

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.

Moir Lockhead
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

The following report represents our summary Corporate Social Responsibility report 2004. This report summarises our performance during the last 12 months and includes selected performance data. Further details of all the issues discussed in this report including full performance data can be found in our full Corporate Social Responsibility report which is available for download from the Internet on www.firstgroup.com

This report covers all our UK and US operations apart from the new rail franchises we started to operate during the year. Since April 2004 we are no longer operators of the First Great Eastern franchise. We report on its performance during the last 12 months with the exception of the environmental data which are incomplete due to rail franchise changes. This report covers the period April 2003 to March 2004.

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 and 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 government 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 a 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 key 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.

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 identification of the key Corporate Social Responsibility issues for the Company, our achievements and challenges and the establishment of some high level long term goals.

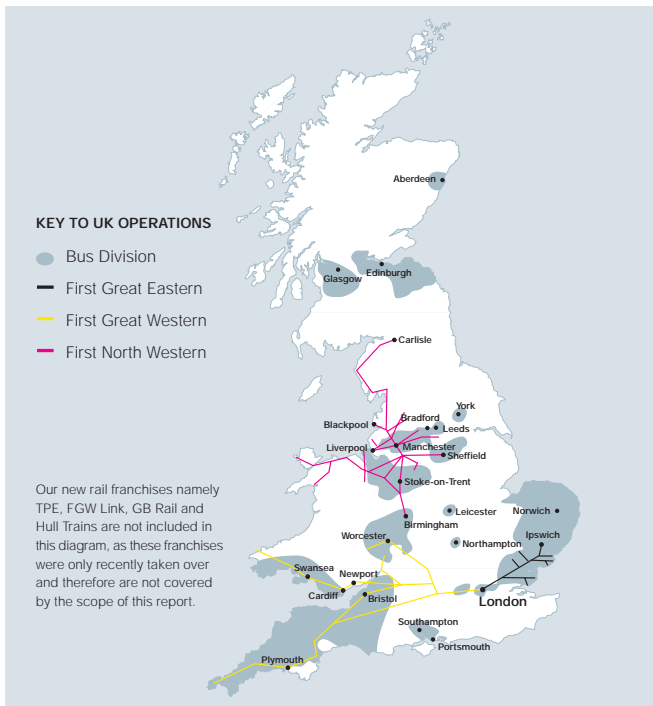
The findings of our stakeholder engagement programme and Company risk assessment were fed into this process. Our next step is to identify how we will integrate these issues and the achievement of these goals into our broader management framework and improve communication of our strategy and vision throughout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

Performance data in relation to all our key Corporate Social Responsibility issues are reported to the board. The Executive Safety Committee chaired by the Group Chief Executive drives safety strategy within the Group. Environmental performance is reported directly to the board by the Environmental and Property Projects Director in the UK. In the US, overall responsibility lies with the Company President and Chief Operating Officer.

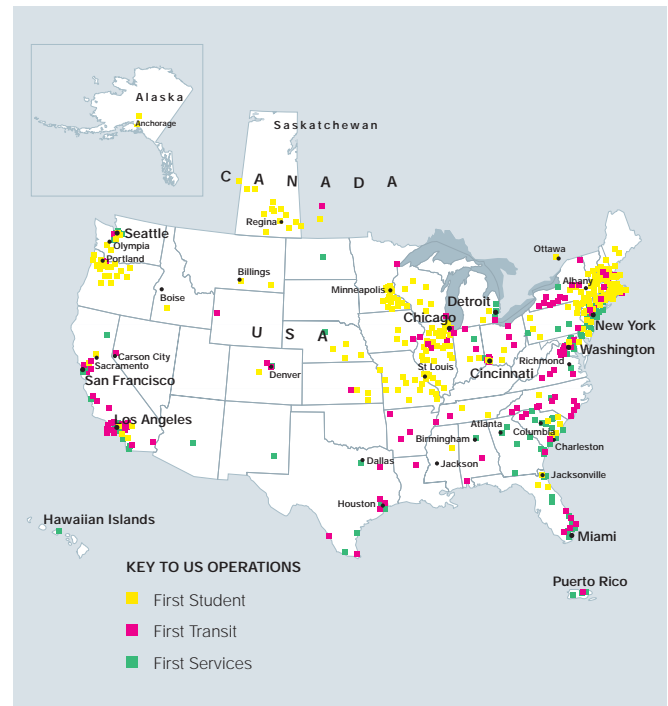
This year in the UK we have recruited human resource directors within both Rail and Bus Divisions to strengthen the management of people issues and provide greater consistency in approach across the UK. In the US each of our three operating companies have a well developed human resource structure headed by a director or vice president who has responsibility for policy and strategy development.

Key customer data relating to all our services is also reported to the board. As part of a recent restructuring in our UK Bus Division we have appointed a commercial director who is responsible for driving the development of customer initiatives within the division.

In the US businesses our operations directors lead the management of customer relations which is largely focused on delivering our services to the performance criteria contained within the contracts with our clients.



