

CORPORATE SOCIAL RESPONSIBILITY



Scope

Welcome to FirstGroup plc's 2004/05 Corporate Social Responsibility report. This report covers all the Group's activities in the United Kingdom and North America. It includes our most recent rail franchise First ScotRail, which joined the Group in October 2004 part way through the reporting period. The reporting period is for April 2004 to March 2005, unless otherwise indicated.

This is a Summary report. The full version of the report can be found on the FirstGroup UK website:
www.firstgroup.com/corpfirst/responsibility/commenvreport.php

The introductory sections to the report provide background on First's Corporate Social Responsibility strategy in relation to the Group's overall business strategy and society's transport needs. Performance data is then presented in relation to four key themes:

Safety

Customer and Community

Team

Environment

There are three distinct operating divisions within the Group: UK Bus, UK Rail and North America. In the majority of cases data is presented separately for each of these operating divisions. In certain parts of the business, in particular safety and environment, we are looking to develop Group-wide indicators which will allow us to monitor performance on a Group basis in the future.

Within the report we present our CSR objectives and targets for the coming year. These are presented on a Group-wide basis rather than in relation to each operating division as in previous years. We also report progress in relation to last year's objectives and targets within the individual performance chapters.



FirstGroup is a FTSE4 Good constituent company. The FTSE4Good Index Series measures the performance of companies that meet globally recognised corporate responsibility standards.



During the year we have also taken part in a number of rating and benchmarking exercises including EIRIS the leading European provider of independent research into the social, environmental and ethical performance of companies and the Business in the Community Corporate Social Responsibility Index.

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Opinion

On the basis of the method and scope of work described below and information provided to us by First, nothing has come to our attention to suggest that overall the description of the Company's performance and management provided in the Report is not accurate. We highlight below our additional comments in relation to the CSR performance management and reporting processes.

Since our assurance work last year, First has made much progress in the co-ordination and management of CSR performance and reporting. Significant developmental effort has been put into aligning, and integrating, where relevant, North American and UK performance reporting processes and the North American division is now starting to report more extensively on its non-financial performance. From a CSR management perspective there has been a structural change over the last 12 months with CSR issues now managed from a more functional perspective. A Group CSR champion has been appointed for each of the four focus areas [environment, safety, team (internal stakeholders) and customer & community (external stakeholders)] and cross business initiatives are starting to emerge from pro-active local actions that can be replicated.

The following developments are particularly noteworthy:

- >> the increasing involvement of the Internal Audit function in supporting CSR performance management;
- >> the evolving stakeholder co-ordination mechanisms that will allow a Group overview to be taken of the extensive local interactions; and also
- >> the evolving Group level human resources framework and people data reporting mechanisms which can in future only improve consistency of approach across the business and provide a framework for establishing a 'First Culture' which will also support First's CSR objectives.

Unless otherwise stated, we have seen evidence to support the majority of claims made in the Report. We found that underlying systems and processes are generally robust and most developed for environmental compliance and health & safety data. However, we did identify weaknesses in the process of calculation of waste data for the UK. The process of calculating the source activity in relation to air emissions for UK Bus lacks transparency. Changes in First's franchise portfolio have affected year on year comparability of UK Rail data.

During the course of our work, we identified a number of opportunities where strengthening of CSR performance management systems and reporting processes could increase robustness; these opportunities have been reported back to First.

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

Materiality

Developments such as:

- >> improved co-ordination of stakeholder engagement,
- >> the further development of First's CSR strategy since last year,
- >> a more Group-wide approach across both UK and North American Divisions, and
- >> alignment with the overall business risk identification process

are helping First to ensure that its material issues are being addressed across the Group.

The Report's introduction addresses the wider issues facing the transport sector, for example, social inclusion and sustainable transport, providing context for detail described elsewhere in the Report which is a positive development. We consider that the report contains performance information and commentary on all the current relevant issues for the sector, although during our interviews it became apparent that there are variations in perception of the importance of different sustainability issues in Europe and North America, for example, differences in public transport culture and the issue of "sleeping children" (children left asleep on school buses at the end of an employee's shift) in the US where student transport is a large element of First's business. Consideration should be given to including discussion on some of these variations in future reports.

Completeness

We consider that the Report is complete in all material aspects and where there are gaps these have been identified within the Report or our commentary. The reporting of some issues is limited by the availability of data and further work is underway to develop relevant reporting processes, for example resource consumption and community involvement data for North America and some employee related data in the UK.

First liaises extensively with its stakeholders as part of day to day business, using a variety of proactive and reactive methods. We have seen considerable evidence that key issues highlighted by this dialogue are addressed by First, especially feedback from customer satisfaction surveys, regulators and service improvements, although we have not been able to check every claim in the Report relating to the results. There is an evolving mechanism for tracking and co-ordinating engagement across the UK operating companies which will facilitate the identification of common issues and co-ordination of appropriate responses across the Group, as well as the sharing of good practice, although there is no Group-wide dialogue process planned. These developments, will allow First to improve its systems for sensing and responding to stakeholder expectations. We note that there are differences between the UK and North America regarding the definition of "stakeholder", given the differing nature of the business and contracting models, and consideration should be given to these differences being reflected in future reports.

Responsiveness

There is evidence that information obtained from CSR management and stakeholder co-ordination processes is used to establish targets for performance management. The linkage between the Group's overall business strategy and the setting of CSR objectives and targets is not fully transparent but efforts are underway to improve this.

Benefit would be derived from

- >> a more formalised approach to target setting based on past performance and operational practicalities as well as the outputs from engagement;
- >> a more transparent linkage to the Group's overall business strategy, and
- >> quantified and measurable targets across all key areas of CSR focus.

Basis of the opinion:

Scope

For the third year, FirstGroup plc has commissioned csrnetwork to provide independent assurance over the information within the FirstGroup 2005 Corporate Social Responsibility Report (the Report). The objective of assurance was to check claims made and review data and non-financial systems and controls in place to monitor performance at Group, Divisional and Local level. In addition to meeting with key personnel at the corporate level of the business in the UK and North America, we visited two local operations in each of the main UK divisions and a further two in the US. This is the second year that the North American operations have been included in the overall assurance process, but only the first year that they have been included in detailed assessment of local data and systems, although we did not test their divisional consolidation systems in detail. Our assurance work this year also did not cover the section on 'working with suppliers' and parts of the 'Community' section of the report. As a result of the increased breadth and depth of work undertaken, the level of assurance provided has risen. We used the AA1000 Assurance Standard in designing the assurance process, which covered the claims made in the internet based (.pdf) Report and the Summary Report. Any financial information contained within the Report is excluded from the assurance process.

Responsibilities of the Directors of FirstGroup plc and the Assurance Providers

The directors of FirstGroup plc (First) have sole responsibility for the Report contents and underlying performance management, reporting and internal assurance systems. We were not involved in preparation of the Report and this statement represents our independent opinion. In 2004 we provided an Accountability Rating benchmark score to First on the basis of prior year published information and also feedback on integration of CSR internal control with First's Internal Audit function. 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 of any financial or investment decisions. The independent assurance team comprised Lucy Candlin, Mark Line, Vicky McAllister and Connie Sasala. Further information, including a statement of competencies can be found at www.csrnetwork.com

Method

The assurance process was conducted through meetings in the UK and US with directors and managers at corporate, business and operational level covering responsibilities for areas of management, assurance and stakeholder relationships outlined in the Report; and for collecting, collating and reporting data and information upon which the Report is based. Operational companies/locations visited were agreed with the assurance team on the basis of sites proposed by First and to meet operational constraints and balance of the assurance process; the sites visited were managed by First Great Western Link; GB Rail Freight, First Bristol; Midland Bus (all in the UK); First Student (Jacksonville) and First Transit (Lauderdale Lakes) (in the US). Interviews, document review and system checks covered claims, issues identification, stakeholder engagement processes, data collection, analysis and internal assurance processes. In addition, we witnessed an external stakeholder dialogue, reviewed internal stakeholder engagement and internal assurance processes.

The purpose of our work was to collect evidence in order to assess First's performance management and reporting processes against the principles of materiality, completeness and responsiveness as described in AA1000AS, we have not however tested all data streams in detail. To support our work we also conducted a review of publicly available information on CSR issues in the transportation sector in both Europe and North America.



UK. June 2005

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

Executive Statement



IT IS WITH GREAT PLEASURE THAT I PRESENT OUR THIRD CORPORATE SOCIAL RESPONSIBILITY (CSR) REPORT. ALTHOUGH WE ARE STILL AT THE STAGE OF DEVELOPING OUR STRATEGY AND PROCESSES, THIS YEAR WE HAVE MADE SIGNIFICANT PROGRESS IN IMPROVING THE MANAGEMENT OF THESE ISSUES. WE HAVE ESTABLISHED A CORPORATE SOCIAL RESPONSIBILITY STRATEGY GROUP TO PROVIDE A FOCAL POINT, WITH RESPONSIBILITY FOR ADVISING THE EXECUTIVE MANAGEMENT BOARD AND THE PLC BOARD. WE HAVE ALSO FURTHER DEVELOPED OUR INTERNAL AUDIT AND RISK MANAGEMENT PROCESSES TO INCORPORATE CSR MORE FULLY.

CSR is core to our business, reflected in our values and our vision to transform the way people travel and the way they feel about public transport. Our success in achieving this vision is reliant on effective management of issues such as safety, our customers, our employees and the environment. It is also dependent on us maintaining effective dialogue with our many stakeholders.

As a public transport operator, we have a vital role to play in supporting the needs of society to achieve more sustainable travel. This is necessary to reduce the growing negative social and environmental impacts associated with society's continuing reliance on the use of the private car. One key way we can contribute to reducing these impacts is through improving the safety and quality of our services thus encouraging more people to use public transport. We make an important contribution to the economy by providing a necessary public service, being a major employer and relying on a significant number of suppliers and contractors.

We recognise that developing more sustainable travel is not without its challenges. These include, at the most fundamental level, attracting more people to use public transport. Other challenges include reducing our vehicle emissions and developing services to meet the needs of all sectors of the community.

Therefore to achieve business growth and improve the sustainability of our operations we continue to focus on:

- » Ensuring the safety of our employees, passengers and services
- » Valuing and developing our employees
- » Improving the service to our customers and the community
- » Recognising and reducing our environmental impacts

Corporate Social Responsibility is integral to our overall business strategy. Our key achievements this year include the development of our people management framework through the creation of structured development pathways. We continue to increase the proportion of our employees with vocational qualifications and access to Learning Centres. This year saw the introduction of the "f t r" - a new concept in public transport developed through close consultation with our customers, staff and local authority partners. We continue to make progress in improving our performance in relation to aspects of safety and environmental management and have now integrated the rail franchises into our environmental management framework. There is still work to do in fully integrating the new rail franchises into our safety management framework which will continue to be a focus for us next year.

Over the coming year we will continue to evolve our corporate social responsibility strategy building on progress to date. In particular, we will be working to embed our understanding of these issues and the associated values further into the organisation, and to strengthen our measurement and management framework around CSR matters.

Moir Lockhead
Chief Executive

Transforming Travel - Our Vision and Values

OUR VISION -
TRANSFORMING TRAVEL
FIRST WANTS TO LEAD THE
WAY IN TRANSFORMING
THE WAY PEOPLE TRAVEL
AND THE WAY THEY FEEL
ABOUT PUBLIC TRANSPORT.

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 of 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 matter. 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.

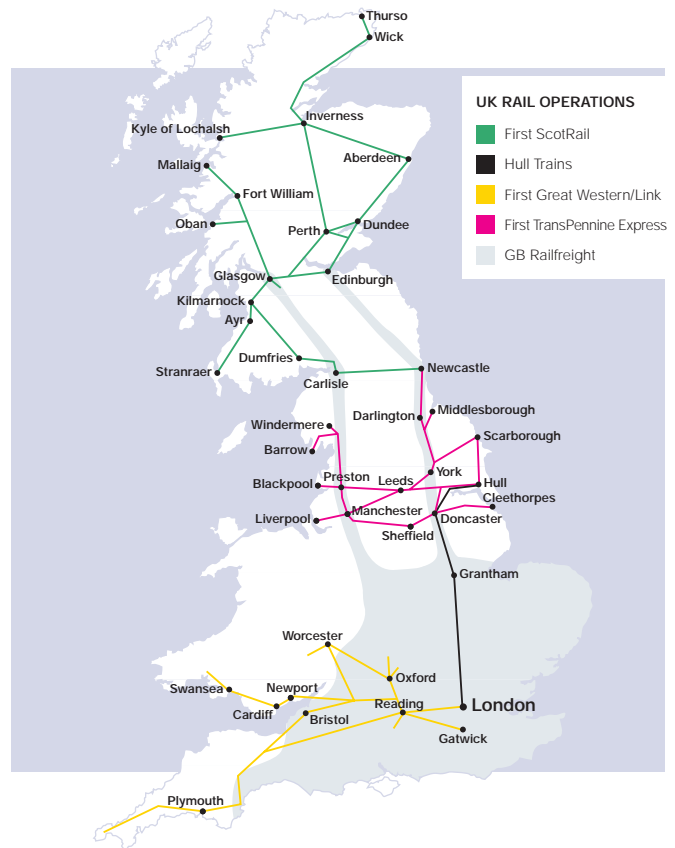
Community

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.

Company Profile

FIRSTGROUP PLC IS A UK BASED INTERNATIONAL TRANSPORT COMPANY WITH A TURNOVER OF £2.7 BILLION A YEAR, AND 67,000 EMPLOYEES THROUGHOUT THE UK AND NORTH AMERICA.

We operate rail passenger and rail freight services in the UK and bus services, including school bus services, in the UK and North America. We also have a vehicle maintenance business in North America.

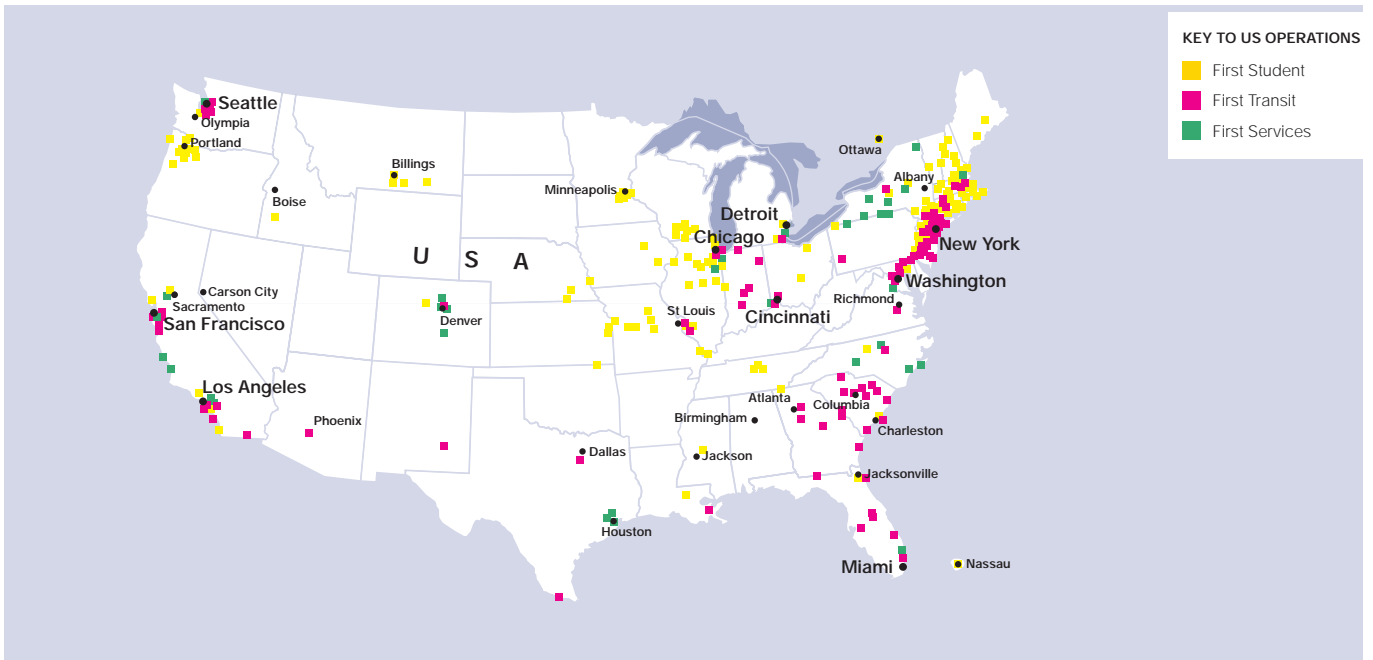


UK BUS

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.

UK RAIL

Our rail passenger operations include intercity (First Great Western, First TransPennine Express and Hull Trains) and London commuter services (First Great Western Link). In October 2004 we also took over operation of the First ScotRail franchise which runs all the rail services in Scotland. In addition, we operate mail, freight and infrastructure services through GB Railfreight.



NORTH AMERICAN OPERATIONS

In North America the Group has three operating divisions: Yellow School Buses (First Student), Transit Contracting and Management Services (First Transit) and Vehicle Fleet Maintenance and Support Services (First Services). Headquartered in Cincinnati, the businesses operate across the US and Canada.

First Student is the second largest provider of student transportation in North America with a fleet of over 20,000 yellow school buses, carrying nearly 2 million students every day across the USA and Canada.

First Transit is one of the largest private sector providers of transit management and contracting, managing public transport systems on behalf of transit authorities in cities such as Atlanta, Los Angeles, Houston and Seattle. We are one of the largest providers of airport shuttle bus services in the USA, serving airports in cities such as Cincinnati, Miami and Philadelphia.

We also manage call centres, paratransit operations and other light transit activities.

First Services is the largest private sector provider of vehicle maintenance and support services in the US. We provide fleet maintenance for public sector customers such as the Federal Government, cities and fire and police departments. We also provide a range of support services including vehicle maintenance, logistics support and facilities management to public and private sector clients including the US Navy and US Air Force.

Key Statistics¹ for the Year ending 31st March 2005

Turnover
£2,693.4 million

Number of employees
67,367

Distributions to shareholders²
£77.7 million

Spending on goods materials and services
£1,154.7 million

Employee costs (wages, benefits and pensions)
£1,231.4 million

1. Further details are available in our Annual Report.

2. Distribution to shareholders comprise dividends paid of £48.0 million plus share repurchases of £29.7 million.

Transport - The Sustainability Challenge

TRANSPORT HAS BECOME ONE OF SOCIETY'S KEY SUSTAINABILITY CHALLENGES. PEOPLE WANT THE FREEDOM TO TRAVEL AS AND WHEN THEY PLEASE, BUT THE SOCIAL AND ENVIRONMENTAL CONSEQUENCES OF OUR INCREASING RELIANCE ON ROAD TRANSPORT IS NOW WELL RECOGNISED.

