility Report (the Report). The objectives of the assurance process were to check claims and to review the arrangements for management of social, health & safety and environmental issues and the systems for the collection of data at a **group and divisional** level. **csrnetwork** took account of the principles underlying the AA1000 Assurance Standard in designing the assurance process. The Report is an internet-based .pdf, with a hard copy Summary Report also available. The assurance process covers both versions of the report. Any financial information contained within the reports is excluded from the scope of the assurance process.

Responsibilities of the Directors of FirstGroup plc and the Assurance Providers

The directors of FirstGroup plc have sole responsibility for the contents of the report. This statement represents our independent opinion. We were not involved in the preparation of any part of the Report and have no other contract with First. This is the second year that we have acted as independent assurance providers for First. We adopt a balanced approach towards all First stakeholders and a Statement of Impartiality relating to our contract with First will be made available upon request. The opinion expressed in this assurance statement should not be relied upon as the basis for any financial or investment decisions. The independent assurance team for this contract with First comprised Lucy Candlin, Mark Line and Vicky McAllister. Further information, including a statement of competencies relating to the team can be found at: www.csrnetwork.com.

Method

The independent assurance process was conducted through meetings in the UK with directors and managers at corporate and business level responsible for areas of management and stakeholder relationships covered by the Report; and for collecting, collating and reporting the data and information upon which the Report text and data are based; for the US, assurance was undertaken by teleconference meetings with senior management for each of the three US businesses. During these meetings claims, issues identification and stakeholder engagement processes were discussed and a review was undertaken of the systems and controls in relation

to data collection, analysis and internal assurance. Meetings included the Chief Executive Officer, the Chair of the CSR Committee, the relevant US Vice Presidents, and Directors within the UK Rail (First Great Western) and UK Bus businesses. For the UK, the assurance process also included document review and sample testing of database and spreadsheets. The purpose was to collect evidence in order to assess the Company's reporting and management processes against the principles of materiality, completeness and responsiveness as described in the AA1000 Assurance Standard. In addition, the role of First's Internal Audit function was reviewed in relation to internal assurance processes.

We have not contacted First's stakeholders directly, but we did carry out a review of First's consultations with its employees and customers; and a review of publicly available information on CSR issues in the transportation sector.

Opinion

On the basis of the method and scope of work undertaken, the internal assurance processes and the information provided to us by First, we have found that overall the Report presents an accurate description of the Company's performance; we highlight below our comments in relation to the reporting systems and processes.

There has been steady progress since last year with the development of performance management and reporting systems and processes. For environmental compliance the data and the processes underlying collection and assurance at Group and Business level are in general robust. Achieving consistency of definitions for environment between the UK and US, and for key data sources between environment and health and safety could enhance reporting. The Company is still developing its reporting systems and controls at Business level.

From the evidence reviewed during the assurance process, it is clear that First is undertaking many of the actions that would be expected of an organisation striving to improve its corporate social responsibility performance, not least because the issues are closely aligned to core business requirements.

Our observations against the AA1000 Assurance Standard principles are as follows:

Materiality

We consider that the majority of relevant issues have been identified in the report, although in some cases e.g. sustainable transport and social inclusion, a clear discussion of the issues in relation to the transport sector at the start of the Report would place later references in context.

Building on work over the last year, the Report describes issues and performance in relation to an overarching strategy and vision for corporate responsibility. Going forward this will provide a clear framework for demonstrating how performance is being managed and a reference point against which achievements can be measured. It will be important to demonstrate how this strategy is being applied in the US as well as the UK.

Completeness

We consider that the Report is complete in all its material aspects and where there are gaps, these have been identified within the Report. In relation to the US, there is further work to be undertaken in enabling the reporting of relevant environmental and community data. In the UK, objectives are in place to enhance the collection and analysis of data in relation to employees.

Responsiveness

First undertakes a wide range of stakeholder dialogues as part of day to day business, particularly in relation to customers, employees, the Government and regulatory authorities; the results of engagement inform business planning and development decisions. This is both reactive and proactive,

with processes co-ordinated at Divisional level (for UK Bus) and at an Operating Company level (for UK Rail and the US); there is no Group-wide co-ordination of engagement.

Recommendations for the future

On the basis of our review we have made recommendations to First for both the evolution of their reporting processes and their performance management processes.

Key recommendations include consideration of:

- Providing information on the alignment of CSR governance and risk management.
- Setting the Group's performance in the context of the UK Government's Quality of Life indicators to show the impact of First's performance in relation to the overall UK target footprint.
- Evolving reporting processes to include Group-wide reporting guidance, common approaches, systems and sources of core denominators such as passenger journey numbers.
- Providing more explicit alignment/integration of internal CSR assurance with mainstream business risk management and internal control assurance.



UK May 2004

Mark Line Director

Lucy Candlin Project Manager

Vicky McAllister Assurer

csrnetwork is a business focused, corporate social responsibility advisory organisation, bringing together specialists from the fields of environmental management, social accounting, and sustainable development. www.csrnetwork.com

CHIEF EXECUTIVE STATEMENT

I am delighted to publish our Corporate Social Responsibility report for the year to 31 March 2004. We have again extended the scope of our reporting to include, for the first time, information from our North American operations and more detailed information on a wider range of issues from our UK businesses.



As a leading international public transport provider we continue to contribute towards sustainable development by encouraging alternatives to the car thereby improving the environment, reducing road congestion, vehicle emissions and the number of road traffic accidents. We also play our part in the wider community by engaging with and responding to our customers and their elected representatives.

The safety and security of our staff and passengers remains our highest priority. We continue to develop our total safety culture and have strengthened our management structure to give greater emphasis to managing safety and other Corporate Social Responsibility issues. We want our safety culture to permeate every level of our Company from the Executive Safety Committee that reports to our board through to every employee at every one of our companies.

We continue to invest in staff development as we recognise that this is essential if we are to deliver high quality services to our customers, to make our Company the employer of choice in our industry and to continue to grow our business.

Again this year we have set ourselves challenging targets to improve our performance in the vital areas of health and safety, environment, our people and our customers. We will continue to monitor our progress against our targets and report our results again next year.

The continuing success of our Company would not be possible without the commitment of our staff. I would like to thank them for their hard work and dedication.

A handwritten signature in black ink, appearing to read 'Moir Lockheed', written over a horizontal line.

Moir Lockheed
Chief Executive

OUR VISION AND VALUES

First wants to lead the way in transforming the way people travel and the way they feel about public transport.

OUR VISION - TRANSFORMING TRAVEL

By aiming for the top in everything we do - and helping each other - we can deliver the highest levels of safety and service and give greater customer and employee satisfaction. We will share all the success of our Company, and reach our destination as the number one transport provider.

FIRST VALUES

The values we share unite our organisation. In everything we do we should ensure that we bring our First values to life.

Safety

Safety is our number one priority. Every First employee has a responsibility for safety. The right attitude towards safety and putting in place the right policies, procedures, equipment, training and support will help us live the safety culture.

Customer Focus

We want to deliver the perfect journey to all our customers. No one should try harder for our customers than our employees. Our people must be dedicated and passionate about customer service, they must receive training and support and their efforts must be valued.

Professional and Trustworthy

We should deal with each other and our customers in a professional and trustworthy manner. By treating each other as equals and dealing with situations in an honest and professional manner we will gain respect from our customers and colleagues.

Progressive

Forward thinking, innovative and enthusiastic and possessing a "can do" attitude are qualities we really value in our employees.

Continuous Improvement

We will never stand still - we will always get better. Getting the simple things right day in day out really matters. Continually improving the way we work makes a huge difference to our customers, staff and the success of our Company.

Environment

As a public transport operator we have a unique opportunity to improve the environment in which we live by helping to reduce traffic congestion and air pollution and conserve scarce resources by offering a real alternative to the car. We also aim to reduce the environmental impacts of our operations through reducing resource usage and minimising risk, leading to greater efficiency in the business.

Community

We take our role in the community seriously. We want to play our part in promoting socially inclusive policies, encouraging the young and disadvantaged, and helping older members of the community and the disabled.

INTRODUCTION

Welcome to our second Corporate Social Responsibility report. In this report we set out our objectives, performance and initiatives relating to the areas of safety, the environment, our employees and our customers.

This report covers all our UK operations apart from the rail franchises we started to operate during the year namely, TransPennine Express and Hull Trains, First Great Western Link and GB Railfreight. Since April 2004 we are no longer operators of the First Great Eastern franchise but report on its performance during the last twelve months, apart from their environmental performance where our data sets are incomplete due to the franchise changes. For the first time this year the report also covers our North American operations.

This report covers the period April 2003 to March 2004, all data presented in the report covers this period unless otherwise stated.

What Corporate Social Responsibility Means to Us

As a major public transport operator we have a central role to play in supporting the Government in delivering its transport strategy. An important objective underlying this strategy is to make transport more sustainable by balancing the need to travel with the need to improve quality of life. This involves actively promoting initiatives that reduce congestion, improve local environments and encourage healthier, safer lifestyles.

The development of bus and rail travel to become an attractive alternative to the car is central to achieving these aims. Our business objectives are built around improving the quality of public transport and thereby attracting more people to use our services. This covers not only the general public but also school children through the development of the yellow school bus schemes, and businesses, through our green travel plan initiatives. As such our business supports the delivery of a sustainable transport strategy.

The Mobility and Inclusion Unit within the Department of Transport is also working to promote socially inclusive transport by examining the transport needs of different social groups. We believe we have a role to play in supporting better understanding of these issues and in developing a more socially inclusive transport network. We have introduced the

use of demographic software packages to the business which allow us to highlight areas where transport links need to be improved to ensure greater access by those who most rely on our services. We are also looking at Demand Responsive Transport, where services do not necessarily operate to schedule but on an as required basis, for rural areas.

The nature of our business is such that both our business objectives, and the way we conduct our business, involves the full integration of Corporate Social Responsibility values into the day to day management of our operations. This must be linked to effective communication with our key stakeholders, as meeting their expectations will be essential to achieving our aims.

Corporate Social Responsibility is an integral part of our Company vision and values and we believe that achieving our vision will not only enhance our performance as a Company but will also deliver positive social benefits.

We deliver a service that provides people with flexibility in how they travel. We are a labour intensive industry providing an opportunity for job creation. Increased use of trains and buses and a shift from car use will reduce congestion, making our roads and communities safer and improve the environment through a reduction in air pollution.

Our Management Framework

There is an Executive Board Member responsible for Corporate Social Responsibility. This year, in order to strengthen our management structure, we established a Corporate Social Responsibility Steering Group chaired by the responsible board member. Through the Steering Group we have started to develop a clearer strategy for managing Corporate Social Responsibility issues and integrating them in a more cohesive way into the broader Company management framework. This work has started with an identification of the key CSR issues for the Company, our achievements and challenges and the establishment of high level, long term goals.

The findings of our stakeholder engagement programme and Company risk assessment were fed into this process. Our next step is to identify how we will integrate these issues and the achievement of these goals into our broader management framework and improve communication of our strategy and vision throughout the Company.

Safety issues for both the UK and US operations are reported to the board through the Executive Safety Committee chaired by the Group Chief Executive. There is a supporting safety structure which includes representatives at regional, company and site level. The safety structure and associated responsibilities are more fully described in the Company health and safety policies.

In the UK, environmental performance is reported directly to the Executive Management Board via the Environmental and Property Projects Director. Again there is a supporting structure with environmental representatives operating at each level in the Company. In the US, overall responsibility for environmental issues lies with the Company President and Chief Operating Officer. Localised responsibility for environmental issues lies with the contract manager at each location.

This year in the UK we have appointed Human Resources Directors within both Rail and Bus Divisions to strengthen the management of people issues and provide greater consistency in approach across the UK. The new Directors are responsible for developing and driving our people strategy for implementation at local level. Human Resources management information such as employee survey data, driver recruitment and retention data and training and development activity are all reported to the board and during the next 12 months we intend to strengthen this reporting to provide more comprehensive Group-wide Human Resources information to Board Directors.

In the US each of our three operating companies has a Director or Vice President of Human Resources who has responsibility for policy and strategy development at corporate level. Our Human Resources policy is implemented locally through the associated management structure.

Key customer data relating to reliability, punctuality and customer survey results are also reported to the board. As part of recent restructuring, we have appointed a Commercial Director who will be responsible for driving the development of customer initiatives within the UK bus division.

In the US our relationships with our customers differ slightly from the UK as there we operate services on behalf of the transport operators who ultimately manage the transport networks. In the US Operations Directors for each business lead the management of our customers. Customer based initiatives in the US are largely focused on delivering the

services required by our clients within the parameters set by our contracts. Our key performance indicators therefore vary from contract to contract and are currently largely managed at local level, although there is a move to develop ways of monitoring performance across the companies.

Data Management and Reporting

The data presented in this report is gathered through the company data management and reporting systems. Operating over 600 properties, data gathering is a challenge and we are continually working to improve our data management and reporting processes. Through an on-going data checking process we have in some cases identified discrepancies in the data reported in last year's Corporate Social Responsibility Report which have been amended accordingly in this year's report.

Structure and Content of This Report

This report is structured around four themes; safety, environment, team and customer, which also incorporates community. Within each of these sections performance data for the UK and US is presented separately. In the case of the UK, data is in some places broken down between rail and bus where this is considered appropriate. In relation to the US, we report on each of our three operating businesses separately due to the differences in their structure and operations.

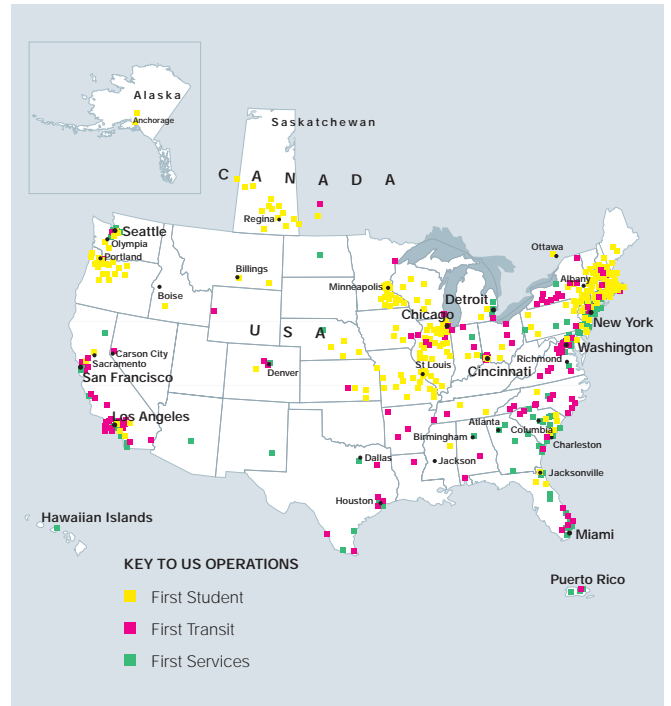
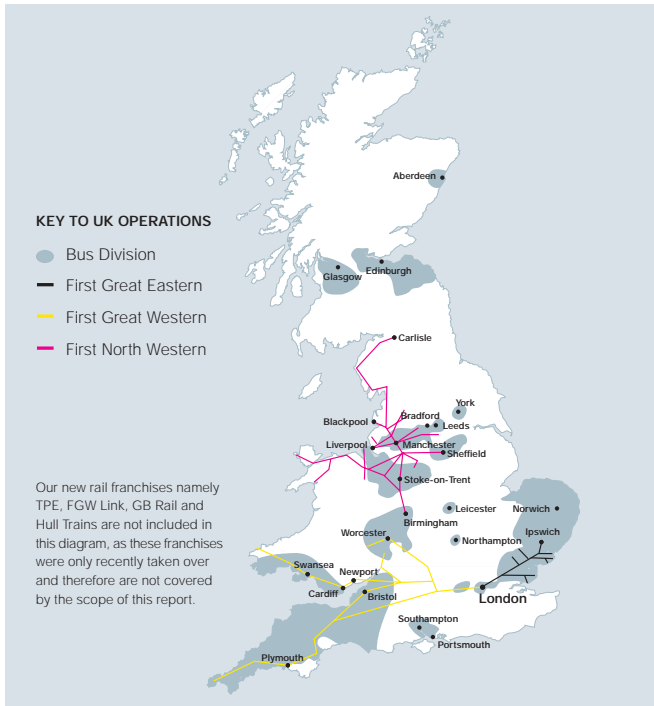
In addition to this report there is also a Summary Report which is available in printed format and can be obtained from our Group Corporate Communications Department.

We want to hear from you

We always welcome feedback on our report. Feedback is part of our dialogue with our stakeholders and helps us to gain a better understanding of what our stakeholders want us to report on. Please therefore take the opportunity to provide us with your views by writing to:

Group Corporate Communications Department

FirstGroup plc, 3rd Floor, E Block, Macmillan House
Paddington Station, London W2 1FG, UK
Telephone: 020 7291 0505 Facsimile: 020 7636 1338
Web site: www.firstgroup.com



FirstGroup plc is a UK based international transport company with a turnover of nearly £2.5 billion a year, and 62,000 employees throughout the UK and North America.

As the UK's largest surface transport company our vision is to transform travel - providing public transport services that are safe, reliable, high quality, personal and accessible.

COMPANY PROFILE

UK OPERATIONS

UK Bus

We are the UK's largest bus operator, running more than one in five of all local bus services and carrying over 2.8 million passengers every day. 80% of our operations are in urban areas where the bus is the most effective means of tackling traffic congestion. We are working in partnership with local authorities and other stakeholders to provide the best possible service for passengers.

UK Rail

We operate passenger and freight services in the UK. Our passenger operations include inter-city (First Great Western, TransPennine Express and Hull Trains), London commuter (First Great Western Link) and regional (First North Western). We commenced operation of the new TransPennine Express franchise, with our partner Keolis, on 1 February 2004 and First Great Western Link, the suburban services into London Paddington, on 1 April 2004. We also operate freight services through GB Railfreight.

NORTH AMERICAN OPERATIONS:

First Student is the second largest provider of yellow school buses in the USA and the third largest in Canada. Operating over 17,400 school buses it transports over one million students every day.

First Transit is the largest private sector provider of urban bus services in the US, managing public transport systems on behalf of cities such as Houston, Los Angeles and Denver. We also manage call centres, paratransit operations and other related light transit activities.

First Services is the largest private sector provider of vehicle maintenance and ancillary services in the US. As well as maintaining vehicle fleets and equipment for public sector customers such as cities, counties, fire and police departments, we also operate a specialist business which provides a full turnkey operation, fitting communications equipment to emergency service vehicles.

OUR CSR ACHIEVEMENTS, CHALLENGES AND GOALS

Through developing our Corporate Social Responsibility strategy we have summarised our performance to date in relation to our key achievements and identified our challenges, which have then been expressed as 5 year goals. These goals will provide the framework for achieving improvement in relation to Corporate Social Responsibility performance. These largely focus on the UK but it is our intention to extend this process to the US operations.



| | |
|---------------------|--|
| SAFETY | <p>ACHIEVEMENTS</p> <ul style="list-style-type: none"> → Robust management system for safety with board leadership. → Established arrangements for compiling and evaluating safety performance data. → Integration of US and UK safety reporting to the board. → Demonstrable improvements in safety performance. → Industry leadership in reducing SPADs. <p>* SPADs - Signals Passed At Danger</p> |
| ENVIRONMENT | <p>ACHIEVEMENTS</p> <ul style="list-style-type: none"> → Robust structure for environmental management reporting to the board. → Established arrangements for compiling and evaluating environmental performance data. → Established methods for undertaking emissions calculations. → Significant investment in new lower emission fleet. → Use of ultra low sulphur diesel throughout our UK bus fleet. → Three ISO14001 accredited companies. → Development of an environmental audit programme covering all companies. → Environmental training programme. |
| TEAM | <p>ACHIEVEMENTS</p> <ul style="list-style-type: none"> → Detailed and regular assessment of employee views and attitudes. → In depth understanding of reasons for driver turnover. → Well developed programme of S/NVQ and BTEC courses for drivers. → Programme of developing workplace learning schemes with positive uptake. → Developing "Total Rewards" initiative. → Implementation of a confidential hotline and reporting system for staff to report fraud and safety issues. → Employee directors on subsidiary company boards. A plc board member elected by the company employee directors. |
| CUSTOMER | <p>ACHIEVEMENTS</p> <ul style="list-style-type: none"> → Well established and effective quality partnerships in all the main operating areas. → On-going engagement with our customers through a range of stakeholder fora. → Stakeholder boards for all the railway companies. → Well established customer survey processes. → Significant investment in development of ways to improve the punctuality of buses. → New technology methods for monitoring bus service reliability. → Leading edge technology to provide information about services. → Demonstrable progress in the development of green travel plan initiatives. → Improvements in train company performance in relation to punctuality and reliability. → Extensive investment in the rail division on providing customer service training for staff. → Involvement in bus rail integration initiatives. |
| COMMUNITY | <p>ACHIEVEMENTS</p> <ul style="list-style-type: none"> → Use of mapping packages to plot bus routes against demographic criteria. → Development of pilot US yellow school bus services in the UK. → Development of partnerships to support rural communities. → Community support through local company initiatives. → Membership of Business in the Community. |
| SUPPLY CHAIN | <p>ACHIEVEMENTS</p> <ul style="list-style-type: none"> → Development of a programme of supply chain audits covering environmental and, where appropriate, social issues. |

CHALLENGES

- Maintaining continuous improvements in safety performance throughout the Company.
- Building a more robust safety culture in our UK Bus Division.
- No staff or passenger fatalities.
- Achieving zero SPADs.