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/NVO 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

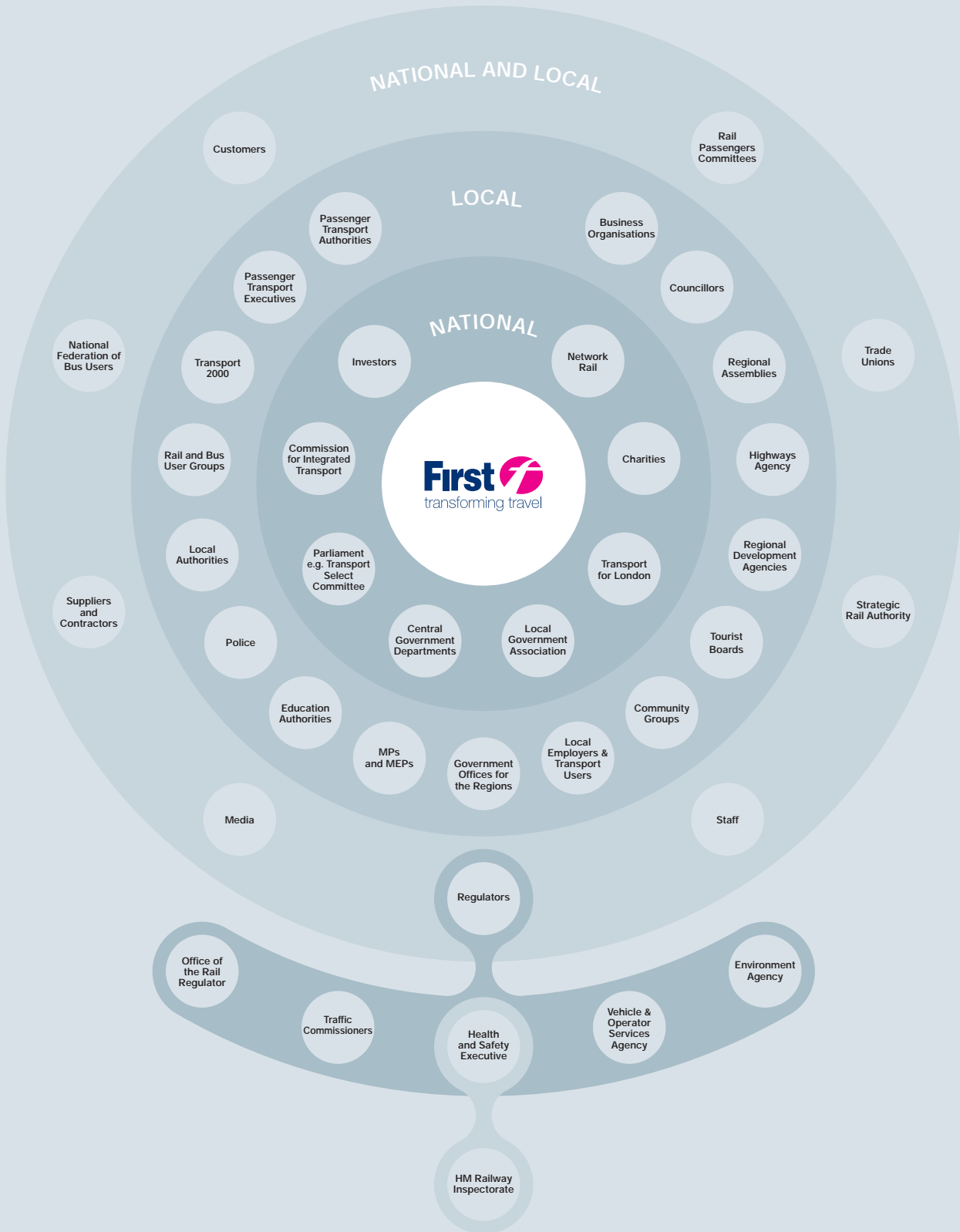
We have developed strong partnerships with our trade unions at both local and national level, leading to joint working across a range of issues including education, staff welfare, and employee benefits. We also undertake a wide range of formal and informal staff meetings and regular employee satisfaction 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.



OUR KEY STAKEHOLDER ENGAGEMENT AUDIENCES IN THE UK



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

OUR MANAGEMENT FRAMEWORK

The Group Chief Executive leads safety development within the Company through the Executive Safety Committee. Performance from both the North American and UK businesses are reported monthly via this committee to the Executive Management and plc board.

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 as improving passenger safety is central to our vision. 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. We maintain records of every road traffic accident, whether or not it is our fault, including records of any passengers injured during the accident.

We actively promote third party input to the development of our safety programme. An external validator attends our Executive Safety Committee 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.

Auditing and Training

Behavioural safety audits conducted by our senior directors including the Chief Executive are a key element of our safety systems. We also place a high emphasis on staff training and run extensive safety training programmes for our staff.

BUS DIVISION

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.

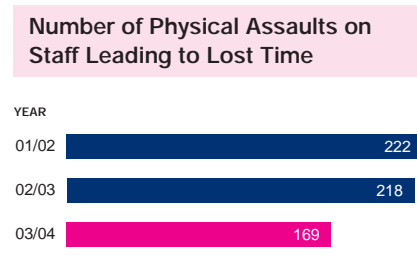
The number of major accidents within the Bus Division for the 2003/04 reporting period showed a reduction of 33% compared to last year. Lost time accidents showed a reduction of 21% on last year's figures and all accidents 9%.

YEAR	AVERAGE NUMBER OF ACCIDENTS PER 1,000 EMPLOYEES	AVERAGE NUMBER OF LOST TIME ACCIDENTS PER 1,000 EMPLOYEES
01/02	177	40
02/03	176	38
03/04	160	30

Over the coming year we will be working to further standardise safety processes and training across the business to build a more consistent safety culture aiming to further improve our safety performance.

