Statement by the Chair of the Remuneration Committee

I am pleased to present the Directors' Remuneration Report for the financial year ended 31 March 2017.

Overview

The Company's current Directors' Remuneration Policy (the 'Policy') was approved by shareholders at the Annual General Meeting (AGM) in 2015 (92.82% voted in favour of the Policy) and will come up for approval again next year; a copy of the Policy is available on the Company's website at www.firstgroupplc.com/investors

The Committee believes that the Policy continues to provide a good framework for incentivising Executive Directors and senior management to drive the performance of the Group for the long-term benefit of shareholders and to enable the Company to recruit competitively.

The key components of the remuneration packages of our Executive Directors and senior management are:

- Fixed element – base salary and pension-related benefit.
- Short-term element – participation in the Executive Annual Bonus Plan (EABP), under which annual targets are set based on the Group's financial performance in the year and on the achievement of key business objectives. Half of each award is normally paid in cash and the other half in deferred shares that have to be held for three years.
- Long-term element – participation in the Group's Long-Term Incentive Plan (LTIP), which drives sustainable value creation and provides alignment with longer-term returns to shareholders. Under the LTIP there is a three-year performance period and the shares that then vest are subject to an additional holding period of two years.

Our approach to remuneration

The key principles underpinning the Committee's approach to executive remuneration are:

- **Alignment with strategy and business objectives** – the remuneration of our Executive Directors and senior managers is specifically structured to incentivise the delivery of these objectives.
- **Rewarding performance** – there is a clear line of sight between the performance of the Company and payments made to Executive Directors and senior managers, with the building of a sustainable performance culture being a key focus.
- **Performance-biased framework** – the components of the remuneration packages offer a performance-biased framework that enables Executive Directors and senior managers to share in the long-term success of the Group, without delivering over-generous benefits or encouraging short-term measures or excessive risk-taking.
- **Competitive remuneration** – the remuneration packages offered are framed by reference to relevant comparator companies and are designed to help retain and recruit high-calibre executives with the appropriate skills to implement the Group's strategy.
- **Simplicity and transparency** – the Committee seeks to deliver a remuneration structure and incentive plans that are both simple and transparent, with performance targets clearly aligned to the Company's short and long-term goals.

Alignment with strategy

As mentioned, the Executive Directors and senior management are specifically incentivised to achieve the Group's strategy and business objectives, which are as follows:

- focused and disciplined bidding in our contract businesses;
- driving growth through attractive commercial propositions in our passenger revenue businesses;
- continuous improvement in operating and financial performance;
- prudent investment in our fleets, systems and people; and
- maintaining responsible partnerships with our customers and communities.

The Board believes that the ongoing achievement of these strategic objectives will deliver strong long-term financial and shareholder value on a sustainable basis.

Business performance

As the Chairman and the Chief Executive have reported, the Company made good progress overall in the year under review, achieving its financial objectives and returning to generating a significant net cash inflow.

The financial targets for our Executive Directors under the EABP are based on revenue, adjusted operating profit and cash flow. In 2016/17 revenue was £5,653.3m, an increase of 8.3%; adjusted operating profit was £339.0m, representing an increase of 12.7%, and our net cash inflow increased substantially to £147.2m.

In line with our remuneration philosophy, demanding targets were set across all the Group's businesses that aimed to incentivise the generation of sustainable value through the application of the Group's strategy.

In 2016/17 progress was made by each of our divisions and the highlights were as follows:

- First Student delivered a significant improvement in adjusted operating margin to 9.6% through successful execution of its pricing, cost efficiency and recruitment plans, despite ongoing driver shortage challenges.
- First Transit delivered growth from both core and new geographic and service markets, while maintaining its long-standing track record of margin delivery.
- Greyhound improved margins by continuing to flex the cost base in response to the evolving passenger demand environment, while beginning to benefit from the transformation made to the business model in recent years.
- First Bus has responded to challenging market conditions across its industry with specific cost and customer service actions tailored to conditions in each of its local markets.
- First Rail has continued to focus on delivering for passengers and Government despite an industry-wide slowdown and the impact of infrastructure upgrades on the Great Western network, while continuing to make disciplined bids for further rail business.

Overall, the improved financial results demonstrate the progress made in enhancing the Group's ability to generate sustainable shareholder value, commensurate with its leading market positions and scale.

Our approach to remuneration

Alignment with strategy and business objectives

Reward performance

Performance-biased framework

Competitive remuneration

Simplicity and transparency

Overall remuneration

The structure of and quantum of individual remuneration packages varies by role and level of responsibility and geography

Remuneration structure

Fixed element

Short-term element

Long-term element

The Company's Directors' Remuneration Policy was approved by shareholders at the 2015 AGM. This policy came into effect following the AGM on 16 July 2015 and will apply until the 2018 AGM, when shareholders will be asked to approve a revised Directors' Remuneration Policy. The Policy can be found on our website at: www.firstgroupplc.com/investors

Annual bonus plan

Our normal approach is for 50% of any annual bonus to be paid in cash and 50% in deferred shares, which do not vest for three years. The amount of the total bonus is determined by the Committee based on measures and targets agreed at the beginning of the year.

The calculation of this year's annual bonus outturn for the Chief Executive, based on the performance of the business, would have been £723,415 (which is 71.3% of maximum potential).

As reported on page 6, on 9 November 2016 a tram derailed on the Tramlink network we operate on behalf of Transport for London in Croydon, resulting in the tragic loss of lives and injuries. In view of this and despite the strong financial results and year-on-year improvements across other measures, the Chief Executive will not be paid a bonus this year.

Both the Chief Executive and the Committee are very conscious that the current investigations into the tram incident are ongoing and, under these circumstances, the Committee, with the full support and agreement of the Chief Executive, has decided that it would not be appropriate to award an annual bonus for the last year. It has been determined however that Tim O'Toole will be granted an award of deferred shares under the EABP, subject to an additional condition relating to the outcome of those investigations.

As soon as practicable after 31 March 2020, the Committee will decide the extent (if at all) to which any of the shares will vest, taking into account the outcome of the relevant investigations into the tram incident. If, after a careful review of all the information available, it is determined that any shares should vest, a full explanation for that decision will be provided in the Directors' remuneration report.

The number of conditional deferred shares will be calculated based on the value equivalent to the bonus that the Chief Executive would have received for 2016/17. The element relating to the safety measure was set to zero when making this calculation.

The Committee consulted with the Company's major shareholders on this matter and believes that this approach recognises not only the severity of the incident but also that the various investigations may be ongoing for some considerable time.

In recognition of the leadership roles of other senior executives in the Group, including the Chief Financial Officer (CFO), the Committee determined that the safety element of their annual bonuses should also be set to zero for 2016/17; the relevant executives were in full support of this decision. The resulting annual bonus outturn for the CFO was £454,450 (which was 71.3% of maximum potential).

LTIP outturns

The vesting of the 2014 LTIP award was subject to two performance measures: half the award was conditional on the achievement of an EPS measure and the other half of the award was conditional on the achievement of a TSR measure. In addition, at the time the awards were made, my predecessor committed to you that if the underlying performance of the Group did not justify the level of vesting, the Committee would have discretion to adjust the vesting of the awards. Whilst the TSR target was not achieved, the EPS threshold level was exceeded. The Company's TSR ranking was below median (79th percentile) and our adjusted EPS was 12.4 pence. Accordingly, based on the EPS performance, 16.3% of the total award will vest. The Committee believes that over the performance period there has been a clear improvement in the underlying performance of the Group, which justified the vesting of the award.

