

Scope

Welcome to FirstGroup plc's 2005/06 Corporate Social Responsibility (CSR) report. This report covers all the Group's activities in the United Kingdom and North America. The reporting period is from April 2005 to March 2006, unless otherwise indicated.

The introductory sections to the report provide background on First's CSR strategy in relation to the Group's overall business strategy and society's transport needs. Performance data is then presented for each of our operating divisions - UK Bus, UK Rail and North America on the following four themes.

Safety and Security

Team

Customer and Community

Environment

Our decision to report on a divisional basis this year reflects more appropriately our CSR and associated business management structure. By reporting on each division separately we are better able to describe and distinguish their cultural and operational differences.

The following rail operating companies are covered in this reporting period, First Great Western, First Great Western Link, First ScotRail, First TransPennine Express, Hull Trains and GB Railfreight. On the 1 April 2006 we commenced operation of two new rail franchises. First Great Western which combines the former First Great Western, First Great Western Link and Wessex Trains franchises and First Capital Connect which combines the former Thameslink and Great Northern franchises. These new franchises are not covered within the scope of this report.



During the year we have 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. This year we improved our ranking on this index from 91 to 59.



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

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CSR Network Assurance Statement

OPINION

Overall, FirstGroup has shown significant improvement from last year - particularly in terms of CSR management structure, communication of CSR priorities within the Group and reporting against issues material to FirstGroup's stakeholders. On the basis of the method and scope of work described below and information provided to us by FirstGroup, 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.

Since our assurance work last year, FirstGroup has undergone a positive shift in CSR management structure. The CSR Steering Committee, which reports to the plc Board through the Executive Management Board, is responsible for the development of the Group's CSR strategy and membership of the CSR Steering Committee includes the Managing Directors of the UK Bus and UK Rail divisions and the presidents of the North American operating companies. The responsibility for implementing the CSR strategy is then with each UK division and each US operating company. A CSR Working Group provides additional technical and operational resources to co-ordinate CSR initiatives across the Group.

In this way, there is a consistent approach which ensures that the management teams responsible for managing the business, in terms of both financial and non-financial performance, are also responsible for reporting on both financial and non-financial performance. This has been a particularly positive development in the North American operations where the presidents of the North American businesses are now more directly involved in ensuring the completeness and accuracy of reporting on the full range of non-financial aspects of performance.

In terms of internal assurance, FirstGroup has integrated CSR issues into its corporate risk assessment process. These arrangements are kept under review through the biannual update of the corporate risk assessment to ensure that all significant CSR risks and opportunities are addressed. The development of internal audit processes for CSR data has also progressed through the roll-out of the Self-Assessment Questionnaire (SAQ) to each business unit in North America and each operating company in the UK, after last year's pilot. Overall, the quality of responses to the SAQ has improved. Limited checking of the accuracy of some responses at locations in North America suggests that appropriate data collection processes are largely in place, although issues with the practicality of compiling some of the data suggests that the processes can still be improved.

The following performance management programme developments are also particularly noteworthy:

- roll-out of the Injury Prevention Programme (IPP) to focus on the FirstGroup culture of employee safety;
- assessing FirstGroup's ability to measure and address health and safety 'near misses'; and
- increased focus on the application of FirstGroup's CSR policies to procurement and the supply chain including certification against these policies.

Unless otherwise stated, we have seen evidence to support the majority of the 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 note that the quality control of certain data at site and senior levels in North America could be improved.

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 FirstGroup.

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

MATERIALITY

Although the intended audience for this assurance statement is FirstGroup's stakeholders, the scope of the assurance work did not include direct interaction with representatives of external stakeholder groups. We have reviewed the outputs from engagement activities undertaken by FirstGroup and interviewed a cross-section of directors and managers to understand their perceptions of stakeholder priorities. Our assessment of materiality with regard to non-financial issues in this report is limited by this approach to the evidence that we have gathered.

Developments such as:

- the new CSR management structure;
 - the further development of the Group's CSR strategy;
 - the alignment of CSR management and reporting responsibilities to the business structure; and
 - the enhanced internal assurance processes,
- have all contributed to help FirstGroup to ensure that material CSR issues are being identified and addressed across the Group. The report contains performance information and commentary on all the current relevant issues in the sector, although the level of reporting for some issues can still be improved.

FirstGroup has also committed to fuel efficiency where it aligns with a strong business case, and it continues to monitor the relevant technologies associated with the development of a long-term sustainable fuel strategy.

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. As in previous years, the reporting of some issues is limited by the availability of data and work continues to make additional improvements to the relevant reporting processes.

FirstGroup has also completed a stakeholder assessment for UK Rail and UK Bus. This assessment is based on surveys of employees regarding the key FirstGroup stakeholders, their issues and the methods of engagement used within the company. We understand that FirstGroup intends to analyse this data to identify potential risks and opportunities for the business, and to develop and share engagement practices across the UK businesses. Ideally, the learning obtained from this stakeholder assessment will supplement FirstGroup's existing processes for engaging with customers and community representatives.

We have seen considerable evidence that key issues highlighted by stakeholder dialogue are addressed by FirstGroup, especially feedback from customer satisfaction surveys. However, FirstGroup can continue to improve how it 'hears' stakeholders by developing additional stakeholder engagement mechanisms and formalising the process by which feedback from existing stakeholder engagement mechanisms is integrated into the business strategy.

RESPONSIVENESS

FirstGroup has established a robust mechanism for establishing targets and policies for addressing non-financial issues through the risk management process. For those stakeholders identified by FirstGroup, this process effectively accounts for the issues raised through the existing engagement mechanisms. This process involves establishment of priorities at the executive level in consultation with managing directors, setting of Group priorities, accountability for policies and targets attributed to each business and support from Group advisors. At present, many of these targets remain qualitative and the future challenge will be to work towards a wider set of quantifiable and measurable targets.

SCOPE

For the fourth year, FirstGroup plc has commissioned csrnetwork to provide independent assurance over the information within the FirstGroup 2006 Corporate Social Responsibility Report (the Report). The objective of the assurance was to check for material issues and review data systems and non-financial governance structures, management 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, we visited three local operations in each of the main North American divisions in the US. 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. We did not interview external stakeholders in order to assess the materiality of the issues covered in this Report.



UK. May 2006

Mark Line Director

Todd Cort Project Manager

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

Chief Executive's Statement

It is my pleasure to introduce FirstGroup plc's 2005/06 CSR Report. As we continue to grow and with the addition of two new rail franchises - First Great Western and First Capital Connect - in April 2006, we continue to experience how CSR is playing a more important part in every aspect of our business.

Our stakeholders play a central role in influencing our business strategy reflecting the fact that CSR is deeply embedded in our company. Our customers, the community, our employees, and shareholders drive our business forward as growth is linked to meeting their expectations. These expectations are wide ranging and meeting them can often require significant ongoing investment, the benefits of which we continue to demonstrate.

One such investment has been in our people strategy in the UK Bus division. This year has seen our driver turnover fall to the extent that we no longer have a staffing shortfall. Throughout this period we are proud to have maintained service reliability and now benefit from reduced recruitment and new driver training costs.

Our ongoing investment to achieve performance and customer service improvements is supporting business growth. In the UK Rail division we have seen significant passenger growth across our rail franchises, supported by increased passenger satisfaction levels and a reduction in the number of complaints. Our focus on customer service excellence and recognition of the role of our stakeholders has played an important part in acquiring new rail franchises and in meeting existing franchise commitments. In a number of instances our achievement against commitment is well ahead of target. In the UK Bus division we continue to achieve sustained growth across key routes, in particular where we have worked with our local authority partners on bus priority measures. In North America we maintain high contract retention rates and receive many commendations from our customers.

We are committed to continuing this investment in improving our business performance in all CSR areas and I believe we will build on this to demonstrate further benefit across our business.

Safety remains our number one priority. This year we have launched further initiatives across the Group to achieve improvements in safety performance. Security also remains an important matter for our passengers, our employees and our business. We have enhanced our security function within the Group to allow all our operating companies to source and apply expert security guidance.

At First we continue to work to improve the sustainability of our operations by supporting ongoing programmes to reduce our environmental impacts. Investment in new buses continues to reduce our emissions of non-greenhouse gases. We have further challenges to meet in reducing our greenhouse gas emissions that will support business benefits by reducing our fuel costs.

Despite another year of considerable progress there is still a lot to do. We aspire to 'Transform Travel' and to achieve this we must continue to identify and capture performance improvements across the business and continue to remain focused on our customers' needs. We must also continue to develop our people by helping everyone to meet their full potential and to make First a company that we are all proud to work for. To achieve this we must remain focused on ensuring that we follow through our commitments to effectively integrate CSR into our business and people management processes.



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

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 matters. Continually improving the way we work makes a huge difference to our customers, staff and the success of our company.

Environment

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

We are the UK's largest surface transport company, with revenue of over £3.0bn per annum and some 74,000 employees across the UK and North America.

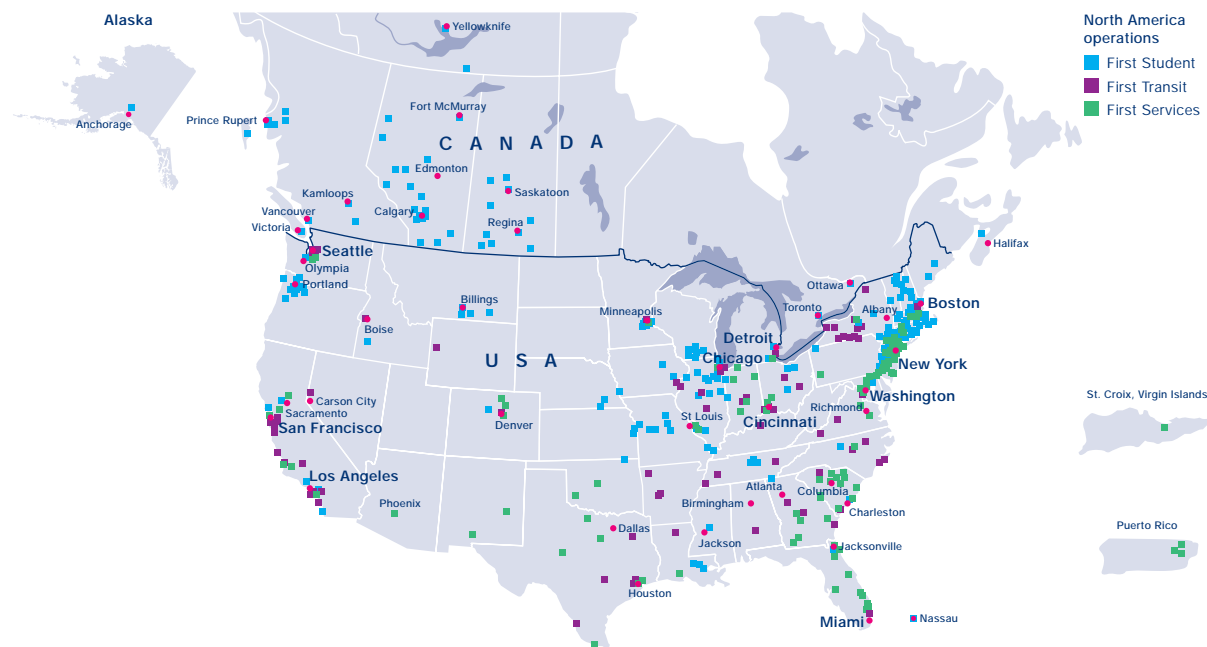


UK BUS

We are the UK's largest bus operator, running more than one in five of all local bus services. A fleet of some 9,000 buses carries 2.8 million passengers every day in over 40 major towns and cities. The majority of our operations are in urban areas where the bus is the most effective means of tackling traffic congestion. We continue to develop and promote effective partnerships and we are working with local authorities and other stakeholders to provide punctual and reliable services for passengers through Punctuality Improvement Partnerships, bus priority and other traffic management schemes.

UK RAIL

We are the UK's largest rail operator with four passenger rail franchises: First Great Western, First Capital Connect, First TransPennine Express and First ScotRail. We also operate Hull Trains, a non-franchised open access operator. We run nearly a quarter of the UK passenger rail network, with a balanced portfolio of intercity, commuter and regional rail operations, carrying over 250 million passengers a year. We also provide freight services through GB Railfreight and operate the Croydon Tramlink network which carries over 20 million passengers per annum. We have a strong track record of innovation and investment delivering improved services, such as new rolling stock and customer facilities across our rail operations.



NORTH AMERICA

Headquartered in Cincinnati, Ohio, our three operations are spread across the US and Canada.

First Student

We are the second largest provider of student transportation in North America with a fleet of over 21,000 yellow school buses, carrying nearly 2 million students every day across the US and Canada.

First Transit

We are 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 Los Angeles, Houston and Denver. We are also one of the largest providers of airport shuttle bus services in the US, serving airports in cities such as Baltimore, Philadelphia and Miami. We also manage call centres, paratransit operations and other light transit activities.

First Services

Our Services division is the largest private sector provider of vehicle maintenance and support services in the US. We provide fleet maintenance for private and public sector customers such as the Federal Government, cities and fire and police departments. We also provide a range of services including vehicle maintenance, logistics support and facilities management to public and private sector clients including the US Navy and US Air Force. First Services consists of First Vehicle Services (FVS) which also includes First Mobile Technologies (FMT) and First Support Services (FSS). Data for FSS is included in the North American safety figures but not elsewhere due to security restrictions associated with classified contracts.

Key statistics¹ for the year ended 31st March 2006

Turnover

£3,030.9 million

Distributions to shareholders²

£75 million

Spending on goods materials and services

£1,331.6 million

Employee costs (wages, benefits and pensions)

£1,376.1 million

1. Further details are available in our Annual Report. 2. Distribution to shareholders comprise dividends paid of £52 million plus share repurchases of £23 million.

Transport - The Sustainability Challenge

As a leading public transport operator First is very aware of the challenges of developing more sustainable travel solutions. Although people want the freedom to travel as and when they please, society is increasingly recognising the social and environmental costs associated with this. Car ownership continues to rise and the car remains the predominant form of transport for the majority of people's travel needs.

First, like all public transport operators, plays a vital role in supporting the needs of society to achieve more sustainable travel. We believe to do this we need to transform the way people travel and the way they feel about public transport. This is not without its challenges. At the most fundamental level it involves encouraging people to consider other transport modes and promoting change in some widespread perceptions about public transport. It also involves changing the travel experience itself which can only be achieved through close partnerships between governments, local authorities, public transport operators and their suppliers.

TRANSPORT AND ATMOSPHERIC EMISSIONS

There are rising concerns about the contribution of surface transport to atmospheric emissions, in particular carbon dioxide, the main contributor to global warming. In the UK, the surface transport sector contributes about 25% of total carbon dioxide emissions. In the United States transportation activities account for around 32% of carbon dioxide emissions from fossil fuel combustion (this figure includes aviation fuels). Emissions from the sector continue to grow.

Public transport can offer significant opportunities to reduce these emissions, as emissions per passenger journey are far lower than from the private car due to the number of passengers carried and the number of car journeys replaced. However, to achieve more sustainable travel we also need to ensure the emissions from public transport are reduced to as low a level as practical. We at First are aware of these needs and are responding to the challenges.

Achieving more sustainable solutions involves balancing different needs. In the case of our buses significant developments in engine technology, supported by increasingly stringent emission limits set down by the European Union and US Environment Protection Agency, have driven down the emission profile of our road vehicle fleet for the key atmospheric pollutants.

In the case of the UK Rail division, the impact of investment in new vehicles on the emissions profile of the vehicle fleet is less straightforward. In this case, we need to balance the requirement to improve customer service by providing faster, more reliable vehicles with a desire to reduce emissions. Where we are investing in vehicles with larger, more powerful engines to meet these performance improvements, the emissions from our engines may increase. However, performance improvements will attract more passengers to our services thus reducing the emission profile per passenger kilometre travelled.

In many cases, the introduction of additional abatement technology has led to an increase in the average fuel consumption of vehicles and associated carbon dioxide emissions. In recognition of this, supported by the increasing business drivers to reduce fuel use, we are committed to improving our fuel efficiency in both the rail and bus fleet. A number of programmes to achieve this are described later in this report.

There is a strong desire in the long term to become less reliant on fossil fuels and ultimately move away from them altogether. This would radically change the emissions profile of our industry. We therefore take every opportunity to support trials of alternative fuels and are currently involved in trialling gas, hybrid-electric and fuel cell buses. However, as yet these technologies are not cost-competitive. The reliability of the technology and the supporting infrastructure is also insufficient to allow the delivery of a reliable and sustainable public transport network. During 2006 we will be introducing biofuels in parts of our UK Bus division. This will have the potential to reduce the carbon dioxide emissions from the vehicles using biofuels as they provide improved fuel efficiency and the plants used to make the biodiesel absorb carbon dioxide as they grow.



TRANSPORT AND SOCIETY

A number of studies have demonstrated the cost to society of an unsustainable transport network linked to congestion, safety and environmental damage. A sustainable transport network is one where safe, quality services attract a wide range of passengers to suit different travel needs and achieve a modal shift away from the use of the car.

This involves the need to carefully balance different customer groups' travel needs. It is well known that it is predominantly low-income groups that rely on public transport in the form of bus travel for their mobility needs. These include accessing employment and essential services. The UK Government's quality of life indicators demonstrate that in the UK those without a car are experiencing increasing difficulties in accessing these services.

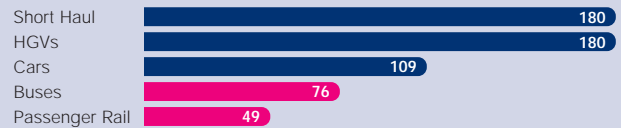
In developing our services we seek to better understand the communities we serve through selective use of demographic mapping. This allows us to improve route design where appropriate and target information and promotions more effectively. However, as a mass transport operator we continually need to balance the needs of the individual with the needs of the general population.

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 publicly listed 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 effectively and to build a more efficient transport network that will bring greatest benefit to as wide a cross-section of the community as possible.

Comparison of Carbon Dioxide Emissions from Different Transport Modes*

(grams per passenger kilometre)



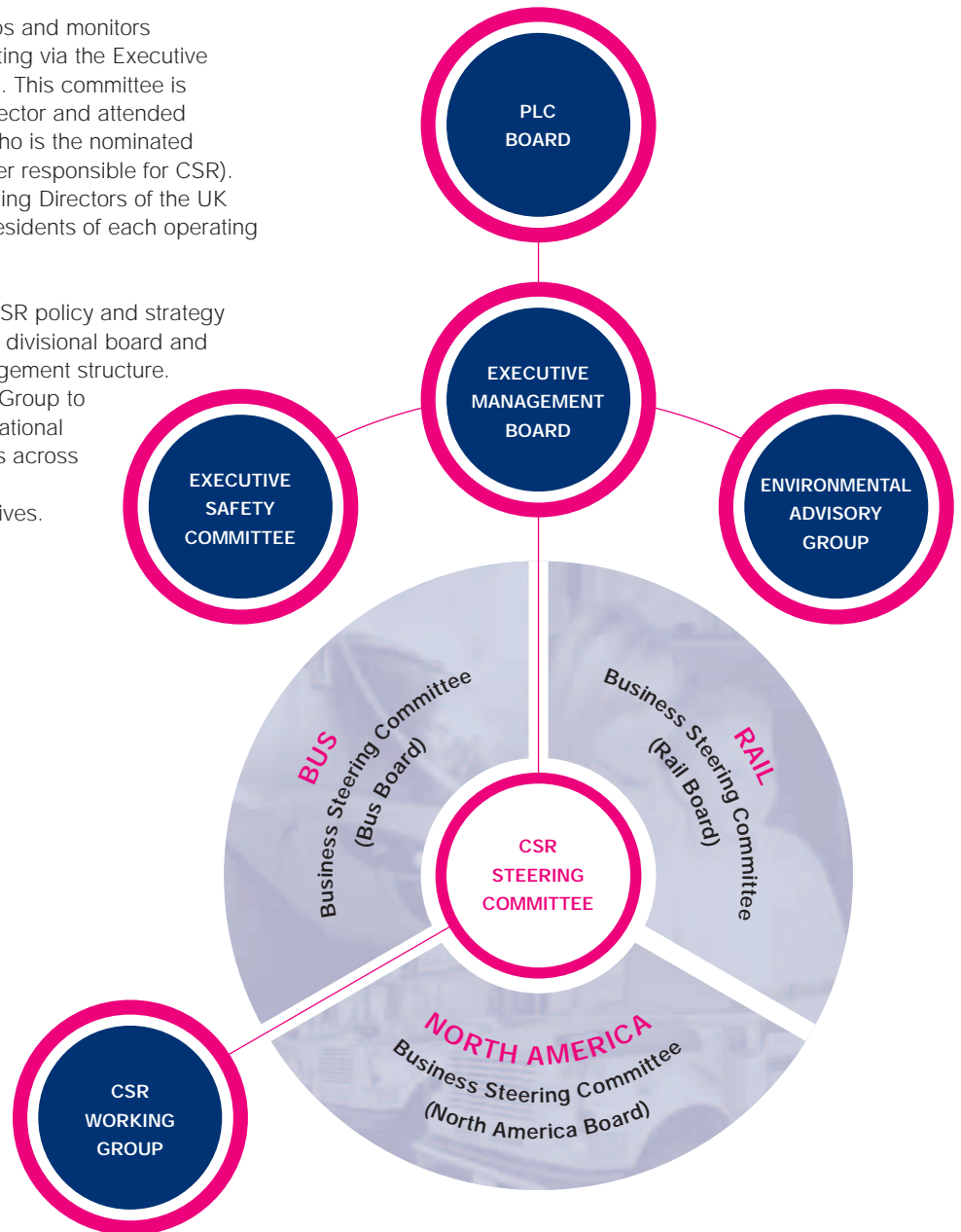
* Source: AEA Technology Environment for SRANAEI

Our CSR Management Framework

During this year we have further evolved our CSR management structure to establish a framework that best reflects our business needs. We have developed our management framework to provide greater clarity of leadership on CSR issues, at the same time ensuring accountability throughout the Group.