Car ownership continues to rise and the car remains the predominant form of transport used by people for the majority of their transport needs. The distances people travel are also increasing. This is giving rise to congestion problems, delays and deterioration in local and global air quality. The transport sector is also responsible for approximately 25% of global carbon dioxide emissions - the gas associated with being the major contributor to global warming.

Part of the development of a sustainable transport strategy is to encourage greater use of public transport. To achieve this presents a challenge, as the use of the private car is still deeply engrained in our culture and requires effective partnerships between Governments, Local Authorities and public transport operators.

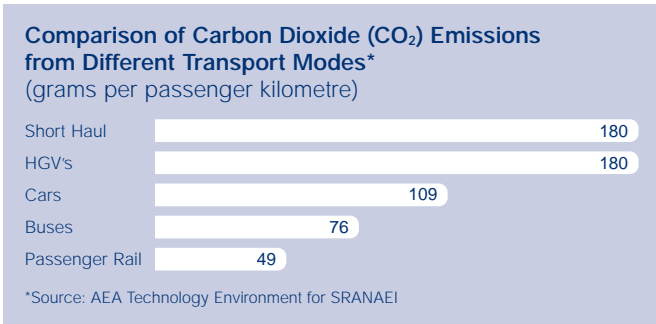
Reducing the negative social and environmental impacts of travel lies at the heart of the UK Government's sustainable transport strategy. This recognises the need to balance society's growing mobility needs with the need to improve quality of life. Progress towards achieving these aims is monitored through their quality of life indicators which include carbon dioxide and air quality emissions, congestion and the ability of people to access amenities.

RAIL AND BUS TRAVEL HAVE THE LOWEST EMISSION PROFILE WHEN COMPARING EMISSIONS BETWEEN DIFFERENT TRANSPORT MODES ON A PER PASSENGER KILOMETRE BASIS.

Transport and Atmospheric Emissions

Although public transport operations have the potential to support the reduction of atmospheric emissions from road transport, at the same time the operation of a significant vehicle fleet contributes to atmospheric pollution through exhaust emissions. As with all forms of road transport, virtually all our vehicles use internal combustion engines fuelled by diesel. These produce emissions of pollutants such as particulates, nitric oxides, sulphur dioxide and volatile organic compounds.

When compared directly to cars, the emissions from a bus or train are higher due to the increased size and weight of the vehicles, but our load factors are correspondingly higher. However, the huge benefit of these modes of transport over the car is the number of passengers they can carry and the number of passenger journeys they can replace. Rail and bus travel have the lowest emission profile when comparing emissions between different transport modes on a per passenger kilometre basis.



Significant developments in engine technology are driving down the emission profile of our vehicle fleet. As are the introduction of increasingly stringent emission limits, driven by the development of European Union and US Environment Protection Agency standards will continue to drive down the emission profile of our bus fleet. Similar drivers are now also reducing these emissions from our trains.

There remains the challenge to achieve significant reductions in carbon dioxide emissions which arise directly from burning fossil fuels. The development of more sophisticated abatement technology on newer engine fleets has generally increased the fuel consumption of these vehicles. We are working closely with the vehicle manufacturers to improve fuel efficiency in both the rail and bus fleet.

However, public transport operators still have a significant contribution to make in reducing overall carbon dioxide emissions. By increasing passenger numbers and attracting more people away from cars, emissions per passenger kilometre travelled, and thereby the overall emissions from road travel will decrease. This factor is recognised in the UK Government's Climate Change Programme. Development of the public transport network is seen as an important contributor to reducing carbon dioxide emissions.

A move from reliance on fossil fuels could radically change our emissions profile. We therefore take every opportunity to support trials in relation to alternative fuels, such as gas buses, hybrid and fuel cell technology. However, as yet the reliability of the technology itself and the supporting infrastructure is insufficient to allow the delivery of a reliable and sustainable public transport network.

Transport and Social Inclusion

Sustainable transport is also about providing a safe, quality service aimed at attracting as wide a range of passengers as possible. Recent work on the relationship between transport and social inclusion has shown that it is predominantly low income groups that rely on public transport for their mobility needs. This includes accessing employment and essential services. The UK Government's quality of life indicators show that those without a car are experiencing increasing difficulties in accessing health services, shops and post offices.

In parts of the business we have trialled demographic mapping techniques to better understand the communities we serve. This allows us to improve route design where appropriate and target information and promotions more effectively.

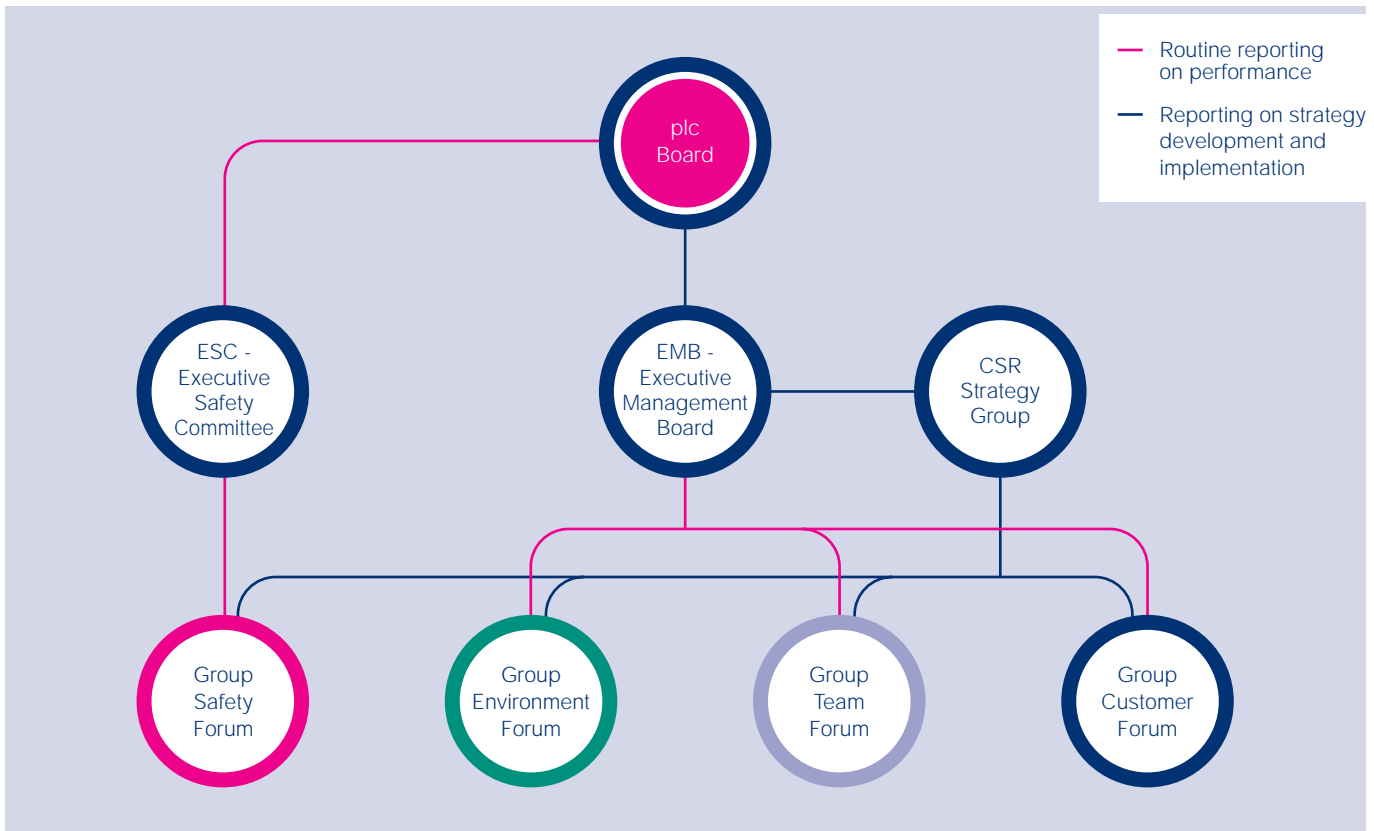
As a mass transport operator, we continually balance the needs of the general population against the needs of the individual. Our role is to provide an effective public transport network to serve as wide and representative a sector of the community as possible. As a result of this there are times when we have to make decisions that may not necessarily benefit all community members. As a public limited company we also have to look carefully at the commercial viability of some routes we operate and can only support non-commercial routes with public sector support.

We strive to manage these balances as effectively as possible, to build a more effective transport network which will bring greatest benefit to as wide a cross section of the community as possible.

Our CSR Management Framework

OVER THE PAST YEAR WE HAVE EVOLVED OUR FRAMEWORK FOR MANAGING AND REPORTING ON CORPORATE SOCIAL RESPONSIBILITY ISSUES WITHIN THE COMPANY. THE CORPORATE SOCIAL RESPONSIBILITY STEERING GROUP, NOW THE CORPORATE SOCIAL RESPONSIBILITY STRATEGY GROUP, IS CHAIRED BY THE CORPORATE FINANCE DIRECTOR AND ATTENDED BY THE GROUP CHIEF EXECUTIVE. MEMBERSHIP INCLUDES THE MANAGING DIRECTORS OF THE UK RAIL AND BUS DIVISIONS AND THE CHIEF EXECUTIVE OFFICER OF OUR NORTH AMERICAN BUSINESS. IN ADDITION, INDIVIDUALS REPRESENTING THE KEY THEMES OF SAFETY, TEAM, CUSTOMER AND ENVIRONMENT ARE INVOLVED. THE ROLE OF THE STRATEGY GROUP IS TO MAINTAIN AN OVERVIEW OF CORPORATE SOCIAL RESPONSIBILITY ISSUES LIKELY TO AFFECT THE COMPANY, AND TO ADVISE THE EXECUTIVE MANAGEMENT BOARD ON HOW WE CAN DEVELOP OUR CORPORATE SOCIAL RESPONSIBILITY STRATEGY IN A WAY THAT IS CONSISTENT WITH THE GROUP'S OVERALL BUSINESS OBJECTIVES.

Mirroring the role of the Executive Safety Committee, the forum for driving safety strategy, we have now established similar forums representing our other key CSR themes of Environment, Team and Customer. Representatives from Operating Divisions sit on these forums to ensure the development of the CSR strategy is co-ordinated across the Group.



GOVERNANCE AND RISK MANAGEMENT

The Executive Management Board conducts a bi-annual risk assessment which incorporates CSR issues. This year we also undertook a separate review of all our CSR risks to ensure they were being effectively considered as part of this process.

Our key CSR risks have been identified as:

- >> The safety of our employees, passengers and the general public
- >> Recruiting and retaining employees
- >> Delivering customer service levels
- >> Responding to regulatory change

Addressing these issues is a central part of our CSR strategy and supporting management framework. We are continually working to improve our safety performance and in the Safety section of this report we report on our safety statistics and the actions we are taking to improve these. Recruiting and retaining customer-focused staff is a key issue for us in common with other service providers. We have implemented a range of steps to improve our recruitment practices and we discuss these alongside our retention strategies in the Team section of this report. We continue to work to improve customer service and describe some examples of the investments we are making in this area in the Customer section of this report.

An important part of our risk management processes is to maintain an on-going review of likely regulatory changes to consider how these might affect the business. During the last 12 months examples of regulatory issues which have been under consideration as part of the risk assessment process include the European Working Time Directive, Pension Protection Fund Regulations and the End of Life Vehicles Directive.

CSR Management Systems

The management frameworks for supporting each of the key CSR themes are at different stages of maturity. However, all core CSR data is reported to the Executive Management Board who maintain an overview of Group performance in relation to these issues. This performance data includes safety statistics, environmental performance, service delivery, customer satisfaction, employee turnover and staff satisfaction.

Safety

The safety management structure is now well developed and reporting and communication in relation to safety issues has been fully integrated across all three Operating Divisions. The Executive Safety Committee, chaired by the Group Chief Executive, drives safety strategy through monitoring performance and setting targets for improvement.

Environment

Overall responsibility for driving the Group's environmental strategy lies with the Group Environment Forum chaired by the Environmental and Property Projects Director. There is a supporting management structure covering all three Operating Divisions. This defines responsibilities from Managing Director to site representative across the business.

Team

A framework for people management continues to grow and evolve. Through the Group Team Forum a structure is being developed for effective reporting of human resources management information, and significant energy is being directed at ensuring that managers and supervisors have the skills to lead, develop and motivate their respective teams. The role of the Team Forum is to raise overall standards and to build greater consistency in the management of human resources across the Group.

Customer

Management of customer initiatives is driven at different levels within the organisation. In some cases this is done through divisional initiatives and in others at local company level. The Group Customer Forum has been established to improve understanding of the initiatives which are taking place across the Group. In this way we can build on experience at company level and ensure effective communication and co-ordination of stakeholder activities. Key customer data relating to all our services is reported to the Executive Management Board.

Further details on our corporate governance structures are provided in our Annual Report.

Working with Our Stakeholders



UNDERSTANDING AND LISTENING TO OUR STAKEHOLDERS IS KEY TO THE SUCCESS OF OUR BUSINESS. WE MAINTAIN OPEN AND REGULAR DIALOGUE WITH ALL OUR STAKEHOLDER GROUPS WHICH INCLUDE CUSTOMERS, STAFF, SHAREHOLDERS, GOVERNMENT, LOCAL COMMUNITIES AND SUPPLIERS. THE VIEWS OF OUR STAKEHOLDERS INFLUENCE WHAT WE DO AND HOW WE THINK.

Our Customers

Our customers include the individuals who use our train and bus services, customer interest groups and public sector purchasers such as Local Authorities and the SRA. The views of our customers are important to us in developing and improving our services and we engage with them in many different ways, both formally and informally. We undertake regular customer surveys and research across the business, hold focus groups and engage regularly in face to face meetings. We also provide our customers with the opportunity to hold dialogue with us more formally through, for example, stakeholder forums and stakeholder advisory boards. We seek input from our customers through focus groups on the development of new products and services such as the development of our latest road vehicle the "f t r".

The issues concerning our customers are wide ranging but relate mainly to local issues. Punctuality, reliability and frequency of service are key issues, as are the quality of the vehicles and the driver. In the case of our school bus services - safety and quality of driver are of prime concern. In the maintenance business, key issues are turnaround time and reliability.

Government and Local Authorities

To deliver our vision to Transform Travel we need to work closely with Government at both national and local level. In the UK we maintain constructive dialogue with key Government departments and respond to Government and Parliamentary consultations that affect us, both independently and through industry bodies such as ATOC and the CPT. Recent examples include dialogue with the Department for Transport on the Railways Bill and the Department for Education and Skills on the School Transport Bill. Through quality partnerships with local authorities we work to deliver faster, more reliable services for bus passengers through traffic management and restraint measures. In North America our role is to operate services on behalf of our customers and we address broader policy issues through our service contracts as required.

Working on ways to deliver more sustainable transport lies at the heart of this on-going dialogue. This includes improving the quality of transport services, increasing passenger numbers and developing socially inclusive transport networks.



Employees

Our employees are our most valuable asset. We maintain regular dialogue with them in a number of ways. This includes meetings between employees and their line managers, formal staff briefings and the issue of regular newsletters. We also conduct regular employee satisfaction surveys and use staff focus groups to obtain employee feedback on specific issues. In the UK an Employee Director sits on the majority of our subsidiary company boards, with an elected member serving as Employee Director on the plc Board. First Transit has established a General Manager Advisory Group reporting to the Board.

We take the concerns of our employees seriously and are currently addressing key issues arising from recent staff surveys and focus groups through the on-going development of our Human Resources strategy.

All our employees have access to a confidential hotline through which they can report concerns in relation to issues such as fraudulent activity. All calls are followed up by the company and appropriate action taken. Where the caller requires feedback then this is facilitated by the confidential hotline provider and anonymity is guaranteed.

Community

The nature of our business is such that we are in close contact with the communities we serve on a day to day basis. We want to work with these communities to improve the quality of transport services available but also to support the community more broadly. Examples include supporting local community initiatives, charitable donations and supporting our staff to participate in community projects. We sometimes provide transport services free of charge for charitable and community events.

Consultation with the community takes place on major route and service changes and our stakeholder forums are open to all members of the public. We consult with local businesses on developing green travel plans and with local authorities on development of services including the provision of school bus services. We hold focus groups with key sectors of the community to better understand their travel needs. This is supported by the use of demographic mapping packages which allow us, where possible, to improve access to our services.

Shareholders

FirstGroup plc is a public limited company, listed on the London Stock Exchange, with responsibility to all our shareholders. In addition, we are a FTSE4 Good constituent company. We have on-going dialogue with our investors throughout the year. This includes face-to-face meetings, telephone conferences and contact made through the Group's Investor Relations Department.

All investors are kept informed of key business activities via regular news and press releases and the Group's website. There is also regular dialogue with institutional shareholders throughout the year and general presentations are made by the Chief Executive and Finance Director following the announcement of the full and half-year results. Other Directors, including Non-Executive Directors, attend meetings with shareholders if requested. All shareholders are invited to attend the Group's Annual General Meeting.

Information relating to the Group's Corporate Responsibility policies and procedures is provided to support key Ethical Investment analysts and fund managers and relevant ratings agencies and organisations such as BITC, EIRIS and Sam Dow Jones.

Suppliers

We rely on a number of key suppliers and contractors for the effective delivery of our services. These include, for example, vehicle manufacturers, engine manufacturers, fuel suppliers and waste management companies. We meet with our key suppliers on a regular basis to discuss contracts and ways in which we can improve our supplier relationship to the benefit of both parties.

This year in the UK we have formalised these relationships through our Supplier Relationship Programme. This provides a framework for engaging with all our main suppliers. It is designed to foster two-way dialogue allowing concerns in relation to a contract to be raised by both parties and providing a framework to set targets for continuous improvement. Similar arrangements exist in North America where we aim to build partnerships with key suppliers to improve understanding of our respective business needs.

ADDRESSING CSR ISSUES IS FUNDAMENTAL TO OUR BUSINESS SUPPORTING OUR OVERALL BUSINESS OBJECTIVES. THIS YEAR WE WILL BE WORKING TO DEVELOP A GREATER UNDERSTANDING OF THE INTER-RELATIONSHIPS BETWEEN THE DIFFERENT CSR ISSUES AND HOW WE CAN MORE EFFECTIVELY PRIORITISE OUR EFFORTS. WE WILL ALSO BE LOOKING AT HOW TO IMPROVE INTERNAL COMMUNICATION AND CONSISTENCY IN APPROACH IN THE MANAGEMENT OF CSR THROUGHOUT THE BUSINESS.

