

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.

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

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'.

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.

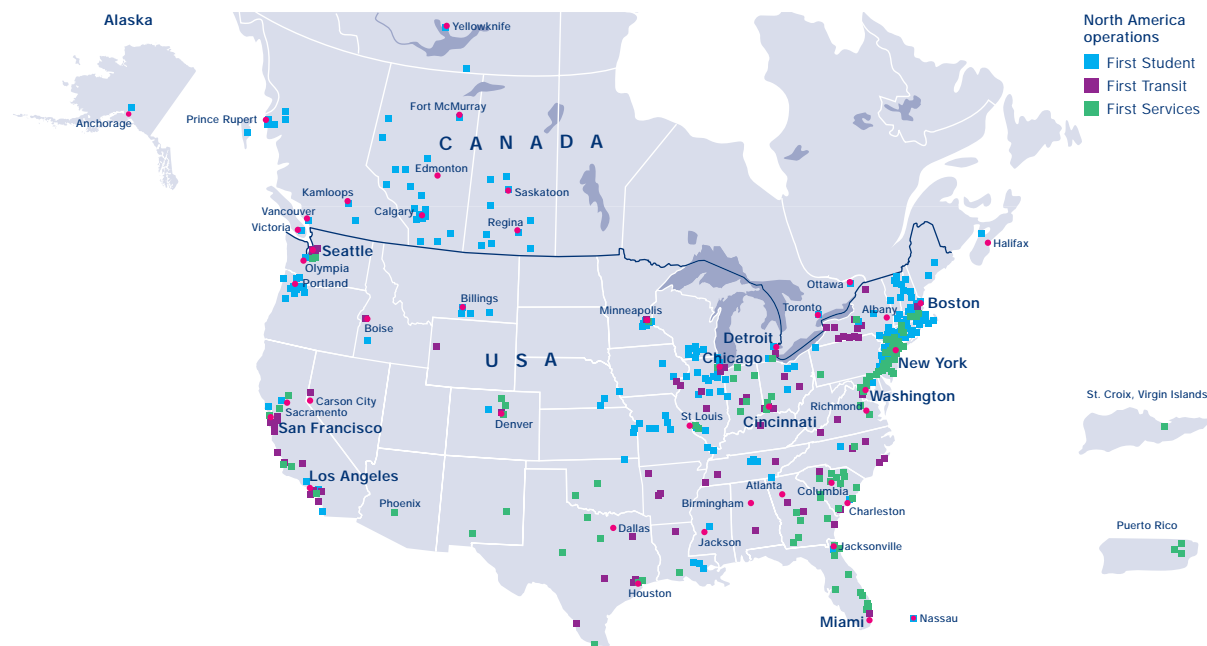


UK BUS

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.

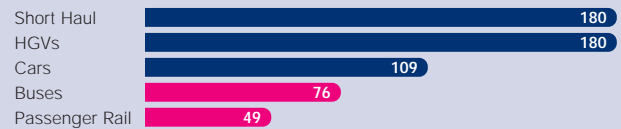
In developing our services we seek to better understand the communities we serve through selective use of demographic mapping. This allows us to improve route design where appropriate and target information and promotions more effectively. However, as a mass transport operator we continually need to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



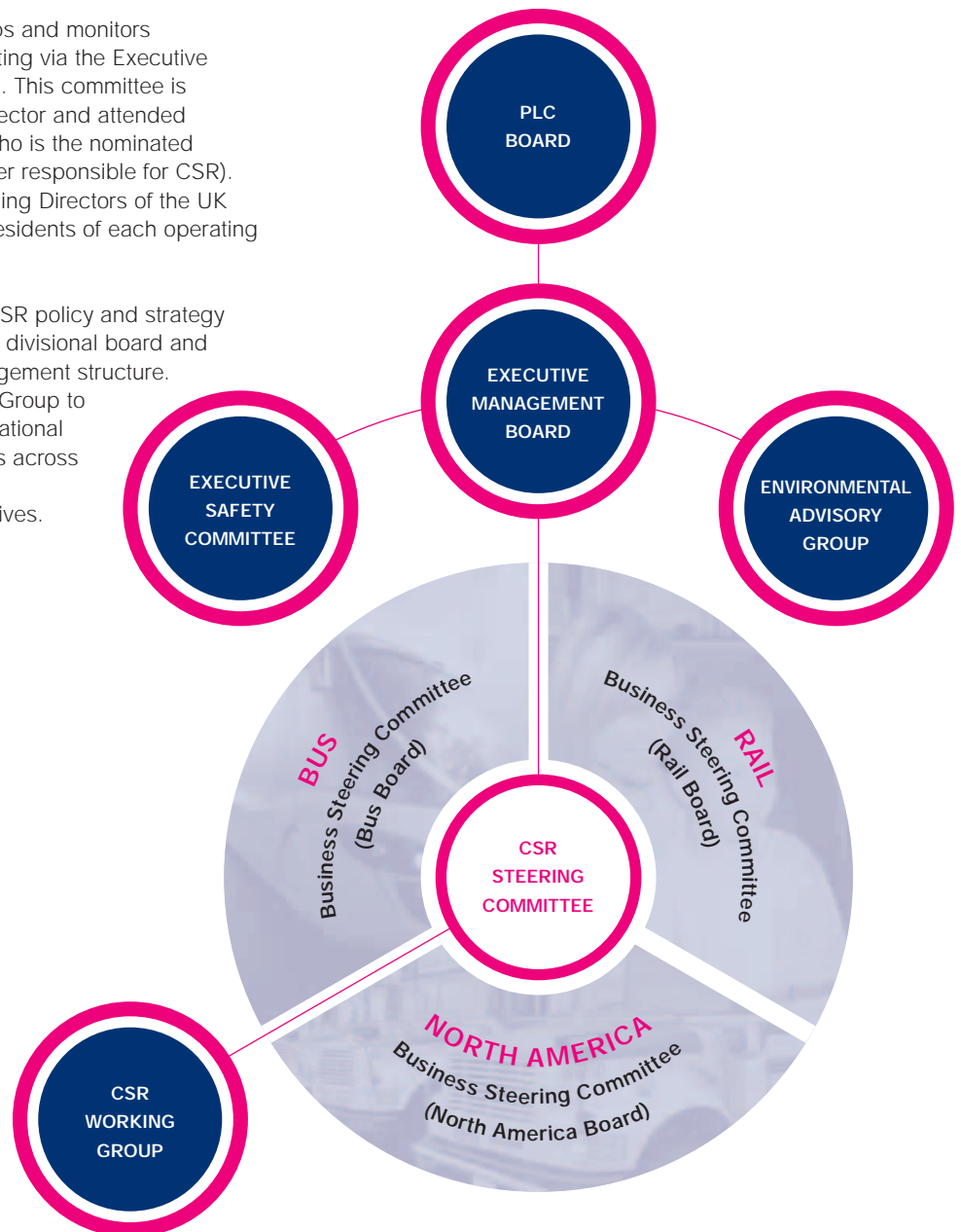
* Source: AEA Technology Environment for SRANAEI

