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Registered office:

FirstGroup plc
395 King Street, Aberdeen AB24 5RP
Registered in Scotland – No. 157176
8 June 2007



To the holders of ordinary shares

Dear Sir or Madam

Annual General Meeting

You will find a notice of the Annual General Meeting of the Company, which is to be held at the Aberdeen Exhibition and Conference Centre, Bridge of Don, Aberdeen AB23 8BL on Thursday 12 July 2007 at 11.00 am, set out on pages 5 to 11 of this letter.

The business of the Meeting will include the consideration of resolutions relating to the following matters:

- receiving the Annual Report and Financial Statements.
- approving the Directors' Remuneration Report, the full text of which is contained in the Annual Report and Financial Statements.
- declaring a final dividend of 10.5 pence per share.
- re-electing Moir Lockhead, John Siewwright, Dean Finch and David Leeder as Directors, who retire by rotation under the Company's Articles of Association and offer themselves for re-election.
- electing Audrey Baxter as a Director, who having been appointed as a Director since the last Annual General Meeting, retires in accordance with the Company's Articles of Association and offers herself for election.
- re-appointing Deloitte & Touche LLP as auditors of the Company and authorising the Directors to determine their remuneration.

A short biography of each of the Directors who is being put forward for re-election or election follows:

Moir Lockhead OBE *Deputy Chairman and Chief Executive; Chairman of the Safety Committee*

Chief Executive and Deputy Chairman since the Group's formation in 1995. Originally a mechanical engineer he joined Grampian Transport in 1985 as General Manager and went on to lead the successful employee buy-out of GRT Bus Group PLC. In 1996 he was awarded the OBE for services to the bus industry and he is a past President of the Confederation of Passenger Transport. Age 62.

John Siewwright MA CA *Independent Non-Executive Director*

Appointed to the Board in May 2002, he is a Senior Vice President and Chief Operating Officer of Global Markets and Investment Banking for Merrill Lynch & Co. A Chartered Accountant, he has held various senior management positions in banking in London, New York, Dublin and Japan. He is a member of the North American Board of the Michael Smurfit Business School, Dublin. Age 52.

Dean Finch BSc MBA ACA *Finance Director*

Appointed to the Board as Commercial Director in February 2004 and subsequently appointed Finance Director later that year. He is also responsible for all the Group's rail activities including refranchising. He joined the Company in 1999 as Commercial Director of the Rail Division and was subsequently appointed Managing Director of the Rail Division in August 2001. He qualified as a Chartered Accountant with KPMG where he worked for 12 years specialising in Corporate Transaction Support Services including working for the Office of Passenger Rail Franchising on the privatisation of train operating companies. Age 40.

David Leeder BSc FILT *Director of International Development and Marketing*

Appointed to the Board in May 2004. He joined the Group in 2001 as Managing Director UK Bus and assumed his present role as Director of International Development and Marketing in 2005. He has held various senior posts in the transport industry including Chief Executive of Travel West Midlands and subsequently Group Marketing Director of National Express Group plc. He is Vice Chair of the Commission for Integrated Transport. A Fellow of the Chartered Institute of Logistics and Transport, he is also a past President of the Confederation of Passenger Transport. Age 41.

Audrey Baxter DBA LLD DipAcc BA *Independent Non-Executive Director*

Appointed to the Board as Non-Executive Director in August 2006. She is Chief Executive of Baxters Food Group. She has held a number of non-executive positions and was formerly a member of the Scottish Business Forum and the Scottish Economic Council. Age 46.

The Board unanimously recommends the re-election or election respectively of each of the Directors.

In the case of John Siewwright and Audrey Baxter, the Board considers that they are independent in character and judgement and each provides a strong, non-executive presence on the Board. They continue to make a valuable and effective contribution to the Board and its various committees and to demonstrate their full commitment to the role.