Physical Assaults on Staff Leading to Lost Time Accidents

For the period 2003/04 the number of physical assaults on staff leading to lost time showed a reduction for the third year running.



Over the last two years we implemented a number of new control measures and initiatives to help combat assaults on staff including training, greater liaison with police, changes to routes and physical changes to buses designed to improve staff protection.

These initiatives are having an effect, 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 good practice and initiatives already established.

Passenger Safety

The number of road traffic accidents reduced by 7% in the last year and the number of passengers injured decreased by 9%.

Road Traffic Accidents PER MILLION MILES



Bus Passenger Accidents PER MILLION PASSENGER JOURNEYS



We continue to review driver training and assessment standards to improve the emphasis on safety and are currently piloting video route training. Bus design and specification remain under review to maximise passenger comfort and safety.

Alcohol Testing

As part of our measures to improve passenger safety we undertake routine alcohol testing of our employees. Our target for random alcohol testing over the past 12 months was set at 10% of employees. This year 14% of employees have been tested with 99.83% of the tests producing negative results.

Route Risk Assessment

Last year we reported on the introduction of a pilot Route Risk Profile project (now called Route Hazard Analysis) designed to improve passenger safety by improving drivers understanding of potential hazards associated with particular routes. The Route Hazard Analysis involves assessing bus routes to identify hazards along the road and then using this information in the driver training programme. This project has proved highly successful and we are now in the process of rolling it out across the Bus Division.

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.

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. These performance targets are reflected in each Train Operating Company Safety Plan.

Staff Safety

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%.

YEAR	ALL ACCIDENTS PER 1,000 EMPLOYEES	LOST TIME ACCIDENTS PER 1,000 EMPLOYEES
01/02	145.2	13.5
02/03	141.3	17.6
03/04	135.1	15

We aim to achieve further reductions in 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.

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.

YEAR	NO. OF PHYSICAL ASSAULTS ON RAIL STAFF PER 1,000 EMPLOYEES	NO. OF VERBAL ASSAULTS ON STAFF PER 1,000 EMPLOYEES
01/02	31.6	8.0
02/03	29.4	15.6
03/04	32.9	24.1

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.

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, and problem trains or stations are targeted for additional security. All our customer-facing staff receive conflict avoidance training.

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 compares well against other operators and lies consistently below the national rail rate.

Unfortunately, during 2003/04 there was one passenger fatality at one of our stations. This accident has not been attributed to the station environment or the train operators.

There are actions we can take to help reduce unsafe behaviour by passengers. First Great Western have formed a number of station safety and security teams to develop and implement new passenger safety initiatives.

Risk of Train Accidents

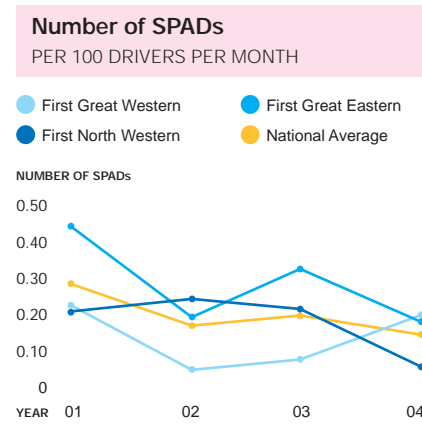
Controlling the risk of catastrophic train accidents continues to be a key priority within the Rail Division. Company policy is not to operate a train if the ATP system is faulty and to terminate it en route if a fault develops.

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.

Signals Passed at Danger (SPADs)

We are a leading industry player in reducing SPADs across the rail network. 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.

We continue to look at ways to reduce SPADs including the recent introduction of three driver simulators for First Great Western, which are being used to prepare drivers for situations they would rarely encounter in their normal work.



OUR SAFETY PERFORMANCE - NORTH AMERICAN OPERATIONS

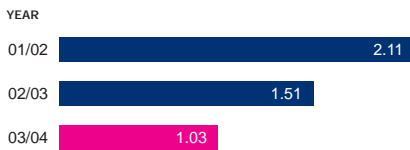
FIRST STUDENT

Staff Safety

During the last twelve 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.

Staff Lost Time Accidents

PER 1,000 EMPLOYEES



Our accident profile indicates that falls, slips and trips are the most common form of lost time accidents followed by accidents caused by collision. This information has focused our training and safety initiatives which will include increased awareness of the dangers which can lead to these types of accidents and improved marking of dangers at the depots.

Passenger Safety

Our yellow school buses are amongst the safest vehicles in the world as they are purpose built for carriage of children and include many inbuilt safety features to protect children while boarding and on the bus.

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 our defensive driver training. We are increasing the number of drivers certified to instruct this programme and the number of drivers who pass through it.

YEAR	VEHICLE COLLISIONS PER MILLION MILES	PASSENGER ACCIDENTS PER MILLION MILES
01/02	18.09	0.58
02/03	18.72	0.73
03/04	19.12	0.66

Driver Suitability

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 which tracks the legal requirements of Federal, State and local authorities and significantly exceeds these requirements.

In addition, our drivers are subject to an on-going programme of drug and alcohol testing where we randomly test employees each month. Each year we exceed the minimum statutory testing requirements.