Last year the 2013 LTIP awards lapsed in full as a result of the Company failing to achieve the required TSR and EPS targets.

2017/18 base pay, annual bonus and LTIP

In accordance with our Policy, the Chief Executive's base pay has not been increased. The base salary of the CFO was increased by 2.8% with effect from 1 April 2017, taking his salary to £436,900. This increase was in line with average pay increase across our UK operations.

Each year the Committee reviews the EABP and LTIP to ensure that metrics used to set performance targets remain aligned with the Company's current business strategy and motivates participants. The Committee believes that the performance metrics used for the EABP continue to be appropriate.

As the Group moves out of the transformation phase and following the recent award of the South Western rail franchise, which commences on 20 August 2017, the Committee is reviewing the performance metrics used for the LTIP to ensure they remain fit for purpose. This will be a thorough review with the intention to consult with major shareholders in the autumn. Therefore grants of LTIP awards will be deferred until immediately after the announcement of the Company's half-yearly results in November 2017. Awards will be subject to a holding period of two years following the three-year performance period as well as malus and clawback.

Senior managers' remuneration

The Committee annually reviews the remuneration arrangements for the senior managers below the executive level to ensure that they are appropriate.

During 2015 the Committee had introduced a Divisional Incentive Plan (DIP) for those employees immediately below the Executive Directors. The DIP was put in place to help focus each Division on achieving specific goals to underpin the transformation process the Group was undertaking. The performance period of the DIP was two years and, as previously stated, the intention was always at the end of that period to review whether such a scheme continued to be relevant and necessary. In view of the progress that has been made by the Group, it has been decided not to make further awards under the DIP. In future, the employees who participated in the DIP will revert to the remuneration structures they previously had.

Pay across the Group

The Group is committed to offering an attractive reward package for employees at all levels. In addition to competitive base salaries, we offer a wide range of benefits to employees and their families, tailored to local markets. Further information is included in this report on page 76.

Governance

The Committee actively monitors developments in corporate governance and the guidelines produced by shareholders and their representative bodies to ensure that we remain aligned with best practice. In this regard, we will be reporting next year on gender pay.

Shareholder engagement

The Committee is committed to an open and transparent dialogue with shareholders on the issue of executive remuneration and considers these engagements vital to ensure its remuneration strategy continues to be aligned with the long-term interests of FirstGroup's shareholders.

The annual report on remuneration received 96.53% of votes in favour at the 2016 AGM (2015: 95.29%) and we look forward to your support at the forthcoming AGM.

I am also grateful for the support of my colleagues on the Committee and those who support our work.

Imelda Walsh
Chair, Remuneration Committee

Priorities for 2017/18

For the coming year it is anticipated that the Committee will focus on the following areas:

- supporting the Group's business objectives and strategic goals;
- reviewing the Remuneration Policy prior to presenting it to shareholders for approval in 2018;
- reviewing the performance metrics used for the LTIP to ensure they remain appropriate;
- ensuring compliance with regulatory requirements, including review of gender pay gap reporting; and
- ensuring that remuneration arrangements are designed to promote the long-term success of the Company and reward performance, whilst maintaining a prudent approach to cost and the risk to the business.

At a glance

Policy element	Tim O'Toole (Chief Executive)	Matthew Gregory (Chief Financial Officer)
Base salary from 1 April 2017	£845,625	£436,900
% increase from prior year	0%	2.8%
Pension	Defined benefit arrangement, providing 1/50th accrual for each year of service up to a fixed earnings cap of £140,705. For earnings above this cap, an allowance of 20% of base salary is paid.	Allowance of 20% of base salary, of which at least £10,000 is paid into the Company's defined contribution pension plan.
Annual bonus (EABP)	Up to 120% of base salary	Up to 150% of base salary
Annual bonus metrics	Adjusted operating profit (45%) Revenue (20%) Cash flow (10%) Safety (7.5%) Customer satisfaction (7.5%) Individual performance (10%)	Adjusted operating profit (45%) Revenue (20%) Cash flow (10%) Safety (7.5%) Customer satisfaction (7.5%) Individual performance (10%)
Payment for threshold performance	0%	0%
Deferred bonus plan	50% of annual bonus is deferred for three years in FirstGroup shares	50% of annual bonus is deferred for three years in FirstGroup shares
2016/17 bonus outturn % maximum potential)	As mentioned in the Statement by the Chair on page 64, it has been decided that no bonus will be paid this year to the Chief Executive.	71.3%
LTIP	120% of base salary	175% of base salary
LTIP metrics[1]	50% ROCE and 50% relative TSR	50% ROCE and 50% relative TSR
Payment for threshold performance	25%	25%
Malus and clawback	Malus applies to the period prior to vesting for both the EABP and LTIP Clawback applies to the cash and deferred shares awarded under the annual bonus for a period of three years from the date the cash payment is made and the date the share award is granted, and to the LTIP for two years following the end of the performance period	
Dividends on vested awards	Participants are eligible for dividend equivalents on awards granted from 2015 onwards	
Shareholding requirement	200% of base salary	150% of base salary
Shareholding as at year end	950,405 (147% of base salary)	261,033 (79% of base salary)
Shareholding requirement to be achieved by:	16 July 2020	1 December 2020

Non-executive fees[2]	
Chairman	£280,000
Non-Executive Director (NED)	£55,000
Group Employee Director (GED)	£55,000
Additional fees	
Senior Independent Director	£10,000
Audit Committee Chair	£12,000
Remuneration Committee Chair	£12,000
Board Safety Committee Chair	£10,000

Date last reviewed	August 2016

1 Prior to 2015, LTIP awards were subject to 50% EPS growth and 50% relative TSR. A review of the LTIP metrics is planned to ensure they remain appropriate; once the review has been concluded, the 2017 LTIP awards will be made.

2 From 1 August 2016, the basic NED fee, which had last been reviewed in May 2014, was reviewed and increased. The GED fee was also increased and aligned to the basic NED fee. Further information is available on page 77.

Annual Report on Remuneration

This part of the report has been prepared in accordance with Part 3 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and Rule 9.8.6 of the Listing Rules. The Annual Report on Remuneration and the Annual Statement by the Chair will be put to an advisory shareholder vote at the AGM on 18 July 2017.

Executive Directors' total remuneration (audited)

				Annual bonus[2]						
	Year	Salary £000s	Benefits[1] £000s	Cash £000s	Value of deferred shares £000s	Long-Term Incentive Plan £000s	Pension[3] £000s	Total before buyout £000s	Buyout[4] £000s	Total £000s
Tim O'Toole	2017	846	44	0	0	173	197	1,260	–	1,260
	2016	846	38	81	81	0	197	1,243	–	1,243
Matthew Gregory	2017	425	14	227	227	0	85	978	–	978
	2016	142	5	20	20	0	28	215	692	907

1 Taxable benefits include: Tim O'Toole – £12,000 car allowance, £23,000 for US medical insurance and £9,000 reimbursement of advisory fees (principally relating to taxation in the UK and US). Matthew Gregory – £12,000 car allowance and £2,000 for UK private medical insurance.

2 In light of the tragic tram incident in Croydon last year, and the ongoing investigations, the Committee decided that it would not be appropriate to award a bonus either in cash or award the deferred share element to the Chief Executive in the usual way. The Chief Executive will not be awarded a bonus for the financial year 2016/17. Instead, the Committee determined that a conditional award of deferred shares would be made which was equivalent in value to the bonus of £723,415 that he would have received based on achievement against the performance measures and targets agreed at the start of the 2016/17 financial year. The Committee will determine at its discretion in 2020 the extent (if at all) to which the award will vest based on the outcomes and/or status of the various investigations.