5 YEAR GOALS

- To continue to improve our safety performance reflected in reductions in staff injury/accident rates year on year.
- To continue to improve the safety of our passengers by reducing the risk of injury.
- To reduce the risk to our staff of suffering physical and verbal assault.
- To reduce precursors to catastrophic accidents in the Rail Division.

CHALLENGES

- Achieving significant reductions in resource use.
- Reducing waste arising and improving recycling rates.
- Continuing to achieve emissions reductions.
- Integration of environmental considerations into supply chain management and purchasing decisions.
- Full integration of US operations and new rail franchises into the environmental management framework.

5 YEAR GOALS

- To continue to achieve reductions in resource use year on year.
- To reduce overall waste arising and to increase the proportion of waste reused/recycled year on year.
- To achieve the standards of ISO14001 across all our businesses.
- To reduce our emissions profile year on year.
- To achieve modal shift away from car use in key areas of our business.
- To continue to support initiatives to research and trial the use of alternative fuels to assess commercial viability and future opportunity.

CHALLENGES

- To strengthen our people management framework to develop a positive and productive working environment.
- To achieve greater consistency in the management of people processes across the business.
- To communicate effectively the Company goals and direction.
- To improve the employee attitude survey ratings.
- To achieve significant reductions in bus driver turnover.
- To achieve greater diversity in the workforce.

5 YEAR GOALS

- To become the employer of choice in our industry.
- To maintain continuous improvement in our employee attitude survey ratings.
- To reduce the turnover of our bus driving staff to service sector average.
- For all driving and engineering staff to have an NVQ or equivalent or be working towards one.
- For all our UK Bus Division staff to have access to Work Place Learning centres.
- To monitor and increase the diversity of our workforce to reflect the diversity of the communities within which we operate.
- For all of our people to have an annual review with their line manager.

CHALLENGES

- To increase passenger numbers.
- To exceed Traffic Commissioner targets for bus punctuality and reliability and Transport for London reliability and frequency targets.
- To exceed SRA targets for punctuality and reliability.
- To exceed SRA targets for customer satisfaction measured through surveys.
- To engage local authorities to support bus priority measures leading to greater reliability.

5 YEAR GOALS

- To achieve year on year growth in passenger numbers.
- To exceed Traffic Commissioner, Transport for London and SRA targets for reliability and punctuality.
- To deliver a high quality customer service throughout our operations measured through customer surveys.
- To exceed SRA targets for customer satisfaction measured through surveys.
- To continue to improve the accessibility of information.
- To continue to support development of links between bus and rail.

*SRA - Strategic Rail Authority

CHALLENGES

- To demonstrate the provision of an inclusive service across the business.
- Build the relationship with Business in the Community.
- Obtain local authority support to extend US yellow school bus services.

5 YEAR GOALS

- To apply the use of demographic packages to services across the business.
- To develop ways to effectively measure the inclusivity of services across the business.
- To develop the relationship with Business in the Community to determine ways in which First can further support the community.
- To continue to expand our US yellow school bus services.

CHALLENGES

- To integrate consideration of environmental and social issues into the purchasing process.

5 YEAR GOALS

- To build assessment of social and environmental issues into the procurement process.
- To build relationships with our key suppliers to identify ways to improve our environmental performance and reduce our environmental and social risks.

Maintaining a continual dialogue with our stakeholders is essential to ensuring the success and growth of our business and is central to all we do. As a transport operator we have a wide range of stakeholders. Our key UK stakeholders are illustrated in the associated diagram. We maintain on-going dialogue with all our key stakeholders, some on a more formal basis than others.

OUR STAKEHOLDERS

OUR CUSTOMERS

In addition to formal customer surveys which are conducted on a regular basis in both our UK Bus and Rail Divisions we maintain regular dialogue with key customer groups such as the National Federation of Bus Users and the National Rail Passenger Council, and related groups such as Transport 2000 and Rail Futures with whom we hold stakeholder forum every 3 to 4 months. Similar meetings are held with our Rail User Groups and the Passenger Transport Executives.

In the Rail Division we have led the industry in establishing Stakeholder Advisory Boards for our rail companies, which represent a range of interested people who meet regularly providing the Operating Company with an outside view of their activities.

In the Bus Division we have established an on-going programme of Stakeholder fora. These present the opportunity to discuss local issues with stakeholders and are attended by senior directors of the Company. Representatives from local authorities, local businesses, statutory bodies, user groups and the media are encouraged to attend.

We also engage with our customers on a less formal basis through "Meet the Manager" sessions and use "mystery shoppers" to retain an outside view of our service.

In North America, where we provide a service under contract to our customers, we meet with them regularly through monthly or quarterly meetings depending on the business and contract. The engagement programme is designed to maintain a continuous assessment of the quality of service we provide and to identify any problems at an early stage of development.

The North American companies have in some cases begun to introduce more formal customer surveys on a trial basis and it is anticipated that these initiatives will continue.

GOVERNMENT AND LOCAL AUTHORITIES

A close working relationship with both national and local government is essential to ensuring delivery of our service. We maintain a constructive dialogue with government departments and the Strategic Rail Authority at a national level, and with Passenger Transport Authorities and local authorities at a regional/local level. Within the Bus Division we are actively working with the government to find ways of improving delivery of bus priority measures which will deliver faster and more reliable bus journeys.

More recently we have initiated dialogue with civil servants on how we can assist local authorities and national government in tackling aspects of social inclusion. To this end we have held transport and social inclusion seminars with stakeholder groups and interested parties with the aim of identifying how we can serve these communities better.

OUR STAFF

We have developed strong partnerships with our trade unions at both local and national level, leading to joint working across a range of issues including education, staff welfare, and employee benefits. We also undertake a wide range of formal and informal staff meetings and regular employee satisfaction surveys and staff focus groups to obtain employee feedback. The results of the staff surveys are an essential management tool, used to identify and prioritise areas for improvement.

An employee director sits on all our subsidiary company boards apart from Hull Trains and GB Railfreight. Every three years the company employee directors elect one of their number to serve as employee director on the plc board.

In North America we have arrangements within all the operating companies for regular communication between staff and their managers. Again, following the example in the UK a number of companies are trialing the introduction of more formal employee satisfaction surveys.



SafetyFirst

Safety is our number one priority. The safety of our staff and passengers is of fundamental importance to us and underpins everything we do.



03/04

ANNUAL TARGETS

Bus Division

- Reduce staff accidents by 12% averaged across all bus depots from 2002/03 figures.
- Reduce passenger and non-passenger accident rates from 2002/03 figures.

Rail Division

- No accidental passenger or employee fatalities.
- Reduce assaults on staff by 10% of April 2002 rate.

PROGRESS

During the last 12 months we have achieved a 9% reduction in staff accidents which is just short of our target.

Passenger accident rates have reduced by 9% and non-passenger accident rates by 10%.

Unfortunately during 2003/04 there was one passenger fatality, which was not found to be related to the environment at the station or any fault of the Train Operating Company.

The level of assaults on staff rose by 22% during the last 12 months and is 31% higher than the April 2002 rate. This has been driven by a large increase in the number of verbal assaults.

LONG TERM TARGETS TO BE ACHIEVED BY 2009

- * Reduce the risk of passenger major injury to no greater than 1 in 7.5 million passenger journeys.
- * Reduce the risk of employee major injury to no greater than 1 in 750 employees per year.

During the last 12 months there were 15 passenger major injuries which equates to a rate of 1 in 7.8 million passenger journeys already in line with the 2009 target.

There were 13 employee major injuries which equates to a rate of 1 in 570 employees. This is the same rate as 2002/03 and further work is required to meet the 2009 target.

* These targets are those set for the industry by the Railway Safety and Standards Board to be met by March 2009.

04/05

UK - ANNUAL TARGETS

Bus Division

- Reduce staff accidents by 15% averaged across all bus depots.
- Reduce passenger accident rates caused by vehicle incidents from 2003/04 figures.

Rail Division

- No accidental passenger or employee fatalities.
- Reduce assaults on staff by 10% of April 2002 rate.

LONG TERM TARGETS TO BE ACHIEVED BY 2009

- Major injury rates of no more than 1 in 7.5 million passenger journeys.
- Major injury of employees no more than 1 in 750 employees per year.

US - ANNUAL TARGETS

First Student

- Reduce employee injuries by 15%.
- Reduce vehicle collisions by 25%.

First Transit

- Reduce vehicle collisions by 15%.
- Reduce lost-time injury rate by 15%.
- Reduce passenger injury rate by 15%.

First Vehicle Services

- Improve the overall company safety performance.
- Reduce work related illness and injury rate.
- Improve employee awareness and involvement in the safety programme.

OUR SAFETY PERFORMANCE - UK OPERATIONS

BUS DIVISION

In the Bus Division safety improvement targets and initiatives are established by the Bus Safety Council. We also set safety targets for individual depots.

Staff Safety

We continue to work to improve our safety performance and reduce staff accidents and have achieved some significant improvements in performance over the last few years.

The number of major accidents within the Bus Division for the 2003/04 reporting period showed a reduction of 33% compared to last year. Lost time accidents showed a reduction of 21% and all accidents per 1,000 employees a reduction of 9% on last years figures.

Staff Accident Statistics

PER 1,000 EMPLOYEES

AVERAGE NO. OF ACCIDENTS



AVERAGE NO. OF LOST TIME ACCIDENTS



We continue to monitor the major factors which contribute to lost time accidents and record the number of lost time accidents attributable to physical assault, injury while driving and slips, trips and falls which represent our main causes of injury. We have reduced the number of accidents occurring in all these categories in particular injury while driving which may reflect the increased emphasis we have placed on route risk profile training and driver training.

Train and bus travel are amongst the safest forms of transport. The safety of our staff and passengers is of fundamental importance to us and underpins everything that we do.

OUR MANAGEMENT FRAMEWORK

The Group Chief Executive leads safety development within the Company through the Executive Safety Committee which is supported by a safety management structure. We actively promote third party input to the development of our safety programme. An external validator attends our Executive Safety Meetings every three months to provide input and comment. In addition we have recently appointed an external safety auditor to undertake annual independent health and safety audits in the Bus Division.

Two years ago our North American business established an equivalent Executive Safety Committee charged with giving greater leadership, clarity and definition to the safety culture of all our North American businesses. The committee is led by the President of FirstGroup America, who meets monthly with executives from each business to establish common benchmarks for safety reporting and actions that will reduce or eliminate safety issues confronting the businesses.

Both the North American and UK businesses report safety statistics monthly to the Executive Management

and plc boards via the UK Executive Safety Committee. The safety plans are closely linked, driving improvement through the identification of both long and short-term safety targets and associated action plans.

We assess safety performance against a range of performance indicators including staff accident data and assaults on staff. We also record accident data relating to our passengers. Although bus travel is one of the safest modes of transport, where road traffic accidents do occur they are the major cause of injury to our passengers and staff. Improving passenger safety is central to our vision. We maintain records of every road traffic accident, whether or not it is our fault, including records of any passengers injured during the accident.

This year in the UK we have also been involved in setting up the Confederation of Passenger Transport's Safety and Environment Group. This group will collate accident statistics to assess trends and enable benchmarking of safety performances and will also allow the sharing of good practice across the bus industry.



Lost Time Accidents

CAUSE OF INJURY

PHYSICAL ASSAULT



PERCENTAGE DIFFERENCE 22%

INJURED WHILST DRIVING



PERCENTAGE DIFFERENCE 37%

SLIPS, TRIPS AND FALLS



PERCENTAGE DIFFERENCE 27%

Our initiatives for improving staff safety over the coming year are built around further standardising processes and training across the business to build a more consistent safety culture. More specifically these initiatives include:

- To review the organisation safety structure to focus on major risk areas and to deliver a more consistent health and safety management across the Bus Division.
- To develop and issue generic safe systems of work and risk assessments.
- To extend the implementation of the route hazard analysis procedure across the Bus Division.
- To roll out a structured delivery of core training to all staff.

Safety Training

As a major part of our safety strategy we continue to place a high emphasis on staff training and awareness. Alongside the core safety training a number of safety training programmes are on-going. These include: DVD based training on a variety of safety topics, risk assessment training, route risk profile training and safety management training.

Safety Auditing

To further improve safety performance each bus company has a programme of safety audits. In addition, a key component of safety management within the Group is a continuous programme of behavioural safety audits conducted by Senior Directors within the Company including the Chief Executive.

Our target for the past 12 months was 144 behavioural safety audits to be conducted by Senior Directors. We actually carried out 179 audits, which reflect the level of Senior Management commitment to this issue.

Physical Assaults on Staff

Like many other public service sector employees, our staff face the risk of being assaulted at work by members of the public. The reasons for this remain under on-going review. For the period 2003/04, the number of physical assaults on staff leading to lost time showed a reduction for the third year running, with current figures showing a 22% reduction on those for 2002/03.

Number of Physical Assaults on Staff Leading to Lost Time



Over the last 12 months we implemented further control measures and initiatives to help combat assaults on staff including:

- conflict avoidance training,
- installation of cab screens to protect drivers,
- greater liaison with the police,
- greater use of CCTV, and
- a more determined approach to both civil and criminal prosecution of assailants.

These actions, together with further initiatives, such as changes to routes and physical changes to bus designs, improve staff protection and deter staff-passenger conflicts.

However, as long as there remains a risk of physical assaults on our employees we will look at new ways of improving their safety. A policy on managing the risk of assaults has been devised to adopt consistency of approach throughout the Bus Division. The policy takes forward the good practice and initiatives already established.

22%

reduction in physical assaults on staff in the UK Bus Division.

Bus Passenger Safety

Road Traffic Accidents

PER MILLION MILES



Bus Passenger Accidents

PER MILLION PASSENGER JOURNEYS



The number of road traffic accidents reduced by 7% in the last year and the number of passenger accidents per million passenger journeys reduced by 9%.

Examples of initiatives we have implemented to improve passenger safety include:

- Review of driver training and assessment standards to improve emphasis on safety issues
- Video route training is being piloted and if successful, it will be rolled out to the rest of the Bus Division.
- Bus design and specification remains under review to maximise passenger comfort and safety.

Alcohol Testing

Our target for random alcohol testing over the past 12 months was set at 10% of employees. In the year to date, 14% of employees have been tested with 99.83% of the tests producing negative results. In addition:

- 122 "for cause" tests (91% negative), and
- 71 "self-tests" (97.2% negative) were carried out.

Route Risk Assessment

Last year we reported on the introduction of a pilot Route Risk Profile project (now called Route Hazard Analysis) which was undertaken in Bristol and South Yorkshire. The Route Hazard Analysis involves assessing bus routes to identify hazards along the road such as steep cambers, parked cars, schools etc. This information is then incorporated into the driver training programme. This project proved highly successful and we are now in the process of rolling it out across the Bus Division. We have developed training programmes and toolkits to support the roll out and progress will be carefully monitored to ensure that the major risks are identified and controlled.

RAIL DIVISION

The licence of each Train Operating Company is dependent on having a Railway Safety Case. They are approved by the Health and Safety Executive and fundamentally describe the operation and our competence and capability to run a safe railway. They include such things as our maintenance policy and full details of how we manage our drivers.

The Railway Safety Case is supported by documents such as the Annual Safety Plans, which provide analysis of safety performance, set long and shorter-term targets and assign actions to deliver the continuous improvement we seek which

are reflected in each Train Operating Company Safety Plan.

During 2003/04 there have been a number of changes to the businesses we operate including the introduction of TransPennine Express and the acquisition of GB Railways. Safety data for these franchises is incorporated into the data reported below from the date First took over the franchise. The data presented below is however normalised against staff numbers which will take account of these changes in the year on year comparisons.

The targets in the Annual Safety Plans are driven by and reflect industry targets set by the Railway Safety and Standards Board.

Staff Safety

Staff Accidents Statistics

PER 1,000 EMPLOYEES

ALL ACCIDENTS



LOST TIME ACCIDENTS



Within the Rail Division we have achieved reductions in employee lost time accidents of 15% during the last 12 months. Total accidents per 1,000 employees have reduced by 4%. We aim to continue to reduce staff accidents through consistent delivery of risk control measures and implementation of new initiatives which include gaining an improved understanding of the causes of accidents, in particular relating to health, fatigue and stress. This information can then be used to identify specific actions in relation to these issues.

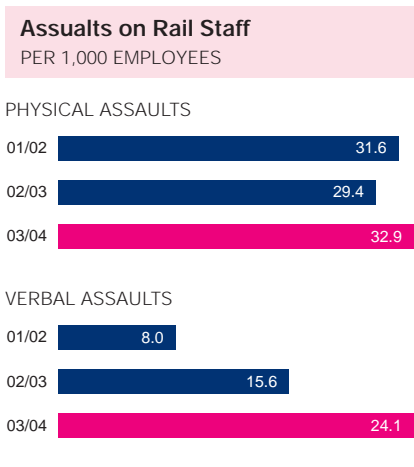
Safety Auditing

We wholeheartedly support the objectives Lord Cullen expounded in his report into the Ladbroke Grove accident of the need for visible senior management commitment, safety leadership, the involvement of staff at all levels and good communication. These issues are very much the foundation of our safety management approach.

In the same way as for the Bus Division, we maintain a continuous programme of safety audits conducted by senior Directors including the Chief Executive. All our Executive Directors, Rail Division Directors and Train Operating Company Directors have received training in carrying out these audits. The arrangements for auditing are detailed in each Train Operating Company's Railway Safety Case. We believe that spending adequate time discussing issues with front-line staff is vital to delivery and maintenance of the safety culture of the Company.

The effectiveness of the safety strategy is monitored through independent audits, the staff satisfaction surveys described in the team chapter and discussions held with staff and other stakeholders during behavioural safety audits and meetings with passengers.

Assaults on Staff



The risk of assault is also an issue faced by our rail staff. Unfortunately the number of physical and verbal assaults experienced by our rail staff this year has increased due to a significant increase in verbal assaults. The frequency at which our staff are assaulted while carrying out their work is of great concern to us. We do not accept that verbal or physical abuse is to be expected in customer facing roles and take all action possible to protect our staff.

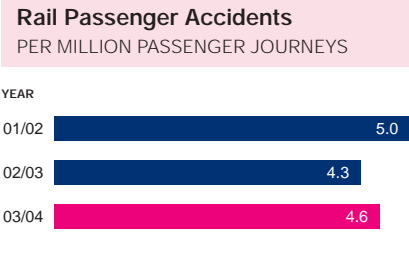
34% of all assaults involve violence with 21% being pushing, shoving or spitting, 1% relates to racial or sexual abuse.

Within the UK Rail operation close liaison takes place with the British Transport Police. Antisocial behaviour orders are being used increasingly frequently for known offenders, with some success. Problem trains or stations are targeted for additional security. This may include provision of security guards or extra staff, improved radio communication within trains or CCTV coverage.

All our customer facing staff receive conflict avoidance training to assist them in dealing with potential conflict situations.

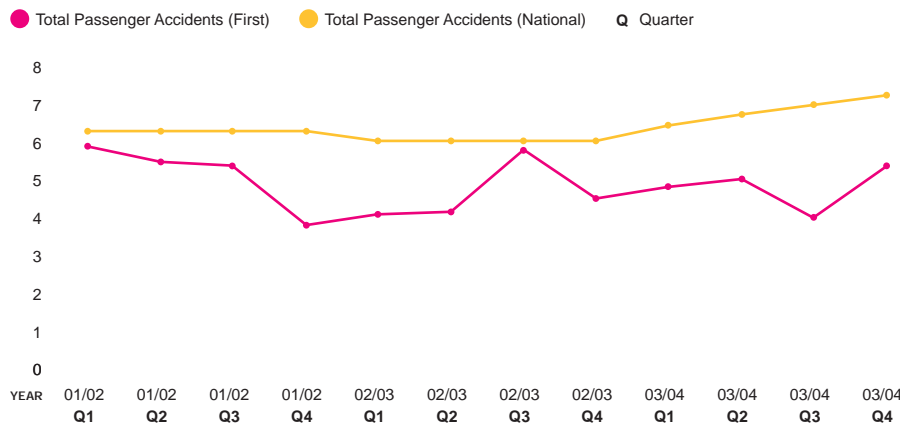
Rail Passenger Safety

The total number of passenger accidents has risen slightly when compared to last year's figures although there is a longer term falling trend.