The CSR Steering Committee develops and monitors Group CSR policy and strategy reporting via the Executive Management Board to the PLC Board. This committee is chaired by the Corporate Finance Director and attended by the Group Commercial Director (who is the nominated Executive Management Board member responsible for CSR). Membership also includes the Managing Directors of the UK Bus and UK Rail divisions and the presidents of each operating company in North America.

Accountability for implementing the CSR policy and strategy then lies with each division led by the divisional board and delivered through a supporting management structure. We have established a CSR Working Group to provide additional technical and operational resource to co-ordinate CSR initiatives across the Group and to support all divisions in delivering our strategic CSR objectives.



GOVERNANCE AND RISK MANAGEMENT

Assessment of CSR risks is fully integrated into our risk assessment processes and a Group risk assessment, facilitated by our internal audit function, is conducted six monthly. In addition to commercial and financial risks, this process considers all our material risks covering safety, security, environmental, employee and customer management. On an annual basis the audit team maps the key CSR issues identified within our Group risk assessment to ensure they are being adequately covered. A similar risk assessment process is also conducted six monthly at divisional level by the UK Bus, UK Rail and North American boards.

The UK Bus and UK Rail operating companies and the North American divisions complete a controls assurance questionnaire on an annual basis that provides us with a mechanism for ensuring the required controls are in place and also for the purposes of conducting a business risk analysis. This process was reviewed this year against our recognised CSR risks and is being adjusted to provide more focus on safety, security, employees, environment and customers.

Our key CSR risks are:

- safety;
- recruiting/retaining employees;
- delivering customer service levels;
- responding to regulatory change; and
- fuel price increases.

Whilst each of these risks has a range of specific controls to manage them, some key developments in the CSR risk control area this year have included the establishment of the Group security function and the performance review of the options for optimising fuel efficiency. The fuel efficiency review has the dual aim of reducing costs and meeting the commitments of our climate change policy. Our identified business risks reflect the development of our business strategy through which we seek to effectively manage all our CSR risks to mitigate any impact they may have on our business performance.

Our Supporting Management Frameworks

Accountability for day-to-day management of CSR issues lies with each operating division, led by the divisional boards. Each division's management structure varies slightly but accountability for CSR issues can be demonstrated from top to bottom of the organisation. Key CSR performance data such as safety statistics, environmental data, service delivery, customer satisfaction, employee turnover and staff satisfaction is fed through the company and divisional boards to the Executive Management Board as appropriate.

SAFETY AND SECURITY

The Executive Safety Committee, chaired by the Chief Executive, leads safety strategy through monitoring performance and setting targets for improvement. Implementation of the strategy is the responsibility of the Group Safety Director supported by the heads of safety of each division (or operating company in the case of North America). This is supported by a well-developed safety management structure. The appointment of a Group Head of Security will strengthen our management of security issues and will support improved security awareness, implementation of good practice and development of a passenger and employee security culture.

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. Key performance data such as customer satisfaction, complaints and operational performance is reported via the divisional boards to the Executive Management Board.

TEAM

Human resource policy and management structure is established within each division. Key performance data relating to staff turnover, staff satisfaction, training and development are reported via the divisional boards to the Executive Management Board.

ENVIRONMENT

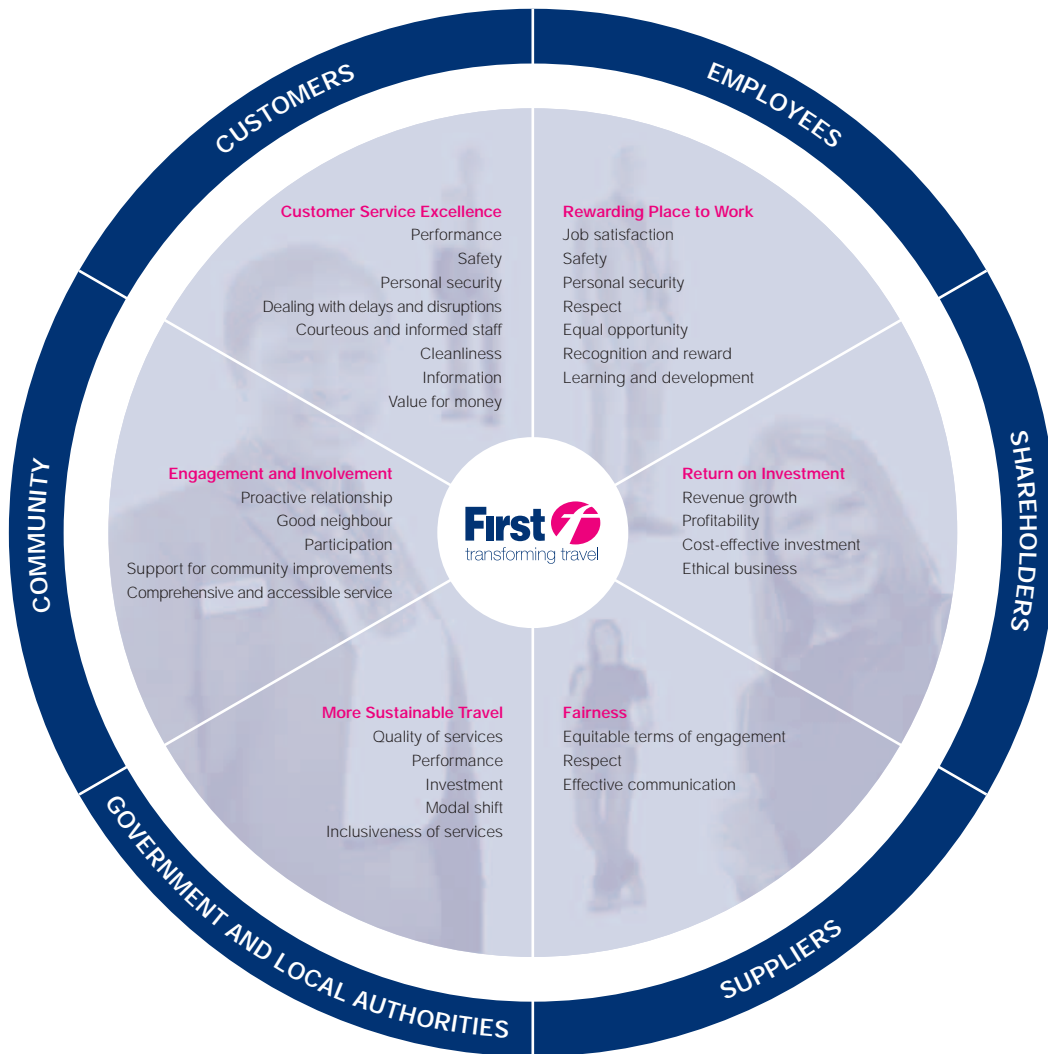
Environmental policy and strategy is established by the Environmental Advisory Group which monitor performance, set objectives and targets. The Group also provides support to the environmental advisors within each operating company in managing environmental risks and driving performance improvements.

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

Understanding Our Stakeholders

Our stakeholders strongly influence our CSR strategy as understanding our stakeholders' expectations is key to our success. The growth and prosperity of our business depends on meeting the expectations of our customers, employees, the community, shareholders, suppliers and government.

We are committed to maintaining open and regular dialogue with all our stakeholder groups across a range of issues. These range from formal consultation to regular informal contact on a day-to-day or week-to-week basis. These various engagement processes are described throughout this and previous reports. Ongoing consultation provides us with valuable feedback on our stakeholders' expectations that cover a range of issues. Meeting these expectations presents an ongoing challenge as expectations may at times be contradictory and cannot always be met, but drives a process of continuous improvement that we demonstrate in this report. The diagram below shows our key stakeholders and highlights the areas of engagement we have with each major grouping.



Working With Our Supply Chain

Our suppliers represent a key stakeholder group. We purchase a wide range of goods and services and rely heavily on a number of key suppliers and contractors for the effective delivery of our services. These include, for example, vehicle manufacturers, engine component suppliers, fuel suppliers, waste management contractors, cleaning contractors, catering contractors and vehicle maintenance contractors.

Working in partnership with our suppliers is therefore central to the success of our business and to achieving continuous performance improvements and meeting our CSR objectives.

This year the Executive Management Board approved a formal Ethical Purchasing Policy. This clearly states our commitment to obtaining and retaining competitive goods and services while at the same time ensuring they are from sources which have not jeopardised human rights, safety or the environment. The policy also commits us to seek to develop long-term meaningful relationships with our suppliers and through these relationships to improve the quality, environmental performance and sustainability of goods and services where this can be achieved to the benefit of both parties.

In the UK we have formalised our relationship with our key suppliers through our Supplier Relationship Programme that provides a framework for engaging with our main suppliers. It is designed to foster two-way dialogue and provides a framework for setting 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.

We have many examples of supply chain partnerships where we are working to bring about continuous improvement in performance to mutual business benefit.

- Working closely in partnership with the Wright Group, bus manufacturers, we have developed the "f t r" - a new concept in public transport whereby a tram-like vehicle (the StreetCar) runs on dedicated road space. This drew on research on how people use buses and involved customer focus groups in developing the design. The "f t r" will be introduced into service at a number of UK locations during 2006.
- Through our partnership with Volvo we have been working to look at aspects of bus design and operations that affect fuel efficiency. We have also been trialling technology to obtain data that will support us in improving driver performance in relation to fuel efficiency.

- With our waste management contractors, Cleanaway and Biffa, we have been working to reduce waste arising and set up recycling schemes at depots and stations across the country.
- Working with our fuel supplier, BP, we moved to ultra low sulphur diesel a number of years ago and are now working with them to introduce biofuels to the business over the next financial year. Our fuel cell bus trials in London have also been undertaken in partnership with BP as the fuel suppliers.
- Through our close working relationship with Rail Gourmet we have been looking at ways to improve on-board train catering. This has included developing a local sourcing policy offering our customers more local brands. We are now working with them to identify ways in which we might reduce waste from packaging through the supply chain.
- This year Hull Trains won an award for reliability. This was in part attributed to the introduction of a new vehicle fleet but also our close working relationship with Bombardier who maintain the vehicles.
- In North America, Strata Environmental Services have been supporting the business for many years in achieving environmental improvements and compliance.
- Also in North America we have been working with Bandag Inc to develop an extensive tyre recycling programme.

We conduct an ongoing programme of environmental audits that has this year included our fuel supplier, waste management contractors and vehicle dismantlers. This programme will be extended to working with a small number of selected suppliers on improving environmental performance.

Driving Continuous Improvement

To achieve our vision to Transform Travel we must drive a process of continuous improvement across all our CSR areas. We are continually developing initiatives and programmes at Group, divisional and local company level to achieve this. We seek to develop and share best practice between companies and divisions and continue to improve our processes for doing this. We can thus ensure a more consistent approach, culture and quality of service across the Group.

SAFETY AND SECURITY

At First, safety is our number one priority and our goal is to eliminate injuries in the workplace. We continue to achieve overall improvements in our safety performance across much of the business. Most notably in the UK Bus division we achieved reductions in the number of staff injuries per 1,000 employees of 17% and in North America reductions of 20%. We have reduced our passenger injury rate in both the UK Rail division and North America and reduced the number of Signals Passed At Danger (SPADs) to well below the industry average.

Careful evaluation of our safety data over recent years has shown that human behaviour is the key contributor to the majority of our injuries. This year we have therefore been working on a major safety initiative, the 'Injury Prevention Programme', that will drive cultural change in safety across the Group. The programme will encourage employees to take responsibility for safety by focusing on improving proactive

communication between employees and their managers. The Injury Prevention Programme was launched at a safety conference in December attended by all Group managing directors, safety managers and employee directors. The Group Safety Director leads the programme, driven through the Executive Safety Committee.

To support this initiative we have launched the First Safety Principles. These set out in clear, concise terms the principles of safe working practices that are being communicated to all employees. They are underpinned by our motto: "If you cannot do it safely, don't do it!"

In further recognition of the importance of security, we have enhanced our security function through the appointment of a Group Head of Security. He will lead on the application of an effective security strategy in the UK and North America to further improve passenger, employee and business security.

CUSTOMER AND COMMUNITY

To achieve our vision to Transform Travel we need to ensure that we achieve customer service excellence across all our areas of activity. We continue to make significant investment in improving our services across the Group.

Our ongoing programme of investment and fleet renewal continued with capital expenditure of £95.4 million in the period on new vehicles. We have refurbished a number of trains and introduced a new vehicle fleet at Hull Trains and started to introduce a new vehicle fleet at First TransPennine Express. We continue to invest in upgrading stations and depots to improve the customer experience and provide more up to date facilities for the maintenance of our vehicles.

Through our close partnerships with local authorities and Network Rail we are achieving service performance improvements. In the UK Rail division we can demonstrate long-term improvements across most of our franchises. In the UK Bus division we have enhanced the quality of data against which we monitor our service performance through significant investment in new technology. This is providing valuable information to the Punctuality Improvement Partnerships between the local operating companies and the local authorities.

In North America we continue to demonstrate high levels of performance against the standards agreed in our customer contracts. Performance improvements are in turn supporting customer growth. In the UK Rail division we have seen growth in passenger numbers across all our operating companies and the levels of customer satisfaction have also risen. This year we undertook in-depth research on what drives customer satisfaction that will influence our future customer development strategy.

In the UK Bus division there is a growing number of high growth routes. In particular, the market in London continues to grow. Outside London there are greater challenges in achieving sustained growth. However, where we have good partnerships with local authorities committed to bus priority, strong growth has been achieved.

In North America our contract retention rate remains high and we continue to receive highly favourable commendations on the quality of our services. We continue to work to achieve service excellence with each business developing strategies focused on their individual needs.



TEAM

Investment in our people is key to our success. We believe that in order to achieve this we need to offer our people opportunities to grow and reach their full potential. We make significant investment in training across the organisation for all employees. Over the last two years we have begun to formalise the training and development structures within the Group most notably in the UK Bus division where training and development programmes for all levels of staff from trainees to senior directors have been established.

Our employee training programmes cover a range of issues and where appropriate we encourage our employees to work towards achievement of recognised vocational qualifications. In the UK Bus and UK Rail divisions we have an ongoing programme of employees working towards S/NVQs.

In North America we continue to increase the number of our technicians who are certified under the Automotive Service Excellence (ASE) scheme and the number of locations with Blue Seal Certification, a scheme that recognises operations with a high proportion of ASE certified professionals.

We continue to develop our recruitment and retention strategies to ensure that we both attract and retain the right employees. Within the UK Rail division we are working to develop a strong employee brand and bring greater consistency to recruitment and development processes across the division.

Within the UK Bus division we have introduced a number of measures to improve our recruitment and retention programmes which have supported a reduction in bus driver turnover and eliminated the driver shortfall.

We seek to recognise and reward our employees for the role they play in the success of the company. In the UK our Total Rewards Programme provides a range of benefits and opportunities that recognise the diverse needs and priorities of our people. The main elements of this are pensions, access to credit unions, share schemes and life insurance. In North America we offer both part and full time employees tax free savings plans where the company matches the employees savings to an agreed limit. Employees are also offered access to a range of benefits including medical, life insurance and dental insurance plans. We also operate a number of reward and recognition schemes across our operating companies that recognise the achievements of particular individuals.

In February 2006 our 2002 share save scheme, Save As You Earn (SAYE) in the UK matured and significantly benefited those who took part, demonstrating our commitment to enabling employees to share in the Company's success.

ENVIRONMENT

We have an ongoing programme to drive improvement in environmental performance across the Group. This year we have achieved 18% reductions in energy usage in the UK Rail division and water usage reductions of 15% in the UK Bus division. In North America we have made significant progress in developing our environmental reporting framework and are able to report on the emissions from our buses and waste arising for the first time.

Two significant Group initiatives this year were to undertake a Group environmental risk assessment and consult our key stakeholders on their views on environmental issues. The risk assessment identified atmospheric emissions, fuel spillages and potential contamination at our rail depots as our main environmental risks. The issues of key concern to our stakeholders were resource management, global warming

and atmospheric emissions. They also considered these issues (where resource management was primarily associated with fuel use) to be the environmental issues of most relevance to transport operators.

In response to the outcome of these processes we have introduced a Climate Change Policy. This sets out our commitment to reduce greenhouse gas emissions from our operations.

We have also introduced a Biodiversity Policy reflecting the importance of this issue to selected stakeholders and the fact we have not previously had a clear position on this issue. We have now clearly set out our commitment to support biodiversity where it is practical to do so and to identify sites where such opportunities exist.

Performance Against Our 2005 CSR Goals

SAFETY AND SECURITY		
ANNUAL TARGETS 2005/06	PROGRESS	REFER TO
To reduce the staff injury rate	We have reduced our staff injury rate in the UK Bus division and North America. In the UK Rail division the rate has increased slightly, but from a very low base.	Page 13, 35, 53
To reduce the lost time injury rate	We have reduced our lost time injury rate in the UK Bus and UK Rail divisions. In North America the rate has increased slightly.	Page 13, 35, 53
To reduce the passenger injury rate	Our passenger injury rate has reduced in the UK Rail division and North America. In the UK Bus division the rate has increased slightly.	Page 20, 35, 54
To reduce the vehicle collision rate	Our vehicle collision rate has reduced in North America. In the UK Bus division the rate has increased slightly.	Page 20, 35, 54
To reduce the SPAD rate	The average number of SPADs has reduced significantly in the UK Rail division and is now 42% lower than the industry average.	Page 36

CUSTOMER AND COMMUNITY		
ANNUAL TARGETS 2005/06	PROGRESS	REFER TO
To continue to improve the performance of our services	We have achieved consistent performance improvements in the UK Rail division. In the UK Bus division our reliability has improved and we are monitoring and working to improve punctuality across our services. In North America we continue to meet all our performance targets in First Vehicle Services. In First Transit there has been a slight reduction in performance in some areas due to driver shortfalls.	Page 21, 39, 56, 59
To continue to reduce customer complaints	Customer complaints have shown a continued downward trend in the UK Rail division. The trend in the UK Bus division has been upwards but we are working hard to reverse this through analysis of the data arising.	Page 38, 56, 57
To improve stakeholder management processes	We are in the process of setting up a UK Bus and UK Rail stakeholder management database which will become operational later in the year.	Page 12
To increase community volunteering through our management training programmes	This year we committed over 3,000 hours to community volunteering through our management training programmes completing 27 projects across the country.	Page 24

2005/06 Awards



Winner of the National Green Apple Award for environmental best practice in the transport and freight industry.



Highly commended by the Railway Forum at the Railway Industry Innovation Awards for Innovation in Sustainable Development.



In September 2005 Hull Trains was awarded the Best UK Train Service Provider Award by readers of the national newspapers, the Guardian and the Observer.



Commended at the UK Bus Awards for Social Responsibility.

TEAM		
ANNUAL TARGETS 2005/06	PROGRESS	REFER TO
To improve our driver retention across the business	We have reduced the bus driver turnover in our UK Bus division by 4%.	Page 27
To increase access to workplace learning opportunities	We have increased access to workplace learning in the UK Bus division by 16% and established a number of new learning centres in the UK Rail division.	Page 26, 44
To further standardise and improve recruitment processes	Actions have been taken by all divisions to improve the standards and consistency of recruitment processes.	Page 27, 45, 60
To introduce people management operating procedures within UK Bus	This year we have issued a core set of policies, guidance notes and templates covering all the key employment processes to each bus operating company.	Page 25
To develop the skills of our managers and leaders	We have been actively establishing leadership development programmes across the business.	Page 25, 44, 59

ENVIRONMENT		
ANNUAL TARGETS 2005/06	PROGRESS	REFER TO
To reduce energy use from the UK operations by 5% on 2004/05 figures	We have reduced our energy usage in the UK Rail division by 18%. Energy usage in the UK Bus division has increased largely due to the conversion of oil to gas fired boilers at a number of our depots.	Page 31, 49
To start to record energy usage for all North American properties owned by FirstGroup	We now have baseline data on utilities usage for all depots owned by First in North America.	Page 64
To increase recycling levels for the UK operations by 5% on 2004/05 figures	Recycling levels in the UK operations decreased slightly this year but a growing number of recycling initiatives have been introduced which should be reflected in future performance.	Page 32, 50
To establish baseline data for liquid waste arising in North America	Baseline data for liquid waste arising and a number of solid waste streams has been established for the whole North American business.	Page 64
To achieve ISO14001 accreditation for one further company	This year First Great Western Link and five of our bus companies in the South West were certified to the ISO14001 management standard.	Page 29, 47
To increase the number of staff receiving environmental awareness training in North America by 5%	The number of staff receiving training increased significantly from 1,011 employees last year to 26,666 employees this year.	Page 62

First Annual Environmental Awards 2005



- Winner Train Company** - First Great Western Link, Reading Depot
- Winner Bus Company** - First Somerset and Avon
- Winner Individual Achievement** - Winston Wray, First London
- Winner First in North America** - Dave Larsen, First Transit, Pomona
- Commended Train Company** - First ScotRail, Eastfield Depot
- Commended Bus Company** - First South Yorkshire
- Commended Individual Achievement** - Graham Forshaw, First Manchester



UK Bus

Performance with Pride and Biggest and Best are the UK Bus division's core objectives. We want to be proud of the quality of our service and be best in class, placing our customers at the heart of our business.