3 The following pension-related benefits were received during the year: Tim O'Toole – £140,705 pension allowance and a defined benefit pension input amount, net of Director's contributions, of £56,299. Matthew Gregory received a pension allowance of £85,000, which included a defined contribution pension input amount of £10,000.

4 Full details of Matthew Gregory's recruitment remuneration are set out on page 85 of the Annual Report and Accounts 2016. The awards were not subject to performance conditions. Two of the awards vested in 2016 and the third award vested on 1 April 2017. The buyout amount was determined by the face value at the date of grant (£572,000) plus a partial bonus in lieu of the amount forgone under his previous employer's annual bonus plan amounting to £120,000.

Annual base salary (audited)

	2016	2017	% increase
Tim O'Toole[1]	846	846	0
Matthew Gregory[2]	425	437	2.8

1 In accordance with the Remuneration Policy approved by shareholders in July 2015, the base salary of Tim O'Toole will not be increased for the duration of the Policy.

2 The base salary of Matthew Gregory was increased in line with the rest of the UK workforce.

Benefits (audited)

Benefits for Executive Directors include the provision of a company car allowance, private medical cover, life assurance and advisory fees (principally relating to taxation in the UK and US for Tim O'Toole).

Pension (audited)

Tim O'Toole participates in a defined benefit pension scheme. His contributions to this scheme are paid via salary sacrifice with an equivalent contribution being paid directly to the pension scheme by the Company. This provides him with 1/50th accrual for each year of service, based on average pensionable salary for the three tax years prior to retirement. Upon reaching age 60, he has amended his normal retirement age from 60 to 65, for future service. He will receive all his benefits at the same time, but those payable from age 60 will be increased for deferred payment, and those payable from age 65 are payable unreduced at that time. Pensions normally increase in line with the consumer prices index and provide a dependant's pension on a member's death. There is a scheme earnings cap of £140,705 above which a pension allowance of 20% of base salary is paid.

Information in the table below includes the total accrued benefit at 31 March 2017 which represents the annual pension that is expected to be payable on eventual retirement given the length of service and salary of Tim O'Toole.

	Age at 31 March 2017	Pension age	Total accrued benefit at 31 March 2017 £000s	Increase in accrued annual pension in the year to 31 March 2017 £000s
Tim O'Toole	61	65	20	4

1 Pension age is the earliest date a non-reduced pension is payable.

2 Under the rules of the defined benefit scheme Tim O'Toole can continue to accrue benefits beyond the pension age.

3 No additional benefits are available on early retirement.

An Executive Director employed after 1 April 2011 receives a 'pension allowance' equal to 20% of their base salary. The allowances paid during the year to Tim O'Toole and Matthew Gregory were £140,705 and £85,000 respectively. Matthew Gregory's allowance included a defined contribution pension input amount of £10,000.

Performance-related pay

The Committee believes it is important that for Executive Directors a significant proportion of the remuneration package is performance-related and the performance conditions applying to incentive arrangements support the delivery of the Company's strategy. The Committee considers performance against a range of metrics, including safety, to ensure that the assessment is rounded, taking into account both qualitative and quantitative factors.

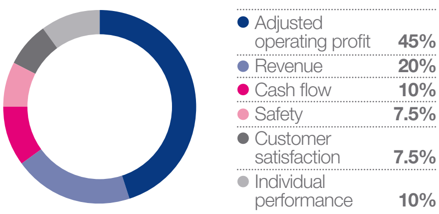
The table below outlines each of the performance measures used in the Company's performance-related incentives and how they support the Company's strategy and business objectives as outlined in the Strategic Review:

	KPIs	Business objectives	Our values
LTIP[1]			
ROCE	●	●	
TSR		●	
Bonus			
Adjusted operating profit	●	●	
Revenue	●	●	
Cash flow	●	●	
Safety	●	●	●
Customer satisfaction	●	●	●
Individual performance	●	●	●

[1] As mentioned on page 65, a review is being undertaken in 2017/18 of the performance metrics used in the LTIP.

Executive Annual Bonus Plan

2016/17 Executive Directors' annual bonus (audited)



For 2016/17, the annual bonus comprised six elements as set out below.

Adjusted operating profit – a KPI used in managing the business.

Revenue – encourages management to deliver sustainable growth through pricing and volume.

Cash flow – encourages management to devise operational plans focused on cash generation to create options for the Board in relation to, among other uses, investment in key assets of fleet, systems and people.

Safety – to ensure that risk controls, safety procedures and safety behaviours are constantly improved to reduce long term injuries and avoid safety incidents across all the Divisions. Performance was assessed against a balanced scorecard across a broad range of indicators, including long-term injuries, passenger injuries and collisions.

Customer satisfaction – a key focus at all levels of the Group. Performance was assessed against a balanced scorecard of measures: customer satisfaction surveys, punctuality, cancellations and complaints across First Bus, First Rail, First Student, First Transit and Greyhound.

Individual performance – recognises achievement in other significant areas. Performance was assessed against individual objectives for the year, which were aligned with the Group's strategy and transformation plans, and the Executive Directors' core areas of responsibility.

Stretching, relevant and measurable financial and non-financial annual bonus targets were set at the start of the performance period by the Committee. The Committee assessed each element of the annual bonus separately as part of an overall balanced scorecard of measures. Within each element the Committee considered a number of sub-elements, including the performance of each Division and the Company's performance on a rail and non-rail basis, and formed a rounded assessment of performance of the Executive Directors at the end of the year.

In keeping with the practice applied in previous years, the original target ranges for the revenue and operating profit elements have been adjusted to reflect the actual reported foreign exchange rates changes experienced in the year under review.

As explained in the Statement by the Chair and note 2 on page 67, the Committee has determined that no bonus will be paid to the Chief Executive in respect of 2016/17. In light of the tragic tram incident in Croydon last year, and the ongoing investigations, the Committee decided that it would not be appropriate to award a bonus either in cash or award the deferred share element to the Chief Executive in the usual way. Instead, the Committee determined that a conditional award of shares would be made equivalent in value to the bonus of £723,415 that he would have received based on achievement against the performance measures and targets agreed at the start of the 2016/17 financial year. In determining the amount used to calculate the share award, the portion of the bonus relating to the safety performance measure was set to zero. These shares will be awarded under the EABP but on condition that the Committee would determine whether the shares shall vest and, if so decided, the percentage that shall vest. The Committee will make these decisions as soon as practicable after 31 March 2020, taking into consideration the outcome of the relevant investigations into the incident. The Chief Executive fully supports this decision.

	Directors	
	Tim O'Toole	Matthew Gregory
Maximum bonus opportunity (% of salary)	120	150
Annual bonus (% of salary)	0	107
Actual bonus (£000s)	0	454[1]

[1] The actual bonus achieved was 71.3% of the total bonus opportunity for Matthew Gregory.

[2] The original Operating Profit target was set at £310.0m with the original Revenue target set at £5,180.0m. These targets were adjusted upwards to £330.9m and £5,641.7m for exchange rate gains.