FIRST TRANSIT

Staff Safety

Over the last twelve months we have experienced a 27% reduction in lost time accidents. 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 program was conducted for all safety managers on occupational safety and health standards.

Staff Lost Time Accidents

PER 1,000 EMPLOYEES



Passenger Safety

During the last 12 months we have seen a slight decrease (around 1.5%) in vehicle collision rates although passenger accident rates have increased by 3.4%. To address the passenger accident rate increase we have introduced the "Tap Root" programme. This is designed to improve analysis of the causes of accidents in order to allow preventative measures to be put in place to reduce the risk of similar accidents occurring in the future.

YEAR	VEHICLE COLLISIONS PER MILLION MILES	PASSENGER ACCIDENTS PER MILLION MILES
01/02	20.52	5.53
02/03	18.76	3.94
03/04	18.48	4.08

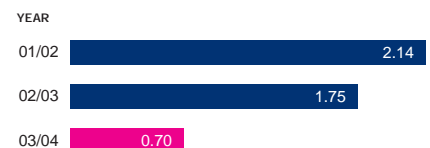
FIRST VEHICLE SERVICES

Staff Safety

During the last 12 months we have achieved a reduction in lost time accidents of 60%. Last year we developed a number of key initiatives to improve safety performance which are delivering performance improvements. These included in particular the establishment of a National Safety Council which meets on a regular basis to review and assess performance against the safety plan and identify opportunities for improvement.

Staff Lost Time Accidents

PER 1,000 EMPLOYEES



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 plc board. Minimum standards for environmental management are established through the Group Environmental Management Manual. A growing number of companies are now developing management systems in line with ISO14001. One further Bus Operating Company - South Yorkshire - has achieved the accreditation this year.

Auditing and Training

Each Bus and Rail Operating Company is audited once a year by an internal audit team. We also audit each bus and rail depot annually. This programme of auditing helps us to identify areas for improvement and assess our progress in achieving our environmental objectives.

Last year the environmental audit programme identified a lack of environmental awareness at site level. In response to this we have produced our own Environmental Awareness Training DVD/video. This was filmed at our own bus and rail depot locations, showing both good and bad practice.

Prosecutions and Incidents

We have not been prosecuted for any environmental incidents for the second year running.

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

RISK MANAGEMENT

Fuel storage and use is one of our main high-risk areas. We now have only three underground fuel tanks which cannot be moved due to space constraints. These are routinely tested and certified or fitted with leak detection systems. All our fuel storage and delivery areas have been audited. The majority of proposed work recommended following the audits has now been implemented.

All our sites have emergency spill response plans and spill response training is a core part of our training programme.

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 also largely diesel powered. We use significant quantities of fuel to power our fleet but encourage greater awareness of fuel efficiency.

We are always keen to support alternative fuel trials to test energy options for the future 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 in partnership with Transport for London.

This trial is part of a broader project piloting the use of these distinctive zero emission vehicles in a number of countries. These buses use compressed hydrogen to generate electricity, which drives the bus and if the hydrogen used can be generated from alternative energy sources they could remove reliance on fossil fuels to power our vehicles.

Water Use

Our main use of water is for vehicle washing. We have now replaced almost all of our bus washes with either full or partial water recycling facilities. This, together with our ongoing awareness

programmes, has enabled us to reduce our water usage in the Bus Division by 25% over 4 years, with an 8% reduction being achieved on last year's figures.

Water Use - Bus Division

AVERAGE WATER USAGE PER BUS m³



In the Rail Division, year on year comparison of water consumption figures is difficult due to changes in the management at three First North Western depots. Next year we plan to look at ways of normalising the data to make year on year comparisons easier and to take account of the introduction of new franchises.

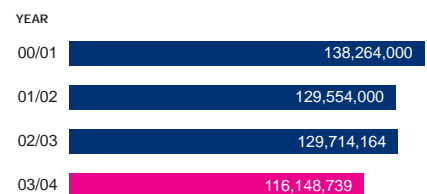
Energy Use

We continue to try to reduce energy consumption and offer quarterly financial incentives to depots. This year we awarded a total of £30,000 to our depots achieving the biggest savings.

This year we also undertook a programme of energy training for staff. These training sessions were aimed at assisting depots to develop energy action plans and to drive improvement in energy efficiency. We are delighted to report that within the Bus Division we achieved a 10.5% reduction in energy usage in line with our target.

Energy Use - Bus Division

TOTAL ENERGY USAGE kWh



In the Rail Division we have also achieved reductions in total energy usage but again the significance of these reductions is complicated by changes in the number of facilities reported this year. We will be developing ways to normalise this data for the future.

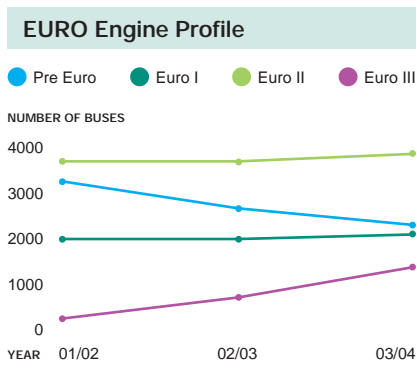
FLEET MANAGEMENT

We operate a fleet of 9,200 buses and 577 train vehicle units which impact on air quality through the emission of combustion gases. 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 by ensuring high standards of fleet maintenance.