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

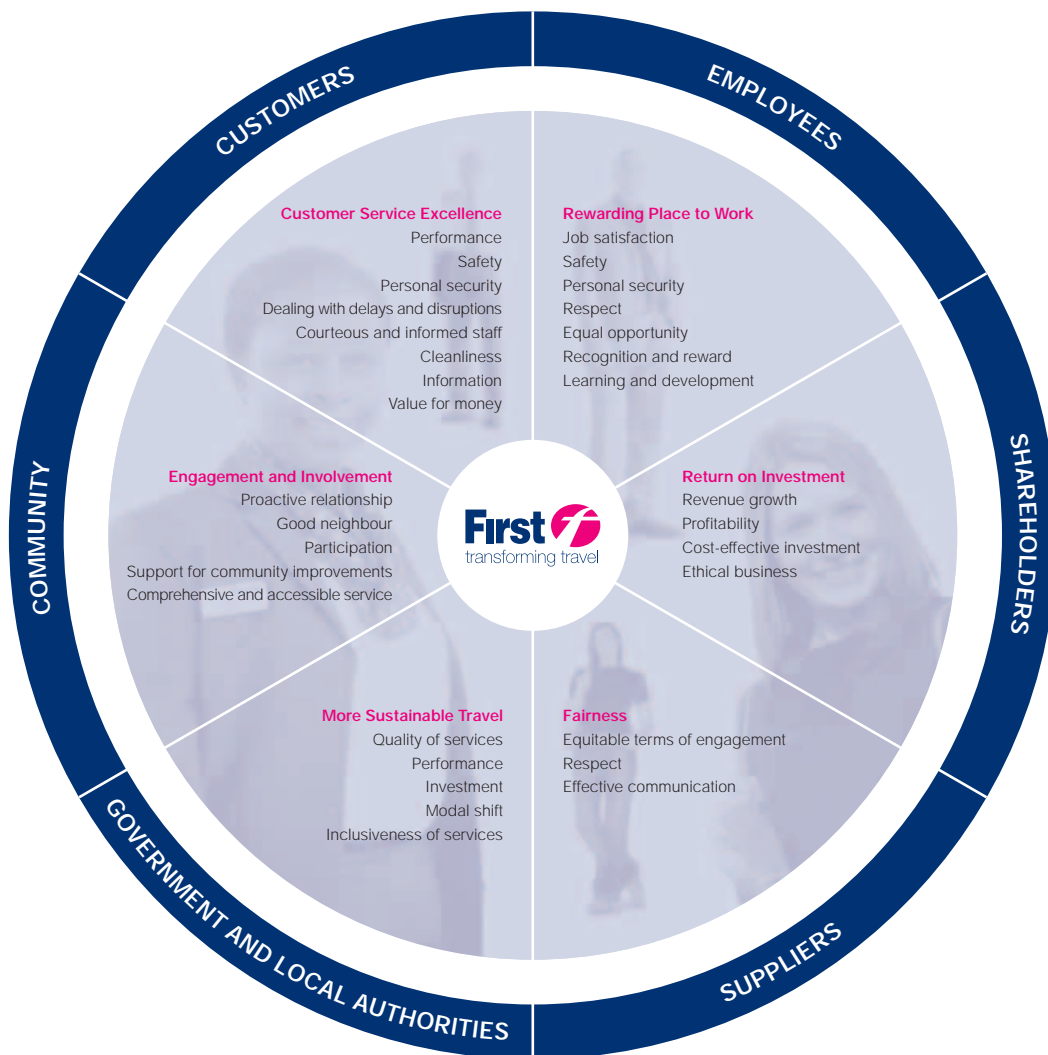
Environmental policy and strategy is established by the Environmental Advisory Group which monitor performance, set objectives and targets. The Group also provides support to the environmental advisors within each operating company in managing environmental risks and driving performance improvements.

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 20, 26, 32
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 20, 26, 32
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, 26, 32
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, 32
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 26

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, 27, 33
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 21, 27, 33
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 21

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 22, 34
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 22
To further standardise and improve recruitment processes	Actions have been taken by all divisions to improve the standards and consistency of recruitment processes.	Page 22, 28, 34
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 22
To develop the skills of our managers and leaders	We have been actively establishing leadership development programmes across the business.	Page 22, 28, 34

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 23, 29
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 35
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 23, 29
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 35
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 19, 25
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 35

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

This year we have been working to change our safety culture by improving communication and engagement on safety issues. The Group-wide programme has been supported by a number of pilot initiatives in the UK Bus division.

These have included a pilot in Aberdeen on the use of safety handbooks to improve both communication and awareness of safety issues and a pilot in Glasgow to engage employees in safety issues through a programme of workshops.

These initiatives, supported by our overall safety strategy, have contributed to a 17% reduction in the number of staff injuries during the last 12 months.

CUSTOMER AND COMMUNITY

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. 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 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 included enhancements to meet health and safety and disability discrimination legislation.



TEAM

During the last 12 months we have further strengthened our people management structure and made significant investment in establishing and delivering a learning and development framework.

The framework is built around learning that leads to recognised qualifications to contribute to a sense of achievement in the learning process. This year we have placed particular emphasis on development of the senior management population as we recognise that effective leadership is key to organisational success. This has been supported by further investment in our recruitment and retention processes that have contributed to reducing our bus driver turnover by 4% and eliminating our driver shortfall.

ENVIRONMENT

We continue to work towards achieving improvements in environmental performance. This year we achieved a reduction in water usage of 15%. This year five of our companies in the South West achieved certification to the ISO14001 environmental management standard joining our London and South Yorkshire companies and contributing to meeting our target of all operating companies having ISO14001 certification by 2008.

