FirstGroup plc

Directors’ remuneration policy

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The Company’s Directors’ remuneration policy, approved by shareholders at the 2015 AGM, is set out below. 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.

There may be circumstances from time to time when the Remuneration Committee will consider it appropriate to apply some judgement and exercise discretion in respect to the approved remuneration policy. This ability to apply discretion is highlighted where relevant in the approved policy, and the use of discretion will always be in the spirit of the approved policy.

Remuneration policy for Executive Directors

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Salary			
To attract and maintain high calibre executives with the attributes, skills and experience required to deliver the Group’s strategy	Typically reviewed annually in March, effective from 1 April Any increases take account of: ▪ Company and individual performance ▪ role and responsibilities ▪ market positioning ▪ external indicators, such as inflation and market conditions ▪ pay increases of Group employees **Recovery or withholding** No recovery or withholding applies	While there is no maximum annual increase, salary increases (in percentage of salary terms) for Executive Directors will normally be within the range of those for Group employees, in particular those who are not within collective bargaining agreements Where the Committee considers it necessary or appropriate, larger increases may be awarded in individual circumstances such as a change in scope or responsibility or alignment to the peer group The Committee has the flexibility to set the salary of a new hire at a discount to the market level initially and to realign it over the following years as the individual gains experience in the role. In exceptional circumstances, the Committee may agree to pay above market levels to secure or retain an individual who is considered by the Committee to possess significant and relevant experience which is critical to the delivery of the Company’s strategy Existing Executive Directors will not receive any base salary increases for the duration of this remuneration policy	Not applicable

Directors’ remuneration policy
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Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Benefits			
Provide market competitive benefits to assist in attracting and retaining executives	A range of benefits may be provided including, but not limited to, provision of company car (or cash equivalent), private medical insurance, life assurance, long term disability insurance, general employee benefits and travel and related expenses The Committee retains the discretion to offer additional benefits as appropriate, such as assistance with relocation, tax equalisation and overseas tax advisory fees **Recovery or withholding** No recovery or withholding applies	Benefits are not generally expected to be a significant part of the remuneration package in financial terms The cost of benefits is not pre-determined, reflecting the need to allow for normal increases associated with the provision of benefits	Not applicable
Pension benefits			
Allows executives to build long term savings for their retirement, ensures the total remuneration package is competitive and aids retention	Payment may be made into a pension scheme or delivered as a cash allowance **Recovery or withholding** No recovery or withholding applies	The Chief Executive participates in a defined benefit arrangement, which provides him with 1/50th accrual for each year of service up to a fixed scheme earnings cap of £140,705 per annum. For earnings above this cap he receives an allowance of 20% of base salary Executive Directors employed after April 2011 receive a pension allowance equal to 20% of base salary In the event of further changes to the pension tax regime adversely affecting individuals’ pension benefits and/or the Group’s pension arrangements, the Committee may amend the pension benefits available, but only on a basis which would not cost the Company materially more than the Executive Director’s current arrangements in terms of percentage of base pay	Not applicable

Directors' remuneration policy
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Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Annual bonus			
To focus on the delivery of annual goals, to strive for superior performance and to achieve specific targets which support the strategy Deferred share element encourages retention and provides a link between the bonus and share price growth	Bonuses are awarded annually under the Executive Annual Bonus Plan (EABP) At least half the bonus awarded in any year will be deferred into shares, normally for a period of three years The EABP is reviewed annually to ensure performance measures and targets are appropriate and support the strategy An amount of up to 25% of the maximum may be payable for threshold performance The Committee has a discretion to permit a dividend equivalent amount to accrue on shares which vest under the EABP **Recovery or withholding** The rules of the EABP contain malus and clawback provisions to take account of exceptional and adverse circumstances	**For existing Executive Directors** Maximum bonus opportunity is 120% of base salary for the Chief Executive The Committee has discretion to increase awards to the existing Chief Executive in order, over time, to re-align his remuneration to create a more leveraged package. Any such increase would be subject to prior consultation with major investors and be limited to 150% of base salary **For newly recruited Executive Directors** Maximum bonus opportunity will be 150% of base salary for newly recruited Executive Directors	The bonus is based on a combination of financial, operational and individual metrics, which the Committee may review from time to time. The precise allocation between financial and non-financial metrics (as well as weightings within these metrics), will depend on the strategic focus of the Company from year to year. At least half of any award will be subject to financial measures. Vesting of deferred shares is dependent on continued employment or good leaver status The Committee retains the discretion, acting fairly and reasonably, to alter the bonus outcome in light of the underlying performance of the Company, taking account of any factors it considers relevant. The Committee will consult with major investors before any exercise of its discretion to increase the bonus outcome