The following resolutions will also be proposed at the Annual General Meeting:

Resolution 11 – Authority to allot shares

Section 80 of the Companies Act 1985 (the 'Act') requires that the authority of the Directors to allot shares shall be subject to the approval of the shareholders in general meeting. This resolution, if passed, would give the Directors general authority to allot shares in the capital of the Company up to an aggregate nominal amount of £7,304,646, representing 146,092,920 ordinary shares of 5 pence each, being approximately one-third of the issued ordinary share capital of the Company (excluding treasury shares) as at 8 June 2007. The Company currently holds 3,303,677 treasury shares as at 8 June 2007 being approximately 0.76% of the issued ordinary share capital of the Company (excluding treasury shares) as at that date. Please see further information relating to treasury shares set out in the explanatory notes for resolution 13 below. The Board has no present intention to use this authority, which will expire 15 months after the date of the passing of this resolution or, if earlier, at the conclusion of the next Annual General Meeting of the Company in 2008.

Resolution 12 – Disapplication of pre-emption rights

This resolution, if passed, will disapply statutory pre-emption rights on the issue of shares or other securities convertible into shares ('equity securities') for cash that would otherwise exist for shareholders under Section 89(1) of the Act. If passed, it will also disapply such pre-emption rights arising on any sale by the Company of shares out of treasury for cash.

Resolution 12(a) is limited to the offer of securities, or the sale of treasury shares, for cash pro rata to existing shareholders (subject to fractional entitlements and certain legal requirements) and resolution 12(b) is a general disapplication providing the Directors with authority to issue, or, in the case of treasury shares, sell shares or other equity securities for cash, without first offering them to shareholders on a pro rata basis, if they consider it appropriate.

The maximum nominal amount of shares which can be issued, or, in the case of treasury shares, sold for cash otherwise than to existing shareholders in proportion to their existing shareholdings pursuant to resolution 12(b) is limited to an aggregate nominal amount of £1,095,697 representing approximately 5% of the issued share capital of the Company as at 31 March 2007 and also as at 8 June 2007. The authority given by this resolution will expire 15 months after the date of the passing of the resolution or, if earlier, at the conclusion of the next Annual General Meeting of the Company in 2008.

Resolutions 11 and 12 are in addition to the resolutions to authorise the Directors to allot relevant securities and to disapply pre-emption rights which were passed at the Extraordinary General Meeting ('EGM') of the Company held on 20 April 2007, and relate to the proposed acquisition of the entire issued share capital of Laidlaw International, Inc. (the 'Laidlaw Acquisition'). Those resolutions passed at the EGM are limited to the allotment of relevant securities in connection with the financing or refinancing of the Laidlaw Acquisition. The Directors have no intention to utilise the authorities proposed by resolutions 11 and 12 at present.

Resolution 13 – Authority to make market purchases of own shares

This resolution, if passed, will give the Directors authority to purchase up to 43,750,000 shares, representing approximately 10% of the Company's issued share capital as at 8 June 2007, through market purchases on the London Stock Exchange. If the resolution is passed, the maximum price to be paid on any exercise of the authority will not exceed the higher of (i) 105% of the average of the middle market quotations for the Company's shares for the five business days immediately preceding the date of purchase and (ii) the higher of the price of the last independent trade and the highest current independent bid on the London Stock Exchange at the time the purchase is carried out. The minimum price would never be less than 5 pence, being the nominal value of an ordinary share.

A similar authority was sought at the Company's Annual General Meeting last year and pursuant to that authority, there have been no ordinary shares that have been repurchased during the year. The current authority for the Company to purchase its own shares will expire at this year's Annual General Meeting. The Directors believe it remains in the best interests of the Company and its shareholders for the Directors to have authority to make such purchases subject to certain limitations.

The Company will only make purchases of its own shares if the Board is satisfied that such purchases would result in an increase in future earnings per share and are in the best interests of shareholders and the Company, after taking account of other investment opportunities, the level of borrowings and the Group's overall financial position.

Shares held in treasury can either be sold for cash, transferred for the purposes of an employee share scheme or cancelled. The Company, therefore, has the choice of either cancelling or holding in treasury any of its shares which it purchases. This gives the Company the ability to resell treasury shares quickly and cost-effectively and provides the Company with greater flexibility in managing its capital base. If the Company purchases any of its shares pursuant to resolution 13, the Board will decide at the time of purchase whether to cancel them immediately or hold them in treasury.