To drive performance improvements we have an ongoing training programme to raise employee awareness of how to manage environmental risks and achieve performance improvements. This has contributed to the fact that we have not been prosecuted for any incidents for the fourth successive year.



We continue to reduce our emissions profile for non-greenhouse gases through investment in new vehicles. EURO III engines now constitute 25% of our total vehicle fleet, an increase of 6% on last year. We still have further challenges to face in reducing our greenhouse gas emissions and continue to address this through initiatives to reduce the fuel consumption of our vehicles and energy used in our depots.

WORKING IN PARTNERSHIP WITH THE CARBON NEUTRAL COMPANY

Through our ongoing 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 including their green travel plan which will then be implemented with the help of the students and First.

🕒 Safety and Security

The Bus Safety Council chaired by the Managing Director of the UK Bus division leads the safety programme and supports consistency of approach across the bus companies to ensure adoption of best practice.

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.

Passenger Injury Rate (per million passenger journeys)



Vehicle Collisions (per million miles)



SIMULATOR TRAINING IN PARTNERSHIP WITH LONDON BUSES

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.

CASE STUDY

Our safety initiatives this year have focused on:

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

IMPROVING SAFETY COMPETENCE

Improving employee competence in relation to safety management is a high priority for us. 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 our managers. A complementary two-day training course for supervisors will be introduced in the coming year.

In addition, we continue to reinforce the safety message on an ongoing basis through meetings, tool-box talks and one to one sessions between employees and their managers.

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 to encourage a proactive (rather than responsive) approach to safety management.

This year we have seen a significant reduction in the employee injury rate. The number of staff injuries per 1,000 employees has fallen by 17% compared to last year and the number of lost time injuries by 10%.

The number of physical assaults on staff leading to lost time injuries has also fallen by 22%. We have zero tolerance to assaults in the workplace and will continue to do everything we can to further reduce those that occur.

THE SAFETY OF OUR BUS PASSENGERS

The number of vehicle collisions and associated passenger accidents has risen slightly during the last 12 months. Although this is thought to be primarily due to increased vigilance and reporting by staff we are working hard to reverse this trend.

A major review of driver training standards has been undertaken and a new driver training programme piloted with greater emphasis on defensive driving. This has proved highly successful and is being rolled out across the division.

In addition, each operating company is developing a collision reduction plan and receives a monthly report highlighting the routes and drivers with the highest collision rate which enables them to target their efforts for improvement.

SECURITY

During the last 12 months the division was part of an independent security review. The findings will lead to the implementation of further measures to improve security. In particular, we are looking to the use of new technology. We are also trialling measures to reduce the risk of assault and crime on buses. Examples include funding for a community police officer in Bristol and free travel for police officers both in uniform and in civilian clothes in some areas. Our confidential hotline allows staff to report concerns in relation to safety and security issues 24 hours a day.



Customer and Community

Developing our services to better meet our customers' and the community's needs is essential to the success of our business. Our customers include the individuals who use our services, customer interest groups and local authorities.

LISTENING TO OUR CUSTOMERS

Effective engagement with our customers is key to our business. We use a range of engagement methods including face-to-face meetings, focus groups and stakeholder forums. We gauge the travelling customer's satisfaction through on-line surveys and have a customer complaints system. Punctuality and reliability remain important issues for our customers. We continue to seek to address them across our operating companies by working in close association with our local authority partners.

IMPROVING PUNCTUALITY AND RELIABILITY

Following significant investment in new technology we can now accurately monitor the punctuality of our services. Start Time Adherence systems are now installed in two-thirds of our companies and allow us to record accurate journey start time. This is supported by the presence of information systems in all operating companies that allow us to monitor punctuality of service against timetable. Each operating company is establishing a Punctuality Improvement Plan in partnership with the local authority using the growing bank of high quality data generated by our tracking systems.

We continue to achieve reliability improvements helped by improvements in our driver retention rate. To further improve reliability we have been piloting the latest computer-controlled maintenance procedure at six of our major depots. The technology monitors when buses are due for servicing and ensures all necessary service parts are ordered and in stock.

ATTRACTING NEW CUSTOMERS

Attracting new customers is key to business growth. We work with major employers, customers and the general

public to identify solutions to their travel needs. We have had particular success working with major employers to develop more sustainable travel plans.

We have also developed a series of initiatives to encourage greater use of buses by the general public.

- Telemarketing campaigns that offer non-bus users a free trial or reduced price service - we have seen uptakes of between 50% and 60% on these offers.
- Partnerships with major retailers to promote bus travel to retail centres, where people are offered an incentive to use the bus.
- Active promotion of our bus and coach airport services which are experiencing 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 this year.

WORKING WITH THE LOCAL COMMUNITY

We offer a vital service to local communities and seek to ensure that our services are as accessible as possible. This includes promoting the development of our services to provide access to those who depend on them, and ensuring access for those with special needs.

We have also established an ongoing programme of community challenges as part of our supervisory training NVQ in partnership with Business in the Community. This year we completed 27 projects through this scheme with 336 delegates completing over 3,000 hours of volunteering. In addition, our employees are involved in a wide range of community and volunteering initiatives that include sponsored events and the use of our buses free of charge for charitable causes.

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. First has been working with the City Primary Care Trust to fulfil their Green Travel Plan aimed at increasing staff use of alternative transport. Incentives have been developed to encourage greater use of bus travel including discounted monthly passes for staff and improved access to tickets. The scheme has proved popular with staff and reflected in good ticket sales. Discussion is ongoing as to how to further promote the plan.

CASE STUDY



CASE STUDY

THE BENEFITS OF OUR COMMUNITY CHALLENGE

Feedback from the community challenge to renovate a garden for children with sensory impairment at the Woodside Family Centre, Bristol indicated: 100% of participants rated the day as useful, enjoyed it and would recommend the experience to others. 75% said it positively changed their perception of their employer.

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 our people to be proud to work for us. 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.

LEARNING AND 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 both our directors and operating company managing directors. Both programmes have now been developed and commenced in March 2006.

We continue to run our well established management training programmes to build the people and commercial management skills of our managers and supervisors. These lead to an NVQ in team leading and BTEC certificate in advanced leadership. To date 440 employees have graduated from these programmes with a further 500 planned for 2006/07.