To achieve this we need to meet customers' travel needs by providing a quality service in the local area that is sustainable, profitable, and of which we are proud. We seek to achieve this through improving performance in the areas of:

- **Safety and Security**
- **Customer and Community**
- **Team**
- **Environment**



○ Safety and Security

OVERVIEW

The Bus Safety Council chaired by the Managing Director of the UK Bus division leads the safety programme. The Safety Council establishes safety targets and initiatives at both UK Bus division and company level. It drives consistency in approach across the bus companies ensuring adoption of best practice.

This year's safety programme has been underpinned by the Group culture change initiative the Injury Prevention Programme. As part of this we have been piloting the use of safety handbooks at our company in Aberdeen. These encourage managers and supervisors to discuss safety matters on an ongoing basis and record the outcome. Early indications are that safety handbooks provide a useful tool to improve engagement in safety issues and the principles will now be extended across the Group.

This year our key safety initiatives have been focused on:

- improving safety competence;
- further reducing the staff injury rate;
- reducing the vehicle collision rate.

Improving Safety Competence

Improving employee competence in relation to safety management is a high priority for us. In particular ensuring consistent quality of safety related training and fully engaging our managers. We now have a core safety brief that is delivered to all administrative, driving and training staff. This year we developed a five-day Managing Safely Programme that is being rolled out to all managers, to date 191 managers have attended. A complementary two-day training course has been developed for supervisors which will be rolled out over the coming year.

Reducing Staff Injuries

Reducing staff injuries is the core focus of the Injury Prevention Programme. As part of this initiative each bus operating company has developed a lost time injury prevention plan for implementation over the coming year. These plans focus on improving engagement between staff and managers in relation to safety issues, encouraging a proactive rather than responsive approach to safety management and improved hazard identification.

Reducing Vehicle Collisions

Another priority area this year has been to identify ways to reduce the vehicle collision rate that has remained relatively consistent over the past few years. As part of this we have undertaken a major review of driver training standards throughout the division. This has led us to piloting a new driver training programme with greater emphasis on defensive driving, which is now being rolled out across the division. This has been supported by a new driver induction programme.

In addition, in partnership with Transport for London, we have invested in a bus driving simulator, the first of its kind in the UK, that will greatly improve the driver training experience.

THE SAFETY OF OUR STAFF

The total staff injury and lost time injury rates continue to fall. The staff injury rate per 1,000 employees has fallen by 17% since last year, while the lost time injury rate has fallen by 10%.

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



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



Data is for three days' or more lost time accidents.

We continue to monitor the causes of lost time injuries. This data indicates that while there has been a slight increase in the number of injuries caused by slips, trips and falls and injuries while driving, in all other categories the number of incidents has reduced. Further reducing the number of staff injuries is a major focus of the Injury Prevention Programme.



Safety and Security

Physical Assaults on Staff

This year we have seen a reduction of 22% in the number of physical assaults on staff leading to lost time injuries. Although we can demonstrate a continued reduction in assaults on staff during the last five years, we have zero tolerance to assaults in the workplace and will continue to do everything we can to further reduce these figures.

INFLUENCING SAFETY BEHAVIOURS - LARKFIELD, GLASGOW

CASE STUDY

Our Larkfield depot in Glasgow has been actively working to improve the engagement of employees in safety issues. This programme started with a series of training workshops with the senior executives, managers and supervisors to encourage a more proactive approach to safety management. This was supported by workshops with staff to develop action plans to improve safety communication between managers and staff. The aim of this programme has been to actively engage staff in the safety management process and thereby encourage greater ownership of safety management. The result has been improved communication and a better understanding of safety issues. This will in turn lead to more effective planning and speedy resolution of safety issues.

THE SAFETY OF OUR BUS PASSENGERS

The number of vehicle collisions and associated passenger accidents has risen slightly during the last year. This is thought to be primarily due to increased vigilance and reporting by staff, but we are working hard to reverse this trend. The major review of driver training is part of this process. In addition each operating company receives a monthly report highlighting the routes and drivers with the highest collision rates to enable them to target their efforts to improve performance. Each operating company has recently been asked to review their vehicle collision rates and develop a collision reduction plan. We continue to undertake random alcohol testing on an ongoing basis and encourage employees to submit themselves for self-testing.

Passenger Injury Rate

(per million passenger journeys)



Vehicle Collisions (per million miles)



SIMULATOR TRAINING IN PARTNERSHIP WITH LONDON BUSES

CASE STUDY

In partnership with London Buses we have introduced a simulator at Willesden Junction depot to support traditional driver training. This will enable drivers to experience 'real life' situations from weather hazards to pedestrians suddenly crossing the road. Studies with these simulators in the US have shown reductions of up to 43% in preventable injuries. If successful, London Buses will encourage the wider use of simulators across London.

SECURITY

Security for passengers and employees within the UK Bus division remains an important issue. The division has been part of an independent security review undertaken by security experts. The findings of this review and the appointment of a Group Head of Security, will lead to the implementation of further measures to improve security. In particular, we are looking to the use of new technology to provide greater security on vehicles and at sites. We are also trialling new measures to reduce the risk of assault and crime on buses, examples of this include funding for a community police officer to work on our routes in Bristol as part of a pilot initiative, free travel for police officers in both uniform and in civilian clothes, and our use of the Group's 24-hour confidential hotline which allows staff to report concerns in relation to safety and security issues.

Customer and Community

Performance with Pride and Biggest and Best are the UK Bus division's core objectives. We want to be proud of the quality of our service and be the best in class. Our customers are at the heart of our business and meeting their expectations is core to our future success.

We also provide an essential role in the local communities within which we operate. Our services touch on all members of the community and have the potential to impact on quality of life. We connect communities to each other and employ local people. We therefore see the community as integral to our operations and seek to engage actively with the community at all levels.

LISTENING TO OUR CUSTOMERS

We are constantly engaging with and listening to our customers. These include the individuals who use our services, customer interest groups and local authorities. We use a range of engagement methods including face-to-face meetings, focus groups and stakeholder forums, conducted at company level. We gauge the travelling customers' satisfaction through an on-line survey that is currently being completed by around 550 people per month and have a customer complaints system. We review complaints at both company and divisional board level and actively seek to address customer concerns. Punctuality and reliability remain an important issue for our customers and one that we continue to seek to address across our operating companies working in close association with our local authority partners.

IMPROVING PUNCTUALITY

Over the past few years we have made significant investment in the installation of technology to allow us to accurately monitor the punctuality of our services. Start Time Adherence systems are now installed in two thirds of our companies that allow us to record accurate journey start time, a key element of ensuring a punctual service. This is supported by the presence of information systems in all operating companies that allow us to monitor punctuality of service against timetable.

We now have 12 to 18 months of data for our operating companies that allows us to monitor seasonal variation and long-term trends in performance. Each operating company is establishing a Punctuality Improvement Plan in partnership with the local authority. The growing data bank generated by our tracking systems provides high quality data to inform the development of the improvement plans and track progress.

IMPROVING RELIABILITY

Reliability is the proportion of mileage we operate against schedule. We monitor the reliability of our buses and the reasons for poor reliability such as accidents, breakdown, traffic delay or lack of drivers. This year our average reliability was 98.6% an improvement of 0.2% on the previous year but still slightly short of the Department for Transport/Confederation of Passenger Transport (CPT) target for bus companies of 99.5%. Our investment in driver recruitment and retention has significantly reduced the proportion of lost mileage attributable to lack of drivers and we continue to work on improving reliability in all areas.

For example, during this year we have been piloting a new computer controlled maintenance procedure at six of our major depots. This represents the latest computer-based technology that manages all aspects of vehicle maintenance. The technology monitors when buses are due for servicing, and ensures that all necessary service parts are ordered and in stock.

IMPROVING THE PUNCTUALITY OF OUR BUSES IN GLASGOW

CASE STUDY

Together with Glasgow City Council and West Dunbartonshire Council we have established a £31 million ten year partnership agreement to deliver more frequent and punctual services through investment in Streamline. This is a state of the art bus information and signalling system that will reduce traffic congestion through improved traffic management and provide real time information to passengers across eight key corridors in the city. Our £4.1 million contribution to this investment includes top-of-the-range electronic equipment on 460 of our 1,000-bus fleet. This equipment enables the councils' central traffic control system to track the buses movement, give late running buses priority at traffic signals and transmit predicted bus stop arrival times.



Customer and Community

INVESTING IN THE FUTURE

We continue to invest in improving the performance and quality of our bus services. Our ongoing programme of investment and fleet renewal continued with capital expenditure of £95.4 million in the period on new vehicles. New buses have been delivered as part of a rolling programme to companies across the division including Greater Manchester, Aberdeen, Somerset and Avon, Leicester and Northampton, Yorkshire West, London, Edinburgh, Bristol and Eastern Counties.

These buses are all designed to the latest specification to ensure maximum passenger comfort and safety. They are fitted with low floor access and meet the latest emissions specification.

In addition to new buses we continue to invest in infrastructure. This year we have invested £17 million on new depots and land acquisitions for future development and a further £6 million on improving the infrastructure of our existing locations. This has included enhancements to meet health and safety and disability discrimination legislation. Our new developments have included a new bus and coach station in Bristol and replacement of our depot in Rainham with a new purpose built facility at Dagenham.

IMPROVING SERVICES IN THE BRISTOL AREA

In February 2006 we opened a new state of the art bus and coach station in Bristol. The bus and coach station is designed to the most up to date standards utilising electronic destination displays to show the time and bay numbers for departures and enclosed pedestrian concourses separating passengers from buses.

In addition we have invested £13.5 million in 106 new vehicles for Bath and North Somerset serving the area. In Bath the new buses include two bright orange "bendies" that run on routes 18 and 418 serving Bath and Bath Spa Universities that have been developed over the past 7-8 years in consultation with the University. Student union representatives even chose the colour of the buses and the name of the service - "Bright Orange".



CASE STUDY



CASE STUDY

UPGRADING OUR BUS FLEET IN GREATER MANCHESTER

During the last 12 months we started a programme of major investment in our bus fleet serving Greater Manchester. A total of 278 buses will be replaced with new buses affording the latest in customer safety and comfort.

To date 158 new buses have been put into service with a further 120 buses due for delivery next year. These have replaced buses on a number of major routes including the Manchester-Rochdale and Bolton-Horwich routes. The Manchester-Rochdale route has also been improved by the introduction of a quality Bus Corridor by the Passenger Transport Authority to speed up journey times and improve punctuality. These combined actions plus increasing the frequency of the route has seen passenger journeys rise by 15%.

Customer and Community

ATTRACTING NEW CUSTOMERS TO OUR SERVICES

Attracting new customers to our services is key to business growth. We work with major employers and the general public to identify solutions to their travel needs that can achieve a modal shift away from dependence on car use. Our team of sales development managers work with major employers to understand their travel needs and assist them in developing more sustainable solutions. This can involve:

- development of personal travel plans for staff;
- establishment of dedicated bus services;
- helping employers to identify incentives for alternative travel;
- travel surveys/mapping and bus information.

These schemes have proved highly successful, in particular with very large employers such as NHS Trusts, the MOD and Universities.

In addition we have developed a series of campaigns to encourage the general public to make greater use of our buses.

- In West Yorkshire we have been trialling the use of telemarketing to assess the quality of a particular route from bus users and to offer non-bus users a free First Day Ticket to trial our services. The campaigns to date have proved highly successful with between 50% and 60% of non-bus users accepting the free travel offer.
- We have been developing partnerships with major retailers to promote bus travel to retail centres where people are offered an incentive to use the bus. This has been trialled at a number of retail areas including Meadowhall, near Sheffield and Broadmead shopping centre in Bristol, providing business benefits to both partners.

- We have also been actively promoting our airport services. We currently provide bus, coach and train services to 14 UK airports. The promotion has encouraged significant growth on a number of routes. Our Dublin Air Coach service has grown by 15% year on year and our London Stansted, Southend and Chelmsford service by 50% during the last year.

MORE SUSTAINABLE TRAVEL FOR SOUTHAMPTON CITY PRIMARY CARE TRUST

Like most major towns and cities, Southampton suffers from congestion and parking problems associated with single car occupancy. Southampton City Primary Care Trust contacted First Hampshire and Dorset to assist them in fulfilling their Green Travel Plan aimed at reducing single car occupancy and increasing staff use of alternative transport. Working with First's sales development manager incentives were developed to encourage greater use of travel by bus. This included discounted monthly passes for staff and improved access to tickets that can also be used outside work hours. The effectiveness of the travel plan is reviewed 6 monthly supported by regular assessments. The scheme has proved popular with staff, which reflected in good ticket sales. Discussion is ongoing as to how to further promote the plan.

COLCHESTER TRAVEL SHOP GAINS CUSTOMER SERVICE ACCOLADE

In November 2005 our Travel Shop in Colchester Essex was awarded "highly commended" at the 2005 UK Bus Awards in the "Customer Services Team of the Year" category. Employees at the office have developed it from a simple ticket sales office into a comprehensive information outlet for First bus timetables and general information relating to travel in the area. Not content with this, the travel shop staff are participating in several Green Transport Partnerships. In partnership with the local NHS Trust they have set up sales areas in staff canteens at local hospitals offering tickets to employees at discounted rates. Other partnerships include Colchester Borough Council, Colchester sixth form college and local businesses, all of whom offer their employees discounted fares which can be obtained through the Colchester Travel Shop.



Customer and Community

WORKING WITH THE LOCAL COMMUNITY

We offer a vital service to the community. It is important that our services meet community needs and that we as neighbours and operators play an active role in supporting the community around us. Wherever possible we seek to ensure our services can be accessed by a wide cross-section of the community. This includes promoting the development of our services to provide access to those who most need them and ensuring access for those with special needs.

Improving the Accessibility of our Services

We continue to improve the accessibility of our services to those with special needs. All our new buses have low floor access and we look to develop special services where these can benefit our customers. This year we were the first UK transport operator to introduce Disability Discrimination Act compliant, front entrance, wheelchair accessible coaches. We have also been working in partnership with City of Bradford Metropolitan District Council and West Yorkshire Passenger Transport Executive to pilot the use of electric mini buses in the pedestrianised city centre for those with special needs.



Working to Reduce Vandalism

Unfortunately vandalism is a significant problem on our buses which extends to the community in general. We have a number of partnerships across our operating companies working with the police, schools and community groups aimed at improving education on the issue and tracking those responsible. For example:

- In South Yorkshire the operating company has joined forces with Crimestoppers and South Yorkshire Passenger Transport Executive to conduct an anti-vandalism campaign across the region.
- In Aberdeen we have established an ongoing programme aimed at changing young people's attitudes towards bus travel. An educational toolkit has been developed for schools combined with an education initiative in conjunction with Grampian Police involving a local bus driver. Recently the Schools Liaison Officer has reported a 50% reduction in vandalism and abusive incidents in the area. This initiative won the "Award for Innovation" at the annual UK Bus Awards in November 2005.
- In Greater Manchester in partnership with Bolton police we have been seeking to prevent anti-social behaviour by using CCTV to capture those suspected of being involved.

Our People in the Community

Through our relationship with Business in the Community we have an ongoing programme of community challenges as part of our supervisory training NVQ "First into Management". This programme involves those taking part in the programme participating in community projects to put their training into action.

Since May 2005 we have completed 27 projects through this scheme with 336 delegates completing over 3,000 hours of volunteering, making a difference to 27 organisations across the UK. Projects have ranged from developing gardens for children and adults with sensory impairment to decorating community facilities.

In addition our employees are involved in a wide range of community and volunteering initiatives. These include sponsored initiatives and the use of our buses free of charge for charitable or community events.



CASE STUDY

THE BENEFITS OF OUR COMMUNITY CHALLENGE

Our feedback from those participating in the community challenge programme has been very positive. For example following a community challenge to renovate a garden for children with sensory impairment at the Woodside Family Centre, Bristol

- 100% of participants rated the day as useful
- 100% enjoyed it and would recommend the experience to others
- 75% said it positively changed their perception of their employer
- 100% said it was a good use of time

The Woodside Centre Manager commented "we could not possibly afford what First did for us that day... thanks for all you did. **It was great**".

Team

We want people to be proud to work for us. **Performance with Pride** is one of the UK Bus division's core objectives. We can develop this sense of pride through being a leading bus operator and through supporting our employees to develop and grow to reach their full potential.

We aspire to develop a workforce that is highly motivated and customer focused, its profile reflecting the local labour market, and capable of working in a flexible environment and responding to individual, customer and business needs. We continue to invest heavily in the learning and development of our employees to achieve this.

OUR PEOPLE MANAGEMENT FRAMEWORK

The human resources team leads our people management programme. This team is responsible for managing the learning and development programme, setting policy, developing standards and issuing guidelines for people management practices across the division. They also manage central recruitment support, our overseas recruitment programme and relationship with Jobcentre Plus.

This year we have been working to build greater consistency in people management practices across our operating companies through issuing a core set of policies, guidance notes and templates covering all the key employment processes. The individual operating companies are responsible for their implementation. Over time these will be developed to reflect best practice through an ongoing programme of assessing the people management practices within each operating company.

LEARNING AND DEVELOPMENT

Underpinning our people management framework is our learning and development programme. This defines formal and coaching based learning for all groups of staff. The framework is built around learning that leads to recognised qualifications to contribute to a sense of achievement and pride in the learning process. The learning and development programme is described through a set of learning ladders. This identifies the appropriate learning programme for each group of employees and shows the process for progressing through the organisation.

Leadership Development

Leadership development has been a key focus for us this year. In conjunction with the Institute of Directors we have been working to establish appropriate learning and development programmes for our directors and operating company managing directors.

Both programmes have now been developed and commenced in March 2006.

Senior directors will attend a leadership programme that will culminate in them being accredited with a Certificate of Company Direction. Twenty senior directors will participate in this programme per year as part of a rolling programme.

All the bus company managing directors will be starting a comprehensive development programme to enhance their leadership and strategy skills. This will run over two years and will include a combination of mandatory and elective courses. Each participant will be offered the option of personal coaching through a business mentor.

Learning and Development Ladders

Talent Management

LEARNING	Staff Grade	Supervisor	Middle Management	Senior Management/High Potentials	Director
Issues Bases Coaching/Mentoring					
Formal Mentoring		TM	TM	TM	
Institute of Directors Programme					
Graduate Development (OU/MBA)					
Developing Leadership (CMI 4)					
Leadership Horizons (Btec 3)					
First Into Management (NVQ 2)					
Road Passenger Transport (NVQ 2)					
Work Based Projects					
On Job Training/Coaching					
Performance Feedback					
Workplace Learning Centres					
Technical Competence/Induction					
GRADE	Staff Grade	Supervisor	Middle Management	Senior Management/High Potentials	Director

Team

Management Development

Our management development programmes - First into Management and Leadership Horizons are now well established. These practical programmes aim to build the people and commercial management skills of participants and lead to an NVQ in Team Leading and BTEC certificate in Advanced Leadership. The First into Management programme also includes a community challenge developed in partnership with Business in the Community. To date 440 employees from the UK Bus division have graduated from these two programmes with a further 500 planned for 2006/07.

This year a follow up training programme for graduates of Leadership Horizons has also been developed leading to a Diploma in Management awarded by the Chartered Management Institute. This will be trialled by twenty four managers over the coming year. In addition all senior management trainees can participate in an extensive development programme that includes the opportunity to work towards an MBA through the Open University. We run a graduate scheme to support the development of new managers where graduates experience working in all aspects of the business while undergoing an in-depth, objective driven training programme.

Vocational Qualifications

All our drivers are encouraged to work towards an S/NVQ in Road Passenger Transport. We track their progress via our in-house database linked to the data systems used by the Learning and Skills Council. Approximately 2,000 of our drivers are qualified with S/NVQ; around 700 qualified during the last 12 months.

We are now looking to extend the opportunities for S/NVQ qualifications into other areas such as cleaning. We have also implemented a new comprehensive driver induction programme that incorporates achieving an S/NVQ. We operate apprentice schemes to attract new engineers with a number of selected colleges.

IMPROVING OUR INDUCTION PROCESSES

Analysis of driver turnover figures shows us that the highest number of drivers leave us within six months of recruitment. An important part of our people management programme has therefore been to improve our induction processes. This started with a programme piloted in South West and Wales that has now been extended across the division. The induction process combines driver training with achieving an S/NVQ. Each driver is also allocated a "buddy" to support them through their early times driving with the company. This approach has shown improvements in both the retention rates of staff and the first time PCV licence pass rate. In Somerset and Avon there has been a 14% increase in driver retention in the first year. Edinburgh has shown a 25% increase in first time pass rates.

Workplace Learning

A core part of our people strategy is to provide our employees with access to workplace learning centres. This provides them with the opportunity to develop their academic qualifications or develop other skills of interest supporting them to reach their full potential. Working in close partnership with the Transport and General Workers Union (TGWU) we have further increased our employees' access to lifelong learning by 16% this year to 56%. There are now 36 centres located across the UK mainly in bus depots with access available to relatives of staff and, in some instances, the public where this is practical.



CASE STUDY

Sergeant Alistair Rae of ITV's Bad Lads Army fame was one of the course instructors.