The authority sought at the Annual General Meeting will expire 15 months after the date of the passing of this resolution or, if earlier, at the conclusion of the next Annual General Meeting of the Company in 2008. The Directors intend to seek to renew the authority at the 2008 Annual General Meeting and for such renewal to form part of the regular business of subsequent Annual General Meetings. The Company, in relation to the authority sought, will not purchase any of its own shares at any time when, under the Model Code, a Director of the Company would be prohibited from dealing in any of the Company's shares.

The total number of options to subscribe for ordinary shares which were outstanding as at 8 June 2007 was 10,664,193, representing approximately 2.45% of the issued share capital of the Company (excluding treasury shares) at that date (approximately 3.04% of the issued share capital of the Company (excluding treasury shares) if the authority to purchase shares under this resolution and the existing resolution referred to above were to be used in full). As at 8 June 2007, there were no warrants outstanding.

Resolution 14 – Political Parties, Elections and Referendums Act 2000 (the '2000 Act') as incorporated into Part XA Companies Act 1985 (the 'Act')

It is the Company's policy not to make any donations to political parties and the Board does not intend to change that policy.

Part XA of the Act contains restrictions on companies making donations or incurring expenditure in relation to EU Political Organisations. EU Political Organisations are defined very widely and, as a result, it is possible that EU Political Organisations may include, for example, bodies concerned with policy review and law reform, with the representation of the business community or sections of it, or with the representation of other communities or special interest groups, which it is in the shareholders' interest for the Company to support. The legislation includes very broad definitions of political donations and expenditure, which may have the effect of covering a number of normal business activities, which might not be thought to be political donations in the usual sense. These could include the sponsorship of industrial forums and involvement in seminars and functions to which politicians are invited. The legislation could affect certain donations to, or sponsorship of, campaigning charities. Accordingly as it is common practice, your Board is seeking shareholder approval, on a precautionary basis, and in order to avoid any possibility of inadvertently contravening the legislation, to incur a level of expenditure to cover all these activities. The Board considers that it would be prudent to obtain authority in accordance with Section 347C of the Act to incur political expenditure, as defined in Section 347A of the Act, not exceeding a sum of £250,000 annually for a period of four years beginning with the date of the passing of this resolution. The authority will expire in 2011 as permitted by the 2000 Act. The policy of not making donations to any EU political organisation will continue.

Resolution 15 – Shareholder Resolution

This resolution has been requisitioned by a small group of shareholders and their statement in support of their proposed resolution is set out in Appendix 1 to this letter on pages 8 and 9.

This requisition has been initiated by two US trade unions, the International Brotherhood of Teamsters ('Teamsters') and the Service Employees International Union ('SEIU'), who are campaigning for the recruitment of more members, particularly in our US operations in First Student Inc. It is believed that the requisition has also been made by certain supporters of the Teamsters and SEIU, including, your Directors believe, certain members of the Transport and General Workers' Union in the UK.

Your Board is recommending that **you vote against this resolution** for the following key reasons:

- The resolution is not necessary – the Company has industry leading standards of workplace ethics designed in compliance with International Labour Organisation standards and in consultation with our institutional shareholders.
- Our policy is to respect the rights of our employees to freedom of association without influence or coercion from management or unions and to choose whether or not to join a union, and which union they wish to join, through a secret ballot. We have consulted with institutional shareholders and corporate social responsibility experts on this approach and the steps we have taken to implement and monitor compliance with it, further details of which are set out in Appendix 2 to this letter on pages 10 and 11.
- The continued implementation, monitoring and enforcement of our policy is a matter which shareholders should properly delegate to the Directors and managers. We will continue to engage with the two unions concerned to resolve any issues associated with the policy. We have already undertaken to investigate fully any reported breaches of our policy and deal with them in the appropriate manner.

WE THEREFORE URGE SHAREHOLDERS TO VOTE AGAINST RESOLUTION 15.