For 2016/17, the financial and non-financial performance outcomes were as follows:

Metrics	Actual performance	Threshold (0%)	Target (50%)	Maximum (100%)	Maximum potential award	% of award which vested	Outcomes
Adjusted operating profit	£339.0m	£321m	£330.9m	£346.1m	45%	37.6	Group EBIT delivers at 84% of maximum
Revenue	£5,653m	£5,565.4m	£5,641.7m	£5,772.4m	20%	11.8	Group Revenue performance delivers at 59% of maximum against this component of EABP award
Cash flow	£147.2m	Less than £101.9m	£101.9m	Greater than £101.9m	10%	10.0	Group cash generation for the year exceeded the EABP target level (£101.9m) and delivered full payout
Safety	Between threshold and target	Balanced scorecard of indicators			7.5%	0[1]	Set as zero in view of the Croydon incident
Customer satisfaction	Between threshold and target	Balanced scorecard of measures			7.5%	3.9	Customer performance in Student, Transit and First Bus is assessed based on annual surveys, while Greyhound and Rail are assessed across a wider range of metrics, including punctuality, cancellation and road failure statistics

[1] Due to the Croydon incident, the Committee and the Executive Directors felt it would be inappropriate for any amount of bonus to vest in respect of the safety performance measure.

[2] 'Adjusted operating profit' figures throughout this document are before other intangible asset amortisation charges and certain other items as set out in note 4 to the financial statements.

Governance

The Committee carefully reviewed the individual performance of Tim O'Toole and Matthew Gregory against objectives set at the beginning of the year and concluded that:

Executive Director	Objective	Assessment	Performance outcome (range of 0% to 10%
Tim O'Toole	Make further progress towards the delivery of the medium-term financial and operational targets through continued improvement in our bus businesses	▪ Solid progress in delivering overall targets ▪ Student and Bus efficiencies delivered ▪ Various strategies for growth being delivered in all divisions	8%
	Further strengthen the approach to talent development and succession planning	▪ Further developed our strategic approach to talent and skills ▪ Strengthened succession plans for senior roles through external hires and development of internal talent with particular focus on increasing gender diversity	
	Build a culture of innovation to improve customer service and develop new growth opportunities	▪ Initiatives implemented across all Divisions to increase innovation and the use of new technologies to improve customer experience and support growth	
	Continue to establish close relationships with all related parties relevant to the business activities	▪ Continued to build and maintain effective working relationships with relevant stakeholders, including those in new markets	
Matthew Gregory	Deliver cost savings and capital expenditure reductions set out in the 2016/17 budget	▪ Implemented Group-wide cost-saving initiatives ▪ Capital expenditure target achieved	8%
	Present the updated Turnaround Plan to shareholders and analysts, providing a clear path to future targets through the final results presentation	▪ Established a strong presence in the investment community	
	Drive the improvement/rationalisation of financial information in the Group	▪ Led improvements to the quality of financial information available to the Board and the Divisions	
	Identify process improvement opportunities across the Group to generate cost-savings	▪ Created a control-focused culture across the Group's finance functions ▪ Cost-saving process improvement initiatives underway in three key areas	

2017/18 Executive Directors' annual bonus

For 2017/18 the executive annual bonus plan will incentivise improved performance against a range of financial and non-financial metrics. The structure of the bonus is unchanged from 2016/17 and will be weighted such that 75% will be based on financial metrics and 25% on non-financial metrics. The financial targets set by the Committee are based on the Group's approved plan. The Committee also reviewed targets at individual business unit level and took into consideration current consensus and expectations for FY2017/18. The Committee believes that the targets are stretching to ensure payouts only occur for strong performance over the financial year.

Specific targets will not be disclosed in advance as they would give a clear indication of the Group's business objectives, which are commercially sensitive. Where bonus targets are no longer commercially sensitive, typically following the end of the financial year, they will be disclosed in that year's Directors' Remuneration Report.

Awards are subject to an underlying performance override enabling them to be scaled back to reflect the Group's performance as well as malus and clawback.

Half of any bonus earned will be deferred into the Company's shares for three years, conditional upon continued employment.

The 2017/18 annual bonus maximum and threshold levels of bonus as a percentage of base salary are as follows:

Executive Director	Maximum	Threshold
Tim O'Toole	120%	0%
Matthew Gregory	150%	0%

Long-Term Incentive Plan

2014 Long-Term Incentive Awards (audited)

The vesting of the 2014 LTIP awards were subject to an Adjusted EPS and a TSR performance condition. Based on the Group's performance relative to these measures, 16.3% of the maximum award vested. The performance in respect of each of the metrics was as follows:

- TSR performance (worth up to 50% of maximum award) was measured against the FTSE250 constituent peer group (excluding financial services and extraction companies) at the financial year end; actual relative performance to 31 March 2017 was below median (79th centile) and no award for the TSR element is therefore payable.
- Adjusted EPS of 12.4p performance for 2016/17 resulted in a payout of 16.3% (out of 50%) under the LTIP scheme.

Metrics	Actual performance	Adjusted EPS entry level (5%)	Threshold (12.5%)	Maximum (50%)	% of award which vested
Adjusted EPS	12.4p	10p	12p	16p	16.3
TSR	Below median	n/a	Median	Upper quartile	0

The Committee has taken into account the underlying performance of the Group in approving the vesting of the 2014 LTIP. See pages 64 and 65.

2016 Long-Term Incentive Awards (audited)

Half of the award is subject to the achievement of stretching ROCE target figures determined at the end of the performance period and the remaining half of the award is subject to the Company's relative TSR. Awards are subject to a two-year holding period following the three-year performance period as well as malus and clawback. In addition, before an award vests the Committee must be satisfied that the underlying performance of the Group is satisfactory. The Committee believes that having a performance override is an important feature of the plan as it mitigates the risk of unwarranted vesting outcomes.

Details of the performance metrics and targets for the 2016 LTIP awards are set out below.

ROCE – a KPI used in managing the business as it captures both growth in earnings and the efficient allocation of limited capital. Calculated by dividing adjusted operating profit after tax by net assets (excluding cash and debit items). To reflect those items outside management's control, the definition of ROCE will be adjusted for:

- use of constant currency – the use of constant currency is established practice at FirstGroup and ensures that management are rewarded for improving the underlying performance of the business. LTIP targets are based on estimated foreign exchange rates in line with those rates included in the Group's Three-Year Plan, which is updated annually. The principal foreign exchange assumptions will be provided for each award;
- exclusion of pension deficit – the exclusion of the pension deficit is considered appropriate as the Committee believes management should not be rewarded for movements in this element; and
- exclusion of non-continuing rail franchises – First Rail franchises that are not contracted to be operated for the full duration of the LTIP performance period are excluded from the ROCE calculation. Winning a franchise or being awarded an extension to an existing franchise (a Direct Award) within the performance period will lead to that franchise being included in subsequent LTIP awards, but not being included in the calculation of existing awards. This ensures a like-for-like comparison across the performance period.

Due to the way in which rail franchises are included, an appropriate ROCE target range will be determined in respect of each LTIP award.

In order to provide transparency for each LTIP award, the Committee will disclose both the ROCE target range percentages and also the equivalent EPS CAGR percentages.

The Committee believes that this method of calculation results in a ROCE definition which will ensure management are rewarded for improving the effective allocation of capital across the business and then generating a return from this investment.

Details of the ROCE targets for the 2016 LTIP are set out below:

ROCE	Equivalent EPS CAGR	% of award which vests
<7.6%	<9.1%	0%
≥ 7.6%	≥9.1%	12.5%
≥ 8.7%	≥16.6%	50%

1 Between 12.5% and 50% of the award will vest on a straight-line basis if ROCE at the end of the performance period is between 7.6% and 8.7%.