FIRST SOUTH YORKSHIRE IS COMMITTED TO EXCELLENCE

This year First South Yorkshire ran a series of "People Can Do" workshops to promote positive change by developing projects to address particular problems identified by the teams. A total of 26 projects were generated which are being delivered across the company. One team focused on improving bus changeover processes in the event of a on-road breakdown. The revised procedures developed from this project will now be implemented as best practice across the Group. Through this initiative First South Yorkshire has become the first bus company in the UK to be awarded the "Committed to Excellence" award after registering with the British Quality Foundation.

Team

RECRUITMENT AND RETENTION

Attracting and recruiting the right candidates is the first step to ensuring a trained, motivated and customer focused workforce. To improve the consistency and quality of the recruitment process we have developed a standard advertisement book and are developing recruitment and training guidance for those involved in the process.

Improving the retention rates of driving staff is a major challenge for the bus industry in general. This year our efforts of the past few years to reduce driver turnover are starting to be reflected in our driver turnover figure that has reduced by 4% to 25%. We have also eliminated our driver shortage. The improved retention rates are a result of a number of initiatives. These include:

- building greater consistency into our recruitment programmes;
- a more unified approach to induction linked to gaining S/NVO qualifications; and
- investment in our people through training and development.

Two other very important contributors to eliminating the driver shortage and increasing the retention rate have been our overseas recruitment campaign and relationship with Jobcentre Plus.

Overseas Recruitment

Overseas recruitment is now an integral part of our recruitment programme and continues to evolve and develop as we gain experience in the process. This year we made the decision to move the entire process in-house and we now run our own vocational language school and recruitment team in Poland. In this way we can directly control the quality of the recruitment and training processes. All recruits undergo a prescriptive training process developing their language skills and preparing them for employment in the UK. They enjoy the same benefits

and terms and conditions as their UK counterparts and every effort is made to ensure the transition from country to country is as easy as it can be. Through our Integration Officers we carefully monitor the whole recruitment process seeking feedback from the operating companies and the recruits themselves on how we can improve the process. Following this feedback we have now increased the level of language training and skill level required to be achieved as part of the training process.

During the last 12 months over 800 drivers and engineers from overseas started employment in our operating companies. To date the average turnover of overseas recruits has been 6%. This scheme is now being extended to our engineering staff where we are experiencing skills shortages in some parts of the country.

We have received significant recognition for our overseas recruitment programme and are constantly being approached to share our experience by others both within and outside the transport sector.

Liam Worthington, Deputy Director of Jobcentre Plus European Employment Services (EURES) states:

"EURES has worked extensively with FirstGroup over the last two years and has been extremely impressed with the ethical approach they have applied to their ongoing recruitment programme which is viewed as exemplary in demonstrating in practical terms how job mobility can support the broader aims of the European Employment Strategy".



CASE STUDY

ENGINEERING TRAINING ACADEMY

Following the success of the overseas recruitment programme for bus drivers we are now investing in extending the programme to qualified EU engineers to address engineering shortages in a number of our companies. To this end we have established a unique engineering training academy in the UK. This will be used to provide intensive training for engineering recruits from overseas with language training and technical workshop training before deployment to their operating companies.

Partnership with Jobcentre Plus

Our relationship with Jobcentre Plus continues to provide a reliable source of labour while at the same time building the diversity of our workforce. In 2005 we employed 930 candidates through Jobcentre Plus and have one of the highest placement ratios in the country. Through this programme we can credibly access a wider range of potential job seekers than might otherwise have been the case. We actively encourage applications from those considered disadvantaged and Jobcentre Plus supports us in this. This year we identified that those for whom English is a second language have concerns over passing the theory test which is a barrier to them applying for work. In and around the London area Jobcentre Plus has worked with training agencies to offer language courses to help drivers overcome these barriers and tackle the exam.

Team

REWARDS AND RECOGNITION

Our Total Rewards programme covers all our UK Bus employees providing a comprehensive range of benefits and opportunities. After pay, our highest employee spend is on pensions. Our employees enjoy choice and flexibility in saving for retirement with significant contributions from the company. The First UK Bus pension scheme contains both a final salary plan and a career average revalued earnings plan. Each of these plans provides a choice of contributions and benefits.

Encouraging Regular Saving and Responsible Borrowing

All of our UK Bus employees have access to a credit union. The credit unions help members manage their finances effectively by encouraging regular saving and offering loans at reasonable rates. This is a particularly valuable facility for those who may be unable to borrow through the high street banks and building societies.

They also provide annual interest on savings and offer access to debt counselling. This service is entirely confidential and has proved a lifeline for some members for example helping them to avoid having their homes repossessed.

This year we have agreed with our trade unions to establish a unique arrangement whereby the Company allocates 'matching' savings on behalf of UK Bus employees. This award winning initiative is designed to encourage our people to develop the habit of making regular savings and to encourage them to stay with us.



Share Schemes

Our Save As You Earn (SAYE) and Buy As You Earn (BAYE) share plans, in the UK, are designed to offer savings and investment opportunities and to encourage our employees to share in the success of First. SAYE allows employees to make regular risk-free savings to a sharesave account which can be used to buy FirstGroup plc shares at a discount. BAYE offers advantageous terms for buying FirstGroup plc shares.

Our 2002 SAYE offer matured in February 2006, giving those who took part the opportunity to buy shares, then worth in excess of £4 at £1.92 each.

"It's phenomenal! The savings are taken off your pay, so you don't miss the cash and where else can you double your money in three years?"

Gerry Irvine, Service Delivery Manager, First Glasgow on SAYE.



DIVERSITY IN THE WORKFORCE

Our customers are drawn from every part of the communities we serve and it is our policy to ensure that our people are equally diverse in their skills and backgrounds. We aim to recruit, develop and retain the best people. We will ensure that each customer and colleague is treated as an individual - and we will value them for their contribution to the business.

Our overseas recruitment programme and relationship with Jobcentre Plus have been a key part of further developing the diversity of the business. We now have a number of depots where the workforce is represented by a wide range of nationalities. Our National Account with Jobcentre Plus has resulted in a higher than average placement of minority groups. Of staff placed to date 11% were disabled, 4% from lone parent families, 16% from ethnic minorities and 7% were placed through New Deal, which works with the long-term unemployed. We also recognise religious diversity and have established prayer rooms in a number of workplaces by local agreement.

Environment

OUR ENVIRONMENTAL MANAGEMENT FRAMEWORK

Environmental issues are managed through our health, safety and environmental management structure. Each operating company has a Health, Safety and Environment Manager who is responsible for supporting their company and driving continuous improvements in safety and environmental performance. These managers meet with the Group Head of Environment and the Group Safety Director to discuss safety and environmental issues.

Minimum standards for environmental performance are set out in the Group Environmental Management Manual that is now intranet based and has been extended this year to cover a wider range of issues. An audit programme is in place for auditing the operating companies against these requirements. Each operating company and depot is audited on an annual basis and their performance scored.

We continue to work towards a target of all our operating companies having ISO14001 certification by 2008. This year five of our companies in the South West achieved certification to this environmental standard joining our London and South Yorkshire companies.

LEARNING AND DEVELOPMENT

Ongoing learning and development in relation to environmental issues is a core part of our management strategy. Environmental awareness training forms part of our Core Safety Brief that is delivered to all staff. During the last year 9,277 employees have been trained/briefed on environmental issues. In addition, a number of workshops have been conducted for our Health, Safety and Environmental Managers to raise their competence in environmental risk assessment.

Some of our Health, Safety and Environmental Managers have now achieved an IEMA certificate in Environmental Management.

MANAGING RISK

All our fuel tanks are located above ground apart from three that are fitted with leak detection systems or are routinely tested and certified. We provide training and awareness for staff in fuelling and fuel delivery and spill response. We have central spill reporting procedures that allow us to track the spills that do occur and apply lessons learnt. We have had a number of minor incidents this year most of which have been contained on site. In instances where there has been a potential off site risk we have actively involved the regulatory agencies. We have not been prosecuted for any environmental incidents for the fourth successive year.

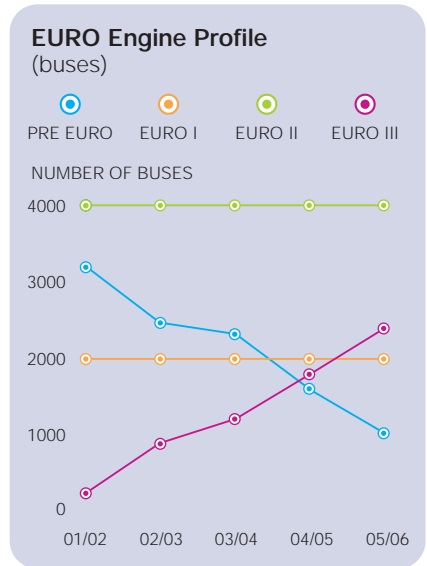
OUR ENVIRONMENTAL PERFORMANCE

In the UK Bus division we normalise environmental performance data to per passenger journey as this represents our unit of output for the operation of the business. In this way we are able to monitor the environmental footprint of each passenger journey. The exception to this is water usage, which is normalised per vehicle. The highest use of water is for vehicle washing and there is therefore likely to be a direct relationship between the water usage and the number of vehicles operated by the company.

EMISSIONS TO AIR

Buses are a key part of the solution to reducing air emissions from surface transport as emissions per passenger journey are much lower than cars. However, the operation of a large bus fleet such as ours, with over 9,000 vehicles, will have an impact on air quality through emissions of combustion gases.

Our policy is to reduce the emissions from our engines to as low as reasonably practical through investment in new engines, fitting of further emission control technology and ensuring that our maintenance and fleet management programmes are effectively managed. All our new buses are specified 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 fitted with catalytic converters and 9% with particulate traps.



Our significant annual investment in new vehicles continues to improve the engine profile of our fleet. Euro III engines now constitute 25% of our total vehicle fleet an increase of 6% on last year. This ongoing investment is supporting reductions in the emissions from our buses of non-greenhouse gases.

Environment

Estimated Emission Levels From Our UK Bus Fleet

(tonnes per annum)

NO_x EMISSIONS



PM₁₀ EMISSIONS



CO EMISSIONS



HYDROCARBONS



Estimated Emission Levels From Our UK Bus Fleet

(grams per passenger journey)

NO_x EMISSIONS



PM₁₀ EMISSIONS



CO EMISSIONS



HYDROCARBONS



We calculate our emissions using emission factors published in the National Atmospheric Emissions Inventory (NAEI) database (www.naei.org.uk). This contains emission factors for each of the pollutants reported for all Euro engine types and pre Euro engines. To calculate emissions, we estimate 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.

Carbon Dioxide Emissions

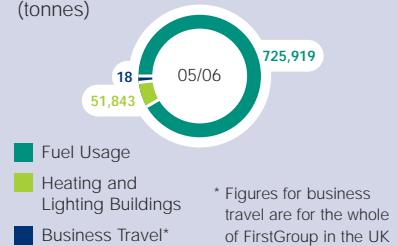
Carbon dioxide is a significant contributor to global warming and is one of the main emissions arising from combustion processes. Through our Climate Change Policy we are committed to monitoring our carbon dioxide emissions and reducing them to as low as reasonably practical. We calculate the carbon dioxide emissions from our fuel use.

All our UK buses, apart from those involved in alternative fuel trials, operate on ultra low sulphur diesel. Unlike our other atmospheric emissions the total carbon dioxide emissions from our buses have increased. This is due to the average fuel efficiency of our vehicles decreasing over time as a result of the addition of emission control equipment to engines.

The carbon dioxide emissions from our buses represent the majority (93%) of the carbon dioxide emissions from the UK Bus division as a whole when compared to those from heating and lighting our buildings and business travel.

Carbon Dioxide Emissions Arising in the UK Bus Division 2005/06

(tonnes)



Fuel Usage Levels From Our UK Bus Fleet

TOTAL FUEL USE (litres)



FUEL USE (litres per km)



Carbon Dioxide Levels From Our UK Bus Fleet

TOTAL CARBON DIOXIDE EMISSIONS (tonnes)



CARBON DIOXIDE EMISSIONS (tonnes emitted per passenger journey)



Improving Fuel Efficiency

Improving fuel efficiency will both support reductions in carbon dioxide emissions and reduce costs. As a consequence we are working with our suppliers to identifying ways in which we can reduce fuel consumption.

- With Volvo we have been looking at how a variety of factors affect fuel consumption such as topography, vehicle speed, idling time, vehicle weight, addition of air conditioning and driver behaviour. A particular finding of interest was that the use of six speed gearboxes can improve fuel efficiency by up to 6% depending on the vehicle route. As a consequence we will move towards purchasing six speed gearboxes in the future.

Environment

- We continue to trial the use of Dyna Fleet technology which can monitor aspects of vehicle behaviour such as fuel use, idling time, time the bus is stopped, acceleration and braking. This information can be used to assess individual driver behaviour with a view to using the information as part of driver training.
- Working with Cummins Engines we have trialled three buses converted to EURO IV. These engines appear on the basis of early trials to produce better fuel consumption figures than their predecessors.
- Fuel additives are also being considered as a means of reducing fuel consumption and emissions. Despite the scepticism that surrounds these products some success is being claimed and we will investigate these further and carry out our own trials to establish what benefits can be obtained.
- We continue to trial the use of a hybrid bus in Manchester that has demonstrated improved fuel consumption rates over conventional vehicles.

Fuel consumption will continue to be a major focus of the engineering team. Combined initiatives relating to looking at driver behaviour, move to 6-gear transmission and EURO IV engines should contribute to optimising fuel efficiency.

Use of Alternative Fuels

We continue to participate in a number of trials involving the use of alternative fuels most notably our fuel cell bus trial in London where the reliability of the technology has exceeded expectations and the buses are popular with passengers. Due to the reliability and longevity of fuel cell components exceeding original expectations this trial is to be extended for a further year.

The positive publicity surrounding the hydrogen fuel cell buses has led to the Mayor of London recently announcing that around 70 hydrogen powered vehicles are to be introduced into daily operation with various modes of transport by 2008. In turn, London Bus Services Ltd intend to convert route RV1 to hydrogen buses at the next contract renewal in two years time. We look forward to the opportunity to a continuing partnership with London Bus Services Ltd to bring more hydrogen buses to our capital.

We also operate a number of gas buses and in 2006 we will be working with BP, our fuel supplier, to introduce biofuels to the business. From June 2006 seven of our sites in the Yorkshire region will start using a 95% diesel biofuel mix that will reduce the carbon dioxide emissions from the operation of these vehicles.

UTILITIES USAGE

Water Usage

Our main use of water is vehicle washing. We have achieved ongoing reductions in water usage in the UK Bus division in large part due to a programme to install water recycling bus wash facilities at all our bus depots. Our overall reduction in water usage over the last year was 15% per bus.

Water Usage (m³)

	Total Water Usage	Average Water Usage (per bus)
04/05	1,261,848	136
05/06	1,021,223	115

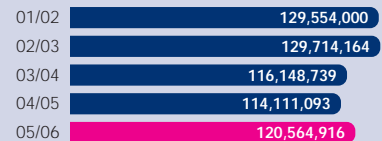
Energy Usage

We use energy for heating, lighting and the use of equipment at our depots and stations. During the last 12 months our overall energy consumption has increased. Electricity consumption has reduced by 1.7% but gas consumption has increased by 9%. This is largely due to the fact we have converted five of our larger depots from oil to gas fired heating and the reopening of a number of canteen facilities. When normalised per passenger journey our overall energy usage has decreased slightly by 1%.

We continue to work to reduce energy consumption. We recently developed a Pocket Guide for Best Energy Practice that was distributed to all our operating companies and depots which highlights key steps to waste minimisation and energy conservation. We have had energy audits completed by the Carbon Trust at a number of our depots and we are seeking accreditation under the Carbon Trust Energy Accreditation Scheme that recognises organisations that have achieved significant reductions in energy use.

Total Energy Usage

(kWh)*



Energy Usage

(kWh per bus passenger journey)



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

Environment

WASTE MANAGEMENT

Our operations give rise to both hazardous and non-hazardous waste. The hazardous waste arises primarily from our bus maintenance activities. The key hazardous waste streams include batteries, waste oil, oil filters and oily rags. Non hazardous waste is a combination of waste arising at depots and the waste generated by our passengers when using our services.

We monitor both the waste arising and the proportion of waste recycled. This year we have seen an overall increase in the volumes of both hazardous and non-hazardous waste. This may in part be due to changes in the maintenance

regime at a number of depots following the issue of a Standard Operating Procedure. Our recycling rates for hazardous waste are high but have fallen slightly to 92% while our recycling rates for non-hazardous waste remain fairly consistent at 27%.

We are strongly committed to reducing the volumes of waste arising and the proportion of waste landfilled. Working in partnership with our waste management contractor, Cleanaway, we have initiated recycling schemes across South West and Wales for segregating paper, card, plastic cups, cans and bottles. New recycling schemes have been introduced across our operating

companies including Essex, Midlands, Manchester, Leeds and London mainly covering scrap metal, cardboard and glass. The impacts of these schemes are not yet reflected in our data but we believe will be in the coming year.

We continue to promote recycling of phones and cartridges for MacMillan Cancer Relief and have raised £4,000 across the Group since we started the scheme last year. We have also recently established a Group-wide contract to dispose of our redundant IT equipment in line with the new regulatory framework. The company will refurbish and provide machines to charity where possible.

Total Waste Arising in the UK Bus Division (tonnes)

HAZARDOUS WASTE ARISING



NON-HAZARDOUS WASTE ARISING



Waste Arising in the UK Bus Division (grammes per passenger journey)

HAZARDOUS WASTE

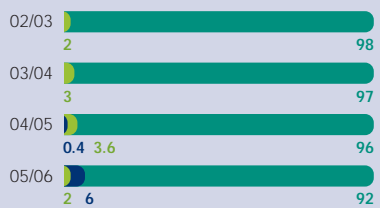


NON-HAZARDOUS WASTE



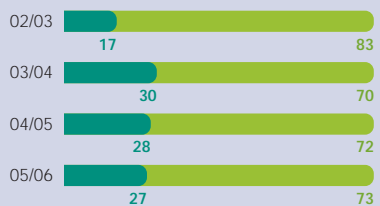
Hazardous Waste Recycled in the UK Bus Division (percentage)

Legend: Recycled (Green), Landfilled (Yellow), Incinerated (Blue)



Non-Hazardous Waste Recycled in the UK Bus Division (percentage)

Legend: Recycled (Green), Landfilled (Yellow)



WORKING IN PARTNERSHIP WITH THE CARBON NEUTRAL COMPANY

CASE STUDY

Through our on-going partnership with the Carbon Neutral Company we are currently engaged with two schools to raise awareness of climate change issues.

A "carbon footprint" is being generated for each school that will provide them with information on where their carbon dioxide emissions are generated. This will form the basis for developing a practical emissions reduction plan which will then be implemented with the help of the students.

"It has been a really good experience to be involved in this project. Gathering the information made us aware of areas where we were very wasteful of energy and as a consequence we have started to make changes to both lower our fuel bills and reduce our carbon emissions. We are really pleased that FirstGroup gave us this opportunity." Sandra Burnett, Depute Rector, Hazlehead Academy, Aberdeen.



UK Rail

We aim to deliver excellent service to our customers. To do this we need to understand and respond to customer needs and invest in our employees to recruit, develop and retain the best people in the rail industry.

Our commitment to service excellence drives our CSR developments which are focused around:

- **Safety and Security**
- **Customer and Community**
- **Team**
- **Environment**



○ Safety and Security

OVERVIEW

In the UK Rail division safety initiatives are driven both by industry targets set by the Railway Safety and Standards Board and our culture change initiative, the Injury Prevention Programme. The Railway Safety Committee leads safety developments in the division chaired by the UK Rail division Managing Director and attended by each train operating company Managing Director. Each train operating company then has its own safety committee. In addition there is a cross company Safety Improvement Group chaired by the UK Rail division Head of Safety and attended by safety professionals from each operating company. The role of this group is to improve safety performance and promote consistency of approach in relation to both operational and occupational safety issues across the UK Rail division.

Reducing the number of staff injuries and assaults on staff continues to be a major focus for us, as does reducing the risk of major incidents. In addition this year we have been working to ensure the smooth changeover to the Safety Certification System which will replace the Railway Safety Case. The Safety Improvement Group has been working proactively to ensure that all train operating companies are prepared to effectively respond to the changes being introduced. The safety teams at First Great Western and First Capital Connect have also been working on developing safety cases for their respective franchises, which were awarded in April 2006. The Railway (Safety Case) Regulations 2000 (as amended) require all railway operators to submit comprehensive safety cases to Her Majesty's Railway Inspectorate for acceptance prior to commencement of the operations.

Within the scope of these regulations it is necessary for both companies to provide assurance that they have effective arrangements in place to ensure the safety of workers, the travelling public and others who may be affected by their operations.

Reducing Staff Injuries

This year we have developed an Injury Prevention Programme for the division supported by train operating company specific plans. The plans are built around improving safety awareness of staff, better hazard identification, better interaction with staff following an incident, promoting proactive communication between staff and managers and encouraging staff suggestions. Development of the Programme has involved extensive information sharing to ensure adoption of best practice and wider implementation of effective initiatives.

We have also been developing resources to ensure that our safety professionals remain abreast of best practice through access to the best professional advice at all times. As part of this initiative we are establishing an intranet site for our safety managers to improve communication and sharing of learning.