Our Engine Profile

We continue to invest in updating our vehicle fleet and in replacing older engines with Euro III engines. We aim to reduce the emissions from our fleet to as low as practically possible and specify all our new buses with the latest emissions technology. Last year we invested over £70m in new vehicles across the bus division and we intend to invest a further £60m in new vehicles this year.

In the last 12 months we have increased the number of Euro III engines in our fleet by 49%. In addition, 24% of our vehicles are fitted with catalytic converters and around 7% with particulate traps.



We operate a comprehensive maintenance programme to ensure that our fleet meets the standards required

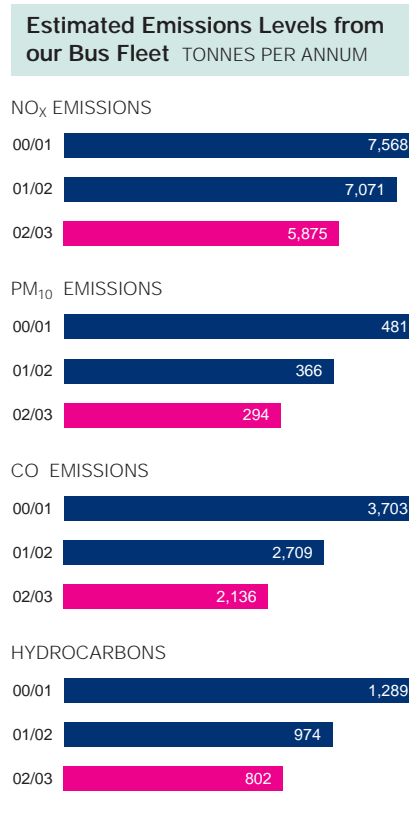
by both the Vehicle and Operator Services Agency and our own internal performance requirements. We conduct internal audits on our procedures and standards as well as using outside agencies such as the Freight Transport Association for an independent view.

VEHICLE EMISSIONS

Emissions from Our Buses

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. We base our methodology on the findings of a study undertaken by First last year and use emission factors published in the National Atmospheric Emissions Inventory database.

Our calculations, based on tonnes of pollutants produced per annum, show that estimated emission levels of all the four main pollutants are reducing year on year for our buses.

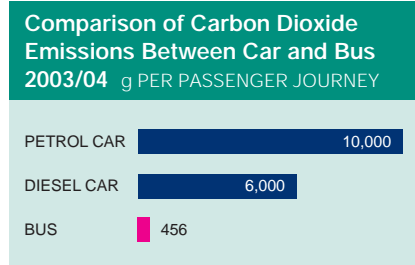


Rail

To calculate rail emissions we have used a combination of published emission factors and those provided by our vehicle manufacturers. The combined emissions for the diesel trains in our First Great Western and First North Western fleet continue to show reductions in particulates and nitric oxides due to investment in new rolling stock which meet tighter emission standards.

Greenhouse Gases

Although our operations contribute to greenhouse gas emissions, our services also offer part of the solution to reducing these gases. Buses emit far lower concentrations of carbon dioxide per passenger journey than the equivalent journey by car.



Note: The above figures are illustrative only as a wide range of factors affect actual emissions. Please refer to our full report for further information on the basis of the above calculations.

This year we have also teamed up with Future Forests to offset all the carbon dioxide emissions produced by rail and air business travel by our staff. This has resulted in the planting of 1,500 trees to absorb the carbon dioxide emissions from this source.

WASTE MANAGEMENT

We produce both hazardous and non-hazardous waste and dispose of both using licensed contractors. 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 seen a reduction of 7% in overall quantities of waste arising in the last 12 months. Our recycling rate for non-hazardous waste has increased from 17% to 33% during the same period.

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. Regionally, responsibility lies with the Region Vice President with assistance from their Regional Maintenance and Safety Managers. Localised responsibility for environmental issues lies with Contract Managers at each location.

FirstGroup America have adopted the FirstGroup Environmental Management Manual adapted to US standards. This is supported by Tool Box guides on key engineering and workshop issues for site staff.

Auditing and Training

Auditing is a key element of our risk management strategy. All sites are audited prior to being purchased or leased and a programme of site audits is being implemented through the introduction of the Environmental Management Manual.

We have developed an environmental training programme which uses the Internet and other media to instruct employees. This covers key environmental issues as well as statutory training required by the US permitting regime.

Prosecutions and Incidents

During the last 12 months we had no environmental incidents which led to prosecution across our US operations.

All prosecutions and incidents are recorded in a central database together with an assessment of the causes. Our sites all have spill response plans where required and we have a national network of spill response contractors that are available to respond to spill incidents that require the assistance of a third party.

ENVIRONMENTAL PERFORMANCE

The management of environmental issues in the US is driven by a strong legislative culture which requires permits for many environmental applications.

These permits require renewal and periodic update and much effort is required to ensure that permits are current and valid at over 350 subsidiary locations. We work with Strata Environmental who are tasked with ensuring we remain in compliance. This they achieve through the establishment of a comprehensive environmental database which records all permit information and is being developed to include a much broader range of information.

RESOURCE USE

Fuel Use

The main fuel used by First Student and First Transit is standard low sulphur diesel, although other fuels are used in some locations. First Student is the only company where we have direct control over the type of fuel use as in the case of First Transit it is mandated by our clients.