Directors' remuneration policy
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Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Long-Term Incentive Plan			
Incentivises the execution of strategy, and drives long term value creation and alignment with longer term returns to shareholders	Awards under the LTIP are rights to receive conditional shares or nil-cost options over shares, subject to continued employment and performance conditions An amount of up to 25% of the maximum may be payable for threshold performance, with maximum vesting being equal to 100% of any award made Shares which vest under the LTIP are subject to an additional holding period of two years following the three-year performance period. Shares may be sold in order to satisfy tax or other relevant liabilities as a result of an award vesting The Committee has a discretion to permit a dividend equivalent amount to accrue on shares which vest under the LTIP **Recovery or withholding** The rules of the LTIP contain malus and clawback provisions to take account of exceptional and adverse circumstances	**For existing Executive Directors** Normal award policy currently set at a maximum opportunity of 150% of base salary, although the Committee has the discretion to make an award of up to 200% of base salary The Committee has discretion to increase awards to the existing Chief Executive in order, over time, to re-align his remuneration to create a more leveraged package. Any such increase would be subject to prior consultation with major investors and be limited to 200% of base salary for the existing Chief Executive **For newly recruited Executive Directors** Maximum award opportunity will be 200% of base salary for a newly recruited Chief Executive and 175% of base salary for other newly recruited Executive Directors In exceptional circumstances, awards of up to 300% of base salary may be made, such as to aid recruitment	LTIP awards will be subject to the achievement of a combination of stretching targets designed to incentivise performance in support of the Group's strategy and business objectives, measured over a three-year performance period. The Committee determines the measures, their relative weightings and targets prior to each award The Committee retains the discretion, acting fairly and reasonably, to alter the LTIP vesting outcome in light of the underlying performance of the Company during the performance period, taking account of any factors it considers relevant. The Committee will consult with major shareholders before any exercise of its discretion to increase the LTIP vesting outcome
All-Employee Share Plans			
To encourage all employees to make a long term investment in the Company's shares in a tax efficient way	Opportunity to participate in Sharesave and Share Incentive Plan on the same terms as other eligible employees **Recovery or withholding** No recovery or withholding applies	The maximum participation level is in accordance with HMRC limits	N/A

EABP and Long-Term Incentive Plan flexibility

The Committee operates within its policy at all times. It will also operate the EABP and LTIP according to the rules of each respective plan and consistently with normal market practice and the Listing Rules, including flexibility in a number of areas. How the Committee will retain flexibility includes:

- when to make awards and payments;
- how to determine the size of an award, a payment, or when and how much of an award should vest;
- who receives an award or payment;
- how to deal with a change of control, restructuring or any other corporate event of the Group;
- whether an Executive Director or senior manager is a good/bad leaver for incentive plan purposes and whether and what proportion of awards vest at the time of leaving or at the original vesting date(s);
- how and whether an award or its performance conditions may be adjusted in certain circumstances (e.g. change of accounting policy);
- the choice of (and adjustment of) performance measures, weightings and targets for each incentive plan from year to year in accordance with the remuneration policy set out above and the rules of each plan; and
- amending plan rules in accordance with their terms.

Any use of the above discretions would, where relevant, be explained in the Annual Report on Remuneration and may, as appropriate, be the subject of consultation with the Company's major shareholders.

Setting performance measures and targets

In determining the levels of executive reward, the Committee places considerable emphasis on ensuring a strong and demonstrable link between actual remuneration received and the delivery of FirstGroup's strategic plans.

The measures and weightings used under the EABP are selected annually to reflect the Group's key strategic initiatives for the year and reflect both financial and non-financial objectives. The targets for the EABP are set by reference to the Company's strategy and internal budgets as well as the external context, such as market forecasts. This approach seeks to ensure that the targets are appropriately challenging.

The LTIP provides a focus on delivering superior returns to shareholders by providing rewards for longer term growth and shareholder return outperformance. The Committee reviews annually whether the performance measures, weightings and calibration of targets remain appropriate and sufficiently challenging taking into account the Company's strategic objectives and shareholder interests.

All-employee share awards are not subject to performance conditions in line with the treatment of such awards for all employees and in accordance with the applicable tax legislation.

Shareholding guidelines

The Chief Executive is expected to hold shares equivalent in value to a minimum of 200% of base salary and other Executive Directors 150% of base salary within a five-year period from the later of their date of appointment or the approval of this remuneration policy. Executive Directors are further required 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 until the shareholding guideline is met. The Committee reserves the right to relax or waive the application of the guidelines where it believes it is justified by the circumstances.