Reducing the Risk of Major Incidents

In relation to managing catastrophic risk, external consultants are undertaking a review of best practice in driver management across the division. This will provide recommendations on how we can optimise our driver management processes to reduce the risk of driver error to a minimum. Further train driving simulators have also been introduced which provide state of the art facilities for training drivers on all aspects of driving but in particular how to respond to difficult and dangerous situations.



ENGAGING STAFF IN SAFETY MANAGEMENT AT FIRST TRANSPENNINE EXPRESS

CASE STUDY

In First TransPennine Express one of the key programmes to increase staff engagement in the safety management system has been the development of competence standards and associated guidance for all safety critical staff. These have been developed working closely with staff to ensure ownership. The output from the process is a series of booklets describing competence standards in a format that is designed to be useable by staff, trainers, assessors and managers alike. This is part of a company wide competence management system defined as the Modular Competence Management (MCM) approach. The effectiveness of this approach in engaging staff in safety management and effectively communicating competence requirements is likely to lead to further roll out of this approach across the Group.

Safety and Security

THE SAFETY OF OUR STAFF

This year we have seen an increase in the number of staff injuries but a slight decrease in the number of lost time injuries. The number of lost time injuries due to assaults on staff continue to increase representing a significant proportion of injuries that occur to our employees.

Reducing assaults on staff is therefore an important part of our safety strategy. We promote a “no tolerance” approach to staff assaults. We are members of the Rail Personal Security Group and work actively to identify and apprehend offenders. All our customer facing staff receive conflict avoidance training to assist them in dealing with potential conflict situations and we are extending the use of DNA swab kits.

The Injury Prevention Programme for the UK Rail division will be a key element in reducing the staff injury rate and will be embedded over the coming year.

MANAGING STAFF ASSAULTS AT FIRST SCOTRAIL

First ScotRail works closely with the British Transport Police (BTP) on their assault prevention programme. Last year a comprehensive review of assaults data established that spitting was a common problem. Following this DNA swab kits were issued to all customer facing staff. This has helped improve the apprehension rate of criminals. In one case a person who was apprehended for burglary 18 months after an incident of assault was found guilty of both crimes as his DNA details were in the national DNA database. The assault management programme also includes close communication with the victims of assault and regular meetings with the BTP to review assault data. On this basis any particular trends or issues can be identified such as repeat victims who may need additional conflict management training.

CASE STUDY

Many passenger injuries are a result of slips, trips and falls associated with movement around the station area and platforms. A number of our train companies have introduced campaigns by station staff to reduce passenger injuries by raising passenger awareness of risks and helping them find their way around the station in the most efficient way to reduce rushing.

This year we experienced three derailments within the UK Rail division. There were no passenger or employee fatalities resulting from these incidents that were all out of our control. Passenger injuries only occurred in the incident at Moy that was caused by a landslide.



CASE STUDY

FIRST TRANSPENNINE EXPRESS - SLIPS, TRIPS AND FALLS CAMPAIGN

As part of our Injury Prevention Programme, First TransPennine Express launched an awareness raising campaign in December 2005 to alert passengers to the dangers of rushing and to brief staff on a 5-step approach to risk reduction in the workplace. The campaign was launched in the run up to Christmas to target the predicted increase in alcohol and adverse weather related incidents. Initially aimed at problem hotspots such as Hull, Huddersfield and Manchester Airport, the campaign will continue throughout the year targeting staff workplaces and any other problem areas identified.

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



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



* These figures exclude injuries arising from assaults on staff.

Average Number of Lost Time Injuries Due to Assaults on Staff (per 1,000 employees)



THE SAFETY OF OUR RAIL PASSENGERS

We record all passenger injuries including those that take place on the station platform prior to passengers boarding the train and in surrounding car parks and pavements if they are within the boundary of our operations. This year we have seen a substantial reduction (21%) in the number of passenger injuries.

Passenger Injury Rate (per million passenger journeys)



Lost time data is for injuries that lead to three days' or more lost time.

Safety and Security

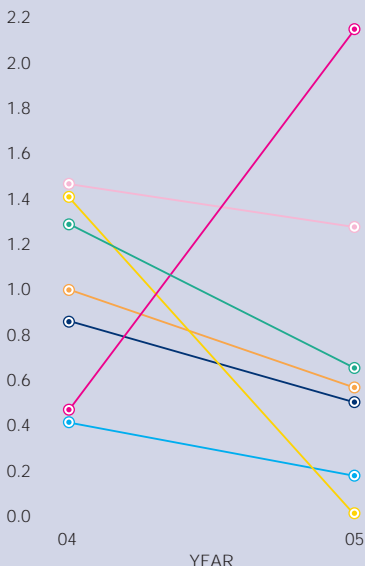
REDUCING THE RISK OF MAJOR ACCIDENTS

Although rail travel is one of the safest forms of transport, reducing the risk of major accidents is a key focus of the Safety Improvement Group. This year we have been implementing a new Signals Passed At Danger (SPADs) strategy that has led to major performance improvements. The average number of SPADs in the UK Rail division is currently 42% lower than the industry average. Work on reducing the risk of SPADs is continuous; the driver management review has been a key part of this. This year we also saw the introduction of additional simulators at First TransPennine Express and First ScotRail following on from their previous introduction into First Great Western.

Number of SPADs

(per million train miles per annum*)

- UK Rail Division Average
- GB Rail Freight
- First Great Western Link
- Hull Trains
- First Great Western
- First ScotRail
- TransPennine Express



SECURITY

We have been working to improve security for passengers across our rail franchises. This has included working to improve security awareness amongst employees and customers. Employees have received briefings on security issues and we have used posters and information notes on trains to raise awareness of the issue to passengers. As part of our station refurbishment programme additional security measures are being installed. Transport for London have invested £400,000 in new security and safety measures in partnership with First Great Western Link as part of their policy of making rail travel safer across the capital. This has included the installation of additional CCTV cameras and Help Points at stations.

First Great Western and First TransPennine Express are committed to achieving Secure Station Status for all their stations. The scheme is managed by the Department of Transport in partnership with the British Transport Police and crime prevention charity Crime Concern. Stringent standards of station design, management, security and passenger safety have to be met. Currently 17 stations have received the award as part of an ongoing programme. First ScotRail are not part of this programme as an equivalent scheme is not available in Scotland. First TransPennine Express also take part in the secure car park accreditation programme and has achieved this accreditation at 16 of its car parks to date.

Crisis Management

As part of a national initiative by the Association of Train Operating Companies, First Great Western and First Great Western Link have established Rail Care Teams to help survivors in the aftermath of accidents. Staff volunteers have been carefully selected for the role and have been trained to help survivors, their families and friends in the hours and days immediately following a train accident or other serious incident.



CASE STUDY

DEVELOPING THE CRISIS MANAGEMENT SKILLS OF STAFF

This year Hull Trains introduced a new staff training programme to develop the skills of employees to cope in an emergency situation. The company already delivers a comprehensive safety and first aid course but wanted to extend this to assist staff in being better prepared for some of the more complex situations that can arise in large scale emergencies. The training supported by St John's Ambulance simulates evacuation situations aboard a train.

Jennifer Wilkinson of Hull Trains said "It was quite an intense experience for us all but I am really glad to have done it. The people from St Johns were so professional and it really brought home to me the importance of keeping calm and learning not to panic."

Customer and Community

Across our rail business effectively understanding and responding to customer needs is essential to meeting our franchise commitments and securing passenger growth. Our customer service strategy is based on developing a detailed understanding of the way customers currently perceive their total journey experience, and the aspects of the service they believe require most improvement.

LISTENING TO OUR CUSTOMERS

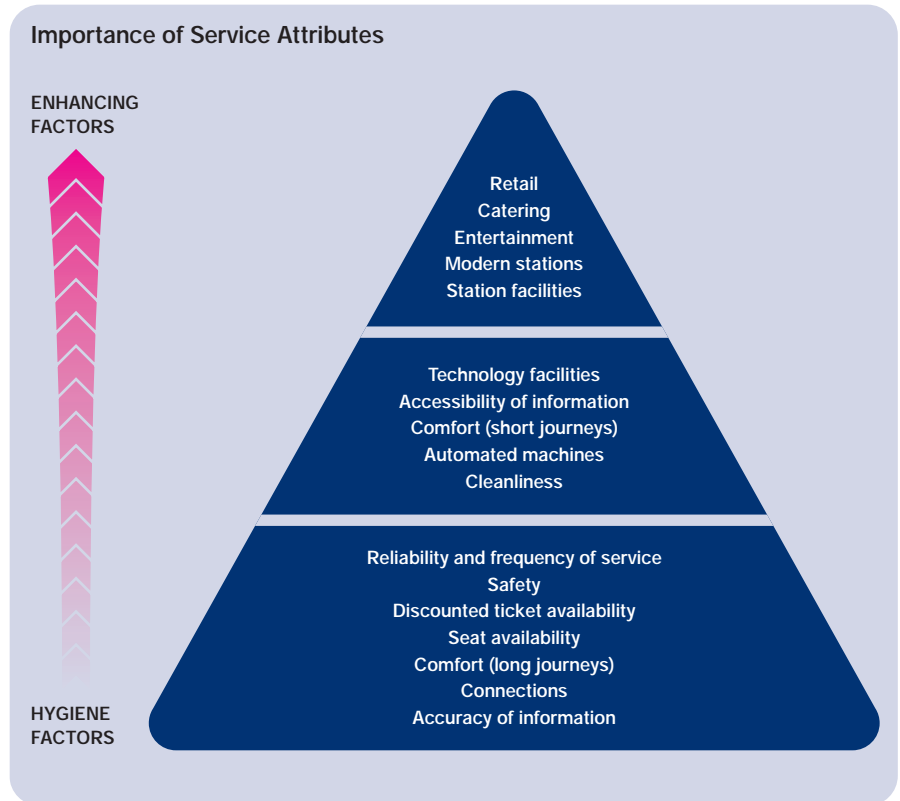
This involves listening closely to our customers needs. We engage with our customers on an ongoing basis through customer surveys, focus groups and face-to-face meetings such as "Meet the Manager" sessions and customer panels. This year we have also conducted extensive independent research to gain a deeper understanding of customer views. In particular how they rank different service attributes and what drives customer satisfaction. Research was also conducted on customer's perceptions of on-board food services and the station environment.

This research has allowed us to pinpoint key customer priorities that will influence our train operating companies' customer service strategies.

These are:

- Safety
- Performance of the train service
- Dealing with service delays and disruption
- Responsive and informed staff
- Train and station cleanliness
- Train and station environment
- Information provision
- Ticketing and value for money; and
- Personal security.

Some of the key findings from the research as to how our customers value different service attributes is shown in the diagram below.



Customer and Community

CUSTOMER SATISFACTION

Improvements in customer satisfaction have been reflected in the most recent National Passenger Survey. The overall opinion of journey score has improved for all rail franchises. All companies "overall opinion of journey" scores were equivalent to or higher than their sector average. All companies apart from First Great Western Link performed above the national average.

Overall Opinion of Journey Scores from the National Passenger Survey

(percentage satisfaction)

— National Average

FIRST GREAT WESTERN



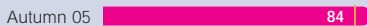
FIRST GREAT WESTERN LINK



FIRST TRANSPENNINE EXPRESS



FIRST SCOTRAIL



All operating companies made significant improvements in other aspects of the survey. Most notably First TransPennine Express achieved its five-year benchmark score of 82% for station information about trains/platforms within 12 months of commencing operations. It also delivered its highest ever score on punctuality, reliability and length of journey score.

Improved customer satisfaction is reflected in growing passenger numbers across our operating companies.

- First TransPennine Express has seen passenger numbers increase by 6.5% during the period.
- At First ScotRail passenger volumes have increased by 11% since the start of the franchise in October 2004.
- At First Great Western passenger income grew by 7.5% and at First Great Western Link passenger income increased by 9%.
- Hull Trains has seen around 15% volume growth during the last quarter.

We also monitor the number of complaints we receive from our customers that have shown a consistent downward trend for all our franchises during the last 12-month period.

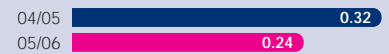
Customer Complaints

(per 1,000 passenger journeys)

FIRST GREAT WESTERN



FIRST GREAT WESTERN LINK



FIRST TRANSPENNINE EXPRESS



FIRST SCOTRAIL



Customer and Community

TRAIN COMPANY PERFORMANCE

The punctuality and reliability of our services is assessed against Public Performance Measures (PPM) by the Department for Transport. Our performance is heavily influenced by Network Rail to whom the majority of delays are attributed. All our train operating companies are able to demonstrate long-term reductions in the proportion of delays caused by us. In the case of First ScotRail we have seen a 25% reduction in the delays caused by them against a franchise commitment of 2% per year. This can be attributed to strengthening processes for train maintenance and fault finding, which is also supported by a significant programme of investment in depot equipment and staff training.

We continue to work closely with Network Rail across our franchises to improve our operational performance.

A good example of success in this area has been the implementation of a joint performance improvement plan between First ScotRail and Network Rail that brought delays to their lowest level in five years. For express routes, which include services between Aberdeen and Edinburgh and Glasgow, delays have reduced by 38%. First ScotRail has also started a £6 million programme of investment at Haymarket fleet maintenance depot that will support further performance improvements.

Hull Trains has achieved a notable performance record since introduction of their new vehicle fleet that resulted in them winning a major reliability award. The most recent PPM data (not yet published) achieved a record 94.81% PPM. This has been achieved through a combination of fleet reliability improvements and improvement in overall rail network achieved in partnership with Network Rail.

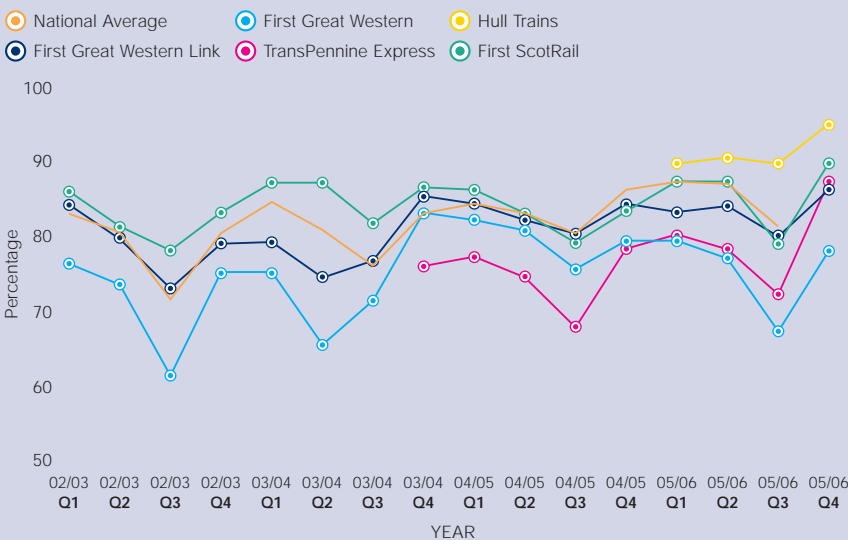


CASE STUDY

HULL TRAINS WINS HSBC RAIL AWARDS 2005 FOR BEST NEW TRAIN

Less than six months from replacing their vehicle fleet Hull Trains won an HSBC Rail Award for the best new train. In the short time since the new trains have been in service they had proven to be the most reliable diesel trains in the UK achieving over 69,000 miles between technical problems that cause delays. The company's close working relationship with Bombardier who maintains the vehicles is an important contributing factor combined with in-built contingency measures in the new trains. It is worth noting that the trains can continue to run to time if one of its four engines fails. The company also won the industry Golden Spanner Award for the most reliable new train.

Train Company Performance
Public Performance Measures (PPM)



* PPM measures are published by the Office of Rail Regulator. These combine figures for punctuality and reliability into a single performance measure and measure the performance of individual trains against their planned timetable. The data is published quarterly.

Customer and Community

INVESTMENT IN OUR VEHICLE FLEET

Investment in upgrading and replacing our vehicle fleet is an important part of improving the reliability of services, as well as improving the overall customer experience. We continue to invest in upgrading and replacing vehicles across our franchises.

- First ScotRail's Caledonian Sleeper rail service between Scotland and London has benefited from a £1 million upgrade following a comprehensive customer survey. Since taking over the franchise we have achieved a 17% reduction in delays on this route.
- £3 million has been invested in refurbishment of trains between Edinburgh and North Berwick. This involved increasing the seating capacity and providing additional passenger comfort and security.
- First Great Western has fitted two high-speed train power cars with new engines as part of a £1.5 million modernisation programme. It is the first time these engines have powered vehicles in the UK and they offer greater fuel efficiency, quieter engines and lower emissions.
- Hull Trains has introduced a new vehicle fleet at an investment of £24 million. The new trains bring faster journey times and more accommodation seating 192 passengers compared with 159 on the previous Class 170 accommodation.
- First TransPennine Express has started a complete fleet replacement programme at a cost of £250 million.

IMPROVING OUR STATIONS

Investment in new vehicles is being supported by significant ongoing investment in new and improved station facilities. All our rail franchises have an ongoing programme of station improvement totalling in the region of £32 million. These programmes include for example redecorating waiting rooms, toilets and booking halls, improving

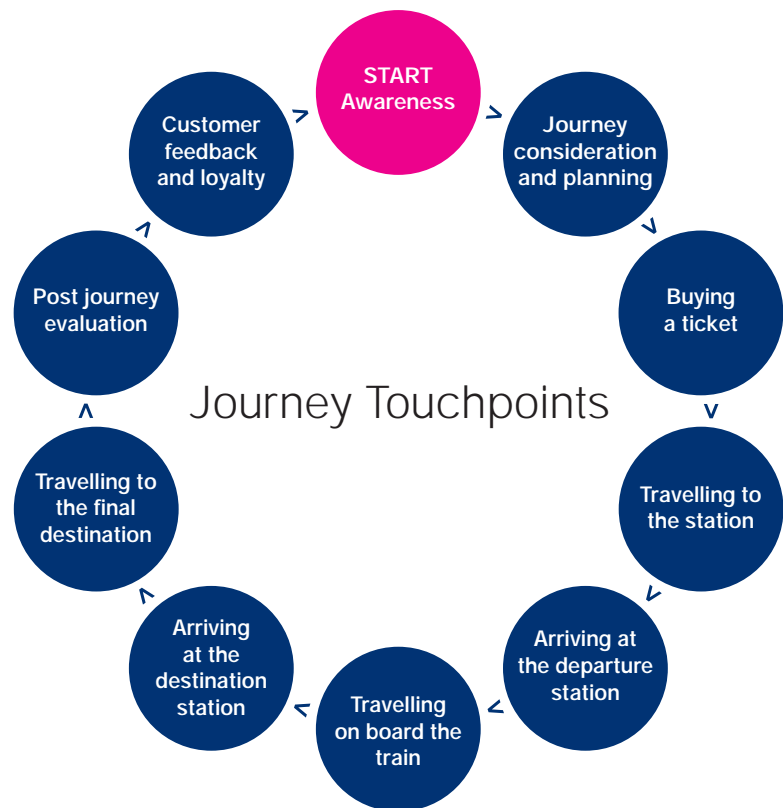
customer information systems, and the introduction of improved access and security measures. Examples include installation of additional CCTV and Help Points and improved wheel chair access. First ScotRail have opened five additional stations at Kelvindale, Chatelherault, Larkhall, Merryton, and Gartcosh, improving passenger access to their services.

IMPROVING OUR CUSTOMER SERVICE

A journey is not only about ensuring punctuality and reliability it is also about a stress free and enjoyable experience from booking or buying a ticket through to departure from the station. Based on the findings of our customer research we are working to improve communication with our customers at each stage of the journey

which we have described in terms of a number of journey touch points. We are developing and investigating in the use of technology to do this.

- The use of a Live Departure Board by First Great Western and First Great Western Link allows customers to check real time arrival and departure times at all stations via the internet. This is proving extremely popular with more than 40,000 hits per day.
- First ScotRail has introduced JourneyCheck and JourneyAlert, the UK's first integrated train information services. JourneyAlert enables customers to receive automatic free text and/or email alerts to advise of any disruptions. JourneyCheck allows customers to view up-to-date train information on line.



Customer and Community

We will be continuing a programme of investment in new technology across our franchises to ensure optimum opportunity for effective communication with our customers. Other actions to improve the customer experience at each touchpoint have included the establishment of a “Customer Action Team” at First TransPennine Express to help and advise passengers caught in network disruptions, the installation of WiFi technology to provide customers with high-speed access to the Internet while using a number of First Great Western and First Great Western Link stations, programmes to enhance the cleanliness of the trains and stations and improvements to on-board catering.

Improving the Accessibility of our Services

First recognises the special needs and concerns of those using public transport and our goal is to provide trains and stations that are as accessible as possible. We have a range of activities that aim to improve the accessibility of our services.

- Installation of induction loops at ticket offices and Help Points
- Improving accessibility such as directional signage, handrails on stairs, colour contrasting stair edging and dropped kerbs adjacent to drop off zones.
- Training staff to provide assistance to customers with special needs.
- Braille and large print rail information and safety cards.
- Using a disabled mystery shopper to gain first hand feedback on facilities.
- Monitoring our disabled passenger arrangements through a telephone follow up.

- Provision of alternative transport where the origin or destination station is inaccessible.
- Scooter trials held at Paddington and Manchester to determine whether we need to change our carriage of scooter policy.

We work closely with local and national disability groups to review policies and practice and continue to work with the Department for Transport, Passenger Focus and the Disabled Persons Advisory Committee in order to anticipate the requirements of customers with special needs.