Action to be taken


Shareholders will find enclosed a form of proxy for use at the Annual General Meeting. Whether or not you intend to be present at the Meeting, you are requested to complete and return the form of proxy to Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6EE so as to arrive as soon as possible and in any event not later than 48 hours before the time fixed for the Meeting. You may, if you prefer, submit your proxy appointment electronically by way of the internet or, if you are a CREST member, through the CREST system – please see the notes on page 7 for details. Completion and return of a form of proxy will not prevent you from attending the Meeting and voting in person should you wish to do so.

If you intend to be present at the Meeting, you are requested to bring with you the attendance card attached to the form of proxy.

Recommendation

The Directors consider that Resolutions 1 to 14 set out in the notice of Annual General Meeting are in the best interests of the Company and its shareholders as a whole and unanimously recommend that shareholders vote in favour of each of them. The Directors consider that Resolution 15 is not necessary and not in the best interests of the shareholders as a whole and unanimously recommend that shareholders **VOTE AGAINST RESOLUTION 15.**

Yours faithfully



Martin Gilbert
Chairman

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the twelfth Annual General Meeting of FirstGroup plc will be held at the Aberdeen Exhibition and Conference Centre, Bridge of Don, Aberdeen AB23 8BL on Thursday 12 July 2007 at 11.00 am. Shareholders will be asked to consider and pass the resolutions below. Resolutions 1 to 11 (inclusive) and 14 will be proposed as ordinary resolutions and Resolutions 12, 13 and 15 will be proposed as special resolutions. Resolution 15 has been requisitioned by a small group of shareholders pursuant to Section 376 of the Companies Act 1985:

- 1 To receive and consider the reports of the Directors and auditors and the audited financial statements of the Company for the year ended 31 March 2007.
- 2 To approve the Directors' Remuneration Report for the year ended 31 March 2007.
- 3 To declare a final dividend of 10.5 pence per share in respect of the year ended 31 March 2007.
- 4 To re-elect Moir Lockhead, who retires by rotation pursuant to Article 87 of the Company's Articles of Association and who, being eligible, offers himself for re-election, as a Director.
- 5 To re-elect John Siewwright, who retires by rotation pursuant to Article 87 of the Company's Articles of Association and who, being eligible, offers himself for re-election, as a Director.
- 6 To re-elect Dean Finch, who retires by rotation pursuant to Article 87 of the Company's Articles of Association and who, being eligible, offers himself for re-election, as a Director.
- 7 To re-elect David Leeder, who retires by rotation pursuant to Article 87 of the Company's Articles of Association and who, being eligible, offers himself for re-election, as a Director.
- 8 To elect Audrey Baxter, who, having been appointed during the year, retires pursuant to Article 86 of the Company's Articles of Association and who, being eligible, offers herself for election, as a Director.
- 9 To re-appoint Deloitte & Touche LLP as independent auditors.
- 10 To authorise the Directors to determine the remuneration of the independent auditors.
- 11 That the Directors be and are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities, within the meaning of Section 80 of the Companies Act 1985 (the 'Act'), up to an aggregate nominal amount of £7,304,646 provided that this authority shall expire (unless previously revoked or varied by the Company in general meeting) 15 months after the date of the passing of this resolution or, if earlier, at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Board may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.
- 12 That, subject to the passing of resolution 11 above, the Directors be and are hereby empowered pursuant to Section 95 of the Companies Act 1985 (the 'Act'), to allot equity securities (within the meaning of Section 94 of the Act) for cash pursuant to the authority conferred by resolution 11 above and/or where such allotment constitutes an allotment of equity securities by virtue of Section 94(3A) of the Act as if Section 89 of the Act did not apply to any such allotment, provided that this power shall be limited:
 - (a) to the allotment of equity securities in connection with or pursuant to an offer or invitation, open for acceptance for a period fixed by the Directors, in favour of holders of ordinary shares (and/or holders of such other equity securities of the Company as the Directors may determine) on the register on a fixed record date (excluding any holder holding any shares as treasury shares) in proportion (as nearly as may be) to their existing holdings of such securities (ignoring for this purpose both any holder holding any shares as treasury shares and the treasury shares held by him) or in accordance with the rights attached thereto (but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements that would otherwise arise or any legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory); and
 - (b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £1,095,697, and shall expire (unless previously revoked or varied by the Company in general meeting) 15 months after the date of the passing of this resolution or, if earlier, at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, except that the Company may before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and notwithstanding such expiry the Directors may allot equity securities in pursuance of such offers or agreements.