In addition, Executive Directors are required to hold shares which vest under the LTIP for an additional holding period of two years following the three year performance period, with only those shares required to cover a tax liability on exercise or vesting of an LTIP award permitted to be sold.

Group employee considerations

In setting the remuneration of the Executive Directors, the Committee takes into account the overall approach to reward for employees in the Group. FirstGroup operates in a number of markets and its employees carry out a diverse range of roles across the UK and US. All employees, including Directors, are paid by reference to the market rate and base salary levels are reviewed regularly. When considering salary increases for Executive Directors, the Committee pays close attention to pay and employment conditions across the wider workforce.

The key difference between Executive Director remuneration and other employees is that, overall, the remuneration policy for Executive Directors is more heavily weighted towards variable pay linked to business performance than for other employees, so that remuneration will increase or decrease in line with business performance and align the interests of Executive Directors and shareholders. In particular, long term incentives are provided only to the most senior executives as they are reserved for those considered to have the greatest potential to influence overall levels of performance.

The Committee does not formally consult with employees on Executive Director remuneration, but as a result of the Company's all-employee share plans UK-based employees are able to become shareholders in the Company and can comment on the remuneration policy in the same way as other shareholders. In addition, the Company provides a number of forums for employees to provide feedback on remuneration as well as receiving employee views from the Group Employee Director, who attends meetings of the Committee at the invitation of the Chair of the Committee.

Legacy arrangements

The Committee may approve payments to satisfy commitments agreed prior to the approval of this remuneration policy. This includes previous incentive awards that are currently outstanding and unvested which have been disclosed to shareholders in previous remuneration reports. The Committee may also approve payments outside of this remuneration policy in order to satisfy legacy arrangements made to an employee prior to (and not in contemplation of) promotion to the Board of Directors.

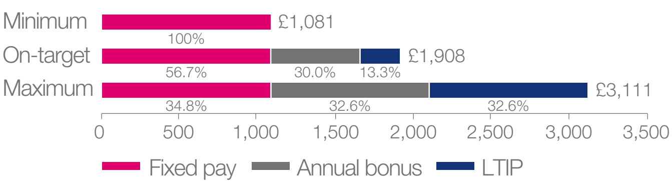
All historic awards that were granted but remain outstanding remain eligible to vest based on their original award terms.

Reward scenarios

The graphs below provide an indication of the reward opportunity for each of the current Executive Directors based on their roles as at 1 April 2016.

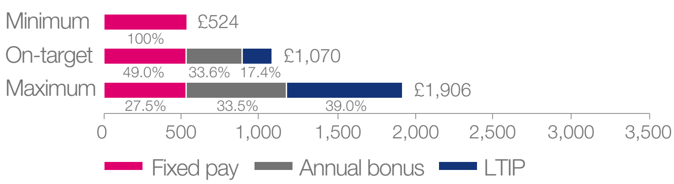
Chief Executive

Total remuneration (£000s)



Chief Financial Officer

Total remuneration (£000s)



The basis of calculation and key assumptions used to complete the charts above are as follows:

Minimum – only fixed pay is payable i.e. base salary, benefits and pension or cash in lieu of pension. No bonus is payable. No vesting under the LTIP. The value of the Chief Executive's pension benefit and allowance is assumed to be in line with that for 2015/16. The value of the Chief Financial Officer's pension allowance is 20% of his base salary.

On-target – fixed pay plus 56.5% of maximum annual bonus pay-out and 25% vesting under the LTIP.

Maximum – fixed pay plus 100% of maximum annual bonus pay-out and 100% vesting under the LTIP.

Approach to recruitment remuneration

The Committee believes it is vital to be able to attract and recruit high calibre executives who are focused on delivering the Group's strategic plans, while relating reward to performance in the context of appropriate risk management, and aligning the interests of Executive Directors and senior managers with those of shareholders to build a sustainable performance culture.

The Committee's approach when considering the overall remuneration arrangements in the recruitment of a new Executive Director is to take account of his or her remuneration package in their prior role, the market positioning of the remuneration package and not to pay more than is necessary to facilitate their recruitment.