SUPPORTING CYCLISTS

As part of our commitment to support sustainable travel we have been working actively to improve facilities for cyclists across our network. First Great Western and First Great Western Link have installed extra secure bicycle parking for more than 200 bikes as part of a partnership with the Department for Transport and the UK's national cyclists organisation CTC. The project has led to extra parking at ten stations in the region based on a comprehensive cycle parking survey conducted by local members of CTC.

First ScotRail has invested £200,000 in installing cycle loops at 178 stations across Scotland. The company won the 2005 National Cycle-Rail Award for customer service as a result of them increasing the number of bike spaces on trains and launching a free cycle rescue service which provides aid to cyclists unable to complete the bike portion of their journey.

CASE STUDY

TRANSPORT INTEGRATION

As a multi-modal operator of buses, trains and trams, we recognise the importance of integration and interchange to improve connectivity between services. Transport integration plays an important role in all areas of our business. As such we pioneered the introduction of integration manager's for our rail franchises that has led to the continued development of multi-modal travel.

Across our rail franchises we offer a comprehensive range of integrated tickets and easy to understand information to allow customers to make through journeys. We were actively involved in establishing the industry standard Journey Solutions PlusBus integrated ticketing. In First Great Western and First Great Western Link our sales of all integrated travel products have grown consistently in the last few years, with three of the nations top five selling PlusBus tickets.

This year saw the completion of improvements at Taunton station. This has optimised effective travel integration by improving access for buses, taxis, pedestrians, car drivers and cyclists. The scheme has provided improved bus/rail interchange on both sides of the station as well as a larger car park. The Department for Transport, Somerset County Council, First Great Western, Network Rail and First's UK Bus division jointly funded this initiative. This followed our work with Wiltshire County Council at Chippenham where the physical interchange enhancements won the HSBC Rail Business Awards in the 'Station Excellence' category last year.

Customer and Community

Integration is not just about connectivity with bus services and physical interchange improvements. We have been working to improve connectivity with many airports across the UK and Ireland. For example, in the last few years we have enhanced the successful Reading Rail Air coach service to Heathrow, grown and expanded our Aircoach operations in Ireland, introduced new Coachlink services to Stansted and are working closely with Manchester Airport to promote access by rail from all major cities across the North of England. Furthermore, in Scotland we are working to improve the connectivity with ferry services by working closely with ferry operators. All these developments will support the improved integration of transport services across the country.

WORKING WITH THE COMMUNITY

Within the UK Rail division we have found a strong correlation between customer loyalty and community involvement. In particular we have found that companies that contribute to the community inspire greater brand loyalty from their own staff. First is completely committed across a range of areas to community involvement. We support organisations that our employees value and are relevant to our business through sponsorship, provision of tickets and through practical support to employees.

Rail staff have been involved in the supervisory training NVQ "First into Management" which involves them in community work as part of the programme. Our train operating companies work with their local

communities to achieve environmental improvements such as track and platform enhancements and station improvements. This year the launch of "Adopt a Station" was a key part of this programme.

All our train operating companies offer sponsorship and provide free travel for good causes. Some examples are given below.

- First ScotRail has provided free travel passes to the "Clowndoctors" programme. This is a Scottish charity where professional actors dress up as clowns and meet children on the wards. This has allowed more children to benefit from the programme.
- In October 2005 First Great Western donated £5,000 to Cornwall Search and Rescue to buy a newer fully equipped ambulance to replace its 20-year old Landrover.
- First Great Western sponsors the Wiltshire and Swindon Crimebusters who work with groups of young people to set up projects to tackle crime in their local communities.
- In December 2005 First Great Western took 350 special needs or disadvantaged children out for the day. They are now working with a holiday association for disadvantaged children to set up a partnership this year.
- Hull Trains has a close relationship with their local hospice and sponsors the local fun run in which a number of staff participate to raise funds for the hospice.
- First TransPennine Express provides funding to the Community Rail Partnership on the Lakes Line.



CASE STUDY

ADOPT A STATION

As part of their community investment programme First Great Western and First Great Western Link have established an "Adopt a Station" initiative. Under this scheme the train operating companies provide funding to enable community groups to contribute to the beautification or welfare of their stations for the benefit of the local community. The scheme enables community groups to work with station managers on small projects that range from planting flowerbeds to providing art work. It also provides an opportunity for First Great Western staff to work closely with the local community resulting in tangible projects which both the customers and staff will enjoy.

Under this scheme a community group was responsible for the establishment of striking flower displays at Taunton station. As a consequence the station received first prize for the "Best Public Access Site" category in the Britain in Bloom programme.

Team



We aim to deliver service excellence to our customers. To do this we need to recruit, develop, reward and retain the very best employees in the rail industry. Our people management strategies are built around enabling the organisation to achieve its strategic performance objectives. We believe that investing in our people is at the very heart of our business success.

OUR PEOPLE MANAGEMENT FRAMEWORK

Each train operating company has its own people management structure. This year we have started a move towards building greater consistency in our people management processes. A Human Resource Forum has been established attended by representatives from each train operating company and chaired by a newly appointed Management Development Director. The forum is working to build a more consistent culture and develop common processes across the train operating companies.

LISTENING TO OUR EMPLOYEES

Listening to our employees and communicating effectively with them is particularly important in a business where uncertainty around franchise changes can affect the stability of the workforce. Both First ScotRail and First Great Western undertook extensive communication with the workforce during the franchise changeover. This was supported by focus groups and research to assess the effectiveness of these communication processes.

At First Great Western this process has continued with the merger of First Great Western, First Great Western Link and Wessex Trains. A range of media including management briefings involving representatives from both First and Wessex Trains are being used to communicate information regarding franchise changes to employees. At the same time discussions and consultations with the unions and management representatives have been ongoing.

Our train operating companies continue to undertake staff opinion surveys on a periodic basis. This year First ScotRail undertook a staff survey to seek opinion on various aspects of the business and to help shape its future direction. Results were very encouraging with 84% of staff confirming they like their job and 86% of employees believing that the company is committed to providing high quality customer service. In addition to staff surveys we consult with staff on an ongoing basis through management and team meetings and use focus groups to consult with staff on particular issues.

Following the results of a recent employee opinion survey First TransPennine Express has been looking to improve communication. This has led to the introduction of TPE-mail a more visual means of conveying key messages across the business. Employee workshops have also been held to improve involvement in safety issues covering areas such as assaults on staff and incidents. First TransPennine Express

also worked closely with employees on the introduction of new ticket issuing systems seeking input on training programmes to ensure the most appropriate support was provided to new users.

FIRST SCOTRAIL DEVELOPING OUR PEOPLE VALUES

CASE STUDY

This year First ScotRail undertook extensive work on determining the organisation's strengths and weaknesses and areas that require action. This work led to the development of a clear set of organisational values through extensive consultation with employees. Around 500 people (10%) of employees were involved in workshops across the organisation asking them to identify and prioritise the key values for the organisation. Five clear organisational values with definition statements have now been defined with maximum participation from the workforce. Phase two of this programme is now in action developing behavioural competencies to support living the values on a daily basis.

Team

LEARNING AND DEVELOPMENT

To date the UK Rail division learning and development programmes have been driven through the individual train operating companies. Over the coming year a key focus for the division will be to build the capability of the management population through the development of a division wide management development programme. This will ensure consistency in approach and delivery of best practice across the division.

Leadership Development

A number of leadership development programmes have taken place this year that will provide input to this process. In particular pilot workshops in leadership development have taken place with the executive teams in First Great Western and First ScotRail. These will be supplemented by further interactive workshops with managers and supervisors over the coming year. The outcome of these workshops will provide input to the management development programme.

Other training initiatives have included ongoing involvement in the Leadership Horizons programme developed by First Great Western through which front line managers and supervisors work towards a BTEC in advanced leadership and an NVQ in team leading. During the past 12 months 71 front line managers and supervisors from across the train operating companies have taken part in this training. A number of workshops have also been held on key management issues to develop capability in areas such as recruitment, behavioural skills and performance management.

Vocational Training

All our employees have ongoing learning and development programmes to support them to fulfil their roles and deliver customer service excellence. This includes staff working towards S/NVQ Level 2 qualifications in passenger services/customer care offered to all on-train, booking and station staff. During the last 12 months 326 employees have successfully completed an S/NVQ. First Great Western are currently involved in a working party set up by Go-Skills, the sector skills council for the transportation industry, to develop an NVQ Level 3 for graduates of the Level 2 qualifications who wish to further their skills.

Employees also receive training in safety (covering both passengers and employees). In addition, the staff receive conflict avoidance and disability equality training, tailored to equip them with the knowledge and understanding to assist customers with mobility impairments and other special needs. New recruits attend training induction workshops covering a range of topics related to improving customer service.

We are always looking for ways to improve the quality and delivery of our training and recently launched a new e-learning package for delivery of the Food Hygiene Certificate. On completion of this training all learners receive a certificate from the Royal Institute of Public Health and Hygiene.

Workplace Learning

Building on the experience of the UK Bus division we have an ongoing programme to extend the opportunities for workplace learning within the division. First ScotRail in partnership with the rail trade unions and Stow College has established rail learning centres in Glasgow, Dundee and Yoker station. The centres provide many free shift friendly courses to rail employees and their families. These range from life skills such as numeracy and literacy, to foreign languages and first aid. In addition we have been running a fully accredited Earn As You Learn course that covers computer, grammar and numerical skills. We are working with the trade unions to establish further learning centres across Scotland and looking at the potential for combining resources with the UK Bus divisions learning centres.

First Great Western has a workplace learning centre at Plymouth depot. First TransPennine Express has established a learning agreement with the unions and a number of learning representatives are in the process of being appointed. We are exploring the opportunity for establishing rail learning centres across the network to support this agreement.



Team

RECRUITMENT AND RETENTION

Although we do not have the high turnover of staff experienced in the bus industry, we are continually recruiting through expansion and establishment of new franchises. Ensuring we are recruiting and retaining the right people is a key part of ensuring service excellence.

We have a well established standard process for recruitment of train drivers using both modern psychometrics and best practice assessment centre disciplines. We also run apprenticeship and graduate schemes that allow us to develop our employees to suit our business needs. We also take part in the ATOC (Association of Train Operating Companies) development scheme for professional engineers that provides a training programme and fast track route to becoming a Chartered Engineer.

Next year, through the Human Resource Forum, we will be working to develop consistent attraction, recruitment and development strategies to be applied across the UK Rail division.

FIRST GREAT WESTERN ENGINEERING APPRENTICESHIP SCHEME

CASE STUDY

First Great Western runs an engineering apprenticeship scheme with a number of selected colleges. The colleges recruit, induct and indenture apprentices for First Great Western whilst we provide the day-to-day experience in engineering which supplements the apprentices technical training. This year six apprentices (three in Bristol and three in Swansea) have completed a four year Advanced Modern Apprenticeship and have started full time work within the company.

REWARDS AND RECOGNITION

Rail employees have access to the Total Rewards programme that provides a comprehensive range of benefits for our people. UK Rail division employees participate in the industry-wide Railways Pension Scheme and also have access to the Save As You Earn (SAYE) and Buy As You Earn (BAYE) share schemes. Employees at First Great Western, our longest running franchise also benefited from the 2002 SAYE offer maturing in February 2006.

We also recognise our employees in less formal ways, in particular where they have taken action that supports the core business values. Examples include the First TransPennine Express Rewards and Recognition Scheme and First Great Western Colleagues of Excellence Awards.

SUPPORTING OUR EMPLOYEES

There are times when our employees also require support and confidential advice in relation to problems at home or at work. All our train operating companies are part of the Care First scheme where independent specialists in workplace counselling provide an employee assistance programme. Under this scheme all employees have unlimited 24-hour access to counsellors who they can talk to on a confidential basis. Short term counselling and support and information services are also provided and on site support for staff affected by traumatic incidents at work.

In First Great Western and First Great Western Link the Care First programme is supported by Pathfinders, an established and well respected network of employees who have volunteered to provide confidential support to their colleagues.

FIRST GREAT WESTERN - COLLEAGUES OF EXCELLENCE AWARDS

CASE STUDY

Colleagues of Excellence Awards are made every quarter through the nomination of one colleague by another colleague; line managers may not nominate their staff. The awards play a part in saying thank you and well done to colleagues who have demonstrated 'Being First' behaviours. Nominations are scored and winners receive £250. Unsuccessful nominees receive a letter from their manager that is also placed on their personal file.

SUPPORTING OUR EMPLOYEES THROUGH THE PATHFINDER NETWORK

CASE STUDY

The Pathfinder network was originally created in 1990 to support the female minority in the workplace. Over time the network has extended its role to cover the whole workforce and a much broader range of issues. The Pathfinder network consists of volunteers who receive company sponsored training in first line counselling skills. They can offer informal and impartial advice on work and non-work related problems and they have the knowledge to point people in the right direction towards finding the solution to their problems. Pathfinders, Care First and the Human Resources Department meet every six to eight weeks to discuss employee issues and identify solutions which can be achieved by working together. Recent discussion has focused on change, what this can mean for an individual and how further support can be provided during the franchise changes.

Team

DIVERSITY IN THE WORKFORCE

First is committed to being an equal opportunities employer and actively seeks to recruit people that reflect the local community. We believe that greater diversity in the workforce will not only ensure a better mix of employees but will positively contribute to a reduction in the general “white male dominance” that is perceived, in certain quarters, as a feature of the rail industry. By promoting diversity in the workforce we will encourage a wider range of individuals to enter the industry.

Our commitment to equal opportunities is reflected in the high proportion of female Managing Directors within the division. Currently two out of five of our rail managing directors are female, which will rise to three out of six when we introduce the new franchises.



At present each train operating company has its own mechanisms in place for promoting equal opportunity and diversity in the workforce. For example this year First Scotrail as part of its franchise commitment has been reviewing the fairness of its selection and recruitment processes. This has been supported by the development of some outline statistics on the diversity of the workforce. Monitoring diversity is also part of the new First Great Western franchise commitment.

We are committed to working to improve the monitoring of diversity within the organisation and aligning current best practice on equal opportunities across the train operating companies.



EMPLOYEE ACHIEVEMENTS

A number of our employees have been recognised for their particular contribution on a national basis this year.

Maxime Myers - First TransPennine Express was named Complaints Manager of the Year at the National Customer Services Awards 2005 for her work in establishing and running the company's customer relations activity dealing with passenger complaints, suggestions, praise and ideas for service improvements.

Mary Dickson - Managing Director of First ScotRail, was named Young Professional of the Year at the Scottish Transport Awards. This was in recognition of the role she played in winning the First ScotRail franchise and the significant improvements in service that have occurred under her management.

Environment

OUR ENVIRONMENTAL MANAGEMENT FRAMEWORK

Each train operating company has an environmental representative who is responsible for supporting the operating company in bringing about continuous improvement in environmental performance. They meet with the Group Head of Environment at rail environmental forums that are held quarterly to review performance and share best practice.

Minimum standards for environmental performance are set out in the Group Environmental Management Manual that is now intranet based and has been extended this year to cover a wider range of issues. An annual audit programme is in place for auditing the operating companies and depots against these requirements. During the past 12 months we have taken steps to integrate key stations into our management framework and procedures for stations are now incorporated into the Group Environmental Management Manual. Environmental awareness training has been conducted for station managers throughout our train operating companies.

We continue to work towards a Group target of all our operating companies having ISO14001 certification by 2008. First Great Western Link has now achieved accreditation joining First Great Western. All our train operating companies undertook a gap analysis against the requirements of the standard this year and are working towards full accreditation within the next two years.

LEARNING AND DEVELOPMENT

Ongoing learning and development in relation to environmental issues is a core part of our management strategy. During the last year 1,353 employees have been trained/briefed on environmental issues and a series of training sessions have been conducted for our Health, Safety and Environmental Managers to raise their competence in environmental risk assessment. All our rail environmental representatives have an IEMA certificate in Environmental Management.

MANAGING RISK

Within the UK Rail division one of our key environmental risks is to ensure that further contamination of our sites does not occur as a result of leaks of spillages. As Network Rail owns the land and infrastructure at our depots we need to work closely with them in achieving this. We maintain ongoing liaison with Network Rail across a range of issues and they now attend our environmental forum to focus specifically on potential contamination and infrastructure issues. We have procedures in place to cover fuelling and spill response and these issues are covered as part of our employee training programmes. We maintain an overview of incidents that do occur through our spill reporting procedures and discuss lessons learnt at our rail environmental forum.

We have had a small number of incidents this year, which in a number of cases were caused due to poor quality infrastructure. We have worked closely with Network Rail in managing and developing corrective actions following these incidents and have involved the appropriate regulatory authorities when appropriate. We have not been prosecuted for any incidents for the fourth successive year.

OUR ENVIRONMENTAL PERFORMANCE

In the UK Rail division we normalise environmental performance data to per passenger kilometre, as this represents our unit of output for the operation of the business. In this way we are able to monitor the environmental footprint of each passenger kilometre. The exception to this is water usage, which is normalised per vehicle. By far the highest use of water is for vehicle washing and there is therefore likely to be a direct relationship between the water usage and the number of vehicles operated by the company.



Environment

Estimated Atmospheric Emissions from our Diesel Powered Train Fleet

(tonnes per annum)

NO_x EMISSIONS



PM₁₀ EMISSIONS



CO EMISSIONS



HYDROCARBONS



Estimated Atmospheric Emissions from our Diesel Powered Train Fleet

(mg per passenger kilometre)

NO_x EMISSIONS



PM₁₀ EMISSIONS



CO EMISSIONS



HYDROCARBONS



EMISSIONS TO AIR

Trains are a key part of the solution to reducing air emissions from surface transport as emissions per passenger kilometre are much lower than cars. However, the operation of a largely diesel powered fleet has an impact on air quality through emission of combustion gases.

Last year we introduced a process for calculating the emissions from our rail fleet for key pollutants. The emissions are calculated from a combination of manufacturers data and measurements taken by British Rail pre-privatisation for the older vehicle fleet. We have applied an assumed duty cycle based on European Rail Industry Standards.

The total emissions from our vehicle fleet have increased this year by between 14% and 16%. This is due to investment in new vehicles with larger more powerful engines, which therefore produce more emissions. The need to increase the engine size has been driven by the need to achieve improvements in the overall performance of the vehicles and improve passenger comfort to attract more passengers to our services. The increase in emissions per passenger kilometre is lower, being closer to 11% and as we attract more passengers to our services the emission footprint per passenger kilometre will decrease.

Carbon Dioxide Emissions

Carbon dioxide is a significant contributor to global warming and is one of the main emissions arising from combustion processes. Through our Climate Change Policy we are committed to monitoring our carbon dioxide emissions and reducing them to as low as reasonably practical. For example Hull Trains is currently exploring the provision of an additional vehicle to

its class 222 trains to meet increased demand. The aspiration is to provide a vehicle without a diesel engine but which allows the vehicle to convert to a full electric train whilst operating on the electrified parts of the network. Our total carbon dioxide emissions from the vehicle fleet have increased this year for the same reason as described above for our other emissions. They also represent the majority of our carbon dioxide emissions (96%) when compared with those associated with lighting and heating of buildings and business travel.

Fuel Usage Levels From Our UK Rail Fleet

TOTAL FUEL USE (litres)



Carbon Dioxide Levels From Our UK Rail Fleet

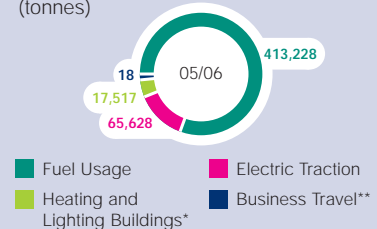
TOTAL CARBON DIOXIDE EMISSIONS (tonnes)



CARBON DIOXIDE EMISSIONS (mg emitted per passenger journey)



Carbon Dioxide Emissions Arising in the UK Rail Division 2005/06 (tonnes)



* This figures does not include energy usage at stations

** Figures for business travel are for the whole of FirstGroup in the UK

Environment

Improving Fuel Efficiency

Reducing carbon dioxide emissions is directly linked to reducing fuel usage. There are a number of factors that influence the fuel consumption of our rolling stock such as route, driver performance, size and power of engine. This year we conducted a review of the options available to us to improve the fuel efficiency of our vehicle fleet. The findings of this review are currently being evaluated and will be used as the basis for establishing actions plans and targets for the coming year.

One area of particular progress in this area has been the completion of trials on engines to replace the current engines in our First Great Western fleet. These trials have proved successful and as part of our commitments in the First Great Western franchise we will re-engine the entire fleet by December 2007. This should bring with it fuel efficiency improvements in the order of 15%.

UTILITIES USAGE

Water, electricity and gas usage is monitored at all depots in First Great Western, First Great Western Link and First ScotRail. In the case of Hull Trains, GB Railfreight and First TransPennine Express, train maintenance services are sub-contracted to third parties. This year we have also started to monitor utilities usage at a number of our key stations in First ScotRail, First TransPennine Express and First Great Western which we will report on in future years.

Water Usage

Our overall water usage within the UK Rail division has increased during the last year, although we can demonstrate some significant reductions at selected depots such as Reading. This increase is likely to be due to the introduction of 49 new vehicle units in the operating companies where water is monitored. When our water usage is expressed per vehicle unit the water usage has decreased by nearly 2%.

Water Usage (m³)

	Total Water Usage	Average Water Usage (per vehicle unit)
04/05	323,820	289
05/06	332,177	284

REDUCING WATER USAGE AT READING DEPOT

This year Reading depot staff undertook an in depth assessment to establish their patterns of water usage which included obtaining a detailed breakdown of water usage at different parts of the site. When comparing this information with billing information, they established major discrepancies which led to the identification of a number of leaks in the pipework. Repair of this leakage plus a number of other actions including the replacement of valves and pipework across the depot has led to the depot reducing their water usage by over 60%.