IN THIS SECTION OF THE REPORT WE DESCRIBE OUR OVERALL STRATEGY IN RELATION TO THE FOUR CSR THEMES: SAFETY, CUSTOMER AND COMMUNITY, TEAM AND ENVIRONMENT. WE ALSO PRESENT OUR CSR OBJECTIVES AND TARGETS FOR THE COMING YEAR.

CSR Objectives and Targets 2005/06

Our Group CSR objectives and targets for the period April 2005-April 2006 are presented below. Historically our objectives and targets have been presented in relation to the individual CSR themes at Divisional or Company level. Progress against last year's targets is presented in the relevant section of the report. In the future we will be reporting against corporate targets which are presented below for the coming year.

OBJECTIVES/TARGETS 2005-2006	
<p>Safety</p> <ul style="list-style-type: none"> >> To reduce all staff accident rate. >> To reduce all lost time accident rates. >> To reduce all passenger accident rates. >> To reduce all vehicle collision rates. >> To reduce all SPADS rate. 	<p>Team</p> <ul style="list-style-type: none"> >> To improve our driver retention across all bus operations. >> To increase access to workplace learning opportunities. >> To further standardise and improve recruitment opportunities. >> To introduce people management standard operating procedures in UK Bus. >> To develop the skills of our managers and leaders.
<p>Customer and Community</p> <ul style="list-style-type: none"> >> To continue to improve the performance of our services. >> To continue to reduce customer complaints. >> To improve stakeholder management and information processes. >> To increase community volunteering through our management training programmes. 	<p>Environment</p> <ul style="list-style-type: none"> >> To reduce energy use for the UK operations by 5% on 2004/05 figures. >> To start to record energy usage for all North American operations owned by FirstGroup. >> To increase recycling levels for the UK operations by 5% on 2004/05 figures. >> To establish baseline data for liquid waste arising in North America. >> To achieve ISO14001 accreditation for one further company. >> To increase the number of staff receiving environmental awareness training in North America by 5%.

Safety

We consider the safety of our staff, passengers and the general public to be paramount in operating our services and strive towards the elimination of accidents and injuries.

Our long-term safety goals are:

- >> 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 motor accidents.
- >> To reduce precursors to catastrophic accidents in our Rail Division.

The Group Chief Executive leads safety development within the Company through the Executive Safety Committee. Performance across the business is 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. 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 advisor attends our Executive Safety Committee meetings every three months to provide input and comment. In addition we have external annual independent health and safety audits carried out in the UK Bus and UK Rail Division.

Customer and Community

Meeting customer expectations is an essential part of retaining and growing our customer base. In the UK our overall goal is to achieve year on year growth in passenger numbers by continuing to improve the quality, reliability and frequency of our services both through independent action and through partnerships with, for example, Local Authorities, the SRA and Network Rail. In North America our overall goal is to retain our existing customers and grow our customer base through improving our performance in relation to individual customer contracts.

The way in which we monitor the performance of our customer services varies across the business due to different contractual and regulatory frameworks. We aim to exceed our performance targets and continuously improve our customer service to improve the overall customer experience through, for example, improving service quality, accessibility of information and integration of transport modes. We continue to invest in vehicle fleet replacement and upgrade to improve the overall customer experience. Examples from the extensive range of initiatives we have developed to improve customer service are given in this report. In some cases these are appropriately managed at national level, although in many cases these are driven at local operating company level in response to particular stakeholder needs.

Our long-term customer goals are:

- >> To achieve year on year growth in passenger numbers in the UK and to continue to grow our North American business.
- >> To exceed the performance targets set for us by industry bodies, regulators and our clients.
- >> To deliver a high quality customer service throughout our operations measured through customer surveys.

Team

Our overall goal is to become the employer of choice in our industry in each local labour market. We believe that investment in our people is key to the success of our business. Our people are in regular contact with our customers and are part of delivering a successful customer service.

We also believe that the key to building a successful workforce is to recognise and reward our employees contribution and work with them to reach their full potential. In common with all surface transport operators, recruitment and retention of bus driving staff remains a challenge for us. We are continually working to improve our recruitment processes and better support new employees. This is supported by initiatives to improve communication and employee relations and the development of clear learning and development pathways.

Our long-term goals are:

- >> To continue to build employee satisfaction measured through improvements in our employee attitude surveys.
- >> To reduce the turnover of our bus driving staff to service sector average.
- >> To support our employees to reach their full potential by developing our leaders management skills and ensuring that we continue to broaden employee access to workplace learning.
- >> To improve the diversity of our workforce ensuring opportunity for all.

To further improve on our performance we are currently developing reporting mechanisms that will forge a stronger link between our people and our corporate decision making processes. Creating a consistent and positive culture, where people feel valued, is of great importance to us as we understand the significant business and social benefits to be gained in doing so.

Environment

Our overall goal in relation to environmental management is to minimise the ecological footprint of our operations and the environmental footprint of each passenger journey. In this way we can contribute to reductions in air pollution from road transport - a key UK Government quality of life indicator, and carbon dioxide emissions - the key objective in the UK Government Climate Change Programme. To this end, we continue to improve the internal management of our environmental impacts through reducing resource usage and minimising waste. On-going investment in new vehicles is reducing our emissions profile and we continue to support research into alternative fuels.

Our long term goals are:

- >> To continue to achieve reductions in resource use year on year to optimum levels.
- >> To reduce overall waste arisings and to increase the proportion of waste reused/recycled.
- >> To improve the environmental management standards across the Group measured through performance improvement and achievement of ISO 14001 accreditation.
- >> To improve our emissions profile per passenger journey or per passenger kilometre 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.

Working with Our Suppliers

A key part of our approach to CSR is to build mutually beneficial relationships with our suppliers. We depend heavily on a number of key suppliers for the delivery of our services. We have developed a Supplier Relationship Programme in the UK, supported by similar processes in North America, to reflect this. Through this programme we ensure we are fostering effective relationships and achieving continued improvements. We provide examples of ways in which we are working with our suppliers throughout this report. Current initiatives include working with our vehicle manufacturers in the design of new vehicles and working with engine manufacturers to improve engine reliability and fuel efficiency. We are also working with our suppliers to improve our management and use of antifreeze and to achieve greater recycling of used uniforms.

This year we held a sustainable purchasing seminar with our purchasing teams. Following the seminar a number of actions were agreed for developing sustainable purchasing more formally in the supply chain process. A further seminar and initiatives are scheduled. We continue our programme of undertaking environmental audits on key suppliers.

Our long-term goals in relation to our supply chain relationship are:

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



Safety First



Progress Against Safety Improvement Objectives 2004/05

UK ANNUAL TARGETS 2004/05

PROGRESS

UK BUS DIVISION

Reduce staff accidents by 15% averaged across all the bus depots.

All staff injuries reduced by 7% and lost time injuries reduced by 10%.

Reduce passenger accident rates caused by vehicle incidents from 2003/04 figures.

Passenger accident rates remained stable. The injuries caused by vehicle incidents went down.

UK RAIL DIVISION

No accidental passenger or employee fatalities.

The accident at Ufton Nervert in November, in which one of our First Great Western trains collided with a vehicle obstructing the line at a level crossing resulted in the tragic loss of seven lives, including our train driver.

Reduce assaults to staff by 10% of April 2002 rate.

The level of assaults on staff rose by 7% during the last 12 months.

*Long-Term Targets to be achieved by 2009

Major injury rates of no more than 1 in 7.5 million passenger journeys.

Major injury rates were 1 in 5.7 million passenger journeys, further work is required to reach the 2009 target.

Major injury of employees no more than 1 in 750 employees per year.

There were 9 employee major injuries which equates to a rate of 1 per 814 employees. This is 43% better than the 2003/04 rate and in line to meet the 2009 target.

US ANNUAL TARGETS 2004/05

PROGRESS

FIRST STUDENT

Reduce employee injuries by 15%.

The rate of injuries went down by 3.5%.

Reduce vehicle collisions by 25%.

The collision rate went down by 8.3%.

FIRST TRANSIT

Reduce vehicle collisions by 15%.

The rate went down by 2.9%.

Reduce lost time injury rate by 15%.

The rate went down by 27.1%.

Reduce passenger injury rate by 15%.

The rate went down by 7.8%.

FIRST SERVICES

Improve the overall Company safety performance.

The overall performance in safety management improved through actions on training, communication and regular briefings.

Reduce work related illness and injury rate.

With new acquisitions, the overall rate of personal injuries showed an increase.

Improve employee awareness and involvement in the safety programme.

Achieved through innovative communication tools and briefings.

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

**SAFETY IS OUR NUMBER ONE PRIORITY.
THE SAFETY OF OUR STAFF AND PASSENGERS
IS OF FUNDAMENTAL IMPORTANCE TO US
AND UNDERPINS EVERYTHING WE DO.**

Group Safety Performance

In the following section we present our safety performance data for the period March 2004 to April 2005 for all our operations. The data is presented on a divisional basis for our UK Rail, UK Bus and North American operations.

Staff Safety

Our goal is to eliminate accidents and injuries in the workplace. Everyone in the organisation has responsibility for safety. Behavioural safety tours conducted by our senior directors, including the Chief Executive, are a key element of our safety programme. We continue to work to further standardised safety processes and training across the Group to build a more consistent safety culture.

UK Bus

Within the UK Bus Division we continue to build greater consistency across our 18 Operating Companies. This year we have updated and revised our policies on vehicle movements, alcohol, vehicle incident reporting and safety training. These changes have already shown positive trends in the associated indicators. We have also introduced new policies on vehicle maintenance and on breakdown and recovery of vehicles. Further initiatives have included the introduction of a Core Safety Brief and standardised communication on safety issues. A UK Bus safety conference was held on the 8th December 2004 involving all Safety Managers, Managing Directors, Employee Directors and the Group Chief Executive to review current performance and the plans for introduction of standard policies, safety training, safety communication and audits.

UK Rail

Within the UK Rail Division we are working to build consistency of approach within the new rail franchises. A Rail Safety Improvement Group was established in February 2004 to develop new safety initiatives to improve safety performance and promote consistency of approach in relation to both operational and occupational safety issues across the new rail franchises.

A Rail Division internal audit process has been developed to ensure consistency in relation to occupational and operational audits. Cross company auditing has also commenced which introduces a greater level of independence into the audit process.

North America

The National Safety and Environmental Committee is the focus for safety development across the North American businesses. This year it has been restructured and communication has improved. The role of the Committee is to build the competency of the safety leaders through training, team building and sharing experience and best practise.

The North American Operations continue to develop a range of initiatives to improve safety performance. First Transit and First Services have introduced safety action plans which have been communicated through their annual safety conferences. First Services and First Student are focussing on improving performance at locations with the poorest safety records through initiatives such as training, auditing and regular briefing and support to the Safety Managers. All companies continue to develop their safety awareness campaigns through increased training, and communication.

Safety Performance Data - Staff

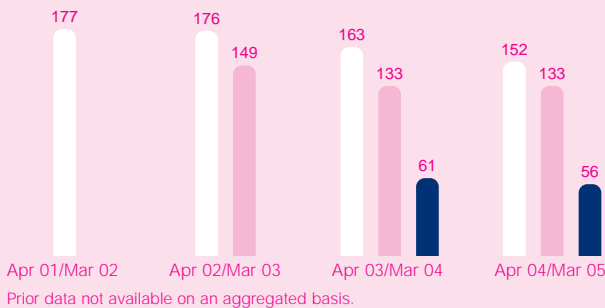
This year we have achieved reductions in the total number of accidents across the Company, most notably in First Transit where a 27% decrease in lost time injury rate was achieved and in UK Bus where we have achieved a 10% reduction in lost time injuries.

It is with great regret we have to report three staff fatalities during the past twelve months. The circumstances surrounding these fatalities have been thoroughly investigated both internally and independently and we are putting in place changes in response to the recommendations arising from them.

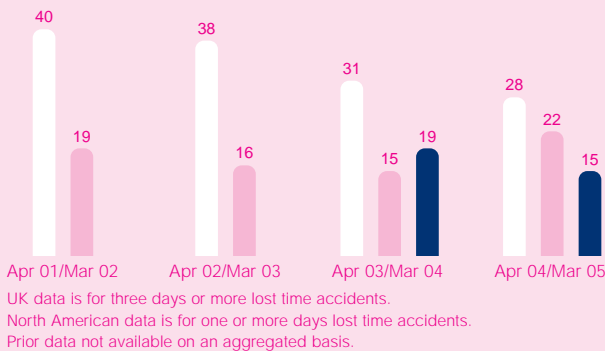
- UK Bus Division
- UK Rail Division
- North America



Average Number of Staff Injuries (per 1,000 employees)



Average Number of Lost Time Staff Injuries (per 1,000 employees)



In response to the accident trends in the Rail Division we have undertaken a detailed analysis of the lost time injuries data for all Train Operating Companies. This involved assessing the causes of accidents, the groups of employees affected and where accidents typically occur.

The findings of this review are helping inform our safety programme for the coming year. Assaults on staff make up a proportion of lost time injuries and we have recently taken up membership of the Rail Personal Security Group (RPSG). We are working in partnership with the industry to help drive down the number of assaults and promote a 'no tolerance' of staff

assaults. We are also looking carefully at how we reduce the rate of slips, trips and falls. The Safety Improvement Group has been tasked with undertaking more detailed analysis on this type of accident and will seek new initiatives to help reduce these incidents.

Throughout the Group we are looking at ways to establish greater consistency in safety culture and to encourage our employees to further embrace it. We are currently developing personal safety passports for staff and have agreed key safety principles for all employees. These will form part of a broader programme of communication to be implemented over the coming year to ensure everyone is clear about safety expectations.

Physical Assaults on Staff

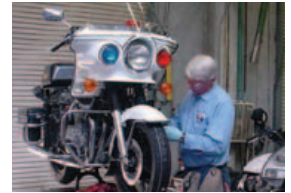
The rates of physical assaults on staff continue to increase in the Rail Division (7% over the last 12 months). This is in line with national trends reported by the Rail Safety and Standards Board which report a rise across UK rail of 10%. Within the Bus Division the number of assaults leading to lost time reduced by 11% compared with last year. Within the North American operations the number of assaults leading to lost time remain very low.

Within the Rail Division the increase in assaults is of concern and we are working closely with the British Transport Police to combat the problem. Antisocial behaviour orders are being used increasingly frequently for known offenders, with some success. Private prosecutions are also being pursued when this is possible. Problem trains or stations are targeted for additional security. This may include provision of security guards or extra staff, improved radio communication within trains or CCTV coverage. All our customer facing staff receive conflict avoidance training to assist them in dealing with potential conflict situations.

To help improve the success rate in prosecuting offenders DNA spit swab kits have been introduced. These have been used in First ScotRail and the First Glasgow bus company for some time. They have now been issued to all 2000 on-board staff and station staff in First Great Western and First Great Western Link.

IMPROVING SAFETY ON OUR SITES

This year in the UK Bus Division we issued high visibility jackets for all employees for use when walking about our sites. This initiative led to a 37% reduction in incidents involving people being hit by moving vehicles.



Passenger Safety

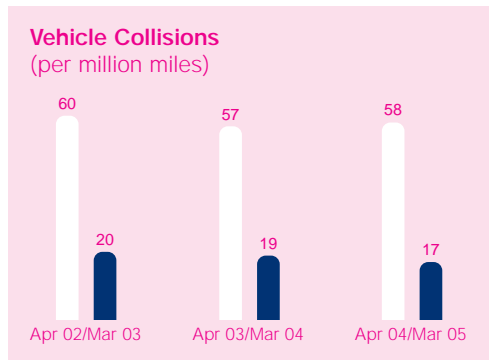
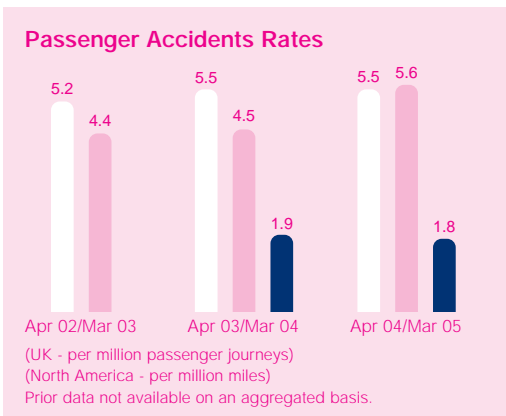
We transport several million passengers a day across our services and their safety is of paramount importance to us. We are continually working to find ways to improve passenger safety.

Safety Performance Data-Passengers

Passenger Accidents Rates

Passenger safety is receiving ongoing attention through staff training, route hazard assessments and increased communications with the drivers. There is an increase in number of reported injuries across all divisions, primarily because staff are encouraged to log all incidents. These are all investigated to ensure that facts are properly established prior to taking appropriate action.

It is with great regret that we report 8 passenger fatalities this year. Seven of those were related to the derailment at Ufton Nervet and one related to an elderly passenger who fell over on a bus while it was in motion.



UK Bus

In the UK Bus Division there has been particular focus this year on Operating Companies that have shown a higher than average passenger accident rate. Initiatives to improve performance in these companies have included: introduction of defensive driver training; targeting Route Hazard Analysis on routes identified as above average risk; and appointment of additional driver training managers.

We have also been working with staff and the Unions to maximise the effectiveness of our drugs and alcohol policy. A common position has been agreed with the Unions on drugs policy, which covers training and awareness, testing for drugs and rehabilitation and counselling. A plan is being put together to consult widely on the policy with the aim of implementing it in the next financial year.

UK Rail

In the Rail Division our safety initiatives are driven both by industry targets set by the Railway Safety and Standards Board and those set by each Rail Division Company.

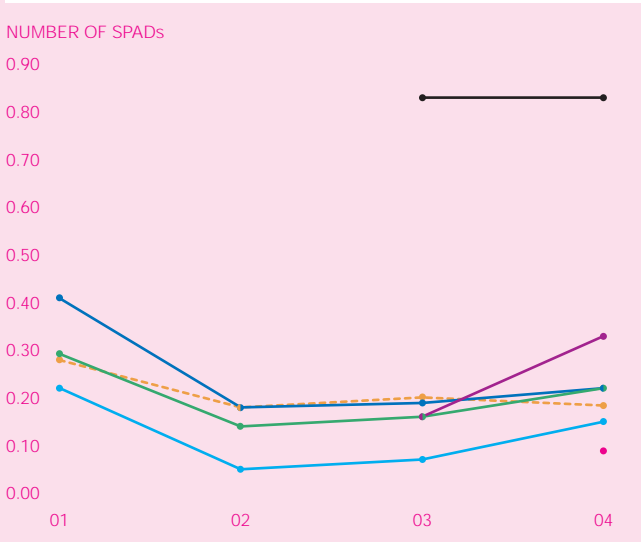
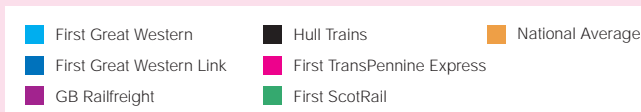
The control of risk of a catastrophic train accident continues to be a key priority. First Great Western trains, alone amongst high-speed operators, are fitted with Automatic Train Protection systems (ATP), the most effective train protection system available. Company policy is not to operate a service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



Within the Safety Improvement Group there is an Operational Standards Group which is focussing heavily on ways to improve both SPAD and operational performance. We have established a SPAD Strategy which looks at the issues which need to be carefully balanced to manage the SPAD risk. This includes people, equipment and infrastructure. In particular we are looking at ways that technology can assist us to improve driver competence and experience, for example through the use of train data recorded information and driving simulators.