2 ROCE performance is assessed using constant FX rates of US$1.50 : £1 and Can$2.025 : £1.

3 Equivalent EPS CAGR assumes interest charges, effective tax rate and capital employed assumptions are held in line with the 2016-2019 Three-Year Plan projections for the year ended 31 March 2019.

Relative TSR – reflects actual returns delivered to shareholders. The relative nature of the metric, with TSR measured against a comparator group of 32 companies, creates an objective measure of long-term value delivery to shareholders and rewards executives for delivering performance which is better than that of competitors.

Relative TSR will be determined over a three-year performance period commencing on 1 April 2016 using a three-month average TSR at the beginning and end of the performance period by reference to the Company's positioning amongst a comparator group of companies.

The Committee believes that relative TSR is a suitable value metric, which takes into account performance of the Company's closest peers.

Details of the TSR targets for the 2016 LTIP are set out below:

TSR Ranking	% of award which vests
Below median	0%
Median	12.5%
Upper quartile	50%

[1] Between median and the upper quartile of the peer group, vesting will be on a straight-line basis between 12.5% and 50%.

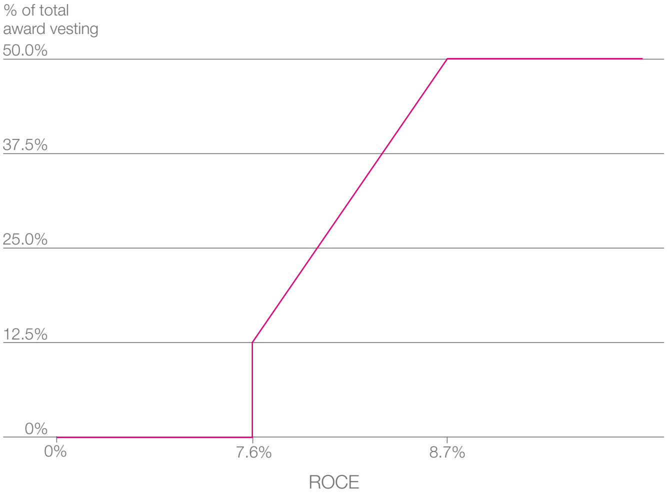
The comparator group for the benchmarking of remuneration and the relative TSR metric for awards granted in 2016 comprises:

Aggreko	Carnival	Grafton Group	Serco Group
Amec Foster Wheeler	DCC	Hays	SIG
Atkins (WS)	easyJet	Interserve	Smith (DS)
Babcock International Group	Electrocomponents	IWG	Stagecoach Group
Balfour Beatty	G4S	Kier Group	Thomas Cook Group
Bunzl	Galliford Try	Mitie Group	Travis Perkins
Capita	GKN	National Express	Wolseley
Carillion	Go-Ahead Group	Rentokil Initial	Wood Group (John)

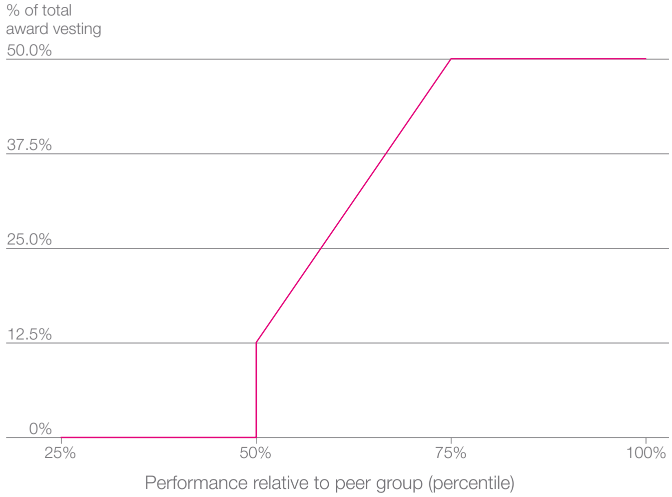
The comparator group comprises companies in the travel, business services and industrial sectors, which are of comparable scale, complexity and activity to FirstGroup. In the event of one or more of the constituents undergoing a takeover, merger, dissolution, variation in capital or any other event that will materially affect the calculation of a ranking, the Committee shall determine how this should be reflected in the ranking calculation.

In the event of a change of control, awards will normally vest on a pro rata basis by reference to the length of time since the award was granted, and only if the performance conditions can effectively be regarded as having been satisfied at that time, although the Committee may decide not to pro rata an award if it is inappropriate to do so in the particular circumstances.

ROCE performance vesting schedule



TSR performance vesting schedule



On this basis, awards were granted to Executive Directors on 28 June 2016 as follows:

Executive Director	Share price at date of grant	Face value (% of base salary)	Number of shares awarded	Face value of award	% of award which vests at threshold	Performance period
Tim O'Toole	97.320 pence	120	1,042,694	£1,014,750	25%	1.4.16 – 31.3.19
Matthew Gregory	97.320 pence	175	764,231	£743,750	25%	1.4.16 – 31.3.19

[1] Awards were granted to Tim O'Toole as conditional awards and those to Matthew Gregory as nil-cost options.

[2] Award granted using the average five-day closing mid-market share price at the time of grant.

2017 Long-Term Incentive Awards

As the Group moves out of the transformation phase and following the recent award of the South Western rail franchise, which commences on 20 August 2017, the Committee is reviewing the performance metrics used for the LTIP to ensure they remain appropriate. This will be a thorough review with the intention to consult with major shareholders in the autumn. Therefore grants of LTIP awards will be deferred until immediately after the announcement of the Company's half-yearly results in November 2017. Awards will be subject to a holding period of two years following the three-year performance period as well as malus and clawback. Award levels will remain unchanged and will be as follows:

	Face value (% of base salary)	Minimum threshold performance (% of maximum potential)	Maximum performance (% of maximum potential)	Performance period
Tim O'Toole	120	25%	100%	1.4.17 – 31.3.20
Matthew Gregory	175	25%	100%	1.4.17 – 31.3.20

Directors' interests in share awards (audited)

The outstanding LTIP, deferred share bonus and SAYE awards of Directors are set out in the table below. There have been no changes to the terms of any share awards granted to Directors. The number of awards detailed in the table below have been adjusted, where appropriate, to reflect the rights issue in 2013 following the application of the standard rights issue adjustment formula.

Director	Plan	Date of grant	Number of awards held as at 1.4.16	Awards granted	Face value of awards (£)[2]	Awards vested[3]	Awards lapsed during the year	Number[1] of awards held as at 31.3.17	Exercise price (p)	Date on which award vests/ becomes exercisable	Expiry date
Tim O'Toole	Deferred share bonus	10.6.14	223,554	–	312,081	–	–	223,554	nil	1.4.17	9.6.24
		15.6.15	230,748	–	284,051	–	–	230,748	nil	1.4.18	14.6.25
		28.6.16	–	83,126	76,975	–	–	83,126	nil	27.6.19	27.6.26
	LTIP	2.7.14	785,288	–	1,013,807	–	–	785,288	nil	1.4.17	31.3.18
		17.12.15	972,728	–	1,022,337	–	–	972,728	nil	1.4.18	1.4.19
		28.06.16	–	1,042,694	965,535	–	–	1,042,694	nil	1.4.19	1.4.20
Matthew Gregory	Deferred share bonus	17.12.15	134,295[4]	–	141,144	134,295	–	–	nil	1.4.16	16.12.25
		17.12.15	89,530[4]	–	94,096	–	–	89,530	nil	1.4.17	16.12.25
		24.3.16	359,098[4]	–	336,295	359,098	–	–	nil	24.3.16	23.3.26
		28.6.16	–	81,399	75,375	–	–	81,399	nil	27.6.19	27.6.26
	LTIP	17.12.15	1,222,200[4]	–	1,284,532	–	–	1,222,200	nil	1.4.18	1.4.19
		28.06.16	–	764,231	707,678	–	–	764,231	nil	1.4.19	1.4.20
Former director											
Mick Barker[5]	SAYE	11.12.12	705	–	–	–	705	–	117	1.2.16	31.7.16
		10.12.13	1,645	–	–	–	–	1,645	94	1.2.17	31.7.17
		9.12.14	2,782	–	–	–	–	2,782	97	1.2.18	31.7.18
		8.12.15	3,601	–	–	–	–	3,601	85	1.2.19	31.7.19
		12.12.16	–	5,436	–	–	–	5,436	86	1.2.20	31.7.20