13 That the Company be and hereby is generally and unconditionally authorised to make one or more market purchases (within the meaning of Section 163 of the Companies Act 1985) of ordinary shares of 5 pence each in the capital of the Company ('ordinary shares'), provided that:

- (a) the maximum number of ordinary shares hereby authorised to be purchased shall be 43,750,000;
- (b) the minimum price which may be paid for an ordinary share is 5 pence per share (exclusive of expenses);
- (c) the maximum price (exclusive of expenses) which may be paid for an ordinary share is an amount equal to the higher of (i) 105% of the average of the middle market quotations for an ordinary share derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is purchased and (ii) the higher of the price of the last independent trade and the highest current independent bid on the London Stock Exchange Daily Official List at the time the purchase is carried out; and
- (d) the authority hereby conferred shall expire (unless previously revoked or varied by the Company in general meeting) 15 months after the date of the passing of this resolution, or, if earlier, at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, save that the Company may, before such expiry, make a contract to purchase ordinary shares under the authority hereby conferred which will or may be completed or executed wholly or partly after such expiry and may make a purchase of ordinary shares pursuant to any such contract as if the authority conferred by this resolution had not expired.

14 That in accordance with Section 347C of the Companies Act 1985 (the 'Act') the Company be and is hereby authorised:

- (a) to make Donations to EU Political Organisations, as defined in Section 347A of the Act, not exceeding £250,000 per annum in total; and
- (b) to incur EU Political Expenditure, as defined in Section 347A of the Act, not exceeding £250,000 per annum in total, during the period beginning with the date of passing this resolution and ending on the conclusion of the Annual General Meeting of the Company to be held in 2011.

Resolution 15 – Shareholder Resolution

The Company has received notice pursuant to Section 376 of the Companies Act 1985 of the intention to move the following resolution at the Annual General Meeting. The resolution has been requisitioned by a small group of shareholders and their statement in support of their proposed resolution is set out in Appendix 1 of the document of which this notice forms part.

Your Directors consider that Resolution 15 is not necessary and not in the best interests of the Company and its members as a whole. They unanimously recommend that you VOTE AGAINST RESOLUTION 15 for the reasons explained in Appendix 2 on pages 10 and 11.

15.1 That FirstGroup PLC's Board of Directors adopt, and ensure the implementation, enforcement, and monitoring of, a *meaningful and enforceable* company-wide workplace human rights policy that is designed to:

- (a) Minimize the risks to shareholder value that could arise from unsatisfactory labour relations outcomes such as work stoppages, reputational harm, poor employee morale, high employee turnover, or high levels of internal or external conflict;
- (b) Ensure compliance with the International Labour Organization's Declaration on Fundamental Principles and Rights at Work ('ILO Declaration'), including the right of employees to establish and join independent trade unions and to bargain collectively (ILO Convention 87 and 98), the protections against discrimination or interference by employers in the exercise of those rights (ILO Convention 98), and the protections against discrimination in employment (ILO Conventions 100 and 111);
- (c) Encourage the resolution of and prevention of labour problems that could be disruptive to financial performance.

2 That the Board of Directors of FirstGroup PLC prepare an annual report available to shareholders, as well as to other stakeholders within the Company, concerning implementation of this policy, prepared at reasonable cost and omitting proprietary information. Such a report shall be based on means of assessment determined by the Board, subject to independent verification, and shall include a discussion of any deficiencies in the company's labour practices that could result in non-compliance with the ILO Declaration, perceptions by important stakeholders of non-compliance with the ILO Declaration, or avoidable labour conflict.

3 That FirstGroup PLC meet the expenses incurred in giving effect to the requisition of this resolution and the circulation of the requisitioners' statement in support.