We also encourage the uptake of vocational qualifications and all our drivers are offered the opportunity to work towards an S/NVQ in Road Passenger Transport: 700 qualified during the last 12 months. This year we have established a new driver induction programme that incorporates achieving an S/NVQ. We operate apprentice schemes with a number of selected colleges to attract new engineers.

We continue to promote access to workplace learning to allow our employees to develop their academic qualifications or other skills of interest. This year we have increased the proportion of our employees with access to lifelong learning by a further 16%.

RECRUITMENT AND RETENTION

Improving the retention rate of driving staff is a major challenge for the bus industry. This year our efforts of the past few years are starting to be reflected in our driver turnover rate which has reduced by 4% during the last 12 months to 25%. We have also totally eliminated our driver shortage.

Our overseas recruitment programme has been a key contributor to this reduction with over 800 drivers and engineers joining us from overseas this year. All recruits undergo a prescriptive training programme and when employed enjoy the same benefits and terms and conditions as their UK counterparts. We carefully monitor the recruitment process, seeking feedback on how it can be improved.

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. This is viewed as exemplary in demonstrating in practical terms how job mobility can support the broader aims of the European Employment Strategy".*

Our partnership with Jobcentre Plus also continues to provide a reliable source of labour with 930 candidates employed in 2005. Through this partnership we can credibly access a far wider range of potential job seekers than might otherwise have been the case.

REWARDS AND RECOGNITION

Our Total Rewards programme in the UK seeks to recognise and reward the role our employees play in the success of the company. It provides a comprehensive range of benefits and opportunities.

All of our UK Bus employees have access to a credit union to help members manage their finances effectively by encouraging regular saving, offering loans at reasonable rates and access to confidential debt counselling. They can also take part in share schemes designed to offer savings and investment opportunities and to encourage our employees to share in the success of First.

DIVERSITY IN THE WORKFORCE

Our overseas recruitment programme and relationship with Jobcentre Plus have further contributed to 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. We also recognise religious diversity and have established prayer rooms at some workplaces by local agreement. Our customers represent a cross-section of the community and our policy is to ensure our workforce reflects this.



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 employee teams. 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.

CASE STUDY

Environment

We are committed to achieving continuous improvement in our environmental performance through reducing the emissions from our bus fleet and the environmental impacts from our depots.

Environmental issues are managed through our health, safety and environmental management structure with minimum environmental performance standards set out in the Group Environmental Management Manual. Performance against these standards is assessed through an annual audit programme.

EMISSIONS TO AIR

Although using buses is part of the solution to reducing emissions from surface transport, our bus fleet impacts on air quality through emission 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 controlled. Our ongoing programme of investment and fleet renewal continued with capital expenditure of £95.4 million in the period on new vehicles. Euro III engines now constitute 25% of our total vehicle fleet, an increase of 6% on last year. This in turn is leading to reductions in atmospheric emissions apart from carbon dioxide.

Our carbon dioxide emissions continue to increase due to developments in emission control technology increasing the average fuel consumption of our buses. Improving fuel efficiency has therefore become an important business issue for us and we are actively seeking ways to do this both internally and in partnership with our suppliers. Combined initiatives looking at driver behaviour, move to 6-gear transmission and EURO IV engines should contribute to optimising fuel efficiency in the future.

ALTERNATIVE FUELS

The use of alternative fuels can also contribute to reductions in emissions.

We continue to participate in a number of trials involving the use of alternative fuels, most notably our fuel cell bus trial in London. Here the reliability of the technology has exceeded expectations and the trial is to be extended for a further year. In 2006 we will be working with our fuel supplier, BP, to introduce biofuels to parts of the business that will also support reductions in carbon dioxide emissions.

UTILITIES USAGE

Our main use of water is for washing our buses. This year we have achieved a reduction in water usage of 15% per bus.

Our overall energy usage this year 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. We continue to work to reduce energy usage. We have developed a pocket guide on energy management for staff and the Carbon Trust recently completed energy audits at a number of our depots.

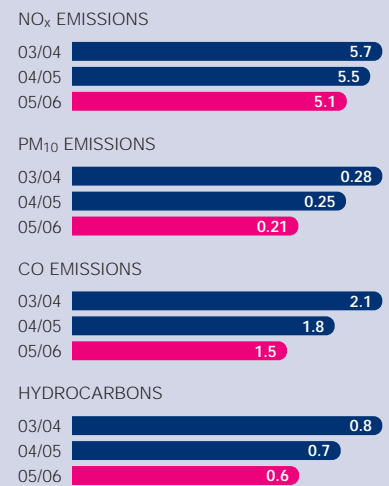
WASTE MANAGEMENT

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 regimes at a number of depots following the issue of a Standard Operating Procedure. Our recycling rate for hazardous waste is high but has fallen slightly to 92% while our recycling rate for non-hazardous waste remains 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, we have initiated recycling schemes across a number of companies.

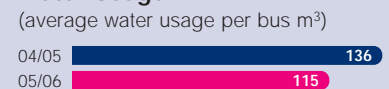
The impacts of these schemes are not yet reflected in our data as the benefits take time to realise. We believe that over the coming year we will begin to see the benefits of these initiatives.

Estimated Emission Levels From Our UK Bus Fleet (grams per passenger journey)*

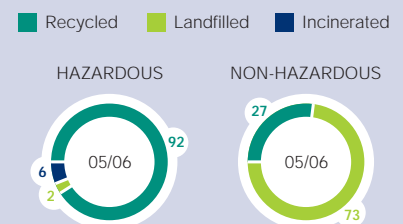


* Details on the calculation method is provided in our full report.

Water Usage



Waste Recycled (percentage)





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

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. This year we have achieved some significant reductions (30%) in the number of passenger incidents and our rate of Signals Passed At Danger (SPADs) are amongst the lowest in the industry.

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 to ensure that all train operating companies are prepared to effectively respond to these changes.

CUSTOMER AND COMMUNITY

Our customer satisfaction levels continue to increase, supported by a downturn in the number of complaints. All our operating companies performed well in the most recent National Passenger Survey. The "overall opinion of journey" scores improved for all companies and were equivalent to, or higher than, their sector average. All companies apart from First Great Western Link performed above the national average.

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.

TEAM

Each train operating company has its own people management structure. However, as the business continues to grow we recognise the need to build greater consistency in our people management processes across the division. A Human Resource Forum has been established to support this. It is attended by representatives from each train operating company and chaired by a newly appointed Management Development Director.