1 The table above shows the maximum number of shares that could be released if awards were to vest in full. Participants are entitled to receive dividends or dividend equivalent amounts once the share awards have vested.

2 The face value in the table above has been calculated by multiplying the maximum number of shares that could vest by the closing share price on the date of grant.

3 An award vests on the date the Committee determines whether performance conditions have been met, or if on that date dealing restrictions apply, the first date after dealing restrictions cease to apply.

4 These awards were made in connection with the recruitment of Matthew Gregory to replace awards he held under similar schemes with his former employer.

5 Mick Barker resigned on 17 February 2017.

Shareholding guidelines (audited)

Under the terms of the remuneration policy approved by shareholders at the 2015 AGM, Executive Directors are required to build up a specified shareholding in the Company. This is to create greater alignment of the Executive Directors' interests with those of shareholders. The guidelines require Executive Directors to retain at least 75% of the shares, net of tax, vesting under a Group share incentive plan or otherwise acquire shares in the Company within a five-year period from the later of their date of appointment or the date of approval of the current remuneration policy, 16 July 2015, until a shareholding with a market value (calculated by reference to the year-end share price) equal to 200% of base salary in the case of the Chief Executive and 150% of base salary in the case of other Executive Directors is achieved. The Committee reserves the right to relax or waive the application of such guidelines in certain circumstances, including the impending retirement of an Executive Director. The table below sets out the Executive Directors' and their connected persons' shareholdings (including beneficial interests) and a summary of outstanding and unvested share awards as at 31 March 2017.

Executive Director	Ordinary shares beneficially owned at 1.4.16	Ordinary shares beneficially owned at 31.3.17	Unvested deferred share bonus awards subject to continued employment	Unvested LTIP awards subject to performance conditions	Vested but not exercised share awards	Vested and exercised share awards	Shareholding requirement (% of basic salary)	Current shareholding (% of basic salary)
Tim O'Toole	849,370	939,296	313,874	2,015,422	1,008,842	0	200%	147%
Matthew Gregory	0	261,033	81,339	1,986,431	89,530	0	150%	79%

[1] Based on the middle market closing price of an ordinary share of the Company of 132 pence per share on 31 March 2017. The range of the Company's share price for the year was 88.7 pence to 133 pence.

[2] Tim O'Toole has until 16 July 2020 and Matthew Gregory has until 1 December 2020 to meet the shareholding requirement.

[3] In the period 1 April to 1 June 2017, Tim O'Toole acquired 11,109 shares in the Company, increasing his shareholding to 950,405 shares. No other changes in Executive Directors' interests occurred in the period.

Since June 2015, Tim O'Toole has allocated £15,000 of his gross monthly base salary (equivalent to more than 20% of his base salary) to acquire shares in the Company, with shares being purchased from the post-tax and post-National Insurance (NI) amount.

All-employee share schemes

Executive Directors are eligible to participate in the Company's Sharesave (SAYE) and Share Incentive Plan (BAYE) on the same terms as other eligible employees.

SAYE

The maximum participation level in the SAYE plan is £500 per calendar month as per HMRC limits with participants granted linked share options, by reference to projected savings, with a 20% discount to the prevailing share price at the time of grant. In line with HMRC requirements, on the maturity of the savings contracts, participants can elect to use the accumulated savings to exercise their options or request the return of their savings.

BAYE

The maximum participation level in the BAYE is £150 per month, as per HMRC limits.

At present the Company provides two Matching Shares for every three Partnership Shares, subject to a maximum Company contribution of shares to the value of £20 a month. The shares are held in trust and become available for release with no tax or NI liability once held for five years. The Matching Shares will be forfeited if the corresponding Partnership Shares are removed from the trust within three years from award.

In accordance with the applicable legislation, shares that remain subject to the plan are held on behalf of participants in a UK-based trust.

Preventing rewards for failure

In respect of awards made under the EABP and the LTIP, from 2015 onwards, they are subject to both malus and clawback provisions. The triggering events for malus and clawback are the same and include material misstatement of accounts, awards being based on an error, misleading information or inaccurate assumptions, gross misconduct or computational error.

For the EABP, annual cash bonuses may be clawed back at any time up to the end of the third financial year after that in respect of which the payment is made and share awards will remain subject to clawback for three years following the date of grant. For the LTIP, awards will remain subject to clawback for two years following the end of the three-year performance period. As regards malus, under the EABP and the LTIP, share awards that are yet to vest can be reduced, including to zero.

In addition, prior to the vesting of awards made under the EABP and LTIP, in respect of awards made from 2014 onwards, the Committee may reduce awards to reflect any triggering event, such as material misstatement of accounts or gross misconduct.

The malus and clawback provisions which apply to our incentive plans are standard and in line with general practice.

Dilution

The Company ensures that the level of shares granted under the Company's share plans and the means of satisfying such awards remains within best practice guidelines so that dilution from employee share awards does not exceed 10% of the Company's issued share capital for all share plans and 5% in respect of executive share plans in any ten-year rolling period. The Committee monitors dilution levels at least once a year. At 31 March 2017, less than 1% of the Company's issued share capital had been issued for the purpose of its share incentive plans over a ten-year period and no shares had been issued in respect of the executive share plans.

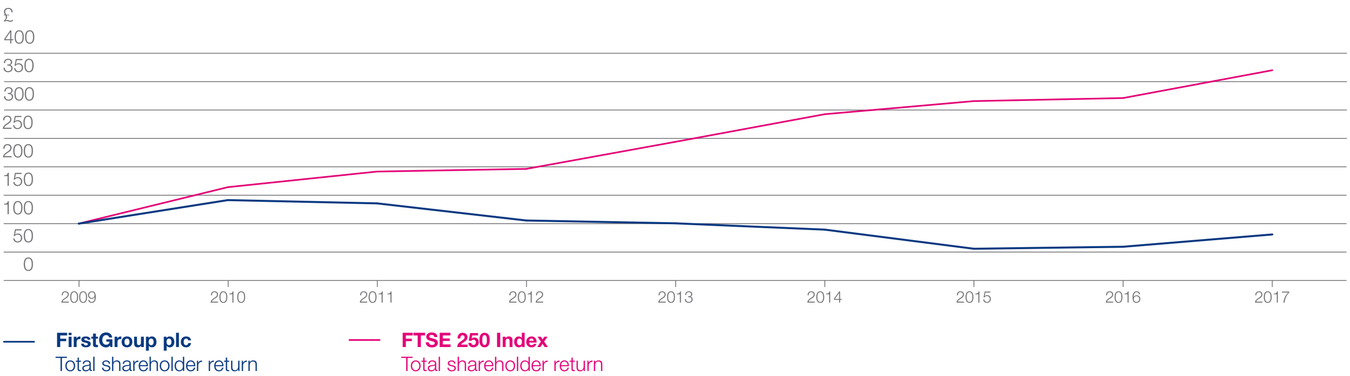
Employee Benefit Trust (EBT)

The FirstGroup EBT has been established to acquire ordinary shares in the Company, by subscription or purchase, from funds provided by the Group to satisfy rights to shares arising on the exercise or vesting of awards under the Group's share-based incentive plans. The trustee of the FirstGroup EBT has informed the Company that its intention is to abstain from voting in respect of the FirstGroup shares held in the trust. As at 31 March 2017, 247,256 shares were held by the EBT to hedge outstanding awards of 33,817,830. This means that the EBT holds sufficient shares to satisfy 0.7% of outstanding awards.