Registered Office:

395 King Street, Aberdeen AB24 5RP

Dated 8 June 2007
By order of the Board
Sidney Barrie
Company Secretary

Notes

- 1 Shareholders in the Company are entitled to attend and vote at the Meeting.
- 2 Shareholders or the duly authorised representative of a Corporation entitled to attend and vote at the Meeting, including any adjournment thereof, may appoint one or more proxies to attend and (on a poll) vote in his or her place. A proxy need not be a member of the Company and such appointment will not preclude a shareholder from attending and voting at the Meeting in person.
- 3 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders registered in the register of members as at 6.00 pm on Tuesday 10 July 2007 shall be entitled to attend or vote at the Meeting in respect of the number of shares registered in their name at that time. In each case, changes to entries on the register of members after 6.00 pm on Tuesday 10 July 2007 shall be disregarded in determining the right of any person to attend or vote at the Meeting.
- 4 A form of proxy for use by shareholders is enclosed with this Notice of Meeting. To be effective, forms of proxy (other than an electronic appointment of a proxy) must be completed and returned, in accordance with their instructions, so as to be received by Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6EE as soon as possible, but in any event so as to arrive no later than 48 hours before the time appointed for the Meeting. Forms of proxy must be signed by the member or, in the case of joint holders, any one of them. The Notice of Meeting shall prevail over any description of the business of the Meeting set out in the form of proxy.
- 5 Shareholders who would prefer to register the appointment of their proxy electronically by way of the internet can do so through Lloyds TSB Registrars' website at www.sharevote.co.uk using their personal Authentication Reference Number (this is the series of 24 numbers being each of the Reference Number, Card ID and Account Number printed to the right of your name on the proxy form). Alternatively, shareholders can appoint a proxy electronically by logging on to their portfolio at www.shareview.co.uk and clicking on 'Company Meetings'.
- 6 CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed (a) voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID 7RA01) by 11.00 am on Tuesday 10 July 2007. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed (a) voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

- 7 The following documents, which are available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excluded) at the registered office of the Company at 395 King Street, Aberdeen AB24 5RP, will also be available for inspection at the place of the Annual General Meeting for at least 15 minutes prior to the Meeting until the conclusion of the Meeting: (i) copies of the Executive Directors' service agreements; (ii) copies of the Non-Executive Directors' letters of appointment; and (iii) the register of Directors' interests in the shares of the Company.
- 8 The Company's issued share capital consists of 438,278,798 ordinary shares. The Company holds 3,303,677 of its ordinary shares in treasury. Therefore, the total number of voting rights in the Company is 434,975,121.

Appendix 1

Resolution 15 has been requisitioned by a small group of shareholders. Your Directors unanimously recommend that you **VOTE AGAINST RESOLUTION 15** for the reasons given below in Appendix 2 on pages 10 and 11.

The following is a statement in support of the resolution submitted by the requisitionists.

FirstGroup PLC is the largest surface transportation company in the United Kingdom and has extensive and growing operations in North America. With the planned North American expansion, FirstGroup's operations would constitute as much as 40 percent of the privatized school market. The number of workers covered by collective bargaining agreements could triple from about 8,500 to nearly 30,000, thereby making FirstGroup's labour relations even more important for shareholders.

Despite a commitment from the FirstGroup Board of Directors at the 13 July 2006 Annual General Meeting (AGM) in Aberdeen that the company would "stamp out anti-union behaviour" in its U.S. operation, and assurances from U.S. management to two unions that it intended to comply with FirstGroup's "union neutral" position, we believe evidence suggests that First Student's anti-union behaviour continues virtually unabated. We are concerned that the continued controversies surrounding FirstGroup's labour policies and practices may cause additional reputational harm to the company, undermine the attractiveness of our brands, and risk disruption to business operations.

Persistent allegations of poor labour and employment practices, including unfair treatment of employees seeking to exercise their rights to free association, increase our concerns as shareholders about potential risks arising from FirstGroup's policies and practices in this area.