Chemical Use

Recent analysis of our chemical purchasing policy has shown that greater efficiency of chemical use can be achieved through establishing a standard corporate chemical purchase list that would be delivered by a limited number of vendors. Achieving this objective is one of our goals for the coming year.

Energy and Water Use

Initiatives to reduce resource use are driven by individual depots. In First Student a number of maintenance shops have been fitted with waste oil heaters. We do not currently monitor energy and water usage on a central basis in the US but are considering doing this for selected locations in the future.

FLEET MANAGEMENT

We operate a fleet of 17,400 yellow school buses which impact on air quality. These are the buses where we have most opportunity to influence our emissions as we own the majority of the vehicle fleet. First Transit operate bus services on behalf of our clients who

own the vehicle fleet and control the selection of vehicle and engine type. First Vehicle Services do not operate any buses. In First Student we aim to reduce emissions by investment in new engines with lower emissions, fitting of further emission control technology, and ensuring that we maintain our fleet effectively. Over the past three years all buses purchased by First Student have included a "50 state" engine which complies with the most stringent standards in the US and the proportion of our fleet with this engine type has increased from 37-55%.

WASTE MANAGEMENT

We have been working to significantly reduce and if possible eliminate, the production of hazardous waste at our facilities through the introduction of a parts washer which can recycle solvent. Approximately 65% of our locations now use the new parts washer and we are extending this to all our operating locations.

We are also looking to increase the proportion of waste oil which we send for re-refining which allows it to be reused as a base lube oil.

This year we have also reduced our number of waste management contractors with a view to improving our data reporting and waste management methods in future years.

18%

increase in yellow school buses with "50 state" engines.

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

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.

OUR PEOPLE A VISION

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 focused, its profile reflecting the local labour market. Our people should be 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.

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. This year we used a combination of internal and external recruitment in appointing Human Resource Directors for both UK Bus and Rail as we believe this combination will balance new idea generation with current best practice in people management.

DEVELOPING OUR MANAGEMENT FRAMEWORK

We have gone to great lengths this year to gain a better understanding of our people issues through conducting a strategic review of human resources within the business. The review identified the need to strengthen our capabilities in a number of key areas including employee communications, recruitment and retention, learning and development, compliance and human resource infrastructure.

The review has identified some key challenges for us which we seek to address through the evolution of a strengthened people management framework.

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 regular staff newsletters. This is supported by more formal staff satisfaction surveys. We conducted our fourth survey in May/June 2003. All First employees in the UK were invited to take part with an overall response rate of 32%.

The survey results indicated that we have made progress in all 10 areas addressed by the survey with our highest scores in the areas of First (how our people feel about our brand), uniforms, pensions and benefits.

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

ANNUAL FIGURES

■ 2001 ■ 2003

TOTAL COMMITMENT



COMPANY MANAGEMENT



FIRST



SAFETY AND EMPLOYEE WELFARE



COMMUNICATIONS



TRAINING/DEVELOPMENT



MY MANAGER/SUPERVISOR



COMPANY STANDARDS



CUSTOMER FOCUS



UNIFORMS



PENSIONS AND BENEFITS



In other areas such as company management and customer service, employee perceptions are less positive. We are reviewing ways we can address these findings, as we believe these are areas that have the potential to impact across the Group.

Local managers have been briefed on the key issues arising from the surveys at a local level which has led to the implementation of local action plans to address these issues. Local 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.

Recruitment and Retention

Our bus driver turnover figures have remained stable over the past year at around 28.5%. This is set against high turnover figures for the industry as a whole. In the Rail Division turnover lies at around 8 to 10% for all staff.

We have invested considerable effort this year, including the use of external benchmarking, in obtaining a more detailed understanding of the reasons for high bus driver turnover and identifying ways we are likely to be able to reduce it. Based on the findings of these reports we are developing a number of initiatives.

- Standardisation of recruitment processes involving the establishment of a centralised contact centre which will become operational in the summer of 2004.
- Development of a strong national relationship with Jobcentre Plus resulting in First becoming a "Recruitment Partner of Choice."
- A strategic relationship with European Language Services in Krakow trialing bringing Polish bus drivers to the UK following comprehensive language and vocational competence assessment.
- Development of packages for people heading towards retirement or wishing to work beyond the age of 65 which has recognised First as an "Age Positive Champion."

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 work place learning centres where they have the freedom to study a range of subjects that support them in meeting their broader learning aspirations.

In support of this ambition we have developed structured NVQ programmes in both our Bus and Rail Divisions in which all our drivers, engineering and customer-facing staff are encouraged to participate. 13% of our bus driving force now hold an NVQ and 3,000 bus drivers are currently working towards the award.

Work Place Learning Centres

We continue to actively develop work place learning centres in partnership with the Transport and General Workers Union. 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.

Recognition and Rewards

We continue to work with employees, trade unions and management to develop our benefit package to meet employee aspirations. This has included a ground-breaking deal brokered with the trade unions on pension provision.

Phil Brown, Bradford based Transport and General Workers Union regional industrial organiser who led the 10 month negotiations said at the time *"this is a ground-breaking 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."*

Other reward schemes include access to credit unions and employee share schemes.