Our passenger accident rate however compares well against other operators and lies consistently below the national rail rate.

All Passenger Accidents PER MILLION PASSENGER JOURNEYS



Unfortunately during 2003/04 there was one passenger fatality at a station, which was not found to be related to the environment at the station or any fault of the Train Operating Company.

We believe there are actions that we can take to help reduce unsafe behaviour by passengers resulting in accidents to themselves or others. For example First Great Western has formed a number of station safety and security teams who will develop and implement new passenger accident and security initiatives. These include the plotting of accidents to identify hot spots and the setting of walking times from ticket office to platforms to be communicated to passengers to stop them rushing.

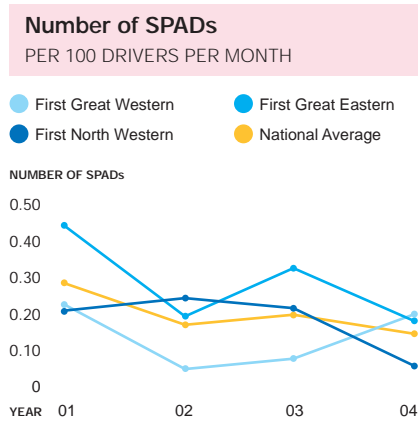
From 1 April 2004, First North Western will introduce quality checks on all accident reports to review consistency of managers' actions, to develop more proactive approaches to accident safety management.

Risk of Train Accidents

The control of risk of a catastrophic train accident continues to be a key priority within the Rail Division. First Great Western trains, alone amongst high-speed operators, are fitted with Automatic Train Protection systems (ATP), the most effective train protection system available. Company policy is not to operate a train if the ATP system is faulty and to terminate a train en route if a fault develops. The Train Protection and Warning System fitment programme for all passenger trains is complete.

The First Great Western driver-training programme has recently been awarded the National Training Award for excellence reflecting the way it provides drivers with the knowledge and skills needed to undertake their duties in a safe and competent manner.

Signal Passed at Danger (SPADs)



We are a leading industry player in reducing SPAD's across the rail network and we are proud to announce First North Western won the prestigious HSBC Rail Business Awards 2003 - Rail Safety and Security Excellence for the introduction of their SPAD management programme and performance.

Part of our SPAD reduction programme has been the introduction of three driver simulators procured for First Great Western. These are now in place and being used for assessing and training drivers on driving techniques for situations they would rarely encounter in their normal work such as defective on-train equipment, flooding or animals on the line.

Drugs and alcohol testing

As a further measure to improve passenger safety we now perform random tests for drugs and alcohol on our key safety staff. Our target for 2003/04 was to test 7.5% of staff which we met for all Train Operating Companies.

| FNW | FGE | FGW |
|------|------|------|
| 7.85 | 7.92 | 9.38 |

Security

We are conscious of the need to remain alert to possible security threats related to the operation of our railways. We receive regular advice via the Department for Transport's security body TRANSEC on alert and threat levels as well as measures to reduce the risk. TRANSEC have, for a number of years, carried out audits of rail facilities and their delivery of these risk controls.

We continue to consider appropriate responses to security risks and adapt our arrangements accordingly.

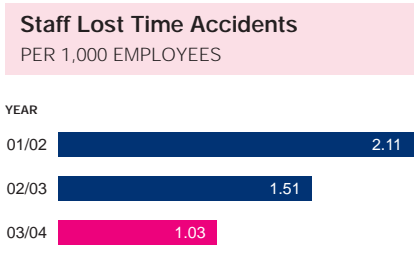


OUR SAFETY PERFORMANCE – NORTH AMERICAN OPERATIONS

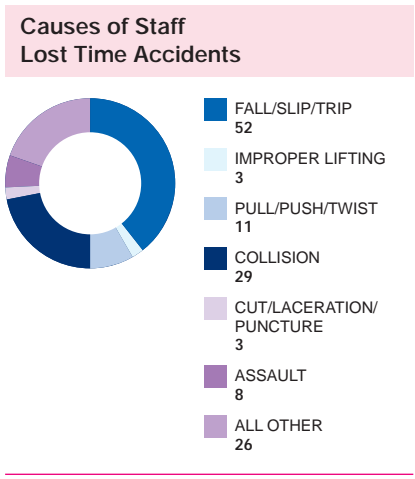
FIRST STUDENT

Staff Safety

During the last 12 months we have been working hard to improve our safety performance and have achieved some significant improvements with a 32% reduction in lost time accidents.



As part of obtaining a better understanding of our accident profile we also monitor the causes of lost time accidents. From the data it can be seen that fall/slip/trip is by far the most common cause of accidents followed by accidents caused during collision.



This information is used to focus our training activity and safety initiatives. Proposed initiatives for the coming year include:

- Increased awareness training regarding the dangers of wet, untreated and uneven surfaces.
- Marking walkways in our yards more clearly directing the flow of pedestrian traffic.
- Creation of a “Wall of Fame” at each location to place the picture of each employee who is accident free for one year or more and those who submit safety improvement suggestions that are adopted.

Staff Training

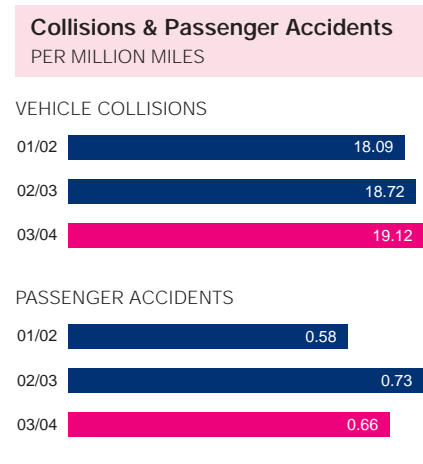
Training is a key component to any successful health and safety strategy and has been a main focus for First Student this year. We place a high emphasis on staff training and awareness and invest heavily in safety training, incentives, programmes, materials, tools, processes and personnel. Regular “tool box meetings” highlight improvements and safety issues and ensure that the proper procedures are in place.

Our maintenance staff receive a programme of on-going training delivered through a full time training manager. Issues covered include vehicle servicing, record keeping and safety issues including handling of hazardous materials.

Passenger Safety

Transporting over 1 million students each day across the USA and Canada the safety of our passengers is of the highest priority and is a key concern to our stakeholders.

The rate of vehicle collisions per million miles, although low, has increased over the past three years. Reducing vehicle incidents is therefore a key element of our improvement programme for the coming year. Part of this programme is the extension of defensive driver training through the Smith System Defensive Driving programme. We are increasing the number of drivers certified to instruct this programme and the number of drivers who pass through it.



Designing our Buses for Safety

Our yellow school buses are amongst the safest passenger vehicles in the world being purpose built for the carriage of children. Safety features include:

- on-board video cameras for passenger monitoring,
- in some cases, an additional adult monitor to supplement the driver's presence on the bus,
- sleeping child prevention programmes,
- a safety bar which extends from the front bumper of the school bus when loading and unloading to prevent children walking in the driver's blind spot in front of the bus,
- an improved mirror system (with heating devices for those climates where necessary) on all new buses, and
- a new covering material for the bus steps that reduces slipping (for all new buses).

We also educate children on how to safely board and ride on a school bus.

Driver Suitability

Driver suitability has been a significant issue for us in recent years. We need to ensure that our drivers are suitable to work with children and drive our buses. To this end we have developed an Internet based programme containing driver data and employment information. The programme tracks the legal requirements of Federal, State and local authorities and significantly exceeds these requirements. The data is stored in an accessible electronic database easily audited at any time. The information has been entered for each location as part of a rolling programme completed in March 2004.

In addition our drivers are subject to an on-going programme of drug and alcohol testing where we randomly test employees each month. 50% of the driving workforce is tested annually for drug abuse and 10% for alcohol abuse. 10% of all other employees are tested each month for drug abuse. Each year First Student exceeds the minimum statutory testing requirements.

FIRST TRANSIT

First Transit produces annual safety plans specific to each location. This ensures a thorough understanding of site specific issues, but also allows an overview of safety issues within the Company as a whole. Each location annually reviews its plans and identifies high-risk areas. This information is used to construct a safety plan for the Company as a whole.

Staff Accidents

Over the last 12 months we have experienced a 27% reduction in lost time accidents compared to the April 02-March 03 reporting period. Key initiatives this year in relation to reducing staff accidents have been updating our safety manual and introducing monthly conference calls with all location Safety Managers to review performance and share best practice. In addition, an eight-hour training programme was conducted for all Safety Managers on Occupational Safety and Health Standards.

Staff Lost Time Accidents

PER 1,000 EMPLOYEES



Staff Training

An important part of improving safety performance is staff training. One of our main current initiatives in staff training is the START programme. This is a combined customer care and safety programme which aims to train staff to deal with physical or violent encounters with dissatisfied customers.

Passenger Safety

During the last 12 months we have seen a slight decrease (around 1.5%) in vehicle collision rates per 1,000,000 miles although passenger accident rates have increased by 3.4%.

Vehicle Collisions & Passenger Accidents

PER MILLION MILES

VEHICLE COLLISIONS



PASSENGER ACCIDENTS



To address the passenger accident rate increase, we have focused on improving the quality of our road accident investigations. The goal is to learn from our mistakes and implement measures to reduce the likelihood of similar accidents occurring again in the future. To assist us in this task we have introduced the "Tap Root" programme which is software designed to assist the user in objectively analysing the root cause of events. All our Safety Managers have now received training in the Tap Root programme and the software will be purchased in April 2004. It will be used to analyse the root cause of collisions with the aim of devising corrective action plans to reduce the risk of similar incidents occurring in the future.

FIRST VEHICLE SERVICES

First Vehicle Services are not bus operators but perform a vehicle maintenance service for the public sector. The key safety performance indicator for First Vehicle Services is therefore staff accidents.

Staff Safety

In the same way as the other companies First Vehicle Services produce an annual safety plan. Our safety programme for the next year includes the following:

- Continuous inspection requirements to identify safety hazards.
- Accountability for continuous improvement of safety conditions and behaviour at all levels.
- Training programmes for staff on how to correct, prevent and protect themselves from all identified hazards.
- Reward and discipline measures to ensure success of plan.

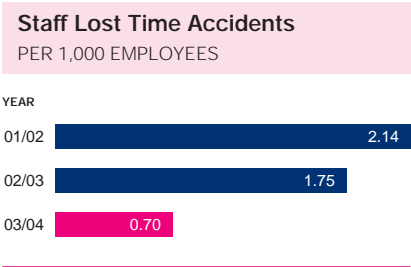
Last year's safety initiatives focussed on improved awareness and information to staff on safety related issues. Initiatives have included:

- the use of Safety Alert Boards to share experience across the Company.
- transmission of daily Safety Messages to maintain and raise awareness of the issue of safety, and
- the formation of a National Safety Council.

The formation of the National Safety Council has been an important development for us. The Council meets on a regular basis to continuously evaluate and improve the Safety Plan and identify ways to improve it. The Council also has a key role in evaluating and assessing accident data. In order to determine:

- If an incident was preventable or not.
- Root cause of the incident.
- Corrective action necessary to eliminate a future hazard.
- Training necessary to eliminate possibility of future incidents.

Our initiatives to improve staff awareness have contributed to an overall reduction in staff lost time accidents of 60% over the last 12 months.



Next year we will continue to build on the initiatives started this year, in particular in relation to continuing to increase staff awareness of safety related issues.

Initiatives for next year include:

- Expanded online safety training.
- Improved safety incentive programmes.
- Expanded and revised safety training library programme.
- Expanded safety audit programme.
- Enhanced programmes to promote employee involvement.

60%
reduction in staff lost time accidents in First Vehicles Services.

EnvironmentFirst

As a public transport operator we have a major contribution to make to improve the environment we live in by presenting people with real travel alternatives.



03/04

ANNUAL TARGETS

- Reduce energy use by 10% from the 2002/03 figures.
- Reduce overall waste arising by 5% on 2002/03 figures.
- Extend the supplier audit programme to a further 4 companies including our uniform suppliers on whom we will also undertake a social audit.
- Achieve ISO14001 accreditation on one further company within the Group.
- Audit all our companies and depots against the requirements of the Environmental Management Manual.
- Integrate the US operations into our environmental management framework.
- Increase our training levels by 10%.

PROGRESS

- Achieved** - 10.5% reduction in the Bus Division.
- Achieved** - a reduction in overall waste arising in the Bus Division of 7%. Waste data for the Rail Division is reported for the first time.
- Achieved** - Environmental audits were conducted on our antifreeze supplier, a bus refurbishment company and four scrap vehicle dealers. We also carried out an environmental & social audit on our uniform supplier.
- Achieved** - Our South Yorkshire Bus Operating Company was accredited in 2004.
- Achieved**
- Achieved in part** - Data reporting systems have not yet been unified.
- Achieved**

04/05

UK - ANNUAL TARGETS

- Reduce our energy use by 5% on 2003/04 figures.
- Increase our recycling levels by 5% on 2003/04 figures.
- Reduce our water use by 5% on 2003/04 figures.
- Achieve ISO14001 accreditation on one further company within the Group.
- Continue to integrate US operations into our environmental management framework.
- Integrate the new rail franchises into our environmental management framework.
- Increase staff environmental training levels by 10% on 2003/04 figures.
- Introduce a green procurement programme including training of our purchasing staff.

US - ANNUAL TARGETS

- Develop a Company-wide list of approved chemicals and vendors.
- Maximise the amount of waste oil which is sent for re-refining.
- Eliminate the generation of hazardous waste where we can.
- Monitor waste arising and final disposal point.
- Investigate ways we could calculate the emissions from our buses.

OUR ENVIRONMENTAL PERFORMANCE - UK OPERATIONS

OUR MANAGEMENT FRAMEWORK

Our environmental management framework is now well established. Operating Company and Divisional environmental representatives report to the Environmental and Property Projects Director who reports to the Board. Minimum standards for environmental management are established through the Group Environmental Management Manual but a growing number of local operating companies and divisions are now developing management systems in line with ISO14001. Our London Bus Operating Company and First Great Western Train Operating Company are already accredited to ISO14001 and this year they were joined by our Operating Company in South Yorkshire. Further companies are in the process of developing similar systems.

Auditing

Each Bus and Rail Operating Company is audited once a year by an internal audit team. The audits include interviews with the Managing Directors and Environmental Managers of the Company as well as carrying out a detailed site inspection. This programme of internal auditing helps to identify areas for improvement and promotes and encourages interaction with the local operating companies.

We also audit each bus and rail depot against the requirements of the Group Environmental Management Manual. These audits focus on legal compliance, levels of staff awareness, risk management practices, energy usage, waste management and general housekeeping.



Training

Last year's environmental audits of our Operating Companies and depot sites identified a lack of environmental awareness at the shop floor level. To support our awareness programme we produced a First Environmental Awareness Training DVD/video, filmed at our own bus and rail locations. The DVD/video programme shows both good and bad environmental practice and this training is supplemented by a multiple-choice test paper. In addition to the awareness DVD, a number of the depot based staff have received training this year in energy management and environmental auditing.

Originally, our training programme was aimed at management and engineering staff. However, this year, we have expanded our programme to include our drivers and other depot staff. During the last 12 months, 6,324 employees in the Bus Division have received some form of environmental training, compared with 3,651 staff the previous year. In addition, we have trained 305 employees in the Rail Division.



Prosecutions and Incidents

We have not been prosecuted for any environmental incidents for the second year running. Our incident reporting procedures are well established and we continue to see an increase in the number of incidents reported which we believe reflects ever-increasing awareness of the incident reporting arrangements rather than a worsening trend in the number of environmental incidents. A total of 65 incidents were reported across the Group's UK operations which ranged from minor contained losses of a few litres of diesel to the largest fuel loss of 24,000 litres of diesel at First Great Western's St Phillips Marsh depot which was contained in the site interceptor and disposed of by the waste management contractor.

Spill awareness training and spill response training is a core element of our environmental training programme and our incident reporting procedures are contained in the Group Environmental Management Manual which companies are audited against on an annual basis.

This year we received 10 environmental complaints with all but one relating to noise and fumes. We responded to all complaints proactively and none have led to any further action.

ENVIRONMENTAL AWARDS

We received the following environmental awards in recognition of our commitment to the environment:

Green Apple NATIONAL CHAMPION Award

For the third year running

Bus Industry Award

For environmental achievement

Network Rail Environmental Award

For the second time in three years

OUR ENVIRONMENTAL PERFORMANCE

We present below our environmental performance for the period March 2003 to April 2004. The rail data does not include performance data for First Great Eastern where our records are incomplete due to the timing of the franchise changes.

RISK MANAGEMENT

Fuel Storage

Fuel storage and use is one of our main high-risk areas in respect of environmental management. We have now decommissioned all underground fuel tanks apart from three, which cannot be moved due to space constraints. These are fitted with leak detection systems or are routinely tested and certified. All our fuel storage and delivery areas have been audited against the requirements of the Control of Pollution (Oil Storage Regulations) 2001. The majority of the proposed work from these audits has now been implemented and the progress is regularly checked and monitored. We also have an on-going programme of training and awareness for our staff responsible for fuelling and fuel delivery supervision and specific procedures are in place in conjunction with the fuel supplier to reduce the risk of fuel loss during delivery to as low as reasonably practicable.

Design for the Environment

As part of the depot development process, First's Depot Design Specification document specifies that architects must endeavour to reduce the environmental risks on sites and to increase the energy efficiency of buildings. Additionally, we are currently exploring the following initiatives:

- The use of solar collectors for preheating of water for heating.
- Combined heat and power units.
- Rain water collection and re-use.

FNW LAUNCH ENVIRONMENTALLY-FRIENDLY SHELTERS

First North Western, in partnership with Lancashire County Council, have launched the "eco-shelter". The shelters are heated and lit by wind and solar power and will be used by customers waiting at platforms. The first shelter will be installed at FNW-managed Church and Oswaldtwistle station in Lancashire.

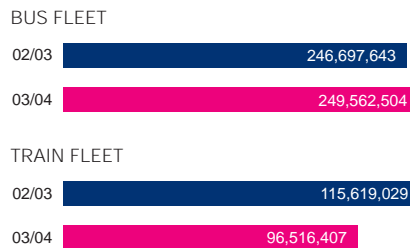


RESOURCE USE

Fuel Use

All our buses - apart from those involved in alternative fuel trials - operate on ultra low sulphur diesel, our train fleet is mainly diesel powered. Our total fuel usage divided between our Train and Bus Operations is shown below.

Diesel Usage LITRES PER ANNUM



This year we introduced an initiative aimed at bus drivers to minimise idling time and to encourage greater awareness of fuel use. The average fuel efficiency of our bus fleet over the last 12 months was 0.39 litres/km, compared to 0.38 litres/km the preceding year.

We are committed to supporting research into the use of alternative fuels and continue to operate a number of gas and electric buses.

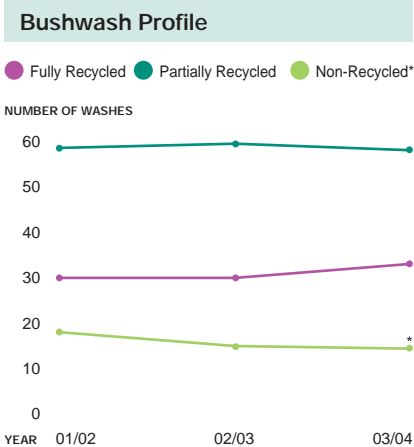
Since January 2004 we have also been operating three Hydrogen Fuel Cell buses in London. A group of drivers has received special training in fuel cell technology, vehicle safety and warning systems, and a purpose built maintenance workshop has been constructed at the First London depot at Hackney.

This trial will continue for two years and is part of a broader project piloting the use of these distinctive zero emission vehicles in a number of European cities, Australia and Iceland. These buses use compressed hydrogen to generate electricity which drives the bus. Energy is required to generate the hydrogen but this technology could remove reliance on fossil fuels to power our vehicles if sufficient hydrogen can be generated using alternative energy. This is the first large scale trial of this technology and we will continue to report on these developments.