A key focus over the coming year will be the development of a UK Rail division learning and development programme to build the capability of our managers and ensure consistency in approach and delivery of best practice.

We continue to use employee surveys to gauge satisfaction levels and inform development of our strategies. The results of our most recent survey at First ScotRail indicated that over 80% of people enjoy their job and believe the company is committed to providing a high quality customer service.

ENVIRONMENT

This year First Great Western Link achieved ISO14001 accreditation joining First Great Western. All our train operating companies are now working towards full accreditation within the next two years.

This year we have begun to integrate major stations into our environmental management framework. This has included general environmental awareness training for station managers. A number of our stations have started to implement recycling initiatives working with contractors and tenants. The energy use at depots has reduced by 18%.

We continue to work closely with Network Rail to manage contamination risks at our depots and have procedures in place to cover fuelling and spill response. These issues are also covered in our training programmes. We maintain an overview of incidents through our spill reporting process and discuss lessons learnt at our environmental forums. We have not been prosecuted for any environmental incidents for the fourth successive year.



HULL TRAINS WINS HSBC RAIL AWARDS 2005 FOR BEST NEW TRAIN

This year Hull Trains won an HSBC Rail Award for Best New Train. Less than six months from introducing their new vehicle fleet they had proven to be the most reliable diesel trains in the UK achieving over 69,000 miles between technical problems that cause delays.

🕒 Safety and Security

The Railway Safety Committee leads safety developments in the UK Rail division chaired by the UK Rail division Managing Director and attended by each train operating company managing director.

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)



Passenger Injury Rate

(per million passenger journeys)



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

This Committee is supported by the Safety Improvement Group whose role is to improve safety performance and promote consistency of approach across the rail operating companies.

REDUCING STAFF INJURIES

This year we have seen a slight 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 continues to increase and still represents a significant proportion of employee injuries that occur.

Reducing assaults 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.

To reduce staff injuries we have been developing an Injury Prevention Programme for the UK Rail division that aims to improve safety awareness of staff through a variety of means. Development of the programme has involved extensive information sharing to ensure adoption of best practice and wider implementation of effective initiatives. This programme will be embedded over the coming year with the aim of significantly reducing our employee injury rate.

THE SAFETY OF OUR RAIL PASSENGERS

This year we have seen a substantial reduction (30%) in the number of passenger injuries, many of which result from slips, trips and falls. A number of our train operating companies have undertaken campaigns to raise awareness of these risks contributing to the reduction in injury rate.

REDUCING THE RISK OF MAJOR INCIDENTS

Reducing the risk of major incidents is a central part of our rail safety programme. This year we have been implementing a new strategy to address Signals Passed At Danger (SPADs).

As part of this, external consultants are undertaking a review of best practice in driver management across the division. They will provide recommendations on how we can reduce the risk of driver error to a minimum. We have also introduced additional state-of-the-art driver training simulators which will enhance our driver training programme, in particular in relation to how to respond to difficult and dangerous situations.

We have achieved significant reductions in the number of SPADs. The average number of SPADs in the UK Rail division is now 42% lower than the industry average and work on reducing the risk of SPADs continues.

SECURITY

We have been working to improve security across our rail franchises. This has included improving security awareness amongst employees and customers and installation of additional security measures at stations. First Great Western and First TransPennine Express have been working towards achieving Secure Station status at a number of their stations. 17 received the award by March 2006.



MANAGING STAFF ASSAULTS AT FIRST SCOTRAIL

CASE STUDY

First ScotRail works closely with the British Transport Police (BTP) on their assault prevention programme. Last year a comprehensive review of assaults data established spitting as a common problem. Following this DNA swab kits were issued to all customer-facing staff. This has helped improve the apprehension rate of criminals. The assault management programme also includes close communication with the victims of assault and regular meetings with the BTP to review assault data.

Customer and Community

Our customer service strategy is based on understanding in detail how our customers currently perceive their total journey experience and the aspects of the service they believe require most improvement.

This involves listening closely to our customers. We engage with them 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 how customers rank different service attributes and what drives customer satisfaction. This research has allowed us to pinpoint key customer priorities that will influence the development of our customer service strategies.

TRAIN COMPANY PERFORMANCE

The punctuality and reliability of our services is a key issue for our customers. We work closely with Network Rail (to whom the majority of delays are attributed) to achieve performance improvements. This year we have had some notable successes. These include significant reductions in delays for services between Aberdeen, Edinburgh and Glasgow and on the Caledonian Sleeper between Scotland and London. All our train operating companies are able to demonstrate long-term reductions in the proportion of delays caused by them. First ScotRail have seen a 26% reduction in delays caused by them against a franchise commitment of 2% per year.

INVESTING IN OUR SERVICES

We continue to invest in upgrading and replacing our vehicle fleet to support improvements in performance and the overall customer experience.

- First ScotRail’s Caledonian Sleeper has benefited from a £1 million upgrade following customer consultation.
- £3 million has been invested in refurbishment of trains between Edinburgh and North Berwick.
- Hull Trains has introduced a new vehicle fleet at an investment of £24 million.

- First TransPennine Express has started a complete fleet replacement programme at a cost of £250 million.

We also have a significant ongoing investment programme in new and improved station facilities totalling in the region of £32 million. These programmes include redecorating, improving customer information systems, improved access for the disabled and improved security measures such as additional CCTV and Help Points.

IMPROVING THE CUSTOMER EXPERIENCE

Based on the findings of recent customer research, we are working to improve communication with our customers through the use of technology. This includes the use of live departure boards available via the internet and schemes that enable customers to receive automatic free text and/or email alerts to advise of any disruptions.

Other improvements have included help and advice to passengers caught in network disruptions, installation of WiFi technology at selected stations, improvements to on-board catering and improved access for cyclists and those with special needs.

TRANSPORT INTEGRATION

Transport integration plays an important role in all areas of our business. Across our rail franchises we offer a comprehensive range of integrated tickets and we were actively involved in establishing the industry standard Journey Solutions PlusBus integrated ticketing. The sale of integrated travel products continues to grow. We have been partners in a number of station improvements where the aim has been to optimise transport integration and are actively promoting rail/bus/coach links to airports across the country and to ferry services in Scotland.