Safety and security teams have been created in First Great Western - an initiative which will be extended to other Train Operating Companies if found to be successful. These teams focus on influencing and managing passenger behaviour at stations to minimise the risk of accidents occurring. We anticipate that these measures will begin to be reflected in passenger accident trends over the next six months.

Number of SPADs
(per 100 drivers per month)



Other initiatives to improve passenger safety have included specific training and information for drivers on problems associated with leaf fall during the autumn period. This includes how to alter driving techniques to reduce sliding, and skid pad experience for new drivers.

North America

To support improvements in passenger safety in North America in First Student we have introduced ZONAR an automated vehicle inspection record keeping system. This improves on the previous paper based system by increasing the level of inspection whilst reducing the amount of time needed to carry out the process. The results feed directly to the maintenance system, which prioritises work orders. Significant investment has been made in the purchase of these scanners and in staff training. Their effectiveness is being reviewed by First Transit for possible introduction next year.

Both First Student and First Transit continue to invest in training staff in the Smith System for defensive driving which has proved very successful to date. This system prepares drivers for how to manage the numerous situations which may arise when driving a bus

First Transit are also currently trialling the use of Drivecam cameras. These forward and rear-facing lens cameras are triggered to record by events such as hard braking or operation of the panic button. The cameras are proving useful for security purposes but also in modifying driver behaviour. If these trials are successful, cameras will be installed at all First Transit locations.

Security

Security is an issue of significant concern to our passengers, in particular in the light of the Madrid train bombing. Following this event, each Train Operating Company has considered how they can adjust their security arrangements based on lessons learnt from the incident and a Rail Division Security Strategy is being developed by the Safety Managers.

Customer and Community



Progress Against Improvement Objectives 2004/05

UK ANNUAL TARGETS 2004/05

PROGRESS

UK BUS DIVISION

Achieve punctuality of bus services of 95%.

We continue to develop initiatives to improve the punctuality of our services.

Achieve reliability of bus services of 99.5%.

The overall reliability of our services lies at 98.4%.

UK RAIL DIVISION

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

We continue to improve the overall performance of our services.

US ANNUAL TARGETS 2004/05

PROGRESS

FIRST STUDENT

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

The levels of client satisfaction have increased as measured through our customer surveys.

Maintain contract retention.

We maintain a contract retention rate of around 90%.

FIRST TRANSIT

Achieve 95% of our "Trips on Time".

We achieved trips on time of 96.56%.

Continue to reduce customer complaints.

Customer complaints reduced by 18%.

Complete 100% of our preventative maintenance on time.

We completed 99.8% of our preventative maintenance on time.

FIRST SERVICES

Achieve ISO 9000:2000 Certification.

ISO9000:2000 certification has been achieved.

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

All managers hold at least one level of Six Sigma along with over 100 technicians.

DEVELOPING OUR SERVICES TO BETTER MEET OUR CUSTOMER AND THE COMMUNITY'S NEEDS IS ESSENTIAL TO THE SUCCESS OF OUR BUSINESS. WE CONTINUE TO INVEST HEAVILY IN IMPROVING CUSTOMER SERVICES IN THE UK AND BUILD OUR CUSTOMER RELATIONSHIPS IN NORTH AMERICA. IN THIS SECTION OF THE REPORT WE DESCRIBE SOME OF OUR KEY CUSTOMER INITIATIVES FOR THE PERIOD MARCH 2004 TO APRIL 2005. THE INFORMATION IS PRESENTED UNDER THREE SECTIONS UK RAIL, UK BUS AND NORTH AMERICA.

UK BUS
Customer Satisfaction

Through an on-going programme of customer satisfaction surveys we maintain an overview of how our customers view our services. The purpose of the surveys is to benchmark performance in key areas such as reliability, frequency, vehicles, drivers, routes, fares and information.

Results for the last 12 months indicate that around 50% of our customers perceive the overall quality of our service to be good or better. Journey satisfaction over the last 12 months lies at around 60% (The journey satisfaction rating is defined by the number of customers giving a rating of good or better to describe the service provided by First).

These surveys are supported by a wide range of customer engagement processes described in the stakeholder section of this report.

Our on-going dialogue with our customers indicates that reliability and punctuality are their top priority. Punctuality, in particular, is not an issue that can be addressed in isolation or uniformly across the company. Delays can be caused by a whole variety of factors often outside our control. Close working relationships with our Local Authority partners are therefore essential in achieving performance improvements.

Improving Punctuality

We have made significant investment in Start Time Adherence and TRACKER data systems which have now been installed on a proportion of our services throughout the country. By tracking buses in real time we can monitor punctuality of service and identify where buses do not comply with the timetable. By using this information as the basis for further analysis, we work with Local Authorities to introduce measures that will help the smooth passage of buses and improve service punctuality.

CASE STUDY

START TIME ADHERENCE

Controlling punctuality in relation to start time is an important part of delivering more punctual services. Our Start Time Adherence initiative has been developed to improve punctuality in this area. Through this initiative we record when a journey starts and action is taken where particular problems are identified. We originally piloted this programme in Glasgow where all buses are now fitted with start time systems. As a result, the overall punctuality of the Glasgow operations in relation to start time improved from 90% to 94% over a twelve month period. Start Time Adherence has now been implemented in four Operating Companies and is being rolled out across the Group.



Improving Reliability

Reliability is the proportion of mileage we operate against schedule. We continue to achieve reliability improvements but fall slightly short of the Department of Transport/Confederation of Passenger Transport (CPT) target for bus companies of 99.5%. For peak services our reliability runs at 99.4%.

Reliability of Service (percentage)	
02/03	98.5
03/04	98.2
04/05	98.4

INVESTING IN NEW VEHICLES

During the past year we have made significant investment in new vehicles. In June 2004 we placed an order with Wrightbus and Volvo Bus for 486 new buses worth £66.2 million. This was one of the single biggest orders ever placed. It is allowing us to deliver significant improvements and modernisation of our bus fleets across key parts of the business.



We maintain records of the reasons for poor reliability, such as engineering problems or lack of drivers. This information is used to focus initiatives to achieve performance improvements. As part of improving the overall reliability of our operations we are making significant investment in new depot infrastructure and state of the art vehicles supported by training of our employees. We work closely with our engine manufacturers on engine reliability and there is ongoing work to improve driver retention as discussed further in the Team Section of this report.

Improving our Bus Services

By monitoring our fastest growing bus routes we can demonstrate how delivering a punctual, reliable bus service, backed up by innovative marketing, delivers passenger growth. The key growth routes within the business are a combination of overground routes (supported by colour coded maps showing bus routes presented as an overground system) and specific routes tailored to particular community needs.

Our fastest growing routes are:

- » Essex, where the X22 Coachlink service that links Colchester with Stansted Airport has seen a 64% passenger growth rate.
- » Leicester Overground service 17 which saw passenger growth of 59% over the 13 weeks to September 2004 compared to the same period the previous year. This was achieved through a promotional campaign and discounted fares offer.
- » Three further routes on the Leicester overground network with passenger growth rates of 42%, 19% and 16% over the same period. Improved frequency and reliability of service on these routes is seen as a major contributing factor to passenger growth
- » The X53 Jurassic Coast Express which operates along the south coast from Exeter to Bournemouth has showed a 55% passenger growth rate. This has in part been due to extension of the route but also the introduction of brand new double decker low floor buses.
- » The York overground network also has a number of fast growing routes. These include service 4 with 31% growth and route 6/6a which has shown 21% growth. These growth rates have been achieved through improved frequency of service,

THE "F T R" - VEHICLE OF THE FUTURE



This year we have been looking to the future with the development of a brand new concept in public transport - the "f t r". The "f t r" will look like a tram but run on dedicated road space in congested areas and have the route flexibility of a bus. It is the perfect solution for Local Authorities in their battle against traffic congestion. It can be introduced quickly, without major upheaval on roads and at a fraction of the price of a light rail scheme.

The first "f t r" service will begin in York later this year and detailed plans are being developed for other schemes in cities around the UK. The objective is to take 10% of car journeys off the roads on the corridors these vehicles serve within five to six years.

The development of this vehicle involved a close working relationship between the vehicle producers and users. First has worked in partnership with the Wright Group in the design of these vehicles, drawing on research on how buses are used and involving customer focus groups.

BRISTOL SHOW CASE

In December this year we celebrated the first birthday of Bristol's first showcase route. This route incorporates state of the art developments to improve the comfort and punctuality of services. These include modern low floor buses, improved journey information, designated bus routes, increased bus lanes and state of the art traffic flow systems giving the bus priority in key congestion areas. There are now 94,000 journeys a week on this route - an increase of 13.5% during the first year of opening. Independent research has shown that this route has taken over 1,000 cars off the road. This route represented a £2.25 million investment for First in the purchase of new vehicles. Plans are now being developed for a further nine showcase routes in Bristol.

INVESTING IN TECHNOLOGY IN GLASGOW

Working in partnership with Glasgow City Council, we have invested over £4m in the BIAS system to improve passenger information and the punctuality of our buses. This provides passengers with real time information at stops and next stop information on the buses. It also uses state of the art fleet management systems that give priority to late running buses at traffic signals. The operation of the system has now been proven and it will be launched publicly in June 2005.

Attracting New Passengers

We continue to look at ways to attract new customers to use our services. We are in the process of recruiting a team of nine Sales Development Managers whose role it is to proactively seek opportunities to work with employers to develop their company travel plans. This has led to close working relationships with a number of large employers to encourage employees to use our buses to commute to work.

ENCOURAGING COMMUTING BY BUS

We have an on-going relationship with Bradford City Council where we provide discounted travel passes and bus information to employees to encourage them to travel by bus. We are currently extending this initiative to major employers in the area.

In Bristol we are working with key employers in the city to find ways to increase the use of buses by commuters and bring about a modal shift from the use of the car. This includes the Local NHS Trusts, MOD and Bristol University. We work with employers to provide improved bus travel information, bespoke discounts and points of contact for information on travel times. Our recent decision to extend Route 73 to Temple Quay was in part influenced by our relationship with major employers Norwich Union and Royal Bank of Scotland who would benefit from the route extension.



GETTING CHILDREN ON THE BUS

This summer we launched our biggest ever campaign to encourage children to get out and about by bus during the summer holidays. The "Wot's Happinin'" campaign, based on the success of a similar campaign in Yorkshire in 2003, was promoted nationally through children's magazines and newspapers. The campaign, aimed at 11 to 15 year olds, reduced the price of a FirstDay Out ticket to just £1. During the promotional period, overall sales of Child FirstDay tickets increased by 50%. This figure was significantly higher in some areas, particularly in locations offering specific attractions for children.



Using Technology to Create a Better Journey

Technology is improving how we communicate with our customers. This year the Government announced a £20 million investment programme for 19 Local Authorities to put in Real Time Passenger information systems. We are represented on a working group, funded by members and the Government, to develop standards for Real Time Information within the industry. We are also working in conjunction with Local Authorities and other operators to extend the availability of SMS messaging, which will allow customers to receive timetable information for a specific bus stop directly to their phone.

UK RAIL

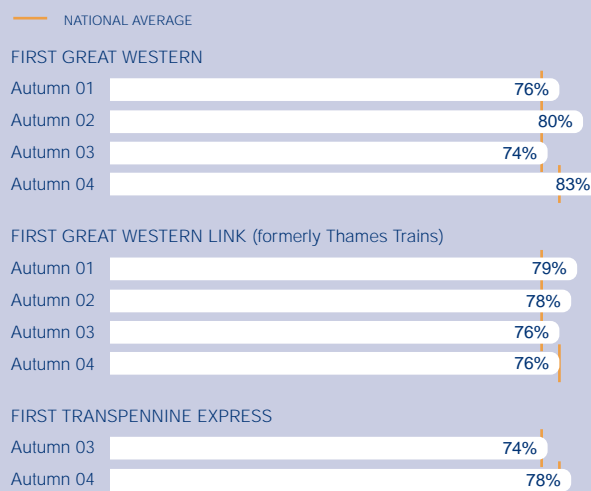
Within the Rail Division, the structure of our business has changed over the past two years due to changes in franchise arrangements. We continue to operate First Great Western and additionally, we now operate First Great Western Link (formerly Thames Trains), First ScotRail and First TransPennine Express - a new train company which started operation in January 2004. We also operate a non-franchised open access company - Hull Trains and a rail freight business GB Railfreight.

Customer Satisfaction

All our Train Operating Companies conduct customer satisfaction surveys on a regular basis. They also have well-established arrangements for managing complaints. Through this information, supported by stakeholder dialogue, we assess trends and identify areas where we need to improve.

In addition to our own surveys, the Strategic Rail Authority (SRA) conducts twice yearly National Passenger Surveys which assess overall satisfaction with a journey as well as satisfaction in relation to 27 specific aspects of service. Customer satisfaction levels across our Train Operating Companies lie at or above the national average, which is currently at its highest since 2000.

Overall Opinion of Journey - Scores for the Train Operating Companies* (percentage satisfaction)



* Strategic Rail Authority data, data is not available for First ScotRail during the period we have operated the franchise.

CASE STUDY

CUSTOMER SATISFACTION REFLECTED IN RECORD LEVELS OF PASSENGER GROWTH

Between the autumn of 2003 and 2004, First Great Western achieved a 9% improvement in customer satisfaction levels, largely due to significant improvements in punctuality and reliability. Since February 2003, they have also experienced record growth in passenger numbers with a rise of 2 million customers. One of the biggest growth areas has been among customers travelling on First Great Western's value fares. Season Ticket holders are also travelling further, which reflects increased confidence in peak time performance.

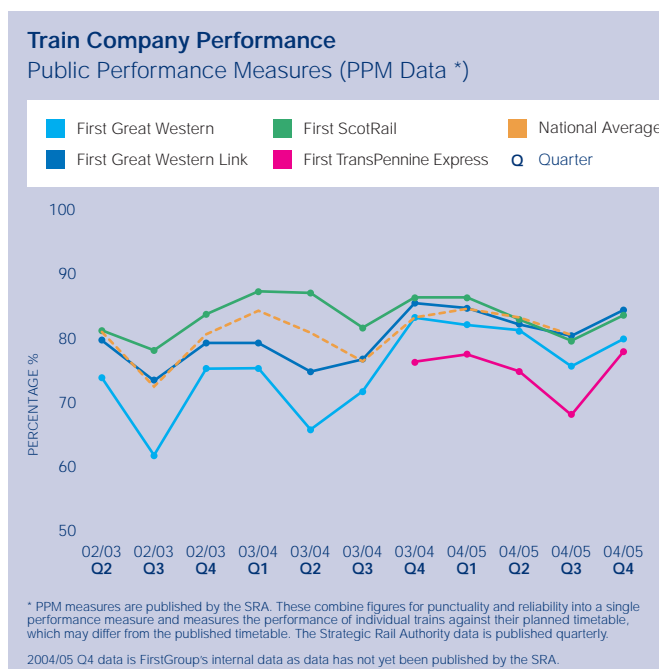
Hull Trains are an independent company and are not covered by the SRA surveys. However, they conduct their own customer satisfaction survey, the most recent of which indicated that they met the expectations of 100% of their customers and exceeded the expectations of 90%.

Monitoring Train Company Performance

In the same ways as for our bus operations, punctuality and reliability are important factors in how our customers perceive our services. Public Performance Measures (PPM) are used by the SRA to assess the reliability and punctuality of franchised services. Data for the past three years is presented below for all our current franchises. Only First Great Western has been under our long-term management and has achieved overall performance improvements during this period.

This year First Great Western and First Great Western Link also established a joint control centre with Network Rail which has improved efficiency by strengthening communications, thereby allowing a quicker response to incidents. Teams work closely together to share expertise and best practice, generating improved service reliability across the network.

We have made significant investment in improvements to the reliability and punctuality in our First Great Western and First Great Western Link services and are committed to achieve significant improvements in First ScotRail, where, as part of the franchise, we will spend £7 million to achieve reliability improvements. We are also committed to improve punctuality by 2% year on year.



Improving Punctuality and Reliability

Our ability to improve the punctuality and reliability of our services involves maintaining a strong and constructive relationship with Network Rail and other train operating companies. Action plans for improvement are discussed at "joint boards" which involve all relevant industry stakeholders.

CASE STUDY

IMPROVING PERFORMANCE IN FIRST GREAT WESTERN AND FIRST GREAT WESTERN LINK

During the last year, we have focussed in particular on achieving performance improvements in these two franchises. In the summer of 2004, Network Rail and First Great Western/First Great Western Link implemented an £8 million engineering project between London Paddington and Thames and Kennet Valleys. This was followed in December by a radical restructuring of First Great Western and First Great Western Link services from London Paddington. The aim of the new timetable was to provide customers with substantial performance benefits, including better punctuality and less crowding. As a result of these changes, journey times have improved on some routes. We have been able to offer increased capacity during peak times to alleviate overcrowding and in some cases have improved connections with other operators. We continue to work with customers and local MPs to resolve some outstanding customer concerns and make further improvements to the service.

Investment in New Vehicles

Investment in new vehicles is an important part of improving reliability of service, as well as improving the overall customer experience. We are currently making significant investments in new vehicles across our franchises.

- >> Hull Trains are replacing their Class 170 trains with new class 222 Pioneers at an investment of £24 million. This new fleet will offer customers faster journey times and greater comfort, including more seats and improved catering. They also have in-built reliability features such as the ability to seamlessly transfer to a second engine if required.
- >> The First TransPennine Express network has ordered a new fleet of 51 three-car trains with a value of £250 million. This will completely replace the current vehicle fleet which is in excess of 15 years old. These trains are currently under construction and will come into service in the spring of 2006. They will offer improved comfort and reliability over the existing vehicle fleet.
- >> First Great Western introduced five additional refurbished High Speed Trains to support the timetable changes, providing thousands of additional seats at a cost of £10 million. We have also invested in the London to Devon/Cornwall sleeper service, replacing the Class 47s used on this service with four Class 57s.
- >> First Great Western Link's fleet of 165/166 Turbos have been refurbished with a £1.3 million package of interior enhancements to improve the travel experience for customers.