CASE STUDY

Energy Usage

Our energy usage has reduced considerably this year by 18%. This has been primarily due to reductions in gas usage in relation to the heating of buildings. Our electricity usage has increased slightly due to increased use of shore supply (energy from the grid) to light and heat the trains during maintenance which would otherwise have involved running the train engines. The increase in electricity consumption has therefore been balanced by a reduction in fuel use.

To support further reductions in utilities usage we have developed a Pocket Guide To Best Energy Practice distributed to all our operating companies and depots that highlights key steps to waste minimisation and energy conservation. We have also had energy audits completed by the Carbon Trust at a number of our depots and will be seeking accreditation under the Carbon Trust Energy Accreditation Scheme that recognises organisations that have achieved significant reductions in energy use.

Energy Usage (kWh)*

	Total Energy Usage	Energy Usage (per passenger kilometre)
03/04**	37,850,311	0.014
04/05	49,481,333	0.007
05/06	40,737,472	0.006

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

** These figures do not include First ScotRail data which was not a First franchise at this time. Direct comparisons between this and the following years data cannot therefore be made.

Environment

WASTE MANAGEMENT

We currently monitor waste arising and the proportion of waste recycled from our stations and depots at First Great Western and First Great Western Link. We are establishing other centralised waste management contracts within the UK Rail division that will allow us to extend the scope of reporting in future years. Our waste arising data is presented for depots and stations separately as we have more control over the waste arising at depots. At stations much of the waste we handle is on-board waste generated by our customers, shops located at stations and may also arise from services operated by other train operating companies.

Total Waste Arising at Depots for First Great Western and First Great Western Link 2005/06 (tonnes of waste produced)

	Total	% Recycled
Hazardous waste arising	122	93
Non-Hazardous waste arising	4,533	5

Total waste arising at Stations in First Great Western and First Great Western Link (tonnes of waste produced)

	Total	% Recycled
Non-Hazardous waste arising	5,348	8

We currently recycle 93% of our hazardous waste at depots and 5% of non-hazardous waste at depots and 8% at stations. We are committed to improving on the recycling figures for non-hazardous waste and are developing initiatives across our rail depots and stations to achieve this. Last year we started a major recycling scheme at Reading station that includes collection of segregated on-board waste from other operators. Other schemes have been established at Swindon, Newbury, Charlbury and Oxford stations involving segregation of newspapers, paper, cardboard and plastic. An initiative to recycle brake pads has been introduced at all depots in First Great Western and First Great Western Link.

We continue to recycle mobile phones and cartridges for MacMillan Cancer Relief. Since we started this appeal we have raised £4,000 for the charity. We have also recently established a Group-wide contract to dispose of our redundant IT equipment in line with the new regulatory framework. The company will refurbish and provide machines to charity where possible.

BIODIVERSITY

This year First established a Biodiversity Policy stating our commitment to conserving and promoting biodiversity where it is practicable to do so. We have established a register of sites across the Group to determine where the potential for enhancing biodiversity exists. This will be used to develop an action plan to promote biodiversity at key sites.

RECYCLING AT READING STATION

Reading station has launched a major recycling initiative this year involving station staff, cleaning contractors and station tenants. This is one of the busiest stations in the country with 15 million journeys passing through on an annual basis. A baler for cardboard and plastic has been installed which compresses around a tonne of waste produced by the shop and food outlets on the station. First Great Western's cleaning contractor Carlisle Cleaning and Support Services has started to segregate waste on site where possible and tenants have been advised to segregate and recycle their waste using green bins and skips provided.

CASE STUDY

SITE RETURNS TO ITS FORMER GLORY

First Great Western Link's Reading depot has a Wildlife Heritage Site located within the boundaries. The site includes a range of habitats ranging from willow scrub with mature trees to a brook with areas of swamp and grassland. The site has varied wildlife and flora and supports several bird species. It has the potential to support species of reptiles, amphibians and butterflies. This year a group of volunteers from First Great Western Link Reading depot, with advice and support from the local council began a project to enhance the wildlife features of the site. This started with an exercise to remove rubbish from the site that had accumulated over many years. The project now forms part of a wider programme led by Reading City Council, called RESCUE aimed at cleaning and enhancing the area of Reading.

CASE STUDY



North America

In North America our business is contract driven. Throughout our contracts we seek to provide service excellence by providing a customer-centred approach of the highest quality.

To achieve this we need to ensure we listen to our customers, maintain sound relationships with our employees and provide a safe working environment. Our CSR developments are therefore centred around the four themes:

- **Safety and Security**
- **Customer and Community**
- **Team**
- **Environment**



○ Safety and Security

OVERVIEW

Our North American companies are represented on the Group Executive Safety Committee that leads Group-wide safety initiatives. In addition there is a North American Executive Safety Council made up of safety officers from each North American operating company that leads safety development. There is a supporting safety structure with safety representatives at both regional and site level.

In line with the Group's culture change initiative, the Injury Prevention Programme, we have been looking at ways in which we can develop the safety culture to improve employee involvement in safety processes and improve communication between employees and their managers. During the year we have developed a number of programmes to support this.

- At First Vehicle Services all employees are now involved, on a rotating basis, in conducting daily, weekly and monthly safety inspections. In this way all employees become directly involved in the safety management process and are required to feedback on safety issues.
- At First Transit supervisors periodically deliver shift safety messages by radio to employees. We now encourage employees to present their own topic or message. At some of the larger locations a reward is offered for the best of the day.
- At First Student we have directly involved employees in identifying solutions to prevent sleeping children being left unattended on buses. The employee suggestions have been reviewed and top suggestions are being evaluated further for planned implementation.

We believe that by directly involving employees in the safety management process we will achieve greater ownership at all levels in the organisation. We will continue to work to identify ways of building on these initiatives over the coming year.

Training and Competence

All our North American companies have well established safety training and development programmes. This is a combination of induction training, cyclical training and demand based training in response to particular trends in the safety statistics.

Communication

Developing effective communication programmes that reach those in the field is an important part of our safety management strategy due to the geographical spread of our business. In First Transit the Vice President of Safety holds weekly conference calls with the regional safety managers who in turn hold weekly conference calls with location managers and safety personnel. These calls allow them to discuss performance trends, develop corrective action plans, share information and reinforce safety messages.

First Student has implemented a communication campaign "Break the Fever" designed to share information about injuries or collisions across the business. The campaign utilises visual displays updated weekly to communicate both the causes and costs of these events that is designed to reduce the risk of future occurrence.

Both First Transit and First Student also send email notifications, known as Safety Alerts of all critical incidents company wide which are then discussed at the start of each shift along with regular daily safety messages.



CASE STUDY

DEPOT RECEIVES STAR STATUS

First Vehicle Services Jacksonville Beach, Florida Service Centre was recently awarded STAR Status from the Voluntary Protection Programme (VPP) run by the Occupational Safety and Health Administration (OSHA). OSHA gave the nomination after conducting a comprehensive assessment of the company's safety processes. The award demonstrates that the sites safety standards exceed OSHA standards and it is now the company's intention to achieve STAR status for all FVS Service Centres.

○ Safety and Security

REDUCING STAFF INJURIES

Reducing staff injuries is a key part of each company's safety programme and during the past year there has been a focus on behaviour management approaches which have centred on increased staff engagement in safety issues. Some examples are given below.

- At First Vehicle Services job hazard assessments are performed prior to any engineering work commencing. These are supported by hazard observation cards that allow our employees, contractors or visitors to report a hazard at any time.
- First Vehicle Services has also developed a hazard assessment programme relating to use of hazardous chemicals and personal protective equipment.
- The First Transit "Safety Spoken Here" programme was introduced to improve communication between managers and employees around safety behaviour and record the process. This rewards positive behaviour and identifies areas for action.
- The First Transit TWT "Three Without Trouble" campaign challenges locations to operate accident and injury free both individually and regionally. Many locations have met the challenge and accumulated long incident free periods based on self-established performance targets.
- The Safety Challenge Campaign introduced by First Student where locations and teams are recognised for achieving no preventable collisions or injuries and no sleeping children left unattended during a 60 day period. The campaign is designed to motivate employees through rewards and recognition thereby encouraging safe behaviour.

This year we also introduced F.O.R.M. (First's Occupational Rehabilitation Management) process to the North American companies. This aims to manage the rehabilitation of injured employees more effectively by keeping them active in the workplace and by identifying productive work they can undertake in line with any restrictions identified by their doctor.

These combined initiatives have supported a significant reduction in the number of staff injuries per 1,000 employees of 20% compared to last year. The number of lost time injuries has increased slightly.

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



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



* One or more days' lost time accidents.



CASE STUDY

IMPROVING SAFETY PERFORMANCE

Our First Transit location in Ontario started this year with a below average safety performance. To reverse this trend the "Safety Spoken Here" campaign was introduced and the site was challenged to make a commitment on safety improvement with "Three Without Trouble" shortly after that. These initiatives have had a significant impact on the safety culture at the site encouraging greater buy-in to the safety process by employees. Six months later the operation had accumulated over 100 accident free days.



Safety and Security

IMPROVING PASSENGER SAFETY

The North American operations transport millions of people per day, many of them school children travelling to and from school. Passenger safety is therefore a top priority for us. This year we have achieved a 17% reduction in the passenger injury rate.

Passenger Injury Rate

(per million passenger journeys)



In First Transit analysis of passenger incident statistics indicated that a significant number of injuries occur as the bus is stopping or starting. We have been reinforcing the message to execute smooth driving as well as requiring the engagement of emergency signals 100 feet prior to making scheduled stops. First Transit is currently examining an emergency signal with enhanced lighting that will be piloted in the coming year. First Transit has also initiated:

- training drivers to ask a passenger to watch their step when greeting them;
- the use of brooms to keep stairs clear of slush and snow in poor weather conditions; and
- installation of mirror stations at all locations to enable proper mirror placement which is particularly important for viewing passengers alighting from rear doors.

At First Student we continue to ensure the suitability of our drivers through an internet based programme containing driver data and employment information that exceeds legal requirements. In addition our drivers are subject to an ongoing programme of random drug and alcohol testing.

We also provide specialist training to our drivers and attendants on proper responses to potential security situations that might impact on their personal safety or that of the students travelling on the bus. This training includes how to prevent unauthorised boarding, how to prevent confrontational situations from escalating and how to protect passengers. The training has recently been subject to review with the inclusion of specialist input from the security team.

Vehicle Collision Rates

This year the vehicle collision rate has reduced by nearly 6%. A key contributor to this has been our ongoing investment in the Smith System Defensive Driver training programme that prepares drivers for the numerous situations that may arise when driving a bus. First Transit now has certified trainers in every location. All new drivers are trained in the Smith System as part of their induction and are formally reviewed twice a year. First Student has over 200 "certified" Smith System instructors and coach/evaluators. They have also developed a bespoke four hour training package for existing drivers using the Smith System concepts which is taught periodically throughout the year as a special topic at the monthly safety meetings.

First Transit continues to test the options for using DriveCams to modify driver behaviour and increase security on buses. These forward and rear facing cameras are triggered to record by events such as hard braking or operation of the panic button.

Initial trials were not conclusive and DriveCams are being installed in two additional locations to further test their value over the coming year.

Vehicle Collisions (per million miles)



The vehicle collision data does not include First Services who do not operate any buses. They do record collisions where their own vehicles are involved which totalled 40 this year.

SECURITY

Passenger, employee and business security continues to be an important issue for the North American businesses. We benefited from advice from security experts in 2005 who gave guidance to our strategies and our approach to the prevention and management of incidents. This, in conjunction with advice and guidance from the new Group Head of Security, will be used to enhance our approach to security during 2006.

Specifically we are examining opportunities to further improve security for our passengers and our employees and looking at ways of improving the protection of our assets. This is being undertaken in a number of ways including risk assessment, analysis and learning from incidents and site security surveys. We are working to increase our proactivity in relation to security during the coming year.

Customer and Community

In North America our business is contract driven. First Transit operate transit and shuttle buses and call centre services on behalf of city, state and county authorities. First Student operate school bus services on behalf of a range of customers including public and private schools districts, commercial charters and schools. First Vehicle Services provide vehicle maintenance services for customers such as the police and fire brigade. Throughout our contracts we seek to provide service excellence by providing a customer centred approach of the highest quality.

LISTENING TO OUR CUSTOMERS

Maintaining ongoing dialogue with our customers is an essential part of our philosophy to offer customer excellence. We want to ensure that any problems or issues relating to our contracts are identified as early as possible and maintain an ongoing overview of customer satisfaction levels. We are in regular dialogue with our customers on an ongoing basis. Within all our North American businesses senior managers visit our customers on a regular basis, either weekly, monthly or bimonthly depending on individual contracts.

CUSTOMER SATISFACTION

In addition to ongoing informal contact with our customers we also have a number of more formal ways to assess customer satisfaction.

- First Transit sends customers a questionnaire on an annual basis against which assesses the performance of the location managers and our overall service. This information is used on a contract by contract basis to respond specifically to any customer concerns. The results from these surveys are not amalgamated across the company.
- First Vehicle Services conducts quarterly surveys to measure a range of areas of customer satisfaction that are scored between 1 and 4 ranging from "not satisfied" to "very satisfied". In addition customers are offered open-ended questions to allow them to provide comments for performance improvements. This year the survey was converted to online format and response rates have increased by over 350%.
- First Student uses annual customer satisfaction surveys to identify areas of weak performance against which action plans are developed to address the issues.

In First Vehicle Services where our customer satisfaction rates are amalgamated across the business over 90% of our customers are either "satisfied" or "very satisfied" with the service we deliver. Customer satisfaction is also measured on a per repair basis through Critique Cards that show a similar story with over 90% of customers rating our service "excellent" or "good".

CUSTOMER COMMENDATIONS

"We would like to take this opportunity to acknowledge the efficient and effective productivity displayed by your employees during your transitional period during the last couple of months... The positive attitude of your staff has resulted in a good working relationship between First Vehicle Services and Environmental Services. I look forward to the continued partnership and excellent service your company provides."

Assistant Director, City of Pittsburgh
First Vehicle Services

"Thanks to Bob Rawley and First Vehicle Services for locating fuel for the City after Hurricane Wilma. Bob stayed up all night waiting for a tanker from Port Tampa."

Frank Blackwell, City of Port St Lucie

"The County has been pleased with First Transit's on-time performance, low turnover, and management responsive support in meeting the County's transportation needs."

Transit Manager, Kern Regional Council

"Fantastic job with this project! We cannot thank you all enough for your efforts, perseverance and professionalism while we worked through this complex and convoluted project."

Gary Gulzado, Deli Inc with reference to Tennessee Highway installations.

"First Transit has demonstrated complete professionalism in working with Capital Metro staff to ensure the smooth transition of our bus services. We look forward to a continued partnership as we provide transportation services to benefit our community."

President/CEO Capital Metropolitan Transportation Authority

"Since July 2003 the City of Pasadena has contracted with First Transit for dial-a-ride and fixed-route services. The First Transit team has been wonderful to work with and has helped us improve the transit services provided to the community."

Transit Manager, City of Pasadena

Customer and Community

In First Student the 2005 survey results indicated an 83.6% overall satisfaction and an 86.2% repurchase intention. The survey indicated that the quality of drivers (professionalism, attitude, experience and skill) had improved considerably on previous years.

The overall satisfaction of our customers is reflected in our rate of contract retention. During the last fiscal year First Transit has renewed 88% of its contracts in addition to winning a range of new contracts. First Student's contract retention rate stands at around 90%. First Vehicle Services has lost only one contract in the past three fiscal years, and has not lost to a direct competitor in five years.

MONITORING SERVICE QUALITY

Monitoring service quality is a key part of our customer service plans. Although performance indicators are set on a contract by contract basis, core indicators that are common to most contracts are used to assess overall company performance and set performance targets.

First Transit

In addition to individual contract performance monitoring First Transit measures the overall quality of business performance in three ways:

- trips on time - the percentage of buses that arrive on schedule, although individual contracts vary we have set ourselves the target of achieving a target of 95% or better;
- operator availability - the proportion of our operators unavailable for work with a goal of below 8%; and
- preventative maintenance - the number of preventative maintenance operations completed on time against a target of 100%.

Through these performance indicators we can monitor the overall punctuality and reliability of our services, a key issue for both our customers and the travelling public.

The punctuality of our services measured in relation to trips on time remains high. The percentage of preventative maintenance completed on time has fallen below target due to problems at a small number of locations where, in many cases, issues out of our control, such as fleet age and manufacturers' defects, have affected our performance. For the vast majority of our locations we achieve 100% on time maintenance in line with the requirements of our customers and our contracts.



CASE STUDY

FIRST VEHICLE SERVICES RECEIVED "BEST 100 FLEETS" AWARD

First Vehicle Services has had 23 of its service centres recognised in the "Best 100 Fleets" list prepared by the Fleet Equipment magazine. Two of the service centres at Allegheny Co. and Ft. Wayne were honoured in the top ten coming third and ninth respectively.

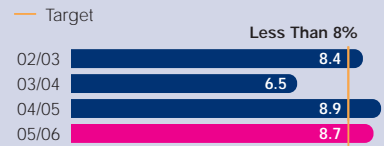
Trips on Time

(percentage)



Operator Availability

(percentage)



Preventative Maintenance Completed on Time

(percentage)



To further improve customer service and satisfaction levels we continue to develop our employee training programmes. Employee training is conducted through First Transit University for managers and supervisors. A focus of this training throughout is on customer service and customer relations. The training also encourages interaction between managers and sharing of best practice to promote the development of consistent customer service levels.

We also employ over 25 full time support staff who are trained in virtually every aspect of transit operations and management and are available to provide assistance to all our customers in areas such as performance audits, maintenance audits, safety and security audits, user and non-user surveys and paratransit reviews.

Customer and Community

Availability of Fleet

(percentage)

— Target



Preventative Maintenance Completed on Time (within 24hrs)

(percentage)



Preventative Maintenance Completed as Scheduled

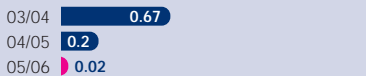
(percentage)



Vehicles Requiring Rework

(percentage)

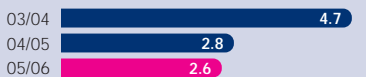
Less Than 2.6%



Vehicles Requiring a Roadcall

(percentage)

Less Than 5%



First Vehicle Services

First Vehicle Services uses a number of performance measures to assess the overall quality of service:

- availability of fleet against a target of 97.4%;
- preventative maintenance completed on time against a target of 95%;
- preventative maintenance completed as scheduled against a target of 91%;
- percentage of vehicles requiring rework which we aim to maintain to a target of less than 1%;
- percentage of vehicles requiring a road call which we aim to maintain to a target of less than 5%;

We continue to exceed our targets in all these performance areas. We can show particular progress in reducing the number of vehicles requiring rework, that now lies at almost zero percent, reflecting our ongoing commitment to training our technicians through the ASE (Automotive Service Excellence) programme and achieving Blue Seal Certification, discussed further in the North American Team section.

To further improve customer service we have developed a customer service plan that will support our commitment to offer a world-class customer service. The plan sets out the basic strategies that will be established for every First Vehicle Services service centre to be implemented and expanded by the local general manager.

We believe that delivering our vision of providing a world-class service requires a clear vision and sales and marketing strategy supported by commitment to our employees. The customer service plan sets out our strategy for:

- establishing the vision;
- policies and procedures;
- training and development;
- recognition and rewards;
- metrics; and
- sales and marketing.

To ensure our employees receive recognition for their contribution to the good work of the company we ensure we share our success with them. Letters of commendation are circulated throughout the company. We also include a "World-Class Customer Service" page in our internal newsletter, where customer commendations are highlighted as well as instances where First Vehicle Services employees delivered above and beyond the call of duty.

We continue to work towards external recognition of quality through ISO 9001 certification and STAR status under the Voluntary Protection Programme (VPP) run by the Occupational Safety, and Health Administration and Lean Six Sigma.

First Student

In First Student we primarily monitor our performance through our customer satisfaction surveys, discussed above, our safety performance and our ongoing regular contact with our customers. Safety is our customers highest priority linked to driver responsibility and behaviour.

We continue to work to improve our customer service levels by ensuring our drivers meet customer expectations in relation to managing the safety and behaviour of the children on board our buses. We are making considerable investment in the ongoing training of our drivers in the Smith System Defensive Driver training described further in the North American Safety section of this report. This training is designed to prepare our drivers to respond to the wide variety of circumstances they may come across when driving a school bus.

We are also placing considerable emphasis on contract retention with a programme of senior management visits to all our customers whose contracts are due to expire in the next 12 to 24 months. Through this process we will discuss our performance to determine whether we are exceeding or meeting expectations. In this way we can identify actions we must take to optimise the likelihood of contract renewal.

Team

Sound employee relationships are fundamental to the success of the North American business. We strive to be the preferred employer in the US bus and vehicle services industry attracting and retaining our workforce by offering a quality and safe working environment. First in North America has adopted five key principles that serve as the foundation for our people policies and practices.

- First in North America recognises the importance of each person as an individual.
- We strive to make full use of employee abilities and provide opportunities for future training and development.
- Hiring and promotion is based on demonstrated ability, experience and performance without regard to age, race, sex, religion, colour, national origin, sexual orientation or disability.
- We will provide compensation that is comparable or superior to that paid by other progressive organisations for equivalent work.
- Performance is recognised and rewarded.