WORKING WITH THE LOCAL COMMUNITY

We are committed to actively supporting the communities in which we operate. We support organisations that our employees value and are relevant to our business through sponsorship, provision of tickets and through practical support to employees. 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 our “Adopt a Station” initiative was a key part of this programme.



CASE STUDY

ADOPT A STATION

Under this scheme, a number of our 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. Projects range from planting flower beds to providing art work and presents an opportunity for rail staff and the local community to work closely together. With support from this scheme Taunton station received first prize for the “Best Public Access Site” category in the Britain in Bloom programme.

Team

We believe that investing in our people is at the very heart of our business success. We are working to build an organisational structure that supports us in meeting our strategic performance objectives.

LEARNING AND DEVELOPMENT

A key focus for the coming year is to establish a standard development programme to build the capability of our managers. The leadership development programmes that have taken place this year will provide input to this process. These include pilot workshops in leadership development which have taken place with the executive teams in First Great Western and First ScotRail. These will be supplemented by further interactive workshops with the managers and supervisors over the coming year.

We continue to run a BTEC in advanced leadership and an NVQ in team leading for supervisors and team leaders. A range of workshops have also been delivered to build capability in areas such as recruitment, behavioural skills and performance management.

VOCATIONAL TRAINING

All our employees have ongoing learning and development programmes. 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 this year 326 employees have successfully completed an S/NVQ. Employees also receive training in safety, conflict avoidance and understanding customers with special needs. New recruits attend training induction workshops covering a range of topics related to providing customer service.

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 UK Rail division. First ScotRail in partnership with the rail trade unions and Stow College have established a number of rail learning centres in the last 12 months and are looking to establish more.

First Great Western has established a learning centre at Plymouth depot and First TransPennine Express recently established a learning agreement with the unions and is exploring the opportunity for establishing learning centres to support this.

RECRUITMENT AND RETENTION

Ensuring we are recruiting and retaining the right people is a key to 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 a number of apprenticeship and graduate schemes. During the coming year the Human Resource Forum will be working to develop consistent attraction, recruitment and development strategies to be applied across the division.

REWARDS AND RECOGNITION

Rail employees have access to the Total Rewards programme that provides a comprehensive range of benefits for our people. Our rail 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.

We also run a number of schemes where employees are recognised for taking 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.

All our rail franchises are part of the Care First scheme where independent specialists in workplace counselling provide an employee assistance programme under which unlimited confidential 24-hour access to counsellors is available.

DIVERSITY IN THE WORKFORCE

First is committed to being an equal opportunities employer and actively seeks to recruit people who reflect the community. 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. 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.



CASE STUDY

DEVELOPING OUR PEOPLE VALUES

This year First ScotRail undertook extensive consultation with employees to develop a clear set of organisational values. Around 500 people (10% of employees) were involved in workshops asking them to identify and prioritise the key values for the organisation. Five organisational values have now been determined supported by definition statements.

Environment

We are committed to achieving continuous improvement in our environmental performance through the application and development of our environmental management framework.

OUR ENVIRONMENTAL MANAGEMENT FRAMEWORK

Each train operating company has an environmental representative responsible for supporting the operating company in bringing about continuous improvement in environmental performance. They meet with the Group Head of Environment at regular rail environmental forums. Minimum standards for environmental performance are set out in the Group Environmental Management Manual supported by an annual audit programme.

EMISSIONS TO AIR

Trains are a key part of the solution to reducing air emissions from surface transport. However, the operation of a largely diesel-powered fleet has an impact on air quality from combustion gas emissions. Last year we introduced a process for calculating these emissions. This year the total emissions from our rail fleet have increased. This is due to the introduction of larger more powerful engines required to deliver service performance improvements. Emissions per passenger journey have increased less and as we attract more passengers to our services the footprint per passenger kilometre will decrease.

CARBON DIOXIDE

Carbon dioxide is also emitted from the vehicle fleet and levels are directly related to fuel usage. The new trains are also often less fuel-efficient for the reasons given above. This year we conducted a review of options to improve fuel efficiency and the findings will be used to develop action plans and targets for the coming year. One area of progress has been trials on engines to replace those in our First Great Western fleet where fuel efficiency improvements in the order of 15% have been demonstrated. As part of our commitment in the First Great Western franchise we will re-engine the entire fleet by December 2007.

UTILITIES USAGE

Our overall water usage within the UK Rail division has increased this year 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%. We can demonstrate some significant reductions at selected depots such as Reading.

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

Following a detailed assessment of water usage at Reading Depot we identified a significant leak 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 its 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.

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

* Combined gas and electricity usage at each depot.

WASTE MANAGEMENT

Waste arising data is currently available for stations and depots at First Great Western and First Great Western Link.

We currently recycle 93% of hazardous waste at our depots and 6% of our non-hazardous waste. At stations we recycle 8% of waste arising. We are committed to further improving our recycling rate for non-hazardous waste and have introduced a number of schemes involving segregation of newspapers, paper, cardboard and plastic.

Estimated Atmospheric Emissions from our Diesel Powered Train Fleet

(mg per passenger kilometre)

NO_x EMISSIONS



PM₁₀ EMISSIONS



CO EMISSIONS

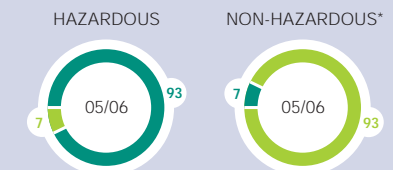


HYDROCARBONS



Waste Recycled (percentage)

Recycled Landfilled



* Average for stations and depots.



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

We continue to focus on improving the safety culture across the operating companies. In particular, we have been developing initiatives to improve employee engagement in safety processes. This has included:

- employee involvement in conducting safety inspections at First Vehicle Services;
- employee involvement in delivering shift safety messages by radio at First Transit; and
- employee involvement in identifying solutions to prevent sleeping children being left unattended on buses at First Student.

This has been supported by initiatives to improve communication on safety issues to ensure our safety messages reach those in the field across a geographically spread business. This has included the use of regular conference calls to relay messages from regional to location level and communication campaigns designed to share information and lessons learnt about injuries and incidents. These programmes have supported the ongoing reduction of our employee injury rate.

CUSTOMER AND COMMUNITY

We operate contracts on behalf of a range of customers. The success of our business depends on ensuring we maintain high levels of customer satisfaction. All our North American businesses conduct formal customer satisfaction surveys as well as gauging customer satisfaction through regular less formal contact.