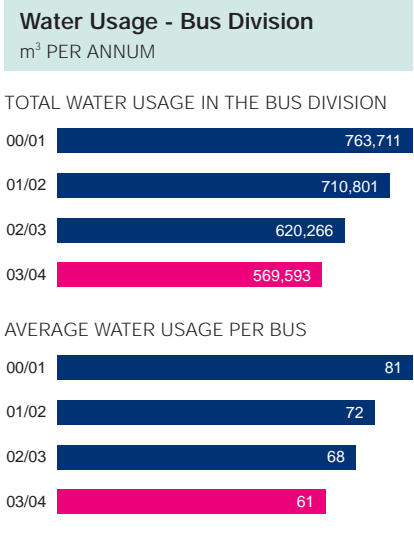


Water Use

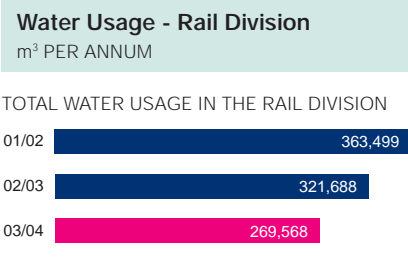
The main use of water within the Group is for vehicle washing. We have now replaced almost all our bus washes with either full or partial water recycling facilities. This, combined with on-going awareness programmes and greater vigilance in monitoring water usage, has led to a further reduction in water usage of 8% during the past 12 months in our UK Bus Division. Normalised data for our Bus Division indicates that over the past four years the water usage per bus has reduced from 81 to 61 m³, a 25% reduction.



*Of the non-recycled units 11 are "walk round" units which are used at our smaller depots



Smart Metering
 Next year our Glasgow Bus Operating Company is proposing to undertake a pilot study involving the instalment of the new technology "Smart Metering". This technology allows water consumption data to be transmitted direct from meters to a dedicated website and be processed into graphical form. This will vastly enhance our understanding of water consumption patterns helping to target opportunities to achieve reductions in water usage. We will continue to report on these developments.



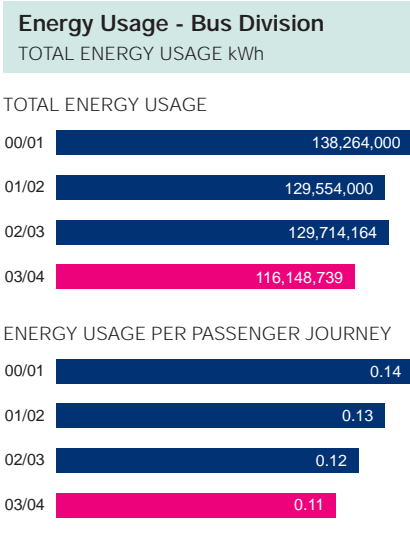
For the Rail Division it is difficult to make year on year comparisons of the water usage data due to some significant changes in the management of our operations during the last 12 months. Three of our First North Western rail depots were taken over by other operators during the last 12 months and only 2 or 3 quarters data is included for these depots. The Rail Division has since undergone further changes with the addition of new franchises to the Group. Comparison of year on year trends can therefore not be made and next year we will look at ways to normalise the data for the Rail Division to enable year on year comparisons to be made in the future.

Energy Usage

We continue to try to reduce energy usage in our depots. Our target for energy reduction last year was 10% and we are delighted to declare that this target has been met. Over the last year, we have achieved a 10.5% reduction in energy in our Bus Division.

To provide an incentive to staff to participate in energy saving initiatives, we continue to award a quarterly prize of £1,000 to the biggest energy savers amongst our depots, supported by a £6,000 'best of the best' annual prize. This year, a total of £30,000 was awarded to the best performing depots.

This year we also undertook a programme of energy training for staff tasked with managing energy reduction initiatives on sites. These training sessions were aimed at assisting our depots to develop their own energy action plans and implement schemes to deliver better energy efficiency.



Energy data is reported as the combined gas and electricity usage at each depot expressed in kilowatt hours.

One of our Prize Depots

Our Kirkstall depot in Leeds, achieved significant gas and electricity reductions by removing unnecessary lamps, installing passive infrared sensors, re-activating previously unused switching controls, replacing some of the high bay lighting with more energy efficient lamps and by raising general awareness using posters and signage. In addition, a water free urinal sanitation system 'Whiffaway' has been fitted to further reduce water usage.

Energy Usage - Rail Division

kWh PER ANNUM

TOTAL ENERGY USAGE



In the same way as for water consumption, year on year comparison of the Rail Division figures is not possible due to changes in the number of facilities reported on during the year, again we will be aiming to develop ways to normalise this data for the future.

FLEET MANAGEMENT

We operate a fleet of over 9,300 buses and 577 train vehicle units, which impact on air quality through the emission of combustion gases and also use significant quantities of fuel. We can control the emissions from our fleet in a number of ways, through the types of fuel and engines we use, the age of our fleet and through ensuring high standards of maintenance.

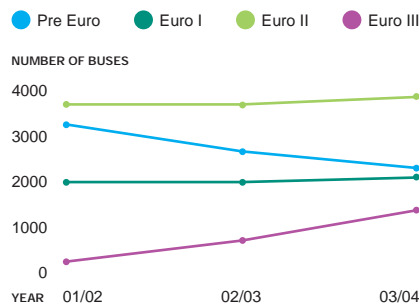
Our Engine Profile

The Euro standards introduced in the 1990s continue to be the target for engine emission reductions. The Euro III level which came into force in 2000/01 saw further reduction requirements for all four of the main pollutants (hydrocarbons, carbon dioxide, nitrogen oxides and particulate matter).

Data published by the Confederation of Passenger Transport indicates that a Euro II engine fitted with a catalytic trap and using ultra low sulphur diesel fuel produces emissions of the same order of magnitude as gas buses. Our policy is to reduce the emissions from our diesel engines to as low as practicable through investment in new engines, the fitting of further emission control technology and ensuring that our maintenance and fleet management programmes are effectively managed. We specify all our new buses with either a catalytic exhaust or a particulate trap enabling them to perform at emission levels lower than the standards specified in the current legislation. A catalytic converter will reduce particulate emissions by a further 50% and a particulate trap by a further 90%.

Last year we invested over £70 million in new vehicles across the Bus Division and we intend to invest a further £60 million in new vehicles next year.

EURO Engine Profile



Our continued investment in new vehicles is clearly reflected in our fleet profile. There has been a 49% increase in the number of Euro III engines in our fleet and Pre Euro engines now only form 23% of the fleet. In addition 24% of our vehicles are fitted with catalytic converters and around 7% with particulate traps.

The average age of our vehicles remains at around 8 years a reduction of 16% since the Company's first year of operation. Our objective is to maintain a fleet age profile in line with government's targets.

Maintenance

It is our policy to operate a comprehensive maintenance programme that provides for regular inspection and servicing using trained personnel and detailed documentation. All vehicles are inspected to exacting standards as laid down by the requirements of the Vehicle and Operator Services Agency (VOSA) and our own internal performance requirements. We conduct internal audits on our procedures and standards as well as using external agencies such as the Freight Transport Association for an independent view.

Vehicle technology improvements, such as on-board diagnostic instrumentation, enable us to more accurately monitor the performance of our vehicles and ensure that engines and transmissions are operating within their design parameters. Emissions and fuel usage are better controlled as a result. We continue to work closely with lubricant suppliers to maximise the benefits available from new products with the aim of extending oil drain intervals, whilst at the same time improving unit life and fuel consumption.

VEHICLE EMISSIONS

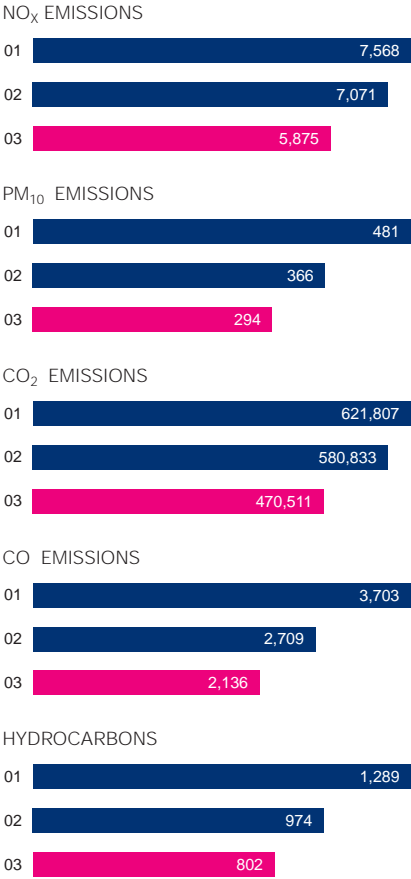
Emissions from Our Buses

The emissions from our bus fleet will continue to reduce through on-going investment in new vehicles with low emission engines. Calculating representative emissions from a vehicle fleet as large and diverse as ours is a difficult process as so many factors influence the emissions that occur. Each bus will have a slightly different emissions profile depending on for example, the nature of the journey, the size of the bus, the type and make of engine and the vehicle speed. Establishing emission factors which can be applied across the fleet is therefore difficult.

Based on a study we conducted last year we continue to calculate emissions using emission factors contained in the National Atmospheric Emissions Inventory (NAEI) database (www.naei.org.uk).

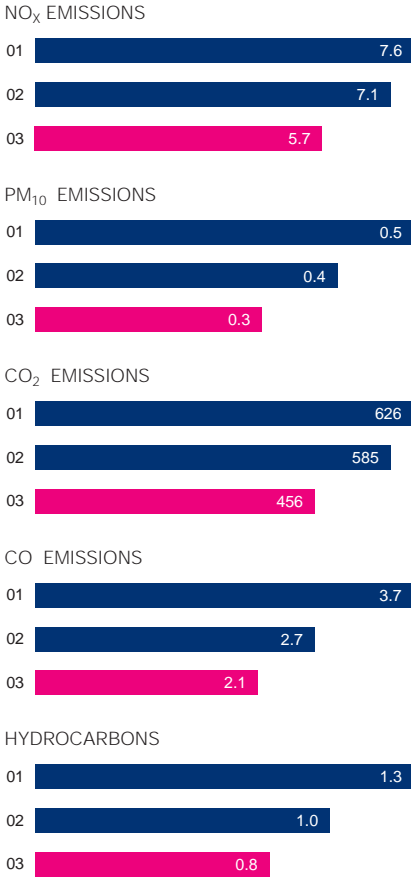
The NAEI database contains emission factors for each of the pollutants reported below for all Euro engine types and Pre-Euro engines. The calculations have been made by taking the number of buses we operate in each engine category in the fleet and multiplying these by the appropriate emission factors found in the database. The emission factors are also adjusted for the average operating speeds within each of our Operating Companies as well as the vehicle mileage.

Estimated Emission Levels from our Bus Fleet
TONNES PER ANNUM



This data runs from January to December for each specified year.

Estimated Emission Levels from our Bus Fleet
PER PASSENGER JOURNEY



This data runs from January to December for each specified year.

Auditing our Suppliers

Two years ago, First started a "green supply chain" audit programme assisted by an independent auditor. The purpose of these audits is to assess the environmental performance of our key suppliers and contractors, and to identify mutual ways of improving environmental performance. Over the past 12 months we have

carried out environmental audits on our antifreeze supplier, bus refurbishment company and four scrap vehicle dealers. We also carried out an environmental and social audit on our staff uniform supplier. The findings are reported to the Group Procurement and Engineering department, who address any issues raised.

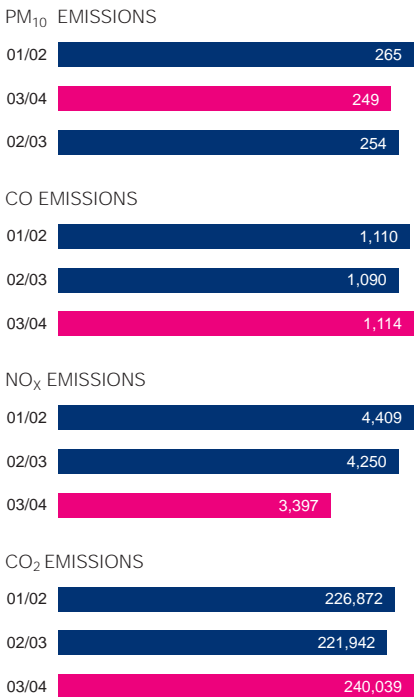
One of our objectives for the coming year is to strengthen our green procurement strategy to ensure that any environmental and social issues are systematically considered. This will be achieved through a series of awareness training sessions with procurement and environmental staff.

Rail

To calculate rail emissions we have used a combination of NAEI factors and data provided by our vehicle manufacturers.

First North Western is a regional service and the emission calculations have been undertaken using the emission factors for rural railways contained in the NAEI database.

Estimated Atmospheric Emissions From Diesel Powered Train Fleet
TONNES PER ANNUM



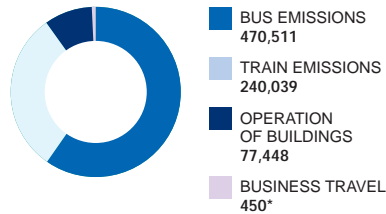
In the case of First Great Western we operate high-speed inter-city services where Valenta engines are fitted to 77 power cars and VP185 engines fitted to 7 power cars. In addition we operate a number of Adelante Class 180 trains. Emission factors in grammes per mile have been obtained for these different engine types from the vehicle manufacturers and these have been used to calculate the emissions from the First Great Western fleet. The combined emissions for the diesel trains in our First

Great Western and First North Western fleet continue to show reductions in particulates (PM₁₀) and nitric oxides (NO_x) due to investment in new rolling stock which meet tighter emission standards. Due to the introduction of additional rolling stock our total mileage has increased which has contributed to the slight increase in carbon dioxide emissions.

GREENHOUSE GAS EMISSIONS

Carbon dioxide is a significant contributor to the greenhouse effect. Our operations contribute to greenhouse gas emissions through the operation of our vehicles and the use of energy in buildings.

Carbon Dioxide Emissions 2003/04 TONNES



*The emissions from rail and air travel were calculated by Future Forests to be 450 tonnes of carbon dioxide using emission factors published by the Department of the Environment, Transport and the Regions in Guidelines for Company Reporting on Greenhouse Gas Emissions. www.defra.gov.uk/environment/envrp/gas.

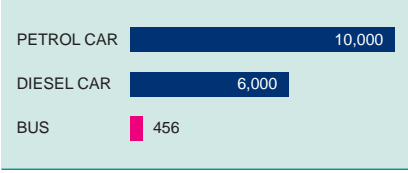
Business travel also contributes to carbon dioxide emissions and although we try to reduce the amount we travel through encouraging greater use of tele and videoconferencing; as a national and international operator a certain degree of business travel is inevitable. We have decided to offset the carbon dioxide emissions generated by air and rail business travel by planting trees to absorb the carbon dioxide and convert it to oxygen and wood. This scheme has been implemented through a partnership with Future Forests.

This year, we planted 1500 trees at two locations in Lancashire and Aberdeenshire as part of this initiative, the forests will be managed for a minimum of 99 years. Our annual Aberdeen Dinner and Dance was also made a Carbon Neutral event.

Comparing Carbon Dioxide Emissions Between Cars and Buses

Our services also offer part of the solution to reducing greenhouse gases as buses emit far lower concentrations of carbon dioxide per passenger journey than the equivalent journey by car. Comparison of CO₂ emissions from cars and buses clearly show the environmental benefits of bus travel.

Comparison of Carbon Dioxide Emissions Between Car and Bus 2003/04 g PER PASSENGER JOURNEY



The calculated CO₂ emissions for buses represent the average emissions calculated for the period 2003/04. During this period First bus mileage figures and passenger statistics indicate that over a 100km distance 159 passengers will, on average, get on and off a bus and travel for varying distances. The figures for cars assume an average occupancy of two passengers travelling over the same distance.

These figures provide a crude comparison as a wide range of variables will affect actual emissions but they provide an indication of the order of magnitude of these emissions. Emission factors for cars are those given for an average car in the Guidelines for Company Reporting on Greenhouse Gas Emissions (www.defra.gov.uk/environment/envrp/gas).

Further Reducing Carbon Emissions

We are members of the Low Carbon Vehicle Partnership which is a forum of various stakeholders providing guidance to the government in achieving its target that by 2012, 600 or more buses coming into operation per year will be low carbon (defined as 30% below current average carbon emissions). The stakeholder group will be involved in advising the government on how they can achieve their objectives by identifying and partaking in low carbon bus demonstration and pilot projects.



Other carbon reducing initiatives taken by First include a project with the Greater Manchester Passenger Transport Executive that involves piloting buses which use an engine and battery pack. The engine charges the batteries when the bus is stationary which help power the bus, thus reducing the fuel usage of the engine leading to lower emissions. Operational trials are due to commence in April 2004.

This year we have also introduced new technology to further reduce particulate emissions. Manufactured by Pertech, this equipment removes harmful ultra fine particulates by up to 99% and soot mass by 70-80%. The equipment has the approval of the Energy Saving Trust. 220 units are being fitted to buses in Glasgow and other schemes are being considered.

WASTE MANAGEMENT

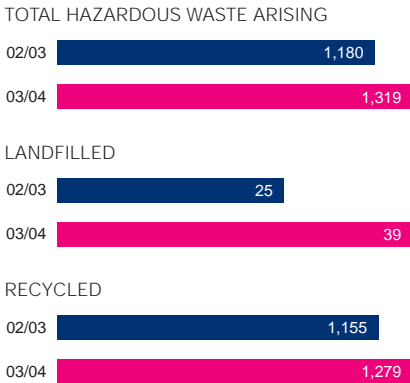
Broadly speaking we produce non-hazardous waste which is collected from our buses, offices and stores and special waste or hazardous waste arising from vehicle maintenance workshops. All types of waste are disposed of using licensed contractors.

We report for the second year on waste arising from the Bus Division and for the first year on waste arising from our Rail Division.

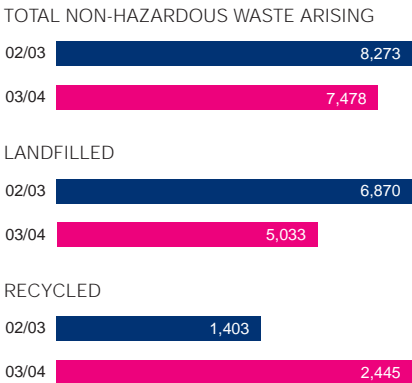
Excluding interceptor waste, approximately 97% of hazardous waste is recycled in our Bus Division and 95% in our Rail Division. In the Bus Division we have reduced the overall quantities of waste arising by 7%. Our recycling rate for non-hazardous waste has increased in the Bus Division from 17% to 33%.

This has been achieved through various recycling initiatives. A number of our larger depots now recycle paper, cardboard and/or glass. We also recycle scrap metal and aluminium at all our depots. Our Glasgow and Edinburgh depots recycle approximately 50% of their general waste via their waste contractor, Enviroscot.

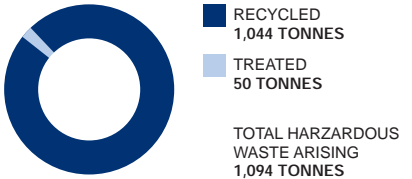
Bus Division Hazardous Waste Arising
TONNES PER ANNUM



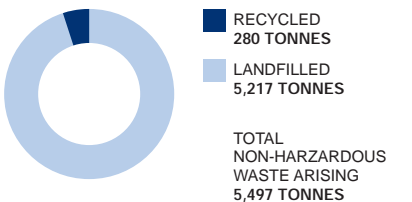
Bus Division Non-Hazardous Waste Arising
TONNES PER ANNUM



Rail Division Hazardous Waste Arising 2003/04
TONNES PER ANNUM



Rail Division Non-Hazardous Waste Arising 2003/04
TONNES PER ANNUM



FIRST ANNUAL ENVIRONMENTAL AWARDS

We introduced these internal environmental awards this year to recognise staff who contributed to improving the environment by carrying out tasks/duties over and above their general day to day tasks.



This year's Best Individual Achievement Award

was presented to Ian Wild, Engineering Manager at Halifax. This was in recognition of his work in developing innovative waste segregation and recycling systems for newspapers, vehicle glass, cardboard and compost.

The Best Rail Depot Award

was presented to St Phillips Marsh, Bristol. The depot staff at St Phillips Marsh now recycle newspapers removed from their trains, and the chemical usage in the cleaning process has been significantly reduced by introducing micro fibre cloths.