This year we saw how the team spirit of our employees extended to the local community when our First Student school buses became an important part of the evacuation effort following Hurricane Katrina.

OUR PEOPLE MANAGEMENT FRAMEWORK

Each North American operating company has a vice president responsible for human resource management supported by a management framework that varies slightly from company to company.

All operating companies have structured lines of communication from field operating units to central or regional offices back to the head office at Cincinnati which reports to the UK via the operating company Presidents. First in North America operates a Human Resource Information System that holds information such as staff turnover, employment and safety statistics.

LISTENING TO OUR PEOPLE

Listening to our people is a central part of employee retention. Our philosophy is to try to identify problems early through ongoing and participative exchange between managers and employees. To this end we promote an "open door" policy and hold regular staff and town hall meetings. These provide staff with an opportunity to meet their managers as a group and discuss work related topics that effect more than one employee. These can be called by employees but are scheduled at least once per year. Whenever possible immediate feedback is provided to questions, suggestions or issues. Often, topics require additional research or consideration for change. In these circumstances the applicable management team may be assembled or involved in the process with responses made to the location.

First Transit has developed a range of newsletters and web mail services to improve cross company communication.

First Vehicle Services has an ongoing employee opinion survey, which allows the company to gauge employee satisfaction on a number of key issues.

EMPLOYEE OPINION AT FIRST VEHICLE SERVICES

For the past 14 months we have been conducting an employee opinion survey at selected locations representing 32% of the workforce. This will be extended to the entire workforce this year. Findings to date show a high level of overall job satisfaction.

- 87% satisfied with their job
- 85% satisfied with level of involvement in customer service
- 84% satisfied with the company
- 80% satisfied with quality standards
- 80% satisfied with quality of customer service
- 80% satisfied with supervision they receive



FIRST EMPLOYEES RESPOND TO HURRICANE KATRINA

Within a day of Hurricane Katrina striking New Orleans First Student began dispatching drivers and buses to assist in delivery of medical supplies and aid the evacuation effort. These efforts continued throughout the week transporting hundreds of evacuees to shelters. In Madison, Mississippi First Student employees transported National Guard troops and supplies to New Orleans and further supplies were transported from across the country. Our North American employees initiated a "First Cares" programme to raise cash funds to support the relief and restructuring effort. To date \$84,000 has been presented to the American Red Cross.

Team

LEARNING AND DEVELOPMENT

Developing our employees is key to our long-term financial success. All the North American operating companies have in place training programmes to develop the competence of their employees at all levels. This is a combination of leadership development and vocational training. In the case of First Student, the company offers a tuition reimbursement programme for all full time employees to pursue degree programmes for classes to enhance their skills.

Leadership Development

Developing the competence of our managers is an important part of supporting our workforce. Each operating company has in place their own management training programmes reflecting different business needs.

First Transit - Leadership development is delivered through the First Transit University programme. This involves a series of workshops and larger forum covering a range of topics such as managing labour and employee relations, legal compliance and contract compliance. In January this year First Transit University launched a professional development programme for approximately 30 new managers. The aim of the programme is to communicate practice and orientate them in the "First Transit" way to conduct business.

First Vehicle Services - Training is delivered through First Vehicle Services University. The University provides an ongoing programme of skills and knowledge development. It uses a range of different media to suit the structure of the business that is represented by many field locations spread across a large geographical area.

First Student - All site-based managers undertake a three-day training programme to develop core management competencies. This year newly appointed or promoted contract managers have been included in the programme. Next year the programme will be extended to existing contract managers. For senior managers training is through the annual Management Conference, where a two day training course is delivered focusing on issues such as financial management, customer relations, safety and employee retention.

FIRST VEHICLE SERVICES UNIVERSITY

First Vehicle Services University provides a programme of ongoing training and development to employees as part of a continual development programme. Training methods used include briefings and teleconferences which allow us to access people spread across large geographical areas in a cost effective manner and bring greater consistency to the training approach. The following are examples of some of the programmes delivered by the university.

- Each month a two-hour training session on topics from each functional area within the business is delivered by monthly conference calls. This year we have delivered training sessions on workplace harassment, induction, safety, performance management, workers compensation, recruitment and reasonable suspicion. These calls have averaged 58 managerial and supervisory staff per call.
- Three day workshops are provided for all new, existing and potential contract managers. These provide training in all functional areas such as operations, safety, accounting, finance, people management, leadership and worker compensation. The introduction of these courses has greatly improved the working knowledge of our managers and is bringing about greater consistency throughout our contracts.
- Weekly fact sheets are sent out by the human resources department on the latest people management issues keeping our supervisors and managers continually up to date with developments in this area.

CASE STUDY

Team



CASE STUDY

FIRST STUDENT SITE NAMED AS ONE OF TOP TEN SCHOOL BUS MAINTENANCE FACILITIES

First Student's maintenance site at Davenport, Iowa, has been named as one of the top 10 US School Bus Maintenance Facilities in the industry publication "School Bus Fleet". Criteria for gaining the award include a strong preventative maintenance programme, cleanliness, problem-tracking processes and part replacement processes.

Vocational Training

Both First Vehicles Services and First Transit participate in the ASE programme for training and testing technicians. In February 2006 426 technicians in First Vehicle Services held ASE certificates which represents 77% of the eligible workforce a 7% increase on last year. At First Transit the figure is 42%. This certification relates to heavy duty trucks and is therefore not directly applicable to the First Transit operation. First Transit is currently working with ASE to develop a bus specific certification that is currently being trialled. Training courses are being delivered to assist technicians in achieving the new certification. A total of 11,280 hours of training was delivered last year.

At First Vehicle Services we continue to work towards achievement of Blue Seal Certification at all locations. The Blue Seal Certification indicates that at least 75% of the technicians are ASE certified, and at least one technician is certified in each area of service offered by the location. In February 2006, 47 of our locations had achieved this status, representing 60% of our contracts, an increase of 10% on last year. Blue Seal Certification is included in all yearly incentive programmes for the location managers and we are investing heavily in additional training for our technicians to assist them in passing their ASE.

In First Student much of our bus driver training is safety focused and discussed further in the North American Safety section of this report.

RECRUITMENT AND RETENTION

Improving the retention rate for driving staff is a challenge for the bus industry in North America. Our employee turnover rates are in line with the industry average but we continually strive to lower them.

For First Student and First Transit in particular, improving employee retention rates remains a central business issue. At both companies the focus has been on highlighting and working with problem locations.

- First Student has conducted audits at several high turnover locations on the basis of which recommendations are developed to improve policy and practices. This might include for example additional training in interview techniques for managers and improved recruiting techniques. Wage surveys are also being conducted in these areas and adjustments made as necessary. Employment, interviewing and selection training have now been built into the induction process for all new location managers.
- First Transit has recruited three additional human resource managers at regional level to provide greater focus on the people management programme that includes staff recruitment and retention. These managers have established weekly contact with high driver turnover locations and are working with them to develop location-specific solutions.

Team

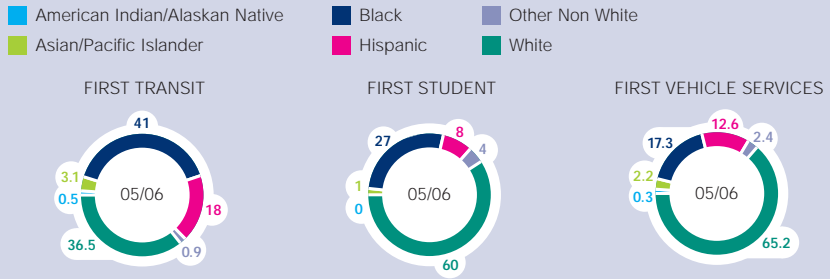
REWARDS AND RECOGNITION

In North America we offer both part and full time employees competitive benefits. These include tax free savings plans where the company matches the employee's savings to an agreed limit and access to a range of benefits including medical, life insurance and dental insurance plans. We financially reward technicians that successfully pass a skill certification test in First Vehicle Services and First Transit. In most locations at First Student we operate a bonus plan called "Performance Plus" that rewards attendance and safety performance.

DIVERSITY IN THE WORKFORCE

All our North American businesses attract and retain employees from all races and ethnic backgrounds. Our employment policies support affirmative action and equal opportunity and our employee base is largely representative of the population. 36% of our North American workforce is currently female ranging from 60% of the workforce in First Student to 13.2% in First Vehicles Services. The ethnic diversity of each business is shown below.

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



Environment

OUR MANAGEMENT FRAMEWORK

Environmental strategy and initiatives in North America are led by the CSR Environmental Committee chaired by the Vice President for Safety and Environment of First Support Services who reports directly to the US Executive Safety and Environmental Committee. Environmental representatives from each of the North American businesses and our environmental consultants Strata attend the CSR Environmental Committee. At each operating location there is a person who has accountability for environmental issues in relation to the field operations.

The CSR Environmental Committee sets annual strategy objectives and targets and aims to build greater consistency in practices across the operations. The Committee meets once per month. Key initiatives for the North American operations this year have been rationalising the North American waste management contracts and developing methods for emissions reporting.

Standards for environmental management are described in the FirstGroup America Environmental Management Manual. This sets out the minimum standards that would meet the most stringent federal and state requirements. These procedures are supplemented at local company level where different regulatory standards may apply.

Each of the North America operating companies has an audit programme to audit individual locations against the requirements of the management manual. The method and frequency of these audits varies from company to company.

- First Transit conducts operational, safety and environmental audits at every location on an annual basis against which each site is graded.
- First Vehicle Services has a rolling programme of audits covering a number of sites per year conducted by the Director of Environment and Safety.
- At First Student every location undergoes an internal audit on an annual basis, the results of which are analysed by the First Student CSR environmental representative who then plans the audit programme accordingly.

In addition, all new sites are audited prior to lease or purchase to ensure all regulatory requirements are being met. An action plan is then developed to rectify any issues identified.

LEARNING AND DEVELOPMENT

Each operating company has an ongoing programme of environmental training designed to ensure that all employees have the competence to manage environmental risks and understand the local regulatory framework. At the annual meeting for site and maintenance managers an element of environmental awareness and training is provided. In addition all locations have access to on-line training established by Strata, the company's environmental management consultants. This training covers:

- general environmental awareness;
- storm water permitting and pollution prevention; and
- spill prevention and response.

During the past year all those with environmental accountability at site level have completed these three modules. The target next year is for all employees to undertake training in one environmental topic. The number of staff receiving training increased significantly from 1,011 employees last year to 26,666 employees this year, covering topics including environmental auditing, environmental awareness, spill response, recycling and storm water and energy conservation.

MANAGING RISK

In North America the management of environmental issues is strongly influenced by the legislative culture that requires permits for many environmental applications. These permits require renewal and periodic update and much effort is required to ensure that permits are current and updated across all our locations. Strata Environmental, our consultancy partner, manage compliance issues across all operational sites and ensure that all permits are kept current and their requirements are met. This includes ensuring appropriate training of employees and periodically testing them on their compliance knowledge. Copies of all permits are held in a central environmental database that also holds copies of incident and audit reports.

The spill response procedure requires central reporting of all incidents and spills. This year we have had a small number of minor spills. A root cause analysis is undertaken for each spill and lessons learnt are shared during safety meetings. Although some of these spills required agency notification under State regulations none of them have led to prosecution.

Environment

EMISSIONS TO AIR

First Student operates a fleet of 21,487 buses and First Transit operates a bus fleet of 2,629 buses. These vehicles impact on air quality through the emission of combustion gases. A challenge for us over the last two years has been to identify a way in which we can calculate these emissions. After some consideration we have decided to use the Environmental Protection Agency (EPA) approved emission model for mobile sources MOBILE 6. This model contains emission factors based on the EPA allowable emissions for a particular vehicle type in a particular year. Emission calculations will therefore reflect the age profile of the vehicle fleet and reflect investment in newer vehicles.

Using this model we have calculated the emissions of key pollutants based on the current vehicle profile of the First Student and First Transit vehicle fleet.

Estimated Emissions from the First Student and First Transit Vehicle Fleet for 2005/06 (tonnes)

	First Student	First Transit
NO _x	2,637	1,971
PM ₁₀	70	52
CO	635	368
Hydrocarbons	143	100

Estimated Emissions from the First Student and First Transit Vehicle Fleet for 2005/06 (grams per kilometre)

	First Student	First Transit
NO _x	6.78	10.21
PM ₁₀	0.18	0.27
CO	1.71	2.25
Hydrocarbons	0.39	0.61

* These figures do not take account of reductions to emissions from the use of catalytic converters and particulate traps.

This data now provides a baseline against which we can monitor changes in emissions over time. In the case of First Student we own the buses and changes in the emission profile will directly reflect our investment in new vehicles. All new buses purchased by First Student are certified to the best available emissions standards. In some cases we have retrofitted our buses with catalytic converters and particulate traps to further reduce emissions.

In the case of First Transit we do not own a significant proportion of the buses we operate so changes in the emission profile for the company will reflect the investment in newer technology vehicles for both First Transit and our customers.

Carbon Dioxide Emissions

Emissions of carbon dioxide are linked to the fuel use and fuel type used in the vehicle engines. In North America our buses run on a variety of fuels depending on customer preference. The main fuel used is low sulphur diesel with some clients specifying ultra low sulphur fuel. First Student operates 17 CNG buses while First Transit's fleet includes 101 CNG, 106 liquid propane and 5 hybrid diesel/electric buses.

Fuel Use in North America First Student and First Transit for 2005/06 (litres)

	First Student	First Transit
Diesel	82,975,260	70,372,495
Gasoline	1,239,794	2,439,547
CNG	18,384	4,100,472
LPG	186,131	5,518,979

In the majority of cases we refuel the buses on behalf of our customers. There are however circumstances where our customers refuel the buses themselves.

These circumstances are not consistent and vary from contract to contract. The above fuel use figures do not include fuel use where our customers have refuelled the vehicles. We are continually working to improve our data collection systems and make our data more accurate and will be considering ways in which we might capture this additional data in the future. Based on the above fuel usages the total carbon dioxide emissions from the operations of our North American fleet is 442,275 metric tons.

Off-setting our Emissions

This year the North American business has joined American Forest an organisation that works to protect, restore and enhance the natural capital of trees and forests. We are looking to work with some of our clients to support reforestation programmes in some of the cities where we work. This will have the combined benefits of improving the local environment and offsetting some of the emissions from our buses.



Environment

UTILITIES USAGE

In North America the monitoring of utilities is complicated by the fact that we own very few properties. The majority of our properties are leased and we pay for utilities usage as a standard fee within the overall lease agreement. As a starting point we have therefore focused on monitoring usage at the depots we own, over which we have direct control. We now have baseline data for these properties. This data will be used to establish local targets for utilities reductions.

Water Usage (m³)

	Total Water Usage	Average Water Usage (per bus)
05/06	42,546	27

Energy Usage (kWh)

	Total Energy Usage	Energy Usage (per bus)
05/06	22,221,251	1412.1

FIRST'S ANNUAL ENVIRONMENTAL AWARDS

This year Dave Larsen Jr from First Transit's Pomona depot received an award for best individual achievement. This was in recognition of his work to ensure the depot was meeting all environmental compliance standards. The depot also achieved outstanding ratings during the last corporate environmental audit and was awarded the First Transit National Maintenance shop of the year.

WASTE MANAGEMENT

This year we have made significant progress in developing our processes for the management of waste. We have now established six approved waste contractors that are being used by 86% of our locations. The remaining 14% may not be using these contractors for a number of reasons such as client preference, cost or isolated locations. Through our approved vendors we now have baseline data on our waste arising and the proportion that is recycled. For those sites which do not participate in the approved vendor schemes this information has been obtained directly from the site.

Total Waste Arising in North America and Proportion Recycled

	Total	% recycled
Used oil (m ³)	2,089	100
Used oil filters (drums)	2,270	100
Antifreeze (m ³)	168	100
Oil contaminated absorbents (drums)	290	58
Sludge from oil/water separator (m ³)	155	0

The vast majority of waste arising from our maintenance workshops is recycled with only a small proportion, consisting of oil contaminated absorbents and the sludge from the cleaning of our oil/water interceptors, being landfilled. A key contributor to our high recycling rates has been our new waste vendor programme and in particular our relationship with Atlantic Industrial Services Inc. that ensures we are now able to achieve 100% recycling of our oil filters.



CASE STUDY

USED OIL FILTER RECYCLING

There are a number of goals associated with the new waste vendor programme, a key element of which is to continually increase the level of recycling for our maintenance waste streams to the highest level achievable. Last year Atlantic Industrial Services Inc. which operates in 14 southeastern states, completed the construction of a state-of-the-art used oil filter recycling plant in Jackson, Mississippi. This facility provides a used oil filter recycling service for the company's entire collection area as well as other third party environmental companies. The plant utilises a primary shredder and secondary ring mill to separate used oil filters into three recyclable products. The products are scrap steel, paper, and used oil. Through proper separation and management the Atlantic Industrial Services Inc. process will ensure that no part of the used oil filter will be landfilled.

Our 2006/07 CSR Goals

SAFETY AND SECURITY

ANNUAL TARGETS 2006/07

- To reduce the staff injury rate
- To reduce the lost time injury rate
- To reduce the passenger injury rate
- To reduce the vehicle collision rate
- To reduce the SPAD rate
- To enhance our strategic and operational approach to security
- To improve security through increased employee awareness and contribution

TEAM

ANNUAL TARGETS 2006/07

- To improve the bus driver retention rate in UK Bus and North America
- To increase access to workplace learning opportunities in the UK Bus and UK Rail divisions
- To further develop the skills of our people through effective training and development and increased learning opportunities
- To improve employee satisfaction ratings where surveys take place
- To develop consistent recruitment and development processes for the UK Rail division
- To improve monitoring of diversity and align current best practice on equal opportunities across the UK Bus and UK Rail divisions

CUSTOMER AND COMMUNITY

ANNUAL TARGETS 2006/07

- To continue to improve the punctuality and reliability of our services in the UK
- To meet our contract performance standards in North America
- To improve our performance in the National Passenger Surveys in the UK Rail division
- To reduce customer complaints
- To continue to increase community volunteering in the UK Bus and UK Rail divisions

ENVIRONMENT

ANNUAL TARGETS 2006/07

- To achieve ISO14001 accreditation for one further bus company and one further train operating company
- To reduce the volume of interceptor waste by 5% in the UK Bus division
- To collate baseline data on utilities usage at all major stations
- To reduce gas usage for existing rail depots by 5%
- To halve the volume of oil contaminated absorbent waste that is disposed to landfill by First in North America
- To reduce energy usage at properties owned by North America

We want to hear from you

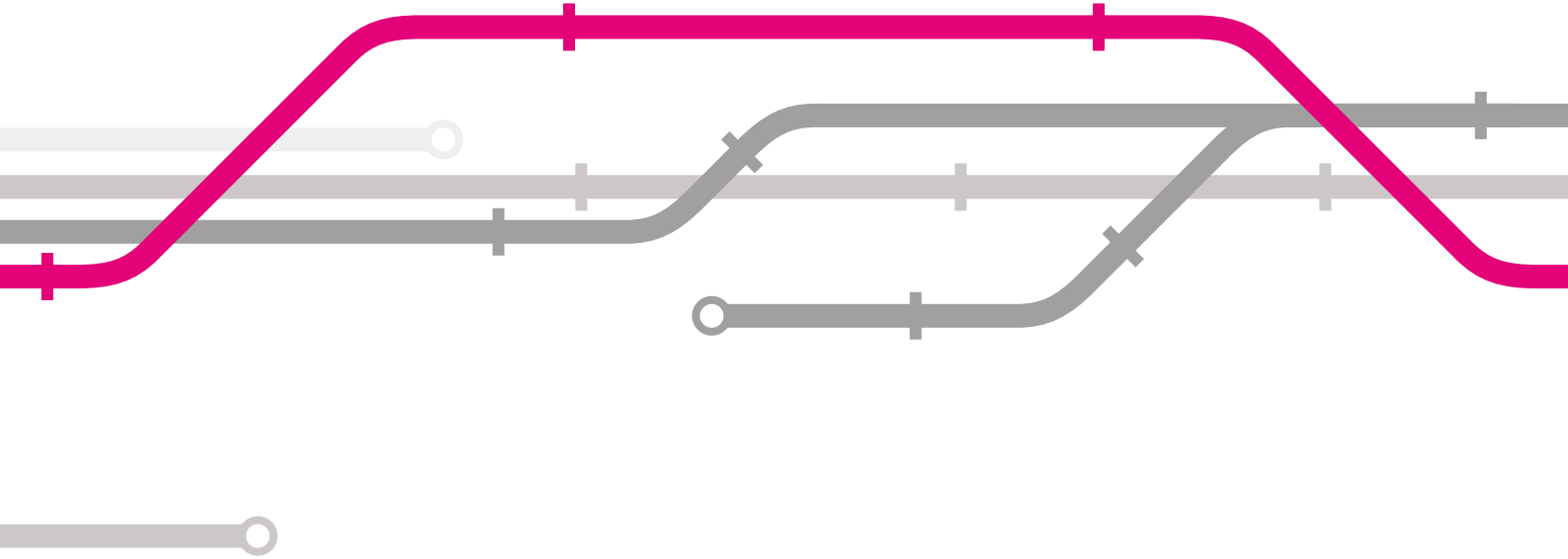
We always welcome feedback on our report. Feedback is an important part of our dialogue with stakeholders and helps us to gain a better understanding of the issues our stakeholders would like us to report on. Please do take the opportunity to provide us with your views by writing to:

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