Improving Our Stations

Investment in new vehicles is being supported by significant on going and future investment in new and improved station facilities. First Great Western/First Great Western Link and First TransPennine Express are implementing £4 million and £12 million station improvement programmes respectively. These involve general improvements to the station infrastructure such as toilets, waiting rooms and platforms and improved security and information. First ScotRail have allocated a £40 million investment package to upgrading stations. In particular, £2.4 million will be invested to provide enhanced facilities at Aberdeen, Edinburgh Haymarket, Glasgow Queen Street and Stirling stations.

FIRST GREAT WESTERN WIN TOP AWARD FOR STATION EXCELLENCE



AWARD

For the second year running, the Station Excellence award was won by First Great Western. The award went to Chippenham Station which has been transformed over the past year in a £700,000 refurbishment project.

Working closely with the Strategic Rail Authority (SRA), Wiltshire County Council, the Railway Heritage Trust and Network Rail, First Great Western has turned the Wiltshire station into a fully integrated 'transport interchange' catering for all modes of transport - from buses and bicycles to taxis and pedestrians.

The centrepiece of the refurbishment is a fully landscaped plaza at the front of the station with a bus interchange, improved pedestrian access, enhanced parking facilities for disabled people, more cycle racks, a taxi drop-off point and sheltered waiting area.

The station also recently won Secure Station status after meeting stringent standards of station design, management, security and passenger safety, including comprehensive 24 hour CCTV monitoring and a full alarm system to ensure staff and customer safety.

IMPROVING BUS RAIL INTEGRATION

To strengthen our approach to delivering improved integration we have a unique Area Integration Board, comprising senior representatives of First's bus and rail companies, whose responsibility it is to work to identify and implement new initiatives to develop integrated services. Where potential opportunities are identified, our Transport Integration Manager works in partnership with external agencies to ensure successful implementation.

Improving Quality of Service

Improving our services is not only about performance improvements but also about improving the overall customer experience. We have a range of training programmes across the franchises to develop our employee's customer relation's skills. We have introduced specially trained Welcome Hosts at some particularly busy stations and our station staff can assist passengers in a variety of ways.

Customer and market research has indicated that advance information on services is one of the top three improvements requested by urban and leisure customers and as a consequence we have been developing the use of technology to improve the availability of information to our customers.

- >> First ScotRail and First TransPennine Express have introduced JourneyCheck, a way of allowing customers to keep up to date with information relating to services. It can tell passengers instantly whether there are any disruptions or delays to a service. JourneyCheck can be accessed at any time using the internet, a PDA or a WAP enabled phone.
- >> First Great Western also provide real-time train running information to their customers via the web and WAP-enabled mobile telephones.



IMPROVING ACCESS FOR THE DISABLED

In support of their Disabled Persons Protection Policy (DPPP) First Great Western Link is funding a range of accessibility improvements at stations. Portable ramps for wheel chair users are being provided on 78 platforms that have level access. Station and on-train staff are being trained in use of the ramps to ensure that passengers will be able to book journeys from all stations that are accessible. Where footbridges or subways are involved, new treads and handrails are being added to enhance safety. All ticket office windows will have induction loops to assist passengers with hearing problems.

FIRST GREAT WESTERN RECOGNISED AS BEING COMMITTED TO EXCELLENCE



First Great Western's Engineering Division has achieved the first stage of recognition under the European Foundation for Quality Management (EFQM) scheme which recognises progressive, forward-thinking companies committed to quality and continuous improvement.

This makes them the UK's only train operator to be accredited under the scheme.

GB RAILFREIGHT WINS FREIGHT ACHIEVEMENT OF THE YEAR



This year GB Railfreight won Freight Achievement of the Year at the National Rail Awards. The award recognised GB Railfreight's continued growth and its innovative approach to business and to its employees.

Bus/Rail Integration

Developing ways to improve the integration between bus and rail travel is essential to improve the quality of public transport services and encourage greater use of public transport. Integrated processes make public transport easier, simpler and cheaper to use. We now offer over 100 combined Rail&Bus tickets to a wide range of towns and villages not served by the National Rail network. This year we published a series of five "Rail&Bus" guides to help rail customers join up their train journey with local bus and coach services. We introduced our fourth FirstBus&RailCard in the Maidenhead, Slough and Windsor area providing customers with unlimited travel by First buses and trains for a single fare.

Last year sales of integrated tickets increased by 30 per cent indicating that more and more people are taking advantage of these opportunities.

NORTH AMERICAN OPERATIONS

In North America our customers are the operators on whose behalf we provide a service to the travelling public. Within First Student, our customers include public and private school districts, commercial charters and schools. In First Transit they consist of City, State and County Authorities. In the case of First Services we are providing a maintenance service to our customers.

Customer Satisfaction

The nature of our business is such that regular dialogue with our customers is essential to maintaining a quality service.

Within all our North American businesses, Senior Managers visit all our main customers on a regular basis. Within First Student and First Services this is generally on a bimonthly or quarterly basis, whereas within First Transit this may be as often as weekly on an informal basis. These regular meetings are designed to ensure that any potential problems can be identified early and resolved before they become potentially much bigger issues.

Within First Student, we have monthly meetings with School Board Authorities to discuss performance and other issues. This is supported by more informal interaction with the local community and school personnel as required.

First Student

At First Student, in addition to regular meetings with our main customers, we monitor satisfaction through the use of an annual survey. Through the surveys we identify weak areas of performance and develop action plans to address these issues.

Year	% Returns	% of Clients with Issues
Apr 02/Mar 03	56	18
Apr 03/Mar 04	60	14
Apr 04/Mar 05	65	12

Feedback from the surveys indicates that the main area of concern tends to be driver quality and the ability of drivers to deal with disciplinary issues. These issues rank above punctuality and reliability concerns.

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

First Transit

First Transit currently serves over 115 customers on long term contracts and another 50 on a consulting short term basis. We conduct regular meetings with our customers on a quarterly basis, and more frequent communications with them through phone calls and email.

There is a monthly “dashboard” report provided to the First Transit Executive Management Committee that summarises our current relations with each customer using a colour code of green for excellent, yellow for pending issues to be resolved, and red for customer relation problems. The report is scored by the regional managers who are the direct customer contacts.

First Transit also uses the services of “mystery riders” who ride on our managed and contracted bus service and provide feedback on the performance of our operators.

Customer complaints are also an important way of maintaining an overview of customer satisfaction levels. The number of complaints we receive continues to fall.



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

First Services

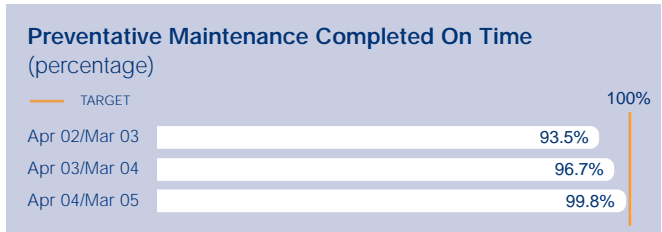
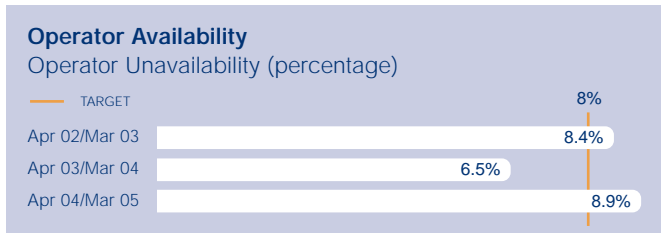
First Services conduct quarterly surveys of customers in which they are asked to score aspects of the service from 1 to 4, where 1 is "not satisfied" and 4 is "very satisfied". The issues covered by the survey include efficiency of the repair service, courteousness of employees, workshop housekeeping, communication and safety. Our averaged scores over the last year have indicated that around 85% of our customers are satisfied or very satisfied with our service.

Punctuality and Reliability of Services

The punctuality and reliability of service is only an issue for our First Transit business where these issues are of importance to both our customers and the travelling public. In the case of First Student, issues of safety and driver behaviour are of far greater importance to our customers and we do not therefore monitor the punctuality or reliability of our First Student Services.

Punctuality and reliability is monitored in three ways in First Transit:

- >> **Trips on time** - the percentage of buses which arrive on schedule. Although individual contracts have individual performance targets we have set ourselves a cross company performance target of 95% or better.
- >> **Operator Availability** - we have a goal of retaining the proportion of our operators unavailable for work to below 8%.
- >> **Preventative Maintenance** - this is the number of preventative maintenance operations completed on time against a target of 100%.



We monitor preventative maintenance schedules at corporate level and report to the First Transit Executive Management Committee monthly. Preventative maintenance adherence is also tied to individual incentives for the location managers.

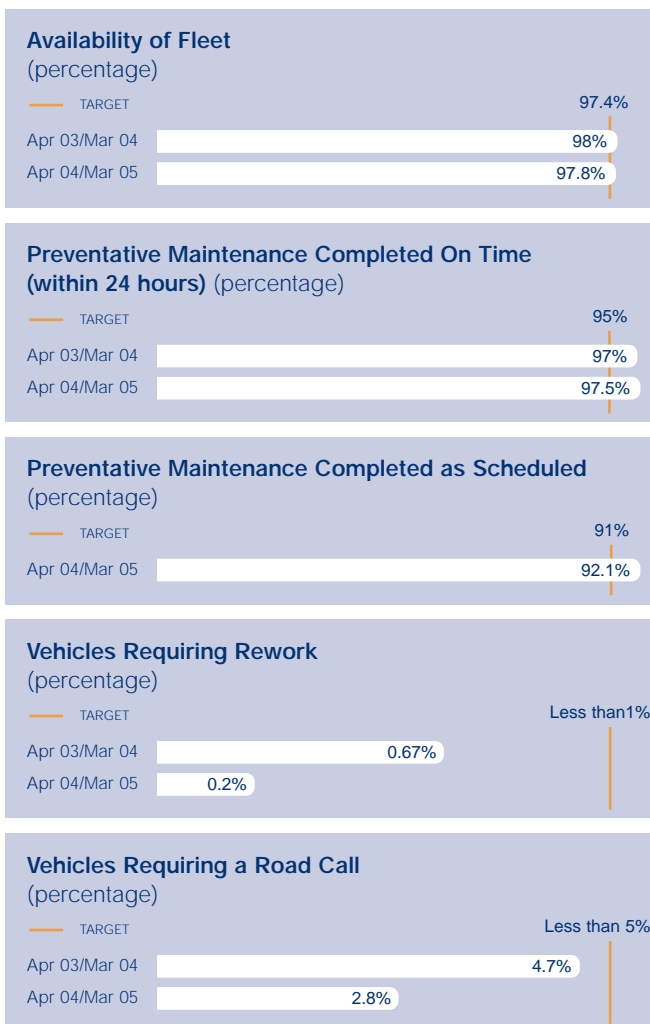
First Services

At First Services, our performance is monitored against pre agreed performance criteria with our customers. We provide our customers with performance reports on a weekly and monthly basis. Performance criteria vary, but generally cover issues such as fleet availability, turnaround time, and cost control. We also meet regularly with our customers to discuss areas of success and to develop solutions to any challenges that have been identified in the reports.

The core indicators common to most contracts are:

- >> % Availability of fleet
- >> % Preventative maintenance completed on time
- >> % of rework

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



FIRST IN THE COMMUNITY

We have a multiple role within the local community: we are significant employers, we operate transport services and we connect communities to each other. The operation of our services touches on all members of the community with the potential to impact on quality of life. We also operate from a significant number of properties and have responsibility to those living and working nearby.

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.

Developing our Services to Meet the Needs of the Community

There are a number of ways we seek to improve our services to the community. These include ensuring access to as broad a cross section of the community as possible, developing value products to suit those on a lower income and developing ways to provide improved rural or evening services.

Demographic mapping is one the key tools we use to better understand the communities in which we work and can be used in a number of ways:

- >> to support the Marketing Department to target ticketing information, promotions and route alteration information appropriately;
- >> to support the Sales Development Managers in working with employers to develop Staff Travel Plans; and
- >> to develop services to be as inclusive as possible by ensuring those that are heavily dependent on them have access to essential amenities.

Within the Rail Division, we engage with the community through various stakeholder forums including Stakeholder Advisory Boards and Rail Passenger Committees. We work with the community to achieve platform and track enhancement and to improve access to services through, for example, re-opening platforms and improving security. The Great Western Joint Stakeholder Board is an example of a partnership working to produce real community benefits.

CASE STUDY

USING DEMOGRAPHICS TO PROMOTE SERVICES IN LEEDS



The Yorkshire Region has pioneered the use of demographic mapping to develop services and target promotions. In Leeds we recently upgraded four services to Overground and applied route branding. These upgrades were promoted via targeted household mailshots to low car ownership households located within 400m of the routes. The mailshot was addressed to the female in the household and included a competition to win free travel which attracted an 8% response rate. Patronage growth on this group of services is currently running at between 4 and 6%.

The Great Western Joint Board

First has played a key role in establishing the Great Western Joint Board for partnership working and this initiative has been emulated elsewhere in Britain. Examples of partnership working that have produced real benefits for the community include: re-opening the centre island platforms at Taunton; platform and track enhancements at Reading; re-opening platforms 13/15 at Bristol; doubling the single track near Probus in Cornwall; and installing CCTV and shelters along the Greenford branch.

Improving School Bus Services

We provide a school bus concept with a difference. Since 2000 we have been operating First Student school bus services in the UK. We now have 14 school bus schemes in operation carrying nearly 3,800 children. These buses are designed to the highest safety standards, run door to door and have an allocated driver. This allows us to work with the schools to ensure the service supports the schools broader policy aims. For example, this year we have been working with our school clients on anti-bullying initiatives which include driver training and an anonymous text messaging service for pupils seeking support. We are also working with the schools to reduce truancy and can demonstrate a drop in truancy rates of around 20% across the schools where we operate.

Rural Bus Networks

Providing cost effective yet comprehensive bus services to rural areas is a challenge due to their low population density. These areas may also require a different approach to managing mobility needs. We are currently working with a number of Local Authorities, with significant rural communities, to look at innovative ways in which we can service rural populations. These discussions are at an early stage but we hope to be able to report on progress in relation to these next year.

One example of how innovative approaches can be applied is the demand responsive Dial-a-Ride service we are operating between Burry Port and Pembrey in Carmarthenshire. This recently won the Community Transport Award at the Welsh Transport Awards.

Our People in the Community

Through our relationship with Business in the Community, we have been looking at ways in which we can involve our employees in community initiatives. This has led to the inclusion of a community challenge as part of our Supervisory training NVQ. This achieves the dual purpose of raising the participants awareness of community issues while providing them with the opportunity to become involved in volunteering. To date, our employees have been involved in 640 hours of volunteering and during 2005/06 First will increase its community volunteering to around 2,400 hours as part of the programme roll out.

CASE STUDY

COMMUNITY SUPPORT THROUGH CARES

In March 2005 a team of First volunteers assisted Woodside, a family centre in east Bristol, to restore their extensive garden. Woodside provides support to children and adults with sensory loss, deaf and blindness, and multi-sensory impairment. The team had been preparing for the project during the previous two months sourcing plants, flowers and equipment as part of their supervisory training NVQ.

According to the volunteers "It has opened our eyes to the needs of the centre, and we feel proud to be associated with it. Our team would like to recommend to other community groups, the benefits of involvement in the employee volunteering initiative, Cares".

Working with Charities

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

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

Team First



Progress Against Team Improvement Objectives 2004/05

UK ANNUAL TARGETS 2004/05

To reduce bus driver turnover by 3%.

For 40% of our bus drivers to hold an NVQ qualification by year end 2004.

To increase the proportion of staff with access to Learning Centres.

To develop and implement a Group-wide programme for Executive Leadership Development and Senior Management training.

To develop and apply Group-wide people policies and procedures.

To 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.

PROGRESS

The annual average for bus driver turnover has remained stable although there has been a consistent downward trend during the last six months.

Currently 16% of our Bus Drivers hold an NVQ qualification, an increase of 3% on last year.

An additional 10% of our UK Bus employees gained access to Learning Centres this year.

A Group-wide learning and development programme has been introduced.

We are in the process of updating our Group policy and procedures.

A reporting framework has been established for implementation over the coming year.

A pilot centre has been trialled in Glasgow.

US ANNUAL TARGETS 2004/05

FIRST STUDENT

Continue to conduct employee satisfaction surveys on a targeted basis.

Target selected locations and regions to reduce employee turnover.

Employees surveys have been conducted supported by other initiatives to improve employee communication.

Overall employee turnover has reduced by 2%.

FIRST TRANSIT

Target selected locations to achieve a reduction in bus driver turnover.

Develop Company-wide policies and procedures for management of recruitment.

Overall reduction in employee turnover of 6%.

Central shared services process established for recruitment.

FIRST SERVICES

Undertake our first Company Employee Satisfaction survey.

Achieve Blue Seal certification for selected locations.

Employee satisfaction surveys are being conducted through Town Hall meetings.

50% of locations have achieved Blue Seal certification.

INVESTMENT IN OUR PEOPLE IS KEY TO OUR SUCCESS. AS A COMPANY WE EMPLOY AROUND 67,000 PEOPLE ACROSS THE UK AND NORTH AMERICA. WE ARE A MAJOR EMPLOYER AND ASPIRE TO BECOME THE EMPLOYER OF CHOICE IN OUR INDUSTRY. WE BELIEVE THAT IN ORDER TO ACHIEVE THIS, WE NEED TO OFFER OUR PEOPLE OPPORTUNITIES TO GROW AND REACH THEIR FULL POTENTIAL. IN THE FOLLOWING CHAPTER WE DESCRIBE SOME OF THE WAYS IN WHICH WE ARE PROGRESSING TOWARDS THIS GOAL.



OUR TEAM VISION

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

Developing the Skills of our People

We want our people to reach their full potential and we view this as critical in developing a highly motivated workforce, fully equipped with the skills they require to fulfil their duties. To this end, a major step for us this year has been the creation of structured development pathways for different levels of employee within the Company. These learning and development ladders begin to describe appropriate learning interventions and programmes for each group of employee.

Supervisory and management development programmes are already well under way in the UK and more individually tailored senior management programmes are in the process of being developed for initial introduction in the UK in 2005. These have been developed drawing on the findings of a series of development centres attended by senior managers in the UK that provided an overview of the shape and capability of our management population. This information is enabling us to enhance our core leadership competencies based on current need.

Developing Our People Management Framework

In 2004 we undertook a Human Resources Strategic Review. The issues identified in this review continue to provide the focus for our people strategy. A key enabler has been the strengthening of our human resources management framework. This has allowed us to focus in the areas that will add significant value to our business, namely:

- >> Employee Communication and Employee Relations
- >> Recruitment and Retention
- >> Learning and Development

In this section we report progress in relation to these areas.