The remuneration package for a new Executive Director will be set in accordance with the terms of the Company's approved remuneration policy in force at the time of appointment, except:

Salary	The salary level shall take into account companies in the comparator group, which comprises companies that are broadly in line with FirstGroup's size, structure and complexity and have features that are comparable to FirstGroup. The Committee has the flexibility to set the salary of a new Executive Director at a discount to the market level initially, with a series of planned increases implemented over the following few years to bring the salary to the desired positioning, subject to individual performance. In exceptional circumstances, the Committee has the ability to set the salary of a new Executive Director at a rate higher than the market level to reflect the criticality of the role and the experience and performance of the individual.
Benefits	The Company may award certain additional benefits and other allowances including, but not limited to, those to assist with relocation support, temporary living and transportation expenses, educational costs for children and tax equalisation to allow flexibility in employing an overseas national.
Pension benefits	Any new Executive Director based outside the UK will be eligible to participate in pension or pension allowance, insurance and other benefit programmes in line with local practice.
Annual bonus	The maximum bonus opportunity shall be 150% of base salary.
Long-Term Incentive Plan	The maximum opportunity shall be 200% of base salary for a newly recruited Chief Executive and 175% of base salary for other newly recruited Executive Directors. However, a maximum opportunity of 300% of base salary may be used in exceptional circumstances, in addition to any buy-out of forfeited awards.
Replacement awards	The Committee shall consider what cash or replacement share-based awards, if any, are reasonably necessary to facilitate the recruitment of a new Executive Director in all circumstances. This includes an assessment of the awards and any other compensation or benefits item that would be forfeited on leaving their current employer. These payments would not exceed what is considered by the Committee to be a fair estimate of remuneration lost when leaving the former employer and would reflect, as far as possible, the nature and time horizons attaching to that remuneration and the impact of any performance conditions. If the Executive Director's former employer pays a portion of the remuneration that was deemed foregone, the replacement payments will be reduced by an equivalent amount. In the case of an internal executive appointment, any variable pay element awarded in respect of the prior role will be allowed to pay out according to its existing terms, adjusted as relevant to take into account the appointment. In addition, any other ongoing remuneration obligations existing prior to appointment will continue.
Notice periods	The Committee shall utilise notice periods of up to 12 months.

For the appointment of a new Chairman or Non-Executive Director, the fee arrangement shall be set in accordance with the approved remuneration policy in force at that time.

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

Policy on payment for loss of office

Executive Directors' service agreements contain provisions for payment in lieu of notice. The Company is unequivocally against rewards for failure; the circumstances of any departure, including the individual's performance, would be taken into account in every case. Directors' service agreements are kept for inspection by shareholders at the Company's registered office.

Service agreements may be terminated without notice and without payment in lieu of notice in certain circumstances, such as gross misconduct. The Company may require the Executive Director to work during their notice period or may choose to place the individual on garden leave, for example to ensure the protection of the Company's and shareholders' interests where the Executive Director has access to commercially sensitive information.

Except in the case of gross misconduct or resignation, the Company may at its absolute discretion reimburse for reasonable professional fees relating to the termination of employment and, where an Executive Director has been required to re-locate, to pay reasonable repatriation costs, including possible tax exposure costs.

In the event of an Executive Director's departure, any outstanding share awards will be treated in accordance with the plan rules as follows:

Plan	Treatment on cessation
EABP	The EABP provides no entitlement to a bonus following cessation of employment, unless the leaver is considered a good leaver. Where an individual is considered a good leaver (in the event of death or termination of employment by reason of ill-health, disability, injury, statutory redundancy, agreed retirement, sale of employing company or business out of the Group or at the discretion of the Committee) a performance-related bonus will be paid. This will be based on the proportion of the bonus year for which the individual has been actively employed and bonus (if any) will be paid at the normal time, although the Committee retains discretion to pay it earlier in appropriate circumstances. There is no entitlement to any bonus award under the EABP for any financial year where an Executive Director has not been actively working, even if still in employment. The Committee has discretion to make an award in these circumstances, but would only consider exercising its discretion if this were justified by the circumstances and timing of the Executive Director's departure. The Committee will not exercise that discretion in respect of any period when the Executive Director is on garden leave. Any resulting bonus payment will normally be time pro-rated and be based on the level of performance achieved. Deferred share awards will normally lapse on cessation of employment or, at the Committee's discretion, on service of notice of termination of employment. However, under 'good leaver' provisions (other than in the case of death) unvested EABP deferred shares will vest either at the end of the vesting period or in the event of termination by reason of ill-health on the date of cessation of employment or any other date determined by the Committee. Where an award vests early, the good leaver will receive a pro-rated number of shares to reflect the acceleration of vesting, although in the event of termination by reason of ill-health the Company may exercise discretion to waive pro-rating. In the case of death, deferred share awards vest on the date of death and no pro-rating is applied.
Long-Term Incentive Plan	Awards will normally lapse on cessation of employment. However, in 'good leaver' circumstances (other than in the case of death) unvested LTIP shares will vest either at the end of the performance period or in the event of termination of employment by reason of ill-health on the date of cessation of employment to the extent the performance conditions have been satisfied as determined by the Committee. A good leaver will normally receive a pro-rated proportion of any outstanding LTIP awards. The Committee may choose to allow certain awards to vest while others lapse, depending on the circumstances of the case. In the case of death, awards vest on the date of death and are not subject to the performance conditions, with pro-rating applying in the same way as for good leavers.
All-employee share plans	Awards will vest in accordance with the rules of the relevant plan, which do not permit the exercise of any discretion by the Committee.

