

Shareholder Questions and Answers – 2020 FirstGroup plc Annual General Meeting

As we announced in our Notice of Meeting, to ensure the safety of our shareholders and our people, the Company is closely monitoring developments relating to the current outbreak of coronavirus, including best practice and the related guidance and legislation issued by the UK Government relating to public health and to the holding of shareholder meetings. Following public health and safety guidance and in light of such legislation, the 2020 AGM was run as a closed meeting and it was not possible for shareholders to attend in person (other than those designated as attending for the purposes of the quorum).

We requested that shareholders who wished to ask a question of the Board relating to the business of the AGM do so by submitting questions in advance of the AGM by email. We considered all questions received, which are published below along with our answers.

- 1. Please can you advise me if there's going to be a Zoom facility at the AGM this year, as I would like to attend via Zoom, if possible, as a shareholder?**

Answer:

Following public health and safety guidance and in light of new legislation relating to public health and the holding of shareholder meetings we will not be able to meet in person this year. The AGM will be held as a closed meeting on 15 September and will be purely functional.

- 2. You mention on page 90 [of the 2020 annual report] that Jimmy Groombridge has resigned as employee director at the end of his three-year term but say that his replacement will not be considered until the September Board. Knowing that this would happen, why were processes not in place for the Nomination Committee to have a replacement ready to approve to take up the post from around 1 July. Was this a Covid related delay in the staff election, or something else? Can an outline of what I recall is an all-staff election process be provided please?**

Answer:

Jimmy Groombridge resigned on 29 June and we immediately launched the election process. There is a specifically laid down procedure and ballot with voting supervised by Civica Election Services. The election this year was delayed due to coronavirus but following Jimmy's resignation it was not possible to postpone this further. As explained on page 49 of the 2020 Annual Report, the Group Employee Director is nominated by the Employee Directors' Forum which is made up of all employee directors within the Group. The nominated candidate is put forward to the Nomination Committee which in turn makes a recommendation to the Board. The process started at the end of June and will conclude in September.

- 3. On page 85 [of the 2020 annual report], under the meeting attendance table, why do the notes describe some directors as having stepped down and others as having resigned? What is the difference please? And presumably Jimmy Groombridge remains employed by Eastern National?**

Answer:

We use 'retired', 'stepped down' or 'resigned' almost interchangeably.

Jimmy Groombridge was an employee of First Eastern Counties and continued to be during his tenure as Group Employee Director. Following his resignation from the Board he resumed his position with First Eastern Counties.

- 4. The DB pension valuation assumptions appear on page 192 [of the 2020 annual report]. I wonder why the assumed life expectancy for both current pensioners and for future pensioners is so much greater in First Rail than in First Bus. I am aware that such assumptions are based partly on past plan experience and also depends partly on location and occupation. Can you or your actuaries comment please?**

Answer:

The life expectancy assumptions are reviewed periodically and take into account the experience of the pension scheme members as well as general national trends. In the Railways Pension Scheme (RPS), we have typically seen longer life expectancy for members than in those of the First Bus pension scheme members. Furthermore, the national statistics published by the Continuous Mortality Investigation, which are used as the basis for most UK pension schemes, differentiate life expectancy between a multitude of factors: taking these differences into account in our modelling suggests that it is appropriate to reflect higher life expectancy for First Rail employees.

- 5. Why is the last RPS valuation shown on page 191 [of the 2020 annual report] as being at an effective date of 31 December 2013. If this is the last valuation this probably contravenes the Pension Act. Indeed, one might have expected a further valuation as at 31 December 2019 to now be well under way. What has happened here please?**

Answer:

The most recent signed-off valuation of the RPS has an effective date of 31 December 2013. The RPS is an industry-wide arrangement, and the Group, together with other rail owning groups, the Department for Transport, the Pensions Regulator, the Trustee and employees represented by trade unions, has been participating in a review of scheme funding led by the Rail Delivery Group. Until these discussions are concluded, The Pensions Regulator has asked the Trustee to not finalise the 31 December 2016 triennial valuation. Whilst the review is still ongoing, changes to the current funding strategy are not expected in the short term.

- 6. Some companies have “recommendations” on shareholdings of non-executive directors. it is disappointing that some of ours do not own shares and thus participate in the successes (or otherwise) of the business. Should there be a recommended holding of a multiple of their annual fees?**

Answer:

The Remuneration Committee keeps these matters under review and will make recommendations to the Board if appropriate.

- 7. As the North American businesses are due to be sold, this will considerably reduce the size of the company. What might the company plan to do with the proceeds? Might that be expected to result in lower remuneration for the executive directors and indeed some of the senior management besides?**

Answer:

As per our recent announcements, including our AGM trading update announcement on 15 September, we are resolutely focused on delivering our strategy to unlock material value for all shareholders by executing the sale of the North American businesses as expediently as possible. Whilst it is not appropriate at this point to guide on potential proceeds from the sale processes, we would envisage that after certain legacy issues are resolved (principally ensuring that the debt position of the ongoing company is appropriate and further strengthening the UK Bus pension funding position), there would

be further cash proceeds available to return to shareholders. The Board will keep all relevant matters under review including in respect of the future Remuneration Policy.

8. Will the Board agree to stop all bonus payments to Board Members, Directors and Company Managers until a suitable dividend payment is restored to FirstGroup plc shareholders?

Answer:

The Board recognises that dividends are an important component of total shareholder return for many investors and remains committed to reinstating a sustainable dividend at the appropriate time, having regard to the Group's financial performance, balance sheet and outlook. The Board is not proposing to pay a dividend in FirstGroup plc for the year to 31 March 2020 but will continue to review the appropriate timing for restarting dividend payments.

In the first quarter of this year the Group's shares were trading at close to their highest levels in over five years, before the onset of the coronavirus pandemic reduced use of public transportation to less than 10% of normal levels. We have worked hard to deliver the key services our customers and communities rely on while ensuring that we remain in a position to support an increase in service levels as our communities begin to emerge from the crisis. Since the start of the pandemic, we have taken swift and decisive actions to protect the business for the longer term. We have increased our available liquidity and we will continue to do all that is necessary to ensure the Group is in most robust position possible to deliver on our strategic plans. As we head into the autumn, our priorities are to continue delivering safe, reliable transport services that meet the changing needs of our customers and communities, and to execute the sale of the North American businesses as expediently as possible and in the best interests of all shareholders.

9. Why are you proposing that a new director appointed mid-season, so presumably by the existing directors, does not have to seek re-election by all shareholders at the earliest possible opportunity, i.e. the next AGM?

Answer:

The UK Corporate Governance Code stipulates that all directors appointed to the Board (irrespective of when they were first appointed) should be subject to annual re-election at each AGM. In line with the Code, all of the current directors are standing for re-election at the AGM.