Award for the Best Operating Company in the Bus Division

was presented to Bristol. This Operating Company has made a tremendous effort in increasing the level of environmental awareness of staff, in segregating and recycling waste and by reducing their gas and water consumptions. First in Bristol also works in partnership with Bristol City Council by fitting particulate traps to vehicles to improve the air quality within the city.

OUR ENVIRONMENTAL PERFORMANCE - NORTH AMERICAN OPERATIONS

OUR MANAGEMENT FRAMEWORK

At Corporate level, responsibility for environmental issues is the duty of the Company President and Chief Executive Officer with assistance from the Vice Presidents of Safety and Maintenance. Regionally, responsibility lies with the Regional Vice President with assistance from their Regional Maintenance and Safety Managers. Localised responsibility for environmental issues lies with contract managers at each location.

First America has adopted the FirstGroup plc Environmental Management Manual, which sets the minimum environmental management requirements for subsidiary companies to meet US standards. This manual was completed in January 2004 and will be issued to all subsidiary company locations during the first half of 2004 through a series of company meetings. This document is supported by Tool Box manuals, which are colourful laminated information guides for staff relating to key engineering and workshop issues.

Auditing

Auditing is a key element of our risk management strategy. We ensure that all sites are audited prior to us leasing or purchasing them. Our environmental management consultants, Strata Environmental, perform an environmental audit for all new maintenance facilities prior to occupation and develop a checklist of environmental and compliance issues to be dealt with as part of commencing operations.

Strata also performs a site closeout audit when operations cease at a location to ensure we are left with no residual liabilities associated with the site.

In addition to pre-acquisition and due diligence auditing as described above we require auditing of our depots on a routine basis. Audit protocols have been developed as part of our Environmental Management Manual and will be available online for completion by the local managers.

Training

A key element of delivering an effective environmental management programme is the effective training of staff. Together with Strata, we have developed an environmental training programme that uses the Internet and other media to instruct employees on best environmental practices. The topics addressed include:

- Maintenance shop general environmental awareness;
- Storm water permitting and pollution prevention;
- Spill prevention and response;
- Waste management (Proper Waste Disposal; Hazardous Waste Handling and Recycling Natural Resource/Utility Conservation)

For sites with storm water permits, the Federal Clean Water Act requires annual training for responsible personnel, which is also delivered through Strata's training programme. All storm water permitted sites are instructed on use of the online training system. Responsible employees are periodically tested on their environmental compliance knowledge, with scores sent to our corporate offices for review and repeat instruction, if necessary.

Training in First Transit has been completed for all existing employees. First Student and First Vehicle Services training will be completed by the end of the first quarter 2005 and will be maintained Company-wide on an annual basis thereafter. All new employees will be required to complete training during their probationary period.



Prosecutions and Incidents

During the last 12 months we have had no environmental incidents which led to prosecution across our US operations. We have recorded 10 incidents which did not involve prosecution and where the spilled material was effectively contained and cleaned up at the location of the spill. The largest spill involved a loss of 51 gallons of motor oil, contained and cleaned up on the site.

We have a central database for recording prosecutions and incidents together with an assessment of the causes and incident analysis. Spill response plans are also held on this database where required by legislation. We have established a national network of spill response contractors that are available to respond to spill incidents that require the assistance of a third party. We have also developed and implemented a Standard Operating Procedure (SOP) for spill response for all locations, even if not required by legislation.

ENVIRONMENTAL PERFORMANCE

The management of environmental issues in the US is driven in large part by a strong legislative culture which requires permits for many environmental applications, primarily for those locations performing vehicle maintenance and/or fuelling onsite. These permits require renewal and periodic update and much effort is required to ensure that permits are current and valid at all our subsidiary locations. We have over 350 active maintenance locations including:

- 192 operating in First Student,
- 46 operating in First Transit, and
- 128 operating in First Vehicle Services.

To ensure our permits remain valid and up to date we work with Strata Environmental to ensure we comply with all Local, State and Federal environmental laws and guidelines. Strata has established an environmental database, EIOS, which holds key environmental and property information for all our locations. The database holds a range of information including:

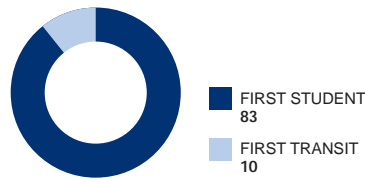
- Incident reports.
- Audit reports.
- The permits applicable to each location.
- Expiration dates.
- Copies of relevant permits.

This database is continually being upgraded and expanded to improve the information contained in it.

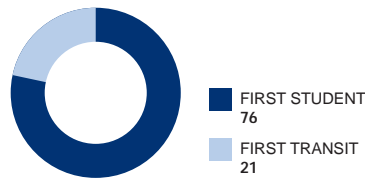
Fuel Storage and Management

Fuel storage and use is one of our main high-risk areas in respect of environmental management. We have fuel stored in both above ground storage tanks (AST's) and under ground storage tanks (UST's) as shown below.

Aboveground Tanks Storing Fuel



Underground Tanks Storing Fuel



We have implemented the following risk management strategy with respect to fuel storage and management:

- We install aboveground storage tanks at all new locations unless it is not practical to do so;
- We ensure our UST's meet federal and state standards, including performing line and tank tightness tests and installing leak detection, spill, and overfill prevention devices;
- We enrol in state UST remediation funds, where available, to limit out-of-pocket expenses in the event of a release that requires remediation; and
- We insure against "catastrophic" events for all UST and AST releases to cover any major remediation issues that might arise from our use of the systems.

Under the Emergency Planning and Community Right-to-Know Act (EPCRA), facilities that store more than 10,000 pounds of any hazardous material are required to report annually to the local emergency response authorities. This report details how much of a hazardous material is stored on-site, the storage location of the material, hazards associated with the material and emergency contact information for the Company. Most locations which have onsite fuel storage are covered by these requirements.

Strata Environmental maintain the inventory of hazardous materials stored at each site and are responsible for ensuring that we fulfil our obligations under these regulations.

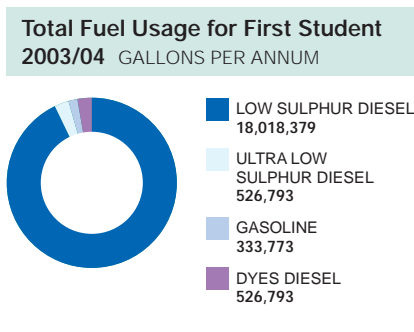
RESOURCE USE

Fuel use

At present, the main fuel used by First Student is standard low sulphur diesel. We are also using ultra low sulphur diesel in Los Angeles CA, Boston MA, and New Haven CT, as well as gasoline and dyed diesel in some locations. First Student is in the process of discussing the use of alternative fuelled vehicles and their uses in school transportation with the AQMD (Air Quality Management District) in Los Angeles and with the regulatory bodies in the state of Connecticut. A small fleet of condensed natural gas (CNG) school buses are also currently being tested in Los Angeles.

In First Transit the main fuel used is also low sulphur diesel. Some clients mandate ultra-low sulphur diesel and there are a few CNG, electric and hybrid vehicles.

The total fuel usage for First Student for the period April 02-March 03.



Chemical Use

In addition to large volumes of fuels we use oils, absorbents, antifreeze, parts washer solvent or degreasing agents, and cleaning chemicals across our operations. Since the formation of the Company in 1999, chemical purchasing has been managed at the local level but recent analysis by the maintenance and purchasing staff has shown that greater efficiency and standardisation of chemical use can be achieved through establishing a standard corporate chemical purchase list that would be delivered by a limited number of quality vendors.

The EIOS database indicates chemicals that are approved for use in company facilities and links them to the relevant Material Safety Data Sheets (MSDSs). The database also has the capacity to develop chemical inventories for each location to allow monitoring of chemical usage.

Energy and Water Use

We use energy in the management of our buildings and water for washing our buses. We do not record centrally our resource usage but are considering doing this for selected locations in the future. Initiatives to reduce resource usage are driven by individual depots. In First Student a number of maintenance shops have been fitted with waste oil heaters as an energy saving initiative. The heaters are fuelled by oil that is changed out of the buses, thus reducing the need for other forms of heating fuel and the removal of waste products from the location.

In some areas of our operations such as First Transit, many of our sites are leased and energy and water usage is included in the leasing arrangements and is therefore not recorded.

FLEET MANAGEMENT

We have differing opportunity to manage the emissions from our vehicle fleet business to business:

First Student is the company where we have most opportunity to influence our emissions as we own the majority of the 17,400 vehicle fleet.

First Transit operate bus services on behalf of our clients who own the vehicle fleet. We therefore have limited control over emissions in terms of selection of vehicle type or engine type as this has already been determined by our client.

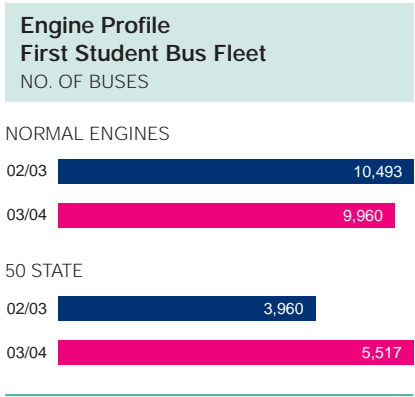
First Vehicle Services operate a maintenance business serving fleet, they do not operate any buses.

OUR ENGINE PROFILE

Vehicle Emissions

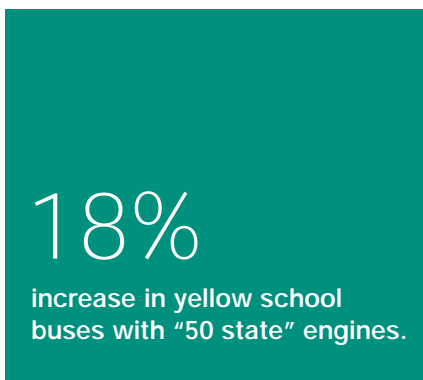
In First Student our policy is to reduce the emissions from our vehicle fleet through investment in new engines with lower emissions, fitting of further emission control technology where it is appropriate to do so and ensuring that our maintenance and fleet management programmes are effectively managed. Over the past three years, all buses purchased by First Student have included a "50 state" engine. This type of engine has been certified to operate in all 50 states and complies with the most stringent standards in the USA.

We have also begun to retrofit some First Student buses with catalytic converters and particulate traps. Catalytic converters further reduce emissions of particulates by about 50% while particulate traps can reduce particulates up to 90%. On average, we replace our buses every 10 to 12 years, upgrading specifications on new bus purchases to ensure continuous emission minimisation.



The proportion of the First Student bus fleet which have "50 State" engines has increased from 37% to 55% during the last 12 months. In addition, we have now fitted 285 vehicles (3% of our fleet) with particulate traps.

The National School Transportation Association (NSTA) is currently setting up a clean school bus pilot project to address the exposure of students to diesel fumes. First Student has applied to participate in this program.



WASTE MANAGEMENT

The legislation controlling the management of solid and hazardous waste is the federal Resource Conservation and Recovery Act (RCRA). Under this Act there are broadly three definitions of waste:

- Non-hazardous.
- Characteristic hazardous waste - which is defined as hazardous waste on the basis of its chemical properties.
- Listed hazardous waste - which is specifically listed in any one of four lists within the RCRA regulations.

One of our main aims over the past few years has been to reduce and if possible eliminate the production of hazardous waste at our facilities. Our main hazardous waste is spent parts washer solvents. We have now identified a parts washer which can recycle the solvent using a clay filter, allowing the solvent to be continually recycled. The only waste generated from this process is the spent clay filter which is not classified as hazardous waste and can be recycled along with used oil filters.

Last year we began a programme of rolling out the new parts washers to all our locations, 65% of our locations now use them. This initiative will eliminate an estimated 95% of the hazardous waste generated by our operating locations, the remaining 5% arises from sites where paint shops are in operation and generate waste paint and paint solvents. We anticipate that this initiative will produce an estimated saving of over \$400,000 within a 4 year period.

WASTE OIL

In the US waste oil and oil filters are not classified as hazardous waste as they are in the UK. Our waste oil has traditionally been collected and processed as a fuel blend for industrial applications. We have however recently investigated the options for sending our oil to companies which re-refine the waste oil to a standard which allows the oil to be reused as a base lube oil. This initiative started in California where a company called Evergreen Environmental now takes our waste oil and re-refines it. We are now looking to identify further contactors across the US who undertake similar processes. The proportion of our waste oil which we can send for refining will be limited by the number of available vendors but our aim is to maximise this.



MONITORING WASTE ARISING

We have recently undertaken a process of rationalising our waste management contractors moving towards a smaller number of contractors tasked with delivering a total waste management service including data reporting. Through extensive due diligence, we have identified seven vendors that we will utilise for waste recycling and disposal. One of the key qualifiers in the selection process was the new vendor's ability to provide documentation on a monthly basis that will enable us to control waste management on a central basis.

TeamFirst

We aspire to become the employer of choice in our industry through investing in our people and encouraging them to develop and grow to reach their full potential.



03/04

IMPROVEMENT OBJECTIVES

- Reduce staff turnover focusing on the highest turnover group of bus drivers and identify the key factors effecting turnover.
- Improve staff satisfaction as measured through our Think First employee opinion surveys.
- Improve management data on workforce diversity which will form the basis of setting targets and monitoring progress in the future.
- Continue to develop staff benefits to better meet the aspirations of current and potential future staff.
- Improve access to lifelong learning opportunities for all staff.

PROGRESS

Turnover amongst bus drivers has remained constant. We have however undertaken detailed research and now better understand the factors which contribute to staff leaving us.

We completed another Think First employee opinion survey during the last 12 months. This shows an overall improvement in staff satisfaction and commitment although there are still areas where satisfaction levels reflect major scope for improvement.

Our data reporting on diversity has improved but not consistently across the business. Positive steps have, however, been made in terms of age positive policies and ethnicity although we recognise there is further work to do in this area.

We have further developed our staff benefits such as brokering a pension deal with the trade unions and expanding Credit Union membership for our employees.

During the last 12 months we have increased our learning centres from 9 to 29 and over 30% of our Bus Division staff now have direct access to them.

04/05

UK - ANNUAL TARGETS

- Reduce UK bus driver turnover by 3%.
- For 40% of our bus drivers to hold an NVQ qualification by year end 2004.
- Increase the proportion of staff with access to learning centres.
- Develop and start to implement a Group-wide programme for executive leadership development and senior management training.
- Develop and issue Group-wide people policies and procedures.
- Review the human resources data and management information systems and implement common standards to achieve reliability and consistency.
- Establish a recruitment contact centre for UK Bus.

US - ANNUAL TARGETS

First Student

- Continue to conduct employee satisfaction surveys on a targeted basis.
- Target selected locations and regions to reduce employee turnover.

First Transit

- Target selected locations to achieve a reduction in employee turnover.
- Develop Company-wide policies and procedures for management recruitment.

First Vehicle Services

- Undertake our first Company Employee Satisfaction survey.
- Achieve Blue Seal certification for selected locations.

UK OPERATIONS

OUR PEOPLE-A VISION

Investment in our people is key to the success of our business. As a company employing some 33,300 people across the UK we represent a major employer and aspire to become the employer of choice in our industry.

We operate in a sector where in some areas, such as amongst bus driving staff, significant staff turnover is experienced. Recruiting the right people is part of improving retention but we also believe to retain the best talent we need to develop a working environment where our people feel valued.

Our Vision is therefore to offer our people opportunities to develop and grow to reach their full potential. We want our people to recognise and embrace the benefits of lifelong learning as an investment in their future. As such, we aspire to develop a workforce which is highly motivated and customer focussed, its profile reflecting the local labour market and our people working in a flexible environment capable of responding to individual, customer and business needs. A highly visible management team will lead our people. Through Think First surveys and focus groups we would like our people to be expressing total satisfaction in their relationship with First. They will therefore recommend us as a great company to work for.

Towards this end, last year we set ourselves some improvement objectives for people management. We can demonstrate progress towards meeting all of these objectives which are summarised below and described in more detail in this report.

DEVELOPING OUR PEOPLE MANAGEMENT FRAMEWORK

To deliver our vision successfully we have recognised the need to strengthen our Human Resources structure and bring greater consistency to the management of people issues across the Group.

During the last 12 months we appointed HR Directors to oversee policy and strategy development in both our Bus and Rail Businesses. We recognised a need to take our people strategy to a different level and to that effect have recruited one of these positions from the financial services sector, leaders in this field. We have gone to great lengths this year to gain a better understanding of our people issues and to better understand our overall people capability which has culminated in the development of a framework to cover all areas of people management within the business.

RAIL AWARDS

First Great Western employee Polly Robertson won the prestigious National Rail Award for Outstanding Personal Contribution; she was also awarded the Institute of Customer Service Frontline Service Professional of the Year 2003.

During 2003 First received three National Training Awards these were for the Driver Training School at Bristol, the Leadership Horizons Management Training programme and the On-Board Trains Customer Service NVQ programme.

This year we undertook a Strategic Review of Human Resources within the business. The review identified the need to strengthen our capabilities in the following areas:

- Employee communication and employee relations
- Recruitment and retention
- Learning and Development
- Compliance
- HR Infrastructure

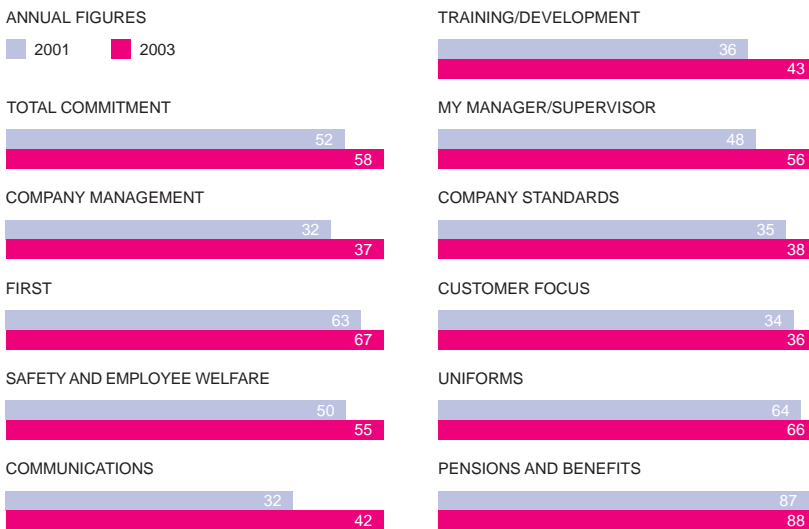
The strategic review has identified some key challenges for us but ones that we seek to address through the evolution of a strengthened people management framework. We are already making progress in addressing these issues and report on many of them below.



ENGAGING WITH OUR EMPLOYEES

We engage with our employees on a continuous basis across the Group from staff meetings at depot level, to senior management visits to depots and by the publication of regular staff newsletters. In addition to these more informal processes we continue to gauge employee satisfaction on a more formal basis through our Think First Survey. A further survey was conducted in May/June 2003 and this is the fourth survey we have undertaken since 1998. All First employees in the UK were invited to take part with an overall response rate of 32%.

Comparison of 2001 and 2003 Think First Survey Scores (PERCENTAGE %)



The survey model assesses employee reaction to ten “drivers of commitment” which in turn are weighted in arriving at a total commitment score. Improvements in the scores since the 2001 survey were noted in all 10 areas addressed by the survey. Our highest scores are in the areas of First (how our people feel about our brand), uniforms, pensions and benefits where we have made significant progress in improving employee satisfaction driven by the results of earlier surveys.

- In 2001 we introduced our Transforming Travel brand supported by the development of our vision and values. This process involved extensive employee consultation and continues to evolve.
- We have undertaken extensive staff consultation regarding uniforms and redesigned our uniforms to respond to staff requirements.
- Pensions and benefits have been the subject of much consultation and investment as discussed later in this report and we believe we now provide some of the best pension provisions in the industry.

Our greatest improvement in satisfaction has been in relation to communications and while this is significant, communications remains one of three broad areas where perceptions continue to concern us. The other areas where employee perceptions are less positive are company management and customer service. We are reviewing our training and development content alongside our internal communications mechanisms as these are areas that, if measured and continually reviewed, have the potential to impact across the Group.

A consistent briefing process of results this year has contributed to a better understanding of the key issues arising from the surveys at a local level. This has led to the development of local plans being implemented to address key issues relevant to particular depots. These initiatives have been wide ranging and include actions such as senior manager team building, improved customer care training, the installation of communication display screens, local depot surgeries, premises upgrades and more regular team briefings.

