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Clarification of remuneration disclosures in respect of 2018/2019

Statement from the Chair of the Remuneration Committee, Imelda Walsh:

In the Directors' Remuneration Report I set out full details of the key decisions made by the Remuneration Committee in respect of 2018/19. Given the complex nature of the decisions taken, it is appropriate to reiterate some of the key points in respect of the year, including the appointment of Matthew Gregory as our Chief Executive, the operation of the Executive Annual Bonus Plan (EABP), the vesting achieved under the 2016 Long Term Incentive Plan (LTIP) and clarification of how the 2019/20 EABP for Ryan Mangold will be determined.

Appointment of Matthew Gregory as Chief Executive

Matthew was appointed as Chief Executive on 13 November 2018 on a salary of £635,000. On appointment, Matthew's pension allowance was reduced from 20% of salary to 15% of salary in line with average UK employee contributions of 15%. This fixed pay package was circa 30% lower than his predecessor's and was fully in line with the approved Remuneration Policy.

In line with our approved Remuneration Policy, Matthew's annual bonus opportunity remained at 150% of salary, whilst his LTIP opportunity increased to 200% of salary. Alongside this, Matthew's shareholding requirement increased to 200% of salary.

Executive Annual Bonus Plan (EABP)

The formulaic award for Matthew Gregory resulted in a potential bonus award of 69.7% of the maximum EABP opportunity (104.55% of salary).

The Committee exercised its discretion in two stages:

1. The Committee determined that the bonus awarded should be reduced to 33.4% of the maximum (50.1% of salary); and
2. The Committee determined that the element of bonus (50% of the total bonus awarded) which is usually awarded in shares deferred for three years without additional performance conditions should, instead, be subject to an additional performance condition.

The effect of these decisions is that the actual bonus awarded to Matthew Gregory for the year was reduced to 16.7% of the maximum EABP opportunity (25.05% of salary). This bonus was payable in cash and the figure of £136,000 is therefore set out in the single figure of remuneration table on page 82 of the annual report and accounts.

As noted in the Remuneration Report, the Committee's decisions to exercise discretion reflected the Committee's view that whilst underlying performance improvement in the year was strong, the overall performance should be considered in the context of the decision to provide for the Group's share of potential future losses on the SWR franchise and the increase to the level of North American self-insurance reserves.

The deferred share element which was awarded on a conditional basis will be subject to an additional performance test. In 2022, the Committee will determine at its discretion the extent (if any) of any vesting under this element, which would then be reported accordingly in the relevant Remuneration Report, along with the Committee's decision and supporting rationale. The Committee's decision will be based on an assessment of the extent to which the SWR provision has been required or is likely to be required over future years.

Long Term Incentive Plan (LTIP)

This LTIP was awarded in June 2016 and, under the existing approach to ROCE targets and measurement, included only the rail franchises in place at the start of the performance period. This meant that the TPE and GWR franchises were included, but the SWR franchise, which commenced in August 2017, was not. The threshold vesting of 12.5% of the total LTIP was achieved based on the ROCE of 7.6% achieved in line with the above definition.

In making its decision on the level of vesting, the Committee determined that a number of adjustments should be made regarding the write-off of Greyhound goodwill, the TPE onerous contract accounting (reflected in the 2017/18 results), the exceptional charge in respect of the self-insurance reserve, and the phasing of approximately £90m in working capital grant and other funding inflows in First Rail which we expect to reverse in the 2019/20 financial year. These adjustments resulted in a fairer assessment of performance and reduced the ROCE outcome to 7.6%, which triggered threshold vesting. The Committee considered this level of vesting to be appropriate, noting the near-miss vesting in respect of the TSR element (which lapsed as FirstGroup narrowly failed to exceed median performance of its comparator group), along with the Company's progress in growing earnings and a more disciplined approach to capital allocation.

2019/20 EABP for Ryan Mangold

In the 2018/19 Directors' Remuneration Report (page 90 of the 2018/19 Annual Report and Accounts) we stated that:

"[Ryan] will be eligible for consideration for a 2019/20 EABP on a full year basis (i.e. not subject to time pro-rating). The decision to award a full year bonus takes into account that Ryan will be in post for the great majority of the year (10 months) and also reflects the significant up-front investment of time which Ryan agreed to make ahead of his formal joining date. The Committee felt this initial investment was essential to ensure that Ryan was engaged in the launch and implementation of the new strategy, and as such was very much in the best interests of shareholders."

We wish to clarify that, in line with our remuneration policy, and notwithstanding the above statement, Ryan's maximum bonus for 2019/20 will be capped at 150% of his actual salary for the year, received over the ten months of his employment. Therefore, it will be capped at an amount of £562,500 (£450,000 x 10/12 x 150% = £562,500).

Therefore, the treatment of his bonus for the first year of employment does not result in an increase in the maximum bonus he can receive under our policy. We note that this cap will be imposed if a bonus outcome of more than 83.3333% of the maximum is achieved (£450,000 x 150% x 83.3333% = £562,500). At target performance of 50% of the maximum, Ryan will receive £337,500 (£450,000 x 150% x 50%). This compares with a target bonus based on ten months' salary of £281,250, an increase of £56,250.

The Committee remains of the view, as outlined above, that this approach was in the best interests of shareholders to ensure a strong CFO candidate was secured in the shortest possible time in period of significant change for the company.