Improving Consistency

We continue to improve our people management processes and systems within the organisation and have established an on-going programme for reviewing our policies to achieve greater consistency across the Group.

Through the Group Team Forum we will improve communication and build consistency by sharing best practice.

Learning and Development Ladders

LEARNING	STAFF GRADE	SUPERVISOR	MIDDLE MANAGEMENT	SENIOR MANAGEMENT/HIGH POTENTIALS	DIRECTOR
ISSUES BASES COACHING/MENTORING					■
FORMAL MENTORING		■ TM*	■ TM*	■ TM*	■
LEADING SUCCESS					■
DEVELOPING LEADERSHIP				■	
MANAGEMENT DEVELOPMENT			■		
SUPERVISOR DEVELOPMENT		■			
ROAD PASSENGER TRANSPORT	■				
WORK BASED PROJECTS		■	■	■	■
ON JOB TRAINING/ COACHING	■	■	■	■	■
PERFORMANCE FEEDBACK	■	■	■	■	■
WORKPLACE LEARNING	■	■	■	■	■
TECHNICAL COMPETENCE/ INDUCTION	■	■	■	■	■
GRADE	STAFF GRADE	SUPERVISOR	MIDDLE MANAGEMENT	SENIOR MANAGEMENT/HIGH POTENTIALS	DIRECTOR

* TM = Talent Management

CASE STUDY

THINK FIRST SURVEY IN FIRST TRANSPENNINE EXPRESS

After a year of operation we introduced the Think First Survey to First TransPennine Express to determine from our staff how we were doing. The findings are compared below with the findings of the 2003 survey, which covered the franchises we operated at that time. These findings have now been widely communicated and presented to our managers and will form the basis for developing an improvement programme for the coming year.

Employee Communication and Employee Relations

We engage with our employees on a continuous basis across the Group including staff meetings at depot level, senior management visits to depots and regular staff newsletters. To support this we undertake a range of more formal engagement processes. On a periodic basis we conduct staff surveys to assess staff satisfaction in relation to a range of issues.

Our most recent UK wide survey was conducted in 2003 and we reported on the findings in our 2003-2004 Corporate Social Responsibility report. This year First TransPennine Express conducted their own survey and employee surveys have been conducted on a targeted basis in North America. We recently held targeted Focus Groups with employees in the UK on the Think First employee satisfaction survey which will provide valuable input to the design of future surveys.

Within the Rail Division, communication associated with the franchise changes has been an important issue. In the case of First ScotRail, in particular, around 3,500 new employees joined the Group. Every effort was made to ensure changes were effectively communicated to employees. Research and Focus Groups were conducted during and following the merger between First Great Western and First Great Western Link and after the introduction of the First ScotRail franchise, to assess the effectiveness of the communication processes.

Results of the First TransPennine Express Staff Survey

	TPE 2004	FirstRail 2003*
I ENJOY MY JOB	89%	87%
I BELIEVE THAT MY COMPANY IS SERIOUSLY COMMITTED TO SAFETY	86%	83%
MY COMPANY IS CAPABLE OF PROVIDING THE BEST POSSIBLE CUSTOMER SERVICE	84%	81%
MY MANAGER/SUPERVISOR/TEAM LEADER IS READY TO LISTEN WHEN I HAVE A PROBLEM	83%	79%
I AM PROUD TO WORK FOR MY COMPANY	74%	66%
MY UNIFORM IS SMART	74%	64%
I AM KEPT WELL INFORMED ABOUT HOW MY COMPANY IS DOING	68%	66%
THIS COMPANY RECOGNISES WHEN PEOPLE DO THEIR JOB WELL	49%	42%
OUR TRAINS ARE CLEANED TO A HIGH STANDARD	44%	54%
TPE SPECIFIC QUESTIONS		
I THINK THAT THE TPE NEWSLETTER IS INTERESTING AND INFORMATIVE		85%
I THINK THE SAFETY FIRST NEWSLETTERS ARE INTERESTING AND INFORMATIVE		83%
I KNOW THAT THE VISION OF TPE IS 'TO REVITALISE AND REDEVELOP TPE MAKING IT A PREFERRED MODE OF TRANSPORT FOR OUR CUSTOMERS IN THE NORTH OF ENGLAND?'		78%
MY MANAGER/SUPERVISOR GIVES FACE-TO-FACE BRIEFINGS		44%

* First Rail results is the average of all First Rail companies in the last Group-wide Think First Survey in 2003.

CASE STUDY

IMPROVING COMMUNICATION IN FIRST TRANSIT

First Transit have recently recognised the need to increase the input of the General Managers to the business decision making process. During the year we undertook a survey of all General Managers to gather their views on key issues affecting the Company. On the basis of the findings, action plans have been put in place to address the issues identified. These include the need to improve processes for recruitment, identifying and bidding for new contracts and marketing and image. The First Transit President has now convened a General Manager Advisory Group, consisting of eight Managers, to provide a Focus Group to discuss specific issues for feedback to the Board.

CASE STUDY

FIRST STUDENT TRIALLING CONTINUOUS IMPROVEMENT TEAMS



During the past year, First Student undertook a number of formal employee surveys at selected locations. The feed-back was of value and we are now keen to identify from this ways in which we can communicate more closely with employees on a day to day basis. As a result we are now trialling Continuous Improvement Teams at the Englewood location in New Jersey which employs 250 people. Randomly selected employees meet in groups monthly with the location manager to discuss issues of local importance. Open forum meetings and employee committees have also been introduced to improve discussion and encourage impromptu feedback.

Staff Turnover

Improving bus drivers retention has been a major challenge for us. We are now achieving progress and have developed a range of programmes that are beginning to take effect. In the UK although the twelve month average for bus driver turnover has remained flat there has been a consistent downward trend during the last six months.

In First Transit, bus driver turnover has reduced by 6% over the last year and now stands at 25%. In First Student, a reduction of 2% has been achieved during the last year with a 6% reduction achieved over the last two years, now standing at 29%.

In other parts of the business, staff turnover is a less significant issue. In the Rail Division driver turnover lies at between 5 and 10%. In First Services the staff turnover rate lies at around 2.3%

Improving Recruitment Processes

We continue to look at ways to improve the efficiency and consistency of the recruitment process. In the UK we are piloting a centralised recruitment contact centre for our Glasgow bus business. Early results look promising and, once fully evaluated we will implement this initiative more widely.

In First Transit there is now a person responsible for recruitment who works with FirstGroup America's Shared Services to deliver centralised management of the recruitment process. This initiative is already improving efficiency and developing greater consistency by ensuring more effective recruitment of the right candidates.

Partnership with Jobcentre Plus in the UK

Last year we reported on the establishment of a partnership with Jobcentre Plus to support our recruitment processes. This partnership has proved highly successful. From April to December 2004 we filled 47% of vacancies registered with Jobcentre Plus against a national average of around 28%, at a time when unemployment was recorded at its lowest level for 40 years.

Through this relationship, we have been involved in a number of initiatives to assist those who might otherwise find it hard to gain employment, or to attract people who might not have considered a career in public transport.

These have included:

- >> A project in Berkshire that placed 22 unemployed people through an intensive 2 week pre-employment training programme resulting in First engaging 21 out of the 22 people trained.
- >> A project in Glasgow where Jobcentre Plus and First worked closely with the Child Care Partnership, to assist in cases where childcare was needed, to enable people to attend work.
- >> A project in Southampton where Jobcentre Plus and First worked closely with local minority communities to attract new employees from sources not traditionally associated with driving careers.
- >> A jobs fair in Hammersmith to attract members of the large Polish community based in the area.

These initiatives have not only achieved greater staff stability within First but are encouraging greater diversity across our whole workforce.

CASE STUDY

INDUCTION PILOT PROGRAMME - SOUTH WEST BUS DIVISION

An important programme to improve driver retention has recently been piloted in Somerset & Avon which involved linking the driver induction programme to obtaining a vocational qualification. Early analysis shows a 25% increase in first time pass rates and a 50% improvement in the employee retention rate during the first 6 months of employment. The process will now be implemented across the UK Bus Division over the next 2 years.

Overseas Recruitment

Our overseas recruitment project has the dual aims of improving staff retention and building diversity within the business. To date it has achieved both these goals and has proved highly successful. Since May 2005 we have recruited over 360 staff across 17 depots throughout the United Kingdom, retaining 99% of these staff to date. The project has been recognised as one of the most highly regarded recruitment models in Europe.

The process is carefully managed by a small, dedicated team and sources recruits predominantly from Poland, but has now engaged drivers from The Czech Republic, Slovakia, Slovenia, Hungary, Portugal and Malta. The majority of employees have been through a detailed training process and all enjoy the same benefits and terms and conditions as their UK counterparts. Every effort is made to ensure the transition from country to country is as easy as it can be, specific actions in this regard include the introduction of diversity courses for management teams at the Local Depots. New employees are also assisted in sourcing accommodation and provided with welfare support, particularly in the early weeks.

CASE STUDY

TURNING ROUND RECRUITMENT AT BATH DEPOT



In the summer of 2003, Bath had the worst vacancy problem in our UK bus operation. Bath received one of the first group of engineers and drivers to arrive in the UK from Poland. Following the successful introduction of these employees the depot has continued to recruit through the overseas project. The depot now has no vacancies and enjoys a very diverse and cosmopolitan workforce including employees from Poland, South Africa, The West Indies, Italy, Australia, Turkey, Holland, China, Greece and Egypt. An International football competition was held at the depot recently. Teams from England, Poland, South Africa and the rest of the world were competing.

Improving Staff Retention

In addition to the new recruitment processes we have also been focussing on ways to improve staff retention. This builds on an independent study we conducted in 2003 on the reasons why people leave the Company. In particular we have been developing ways to support new drivers in the early days of employment, and supplementing this by reviewing our overall managerial capability to manage and motivate our people.

CASE STUDY

FIRST STUDENT - MAKING WAVES



This year First Student introduced a three-day training programme for all site-based employees. The aim of this programme was to develop core skills and competencies of employees. The programme is also aimed at further improving employee retention rates. Topics covered in the training include diversity, effective communication, conflict resolution and effective interviewing. The programme was developed in-house and a representative from each region was trained through "train the trainer" sessions. To date, two regions have completed training at all locations, the aim is to complete training of all staff by Summer 2005.

Recognising and rewarding our employees is an important part of improving staff retention. In the UK staff have the opportunity to invest in the Company through our 'Save As You Earn (SAYE) and 'Buy As You Earn (BAYE) schemes. All our bus employees have access to a credit union, a facility being extended to our Train Operating Companies. Member benefits include regular savings deducted via payroll; easy access borrowing; accredited money counselling services and free independent financial advice. Long term savings options include a choice of pension plans. These schemes have been developed in close association with the Unions.

In North America benefits include health and medical insurance, life insurance, savings plans and flexible Spending Accounts for full time employees.

FINALIST AT THE EMPLOYEE BENEFITS AWARDS



Our 'Save As You Earn' (SAYE) and 'Buy As You Earn' (BAYE) share schemes, together with credit unions and pension plans, provide opportunities for all our employees to formulate short, medium and long-term savings strategies. Our work in this area has led to First being selected as a finalist at the Employee Benefits Awards in the categories of: Most Effective All Employee Share Scheme Strategy and Most Effective Use of Financial Advice in The Workplace.

FIRST GREAT WESTERN MANAGER AMONG FIVE BEST BOSSES IN BRITAIN



Keith Owen from First Great Western Trains was selected as a finalist in the annual '**Best Boss**' competition run by Working Families and Lloyds TSB. The competition celebrates individuals who are great bosses and show other managers how a well run and happy team creates a winning formula. Keith was chosen for his action to help employees balance home and work life.

At the time he was nominated by one of his members of staff, Keith was a Train Services Manager based in Exeter. He has since been promoted to the role of Group Train Services Manager, managing almost 150 Customer Hosts and Train Managers based at London Paddington and Worcester.

Learning and Development Leadership Development

Our learning and development ladders form the structure for leadership development within the Company. In the UK we have adopted two new leadership programmes for managers and supervisors leading to a national vocational qualification (NVQ). Sixty managers and supervisors have gained these qualifications over the past 12 months and an on-going training programme is now in place in the UK. Programmes for senior managers are in the process of being developed and will be introduced in the coming year.

In North America First Student have introduced a training programme for new Contract Managers designed to improve management skills and ensure people are appropriately trained for their role. The first sessions were introduced in December 2004 and will continue through the year. First Transit continues to train frontline supervisors in an intensive four day training course through First Transit University.

We continue to operate a Graduate Training scheme for fast tracking new graduates to management positions. In addition to the training programme, this year we have introduced a mentoring scheme whereby past graduates are provided with mentoring skills training and are used to mentor the current trainees.

Vocational Training

This year in the UK we have introduced a new database for recording the number of employees on the NVQ and equivalent BTEC programme. This database is linked to the Learning Skills Council and allows us to track the learner's progression through the programme. Currently, 16% of our bus drivers hold a Level 2 NVQ in Road Passenger Transport - an increase of 3% on last year.

We are also developing NVQs in other areas including:

- >> Cleaning Passenger Transport Vehicles
- >> Retail NVQ for Travel Shop staff
- >> NVQ for First Student bus drivers (UK)

The NVQ programme in rail has extended to include First Great Western Link and First TransPennine Express and is offered to on-train, station and booking office staff. It is expected that in the region of 300 Staff will complete an NVQ within the coming year.

Within our recently established Shared Service Centre in Aberdeen, we are working in partnership with Aberdeen College to ensure all staff have access to vocational qualifications and ECDL (European Computer Driving Licence) qualifications. In partnership with the college we have also established a professional financial qualification course to support staff in developing their finance careers.

CASE STUDY

USING STATE OF THE ART TECHNOLOGY IN LEARNING



First, in partnership with Aberdeen Skills and Enterprise Training (ASET), with the support of European Funding, has developed a new learning and development tool for driver qualifications.

The DVD is state of the art technology, combining video clips of live operations together with two and three-dimensional computer generated graphics. The programme is interactive engaging staff over a wide range of routine and challenging scenarios with a view to achieving a consistent best practice solution to each of the situations encountered. The programme is designed to articulate directly with Vocational Qualifications.

To date, the DVD has been demonstrated to a cross section of staff around the country where it has received a rapturous welcome. In June 2005 the programme will be formally launched with full roll out soon to follow.

ASE (Automotive Service Excellence)

In North America similar qualifications can be obtained through the ASE scheme. Both First Transit and First Services participate in the ASE programme for training and testing technicians and financially reward successful candidates. Within First Services 70% of the eligible workforce hold ASE certificates, within First Transit the figure is 35%.

First Services are also seeking Blue Seal certification for all locations. This indicates that 75% of the technicians are ASE certified, and at least one technician is certified in each area of service offered by the location. To date, 50% of locations (35 out of 69) have achieved this status.

FIRST SERVICES - TECHNICIAN OF THE YEAR AWARD



AWARD

Last year, First Services introduced the Technician of the Year award. Employees were nominated based on their technical skills, quality of work, planning and organisation, safety, reliability and interpersonal skills. The winner this year was Willie Sutcliffe.

Mr Sutcliffe has worked at our Monroe Public School Location in Michigan for 8 years. He has earned 22 ASE certificates and is Master certified in 3 areas. He has been recognised for his dedication, hard work and positive attitude which have greatly contributed to the success of his location.

Work Place Learning

A core part of our people strategy is to encourage staff to reach their full potential through access to work place learning. Within the UK Bus Division we continue to develop Learning Centres throughout the business to provide staff with access to non-vocational training.

Within UK Bus approximately 40% of employees now have access to non-vocational learning - an increase of 10% on last year. There are currently 32 learning centres across the UK, mainly located in bus depots but with access available to relatives of staff and, in some instances, the public.

In Scotland, our Learning Buses provide a flexible approach and ensure full coverage of our workforce.

CASE STUDY

LINKING BASILDON LEARNING CENTRE TO THE COMMUNITY



The Basildon Learning Centre in Essex received funding this year through the Neighbourhood Funding Scheme to support tutors from Basildon Adult Community College. This has been achieved through a partnership between First, The Learning and Skills Council and the Transport & General Workers Union in conjunction with Basildon Adult Community College and Basildon, Billericay and Wickford Council for Voluntary Services. As a result of the funding we have been able to move the Learning Centre from within the depot to the street, providing members of the local community with access to the centre.

Extending The Lifelong Learning Philosophy To Our Rail Division

This year a Work Place Learning Centre was trialled at our Laira depot in Plymouth and following the success of this initiative we are now in discussion with the Trade Unions to extend the concept throughout First Great Western. First ScotRail also have an established relationship with the Glasgow Rail Learning Centre (a partnership with the Rail Trade Unions and Stow College) and will be extending the opportunity to learn throughout Scotland.

We will continue to look at opportunities to increase access to our learning centres, both to the local community and across our rail and bus functions.

The Learning Experience

“For many years now I have wanted to further my education. The opportunity to do just that came my way about six months ago by enrolling as a student with Open University. By looking through their prospectus I selected the Arts & Humanities course and I am now working towards a BA degree course. All of this would not have been possible without First Group's in-house tuition facility. I knew nothing about computers and really was computer illiterate. I am 62 years of age and I have been with the Company since 1975.”

Ray Holder - Bus Driver

“When the learning centre was introduced to the workforce at Hadleigh depot I felt it was an opportunity not to be wasted. When the chance came to take a GCSE exam, I had no hesitation in taking up the challenge. Two years later and with a grade B achievement I can now look back and see that all the hard work has been worthwhile. I had to do a lot of research for my coursework which took up a great deal of my spare time but nevertheless I really enjoyed the time spent learning. I would recommend the course to anyone, but be prepared to give up some of your spare time not just the two hours with your tutor.”

Pat Tracey - Bus Driver

FIRST RUNNER-UP FOR DEVELOPING YOUR PEOPLE AWARD



At the recent Scotland plc Awards ceremony, First was named as a runner up in the ‘Developing Your People’ category, a new award created to recognise the efforts of companies in nurturing and encouraging their employees to make the most of their talents. The judging panel noted that First has made “a major shift and investment in developing its people in an industry facing clear acquisition, retention and other issues”. The panel also commented that the Company has “displayed a great deal of innovation in the many initiatives it has launched”.