- Since the 2006 AGM, FirstGroup's respect for human and labour rights has been further called into question in the United States, leading to federal investigations at its unit First Student. The National Labour Relations Board (NLRB), the U.S. federal regulatory agency charged with overseeing U.S. labour relations, is investigating five charges of workers' employment termination allegedly for union activities during organizing campaigns over the past year. The Company faces additional charges of wrongful suspension, harassment, surveillance, disparate treatment, interrogation, threats and retaliation against union supporters during recent union organizing campaigns.
- Lance Compa, a Senior Lecturer at Cornell University and a specialist in international labour and human rights standards, recently revisited FirstGroup's U.S. labour record. In his third report on the Company's labour policies he stated, "First Student management still has not lived up to the company's neutrality commitment... First Student is still forcefully campaigning against workers' choosing union representation, denigrating the union and threatening dire consequences if employees succeed in their organising efforts."
- John Logan, a Professor from London School of Economics' Management Program, has echoed Compa's view stating that, "it is my opinion that, since the adoption of its neutrality pledge in July 2006, First Student management has habitually violated the terms of that pledge and continued to behave in a way that seriously undermines the fundamental right of its employees to choose a union and engage in collective bargaining."
- First Student has faced reputational risk related to its employment standards and policies. For example, in Baltimore, Maryland, First Student voluntarily terminated their agreement with Baltimore City Public School System (BCPSS) after workers, who had recently won an election for union representation, began negotiations for benefits under their first contract. News of First Student's behaviour had prompted the Mayor of Baltimore to assist workers in securing a neutral environment to form a union. On 12 March 2007, workers and city officials staged protests that led the media to continue highlighting First Student's anti-union actions.¹ We estimate that First Student's termination of its contract with BCPSS is conservatively valued at \$28.5 million. First Student has also lost a number of other Maryland contracts, i.e. Baltimore County, because of poor service.
- According to the Transport and General Workers Union, at FirstGroup and other UK bus operators, bus workers are pressing ahead on the 'Mind the Gap' campaign, demanding that pay increases reflect the true cost of living inflated by high increases in housing, energy, travel and food costs. [T&G website, www.tgwu.org.uk 'T&G plan major offensive...' November 20 2006]

¹ Neufeld, Sara, *City School Bus Drivers Rally to Save Jobs...* The Baltimore Sun, 13 March 2007.

- Growing discontent amongst the Company's workforce at First Leeds, led 1,000 workers to walk out on strike on December 11, 2006 in protest at proposed changes to their pensions. [Yorkshire Evening Post, 'Travellers struggle in as bus strike hits Leeds' December 11 2006]

A company-wide workplace human rights policy, clearly defined and consistently enforced, would help ensure that FirstGroup is not associated with human rights violations at the workplace. We believe that adherence to a policy that would improve workplace relations, discourage workplace discrimination, reduce employee turnover, and better protect the Company's human resources in regions where such practices are not as clearly defined or enforced, is now more important than ever.

FirstGroup's current *Code of Business Ethics*, its annual *CSR Report*, and its *Equal Opportunities Policy* all lack reference to the international standards of the ILO. Adopted in 1998, the principles of the ILO Declaration are widely supported. The ILO is a specialized agency of the United Nations composed of business, government and employee representatives of 174 countries, including the United Kingdom, the United States, and Canada, where our Company does business.

We believe the development of a clearly enforceable workplace human rights policy by the Board, based on the principles of the ILO Declaration, would greatly enhance the Company's existing codes and policies.

Institutional investors, which include owners of FirstGroup, are increasingly concerned with the impact of company workplace practices on shareholder value, as evidenced by social responsibility policies that incorporate reference to the ILO Declaration and other standards of conduct in labour relations.

In our view, the Board should adopt a comprehensive and enforceable policy based on the ILO Declaration as well as a report to shareholders to help bolster FirstGroup's brand name integrity, reduce its human-rights risks, and, in turn, increase long-term shareholder value.

Appendix 2

DIRECTORS' RESPONSE – YOUR DIRECTORS UNANIMOUSLY RECOMMEND THAT YOU VOTE AGAINST RESOLUTION 15 FOR THE REASONS SET OUT BELOW.