Performance graphs

The graph below shows the TSR performance of £100 invested in FirstGroup plc shares over the past eight years compared to an equivalent investment in the FTSE 250 and in our comparator group. The FTSE 250 Index has been selected as it provides an established and broad-based index, of which the Company is a constituent.

Total shareholder return



Source: Thomson Reuters Datastream

TSR is measured according to a return index calculated by Datastream on the basis that all the Company's dividends are reinvested in the Company's shares. The return is the percentage increase in the Company's index over the eight-year period.

Remuneration of the Chief Executive

The table below shows the total remuneration figure for the highest paid Executive Director, the Chief Executive, during each of the past nine years. The total remuneration figure includes the annual bonus and LTIP awards which vested based on performance in those years. The annual bonus percentages show the payout for each year as a percentage of the maximum.

	2009	2010	2011[1]	2012[2]	2013	2014	2015	2016	2017
Total remuneration (£000s)	1,017	802	503	1,055	1,068	1,986	1,647	1,243	1.260
Annual bonus (% maximum potential)	24	0	43.6	0[3]	0[3]	59.1	57	15.9	0[4]
LTIP vesting (%)	–	–	–	0	0	0	0	0	16.3

1 Relates to the remuneration of Sir Moir Lockhead, who resigned as Chief Executive in November 2010. From 1 November 2010 to 31 March 2011, Tim O'Toole received remuneration of £357,000.

2 Relates to the remuneration of Tim O'Toole who was appointed Chief Executive in November 2010.

3 Tim O'Toole waived his bonus in 2012 and 2013.

4 As mentioned in the Chair's Statement, a bonus was not paid to Tim O'Toole this year and instead will receive a conditional deferred share award.

Percentage change in remuneration levels

The table below shows the movement in the salary, benefits and annual bonus for the Chief Executive between the current and previous financial year compared to that for the average UK employee (First Bus and First Rail, but excluding Group). The Committee has chosen this comparator as it feels that it provides a more appropriate reflection of the earnings of the average worker than the movement in the Group's total wage bill, which is distorted by movements in the number of employees and variations in wage practices in the US. However, the Committee will re-assess the comparator in 2017/18 to ensure it remains appropriate. For the benefits and bonus per employee, the figures are based on those employees eligible to participate in such schemes.

	Base salary	Benefits	Annual bonus
Chief Executive	0%	14%	(100)%[1]
UK employees	1-3%[2]	(3)%	(14.9)%[3]

1 Last year the Chief Executive received an annual bonus of £161,796. For 2016/17 he has not received an annual bonus.

2 Pay increases for the majority of UK employees in First Bus and First Rail are collectively bargained with trade unions in individual operating companies in First Bus and First Rail. Some of these agreements are multi-year deals. Typical increases for 2016/17 were in the range 1-3%.

3 This reflects the lower level of discretionary bonuses paid in some of our UK businesses in 2016/17 to the average UK employee compared to the previous year.

Relative importance of spend on pay

The table below illustrates the Company's expenditure on pay in comparison to adjusted operating profit and distributions to shareholders by way of dividend payments.

	2016 £m	2017 £m	% change
Adjusted operating profit	301	339	13
Distributions to shareholders	–	–	–
Total employee pay	2,667	2,945	10

1 Group adjusted operating profit has been used as a comparison as it is a key financial metric which the Board considers when assessing Company performance.

2 Total employee pay is the total pay for all Group employees, including pension and social security costs. The increase for the year includes c.£270m due to USD FX. The average monthly number of employees in 2016/17 was 100,891 (2015/16: 108,624).

Wider pay and benefits environment

In addition to a competitive base salary, FirstGroup offers a wide range of employee benefits tailored to local markets.

In the UK, this includes reduced price travel on our rail and bus services, and discounts on shopping, entertainment and eating out. We encourage saving for retirement through a variety of company pension arrangements and retirement plans, and regular opportunities to share in the growth and success of the business through our UK employee share plans. We also operate childcare voucher schemes across our UK businesses and our Employee Assistance programme offers all our employees access to free, 24/7 confidential telephone, online and face to face advice for problems they may be experiencing at home or work.

Greyhound Canada and some of our larger UK businesses have their own dedicated in-house Occupational Health teams; our other businesses use external specialist advisors to support employees with health problems which may be affecting their performance at work.

In the US we offer a broad spectrum of health and welfare benefits to our employees and their families, including life insurance, health, dental and vision benefits for employees and their dependents. We encourage early preparation for retirement through an attractive 401(k) retirement savings plan, and we also provide disability plans for short- and long-term illness. Employee and family wellbeing is a focus through our "Route to Rewards" wellness program, and throughout the year we encourage participation in wellness activities. In Canada, we provide a range of company pension arrangements and retirement plans to support employees in saving for retirement. Our employee benefits include life insurance, health and dental benefits, and disability coverage for employees and their dependents.

All our Divisions run workplace health and wellbeing programmes to support employees to stay fit and healthy.

Non-Executive Directors' fees (audited)

The Chairman's fee was reviewed as part of the appointment of the new Chairman in 2015 and has not been increased since.

Non-Executive Directors' fees were reviewed in 2016 and increased to bring them to a more competitive level. From 1 August 2016, the standard fee for the NEDs was increased from £52,500 to £55,000. The fee for the Senior Independent Director was also increased from £7,500 to £10,000. The fee for the Chair of the Remuneration Committee was increased from £10,000 to £12,000. In addition, the fee for the Group Employee Director was increased to £55,000 to bring it in line with the NED basic fee.

The fees will be reviewed in 2017/18, with any changes reported in the 2018 Directors' Remuneration Report.

	Fees		Benefits		Totals	
Non-Executive Director	2016 £000s	2017 £000s	2016 £000s	2017 £000s	2016 £000s	2017 £000s
Wolfhart Hauser[1]	208	280	0	0	208	280
Richard Adam[2]	–	6	–	0	–	6
Warwick Brady	53	54	0	0	53	54
Drummond Hall	60	63	0	0	60	63
Imelda Walsh	63	65	0	0	63	65
Jim Winestock	63	64	0	2	63	66

[1] Wolfhart Hauser was appointed a Non-Executive Director on 18 May 2015 and became Chairman on 16 July 2015; the disclosure for 2016 reflects this. 2017 has been his first full year as Chairman.

[2] Richard Adam was appointed on 24 February 2017.