Diversity

Our vision is that our workforce should reflect the diversity of each local labour market. We recognise the importance of diversity as a business issue and the need for our people to appreciate difference. We aim to address the issue of diversity through our business processes such as recruitment, training and development and the development of more flexible working practises. Through our partnership with Jobcentre Plus and overseas recruitment programme we are encouraging greater diversity in the UK workforce. One area of particular success has been in relation to age, where we are recognised as an Age Positive employer in the UK by the Department of Work and Pensions. We recognise in particular the need to attract more female staff to the business in the UK to better reflect our customer base and to improve the representation of women in management positions across the business. Currently 15% of our managers in the UK are women compared to 28% across the Group. During the coming year we will introduce a Diversity policy in addition to reviewing our existing Equal

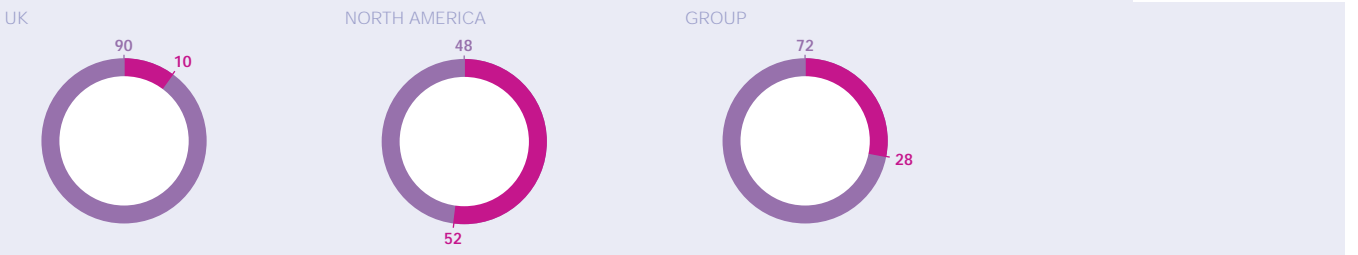
Opportunities policy. In doing so, our aim is to bring to life our desire to treat our employees and customers as individuals with unique characteristics and capabilities.

First Named as Scotland's Most Age Positive Employer

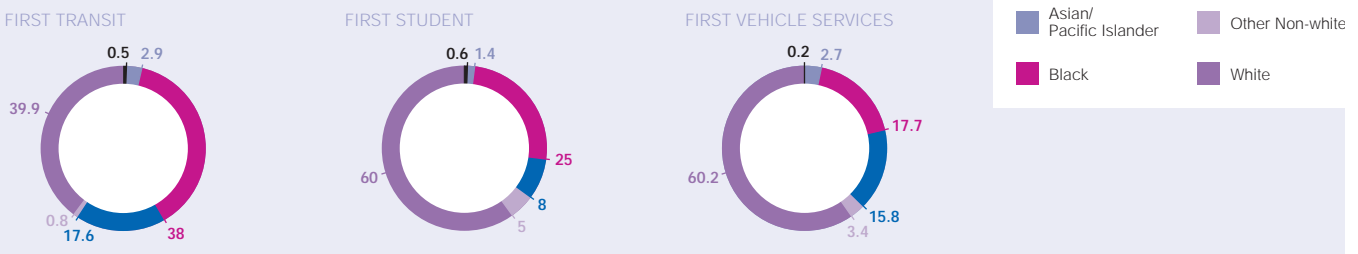
Last year the Department for Work and Pensions recognised First as an "Age Positive Champion" in acknowledgement of our age friendly policies. In particular we have received recognition for our "flexible decade" initiative which allows employees greater flexibility to shape the transition from work to retirement.

This year we were named as Scotland's most Age Positive employer for tackling age discrimination and promoting the benefits of a mixed age workforce. The award was presented by Minister for Pensions, Malcolm Wicks MP, and Scots TV personality Lorraine Kelly.

Gender Breakdown of Employees (percentage)



Breakdown of the Ethnic Diversity of our North America Workforce (percentage)



Environment First



Progress Against Environment Improvement Objectives 2004/05

UK ANNUAL TARGETS 2004/05

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 our North American 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.

PROGRESS

We have achieved a 6% reduction in energy usage in our UK Bus Division.

Our recycling levels fell by 2% but the overall waste arising reduced by 5%.

We achieved a reduction in water usage of 4.9%.

First North Western received ISO14001 accreditation during the last twelve months.

The process of integrating our North American operations into the environmental management framework is on-going.

The new rail franchises are now integrated into our environmental management framework.

Staff training levels have increased by 6%.

A sustainable purchasing seminar was conducted with key members of purchasing staff with a follow up planned. A number of initiatives have followed this training.

US ANNUAL TARGETS 2004/05

Develop a Company-wide list of approved chemicals and vendors.

Maximise the amount of waste oil which is sent for recycling.

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.

PROGRESS

This initiative is in progress, a master list of chemicals has been generated and approved suppliers will be established over the coming year.

This has been achieved through the development of new waste management contracts.

Recycling technology for solvent washers has now been installed at all depots.

A new waste management contract has now been established, a requirement of which is the generation of data on waste arising and disposal.

A methodology for the calculation of emissions from vehicles has been agreed. This will be implemented over the coming year.

WE AIM TO ACHIEVE CONTINUOUS IMPROVEMENT IN OUR ENVIRONMENTAL PERFORMANCE THROUGH THE APPLICATION AND DEVELOPMENT OF OUR ENVIRONMENTAL MANAGEMENT FRAMEWORK. THIS YEAR WE HAVE BEEN WORKING TO INTEGRATE THE NEW RAIL FRANCHISES INTO THIS FRAMEWORK AND IMPROVE THE INTEGRATION OF THE UK AND NORTH AMERICAN ENVIRONMENTAL MANAGEMENT PROGRAMMES.

Developing Our Environmental Management Framework

This year we established the Group Environment Forum whose role it is to develop the Group's Environment strategy and to ensure integration of environmental management across the Group. In the UK Bus Division, the environmental management structure has been integrated with the health and safety management structure to streamline processes and controls and the North American operation has been integrated into the framework.

Minimum environmental performance standards for each Operating Company are described in the Group Environmental Management Manual. An annual audit programme is in place for auditing the Operating Companies against these requirements.

This year the new rail franchises have been integrated into the environmental management framework. Environmental baseline reviews and follow up environmental audits were conducted at all rail companies to review current arrangements against First requirements. Objectives and targets for improvement were established.

Parts of the Company are developing systems in compliance with the ISO14001 management system standards. To date our bus companies in London and South Yorkshire and our First Great Western and former First North Western franchise have achieved accreditation.

The audit programme assists in identifying training needs and we have an on-going training programme for all staff. Environmental issues now form part of the standard Core Safety Brief which is to be rolled out across the UK Bus Division. As part of the process of beginning to incorporate Major Stations into the environmental management programme, an initial awareness raising session has been conducted with managers in First Great Western. All regional Health, Safety and Environmental managers in the Bus Division and all new Rail Environmental Managers have attended and passed the IEMA certificate in Environmental Management. This year the number of people within the UK who have received some form of environmental training has increased by 6%. In North America 539 employees have received environmental training during the last twelve months.

CASE STUDY



PARTNERSHIP WITH FUTURE FOREST

Last year we worked with Future Forests to make our business travel carbon neutral. This year we chose to make two key bus routes in Bristol 'carbon neutral' for three months. The chosen routes were numbers 8 and 9, running from Temple Meads through Clifton and Redland. This was seen as an ideal opportunity to raise awareness of the environmental benefits associated with public transport. Primary school children aged between 6 and 11 years were invited to enter a competition to design a poster to show First's ongoing commitment to the environment. The winners have received a tree for their school and travel prizes for their families.

CASE STUDY



PILOTING A HYBRID BUS IN MANCHESTER

We have been operating a hybrid bus over the last year in Manchester. This technology uses idling time and braking to recharge a battery pack which helps provide energy to power the bus. The trials have demonstrated some encouraging results, with fuel consumption of about 8.9 miles per gallon, compared with conventional buses on this route with consumption rates of around 6 miles per gallon. This is still very much a developing technology. The supplier is working to improve the reliability of the buses, particularly with respect to the ancillary systems and complex electrical equipment.

Risk Management

Fuel storage

Due to the nature of our operations we need to store and use large quantities of fuel which carries with it the risk of loss or spillage of fuel to the environment. In the UK we have replaced all underground fuel tanks apart from three, which are fitted with leak detection systems or are routinely tested and certified. In North America we have 106 above ground storage tanks and 103 underground storage tanks. The underground tanks meet stringent Federal and State standards, including performing line and tank tightness tests and installing leak detection, spill, and overfill prevention devices.

Training and awareness for our staff responsible for fuelling and fuel delivery supervision is provided and procedures are in place to reduce the risk of fuel loss during delivery to as low as reasonably practicable.

Prosecutions and Incidents

We have not been prosecuted for any environmental incidents for the third successive year. However, we did receive a civil penalty (\$19,300) for an incident in North America as a result of a 170 gallon accidental release from our First Student locations in Framingham, Massachusets.

A further 30 accidental releases were reported in North America all of which were less than 170 gallons with none resulting in a civil penalty. In the UK 55 incidents were reported all of which were contained and cleaned up in the immediate vicinity of the spill.

We have well established incident reporting procedures in both the UK and North America where records of all spillages are retained centrally together with the cause and outcome. Spill awareness training and spill response training is a core element of our environmental training programme.

This year we received 12 environmental complaints in the UK all but one relating to noise and fumes. We have responded to all complaints proactively and none have led to any further action. Complaints are not centrally recorded in North America at present.

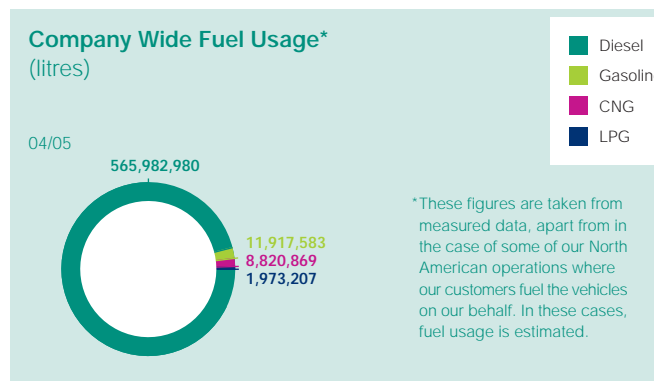
Our Environmental Performance

Fuel Use

We monitor fuel usage across the Group. In the UK all our buses - apart from those involved in alternative fuel trials - operate on ultra low sulphur diesel.

In the US the main fuel is low sulphur diesel with ultra low sulphur diesel specified by some clients. First Student operate 17 CNG buses, while 11% of the First Transit fleet are CNG buses, 5% propane, 4% hybrid with 10 electric buses.

The majority of our trains operate diesel engines apart from in First ScotRail where around half the services are electrically worked.



Improving Fuel Efficiency

This year in the UK where we own and operate our own vehicles, we have implemented a number of initiatives to reduce fuel consumption. This has been driven by the reduction in fuel efficiency of many of our vehicles due to the increased specification of emission control equipment. By improving fuel efficiency we can help reduce costs as well as reduce our carbon dioxide emissions. Within the Rail Division, we are currently conducting trials on engines for possible replacement in our First Great Western fleet. The replacement programme is being driven by the desire to install more reliable engines with lower maintenance costs but improved fuel consumption is also important.

CASE STUDY

IMPROVING FUEL EFFICIENCY IN OUR BUSES

During the past 12 months we have been working closely with Volvo to undertake fuel consumption trials. These include the use of equipment to monitor the influence of driver performance on fuel efficiency. Driver training will be developed to take account of the findings.

We have also been undertaking route mapping where Volvo have surveyed a number of key bus routes in detail and are looking to optimise engine settings to suite the route in order to deliver improved fuel consumption. An early finding from the route mapping is that the latest development in gearbox technology to the use of six gears is likely to give savings in fuel consumption.



First Year for London's Fuel Cell Buses

Last year we reported on a trial involving the introduction of three hydrogen fuel cell buses in London. In January this year the trial had been in operation for one year. These buses have now travelled 23,000 miles and been in operation for nearly 3,400 hours. The reliability of the technology, despite some anticipated teething problems, has exceeded expectations. The quiet, smooth ride offered by these buses has proved to be very popular with passengers who have shown an interest in the technology. The trials indicate that hydrogen fuel cells could offer an alternative to diesel in the future, although the high cost of the vehicles is currently the major barrier.

The only emission from a fuel cell bus is water. Therefore, provided that the hydrogen generated to fuel the buses can be produced from renewable energy sources, this technology could present a "no emissions" option for the future.

Fuel cell bus driver Sultan Dar says:

"The passengers are always asking questions about the benefits of the fuel cell bus and when I tell them they are always really supportive of the trial. I am very proud to be an essential part of this trial as this technology will benefit our environment substantially-it's something I'll tell the grand kids about"

FIRST ANNUAL ENVIRONMENTAL AWARDS



This year's Best Individual Achievement Award was presented to Trevor Burrows, the facility manager at First Great Western, and Stuart Horsburgh, a shunter at First in Edinburgh. Stuart Horsburgh devised a cost effective solution to solve litter problems at Bannockburn depot while Trevor Burrows has been working with contractors and station staff to achieve energy reductions by installing photocells and timing devices in order to better control lighting on station platforms.

Fleet Management

We operate a significant fleet of buses and train vehicle units which impact on air quality through emissions of combustion gases.

Our policy is to reduce the emissions from our engines to as low as practicable through investment in new engines, fitting of further emission control technology and ensuring that our maintenance and fleet management programmes are effectively managed. In the UK we specify all our new buses with either a catalytic exhaust or a particulate trap enabling them to perform at emission levels lower than current legislation. Around 26% of our vehicles are currently fitted with catalytic converters and 9% with particulate traps.

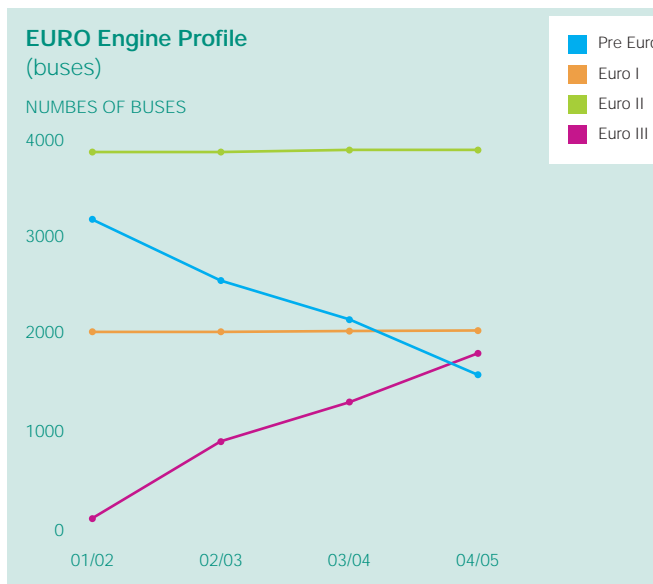
In the US over the past three years, all buses purchased by First Student have included a "50 state" engine. This type of engine has been certified to operate in all 50 states and complies with the most stringent standards in the USA. The proportion of the First Student bus fleet which have "50 State" engines has increased by 24% since last year and these engines now make up around 42% of the vehicle fleet.

In the UK the Euro standards continue to provide the target for engine emissions reductions. Last year through investment in new vehicles we increased the number of Euro III engines in our fleet by 28%.

FIRST ANNUAL ENVIRONMENTAL AWARDS



The Award for the Best Train Operating Company was presented to First North Western. They have introduced a number of schemes in the last 12 months including the segregation and recycling of glass and nuts & bolts, monitoring and reducing wastage in the volumes of grease and salt grit used and increasing the level of environmental awareness.



Within the Rail industry, European legislation is setting emission limits to apply to new engines introduced to the markets in 2005 and 2008 depending on vehicle type. The on-going introduction of new vehicles to our engine fleet will continue to reduce our emissions. Our new First Great Western Adelante fleet and vehicles ordered for First TransPennine Express and GB Railfreight meet the lowest emission standards available at the time of order.

We are closely involved in an initiative being co-ordinated by the Association of Train Operating Companies to evaluate the possible implications of a move to ultra low sulphur diesel. Trials are to be conducted on a range of engines and will include evaluation of the effect on fuel consumption, as the energy per litre of ultra low sulphur diesel is lower than that of conventional fuel.

Vehicle Emissions

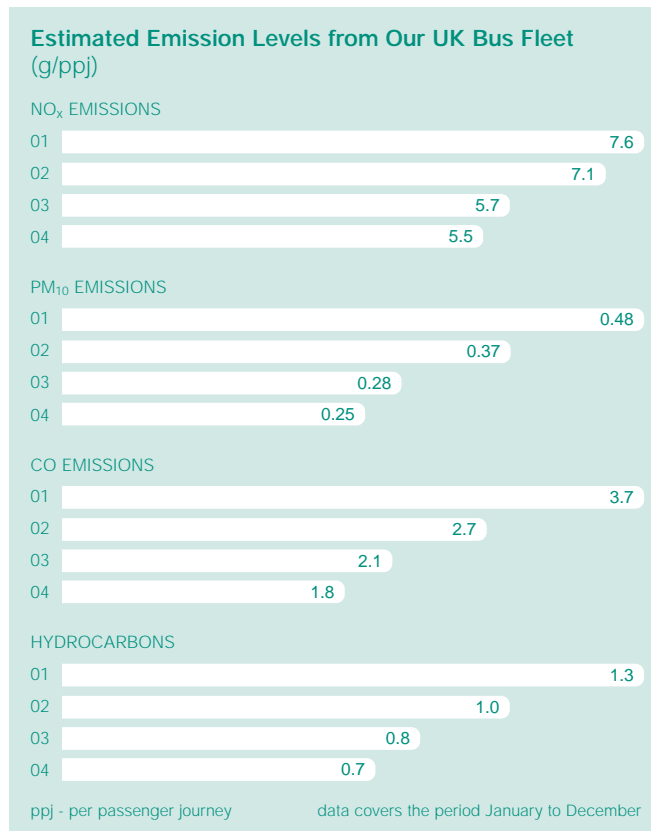
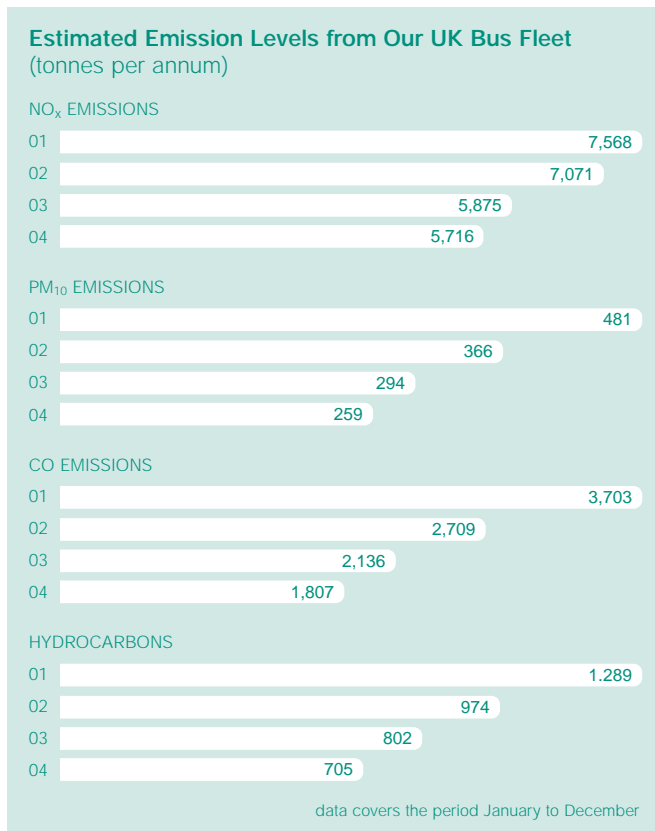
Calculated emissions can only represent broad estimates as the emissions from an engine are influenced by such a wide variety of factors including the nature of the journey, the size of the vehicle, the type and make of engine and the vehicle speed.