An example of a particularly relevant and simple initiative is Aberdeen’s “Just Say Thanks” campaign. This pushes home the point that recognition for good work and assistance at all levels is crucial to developing a positive working environment. In essence, this goes to the heart of how we are perceived by our people.

In a similar vein in the Rail Division we have introduced a “Colleagues of Excellence Award” which recognises outstanding performance, initiatives or acts of bravery of staff. People can be nominated by their managers or colleagues.

Also during the last 12 months we have introduced employee hotlines in both the Bus and Rail Divisions to provide 24 hour seven day a week confidential advice and counselling to staff.

RECRUITMENT AND RETENTION

Our bus driver turnover figures have remained stable over the past 12 months at around 28.5% which is of some disappointment to us. This is set against a backdrop of reported turnover figures of 40% in comparable industries such as hotel, catering and call centres, this gives us no comfort and we continue to focus in this area as the cornerstone of our people strategy.

We have invested considerable effort this year in obtaining a more detailed understanding of the reasons for the high bus driver turnover and identifying ways in which we are likely to be able to reduce it. An independent report was undertaken on our behalf by Ivery Consulting looking at the reasons why drivers leave us. This included a series of detailed exit and post employment interviews. We also commissioned a review of recruitment activity across UK Bus to provide recommendations on how our recruitment and retention processes can be improved.

Reasons for leaving vary but include lack of recognition and management style, training and quality of equipment. Based on the findings of these reports we are developing a number of initiatives.

Standardisation of Recruitment Processes

Standard recruitment and selection guidance has now been developed and implemented across our operating companies and the next 12 months will see further standardisation in this area to achieve consistency and reduced "drop out" in the early phases of induction. During the summer of 2004, a new pilot centralised contact centre will be operational. All potential candidates will initially be directed to this centre where they will be telephone screened before being invited for local interview. This change will make the recruitment process smoother, faster and more uniform, it will reduce the administrative burden to individual businesses and

provide management with reliable and comprehensive management information to effect on-going improvements.

Seeking new Sources of Candidates

Seeking new sources of candidates is a key element of our recruitment strategy. To this end we have established a strong national relationship with JobcentrePlus who have been working with us in various parts of the country to identify potential candidates. This work has resulted in First becoming a "Recruitment Partner of Choice" one of only six of the top UK employers as identified by JobcentrePlus. Our relationship will bring the benefits of dedicated support in recruitment, matching of candidates, assistance with disability and diversity issues and key links with the European Employment Service.

Trialling Overseas Recruitment

The past year has seen us build a strategic relationship with European Language Services (ELS) based in Krakow, Poland. We have developed a comprehensive training package with ELS and, having successfully completed a stringent language and vocational competence assessment, 31 Polish bus drivers and 5 engineers will commence employment in the UK in early May 2004. A post implementation review will be conducted to determine whether further staff should be recruited via this route.

We believe this move will make a positive contribution to our business and will provide a unique opportunity for cultural exchange and enhanced diversity within our workforce. Each Polish employee is provided with secure, full time employment at a competitive salary with excellent benefits. Four week on the job training is provided as well as help with accommodation and continued English language training. The First/ELS project has been selected by the European Employment Service as an example of UK best practise in the field of overseas recruitment.



Age Positive Champion

The Department for Work and Pensions (DWP) has recognised First as an 'Age Positive Champion'. This acknowledges our age-friendly employment policies, especially our innovative 'Flexible Decade'.

The "Flexible Decade" is a direct response to calls from employees and operating companies to give people more freedom to shape for themselves the transition from work to retirement. It will combine flexible working and pension options for UK Bus employees between the ages of 60 and 70 by making the switch to part-time work more affordable by enabling those aged 60 and above to work part-time and draw a pension, and providing opportunities to defer retirement beyond the age of 65.



Retention in Rail

Within our Rail Division employee turnover levels are significantly lower than in the Bus Division lying at around 8 to 10% for all employees. Our experience is that most people who leave, leave us within the first 1 to 4 months because they have misjudged the impact of unsocial hours/shift and weekend work. We are working to improve our recruitment and induction processes through addressing these issues. We have also established a joint working group on family friendly and flexible working to identify ways in which we can improve working patterns to meet people's needs outside work.

LEARNING AND DEVELOPMENT

Our aspiration is that all our driving and engineering staff should possess a National Vocational Qualification (NVQ) or equivalent and that all our staff should have access to Workplace Learning Centres where they have the freedom to study a range of subjects that support them in developing their broader skills and meeting their broader learning aspirations. Achieving these ambitions is an important element of our learning and development programme.

In addition to these programmes, over the coming year we intend to develop and implement Leadership Development and Senior Management Training programmes which are applied consistently across the Group. This responds in part to the results of our employee satisfaction survey and has a wider benefit in strengthening our management and succession planning capability.



National Vocational Qualifications

To support our commitment to developing NVQ's and SVQ's for all drivers and engineering staff we have established a funding contract with the Learning and Skills Council. We have developed a structured NVQ programme in partnership with Aberdeen and Accrington Colleges. The contract commenced in April 2003 following a Pilot Scheme. Since the start of the scheme 1,422 employees have enrolled on the scheme of which 67% (950) have achieved the qualification. Our current position with respect to bus drivers training to NVQ level is as follows:

| DRIVER ESTABLISHMENT | COMPLETED | PERCENTAGE OF WORKFORCE |
|----------------------|-----------|-------------------------|
| 20,000 | 2,666 | 13% |

A further 3,000 bus drivers are currently working towards the award and we are developing a new driver induction programme linked to vocational qualifications to enable new starters to achieve a qualification within 14 weeks.

To support the development of the NVQ programme we are also training our own assessors and 25 of our employees have qualified as assessors to date.

In the Rail Division we have an equivalent NVQ programme. For customer focussed staff we established the Rail Division Customer Service Academy in 2002 which provides customer focused and competency based training. The programmes managed through this Academy are currently being extended to cover the staff from the new rail franchises which have recently joined the Company.

In addition to competency based training the Rail Division has been involved in the development of its senior managers through the Leadership Horizons programme which has won a national and regional training award. The next step will be to extend senior management training in line with the new Group-wide management training initiatives to be developed over the coming year.



Work Place Learning Centres

We continue to actively develop work place learning centres in partnership with the Transport and General Workers Union (T&G). The number of learning centres has increased from 9 to 29 during the past 12 months which means over 30% of our staff now have direct access to centres. 150 Learner Representatives have been appointed.

New centres have opened across our London and Yorkshire Divisions and are being well received. Dr John Fisher Director of Education of the Transport and general Workers Union says, *“ Trade Unionists have always said that given the chance we want a positive partnership in industrial relations. Lifelong learning has given us all a chance to build a way forward for our members and First”.*

We continue to work to develop our Learning Centre network to meet our long-term goal of ensuring that all our staff have access to the opportunities offered by these Learning Centres. A number of new centres are due to open in the next few months further extending our national network.

RECOGNITION AND REWARDS

A key element of staff retention is developing benefit packages which suit the needs of our staff. We work with employees, trade unions and management to continually develop our comprehensive Total Rewards programme. This covers pay, benefits, opportunities for learning and development and the work environment.

Pensions

In April 2003 we brokered a groundbreaking deal with the trade unions led by the Transport and General Workers Union (T&G) on provision of pensions. Phil Brown, Bradford based T&G regional industrial organiser who led the ten month negotiations said at the time *“this is a groundbreaking national agreement which will have resonance throughout the bus industry. The Company has worked hard with us to put in place a long-term affordable solution to one of the pressing issues in the modern workplace. We believe it will go a long way to retaining staff in what is a very competitive industry”* Following this agreement the new First UK Bus Pension Scheme has been introduced and employees have taken advantage of the full range of pension choices available to them.

Credit Unions

We continue to expand access to credit union membership for our employees, giving them the opportunity to save and borrow. The Transave credit union is currently the fastest growing credit union in the UK.

Employee Share Schemes

We operate an employee share scheme, which has seen employee take up increase year on year. As well as providing savings and investment opportunities, these schemes encourage mutual commitment between First and its employees and this is an area we intend to develop further.

We believe that development of the Total Rewards programme is an important part of recognising our employees and building long-term mutually beneficial relationships with our people. Development of the schemes is undertaken through close consultation with our staff and the unions. Current initiatives have been developed from among other a Lifestyle and Benefits Survey undertaken in the UK Bus Division which allowed us to obtain a better profile of our employees and their lifestyles to ensure that we develop benefit packages which meet employee needs and ambitions most appropriately.

30%
of our UK Bus Division staff now have direct access to lifelong learning opportunities.



DIVERSITY

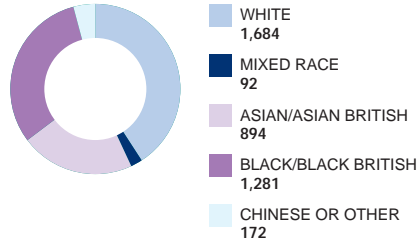
Although there have been a number of extremely successful initiatives throughout our businesses, we are still developing a comprehensive monitoring process at Group level. This year we have obtained data on the proportion of female staff we employ but do not have a consistent picture across the group of the cultural diversity.

| PROPORTION OF FEMALE STAFF | 2002/2003 | 2003/2004 |
|----------------------------|-----------|-----------|
| Bus Drivers | 6% | 5% |
| Engineers | 13% | 14% |
| Managers | 10% | 15% |
| Supervisors | 8% | 10% |
| Support Staff | 43% | 45% |

In all areas of the business apart from bus drivers we are able to demonstrate a slight increase in the proportion of female employees, in particular in the area of female managers where there has been a 5% increase. This is encouraging and reflects our desire to develop a performance culture, based on individual abilities, skills and knowledge. We will continue to work to increase awareness of the business benefits to be derived from developing a diverse workforce.

With respect to increasing the cultural diversity of our business a number of our Bus Operating Companies have been working successfully with JobcentrePlus and Community groups to tap into previously unused pools of labour. Such initiatives have been particularly successful in our London Division where 58% of our staff and 17% of our managers are from ethnic communities. The London Division has sustained a two-year campaign specifically targeting potential recruits in ethnic minority communities.

Ethnic Breakdown of London Division Staff



Similar initiatives have taken place in other parts of the UK.

- In Yorkshire, we have worked in partnership with NETT (Nationwide Ethnic Transport Training) to identify potential recruits from ethnic minority communities and provide them with specialist training including language support.
- In Leicester more than 50% of the work force is made up of employees from ethnic minority communities as a result of an advertising campaign on Asian radio stations in Punjabi and Urdu.
- In Plymouth and Southampton specific work has been done with leaders of ethnic minority communities, to raise the profile of First as an employer of choice in societies, which never previously considered careers in public transport.

Bringing People into Work - First Partnership with Ealing Family Housing Association

During the year First has developed a partnership with Ealing Housing Association to develop joint opportunities for unemployed and underemployed members of the community. A pilot initiative was established to train applicants with English and basic skills needed to pass the bus driver PCV tests. This project was specifically aimed at applicants who would not normally have passed an initial interview with bus companies. The project has achieved its initial aim of training 24 trainees of which 17 have obtained their PCV licence and secured jobs with First or London United. The demand from local residents was huge and the aim for the future is to expand the initiative to other centres with the objective of training approximately 120 applicants per year.



NORTH AMERICAN OPERATIONS

In a customer focused business, the commitment and dedication of our staff, across all three divisions of First America, are essential elements in delivering a high quality customer service.

We recognise the need to work with our employees to continually improve customer service, to maintain a financially sound business and to meet employee needs and aspirations. We aim to develop a business which reflects the diversity of the populations within which we operate and offer equal opportunity to all our employees.

All three businesses within First America have their own management structure for the management of human resources. The key drivers of our human resource strategy are:

- Reduce staff turnover where necessary.
- Maintain the ethnic and sexual diversity of our workforce ensuring opportunity for all.
- Improve our systems for monitoring and evaluating staff satisfaction.
- Provide appropriate training and experience to our employees to allow them to conduct their jobs but also to develop them to their full potential.
- Strive to be a preferred employer.

We have also recently created a new Human Resource Information System (HRIS) which will be used across the business to provide greater reporting capabilities and accuracy for all Human Resources functions.

FIRST STUDENT

Our Management Framework

At First Student we have a management structure for Human Resources which permeates all levels of the organisation. At the corporate level, Human Resources policy and training are dealt with by the Director of Human Resources and the Director of Training and Development, both of which report to the Vice President of Human Resources. This group is responsible for developing the Human Resource management framework, associated policy and providing training to those responsible for human resource management throughout the organisation. We also have access to a First Student Labour Attorney at all times. We currently employ a work force of around 22,000 employees across 250 locations.

Engaging with our Employees

We engage with our employees through a variety of means including employee meetings, open door policies and encouraging staff feedback in an open environment. To date these processes have been largely informal. However, this year, following experience in the UK, we began to implement a programme of Employee Satisfaction Surveys. These surveys have initially only been trialled at locations where there are more than 300 drivers or where there were known to be issues or problems associated with the sites. The surveys covered a range of issues including fair treatment, pay and training.

The results of all surveys are reported to the Vice President and Director for Human Resources. To date the information has been analysed and dealt with on a location-by-location basis.

One of the key findings from the surveys was that issues appear to be very location specific. One consistent positive trend across all locations was that staff knew what was expected of them in their work.

The findings from these surveys have been used to develop improvement plans on a location by location basis based on the survey findings. Where an unfavourable perception of pay existed, we have undertaken a wage review with employees. We plan to continue to undertake these surveys on a targeted basis.

Recruitment and Retention

In common with many other service sector companies, staff turnover in the bus sector remains a major issue. We monitor staff turnover location by location, in 2002 to 2003 our staff turnover was 35% which has reduced to 31% this year. This figure includes staff from all positions but is heavily dominated by drivers. Understandably reducing staff turnover has been a significant focus of our human resource strategy in recent years. Two main aspects of this have been to aim to recruit people better suited to the driving profession and once our drivers are in place to make sure there are arrangements in place for them to communicate back to us issues and problems.

Two key initiatives for us have been:

- The implementation of training programmes for managers to improve interview and selection skills. Through these programmes it is hoped our managers will be better able to identify individuals suited to the profession and to better communicate the requirements and the nature of the job.
- Improved communication with our employees through the introduction of employee satisfaction surveys supported by the development of an improved structure and framework for employee meetings and encouraging employee feed-back.

Another element of our retention strategy is to identify ways in which we can assist drivers to balance driving work with their other needs. Some of our most successful recruitments are housewives who have children at school, retirees and college students who enjoy the fact they can fit driving around their other responsibilities in life.

We are encouraged by the reduction in staff turnover achieved this year but also appreciate this will remain an important issue for us to address for some years to come.

Learning and Development

First Student provides extensive on-the-job training and a continuing education programme aimed at encouraging people to reach their full potential. A good example is our "Manager in Training" programme which combines classroom training with field experience to produce several graduates each year. These graduates begin as location managers and are then given responsibility and direction to further their success within our organisation.

Another example is the Smith System, an integral part of our driver training programme. This programme aims to prepare the driver of a school bus for the numerous situations which may arise which the driver needs to be prepared for. We believe the training we provide for our drivers is exemplary and equips them to deal with every potential situation.

In addition to career focussed training all management personnel have access to continuing education via independent study and college classrooms. We have also implemented an Internet based course programme offering classes to full-time employees covering a broad range of education issues to encourage the continued improvement and development of our staff.

Recognition and Rewards

We aim to provide benefits packages which keep abreast of the needs and ambitions of our team who we consult through employee meetings and surveys. In addition to offering competitive wages, other benefits include medical, life and dental insurance and various savings and retirement packages.

Full time employees also benefit from various disability plans and tax advantaged medical and childcare accounts. We also find that many of our drivers appreciate our policy of allowing their children over one year of age to ride on their bus, thus eliminating the need to find appropriate childcare.



The Smith System in Operation

While operating her high school route one morning, one of our drivers, Camille Crockett, noticed a kindergarten boy standing alone at a bus stop an hour and a half before the bus was due. Camille called dispatch and was advised to pick the boy up and look after him until a school district police officer met them. The boy told the police that his mother had put him out of the house.

Crockett cited the Smith System's "get the big picture" or observe everything around you, as the key that reminded her to think on her feet and be observant. She added "I take to heart the training we receive here at First Student. It's very, very helpful."

Preparing our Drivers

The following is taken from a letter sent to First Student from Anchorage School District in Alaska following an incident where a pre-school student had stopped breathing while on route:

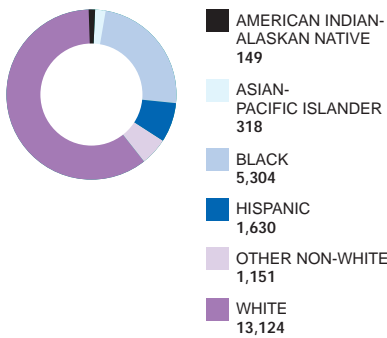
"The bus attendant, Kathie Muir, immediately responded and provided CPR. The student quickly responded and began breathing again. Officer Karstetter, the first to respond to the emergency said that the bus driver Henry Phillips and attendant Kathie Muir performed their duties in an outstanding and professional manner. Their response was "Hey, we are trained for this sort of thing. We're just doing our jobs".

First Student is proud of Henry and Kathie's response to the incident and of the First Student management team for the training and preparation they provide for their staff.

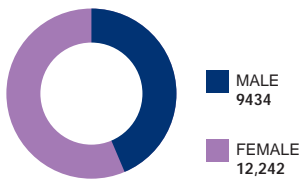
Diversity

First Student attracts and retains employees of all races, ethnic backgrounds and colour. Our Company's policy manual and employee handbook support affirmative action and equal opportunity, and our employee base reflect a representative proportion of the population.

Ethnic Breakdown of First Student Employees



Gender Breakdown of First Student Employees



We continue to recruit and promote with the aim of adding more females and minorities to the management ranks.

FIRST TRANSIT

Our Management Framework

The Vice President for Human Resources has a Human Resource Director reporting to him who works with the General Managers at site level. At local site level Human Resources issues are managed through the General Manager. Policy is set at the Corporate level and implemented locally by the General Manager

At First Transit we have a workforce of over 5,000 employees employed across more than 100 locations.

Engaging with Our Employees

At First Transit we do not implement any formal employee satisfaction surveys. We aim to develop our human resource strategy around ensuring an "Open Door" policy and ensuring managers maintain close contact with their employees through regular walk rounds and engagement. All our Managers have received extensive training in problem resolution and complaints investigation and we aim to identify issues early to prevent formal complaints.

First Transit is heavily unionised with approximately 70% of our drivers represented by unions, the largest of which is the Amalgamated Transit Union (ATU). We have relationships with the ATU at national level while some of the smaller unions relationships are at regional or local level. At all levels we believe our relationships to be solid and encourage open dialogue at all times on both a formal and informal basis.

We feel we are experiencing success in relation to this strategy illustrated by the drop in complaints against the Company to the Equal Opportunities Commission illustrated in the table below.

| DATE | NUMBER OF COMPLAINTS | PERCENTAGE HELD |
|-------|----------------------|-----------------|
| 02/03 | 38 | 2% |
| 03/04 | 33 | 0% |

Recruitment and Retention

Employee turnover varies depending on positions held. In line with similar service sectors and the bus industry in general, our driver turnover is by the far the highest and reducing it remains the biggest challenge to us.

Employee turnover by position

Part of our strategy to reduce driver turnover is to conduct exit interviews to obtain a better understanding of reasons for leaving. Over the coming year, we will also be conducting detailed reviews of turnover at selected locations with the aim of attracting more suitable candidates to the profession. We are also developing broader ranging training and development opportunities for our employees through First Transit University described below, which we hope will support employees to develop to their full potential and encourage commitment to the Company.

| DATE | DRIVER | TECHNICIANS | OTHER STAFF |
|-------|--------|-------------|-------------|
| 02/03 | 31% | 10% | 5% |
| 03/04 | 32% | 5% | 7% |

Learning and Development

At First Transit we provide a number of training and certification programmes for our employees.

First Transit University

In 2000, we recognised a training deficiency for frontline supervisors which led to the establishment of First Transit University. An intensive four-day course has specifically been designed to develop efficient supervisors and to train the managers of tomorrow. We believe First Transit University makes us one of the market leaders in the transit industry's approach to employee training.

Manager in Training Programme

We also have a Manager in Training programme that seeks recent college graduates or those currently in mid-level positions to develop for future positions of higher responsibility.

Technician Training and ASE Certification

First Transit has an arrangement with the ASE (Centre for Automotive Service Excellence, based in Washington, DC) that provides each of our technicians with the following training assistance:

- Pre-testing of skill levels to determine if training is appropriate.
- Tailor-made study and training programmes to prepare for later skill testing.
- Re-testing of skill levels after training with the objective of becoming certified by the ASE in that skill area.