Diversity

Although there have been a number of extremely successful initiatives throughout our businesses aimed at improving the diversity of our workforce, 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 cultural diversity. A 5% increase in female managers is encouraging and reflects our desire to develop a performance culture, based on individual abilities, skills and knowledge. We are working to develop our data gathering and reporting methods too, as this will provide a strong base from which to launch key diversity - enhancing actions.

30%

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



NORTH AMERICAN OPERATIONS

OUR MANAGEMENT FRAMEWORK

All three businesses within FirstGroup America have their own management structure for the management of human resources. All structures include a representative at corporate level who develops policy and strategy and is supported by a management structure permeating to site level. The key drivers of our human resource strategy across all businesses are to:

- Reduce staff turnover where necessary.
- Maintain the 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 businesses to provide greater reporting capabilities and accuracy for all human resources functions.

Engaging with Employees

In all our North American businesses the emphasis of our human resource strategy is around encouraging open dialogue between managers and employees through regular meetings, walk rounds and informal engagement.

In First Transit all managers receive extensive training in problem resolution, which we believe has contributed to the reduction in complaints against the Company to the Equal Opportunities Commission.

First Student has begun this year to trial the use of Employee Satisfaction surveys on a selected basis. The findings of the surveys have been very location specific and have led to the development of local action plans.

First Vehicle Services use employee surveys as part of acquisition to obtain an insight into employee issues and concerns at an early stage which can thus be addressed as part of the integration process. They plan to initiate their first Employee Satisfaction Survey for existing employees over the next 12 months.

Recruitment and Retention

In common with many other service sector companies, staff turnover in the bus sector remains a major issue also in the US. In 2002 to 2003 the staff turnover in First Student was 35% which has reduced to 31% this year. In First Transit the figure is around 31%. First Vehicle Services who do not employ any driving staff have a much lower staff turnover rate of around 2%.

Understandably reducing staff turnover is a significant focus of our human resource strategy in First Student and First Transit. In these companies we are currently working to identify ways to improve our recruitment processes and to provide better support to drivers once they enter the profession. We are also looking at further ways in which we can assist drivers to balance their work life needs and to develop broader ranging training and development opportunities. This has led to the establishment of First Transit University which provides specialist training for front line supervisors.

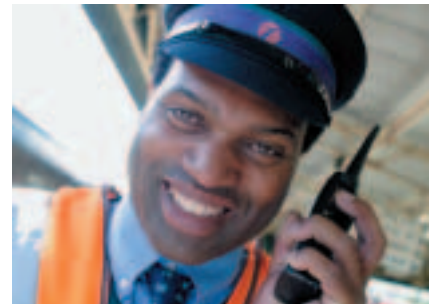
Learning and Development

In all our US businesses we provide extensive on-the-job training. In the case of First Student this includes preparing drivers for unexpected situations which may arise using the Smith System training programme.

Both First Transit and First Vehicle Services actively participate in the Automotive Service Excellence (ASE) programme training and testing engineering staff and financially rewarding those who successfully pass a skill certification test.

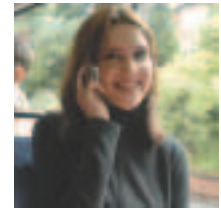
Diversity

All our North American businesses attract and retain employees of all races and ethnic backgrounds and have in place well established systems for monitoring the diversity of the businesses. Our policy manual and employee handbook support affirmative action and equal opportunity. We have an absolute and no fault policy on matters of discrimination in the workplace, and any complaints are immediately and fully investigated.



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

Our Targets for the next 12 months remain the same as those for last year.

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.

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

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

CUSTOMER SATISFACTION

We undertake extensive customer satisfaction surveys across our business. In the Bus Division these surveys are now in their 5th year and involve 1,500 customers being interviewed each month. We have recently introduced three further ways of assessing customer satisfaction. These include a comments register on the Company web site which attracts approximately 100 responses per week. Self completion questionnaires are being trialed in some areas, and we undertake periodic surveys of non-bus users to enhance our understanding of potential customers.

Within the Rail Division our own surveys are supported by those undertaken by the Strategic Rail Authority which indicate that we maintain our services in line with the national average for First North Western and above the national average for First Great Western and First Great Eastern.



PUNCTUALITY AND RELIABILITY OF SERVICE

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

BUSES

In the Bus Division we have invested heavily in the introduction of TRACKER data systems which allow our buses to be tracked in real time enabling us to identify where buses do not comply with the timetable. More detailed analysis allows us to assess the reasons why and take corrective action either independently or with the local authority. The TRACKER system has now been introduced across most of the business.

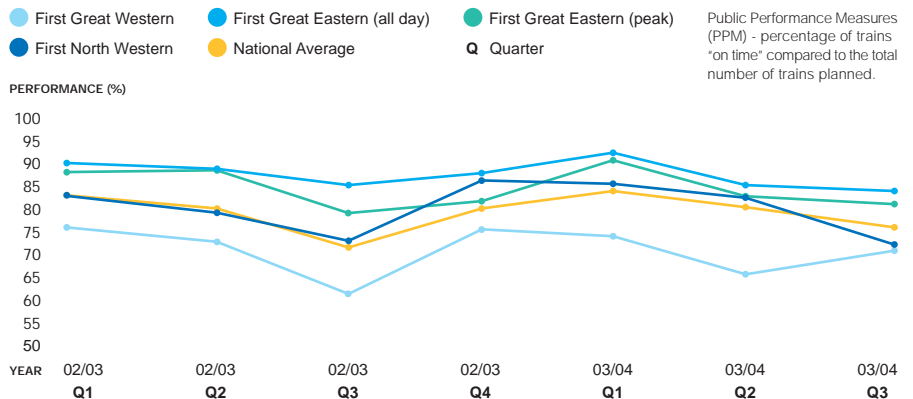
The reliability of our bus services currently lies at 98.2% for all services and 99.4% for peak services. We continue to fall slightly short of the Confederation of Passenger Transport target for bus companies of 99.5%. We undertake a detailed assessment of the reasons for cancellation of service and are working to identify ways to improve performance. Based on last year's figures we know that 36% of cancellations were due to engineering problems, 31% due to non availability of drivers and 33% due to other causes.