Former Non-Executive Directors						
Mick Barker[1]	39	37	0	1	39	38
Brian Wallace[2]	65	67	0	0	65	67

[1] Mick Barker resigned on 17 February 2017. In addition to his fee as a Non-Executive Director, he received earnings from the Group as an employee amounting to £45,000 (2015/16: £51,000). As a participant in the BAYE he received 218 matching shares during the financial year. Based on the middle market closing price of a share on 31 March 2017 of 132 pence, the value of these were £287.76. Mick Barker had also elected to receive 20% of his fees in the form of shares in the Company.

[2] Brian Wallace retired on 24 February 2017.

External board appointments

Where Board approval is given for an Executive Director to accept an outside non-executive directorship, unless the appointment is in connection with the Group business, the individual Director is entitled to retain any fees received. For serving as a Director of CSX Corporation, Tim O'Toole received a fee of $75,000 per annum which was taken in CSX common shares and an annual grant of $150,000 also in CSX common shares. Both elements were deferred until Tim O'Toole left the board of CSX Corporation and therefore he received these deferred amounts when he retired in April 2017.

Non-Executive Directors' interest in ordinary shares (audited)

The beneficial interests of the Non-Executive Directors and their connected persons who held office at 31 March 2017 in the shares of the Company as at that date and 1 April 2016 are shown below. Shares are held outright with no attaching performance conditions. No further changes occurred between the end of the period under review and the date of this report.

	Ordinary shares beneficially owned at 1.4.16 or date of appointment, if later	Ordinary shares beneficially owned at 31.3.17
Wolfhart Hauser	284,558	284,558
Richard Adam[1]	–	10,000
Warwick Brady	108,701	108,701
Drummond Hall	30,990	30,990
Imelda Walsh	19,429	19,429
Jim Winestock	64,743	64,743

[1] Richard Adam was appointed on 24 February 2017.

Non-Executive Directors' dates of appointment

Non-Executive Directors have an agreement for service for an initial three-year term, which can be terminated by either party giving three months' notice. In line with the Code, all Non-Executive Directors, including the Chairman, are subject to annual re-election by shareholders at each AGM. The table below sets out the appointment dates for those Non-Executive Directors serving as at 31 March 2017. They will all, including Jimmy Groombridge and Martha Poulter who joined the Board on 26 May 2017, put themselves forward for election or re-election at the next AGM, on 18 July 2017.

Non-Executive Director	Date of appointment
Wolfhart Hauser	18 May 2015
Richard Adam	24 February 2017
Warwick Brady	24 June 2014
Drummond Hall	24 June 2014
Imelda Walsh	24 June 2014
Jim Winestock	1 August 2012

Executive Directors' service agreements

The Executive Directors' service agreements, including arrangements for early termination, are carefully considered by the Committee and are designed to recruit, retain and motivate Executive Directors of the calibre required to manage the Company. The Committee's policy is for Executive Directors' service contracts to be terminable on no more than one year's notice. The details of existing Executive Directors' service contracts are summarised in the table below:

Executive Director	Date of service contract	Notice period
Tim O'Toole	25 January 2011	12 months
Matthew Gregory	1 December 2015	12 months

Role of the Remuneration Committee

The Committee is primarily responsible for determining and recommending to the Board the framework for executive remuneration and for determining, on behalf of the Board, the remuneration of Executive Directors and senior managers.

The Committee's full terms of reference are available on the Company's website. The Committee's principal responsibilities are summarised below:

- determining and agreeing with the Board the framework for executive remuneration that ensures Executive Directors and senior managers are provided with appropriate incentives to encourage enhanced performance and are rewarded in a fair and responsible manner for their individual contribution towards the success of the Company;
- ensuring that the remuneration policy is appropriate and consistent with effective risk management;
- within the agreed framework, setting and determining the total individual remuneration arrangements for Executive Directors and senior managers, giving due regard to individual and Company performance, and remuneration trends across the Group;
- approving the design of, and determining the targets for, any performance-related plans and the total annual payments made under such plans to Executive Directors and senior managers; and
- determining the terms of employment and remuneration of each Executive Director and senior executives, including recruitment and termination arrangements.

Membership

The current members of the Committee, who are all independent Non-Executive Directors, are: Imelda Walsh, who chairs it; Drummond Hall, the Senior Independent Director, and Richard Adam, who joined the Committee on 20 March 2017, following his appointment as Non-Executive Director.

Other attendees at the Committee meetings include the Chairman, the Chief Executive, the CFO, the Group Employee Director, the Group Corporate Services Director, the Group HR Director, the Group Pensions Director and PwC, our external adviser. The General Counsel & Company Secretary is the secretary to the Committee. Attendees are not involved in any decisions, and are not present for any discussions, regarding their own remuneration.

After each meeting, the Chair of the Committee presents a report on its activities to the Board.

Committee activities

In line with its remit, amongst other matters, the Committee took the following actions during the year:

- assessed the level of achievement against objectives under the EABP and LTIP;
- reviewed the metrics, definitions, weightings and targets of the EABP and LTIP;
- confirmed that the LTIP awards granted in 2013 would lapse in full as a result of targets not being achieved;
- approved individual remuneration arrangements for Executive Directors and senior managers;
- approved the granting of awards under the EABP, LTIP and Executive Share Plan;
- reviewed and approved the Directors' Remuneration Report;
- reviewed the current trends in remuneration practice and corporate governance, including shareholders' representatives' guidelines and policies (ISS, PLSA, Executive Remuneration Working Group, Investment Association);
- reviewed and approved amendments to the structure of senior executive incentive schemes;
- reviewed its terms of reference;
- reviewed the performance of its advisors; and
- reviewed its performance.

External adviser

The Committee has authority to obtain the advice of external independent remuneration consultants. It is solely responsible for their appointment, retention and termination and for approval of the basis of their fees and other terms. Over the course of the year, the Committee was supported by its appointed adviser, PwC. PwC was appointed adviser to the Committee in 2014. The Chair of the Committee agrees the protocols under which PwC provides advice.

PwC is a member of the Remuneration Consultants' Group and, as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. During the year, the Committee reviewed the advice provided by PwC and confirmed that it was objective and independent.

During the year, PwC provided independent advice and commentary on a range of topics including remuneration trends, corporate governance, incentive plan design and consulting with shareholders. PwC fees for advice provided to the Committee were £32,200 (2016: £121,750). Fees were charged on a time and materials basis. PwC also provided general consultancy services to FirstGroup during the year; however, the Committee is satisfied that this does not compromise the independence of the advice it has received from PwC. PwC has no other connection with the Company.

Shareholder engagement

When reviewing the remuneration framework of Executive Directors and senior managers, the Committee takes into account the views and guidance expressed by major institutional investors and their representative bodies.

Shareholder votes on remuneration matters

	2016 AGM Annual Report on Remuneration	2015 AGM Remuneration Policy	2015 AGM Annual Report on Remuneration
Votes for	799,235,216 (96.53%)	779,923,966 (93%)	800,928,123 (95%)
Votes against	28,761,378 (3.47%)	60,313,189 (7%)	39,629,864 (5%)
Total votes cast	827,996,594	840,237,155	840,557,987
Votes withheld*	118,668,660	31,366,783	31,045,951

*Note: A "Vote withheld" is not a vote in law and is not counted in the calculation of the votes "For" and "Against" a resolution.

Consideration of shareholder views

The Committee values its continued dialogue with shareholders and engages directly with them and their representative bodies at the earliest opportunity. Shareholder feedback received in relation to the AGM, as well as any additional feedback and guidance received during the year is considered by the Committee as it develops the Company's remuneration framework and practices.

Imelda Walsh
Chair, Remuneration Committee
1 June 2017