Policy on external appointments

The Committee believes that the Company can benefit from Executive Directors holding one approved non-executive directorship of another company, offering Executive Directors the opportunity to broaden their experience and knowledge. Company policy is to allow Executive Directors to retain the fees earned from such appointments.

Chairman and other Non-Executive Directors' letters of appointment

The Chairman and other Non-Executive Directors do not have service contracts, but each has a letter of appointment with the Company. Each letter of appointment generally provides for a three-month notice period. Non-Executive Directors are normally appointed for two consecutive three-year terms, with any third term of three years being subject to rigorous review and taking into account the need progressively to refresh the Board.

In line with the requirement of the UK Corporate Governance Code, all Non-Executive Directors including the Chairman are subject to annual re-election by shareholders at each AGM. The appointment of each of the Non-Executive Directors is subject to early termination without compensation if he or she is not re-appointed at a meeting of shareholders.

Remuneration policy for Non-Executive Directors

Non-Executive Directors may on occasion receive reimbursement of costs incurred in relation to professional advice. These payments, if made, are taxable benefits to the Non-Executive Director and the tax arising is paid by the Company on the Director's behalf.

Chairman's fee

The fee for the Chairman is determined by the Committee and reflects the commitment, demands and responsibility of the role. The fee is paid monthly and can either be taken in cash or shares or a combination of both. The fee is inclusive of all Committee roles and is not performance-related or pensionable. Limited benefits relating to travel, accommodation and meals may also be payable in certain circumstances, with the tax arising being paid by the Company on the Chairman's behalf.

Wolfhart Hauser receives a fee of £280,000. The fee payable to the Chairman may be varied (either up or down) from this level during the three year period that this remuneration policy operates to ensure it continues to appropriately recognise the requirements of the role.

Group Employee Director

The Group Employee Director receives a normal remuneration package, including participation in any benefit and incentive arrangements and pension scheme, for his or her regular employment duties appropriate to the role performed. The Group Employee Director's fee as a Non-Executive Director is payable in addition to normal remuneration as an employee of FirstGroup.

Directors' remuneration policy
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Non-Executive Director fees

Fees for the Non-Executive Directors are determined by the Board as a whole, upon the recommendation of the Executive Directors and the Chairman.

The policy on Non-Executive Directors' fees is:

Purpose and link to strategy	To be sufficient to attract, motivate and retain Non-Executive Directors necessary to contribute to a high performing Board.
Operation	Fees are determined by the Board, within the limits set out in the Company's Articles of Association, with Non-Executive Directors abstaining from any discussion or decision on their fees. The Board takes account of recognised best practice standards for such positions when determining the fee level and structure. The Non-Executive Directors receive a base fee, with additional fees payable for chairmanship of the Company's key Committees and for performing the Senior Independent Director role. Fees are paid monthly and can either be taken in cash or shares or a combination of both. Non-Executive Directors' letters of appointment contain provisions for payment in lieu of notice. Other than the Group Employee Director, Non-Executive Directors do not participate in any of the Company's incentive arrangements or receive any pension provision. Non-Executive Directors are reimbursed for expenses, and any tax arising on those expenses is settled directly by the Company. To the extent that these are deemed taxable benefits, they will be included in the Annual Report on Remuneration, as required. Reasonable costs of travel and accommodation for business purposes are reimbursed to Non-Executive Directors. On the limited occasions when it is appropriate for a Non-Executive Director's spouse or partner to attend, such as to a business event, the Company will meet these costs. The Company will meet any tax liabilities that may arise on such expenses.
Fee levels	Fees (per annum) are: ▪ Non-Executive Director base fee: £52,500 ▪ Group Employee Director: £39,375 ▪ Senior Independent Director: £7,500 ▪ Chair of Audit Committee: £12,000 ▪ Chairs of Remuneration Committee and Board Safety Committee: £10,000. The above fee levels may be varied (either up or down) during the three year period that the remuneration policy operates to ensure they continue to appropriately recognise the time commitment and responsibilities of the role, increases or decreases to fee levels for Non-Executive Directors in general and fee levels in companies of a similar size and complexity.

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.