In First Transit the results of the customer surveys are not amalgamated across the business but are used to address issues on a location-by-location basis. In First Vehicle Services over 90% of our customers are either “satisfied” or “very satisfied” with the service we deliver. In First Student 83.6% of our customers expressed overall satisfaction with our services.

The satisfaction of our customers is reflected in our rate of contract retention. During this year First Transit has renewed 88% of its contracts in addition to winning a range of new contracts. First Students contract retention rate stands at around 90%. First Vehicle Services has lost only one contract in the past three years.

TEAM

We have 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.

These principles underlie our people development programmes across the organisation that focus on learning and development, and recruiting and retaining the right people.

ENVIRONMENT

Environmental strategy and initiatives in North America are driven through the CSR Environmental Committee that sets annual strategy, objectives and targets and aims to build greater consistency in practices across the operations. Key initiatives for the North American operations this year have been rationalising the North American waste management contracts and developing methods for emissions reporting.

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 they are current across all our locations. Copies of all permits are held in a central environmental database that also holds copies of incident and audit reports.

We maintain central records of all incidents and spills. This year we have had a small number of minor spills, the largest of which was 200 gallons. Although some of these spills were notifiable under State regulations none of them has led to prosecution.

🎯 Safety and Security

The North American Executive Safety Council made up of safety officers from each operating company leads safety development in North America.

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.

Passenger Injury Rate (per million passenger Journeys)



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.

This is supported by a well developed safety structure with safety representatives at both regional and site level.

REDUCING STAFF INJURIES

The number of staff injuries has fallen considerably this year by 20%. The lost time injury rate has increased slightly.

We have introduced a number of initiatives this year to support further reduction in staff injuries.

These have included:

- job hazard assessment and hazardous chemical assessment programmes at First Vehicle Services;
- First Transit's "Safety Spoken Here" programme to improve communication between managers and employees and "Three Without Trouble" campaign which challenges locations to operate accident and injury free;
- First Student's Safety Challenge Campaign where locations and teams are recognised for zero safety incidents during a 60-day period.

IMPROVING PASSENGER SAFETY

This year the number of passenger injuries reduced by 17% while our vehicle collision rate reduced by nearly 6%. These reductions have been supported by 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 and all new drivers are trained in the system and formally reviewed twice a year. First Student has over 200 certified Smith System Instructors training new drivers. Bespoke training for existing drivers has also been developed.

Other initiatives to improve passenger safety have included training for drivers in executing smooth starts and stops, use of brooms in poor weather conditions and installation of mirror positioning stations.

Both First Transit and First Student provide specialist training for drivers and attendants. This training focuses on proper responses to possible security situations which might impact on their personal safety or that of the students travelling on the bus.

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. We are examining opportunities to further improve security for our passengers and employees and looking at ways of improving the protection of our assets.



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.

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). The award demonstrates that the site's safety standards exceed OSHA standards and it is now the company's intention to achieve STAR status for all FVS Service Centres.

CASE STUDY

Customer and Community

Our customer service strategy is based on achieving maximum contract retention through delivering customer satisfaction and exceeding our contract performance standards.

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 maintain regular dialogue with all our customers. Within all our North American businesses, senior managers visit our customers weekly, monthly or bimonthly depending on individual contracts.

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 First Transit we measure overall business performance in three ways:

- trips on time;
- operator availability;
- preventative maintenance.

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.

Service Quality Performance 2005/06 Against Target

	05/06	Target
Trips on time	95.0%	95.0%
Operator availability	8.7%	<8.0%
Preventative maintenance completed on time	95.2%	100%

We continue to seek to improve our customer service levels and have increased our emphasis on customer relations as part of our ongoing training programmes for employees. We also employ over 25 full time support staff to provide assistance to our customers in a range of service areas.

First Vehicle Services

In First Vehicle Services we use a number of performance measures to assess the overall quality of service:

- availability of fleet;
- preventative maintenance completed on time;
- preventative maintenance completed as scheduled;
- percentage of vehicles requiring rework;
- percentage of vehicles requiring a road call.

Service Quality Performance 2005/06 Against Target

	05/06	Target
Availability of fleet	97.5%	97.4%
Preventative maintenance completed on time	96.1%	95.0%
Preventative maintenance completed as scheduled	94.0%	91.0%
Vehicles requiring rework	0.02%	<2.6%
Vehicles requiring a road call	<1%	<5%

We continue to exceed our targets in all these performance areas, in particular in relation to vehicle rework which now lies at almost zero percent which reflects our ongoing commitment to training our technicians through the ASE (Automotive Service Excellence) programme and achieving Blue Seal Certification.

We have developed a Customer Service Plan that sets out basic strategies to achieve our commitment to offer world-class customer service that will support ongoing improvements in our customer management strategy.

First Student

In First Student we primarily monitor our performance through our customer satisfaction surveys, our safety performance and ongoing contact with customers. Safety is our customers' highest priority linked to driver responsibility and behaviour. Our initiatives to improve the safety of our services and to check the suitability of our drivers are part of ensuring this.

To further improve customer service we are conducting senior management visits to all our customers whose contracts are due to expire. Through this process we will discuss and identify actions we must take to improve performance, thereby optimising 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.

OUR PEOPLE MANAGEMENT FRAMEWORK

Each North American operating company has a vice president responsible for human resource management.

A management framework that varies slightly from company to company supports them. 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 our people management framework. We promote an "open door" policy and hold regular staff and town hall meetings where staff meet their managers to discuss work related topics. We use newsletters and web mail services to distribute news across the company. In this way we share commendations and recognise employees who have behaved in particularly praiseworthy ways.

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 next 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

LEARNING AND DEVELOPMENT

Learning and development programmes are delivered through a number of formats that reflect the business needs of each operating company.

First Transit - Leadership development is delivered through the First Transit University and includes a series of workshops and larger forums covering a range of management topics. We recently launched a professional development programme for approximately 30 new managers to orientate them in the First Transit's business method.

First Vehicle Services - Training is delivered through First Vehicle Services University that provides an ongoing programme of skills and knowledge development for employees. A range of training media is used to suit 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 was recently extended to contract managers. Senior management training is carried out through the annual management conference and includes two days of formal training on key management issues.

Both First Vehicles Services and First Transit participate in the ASE programme for training and testing technicians. In February 2006 77% of the eligible workforce in First Vehicle Services held certificates. In First Transit the figure was 42%.