First Transit offers financial incentives to technicians participating in the ASE Training Programme. We award a pay increase for candidates who successfully pass an ASE skill level test.

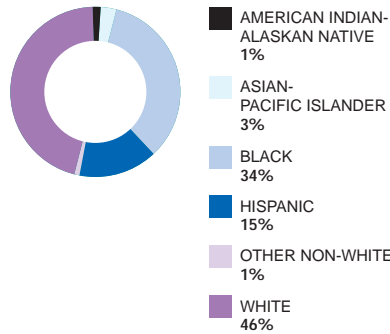
Recognition and Rewards

We aim to offer competitive wages to all our staff. Technicians receive pay increases on successfully achieving an ASE skill level. In addition our staff employment package includes medical, life and dental insurance and various savings and retirement packages.

Diversity

First Transit attracts and retains employees of all races, ethnic backgrounds and colour. Our Company's policy manual and employee handbook support affirmative action and equal opportunity.

Ethnic Breakdown of First Transit Employees



Gender Breakdown of First Transit Employees



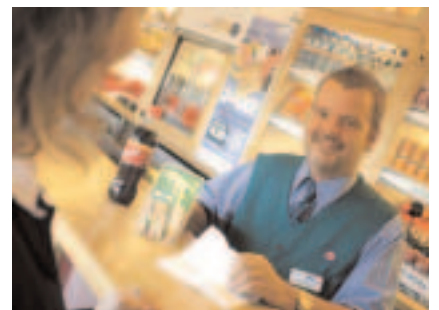
We have in place an active programme of trying to encourage women and minorities to the profession by targeting them through our recruitment strategies and management training programmes. First Transit has been recognised by the Conference of Minority Transportation Officials (COMTO) for our efforts to recruit and develop minorities and women.

We have an absolute and no-fault policy on matters of discrimination in the workplace and any complaints are immediately and fully investigated by corporate staff.

FIRST VEHICLE SERVICES

Our Management Framework

First Vehicle Services currently employ around 975 staff across 130 locations scattered throughout the country. The Director of Human Resources co-ordinates high level human resource initiatives and provides advice, council and support to location General Managers who have responsibility for day-to-day administration.



Engaging with our Employees

We engage with our staff through regular staff meetings and communication at site level supported by site visits by various Corporate personnel to improve the relationship between the field location and the corporate staff. Although difficult to quantify, we feel we have experienced benefits from this approach.

To date we have not conducted a Company-wide Employee Satisfaction Survey at our locations. We have used employee surveys as part of our acquisition process in order to obtain insight into employee issues and concerns at an early stage which can then be addressed as part of the integration process.

We plan to initiate our first formal Employee Satisfaction Survey over the next 12 months and have established this as an objective for 2004 to 2005.

Recruitment and Retention

Unlike some of the other Group companies, employee turnover at First Vehicle Services is low. For the last year it has hovered around 1.7% per month, which is below the average for the US Transportation industry as a whole, which was 2.8% in 2003 (Department of Labour, Labour statistics).

| DATE | EMPLOYEE TURNOVER |
|-------|-------------------|
| 02/03 | 1.98% |
| 03/04 | 1.72% |

In 2002, 36% of employee terminations were due to resignations. For 2003, this figure had dropped to 26%.

We are also working to strengthen our succession planning process through strategically benchmarking our employee strengths and weaknesses. Once critical areas have been identified, the Company intends to devote time and resources to building skills in our weaker areas.

Learning and Development

First Vehicle Services employ traditional classroom and mentoring programmes, as well as web-based training programmes for technicians and management. In common with First Transit, we actively participate in the Automotive Service Excellence (ASE) program for training and testing our technicians and financially reward those who successfully pass a skill certification test.

One of our goals is to achieve Blue Seal Certification for all our locations. The Blue Seal Certification indicates that at least 75% of the technicians are ASE certified, and at least one technician is certified in each area of service offered by the location. To achieve this, we are including the Blue Seal Certification in all yearly incentive programmes for the location managers and investing heavily in additional training for our technicians to assist them in passing their ASE certification exams.

We also recognise the need to support staff in their development through non-vocational training. One of our longer-term goals is to provide all our staff with access to non-vocational training. We are at an early stage in achieving this goal and have currently tasked our location managers to consider ways they could achieve this.

To strengthen our skills assessment we recently introduced a revised approach to the annual performance appraisal process. We now include a skills assessment and establish yearly goals and key development plans for each employee. The annual review will then be followed by a mid-year review to encourage continued feedback throughout the year.

Recognition and Rewards

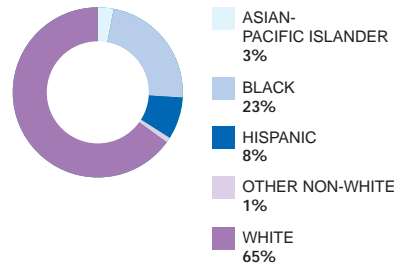
We are committed to providing continuous recognition and reward for the Company's most important resource, our employees. We provide annual incentive schemes for managers and financial rewards for achieving an ASE certification. This year we have introduced a Technician of the Year Award designed to recognise those individuals who excel in providing this integral service to our customers.

Winners will receive an opportunity to participate in the Company's annual meeting and a host of other internal media attention. The Company also plans to roll out a new and improved safety incentive program designed to encourage a proactive safety culture.

Diversity

First Vehicle Services attracts and retains employees of all races, ethnic backgrounds and colour. Our Company's policy manual and employee handbook support affirmative action and equal opportunity which is reflected in the companies ethnic breakdown.

Ethnic Breakdown of First Vehicle Services Employees



Gender Breakdown of First Vehicle Services Employees



CustomerFirst

Our vision is to lead the way in transforming how people travel and the way they feel about public transport.



03/04

IMPROVEMENT OBJECTIVES

→ Achieve punctuality of bus services of 95%.

→ Achieve reliability of bus services of 99.5%.

→ Achieve continuous improvement in our rail performance against the Strategic Rail Authority Public Performance Measures (PPM).

PROGRESS

We have made significant investment over the past 12 months in the TRACKER data system which allows us to track buses in real time and better monitor our punctuality.

The reliability of our bus services currently sits at 98.2% slightly short of the 99.5% target.

Our performance against the PPM measures has remained steady but for First Great Eastern and First North Western lies above the industry average. Our control over reliability and punctuality is heavily influenced by Network Rail who has undertaken extensive maintenance of the tracks over the past 12 months.

04/05

UK - ANNUAL TARGETS

→ Achieve punctuality of bus services of 95%.

→ Achieve reliability of bus services of 99.5%.

→ Achieve continuous improvement in our rail performance against the Strategic Rail Authority Public Performance Measures (PPM).

US - ANNUAL TARGETS

First Student

→ Improve client satisfaction by delivering on-time, safe performance.

→ Maintain contract retention.

First Transit

→ Achieve 95% of our "trips on time".

→ Continue to reduce customer complaints.

→ Complete 100% of our preventative maintenance on time.

First Vehicle Services

→ Achieve ISO 9000:2000 Certification.

→ Roll out of a Six Sigma Green Belt Training & Certification Programme.

→ ASE Blue Seal Quality Recognition.

UK OPERATIONS

Satisfied customers who value our service are key to the success of our business. Recognising this we undertake extensive consultations with our customers to assess the issues which are of most importance to them and to prioritise investments in improvements. Our consultations indicate that punctuality; reliability and frequency are important to customers and heavily influence their perception of our service. Improving performance in these areas is therefore essential to our strategy. In line with these objectives we must meet high performance targets set by the industry regulators and then continue to improve on these.

IMPROVEMENT OBJECTIVES

Our overall objective is to continue to increase the number of passengers using our services, ultimately achieving a reduction in the amount of car traffic in the areas in which we operate.

BUS DIVISION

Customer Satisfaction

Within the Bus Division, we conduct the most extensive customer satisfaction survey in the industry, which is now in its fifth year. These surveys involve 1,500 customers being interviewed each month across the UK. The purpose of the survey is to benchmark performance in key areas such as reliability, frequency, vehicles, drivers, routes, fares and information.

Results for the last 12 months indicate that around 69% of our customers perceive the overall quality of our service to be good or better. Journey satisfaction over the last 12 months lies at around 83% (The journey satisfaction rating is defined by the number of customers giving a rating of good or better to describe the service provided by First for a particular journey). These figures have remained fairly consistent over the last three years.

In addition to the existing customer satisfaction survey, we have recently introduced three further surveys:

→ Since July 2003, our passengers have been able to register their comments online via the Company website. This survey attracts approximately 100 responses per week.

→ A self-completion survey has been piloted in Devon and Cornwall and is also available for use by any of our other operating companies.

→ A periodic "non bus-users" survey has been introduced to enhance our understanding of potential customers.

We are also undertaking more detailed research into the needs of particular customer groups. During the last 12 months we have undertaken intensive research on the demographics and needs of the student market and have introduced attractive offers and online purchasing arrangements for this group.

The customer satisfaction surveys supported by our other stakeholder engagement methods ensure we are regularly in touch with the views of our customers and can take them into account in the development of our services.

Punctuality of Service

Improving the punctuality of our bus services is central to attracting a broader range of customers and a key element of our improvement strategy.

Last year we reported on the introduction of TRACKER data systems which allow buses to be tracked in real time thus allowing us to monitor punctuality of service. This system is now largely rolled out across the UK Bus Division. It identifies geographic and temporal areas where buses do not comply with the timetable and through analysis enables us to take corrective action – be it to modify schedules or persuade the local authority to introduce measures that will help the smooth passage of buses.

TRACKER has now been introduced across most of the business apart from Scotland where progress has been delayed due to inadequate bus stop data. We are in the process of addressing this issue and TRACKER will be rolled out as soon as the issue is resolved.

Reliability of Service

Reliability is the proportion of mileage we operate against schedule, we continue to fall slightly short of the Confederation of Passenger Transport (CPT) target for bus companies of 99.5% with a reliability of 98.2%. For peak services our reliability runs at 99.4%. Based on last year's figures we know that 36% of cancellations were due to engineering problems, 31% were due to non-availability of drivers and 32% to other causes.

| YEAR | RELIABILITY |
|-------|-------------|
| 02/03 | 98.5% |
| 03/04 | 98.2% |

Improving our Bus Services

We continue to improve the quality of our bus services both independently and through our Quality Partnerships with local authorities. Developments during the last 12 months have included:

- The creation of a ten year partnership agreement with Glasgow City Council to provide major improvements in public transport in the city. The Council's £26 million pound investment will provide a bus information and signalling system (BIAS), improvements to bus shelters, and traffic management improvements and maintenance on 120 kilometres of Quality Bus Corridors. As part of the partnership, we have already introduced new buses worth £14.5 million, which will enable 95% of corridor journeys to be undertaken by low-floor vehicles, and increase the frequency of buses. Also planned as part of the partnership is a 100-bus trial of on-board CCTV security cameras to improve passenger safety.
- We have invested £5 million in a new bus depot for Scotstoun, the first to be built in Glasgow since 1965. It represents a massive investment in some of the most modern and innovative facilities to be seen in Europe and has the capacity to house 250 First buses and over 600 members of staff. The investment should result in improvements for both staff and the quality of services.
- First is working on the development of a new "tram-like" vehicle which will be introduced onto 3 pilot routes in Sheffield, Leeds and York. The design will facilitate faster boarding. The vehicle interiors are being designed following detailed focus group testing with both existing and potential travellers.
- In Essex we have invested in 63 new vehicles at a cost of £5.75 million, improved our marketing of services and developed some innovative products to meet customer needs. As a result we have seen our Chelmsford Overground route grow by around 10% per year over the past two years and the Colchester network grow by 28% in 2003.
- The showcase route 76/77 in Bristol combines modern, low floor buses, improved journey information, designated bus routes, raised kerbs, increased bus lanes and a state-of-the-art traffic flow system which gives buses priority at key congestion areas. In the last year, this route has seen an average increase in passenger numbers of 6%.

These are only a few examples of an on-going programme developed through our Quality Partnerships aimed at developing our services and making buses a real alternative to cars.



How Technology Can Create a Better Journey

A key element of our improvement strategy is to investigate how the use of technology can improve our service delivery. This has led to a number of new initiatives developed in conjunction with our local authority partners. Real-time information systems are operating in a number of areas including Norwich, Ipswich, Port Talbot, Swansea, Bristol, Merseyside, Aberdeen and London. In these areas the time of the next bus is presented electronically on a display board at the bus stop. Proposed government investment in this area is likely to increase the number of locations covered by Real Time Information in the future.

In Glasgow, First are investing over £4m in the BIAS system, a state-of-the-art fleet management, telematics and real time passenger information system providing network-wide intelligent bus priority. Working in partnership with Glasgow City Council, the first phase will encompass the Overground network and over 450 buses and 100 stops will be equipped.

In Leicester we have been trialling short messaging service (SMS) a system in which a message is relayed to a mobile phone indicating when the next bus is due. A similar scheme is planned for Aberdeen. This technology is likely to lend itself in particular to use in rural locations where the waiting time between buses is often longer.

Smartcard technology also continues to play a part in our considerations for the future. We introduced Smartcards in Bradford in 1997 and to date 51,000 cards have been issued representing around 17% of passenger journeys in the area.

Green Travel Initiatives

First actively seeks opportunities to work with employers to develop their company Travel Plan initiatives, by offering discounted ticket arrangements, bespoke services, service modifications and service extensions, information and advice. New posts have been created in Bristol and Manchester specifically to develop new opportunities with employers. Throughout the country, we participate in travel forums which bring together groups of employers and public transport operators to promote the use of public transport and encourage people away from their cars.

Some examples of these activities are given below:

- In Oldham we have been instrumental in developing a partnership which brings together the Borough Council, Greater Manchester Passenger Transport Executive, two local health trusts, Oldham College and SSL International medical suppliers manufacturer, in a personalised travel plan project to persuade people out of their cars. This is particularly aimed at single occupancy vehicles and the journey to work. A personalised journey plan kit is distributed which includes the plan, maps, and tickets for rail or bus to the car commuter. This project has enjoyed significant successes, with 90% of the 1,200 participants, all of whom previously used their private car, indicating that they would try public transport again. The project is now being rolled out across the Manchester area.
- We provide B&Q staff at their Hampshire Head Office dedicated minibus services from the park and ride to the companies three sites, including a link to Eastleigh town centre. Also for B&Q in Doncaster a service is provided which links a new store within a new development to the town centre. This has assisted B&Q to retain staff which do not have access to private transport.
- As well as local private employers, many local Councils and NHS Trusts, Universities and Colleges take advantage of the bulk purchase season ticket passes we offer. Discounts are passed directly to their staff or discounted further by the organisation and a number of these schemes have successfully encouraged employees to use public transport to commute to work.
- In Essex we offer discounted ticketing as well as modification of bus routes to serve factory sites.

FIRST WINS PUBLIC TRANSPORT OPERATOR OF THE YEAR AWARD

This year our Glasgow operations were presented with the Award for Scottish Public Transport Operator of the Year. This was in recognition of the strong progress and demonstrated successes in delivering the Overground network of high frequency routes in Glasgow, including expanding night services.

It also recognised our emphasis on staff training and innovative community involvement and charitable projects which aim to tackle antisocial behaviour and vandalism. When combined with sustained investment in new fleet, these policies have contributed to increasing passenger numbers by 11% over the last two years.

Achieving Modal Shift

Our ability to create, a modal shift from cars to buses is part of our vision to Transform Travel and will demonstrate that we are an innovative and progressive transport operator.

We reported last year on the evidence that in the City of York traffic volumes have reduced by 4%. This is one of the factors that led us to the development of the Yorkshire Bus Initiative.

Yorkshire Bus Initiative

This project, which started life as the Yorkshire showcase, aims to accelerate improvements in the quality of bus services in Yorkshire to produce a 10% modal shift away from cars over five to six years. The target is a 30% increase in passenger journeys on key routes. The project is being developed in partnership with South and West Yorkshire Passenger Transport Executives, the local authorities in South and West Yorkshire together with City of York Council and the Department for Transport.

Since the project started 12 months ago, each local authority involved with this initiative has set up a working group with its local First Operating Company to look at fast tracking investment in infra-structure. This will include more bus priority and more accessible bus stops and shelters of a higher quality. Funding has been secured from the Department of Transport on two projects essential to the success of this initiative.

The first is for the introduction of a Yorkshire-wide real time information system whereby all buses will be fitted with satellite tracking. This will enable operators to improve reliability and deliver real time information on bus services via on-street signs, the Internet and SMS text messaging to mobile phones. The second is for the introduction of a smartcard ticketing system which will enhance the range of tickets available to customers and reduce boarding times.

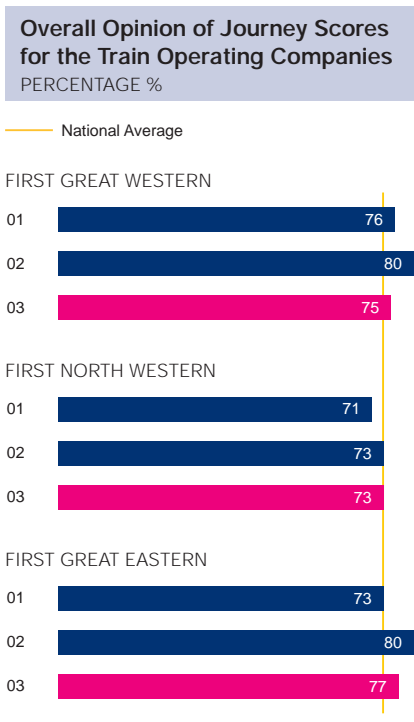
RAIL DIVISION

Customer Satisfaction

Customer satisfaction surveys are also undertaken monthly or quarterly within the Rail Division on a company-by-company basis. The surveys allow us to continually monitor and review trends in rail customer satisfaction. In addition, First Great Western use mystery shoppers to monitor the level of performance of staff against service specifications.

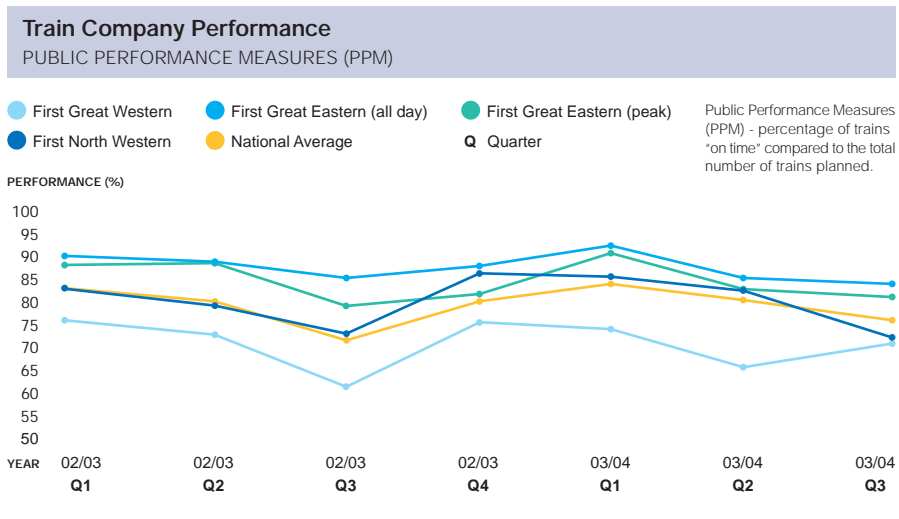
The surveys cover a range of issues such as provision of information, comfort and cleanliness on trains and stations, punctuality and frequency of service, personal security and the levels of service from staff. The results from the surveys assist us in developing ways to improve our services.

In addition to our own surveys, the Strategic Rail Authority conducts twice yearly National Passenger Surveys. The results from these surveys indicate we maintain services at or above the national average.



Punctuality and Reliability of Service

The punctuality and reliability of our service is assessed against Public Performance Measure (PPM) introduced in 2000 by the Strategic Rail Authority. These have now replaced the Passenger Charter as the main means of measuring passenger train performance. The PPM combines figures for punctuality and reliability into a single performance measure. It measures the performance of individual trains against their planned timetable, which may differ from the published timetable. Our PPM performance has remained relatively consistent over the last two years. In the case of First North Western and First Great Eastern it lies largely above the national average.



Each Rail Company has an individual performance plan identifying ways to improve punctuality and reliability which is endorsed at board level. The individual plans are detailed to the level where all staff are accountable and responsible for performance improvement. Root cause analysis allows each company to monitor performance in order to take remedial action.