Background

The resolution has been requisitioned by a small group of shareholders holding approximately 0.07% of the Company's share capital. Amongst the requisitionists are two US unions, the International Brotherhood of Teamsters ("Teamsters") and the Service Employees International Union ("SEIU") both of whom are actively pursuing a campaign to recruit our US employees.

This resolution is not necessary

The Group has an all-embracing Corporate Social Responsibility Policy designed in accordance with International Labour Organisation standards, which was introduced after consultation with corporate governance representatives within our major institutional shareholders. It is meaningful and enforceable and we are rightly proud of the commitment it represents. We would urge you to read it on our website at http://www.firstgroup.com/corpfirst/responsibility_social/responsibility.php

Our policy on freedom of association and the secret ballot

We support our employees' right to choose whether or not to join a union and to choose which union to join through a secret ballot. We therefore give our employees factual balanced information and do not produce or support anti-union material or messages. The monitoring of compliance with our policy and dealing with any alleged breaches are matters which shareholders should properly delegate to the Directors and managers of the Company.

Monitoring of compliance with our policy

To ensure compliance with our policy, we have briefed and trained all of our US managers on it and have established four separate monitoring systems:

- 1 All sites balloting on union membership are monitored by one of two independent consultants (an ex-Labour MP and a former US judge specialising in labour relations). These individuals, who are independent of the Directors and managers, talk to employees to establish whether any anti-union messages or materials have been disseminated by our local US managers, observe the ballot and report directly to our Board. One of them also attends Board meetings in person on a quarterly basis. To date, these monitors have reported NO instances of non-compliance with our policy.
- 2 The Group runs a confidential hotline monitored by the Director of Internal Audit with reports reviewed by the Audit Committee. To date, the hotline has received NO reports of non-compliance with our policy.
- 3 The Group has appointed a dedicated individual manager within the US to whom breaches can be reported for investigation. To date, NONE of the allegations made in the supporting statement have been made through this route. In addition, a member of the Board has been designated as a point of contact for unions where a conflict of interest may arise.
- 4 The Group has retained csr network as its independent CSR assurance providers for its forthcoming CSR report, which is due to be published shortly. Following a recent visit to the US and attendance at various First Student locations, their assurance statement in the CSR report will contain NO reference to any non-compliance with our policy.

While our monitoring procedures have provided both internal and independent assurance to the Board that the Company's policy has been implemented, is well understood and is being complied with, we will ensure that any alleged breaches reported are fully and properly investigated and any breach which is found is dealt with in the appropriate manner.

We have met with senior representatives of all the unions who represent our US employees (including the Teamsters and SEIU) and we will continue to engage with them in order to resolve any issues or concerns relating to our policy.

The supporting statement references complaints against First Student made to the US National Labor Relations Board (NLRB). The NLRB is the proper and usual forum for resolution of labour-related disputes in the US and most US companies and unions alike (including the Teamsters and SEIU) are the subject of complaints in the ordinary course of business, which the NLRB will investigate. A very large proportion of the complaints against First Student have been made by the same two unions who are proposing this resolution, the Teamsters and SEIU. Historically, the vast majority of all complaints have either been dismissed, withdrawn or resolved without any adverse finding being made. Management continue to review complaints filed with the NLRB as part of the monitoring of compliance with the policy.

Our existing policy is in line with best practice and is industry leading in workplace ethics standards. The Board believes that adequate checks and controls are in place to ensure compliance with our policy and is committed to ensuring that the Group remains aligned to best practice in this regard. We are committed to open and transparent communications with stakeholders on this and any other issue relating to our policy. The Board believes that ongoing monitoring of these issues is not a matter for shareholders and should be delegated to the Directors and managers to resolve.

FOR THESE REASONS, YOUR DIRECTORS BELIEVE THAT RESOLUTION 15 IS NOT IN THE BEST INTERESTS OF THE COMPANY AND ITS SHAREHOLDERS AS A WHOLE AND UNANIMOUSLY RECOMMEND YOU TO VOTE AGAINST IT.