RAIL

The punctuality and reliability of our rail services are measured against the Strategic Rail Authority Public Performance Measures (PPM). Our PPM performance has remained relatively consistent over the last two years and 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.

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 delay between ourselves and Network Rail.

Train Company Performance
PUBLIC PERFORMANCE MEASURES (PPM)



Although the proportion of delays attributable to ourselves tends to be considerably lower, we have a significant influence on improving performance. We do this through further analysing the cause of our portion of the delay and developing action plans to address these.

For example:

- In conjunction with Network Rail and the Strategic Rail Authority we have opened a new platform at Swindon where performance enhancements have exceeded expectations.
- At First Great Western we have introduced an employee incentive scheme to encourage staff to identify ways they can help to reduce delays.
- First Great Western's High Speed Train fleet have recently been modified to improve performance in potentially difficult weather conditions.

Improving Customer Service

We continue to make significant investment across the business both independently and in conjunction with our partners to improve the quality of our services.

Examples of developments which have taken place in the last 12 months include:

- The creation of a 10 year partnership with Glasgow City Council to provide major improvements in public transport in the city.
- Development of a new "tram like" vehicle, designed following detailed focus group testing, for introduction onto three pilot routes in Yorkshire.
- Investment in Essex in 63 new vehicles and development of more innovative products leading to 10% growth on Chelmsford Overground route and 28% growth on the Colchester network.
- The development of customer charters across a number of bus operators to provide our customers with a better indication of the service they can expect and how to complain if that service is not received.
- The showcase route 76/77 in Bristol combines state of the art buses and traffic flow measures which has led to an average increase in passenger numbers of 6% on this route.
- First Great Western has developed an extensive training programme for customer facing staff including training in disabled access and train announcing and achieving customer excellence programmes.
- We have undertaken a number of train fleet modification programmes this year relating to door gear which we believe will reap significant performance benefits in 2005/06.
- We continue to introduce the Adelante fleet to supplement existing high speed trains extending our daily seat capacity.

These are just some examples of the investments we have made over the last 12 months to improve performance. In addition, we continue to investigate ways in which new technology can improve our services, develop green travel initiatives and support greater rail and bus integration.



1,700

additional seats created by the introduction of our Adelante fleet in First Great Western.

NORTH AMERICAN OPERATIONS

FIRST STUDENT

At First Student our customers include public and private school districts, schools, parents and the pupils themselves. We meet with all our clients on a regular basis. For each client our performance is monitored over time and where there is a drop in performance an action team is put together.

We also monitor client satisfaction through the use of annual surveys. The surveys indicate that the quality of drivers and their ability to deal with disciplinary issues rank above punctuality and reliability concerns. We address these issues through our safety management and human resources programme covering driver training and selection.

FIRST TRANSIT

At First Transit we operate and manage virtually every type of transit and public transport system in America on behalf of a customer base consisting of City, State and County authorities covering large urban, rural and suburban areas. Our immediate customer base is therefore the transport operators rather than the travelling public.

We engage with our clients on a regular basis through informal dialogue and formal monthly performance meetings to assess performance against contract. In addition, we have recently initiated a process of conducting on-board customer satisfaction surveys to obtain the travelling public's views. Issues raised directly to our clients by the travelling public will also be reported to us through our regular meetings with our clients.

We monitor the number of complaints received by our customers which reduced by 61% this year largely attributed to performance improvements in our paratransit operations. These are analysed locally and typically include schedule adherence and operator courtesy.

Reliability of Service

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%.

The reliability of our services is directly related to the availability of operators to drive our buses. 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.

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 programmes. We also maintain records of the number of vehicle preventative maintenances completed on time (currently 97%) against a target of 100%.

FIRST VEHICLE SERVICES

In the same way as the other US businesses, First Vehicle Services maintain a continual and regular dialogue with our customers. Our clients require us to measure the quality of our performance in relation to a number of indicators which vary from client to client but most contracts include the following:

- 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.

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.



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. 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 allowing us to develop our services to ensure improved access by those who most rely on them.

An example of the application of this technique is to Service 95 in Sheffield. Following an assessment using the demographic package the service was extended in July 2003 to provide a new link every 30 minutes, bringing a further 4,822 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

Three years ago we introduced the US style yellow school bus services to the UK. Currently, we have seven schemes operating, carrying over 1,300 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.

The yellow school buses are amongst the safest, most reliable ways to transport children to and from school. They also offer 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 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 exercises. These have 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 First 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 First.

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.



23%

reduction in the number of children travelling to school by car in Hebden Bridge since the introduction of our yellow bus service.

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