Our ability to meet our performance commitments and improve the punctuality and reliability of our service involves maintaining a strong and constructive relationship with Network Rail and other train companies. Action plans for improvement are discussed at "joint boards" which involve all relevant industry stakeholders. Through our performance monitoring we attribute causes of the delay between ourselves and Network Rail. Although the proportion of delays attributable to

ourselves tends to be considerably lower, we have a significant influence on improving performance and do this through further analysing our portion of the delay in terms of whether it was caused as a result of problems with the fleet, operations or other reasons, and developing action plans to address these.

| | % OF DELAYS DUE TO COMPANY | % OF DELAYS DUE TO NETWORK RAIL/OTHER |
|-----|----------------------------|---------------------------------------|
| FGW | 20% | 80% |
| FNW | 36% | 64% |

Some examples of measures we have taken to improve performance are described below.

Award winning platform at Swindon Station

Platform 4 at Swindon was opened in June 2003, as the result of collaboration between First Great Western, Network Rail and the Strategic Rail Authority. Prior to the opening of the new platform, Swindon Station was a major bottleneck, but following completion of the project, performance enhancements have exceeded expectations with hundreds of minutes per week saved on journeys.

The Platform won the Station Excellence of the Year Award at the HSBC Rail Business Awards held in London in February 2004.

First Great Western "Minutes Count" scheme to promote punctuality

This scheme has been set up to encourage staff to work where they can to reduce train delays at their station, and it benefits charities in the process.

Staff can help reduce delays in a number of ways from helping customers with seat reservations to be positioned on the correct part of the platform for ease of boarding, to ensuring that immediate help is available to those passengers who require special assistance.

The 14 stations managed by First Great Western are given targets to achieve for each four-week period. Each member of staff working at the station which beats its target by the highest percentage gets £25, with £500 going to their chosen charity. Examples of charities which have benefited from the scheme include the National Breast Cancer Campaign and the Buscot Ward Special Care Baby Unit at the Royal Berkshire Hospital, Reading.

Fleet modified to Improve Year Round Performance

First Great Western's High Speed Train fleet has recently been modified to improve performance in potentially difficult weather conditions. The trains have been fitted with "cooler groups" which perform a similar function to car radiators and ensure train reliability in the hottest weather. Wheel Slide Prevention (WSP) technology, similar to anti-lock braking in cars, has also been introduced to ensure more effective braking on icy rails and those left slippery by leaf mulch.



Improving Customer Service

Improving our service is not only about performance improvements but also about improving the overall customer experience. Part of achieving this is training our staff to develop their people facing and customer relations skills. Across all our companies we have developed a range of training initiatives to this end.

At First North Western we have a number of training initiatives including:

- Achieving Customer Excellence Training. Over 900 First North Western conductors and station staff (almost half our workforce) have so far received this training. Feedback from customers indicates an improvement in interactions between staff and customers.
- Disabled Access Training is delivered to all new conductors, drivers and station staff. All existing staff will receive this training as from October 2004.
- On Train Announcing Training is delivered to new conductors and drivers and will be delivered to existing staff as from October 2004.
- We have recently introduced a one-day Achieving Customer Excellence programme, and a half-day Disabled Access Training programme, for all new drivers.
- Assessment systems for all operational staff are being modified to reflect the importance of behaviours towards our customers. This will be further enhanced by the introduction of NVQs in Rail Passenger Services during 2004/05, initially delivered to conductors.

At First Great Western over the past year we have invested £7m for additional staff, training and development to enhance customer service. Our customer-facing on-train staff now have the opportunity to study NVQs, and 87% of Customer Hosts, who serve in the buffets, Pullman restaurants and provide a First Class trolley service have volunteered to join the scheme. NVQs are now being extended to train manager and platform staff.

Investment in our Fleet

We continue to work to improve customer satisfaction and enhance service delivery through investment in our vehicle fleet. We have a programme of investment which includes both upgrading existing fleet and investment in new vehicles.

- First North Western have worked in conjunction with the Rolling Stock Companies (ROSCOs) to deliver a number of fleet enhancements over the past year including the completion of the £2.5m overhaul programme on the Class 323 fleet used in South Manchester which has included exterior and interior re-branding into First corporate colours.
- The programme of retro-fit of data recorders to our older trains also commenced during the year, with almost 50 trains completed by the end of the year. This represents over £1m of investment in our fleet.
- First North Western also completed a £150,000 overhaul programme of the doorgear on the Class 153 fleet. In addition to a 75% reduction in door system related delays and cancellations, the work undertaken also included the fitment of door controls, which comply with the current Rail Vehicle Accessibility Regulations.
- Towards the end of the year First North Western also finalised a £350,000 programme of door overhaul and modification on our Class 150 fleet which we believe will reap significant performance benefits during 2004/05.
- First Great Western have an on-going commitment to the introduction of the Adelante fleet to supplement the existing High Speed trains. We now operate 12 Adelantes on a daily basis providing 1,700 additional seats. Two further Adelantes are currently being modified for use.
- In September 2003 First Great Eastern introduced a 21 strong fleet of new air-conditioned trains. These replace virtually all the old 'slam door' trains, which now only operate one round trip per day (to London on the morning peak and from London in the evening). The new Class 360 Desiro trains are fully accessible for people with disabilities, include on-board CCTV and provide a quieter and smoother ride.

Improving Access for the Disabled

First Great Western is one of the first UK train operators to publish a comprehensive policy on access for disabled people to its stations, trains and services. Known as the Disabled Persons Protection Policy (DPPP), the 24-page document has been approved by the SRA and will be available from stations, via the internet and on request by phone in a variety of formats, including large print, Braille, audio tape and CD. First Great Western also employ a disabled "mystery shopper" to report on its progress.

BUS/RAIL INTEGRATION

Developing ways to improve bus and rail integration is an important way of achieving improved patronage on public transport, as such we are involved in a number of such initiatives.

- We are involved in Journey Solutions an industry initiative, which since September 2002 has allowed rail travellers to purchase a one-day unrestricted bus pass to travel around their origin or destination station. Over 130 such PLUSBUS schemes are now in operation and national coverage has already been achieved in Scotland, with Wales to follow.
- Through our bus/rail initiatives it is now possible to purchase joint bus rail tickets for all services in Bath, Weston-Super-Mare and Bristol. A similar initiative for Devon and Cornwall is trialling a £10 travel anywhere combined bus and rail ticket.
- A dedicated bus service now runs from Taunton station to Minehead and Bristol Temple Meads via the City Centre to the University.
- At Truro station there is now a dedicated train/taxi service to take you to or from the station to a range of destinations.

NORTH AMERICAN OPERATIONS

FIRST STUDENT

At First Student our main customers are public and private school districts, commercial charters and schools. In addition, we have more informal relationships with the parents and pupils who use the services provided by our customers. Through regular formal and informal interaction with our main customers, we know the key issue for them is safety, including the use of professional drivers, followed by reliability and punctuality.

Customer Satisfaction

The nature of our business is such that regular dialogue with our customers is essential to maintaining a quality service. This enables unsatisfactory issues to be identified at the earliest opportunity and resolved before they become a potentially bigger issue.

The Regional Vice President visits all our main customers on a bimonthly or quarterly basis where he/she aims to pick up any issues or problems. We also meet with School Board Authorities monthly where performance is part of the discussion. This is supported by more informal interaction with the local community and school personnel as required. For each main customer, performance is monitored over time, and where there is a drop in performance, an action team is put together to address these issues.

In addition to regular meetings with our main customers we monitor satisfaction through the use of an annual survey. At present, we do not have a method of aggregating the findings of these surveys across the business as they are used to address issues and problems associated with individual contracts.

For some of the largest contracts, surveys are sent to every school within the contract in addition to the main customer.

| DATE | % RETURNS | % OF CLIENTS WITH ISSUES |
|-------|-----------|--------------------------|
| 02/03 | 56 | 18 |
| 03/04 | 60 | 14 |

Feedback from the surveys indicate that the main area of concern tends to be driver quality and the ability of drivers to deal with disciplinary issues. These issues rank above punctuality and reliability concerns. We address these issues through our Human Resource Programme covering the appropriate screening of employees at the recruitment stage and training of drivers in pupil management techniques.

Our customer satisfaction record is reflected in our high rate of contract retention. We have a retention rate of over 90%, and the business we do lose is normally as a result of cost rather than quality of service.

A CUSTOMER TESTIMONY

Charleston Public Schools in Charleston, South Carolina outsourced their student transportation system in 1997. After an initial negative experience with contractors, they decided to take another chance with outsourcing and selected First Student to provide the service.

Katie McClure, Contracts Administrator for Charleston County School District stated, *"Your company has far exceeded our expectations and has contributed staff and resources well beyond the scope of the contract. Above all, you have improved communications on all fronts, parents, community, media, schools and the business offices. Again, thank you for an outstanding job thus far. We are off to a great start with the promise that things are going to get even better over the years to come."*

Improving Our Services

Many of the initiatives related to improving our services to customers relate to improving the safety of our buses, staff training and driver screening which are covered in the Safety and Team sections of this report.



FIRST TRANSIT

We operate and manage virtually every type of transit and public transport system in America on behalf of a customer base covering large urban, rural and suburban areas. Our clients consist of City, State and County Authorities including special purpose use authorities such as airports and schools. Our immediate client base is therefore the transport operators rather than the travelling public.

Customer Satisfaction

We have a regular and active engagement programme with our clients through which we gauge satisfaction levels. We meet with our clients, both formally and informally, at local management level on no less than a weekly basis. We supply our clients with formal monthly management reports indicating our performance against the contract performance indicators. The format and information contained within these reports varies from client to client and contract to contract. In addition Corporate/Regional management is in regular, formal contact with clients at least quarterly, and more regularly via other communication methods.

These engagement techniques allow us to continually monitor our performance in relation to our contracts and identify issues or problems at an early stage.

As we operate our services on behalf of our clients, many of our services are not branded and the travelling public associate our services with our clients rather than ourselves. We have recently initiated a process of conducting on-board customer satisfaction surveys for selected clients. These surveys help us to identify those service attributes which engender the highest satisfaction from our passengers and help us to improve our services in line with passenger requirements. This is a program that we are evaluating for use across our client base.

In addition any issues raised directly to our clients by the travelling public will be reported to us through our regular meetings.

Customer Complaints

The handling of complaints varies from location to location and is dictated by local operating agreements. Typically, a staff member is responsible for investigating and responding to complaints within a prescribed period (usually five days).

We monitor the number of complaints received and the number has reduced by 61% during the last 12 months. The significant reduction is largely attributed to performance improvements in our paratransit operations.

| YEAR | COMPLAINTS PER 100 THOUSAND PASSENGERS |
|-------|--|
| 02/03 | 34.61 |
| 03/04 | 13.45 |

Complaints typically include schedule adherence and operator courtesy. Each location conducts an analysis of complaints as part of their standard business management planning and identifies actions to address specific trends.

Reliability of Service

Reliability of our transit services is of great importance to our clients and travelling passengers. We record the number of "trips on time" on a monthly basis. Although individual contracts have individual performance targets we have set ourselves a cross company performance target of 95% or better. We are currently achieving a cross company performance of 92%.

| YEAR | TRIPS ON TIME % |
|-------|-----------------|
| 02/03 | 92.2% |
| 03/04 | 92.4% |

Operator Availability

The reliability of our services is directly related to the availability of operators to drive buses and operator availability is another indicator we use to assess our performance. We have a goal of retaining the proportion of our operators unavailable for work to below 8% which we are currently achieving.

| YEAR | OPERATOR UNAVAILABILITY |
|-------|-------------------------|
| 02/03 | 8.4% |
| 03/04 | 6.5% |

Preventative Maintenance

Another key factor which influences the reliability of our service is the reliability of the buses themselves, which is in turn influenced by the quality of our maintenance programs. We also maintain records of the number of preventative maintenance completed on time against a target of 100%. We currently operate slightly below this target and continue to implement measures to improve on this.

| YEAR | PREVENTATIVE MAINTENANCE COMPLETED ON TIME % |
|-------|--|
| 02/03 | 93.5% |
| 03/04 | 96.7% |

Improving Customer Service

We continue to identify ways in which we can improve customer service, this relates to both the authorities for whom we run the buses and the paying customer. Last year, for the first time each of our locations developed a CustomerFirst plan that focussed on meeting customer expectations, applying communication tools (including regularly scheduled meetings, on-site inspections and structured reporting) with the aim of driving continuous improvement in this area.

FIRST VEHICLE SERVICES

Customer Satisfaction

At First Vehicle Services, we regard regular communication with our customers as essential. We have a variety of means of doing this as described below and this provides the basis by which we maintain an overview of the satisfaction of our customers with our services.

- **Weekly/Monthly reports:** We provide our customers with performance reports on a weekly and monthly basis. These reports cover issues such as fleet availability, turnaround time, and cost control. We also meet regularly with our customers to discuss areas of success and to develop solutions to any challenges that have been identified in the reports.
- **Critique Cards:** Following a preventative maintenance inspection or repair service, we ask the vehicle user to complete a critique card in order to rate our service and to identify any areas of dissatisfaction. Any problems are reviewed by location management for follow-up.
- **Corporate Communication:** Senior management meets with customers on a regular basis to keep them informed of any First Vehicle Services initiatives and to identify any issues which require attention. Senior management also sponsors a professional market research firm to produce an annual customer survey, which allows our customers to provide feedback on the service they receive.
- **Customer eNewsletter:** The first issue of the eNewsletter was sent via email on February 5 2003. This initiative aims to provide frequently updated news and information to our customers.

Quality of Performance

Our clients require us to measure the quality of our performance in relation to a number of indicators which vary from client to client. The core indicators common to most contracts are:

- % Availability of fleet
- % Preventative maintenance completed on time
- Vehicle turn-around times
- % of rework

We monitor these aspects of our operations on a client-by-client basis but this year have started to aggregate this information across the business. In this way we can develop our own internal targets against which we can assess overall Company performance and monitor our rate of improvement.

The availability of the fleet is a key issue for our clients as the success of their operations depends on having sufficient vehicles to meet their requirements. We have an internal target of 95% which meets most of our clients expectations. This year we achieved an aggregated performance of 98% across the business.

During the last year we completed 97% of our preventative maintenance on time and only 0.67% of our vehicles required rework following maintenance.

**THE CITY OF FT. WAYNE, POLICE DEPARTMENT
JANUARY 28, 2004**

Since having First Vehicle Services perform our work, we have experienced lower expenses, a rigorous Preventative Maintenance program for all assets resulting in greater end user satisfaction. Also, there is an air of openness between City employees and First Vehicle Services staff resulting in a proven partnership over the last three years that yields high quality results.

The bottom line is that First Vehicle Services is great to work with as their

management team and technical staffs are truly qualified professionals, exceeding clearly defined performance, (Contractual) standards. As a client of First Vehicle Services for the last several years we are very pleased with their level of exceptional service.

Sincerely,

Marty Bender
Deputy Chief of Police
Fleet Manager



FIRST IN THE COMMUNITY

As operators of public transport our business provides an essential service to the community. Our relationship with the local communities we serve is therefore of great importance to us. In addition to charitable community initiatives we aim to identify ways in which the development of our business can play a role in improving the communities in which we operate and the service we provide to the community as a whole not only to our individual customers.

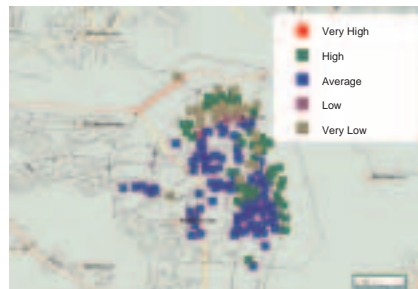
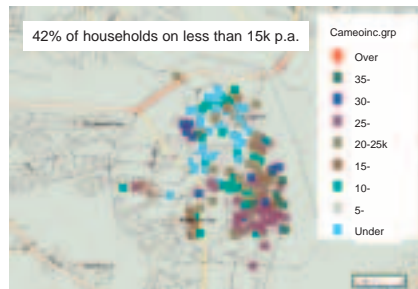
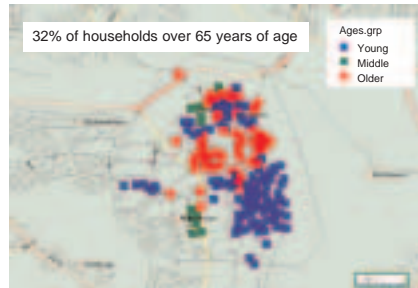
Ensuring an Inclusive Service

Buses are used by all sections of the community, but with a particularly heavy weighting towards lower income groups, women and the elderly. Buses are heavily used for shopping journeys, visiting friends and relations, and for making medical visits, as well as for access to employment opportunities. Therefore, improved bus services tend to provide particular benefit to these groups.

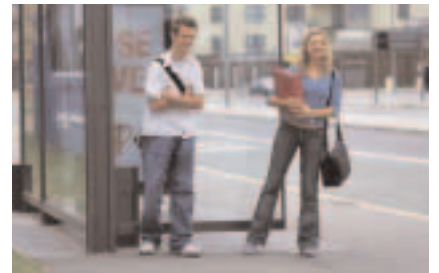
We have invested in a mapping package that allows us to plot our routes against certain demographic criteria and key facilities. The software allows us to highlight areas where transport links can be improved to ensure improved access by those who most rely on our services. We are also looking at different network designs rather than traditional radial networks to improve access.

An example of the application of this technique is Service 95 in Sheffield which was identified as a route that could potentially be extended to serve the Beighton area and then link to local shopping facilities. A relatively large proportion of households in the area were identified as being in the low income and low to very low car ownership category and likely to be more reliant upon bus services. In addition, over 32% of the households contained Seniors.

Examples of outputs from demographic mapping package



Following an assessment using the demographic package the service was extended in July 2003 to provide this area a new link every 30 minutes, bringing a further 4822 households within 500 metres of a higher frequency, low floor service.



We are now extending these principals to design our rural networks. Through market research and stakeholder consultation we are looking at the options to develop faster, simpler and more frequent services connecting main passenger attractions. We have also been assessing the viability of various forms of Demand Responsive Transport (DRT) and are currently operating a demand responsive Dial-a-Ride service between Burry Port and Pembrey in Carmarthenshire.

Improving School Bus Services

Another community initiative connected to our business development strategy has been the introduction of yellow school buses to the UK from our US operations. We are currently into our third year of operation in the UK.

Currently, we have seven schemes operating in Hebden Bridge; Aberdeen; Runnymede, Wokingham, Wrexham, Windsor and Bristol. These schemes carry over 1300 children to school every day. We are in discussion with a number of other Local Authorities and schools about starting new services and a major expansion of operations is planned for September 2004.

We believe that the yellow school bus offers the safest, most reliable way to transport children to and from school. The buses are designed with the highest safety features. The service runs door to door, is driven by the same driver each day and each child has an allocated

seat. Often, the drivers are parents of children who attend the school. The driver is in contact with the yellow bus control room or school and has been trained in safety, security and child behavioural issues.

The operation of the yellow school bus scheme offers great potential for relieving congestion. Evidence published by the Department for Transport indicates that in September 2002, the Runnymede scheme had reduced the proportion of children travelling to school by car by 13%, while the figure in Hebden Bridge was 23%.

Rural Bus Networks

Population density and high levels of car ownership in rural areas do not lend themselves to traditional bus service timetables so many places only have infrequent service or no daily service at all.

We believe the solution is innovation-delivering tailored services to meet the differing needs of different rural communities. First has worked with local authorities-often using Rural Bus Subsidy Grant - to identify and introduce a range of different solutions.

For example in Devon and Cornwall we have carried out comprehensive market research and passenger and stakeholder consultation exercise. This has allowed us to introduce more direct routes between main towns, providing quicker journey times and enhanced services to over 40 towns and villages.

WORKING WITH CHARITIES

Throughout the year the Group and its staff have continued to give their support to a number of local and national charitable activities. All our operating companies support local events either through donations, sponsorship or use of resources and facilities made available to them by the Group.

Many of our bus operating companies provide local organisations and charities with free transport for day trips or excursions. We believe that it is important to support our local communities in this direct way and we make no attempt to calculate the cost of the driver's time or vehicle expenses involved.



Principal and Registered office
FirstGroup plc
395 King Street
Aberdeen AB24 5RP
Telephone: 01224 650100
Facsimile: 01224 650140

Registered in Scotland
number SC157176

London office
FirstGroup plc
3rd floor
E Block
Macmillan House
Paddington Station
London W2 1FG
Telephone: 020 7291 0505
Facsimile: 020 7636 1338

FirstGroup web site
www.firstgroup.com