At First Vehicle Services we continue to work towards achievement of Blue Seal Certification at all locations. To date 60% of our contracts have certification, an increase of 10% on last year.

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 the employee retention rate remains a central business issue. At both companies the focus has been on highlighting and working with problem locations by improving communication, conducting audits of management practices and conducting wage surveys. Through these processes, location-specific solutions to reduce employee turnover are being identified.

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. Ongoing records of the ethnic diversity of each North American business are maintained.

Environment

We are committed to achieving continuous improvement in our environmental performance through the application and development of our environmental management framework.

OUR ENVIRONMENTAL MANAGEMENT FRAMEWORK

Standards for environmental management are described in the FirstGroup America Environmental Management Manual. These procedures are supplemented at local company level where different regulatory standards may apply. Each operating company has an ongoing audit programme to assess individual locations' performance against the requirements of this management manual.

There is an ongoing programme of environmental training. In addition to location specific training all locations have access to on-line training that covers:

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

During this year all those with environmental accountability at site level have completed these on-line training modules. The target next year is for all employees to undertake training in one environmental topic per quarter.

EMISSIONS TO AIR

We operate a large bus fleet in First Transit and First Student that impacts on air quality through the emission of combustion gases. This year for the first time we have developed a method to calculate the emissions from these buses using the Environmental Protection Agency (EPA) approved emissions model for mobile sources MOBILE 6. We now have baseline data reflecting the current vehicle profile of the First Student and First Transit vehicle fleet.

We have also calculated our total carbon dioxide emissions based on fuel use. The total carbon dioxide emissions from the operations of our North American vehicles fleet was 440,248 metric tonnes during the past 12 months.

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

OFFSETTING OUR EMISSIONS

This year the North American business joined American Forest - an organisation that works to protect, restore and enhance the natural capital of trees and forests. Over the coming year we will be looking to work with our clients to support reforestation programmes in 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.

CASE STUDY

UTILITIES USAGE

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

WASTE MANAGEMENT

This year we have significantly improved our processes for the management of waste through the establishment of a limited number of approved contractors. Through this process we are able to report our waste arising and the proportion that is recycled for the first time.

The vast majority of waste arising from our maintenance workshops is now recycled. A key contributor to this has been our relationship with Atlantic Industrial Services Inc. that ensures we are now able to achieve 100% recycling of our oil filters.

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



CASE STUDY

USED OIL FILTER RECYCLING

As part of our new waste vendor programme we are recycling the highest achievable level of our maintenance waste streams. Last year one of our vendors, Atlantic Industrial Services Inc. 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 separates used oil filters into three recyclable products, scrap steel, paper, and used oil. As a result no part of the used oil filter is 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 rail 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 reduce by 50% the volume of oil contaminated absorbent disposed to landfill 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:

Group Corporate Communications Department

FirstGroup plc, Third Floor, E Block, Macmillan House, Paddington Station,
London W2 1FG, United Kingdom

Telephone: 020 7291 0505 Facsimile: 020 7636 1338

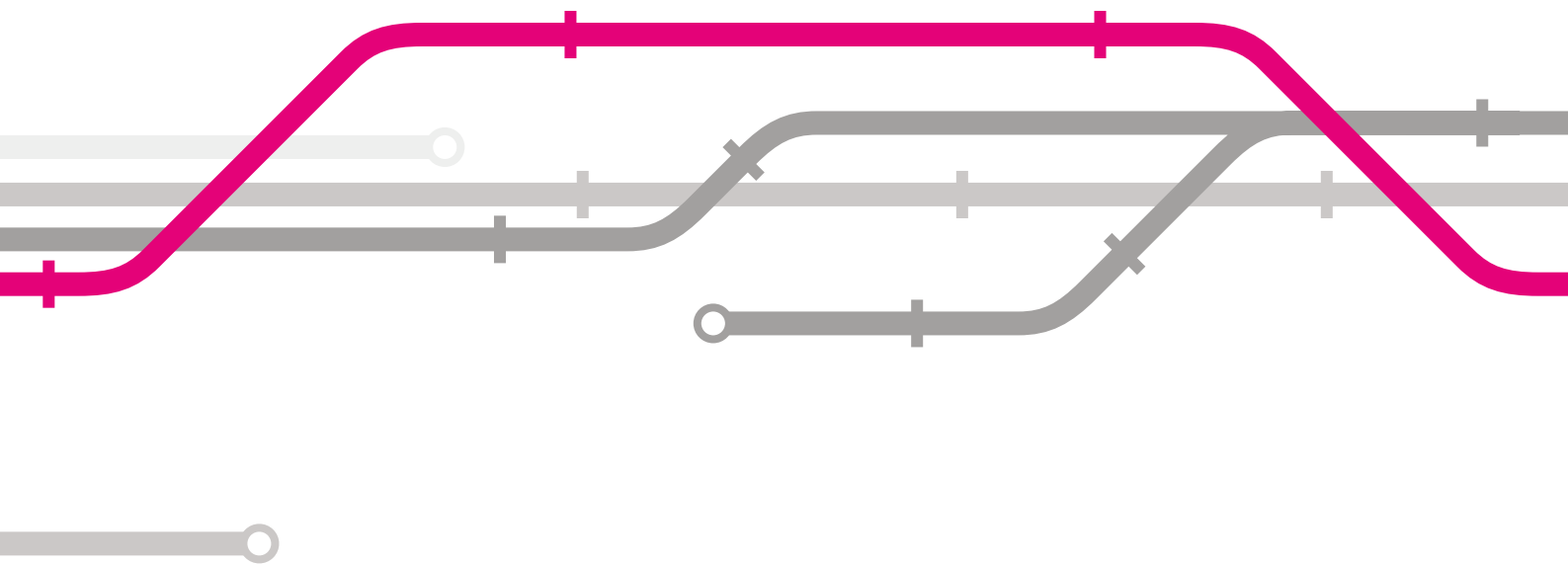
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Principal and Registered Office
FirstGroup plc
395 King Street
Aberdeen AB24 5RP
Telephone: 01224 650100
Facsimile: 01224 650140

Registered in Scotland
number SC157176

London Office
FirstGroup plc
Third Floor
E Block
Macmillan House
Paddington Station
London W2 1FG
Telephone: 020 7291 0505
Facsimile: 020 7636 1338