Emissions From Our Bus Fleet

For our bus fleet in the UK we continue to calculate emissions based on the National Atmospheric Emissions Inventory (NAEI) database (www.naei.org.uk).

The NAEI database contains emission factors for each of the pollutants reported for all Euro engine types and pre Euro engines. To calculate emissions, we establish the number of buses in each engine category in the fleet, and multiply these by the appropriate emission factors from the database. Emission factors are also adjusted for average operating speeds and vehicle mileage within each Operating Company.

In North America we do not yet have emissions data. Next year we will be calculating emission factors based on a similar model to that used in the UK.



Emissions From Our Rail Fleet

In the Rail Division, franchise changes during the last year have meant that our fleet profile has changed considerably. We have been looking at ways to improve the calculation of our emissions from the rail fleet, which will reflect on-going investment in new vehicles. This year our rail fleet vehicle emissions are calculated using a combination of manufacturers' data and measurements taken by British Rail pre-privatisation for the older vehicle fleet. By applying an assumed Duty cycle, based on European Rail Industry Standards, we have calculated emission factors. These will form the baseline for calculations in future years.

Estimated Atmospheric Emissions from Our Diesel Powered Train Fleet (tonnes per annum)

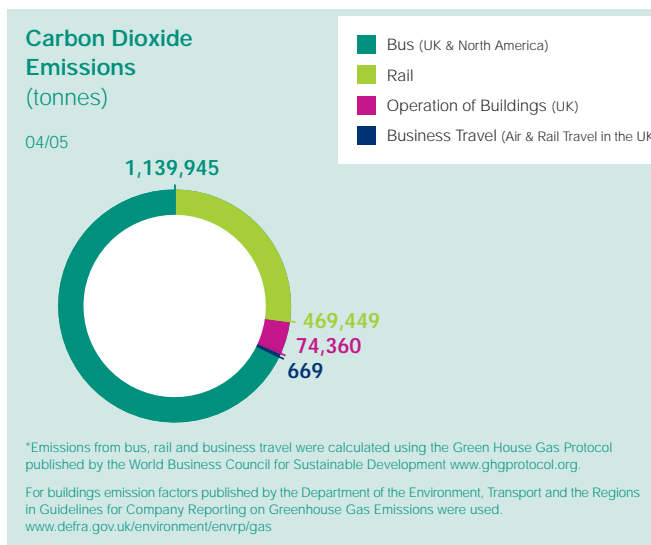
Year	PM ₁₀	CO	NO _x	Hydrocarbons
04/05	129	1,313	5,006	462

Estimated Atmospheric Emissions from Our Diesel Powered Train Fleet (mg per passenger km)

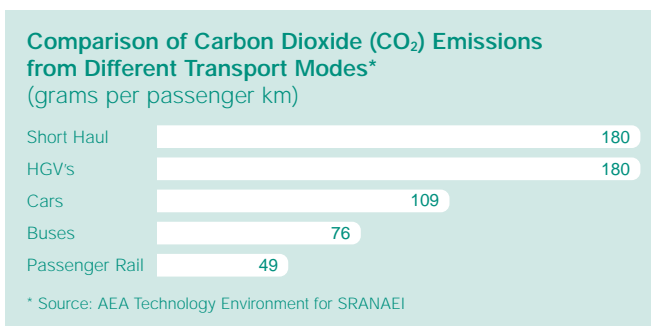
Year	PM ₁₀	CO	NO _x	Hydrocarbons
04/05	0.019	0.190	0.724	0.067

Greenhouse Gas Emissions

Carbon dioxide is a significant contributor to the greenhouse effect and is one of the main emissions arising from combustion processes. We have extended our greenhouse gas reporting this year to include all our North American bus fleet but the calculations exclude the operation of buildings and business travel in North America.



When comparing carbon dioxide emissions associated with bus and rail travel with other forms of transport emissions are considerably lower on a passenger kilometre basis.



UTILITIES SAVINGS IN FIRST GLASGOW

First Glasgow continues to lead the way in developing initiatives to save utilities. Careful monitoring of water usage has led to £8,000 in savings. They have also been working to reduce energy usage through the appointment of energy monitors, installation of time and light sensitive switches and conversion to energy efficient bulbs. This has led to savings of 24% in gas usage and 7% in electricity usage.



Utilities Usage

Water and energy usage has been monitored across all our UK properties for a number of years with the exception of stations. In North America central recording of utilities usage has only recently been introduced with a pilot project at four locations. This will be extended to all North American properties in our ownership over the next year.

In the Rail Division comparison of our total utilities usage cannot be made with previous years due to the significant changes in the rail franchises. We no longer operate First North Western and First Great Eastern. The only rail franchise which we continue to operate from our previous reporting period is First Great Western. To take account of this, utilities data has been normalised to passenger kilometres. Data for the UK Bus Division is normalised to the number of passenger journeys. The utilities data does not include data for First TransPennine Express, GB Railfreight or Hull Trains. These Companies do not operate their own depots (train cleaning and maintenance is sub-contracted to third parties) and work from leased office accommodation.

Water Usage

Our main use of water is for vehicle washing. In the UK Bus Division we have achieved on going reductions in water usage - due mainly to the introduction of water recycling facilities in our bus washes. All our bus washes have full or partial recycling facilities with the exception of walk round units used at our smaller depots. Our overall water usage has increased during the last 12 months due to the additional rail franchises joining the Group. Normalised data indicates that in the UK Bus Division, water usage per bus has reduced by 4.9%.

Total Water Usage - UK Operations (m³)



Normalised Water Usage Data for UK Bus Division (m³ per bus)



Normalised Water Usage Data for UK Rail Division (m³ per vehicle unit)



FIRST ANNUAL ENVIRONMENTAL AWARDS



Award for the Best Operating Company in the bus division was presented to South Yorkshire. This Operating Company was accredited with the ISO 14001 certification, in recognition of the sound environmental systems in place, hard work and dedication of the staff. South Yorkshire energy usage has shown a marked reduction in 2003/04 and a 31% reduction in water usage.

CASE STUDY

REDUCING UTILITIES USAGE IN FIRST GREAT WESTERN

Our longest running rail franchise First Great Western has already been working to reduce utilities usage and achieved significant progress. For example our depot at Penzance achieved a reduction in water usage of 34% and electricity of 4%. This resulted in them being awarded the quarterly prize of £1,000. In the spirit of the depot it was agreed the money should be awarded to Helston Shelter Box appeal a local charity who send survival kits to disaster areas around the world.

Energy Usage

We use a considerable amount of energy for heating, lighting and use of equipment at our depots and stations and have an on-going programme of initiatives to reduce energy usage. This year we have achieved a 6% saving in energy usage in our UK Bus Division. We have established baseline data for our new group of rail franchises and will be working to develop the energy saving culture within these organisations.

To provide an incentive to our UK Rail Division staff to participate in energy saving initiatives, we award a quarterly prize of £1,000 to the biggest energy savers amongst our depots. This year a total of £4,000 prize money was awarded. Over the next year our new rail franchises will be integrated into this scheme, including our stations.

Total Energy Usage* - UK Operations (kWh)



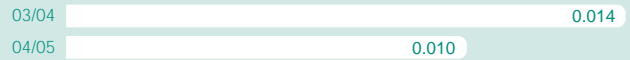
* Energy data is reported as the combined gas and electricity usage at each depot expressed in kilowatt hours.

Normalised Energy Usage Data for UK Bus Division (kWh ppj)

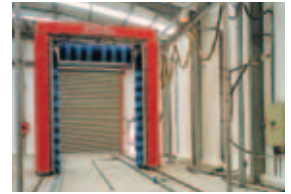


ppj - per passenger journey

Normalised Energy Usage Data for UK Rail Division (kWh per passenger km)



CASE STUDY



MONITORING UTILITIES IN NORTH AMERICA

As part of a pilot study in North America we have begun to record utilities data at two First Transit and two First Student locations. A baseline for these locations has now been established and will form the basis for establishing local targets for utilities reductions. The total water usage across the four properties was 33,175 metres cubed, which equates to 67 metres cubed per bus. This figure is similar to that in the UK Bus Division, prior to the introduction of water saving initiatives.

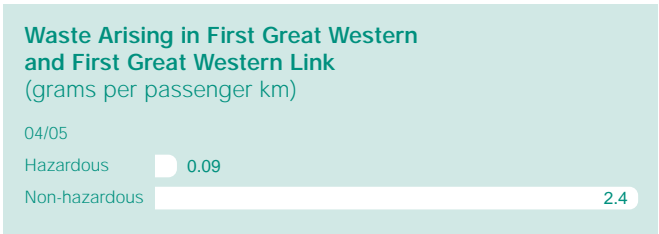
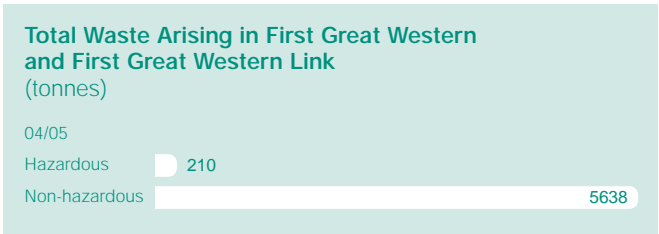
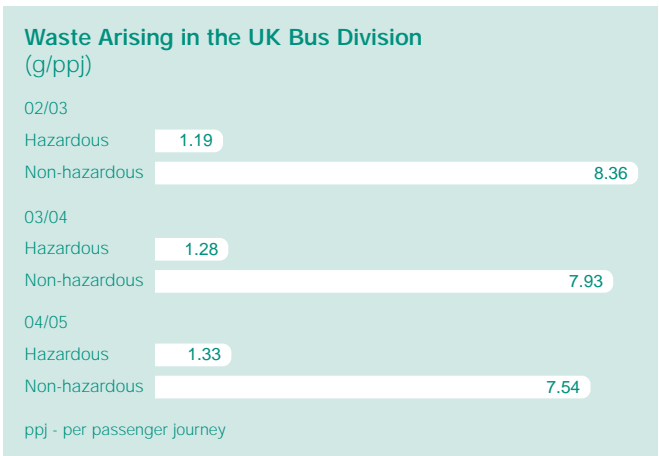
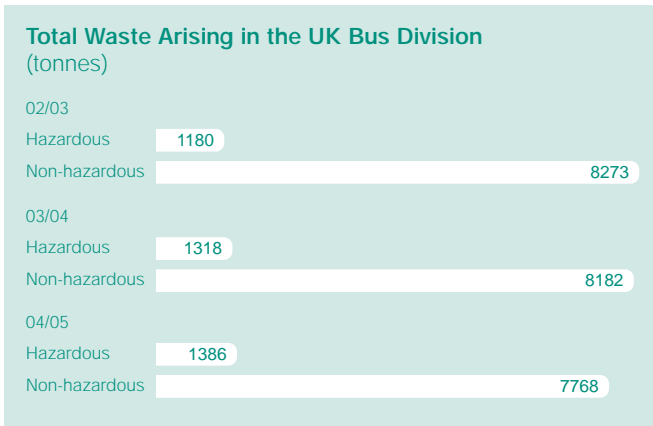
Total energy usage across these properties was 8,211,529 kWh, which equates to 0.25kWh per kilometre. In the US passenger journey data is not available and we will normalise energy usage data per kilometre.

In the coming year utilities monitoring will be extended across all properties owned by the North American companies.

Waste Management

We have been monitoring waste arising and the proportion of waste recycled in our UK Bus Division for a number of years. In the UK Rail Division we only have data for First Great Western and First Great Western Link, this data includes both depots and stations. Our other Train Operating Companies will generate waste arising data as part of their integration into the company environmental management framework.

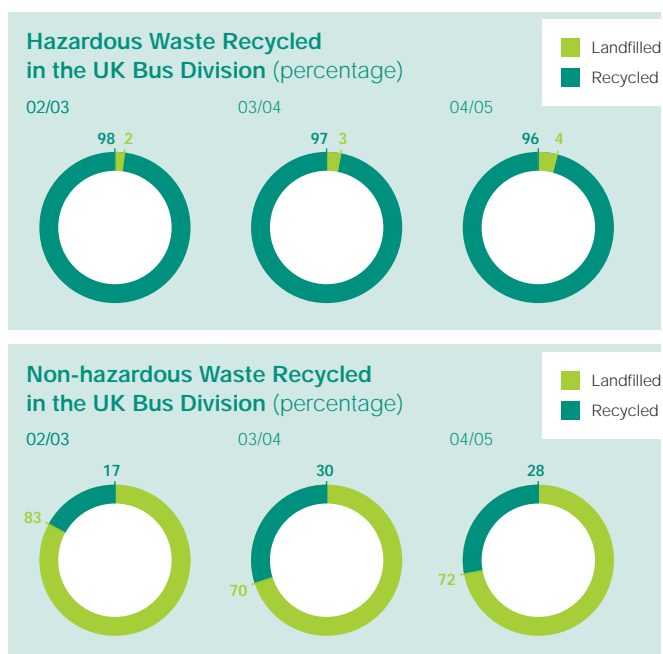
This year we achieved a 5% reduction in non hazardous waste arising in the UK Bus Division. The baseline data for First Great Western and First Great Western Link will be extended to cover all our other rail franchises in the coming year. By normalising the data to passenger kilometres we will be able to take better account of franchise changes in future years.



Waste Recycling

The majority of our hazardous waste is recycled. Within the Bus Division the recycling rate lies at 96%. For First Great Western and First Great Western Link the hazardous waste recycling rates are 94% and 97% respectively.

For non-hazardous waste the recycling rates are currently 28% from our UK bus depots, and 8% for our First Great Western and First Great Western Link depots and stations. The baseline data we have available for the Rail Division will be used to set objectives for improving recycling rates at pilot sites.



On-board Waste

One of our main challenges with respect to improving our recycling performance is in relation to the management of waste arising from on-board our trains and buses. On our buses this is primarily customer derived waste, while on our trains it is a combination of customer derived waste and waste from any on-board catering facilities. The segregation of waste on trains is complicated by the fact that it involves changes in the on-board cleaning practices and the involvement of stations where the waste is disposed of.

This year First Great Western Link working with Rail Gourmet have introduced a pilot scheme involving the segregation and recycling of 'on board' waste on selected First Great Western Link trains. Indications to date are that around 3 tonnes of printed matter can be collected for recycling every four weeks. Due to the success of the initial trials the contract has been extended and the initiative will be rolled out to other parts of the Rail Division.

CASE STUDY

IMPROVING ANTIFREEZE MANAGEMENT

This year we have been working with our antifreeze supplier, Univar, to improve the management of antifreeze and reduce loss through spillage and wastage. This will help reduce costs for the Company and have associated environmental benefits. A Group-wide policy on antifreeze management is now being introduced which requires the use of antifreeze recyclers as part of routine maintenance. We have now moved to an antifreeze which has an operational life of three years and Univar have worked with us to ensure compatibility with our existing product to allow us to use up our existing stock.

MOBILE PHONE RECYCLING



This year we have introduced an initiative to encourage recycling of old mobile phones and printer cartridges, while at the same time raising money for charity. First has teamed up with the Recycling Appeal to raise money for their chosen charity - Macmillan Cancer Relief. Staff are encouraged to donate used printer cartridges and old mobile phones to the Recycling Appeal, in order to receive a cash donation. The funds help continue the great work Macmillan Cancer Relief do - helping people living with cancer by providing expert care, practical and emotional support, and innovative cancer services to improve cancer care throughout the UK.

The scheme has been running for four months and to date we have raised £449.85

In North America our aim has been to reduce, and if possible eliminate, the production of hazardous waste at our facilities. Our main hazardous waste is spent solvent used for washing parts. We have had an on-going programme of replacing our conventional washers with ones where the solvent can be continually recycled. This initiative has now been rolled out to all our locations and has eliminated our hazardous waste by an estimated 95%. Data on waste arising is not yet available in North America but we have awarded a central waste management contract for our North American operations which includes a requirement to monitor liquid waste arising.

Biodiversity

This year we have established a draft policy on Biodiversity. The nature of our activities is such that most of our sites are covered in hard standing, which offers little or no opportunity for promoting biodiversity. However, we also operate from a small number of sites which include areas rich in biodiversity, some of which are designated sites. Our policy is to ensure the protection and enhancement of existing sites and to promote biodiversity on other sites - either as part of redevelopment or local initiatives.

SUPPORTING BIODIVERSITY AT WESTON ISLAND, BATH



Our Bath depot was relocated six years ago to sit on a small, habitat-rich island on the River Avon. Whilst seeking planning permission, the ecological sensitivity of the site became apparent and First worked closely with a range of specialists to ensure the development of the site was sensitive to the ecological setting. The development supports office and maintenance facilities but also accommodates some 3,000 new native trees and shrubs managed on a rotational coppice-with-standards system, together with a variety of wildlife including otters, water voles, kingfishers, ducks, toads and bats. Measures to improve the attractiveness of the site to wildlife have included bat boxes, installation of kingfisher nesting areas, duck platforms and seasonal wetland areas to accommodate amphibians. These features are sites in areas accessible to the public and away from the activities of the main depot.

SUMMARY OF ENVIRONMENTAL ACHIEVEMENTS 2004/05



Winner BP Award for Innovation



Transport and Freight Award
National Gold Winner



Environmental Award Winner
Train Operator Category



Rail Industry Innovation Awards
Highly commended for increasing staff participation in environmental schemes

FIRST ANNUAL ENVIRONMENTAL AWARDS 2004



Winner Rail Division - First North Western

Winner Bus Division - South Yorkshire

Commended Rail Division - Hull Trains

Commended Bus Division - Glasgow

Winner Individual Achievement - Trevor Burrows

Winner Individual Achievement - Stewart Horsburgh

Commended Individual Achievement - Ann Swindell

We want to hear from you

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

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